



FEDERAL BUREAU OF INVESTIGATION ANNUAL FINANCIAL STATEMENTS FISCAL YEAR 2010

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

Audit Report 11-07
December 2010

FEDERAL BUREAU OF INVESTIGATION ANNUAL FINANCIAL STATEMENTS FISCAL YEAR 2010

OFFICE OF THE INSPECTOR GENERAL COMMENTARY AND SUMMARY

This audit report contains the Annual Financial Statements of the Federal Bureau of Investigation (FBI) for the fiscal years (FY) ended September 30, 2010, and September 30, 2009. Under the direction of the Office of the Inspector General (OIG), KPMG LLP performed the FBI's audit in accordance with U.S. generally accepted government auditing standards. The audit resulted in an unqualified opinion on the FY 2010 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 2009, the FBI also received an unqualified opinion on its financial statements (OIG Report No. 10-11).

KPMG LLP also issued reports on internal control and on compliance and other matters. For FY 2010, the *Independent Auditors' Report on Internal Control over Financial Reporting* identified one significant deficiency. The FY 2010 significant deficiency related to the FBI not adequately monitoring its certification and accreditation process and its security assessments. Specifically, the FBI did not consistently maintain and enforce information technology security policies in accordance with current National Institute of Standards and Technology, the Department of Justice Information Technology Security Standard, and the FBI Certification and Accreditation Handbook policies and procedures during a significant portion of FY 2010.

In the FY 2010 *Independent Auditors' Report on Compliance and Other Matters*, the auditors concluded that the FBI's financial management systems did not substantially comply with federal financial system requirements and the United States Standard General Ledger at the transaction level as required by the *Federal Financial Management Improvement Act of 1996* (FFMIA). This non-compliance with the FFMIA was also reported for FY 2009.

The OIG reviewed KPMG LLP's reports and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the FBI's financial statements, conclusions about the effectiveness of internal control, conclusions on whether the FBI's financial management systems substantially complied with the FFMIA, or conclusions on compliance with laws and regulations. KPMG LLP is responsible for the attached auditors' reports dated November 3, 2010, and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with U.S. generally accepted government auditing standards.

**FEDERAL BUREAU OF INVESTIGATION
ANNUAL FINANCIAL STATEMENTS
FISCAL YEAR 2010**

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U.S. DEPARTMENT OF JUSTICE

FEDERAL BUREAU OF INVESTIGATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)



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

MISSION

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

After the events of September 11, 2001, Director Robert Mueller set the priorities of the FBI to communicate how the FBI would address its wide range of responsibilities. In executing the following priorities, the FBI produces and uses intelligence to protect the nation from threats and to bring to justice those who violate the law. The first eight priorities are listed in order of precedence. The final two are all-encompassing functions that support the Bureau's mission and objectives. The ten priorities are:

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

The DOJ has implemented three Strategic Goals: Goal 1: Prevent Terrorism and Promote the Nation's Security; Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People; and Goal 3: Ensure the Fair and Efficient Administration of Justice. The FBI reports on two of three DOJ Strategic Goals. Priorities 1 through 3 support DOJ Goal 1; priorities 3 through 8 support DOJ Goal 2, and priorities 9 and 10 support both goals.

ORGANIZATION STRUCTURE

In addition to national headquarters located in Washington, D.C., the FBI operates 56 field offices and over 350 resident agencies across the U.S. and its territories. Support offices are also located across the country: training centers, forensic laboratories, and engineering research facilities in Quantico, Virginia; operational support centers in Savannah, Georgia and Butte, Montana; a services center unit in Pocatello, Idaho; a records storage facility in Frederick County, Virginia; the Hazardous Devices School at Redstone Arsenal, Alabama; and a fingerprint identification and Criminal Justice Information Services center in Clarksburg, West Virginia.



Management's Discussion and Analysis

Through its Legal Attaché Program, the FBI operates 61 offices (Legats) with 14 sub-offices in 65 countries. The FBI Legat coverage extends to over 200 countries, territories, and islands.

FBI Headquarters is organized into five main branches headed by Executive Assistant Directors, and several supporting divisions that are headed by Assistant Directors. Each of the FBI's 56 field offices are headed by a Special Agent in Charge (SAC), with the exception of the three largest offices - Los Angeles, New York, and Washington, D.C. - which are headed by an Assistant Director in Charge. SACs are assisted by two or more Assistant Special Agents in Charge, including one serving as the Intelligence Program Manager. As of September 30, 2010, the FBI employed 13,837 Special Agents and 21,596 professional support staff.

FINANCIAL STRUCTURE

The FY 2005 Consolidated Appropriations Act established a budget structure of four decision units:

- Intelligence;
- Counterterrorism/Counterintelligence (CT/CI);
- Criminal Enterprises and Federal Crimes; and
- Criminal Justice Services (CJS).

Costs of support functions, such as the Training Division and administrative activities, are prorated across these four decision units, capturing the total cost of each of the four major mission areas represented by the decision units. The resources for these support functions are divided based on the share of the operational (non-support) resources allocated to the core functions of each decision unit. For example, the share of the total operational resources dedicated to CT/CI was the same as the share of the total support resources allocated to the CT/CI decision unit.

This budget structure links strategic planning to full program costing. The budget structure also provides an accurate cost assessment of the FBI's primary missions and enables the development of performance measures and program costing based on those missions.

For purposes of executing its budget, the FBI's funds are organized into the following categories under the administrative and/or operational control of the FBI: appropriated single, multi-year, and no-year Salaries and Expense Funds; appropriated no-year Construction Funds; and no-year Violent Crime Reduction Program Trust Funds. These funds include new appropriations, transfers of appropriations from other federal agencies, and the carry-over of prior years' unobligated balances for multi-year and no-year appropriated funds. Some special appropriations are tied to specific programs, but in general, FBI funds are organized to support multiple programs.

ANALYSIS OF FINANCIAL STATEMENTS

The FBI's financial statements received an unqualified audit opinion for FYs ended September 30, 2010 and 2009. These financial statements have been prepared from the accounting records of the FBI in conformity with U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) and presentation guidelines in the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*.



Management's Discussion and Analysis

The FBI's total assets increased \$771.6 million or 14 percent primarily due to an increase in Fund Balance with Treasury and General Property, Plant and Equipment (PP&E). Fund Balance with Treasury increased \$402.2 million or 12 percent due to an overall increase of 8 percent in the FY 2010 appropriation over FY 2009. PP&E increased \$382.7 million or 21 percent due to the recognition of capital plant assets and equipment. Some of the capital assets include completed software implementation projects, improvements to buildings leased by the FBI, and high performance aircraft to support the mission of the organization.

Total Liabilities increased \$151.6 million or 11 percent, where the bulk of the increase is represented in the Accounts Payable with the public and in the Intragovernmental Other Liabilities line item. The FBI establishes obligations in anticipation of liquidating the claims by vendors for goods provided and services performed. The FBI recognizes these claims as current liabilities and anticipates the outlays for the goods and services once the claims come due. The majority of the current liabilities were related to Automated Data Processing (ADP) services, support services for software development, and maintenance and engineering services. Intragovernmental Other Liabilities increased \$27.1 million or 31 percent primarily due to advance payments from the Intelligence Community for services to be performed by the FBI.

The Net Position of the FBI increased \$620.1 million or 15 percent in FY 2010. Net Position represents the net investment of the U.S. government in the FBI and is comprised of the Unexpended Appropriations and the Cumulative Results of Operations.

Unexpended Appropriations increased \$140.6 million or 7 percent which includes the portion of the entity's appropriations represented by undelivered orders and unobligated balances. This increase is largely attributable to the increase of \$586.4 million or 8 percent in the FY 2010 appropriation over FY 2009 for the Bureau's discretionary and non-discretionary expenditures. Additionally, the FBI received a net increase of \$90.1 million of Nonexpenditure Transfers related to additional funding for Category B projects, for which project execution will continue past FY 2010.

Cumulative Results of Operations increased \$479.5 million or 25 percent. The Cumulative Results of Operations are adjusted annually by the results of operations and by other items. Increases (gains) occur when the results of operations show an excess of financing sources and gains over expenses, losses, and transfers out. This increase is attributable to the additions of capital assets in the PP&E category.



Management's Discussion and Analysis

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

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

Source	FY 2010	FY 2009	Change%
Earned Revenue	\$ 1,275,206	\$ 1,279,292	0%
Budgetary Financing Sources			
Appropriations Received	7,922,537	7,336,191	8%
Appropriation Transferred-In/Out	90,116	(8,978)	1104%
Other Adjustments and Other Budgetary Financing Sources	(50,000)	-	n/a
Other Financing Sources			
Transfers-In/Out Without Reimbursement	69,206	61,342	13%
Imputed Financing from Costs Absorbed by Others	354,864	207,505	71%
Total	\$ 9,661,929	\$ 8,875,352	9%

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

Strategic Goal (SG)	FY 2010	FY 2009	Change%
SG 1: Prevent Terrorism and Promote the Nation's Security			
Gross Cost	\$ 5,185,327	\$ 4,220,194	
Less: Earned Revenue	507,996	560,603	
<i>Net Cost</i>	4,677,331	3,659,591	28%
SG 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People			
Gross Cost	\$ 3,846,770	\$ 3,819,673	
Less: Earned Revenue	767,210	718,689	
<i>Net Cost</i>	3,079,560	3,100,984	(1%)
Total Gross Cost	9,032,097	8,039,867	
Less: Total Earned Revenue	1,275,206	1,279,292	
Total Net Cost of Operations	\$ 7,756,891	\$ 6,760,575	15%

FY 2010 Financial Highlights

Strategic Goal 1, Prevent Terrorism and Promote the Nation's Security, includes the FBI's CT/CI Program, Intelligence Program, Computer Intrusions Program, and Weapons of Mass Destruction (WMD) Program. In FY 2010, Goal 1 Net Cost was \$4.7 billion, a net increase of 28 percent from FY 2009. The increase is attributed to additional activity in Computer Intrusions, Counterterrorism, and WMD Response and an increase of Intelligence positions, particularly analysts. This can also be attributed to an overall increase in national security investigative activity.

Strategic Goal 2, Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People, includes the majority of the FBI's criminal investigative programs and programs supporting state and local law enforcement. Investigations under Goal 2 include Organized Crime, Drugs, Violent Crime, White-Collar Crime, and Cyber Crime. The FBI investigates more than 200 categories of federal crimes, and monitors activities that threaten the safety of U.S. citizens. Support activities in this



Management's Discussion and Analysis

goal include training programs for state and local law enforcement agencies, forensic assistance, fingerprint and other identification tools, and statistical crime data. In FY 2010, Goal 2 Net Cost was \$3.1 billion, a net decrease of 1 percent from FY 2009. The change is attributed to comparatively steady Goal 2 investigative activity, offset by increases in identification service fee revenues.

PERFORMANCE INFORMATION

Data Reliability and Validity

Data reliability and validity are critically important to the FBI's planning and performance. This document includes a discussion of data validation, verification, and data limitations for each performance measure presented. Each reporting component ensures that data meet the following criteria:

At a minimum, performance data are considered reliable if transactions and other data that support 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.

Performance measures included in previous FBI MD&A documents may have changed as a result of new information that was unavailable prior to submitting previous financial reports. Due to the requirement to disclose performance data in the MD&A before the close of the data entry period, reports of certain FY 2010 performance measures should be considered tentative and are annotated accordingly. Other subsequent changes to prior year data may have occurred due to factors beyond the control of the FBI's data collection systems (e.g., convictions overturned on appeal). For previously estimated measures, the FBI reviewed and revised selected FY 2009 performance data from the FY 2009 MD&A. The FBI's FY 2011 Authorization and Budget Request to Congress documented these revisions.



FY 2010 REPORT ON SELECTED ACCOMPLISHMENTS

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

PROGRAM: Counterterrorism

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

Under the leadership of Director Mueller, the FBI has overhauled CT operations, expanded its intelligence capabilities, modernized its business practices and technology, and improved coordination with its partners. The FBI is dedicated to disrupting terrorist plots before they are executed.

Performance Measure: MEASURE REVISED: Catastrophic Acts of Terrorism

Note: This measure was revised, and replaces similar measures reporting separately on acts of international terrorism and domestic terrorism. A catastrophic terrorist act is defined as an act resulting in significant loss of life and/or significant property damage (e.g., each of the individual attacks that took place on September 11, 2001, the attack on the Alfred P. Murrah Federal Building in Oklahoma City on April 19, 1995).

FY 2001 Actual Performance: 4

FY 2002 Actual Performance: 0

FY 2003 Actual Performance: 0

FY 2004 Actual Performance: 0

FY 2005 Actual Performance: 0

FY 2006 Actual Performance: 0

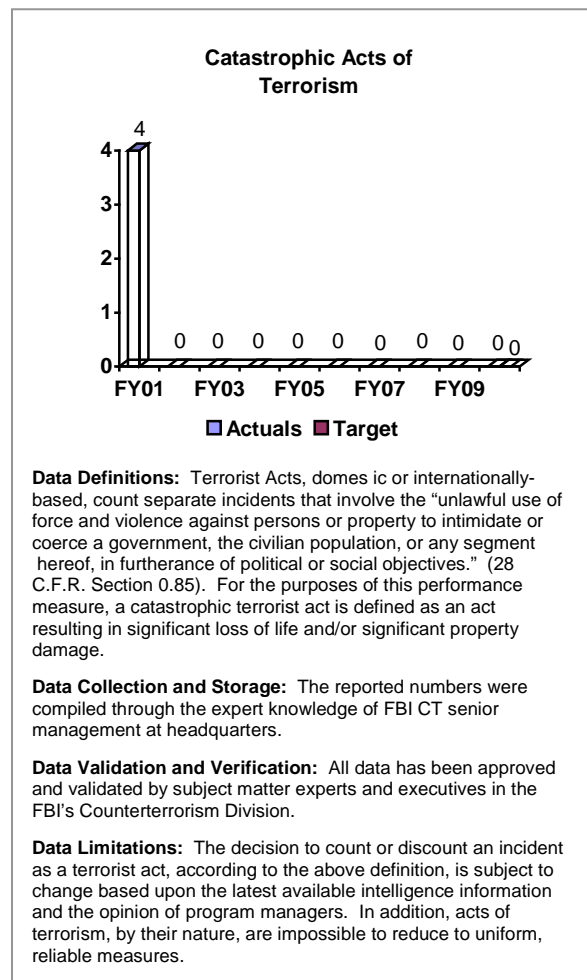
FY 2007 Actual Performance: 0

FY 2008 Actual Performance: 0

FY 2009 Actual Performance: 0

FY 2010 Target: The target for this measure will always be zero.

FY 2010 Actual Performance: 0



Discussion of FY 2010 Results: The FBI has achieved its target for this measure for FY 2010.



STRATEGIC GOAL 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People 40 percent of the FBI's Net Cost supports this Goal.

PROGRAM: Criminal Enterprises

Background/Program Objectives: During FY 2004 and the first half of FY 2005, the Criminal Investigative Division at FBI Headquarters reorganized several of its programs. Performance data are reported to reflect the realigned focus of the FBI toward these types of criminal enterprises.

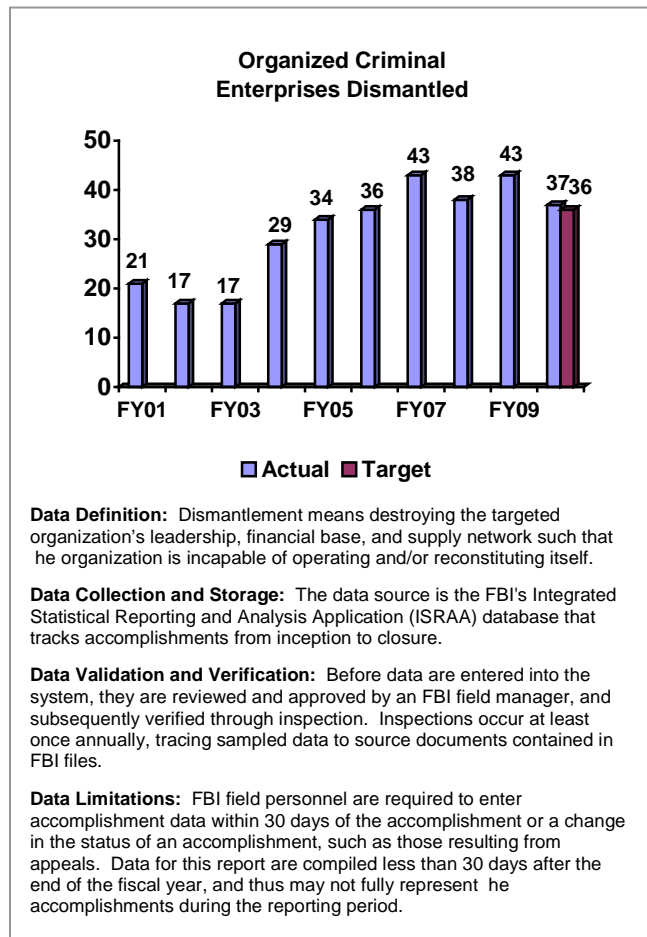
Organized Criminal Enterprises

Investigative subprograms that focus on criminal enterprises involved in sustained racketeering activities and that are mainly comprised of ethnic groups with ties to Asia, Africa, the Middle East, and Europe are consolidated into the Organized Criminal Enterprise Program. Organized criminal enterprise investigations, through the use of the Racketeering Influenced Corrupt Organization statute, target the entire entity responsible for the crime problem.

With respect to groups involved in racketeering activities, the FBI focuses on: the Russian/Eastern European/Eurasian organized crime groups, Asian criminal enterprises, La Cosa Nostra and Italian organized crime groups, Balkan/Albanian organized crime groups, Middle Eastern criminal enterprises and African criminal enterprises. Each of these groups is engaged in myriad criminal activities.

Performance Measure: Organized Criminal Enterprises Dismantled

- FY 2001 Actual Performance:** 21
- FY 2002 Actual Performance:** 17
- FY 2003 Actual Performance:** 17
- FY 2004 Actual Performance:** 29
- FY 2005 Actual Performance:** 34
- FY 2006 Actual Performance:** 36
- FY 2007 Actual Performance:** 43
- FY 2008 Actual Performance:** 38
- FY 2009 Revised Performance:** 43
- FY 2010 Target:** 36
- FY 2010 Actual Performance:** 37



Discussion of FY 2010 Results: The FBI met its performance target for FY 2010. Three notable dismantlements are listed below.

The FBI's Dallas Field Office and the Denton County Sheriff's Office conducted an Organized Crime Drug Enforcement Task Force (OCDETF) investigation entitled Operation Bad Dream which targeted the



Management's Discussion and Analysis

Albanian Organized Crime (AOC) group of Benny Lusha. The Benny Lusha Organization (BLO) was involved in international narcotics trafficking, human smuggling, interstate transportation of stolen property, public corruption, money laundering, mortgage fraud, and income tax fraud. Operation Bad Dream was closely coordinated with other investigations of AOC associates of the BLO. The BLO obtained narcotics from Mexican sources and distributed narcotics throughout the United States and Europe. Drug proceeds were laundered through front businesses and real estate. To date, \$170,000 in bribe money and \$610,000 of narcotics proceeds have been seized. The trial of the two alleged BLO leaders is set for January 2011.

The Cleveland Field Office of the FBI, along with the Toledo Police Department, executed search warrants on three Toledo area clothing and shoe retail locations. The purpose of the search warrants was to seize counterfeit merchandise sold from these locations. Approximately \$1.1 million worth of counterfeit merchandise was seized from the three locations. Several Ohio, Michigan, New York and China distributors were identified as being suppliers of counterfeit goods. The investigation concluded with four federal informations and four federal convictions.

The FBI, Drug Enforcement Administration (DEA), Secret Service and Cambodian National Police (CNP) jointly conducted an investigation targeting an Asian Criminal Enterprise involved in distributing heroin, ecstasy, and North Korean counterfeit U.S. currency known as "Supernotes." In October 2009, the FBI conducted a buy/bust in Phnom Penh, Cambodia, of two kilograms of heroin. Subsequently, the CNP conducted search warrants at five separate locations, including a "Mega Lab" for the production of crystal methamphetamine. Agents seized an additional fifteen kilograms of Asian heroin, two kilograms of crystal methamphetamine, over one ton of precursor chemicals and the equipment to manufacture crystal methamphetamine. Eleven indictments were issued in Cambodia and eight arrests were made, including the head of the CNP Anti-Narcotics Division. The source of the Supernotes was identified and indicted, but remains a fugitive.

Gangs/Criminal Enterprises

The mission of the FBI's Gangs/Criminal Enterprise Program is to disrupt and dismantle domestic cells (local, regional, national, and transnational) of criminal enterprises with ethnic ties to North, Central, and South America that pose the greatest threats to the economic and national security of the U.S. This is accomplished through the FBI's Violent Gang and Drug Programs, Major Theft initiatives, increased involvement in the OCDETF Program, and support and leadership of high-intensity drug trafficking area initiatives. In recent years, the FBI has concentrated anti-gang efforts in the Mara Salvatrucha (MS-13) National Gang Task Force, which develops local, state, federal, and international investigations of the MS-13 and 18th Street transnational criminal gangs into national and international investigations and prosecutions.

The National Gang Intelligence Center (NGIC) supports this mission by sharing and coordinating information among state, local, and federal law enforcement agencies. The NGIC analyzes a broad spectrum of gang information to identify migration patterns and current trends.

The Gang Targeting and Coordination Center focuses on enhancing gang investigations conducted by federal agencies by acting as a deconfliction and case coordination center. It facilitates operations across agency lines and promotes the complete dismantlement of national and transnational violent gangs. Tactical and strategic intelligence is shared between law enforcement agencies in conjunction with the NGIC.



Management's Discussion and Analysis

Performance Measure: Gangs/Criminal Enterprises Dismantled

Note: These measures do not include Consolidated Priority Organization Target (CPOT)-linked dismantlements, which are recorded below.

FY 2001 Actual Performance: 240

FY 2002 Actual Performance: 185

FY 2003 Actual Performance: 138

FY 2004 Actual Performance: 112

FY 2005 Actual Performance: 138

FY 2006 Actual Performance: 119

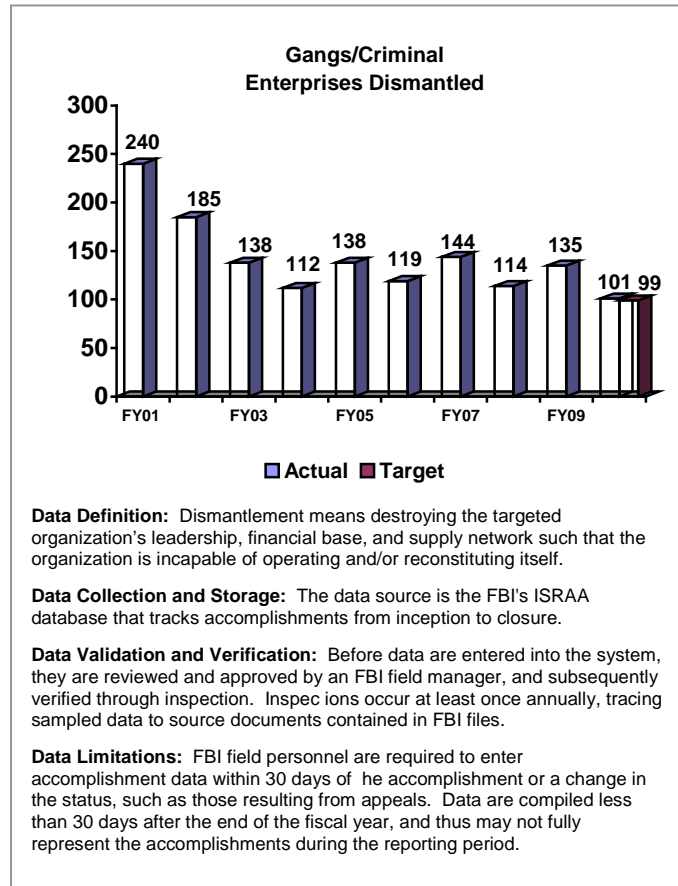
FY 2007 Actual Performance: 144

FY 2008 Actual Performance: 114

FY 2009 Revised Performance: 135

FY 2010 Target: 99

FY 2010 Actual Performance: 101



Discussion of FY 2010 Results: The FBI has slightly exceeded its target for this measure.

During FY 2010 the FBI established 11 new Violent Gang Safe Streets Task Forces. Operation Save Our Streets was a 90-day blitz, implemented in response to significant increases in gang-related robberies and homicides in Los Angeles. The operation was implemented under the umbrella of the FBI's existing Safe Streets Task Force with the Los Angeles Police Department. FBI agents and task force officers jointly investigated 110 gang homicides, solving 24 during the collaboration.

Gangs/Criminal Enterprises - CPOT Drug Trafficking Organizations (DTOs)

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

The FBI has developed a comprehensive counter-drug strategy designed to investigate and prosecute illegal drug traffickers and distributors, reduce drug related crime and violence, provide assistance to other law enforcement agencies, and strengthen international cooperation. The strategy focuses the FBI's counter-drug resources on 69 identified CPOTs associated primarily with Colombian, Mexican, and Caribbean drug trafficking organizations with the most adverse impact on U.S. national interests.



Management's Discussion and Analysis

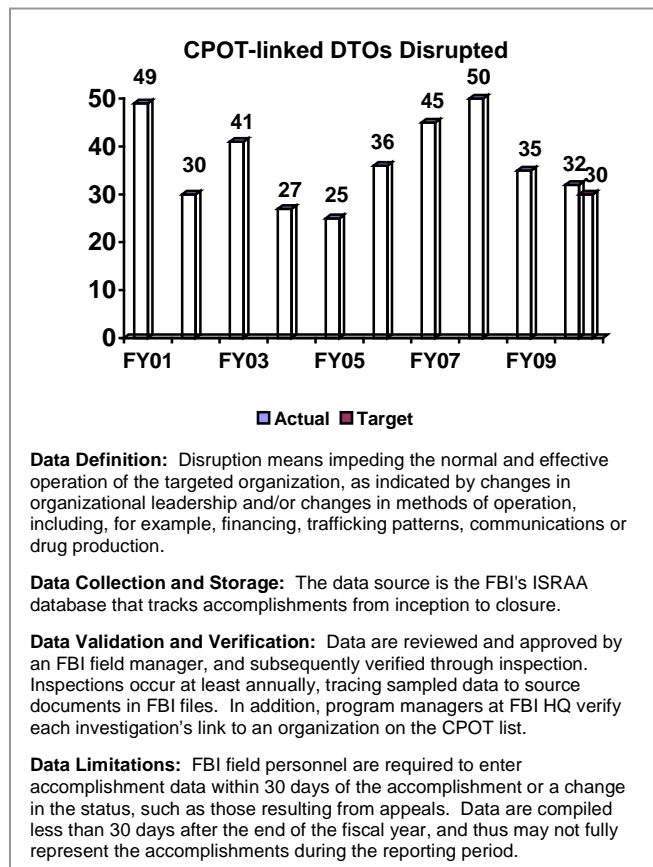
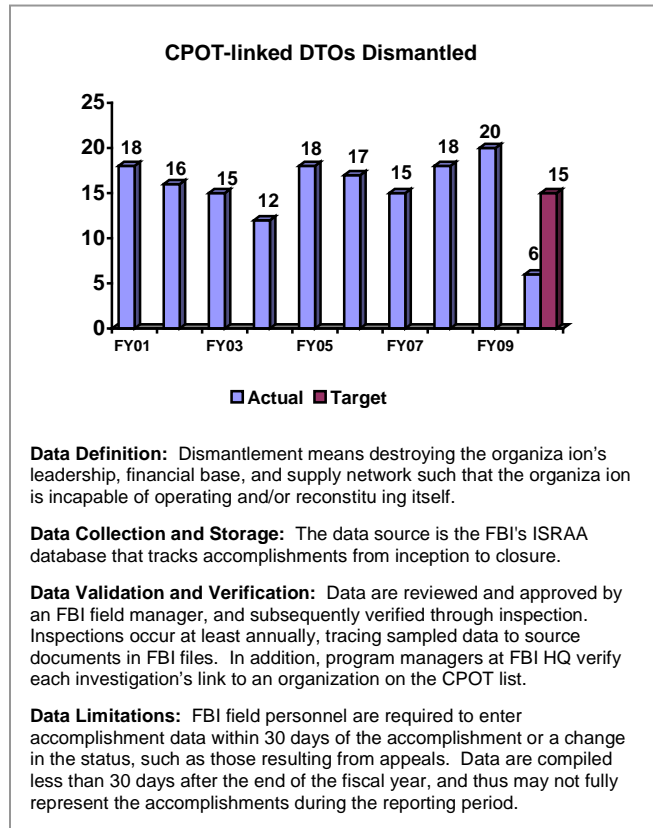
Performance Measure: CPOT-linked DTOs Dismantled

- *FY 2001 Actual Performance: 18*
- *FY 2002 Actual Performance: 16*
- FY 2003 Actual Performance: 15*
- FY 2004 Actual Performance: 12*
- FY 2005 Actual Performance: 18*
- FY 2006 Actual Performance: 17*
- FY 2007 Actual Performance: 15*
- FY 2008 Actual Performance: 18*
- FY 2009 Actual Performance: 20*
- FY 2010 Target: 15*
- FY 2010 Actual Performance: 6*

Discussion of FY 2010 Results: The FBI did not reach the target for this measure in FY 2010 because budget and agent resources were reduced. The inability of the OCDETF Program to receive adjustment-to-base funding for its investigative resources resulted in a reduction of personnel available to conduct high-intensity investigations resulting in dismantlements. In FY 2011 the program is slated to receive a funding enhancement for additional resources that will be placed in Southwest Border OCDETF Strike Forces to target CPOT-linked organizations.

Performance Measure: CPOT-linked DTOs Disrupted

- *FY 2001 Actual Performance: 49*
- *FY 2002 Actual Performance: 30*
- FY 2003 Actual Performance: 41*
- FY 2004 Actual Performance: 27*
- FY 2005 Actual Performance: 25*
- FY 2006 Actual Performance: 36*
- FY 2007 Actual Performance: 45*
- FY 2008 Actual Performance: 50*
- FY 2009 Revised Performance: 35*





Management’s Discussion and Analysis

FY 2010 Target: 30

FY 2010 Actual Performance: 32

* Note: The FBI tracked disruptions/ dismantlements through its National Priority Target List before the CPOT list prioritized DOJ-wide drug efforts in FY 2003.

Discussion of FY 2010 Results: The FBI has exceeded its targets for this measure. The FBI’s leading OCDETF initiative is “Operation Panama Express,” concentrating on maritime drug transportation. The FBI’s effectiveness is largely attributable to partnership with the DEA, Immigration and Customs Enforcement, the U.S. Coast Guard and the Joint Interagency Task Force-South, comprised of law enforcement and Department of Defense counterparts.

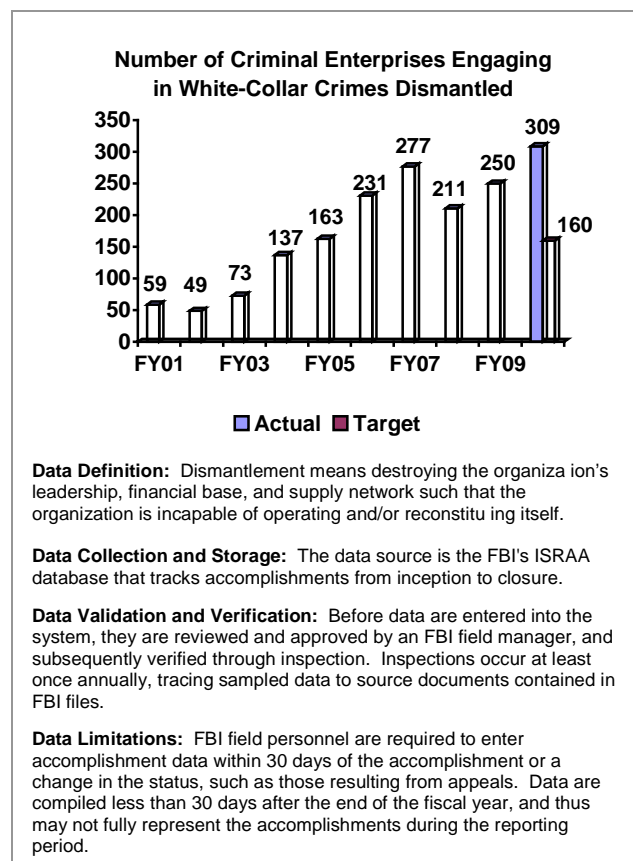
PROGRAM: White-Collar Crime

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

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

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

- FY 2001 Actual Performance: 59
FY 2002 Actual Performance: 49
FY 2003 Actual Performance: 73
FY 2004 Actual Performance: 137
FY 2005 Actual Performance: 163
FY 2006 Actual Performance: 231
FY 2007 Actual Performance: 277
FY 2008 Actual Performance: 211
FY 2009 Revised Performance: 250
FY 2010 Target: 160





Management's Discussion and Analysis

FY 2010 Actual Performance: 309

Discussion of FY 2010 Results: Congressional enhancements, improved use of intelligence and forensic accountant resources, and the coordinated efforts of the Financial Fraud Enforcement Task Force have contributed to a 24 percent increase in dismantlements over the previous year. In FY 2010, 21 percent of the dismantlements (66) were related to corporate and securities fraud, including high yield investment and Ponzi schemes; 25 percent (76) related to financial institution fraud, including mortgage fraud; and 29 percent (90) related to health care fraud.

PROGRAM: Innocent Images National Initiative

Background/Program Objectives: Facilitating crimes against children through the use of the Internet is a national crime problem that is growing dramatically. The Innocent Images National Initiative (IINI), a component of the FBI's Cyber Crimes Program, is an intelligence-driven, proactive, multi-agency investigative initiative that combats the proliferation of child pornography and/or child sexual exploitation facilitated by online computers. The mission of the IINI is to:

- Identify, investigate, and prosecute sexual predators who use the Internet and other online services to sexually exploit children;
- Identify and rescue child victims; and
- Establish a law enforcement presence on the Internet as a deterrent to subjects who seek to exploit children.

Performance Measure: Number of Children Depicted in Child Pornography Identified by the FBI

FY 2001 Actual Performance: Not Available

FY 2002 Actual Performance: Not Available

FY 2003 Actual Performance: Not Available

FY 2004 Actual Performance: Not Available

FY 2005 Actual Performance: Not Available

FY 2006 Actual Performance: 37

FY 2007 Actual Performance: 73

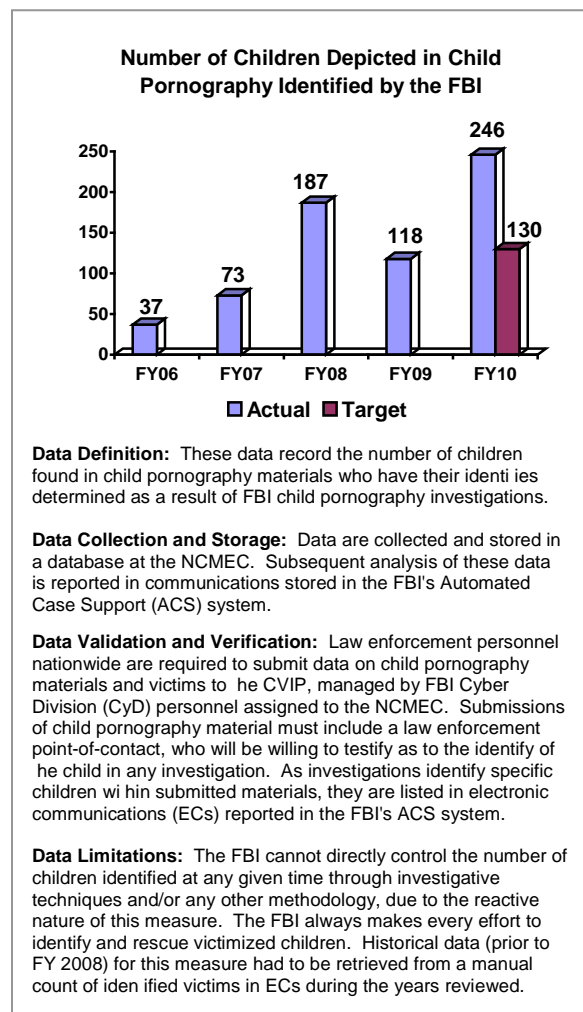
FY 2008 Actual Performance: 187

FY 2009 Actual Performance: 118

FY 2010 Target: 130

FY 2010 Actual Performance: 246

Discussion of FY 2010 Results: The FBI significantly surpassed its target for this measure. The FBI continues its collaboration with the National Center for Missing & Exploited Children's (NCMEC) Child Victim Identification Program (CVIP) and CyberTipline as well





Management's Discussion and Analysis

as successful FBI initiatives such as the Innocent Images International Task Force and the Endangered Child Alert Program (ECAP).

CVIP serves as the national clearinghouse for child pornography cases and the main point of contact to international agencies regarding victims of child pornography. CyberTipline operates a Congressionally-mandated reporting website for child sexual exploitation, including child pornography and online enticement.

A major contributor to IINI's FY 2010 performance is IINI's presence at NCMEC. Currently, IINI details one agent and three investigative specialists to NCMEC. An actionable lead relayed to the Jacksonville Division in late FY 2010 from a NCMEC CyberTipline Report has led to the identification of 24 child victims.

In 2004, the FBI initiated the Innocent Images International Task Force (IIITF) to promote and develop a coordinated international law enforcement response against Online Child Sexual Exploitation (OCSE). The IIITF is intended to develop a cadre of international law enforcement experts to formulate and deliver a unified global response against OCSE. Since its inception, IIITF has been instrumental to the successful initiation and resolution of several high profile, complex OCSE investigations with a global footprint. The expanding IIITF is comprised of 70 task force officers from 33 countries.

ECAP, an aggressive approach to identify unknown individuals involved in the sexual abuse of children and the production of child pornography, became operational in February 2004. ECAP uses national and international media exposure of unknown adults featured in child pornography and displays their faces on the "Seeking Information" section of the FBI website in hopes that someone can identify them. To date, exposure of these subjects has led to the successful identification and arrest of several previously-unknown child pornography subjects and the identification of more than 30 child victims.

PROGRAM: Internet Fraud

Background/Program Objectives: Internet fraud is any scam that uses one or more components of the Internet to present fraudulent solicitations to prospective victims, conduct fraudulent transactions, or transmit the proceeds of fraud to financial institutions or others that are connected to the scheme. Identity theft, Internet auction fraud, and unauthorized electronic funds transfers are problems that plague millions of U.S. victims.

The FBI and the National White Collar Crime Center partnered in May 2000 to support the Internet Crime Complaint Center (IC3). For victims of Internet crime, the IC3 provides a convenient way to alert authorities of a suspected violation. For law enforcement and regulatory agencies, the IC3 offers a central repository for complaints related to Internet crime, uses the information to quantify patterns, and provides timely statistical data of current trends. In addition, the FBI uses synchronized, nationwide takedowns (i.e., arrests, seizures, search warrants, and indictments) to target the most significant perpetrators of on-line schemes.

Performance Measure: Number of High-Impact Internet Fraud Targets Neutralized

FY 2001 Actual Performance: Not Available

FY 2002 Actual Performance: Not Available

FY 2003 Actual Performance: 5

FY 2004 Actual Performance: 7



Management's Discussion and Analysis

FY 2005 Actual Performance: 10

FY 2006 Actual Performance: 9

FY 2007 Actual Performance: 11

FY 2008 Actual Performance: 11

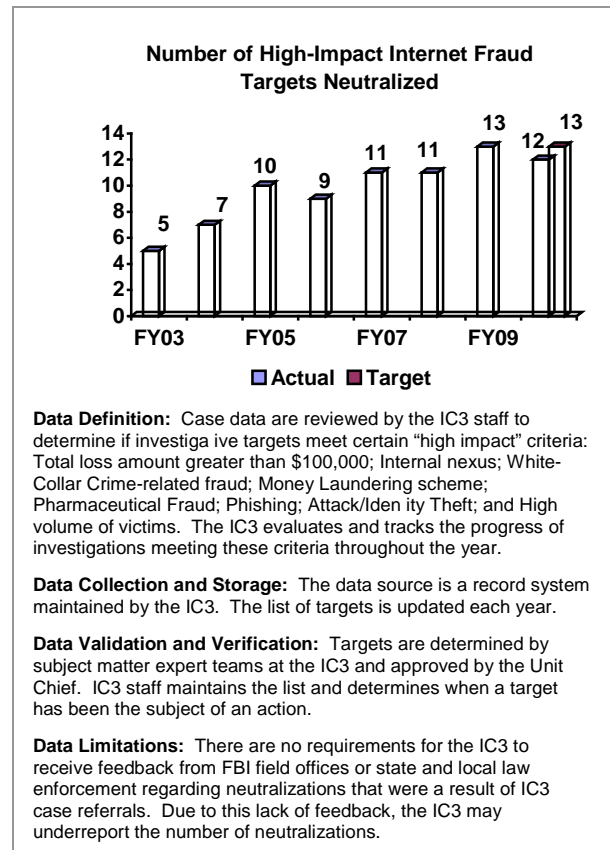
FY 2009 Actual Performance: 13

FY 2010 Target: 13

FY 2010 Actual Performance: 12

Note: FY 2003-2006 data were recorded as the measure "Number of Top-Ten Internet Targets Neutralized."

Discussion of FY 2010 Results: The FBI did not reach the target for this measure in FY 2010, due to the extent of IC3 resources needed to support high profile cases throughout the national and international law enforcement communities. Throughout FY 2010, many arrests were made in at least two very large investigations; one of which involved 390 FBI-wide investigations. Due to the 390 investigations conducted throughout the field, the resources of several analysts were required. While this was a large focus for the IC3 this fiscal year, it is anticipated that less time will be allocated to this initiative in the future given that the arrests have already been made.





ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

The FBI is committed to achieving program results as intended by the U.S. Congress for its federally-funded programs. FBI management affirms that protecting programs and resources from waste, fraud, and mismanagement is an important responsibility. Complying with the Federal Managers' Financial Integrity Act of 1982 (FMFIA) is key to ensuring the FBI meets its stewardship responsibilities. In accordance with this law, the FBI provides ongoing evaluations and reports on the adequacy of its financial systems and internal management controls.

Internal Controls Program

Management of the FBI is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the FMFIA. The FBI assesses its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*, as required by Section 2 of the FMFIA. Based on the results of this assessment, the FBI provided reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of June 30, 2010, was operating effectively, except for three reportable conditions as summarized below. Corrective Action Plans were established to institute programs and/or controls to eliminate these conditions.

FMFIA Section 2 – Reportable Conditions

The FBI designated three items under Section 2 as reportable conditions:

- **National Security Letters (NSLs):** In March 2007, the Office of the Inspector General (OIG) reported that the FBI's use of NSLs grew dramatically and shifted in focus since the enactment of the Patriot Act and that NSLs served as an indispensable investigative tool. The OIG found issues with the FBI's tracking, reporting, and guidance regarding NSL usage. A March 2008 follow-up review assessed the FBI's corrective actions and indicated the FBI and Department had made significant progress in implementing the 2007 recommendations. Improvements included strengthening the controls and automated workflow governing the request, review, and approval of NSLs; field office monthly reconciliations of NSL usage; and improving the database used to track NSL use. The FBI's actions to remediate the March 2007 OIG findings were completed by June 2007 and validated prior to December 31, 2008. The FBI continues to dedicate resources to ensure appropriate use of NSLs and has lowered the deficiency from a material weakness to a reportable condition in FY 2010.
- **Management of the Sentinel Program:** The Government Accountability Office (GAO) audited the FBI's delivery of the Sentinel Program during FY 2007, to evaluate the FBI's use of effective acquisition practices and the basis for estimating schedule and costs. Based on the report, the FBI is managing the Sentinel program in accordance with many approved key system acquisition best practices and has established several successful processes for identifying and mitigating associated risks. The GAO also found the FBI was not in accordance with best practices concerning overseeing contractors, and the process to formulate the program's schedule and cost estimates did not adhere to governmental best practices.
- **Control over Weapons and Laptop Computers:** In 2002, the OIG released a report assessing the FBI's progress in addressing deficiencies regarding the control over weapons and laptop computers. A follow-up audit published in February 2007 determined the FBI had made progress in decreasing the rate of loss for weapons and laptops and, with the exception of stolen laptop computers, the rate of loss for each property category decreased. Guidance and policy issued since the audit remediated the



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weaknesses, and the last open finding was closed by the OIG in July 2010. The FBI will discontinue reporting on this issue in FY 2011.

FMFIA Section 4 – Nonconformances

The FBI provided reasonable assurance that its internal control over financial management systems was operating effectively, except for three system nonconformances as summarized below:

- **Financial Systems Compliance:** The FBI's Financial Management System (FMS) was inadequate and audit reports indicated there were concerns regarding its compliance with financial systems requirements. The FBI and the DOJ's Chief Information Officer addressed the most severe findings to minimize financial reporting risks until the DOJ Unified Financial Management System (UFMS) is implemented.
- **Inadequate accountability over the Health Insurance Portability and Accountability Act of 1996 (HIPAA) funding of health care fraud investigations:** In a response to an April 2005 GAO report, the FBI concurred that it did not adequately monitor use of health care fraud investigative resources. Due to the limitations of the FMS, the FBI was not in a position to determine whether all transferred funds were spent for the purpose provided. The GAO provided four recommendations, two enhancing the FBI's accountability over the HIPAA transfers and two augmenting the new UFMS cost-tracking capabilities in the long term. Enhancements to the FBI's accountability were completed and the remaining recommendations will be completed with the implementation of UFMS.
- **Management of Confidential Case Funds and Telecommunication Costs:** Reviewing cases between 2004 and 2006, a January 2008 OIG report on the FBI Management of Confidential Case Funds and Telecommunication Costs noted that the FBI's FMS, "lacks the controls necessary to prevent theft and, as such, is not an effective financial system for FBI employees to use to account for and approve confidential case funds." The OIG provided 16 recommendations to improve the FBI's internal financial controls related to the tracking, payment, and processing of undercover telecommunications expenses and case funds. The FBI initiated actions - many of them independent of the OIG audit - to improve processes and provide additional oversight of confidential case funds. As of June 2008, all 16 recommendations were closed or resolved. The FBI is in a 90-day response cycle to report on progress to close all resolved recommendations.

OMB Circular A-123 – Internal Control

In FY 2010, the FBI documented and assessed its significant business processes according to the requirements of DOJ's Implementation Plan for compliance with OMB Circular A-123, *Management's Responsibility for Internal Control*, revised December 21, 2004. The revised Circular A-123 re-examined internal control requirements for federal agencies in light of the requirements for publicly-traded companies implemented by the Sarbanes-Oxley Act of 2002. The full Circular A-123, *Appendix A: Internal Control over Financial Reporting* assessment covered all processes deemed to be significant to the FBI and the Department of Justice. These processes were: Property Management, Treasury, Procurement and Payable, Financial Reporting, Human Resources, Revenue/Receivables Management, Budget/Funds Management, Information Technology, and Seized Monetary Assets. The results of the assessment indicated no material weaknesses in the FBI's internal control over financial reporting as of June 30, 2010.

Federal Financial Management Improvement Act of 1996

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



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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

During FY 2010, the FBI performed a self-assessment, and documented several areas in which its key financial management systems, principally FMS has a moderate risk of not providing reliable and consistent information for decision-making. As a result, the FBI reported several instances in which its key financial management systems do not comply with certain provisions of FFMIA.

- **Federal Financial Management System Requirements:** The FBI relies upon several systems to provide financial information that is necessary to support their financial management needs. These systems, other than the FMS, used by the FBI during FY 2010, include the Property Management Application, Vehicle Management Application, the Fixed Assets module of FMS, and the Reimbursable Agreement Management System. The FBI's core financial systems are not integrated through a common database or interfaced electronically to meet data and processing requirements.
- **Transactions Entered at the Standard General Ledger Level:** The FBI's financial management systems are not currently configured to use the USSGL at the transaction level. Specifically, certain transactions are processed outside of the FBI's core financial accounting system, but are not recorded at the transaction level using the USSGL. These transactions must be modified when recorded into the core financial accounting system through a manual or automated batch transaction process.

Legal Compliance

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

POSSIBLE FUTURE EFFECTS OF EXISTING EVENTS AND CONDITIONS

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

The Changing Threat

The U.S. continues to face significant challenges to national security from increasingly sophisticated internal and external threats. In addition to well-funded and established terrorist organizations such as al-Qa'ida, the U.S. faces Weapons of Mass Destruction, foreign intelligence, cyber, and domestic concerns, including substantial increases in areas such as mortgage and securities fraud.

The FBI must protect the U.S. and its citizens from all new and on-going foreign and domestic threats. As it executes its mission, the FBI continues to make major investments in personnel, technology, and materiel needed to maintain its security and law enforcement capabilities, and to expand these capabilities to anticipate new and evolving threats to national and personal security.

Revision of the National Intelligence Program Methodology

The FBI plays a critical role in the success of the nation's intelligence enterprise. The Intelligence Reform and Terrorism Prevention Act (IRTPA) of 2004 established the Office of the Director of National Intelligence (ODNI) and redesignated the National Foreign Intelligence Program as the National Intelligence Program (NIP). Based on IRTPA an agreement was reached between the ODNI and the DOJ to identify FBI-tagged NIP resources. The identification methodology proved unduly complicated and



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made it a challenge to produce NIP data with the timeliness, accuracy, and transparency. In May 2009, a new agreement reflecting the joint authority of the DNI and Attorney General was signed, establishing a revised methodology in FY 2010 that more accurately reflects the FBI's national security efforts.

Criminal Justice Information Services (CJIS) User Fee Collections for Fingerprint Services

On October 1, 2007, the FBI implemented an interim user fee schedule via a CJIS Information Letter to customer agencies. In June 2008, the FBI's Notice for Proposed Rulemaking was published. The Final Rule became effective May 13, 2010, establishing the fee structure for noncriminal justice fingerprint services. The FBI's CJIS and Finance Divisions continue to improve on the cost-evaluation procedures established during a FY 2008 user fee study to ensure compliance with OMB Circular A-25, User Charges.

In FY 2009 the FBI transitioned all billing and collection functions for the fingerprint services program (one of the FBI's largest revenue sources) to CJIS. This change was primarily to allow for more efficient revenue recording and customer accounts reconciliation. In FY 2010, CJIS revenue increased 5.5 percent and accounts receivable balances decreased 53 percent as a reflection of continued improvements.

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

The FBI's RMD is currently updating the fee structure of the National Name Check Program (NNCP). Consistent with guidance in OMB Circular A-25, the FBI evaluates user fee structures every two years or yearly if needed based on major program changes. The NNCP eliminated a substantial backlog and achieved steady state for all customers in FY 2009. Forecasted changes in workload from the top three customers are expected to increase costs to maintain the steady state, and require increases in user fees. In addition, the NNCP will incur significant costs as it continues to implement improvements in information technology to improve the efficiency and effectiveness of the NNCP.

Unified Financial Management System (UFMS)

Since 2002, the DOJ has led the effort to implement a department-wide financial system that will enhance current and future financial management and procurement operations, and standardize many business practices. The chosen solution is the UFMS, an integrated commercial-off-the-shelf application that will replace the FBI's Financial Management System. Initial planning for the FBI implementation was completed during FY 2008. During the second quarter of FY 2009, the FBI implemented the non-financial contract writing functionality of the UFMS acquisitions module.

To accommodate the DOJ schedule to implement the UFMS in the DEA and in the Bureau of Alcohol, Tobacco, Firearms, and Explosives during FYs 2009 and 2010, the FBI UFMS implementation was placed on hold for two years, to begin during November 2010. The FBI plans to introduce the UFMS in multiple phases - a live pilot at a major FBI organization during FY 2012; live pilots at three Field Offices and a Legat approximately six months later; and the remaining FBI organizations, Field Offices, and Legats during FY 2013.

Financial Information System (FIS)

The FIS project represents a series of bridge efforts and five best-practice initiatives that has helped the FBI move toward the implementation of UFMS. The initiatives include: archiving historic and current FMS data; restructuring the chart of accounts; creating a relational database structure; deploying an integrated financial reporting tool; and deploying a modern graphical user interface (GUI).

The archive initiative was completed in June 2010, removing a significant number of records from the FMS mainframe and reducing the risk to UFMS implementation. A comprehensive set of financial reports was developed in the new strategic reporting tool and deployed to all field office divisions in July



Management's Discussion and Analysis

2010 and to headquarters divisions in October 2010. This tool provides FBI management with a standard set of financial reports compatible with UFMS. The GUI was fully deployed, in stages, from September 2009 throughout June 2010. As of October 2010, the restructured chart of accounts was deployed for all non-personnel funds, providing the FBI with funds control and financial tracking against program and subprogram levels. The chart of accounts structure prepares the FBI for migration to the budget and expense structure of UFMS.

Strategy Management System (SMS)

The FBI's Strategy Management System (SMS) is based upon a widely utilized strategy system known as the Balanced Scorecard. In 2006, the FBI began using the Balanced Scorecard methodology to manage strategy execution. SMS guides the FBI enterprise's efforts to meet 25 strategic objectives.

SMS is used to help drive budget, inspection, and accountability. In 2008, the FBI began to more closely align its current spending and budget projections with its strategy by incorporating SMS in the FBI's spend plan process. Spend plan review meetings examine division resource allotments to ensure personnel and nonpersonnel resources align with strategic priorities. This enhances decision-making during budget formulation and execution, identifying areas of emphasis for resources that align with the SMS. SMS is also linked to inspections and employee performance evaluations.

LIMITATIONS OF THE FINANCIAL STATEMENTS

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

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U.S. DEPARTMENT OF JUSTICE

FEDERAL BUREAU OF INVESTIGATION

INDEPENDENT AUDITORS' REPORTS



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2001 M Street, NW
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Independent Auditors' Report on Financial Statements

Inspector General
U.S. Department of Justice

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

We have audited the accompanying consolidated balance sheets of the U.S. Department of Justice Federal Bureau of Investigation (FBI) as of September 30, 2010 and 2009, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. These consolidated financial statements are the responsibility of the FBI's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 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 consolidated 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 the FBI's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Justice Federal Bureau of Investigation as of September 30, 2010 and 2009, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with U.S. generally accepted accounting principles.

The information in the *Management's Discussion and Analysis* and *Required Supplementary Information* sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.



Independent Auditors' Report on Financial Statements
Page 2

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 3, 2010, on our consideration of the FBI's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

November 3, 2010



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2001 M Street, NW
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Independent Auditors' Report on Internal Control over Financial Reporting

Inspector General
U.S. Department of Justice

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

We have audited the consolidated balance sheets of the U.S. Department of Justice Federal Bureau of Investigation (FBI) as of September 30, 2010 and 2009, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated November 3, 2010.

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 consolidated financial statements are free of material misstatement.

The management of the FBI is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2010 audit, we considered the FBI's internal control over financial reporting by obtaining an understanding of the FBI's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FBI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the FBI's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the third paragraph of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2010 audit, we did not identify any deficiencies in internal control over financial reporting that we



Independent Auditors' Report on Internal Control over Financial Reporting
Page 2

consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in the Exhibit that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The FBI's response to the finding identified in our audit is presented in the Exhibit. We did not audit the FBI's response and, accordingly, we express no opinion on it.

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

KPMG LLP

November 3, 2010

SIGNIFICANT DEFICIENCY

This section contains our discussion of the significant deficiency we identified in internal control over financial reporting.

WEAKNESSES EXIST IN INFORMATION SYSTEMS CONTROLS

For a significant portion of fiscal year 2010, the FBI did not adequately monitor its certification and accreditation process and its security assessments to ensure that all financial-related systems properly adhered to formal and established security requirements.

The information security controls prescribed by the National Institute of Standards and Technology (NIST) Special Publication 800-53, *Recommended Security Controls for Federal Information Systems and Organizations*, the Department of Justice (DOJ) Information Technology Security Standard, and the FBI Certification and Accreditation Handbook were not consistently applied.

The deficiency existed because the FBI did not consistently maintain and enforce information technology security policies in accordance with current NIST, DOJ, and FBI policies and procedures during a significant portion of fiscal year 2010.

The FBI's financial-related systems were at a greater risk of compromise.

We verified that towards the end of the fiscal year, the FBI initiated corrective actions to address the identified deficiency. However, we were unable to verify that all the corrective actions were fully implemented and effective prior to the end of the fiscal year.

We recommend the FBI:

1. Ensure that the recent updates to the certification, accreditation, and security assessment processes are fully implemented and effectively address the identified deficiency.

Management Response:

The FBI concurs with the recommendation. The FBI's Information Assurance Section (IAS) has taken steps to make certain that beginning in FY 2011 there are processes in place for ensuring that all systems are operating with an approved security accreditation. Specifically, the IAS is in the process of modernizing its Certification and Accreditation program to align with a continuous monitoring model to prevent systems from operating without an approved Authority to Operate (ATO). This includes enhancements in the vulnerability remediation program, as well as the addition of an internal Federal Information Security Management Act (FISMA) Compliance team. These controls will ensure the FBI is consistently maintaining and enforcing information technology security policies in accordance with current NIST, DOJ, and FBI policies and procedures.

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Independent Auditors' Report on Compliance and Other Matters

Inspector General
U.S. Department of Justice

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

We have audited the consolidated balance sheets of the U.S. Department of Justice Federal Bureau of Investigation (FBI) as of September 30, 2010 and 2009, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated November 3, 2010.

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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The management of the FBI is responsible for complying with laws, regulations, and contracts applicable to the FBI. As part of obtaining reasonable assurance about whether the FBI's fiscal year 2010 consolidated financial statements are free of material misstatement, we performed tests of the FBI's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated 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). We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the FBI. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed instances, described in the Exhibit, where the FBI's financial management systems did not substantially comply with Federal financial management system requirements because of the lack of a unified, integrated financial management system.



Independent Auditors' Report on Compliance and Other Matters
Page 2

The FBI's financial management systems also do not permit application of the U.S. Government Standard General Ledger at the transaction level. Specifically, certain transactions are processed outside of the FBI's core financial accounting system, but are not recorded at the transaction level using the U.S. Government Standard General Ledger. These transactions must be modified when recorded into the core financial accounting system through a manual or automated batch transaction process.

The results of our tests of FFMA disclosed no instances in which the FBI's financial management systems did not substantially comply with applicable Federal accounting standards.

The FBI's response to the instances of noncompliance identified in our audit is presented in the Exhibit. We did not audit the FBI's response and, accordingly, we express no opinion on it.

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

KPMG LLP

November 3, 2010

INSTANCES OF NONCOMPLIANCE

This section contains our discussion of the instances of noncompliance with laws, regulations, and contracts that we noted during our fiscal year 2010 audit.

Federal Financial Management Improvement Act of 1996

We noted that the FBI's key financial application, the Financial Management System (FMS), and other financial management systems do not substantially comply with some categories of FFMIA requirements listed in OMB Circular No. A-127, *Financial Management Systems*, dated January 9, 2009. Specifically, we noted deficiencies in the following categories:

- ***Federal Financial Management System Requirements:*** Many of the FBI's financial management systems pre-date the existing applicable functional requirements for the design, development, operation, and maintenance of financial management systems. As a result, these financial management systems do not comply with all functional requirements included in OMB circulars and bulletins, and the Treasury Financial Manual.

The FBI relies upon several systems to provide financial information that is necessary to support the FBI's financial management needs. These systems, other than the FMS, used by the FBI during fiscal year 2010, include the Property Management Application (PMA), the Fixed Assets System (FAS), and the Reimbursable Agreement Management System. The FBI's financial management systems are not considered unified because the FMS and the other systems are not planned for together, are not managed together, do not operate in an integrated fashion, and are not linked together electronically in an efficient and effective manner to provide the agency-wide financial system support necessary to carry out the agency's mission and support the agency's financial management needs. For example, property acquisitions must be recorded manually into both the FMS and PMA, and then depreciation information must be calculated in the FAS and recorded into the FMS for financial statement and internal reporting purposes.

Further, certain modules within the FMS and other systems, such as the Vehicle Management Application and the PMA, do not have historical reporting capabilities to meet the data and processing requirements of the FBI.

- ***Application of the U.S. Government Standard General Ledger at the Transaction Level:*** Certain transactions are processed outside of the FBI's core financial accounting system, but are not recorded at the transaction level using the United States Government Standard General Ledger. These transactions must be modified when recorded into the core financial accounting system through a manual or automated batch transaction process.

Due to the issues noted above, the FBI's financial statements have the potential to be misstated. As a result, the personnel involved in preparing the financial statements and other financial reports have been required to maintain numerous manual and automated processes in order to compensate for the controls and reporting abilities that are lacking in the FBI's financial management systems.

We make no recommendation corresponding with the FFMA noncompliance because the FBI has stated that it will be migrating to the Department of Justice Unified Financial Management System, and costs to correct the FFMA deficiencies in the current accounting system are not justified.

Management Response:

The FBI concurs with the finding. The FBI has made an absolute commitment to the implementation of the Department of Justice (DOJ) Unified Financial Management System (UFMS). Since 2002, the Department of Justice (DOJ) has been leading the effort to implement a department-wide financial system that will enhance current and future financial management and procurement operations, and standardize many business practices. The DOJ is addressing these needs through implementation of the UFMS, an integrated commercial-off-the-shelf application that will replace the FBI's current Financial Management System (FMS) and legacy financial management and procurement systems throughout the Department.

Initial planning for the FBI implementation of the UFMS was completed by the DOJ UFMS program management office, in conjunction with its Implementation & Integration (I&I) contractor during FY 2008. A task order to begin the FBI implementation phase has been issued to DOJ's I&I contractor in October 2010, with implementation tasks and activities to begin during November 2010. The FBI plans to implement the UFMS in multiple phases--a live "pilot" at a major FBI organization during FY 2012; live "pilots" at three Field Offices and a Legat approximately six months later; the remainder of FBI organizations, Field Offices, and Legats during FY 2013.

In addition to the UFMS implementation, the FBI has embarked on several projects to improve on financial reporting using the current FMS. These projects represent a series of bridge efforts and five best-practice initiatives that has helped the FBI move toward the implementation of UFMS. The best-practice initiatives include: Archiving historic and current FMS data; Restructuring the Chart of Accounts; Creating a relational database structure; Deploying an integrated financial reporting tool; and Deploying a modern graphical user interface (GUI).

The Archive initiative was completed in June 2010, removing a significant number of records from the FMS mainframe and reducing the risk to UFMS implementation. A comprehensive set of financial reports was developed in the new strategic reporting tool and deployed to all field office divisions in July 2010 and to headquarters divisions in October 2010. This tool provides FBI management with a standard set of reports to rely on for their financial management needs and will be compatible with UFMS. The remaining modules of the graphical user interface were deployed in stages from September 2009 throughout June 2010. The GUI is now in use in all field offices and headquarters divisions. As of October 1, 2010, the restructured chart of accounts was deployed for all non-personnel funds providing the FBI with funds control and financial tracking against program and subprogram levels. The chart of accounts restructure provides an IT capability that supports the financial management activities of headquarters and field office divisions, satisfies the FBI's financial reporting obligation to the Department of Justice, and prepares the FBI for migration to the budget and expense structure of UFMS.

The Finance Division is also leading a Supply Chain Management (SCM) Program to improve the FBI's business processes by implementing new technologies to streamline purchasing and payment activities and improve vendor management, enhance management of assets and inventory processes, and improve management of its growing fleet of vehicles. The SCM Program will be accomplished in three phases.

The first phase will consolidate and replace the Property and Vehicle Management Applications (PMA and VMA) as well as the Fixed Asset (FA) Module. The goal for Phase I completion is the third quarter of FY 2011. The implementation of an asset management system during this phase will provide improved linkages to the existing procurement processes in FMS, improve the accountability, tracking and accuracy of assets recorded, and allow for better performance and metrics for financial statements and other reporting.

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U.S. DEPARTMENT OF JUSTICE

FEDERAL BUREAU OF INVESTIGATION

PRINCIPAL FINANCIAL STATEMENTS AND RELATED NOTES



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**U.S. Department of Justice
Federal Bureau of Investigation
Consolidated Balance Sheets
As of September 30, 2010 and 2009**

Dollars in Thousands	2010	2009
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with U.S. Treasury (Note 3)	\$ 3,694,239	\$ 3,292,066
Accounts Receivable (Note 5)	158,737	137,156
Other Assets (Note 9)	30,638	57,512
Total Intragovernmental	3,883,614	3,486,734
Cash and Monetary Assets (Note 4)	51,017	52,058
Accounts Receivable, Net (Note 5)	30,384	31,159
Inventory and Related Property, Net (Note 6)	7,927	8,804
General Property, Plant and Equipment, Net (Note 8)	2,197,590	1,814,851
Advances and Prepayments	46,698	51,986
Total Assets	\$ 6,217,230	\$ 5,445,592
LIABILITIES (Note 10)		
Intragovernmental		
Accounts Payable	\$ 162,573	\$ 166,513
Accrued Federal Employees' Compensation Act Liabilities	31,231	32,785
Other Liabilities (Note 14)	114,588	87,513
Total Intragovernmental	308,392	286,811
Accounts Payable	488,886	356,100
Actuarial Federal Employees' Compensation Act Liabilities	176,353	176,818
Accrued Payroll and Benefits	187,572	161,029
Accrued Annual and Compensatory Leave Liabilities	265,775	244,863
Environmental and Disposal Liabilities (Note 11)	9,755	-
Seized Cash and Monetary Instruments (Note 13)	42,120	37,390
Contingent Liabilities (Note 15)	66,762	128,978
Other Liabilities (Note 14)	3,297	5,362
Total Liabilities	\$ 1,548,912	\$ 1,397,351
NET POSITION		
Unexpended Appropriations	\$ 2,255,206	\$ 2,114,589
Cumulative Results of Operations	2,413,112	1,933,652
Total Net Position	\$ 4,668,318	\$ 4,048,241
Total Liabilities and Net Position	\$ 6,217,230	\$ 5,445,592



U.S. Department of Justice
Federal Bureau of Investigation
Consolidated Statements of Net Cost
For the Fiscal Years Ended September 30, 2010 and 2009

Dollars in Thousands

	FY	Gross Costs			Less: Earned Revenues			Net Cost of Operations (Note 16)
		Intra-governmental	With the Public	Total	Intra-governmental	With the Public	Total	
Goal 1	2010	\$ 1,358,631	\$ 3,826,696	\$ 5,185,327	\$ 495,393	\$ 12,603	\$ 507,996	\$ 4,677,331
	2009	\$ 1,143,681	\$ 3,076,513	\$ 4,220,194	\$ 549,297	\$ 11,306	\$ 560,603	\$ 3,659,591
Goal 2	2010	1,007,910	2,838,860	3,846,770	631,012	136,198	767,210	3,079,560
	2009	1,035,139	2,784,534	3,819,673	591,269	127,420	718,689	3,100,984
Total	2010	<u>\$ 2,366,541</u>	<u>\$ 6,665,556</u>	<u>\$ 9,032,097</u>	<u>\$ 1,126,405</u>	<u>\$ 148,801</u>	<u>\$ 1,275,206</u>	<u>\$ 7,756,891</u>
	2009	<u>\$ 2,178,820</u>	<u>\$ 5,861,047</u>	<u>\$ 8,039,867</u>	<u>\$ 1,140,566</u>	<u>\$ 138,726</u>	<u>\$ 1,279,292</u>	<u>\$ 6,760,575</u>

Goal 1 Prevent Terrorism and Promote the Nation's Security

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



U.S. Department of Justice
Federal Bureau of Investigation
Consolidated Statements of Changes in Net Position
For the Fiscal Years Ended September 30, 2010 and 2009

Dollars in Thousands	2010	2009
Unexpended Appropriations		
Beginning Balances	\$ 2,114,589	\$ 1,884,207
Budgetary Financing Sources		
Appropriations Received	7,922,537	7,336,191
Appropriations Transferred-In/Out	90,116	(8,978)
Other Adjustments	(50,000)	-
Appropriations Used	(7,822,036)	(7,096,831)
Total Budgetary Financing Sources	<u>140,617</u>	<u>230,382</u>
Unexpended Appropriations	<u>\$ 2,255,206</u>	<u>\$ 2,114,589</u>
Cumulative Results of Operations		
Beginning Balances	\$ 1,933,652	\$ 1,328,549
Adjustments (Note 19)		
Changes in Accounting Principle	(9,755)	-
Beginning Balances, as Adjusted	<u>1,923,897</u>	<u>1,328,549</u>
Budgetary Financing Sources		
Appropriations Used	7,822,036	7,096,831
Other Financing Sources		
Transfers-In/Out Without Reimbursement	69,206	61,342
Imputed Financing from Costs Absorbed by Others (Note 17)	354,864	207,505
Total Financing Sources	<u>8,246,106</u>	<u>7,365,678</u>
Net Cost of Operations	<u>(7,756,891)</u>	<u>(6,760,575)</u>
Net Change	489,215	605,103
Cumulative Results of Operations	<u>\$ 2,413,112</u>	<u>\$ 1,933,652</u>
Net Position	<u>\$ 4,668,318</u>	<u>\$ 4,048,241</u>



**U.S. Department of Justice
Federal Bureau of Investigation
Combined Statements of Budgetary Resources
For the Fiscal Years Ended September 30, 2010 and 2009**

Dollars in Thousands	2010	2009
Budgetary Resources		
Unobligated Balance, Brought Forward, October 1	\$ 1,060,034	\$ 1,076,486
Recoveries of Prior Year Unpaid Obligations	166,563	270,506
Budget Authority		
Appropriations Received	7,922,537	7,336,191
Spending Authority from Offsetting Collections		
Earned		
Collected	1,338,006	1,442,098
Change in Receivables from Federal Sources	1,699	(86,453)
Change in Unfilled Customer Orders		
Advance Received	17,463	(26,471)
Without Advance from Federal Sources	(106,807)	(121,340)
Subtotal Budget Authority	9,172,898	8,544,025
Nonexpenditure Transfers, Net, Actual	90,116	(8,978)
Permanently not Available	(50,000)	-
Total Budgetary Resources (Note 18)	\$ 10,439,611	\$ 9,882,039
Status of Budgetary Resources		
Obligations Incurred		
Direct	\$ 8,278,414	\$ 7,672,318
Reimbursable	1,214,320	1,149,687
Total Obligations Incurred (Note 18)	9,492,734	8,822,005
Unobligated Balance - Available		
Apportioned	547,896	737,212
Total Unobligated Balance - Available	547,896	737,212
Unobligated Balance not Available	398,981	322,822
Total Status of Budgetary Resources	\$ 10,439,611	\$ 9,882,039
Change in Obligated Balance		
Obligated Balance, Net - Brought Forward, October 1		
Unpaid Obligations	\$ 2,810,122	\$ 2,262,951
Less: Uncollected Customer Payments from Federal Sources	584,369	792,162
Total Unpaid Obligated Balance, Net - Brought Forward, October 1	2,225,753	1,470,789
Obligations Incurred, Net	9,492,734	8,822,005
Less: Gross Outlays	8,914,482	8,004,328
Less: Recoveries of Prior Year Unpaid Obligations, Actual	166,563	270,506
Change in Uncollected Customer Payments from Federal Sources	105,108	207,793
Obligated Balance, Net - End of Period		
Unpaid Obligations	3,221,811	2,810,122
Less: Uncollected Customer Payments from Federal Sources	479,261	584,369
Total Unpaid Obligated Balance, Net - End of Period	\$ 2,742,550	\$ 2,225,753
Net Outlays		
Gross Outlays	\$ 8,914,482	\$ 8,004,328
Less: Offsetting Collections	1,355,469	1,415,627
Less: Distributed Offsetting Receipts (Note 18)	253	1,668
Total Net Outlays (Note 18)	\$ 7,558,760	\$ 6,587,033



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

1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

B. Basis of Presentation

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

C. Basis of Consolidation

The consolidated/combined financial statements include the accounts of the FBI. All significant proprietary intra-entity transactions and balances have been eliminated in consolidation. The Statements of Budgetary Resources are combined statements for Fiscal Years (FYs) 2010 and 2009, and as such, intra-entity transactions have not been eliminated. The consolidated financial statements do not include centrally administered assets and liabilities of the federal government as a whole, such as General Services Administration (GSA) owned property and equipment, and



Notes to the Financial Statements

1. Summary of Significant Accounting Policies (continued)

borrowings from the public by the U.S. Department of the Treasury (Treasury), which may in part be attributed to the FBI.

D. Basis of Accounting

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

E. Non-Entity Assets

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

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

For the most part, the FBI does not maintain cash in commercial bank accounts. Receipts are processed by commercial banks for deposit to individual accounts maintained at the Treasury. Treasury and other Treasury-designated disbursing officers process cash receipts and disbursements as directed by authorized FBI certifying officers. Fund balances with the Treasury primarily represent appropriated, revolving, and trust funds available to pay current liabilities and finance future authorized purchases of goods and services. The FBI field offices and legal attachés maintain imprest and emergency funds to accommodate law enforcement cash requirements occurring outside normal banking system operating hours.

G. Accounts Receivable

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

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



1. Summary of Significant Accounting Policies (continued)

H. Inventory and Related Property

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

I. General Property, Plant, and Equipment

Property, plant, and equipment are stated at cost, less accumulated depreciation. The FBI capitalizes property, plant, and equipment with an acquisition cost (or individual asset recognition value) greater than \$25 and a useful life greater than or equal to two years. Expenditures for property and equipment with an acquisition cost (or individual asset recognition value) less than \$25 or a useful life of less than two years are charged to operating expenses as incurred.

Since October 1, 2000, the FBI has capitalized internal use software and bulk purchases of Commercial Off-the-Shelf (COTS) software with an acquisition cost exceeding \$500 and a useful life exceeding two years. Internal use software and bulk-purchases of COTS software not meeting this capitalization threshold or useful life timeframe are expensed.

During FY 2002, the FBI implemented revised DOJ policy regarding FBI-funded improvements to facilities leased by, or for, the FBI. The revised DOJ policy requires capitalization of improvements exceeding \$100 that expand the capacity of a facility, or otherwise upgrade it to serve a function different from, or significantly greater than, that originally intended.

The FBI uses work-in-progress (WIP) accounts to capitalize expenditures associated with on-going leasehold improvements projects, the on-going construction of facilities and equipment, and the development of internal use software that meet FBI's capitalization thresholds. Upon completion of the project(s), the applicable costs are transferred from WIP to a depreciable asset.

Depreciation of capitalized assets (other than land and WIP accounts) is computed on a straight-line basis over the estimated useful economic life of the respective asset.

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

J. Advances and Prepayments

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



1. Summary of Significant Accounting Policies (continued)

K. Seized Property

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

Cash in the custody of the FBI for evidentiary purposes is recognized as an asset on the balance sheet with an offsetting liability. Non-monetary valuable property held as evidence is disclosed in Note 7 at the appraised or fair market value. It is not recognized as an asset on the balance sheet.

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

L. Liabilities

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

M. Contingencies and Commitments

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

N. Annual, Sick, and Other Leave

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

O. Interest on Late Payments

Pursuant to the Prompt Payment Act of 1999 (31 U.S.C. 3901-3907), the FBI pays interest to commercial concerns for payments made after the payment due date. The payment due date is



1. Summary of Significant Accounting Policies (continued)

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

P. Retirement Plans

With few exceptions, employees 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).

The accompanying financial statements report expenses incurred by the FBI for required contributions made to retirement accounts administered by the Office of Personnel Management (OPM). For employees covered by the CSRS, the FBI contributes 7.0 percent of the support employees' gross pay for normal retirement and for agents 7.5 percent. For employees covered by the FERS, the FBI contributes 11.2 percent of the support employees' gross pay and for agents 24.9 percent. All employees are eligible to contribute to the Federal Thrift Savings Plan (TSP). For employees covered by the FERS, the FBI automatically contributes 1.0 percent of gross pay and matches employee contributions up to 4.0 percent of gross pay. The FBI is not authorized to make automatic or matching contributions to the TSP for employees covered by the CSRS. The FBI's financial statements do not report CSRS or FERS assets, accumulated plan benefits, or any related unfunded liabilities, which may be applicable to its employees. Such reporting is the responsibility of OPM.

The FBI recognizes an additional expense and an offsetting imputed financing source for FBI Pension and Other Retirement Benefits Expense not covered by employee and FBI contributions; this expense is ultimately paid by OPM.

Q. Federal Employee Compensation Benefits

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

The total FECA liability has two components: (1) unpaid billings and (2) an amount of estimated unbilled claims. Unpaid billings represent claims already paid by the DOL, which have not yet been reimbursed by the FBI. There is generally a two-year delay in the processing of the DOL payments through DOJ to the FBI. The FBI reports the unpaid billings as Accrued FECA Liabilities in Note 10.

Additional unbilled claims are estimated by the DOL by applying actuarial projections to incurred (both reported and unreported) claims. The DOL calculates the actuarial liability of the federal government for future compensation benefits, which includes the expected liability for death, disability, medical, and miscellaneous approved compensation costs. The liability is determined using the paid-losses extrapolation method calculated over the next 37-year period. This method



1. Summary of Significant Accounting Policies (continued)

uses historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. The projected annual benefit payments were discounted to present value. The resulting federal government liability is then distributed by the DOL to the respective departments.

DOJ calculates and distributes each bureau's respective portion of the total DOJ actuarial liability that is recorded for reporting purposes only. The Actuarial FECA Liability, reported in Note 10, constitutes an extended estimate of future costs that will be obligated against budgetary resources the fiscal year in which the cost is actually paid to DOL by DOJ, and subsequently by the FBI.

R. Intragovernmental Activity

Intragovernmental cost and exchange revenue represent transactions made between two reporting entities within the federal government. Costs and exchange 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.

S. Revenues and Other Financing Sources

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

A source of revenue to the FBI are fees authorized by law for providing fingerprint-based and name-based Criminal History Record Information checks and other identification services submitted by authorized users for noncriminal justice purposes, including employment and licensing. The fee is based on full-cost recovery, and is determined using an activity-based cost model. By law, the FBI may set such fees at a level to include an additional amount to establish a fund to defray expenses for the automation of fingerprint identification and criminal justice information services and associated costs. Fee schedules are announced in the Federal Register following a public comment period. The current schedule went into effect on October 1, 2007. The FBI is not authorized to charge fees for fingerprint identification and criminal justice information services for law enforcement purposes.

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

Appropriations are recognized as financing sources when the goods and services authorized to be paid from the appropriations have been received and accepted, or when program or administrative expenses have been incurred. Revenue from reimbursable activities is recognized



Notes to the Financial Statements

1. Summary of Significant Accounting Policies (continued)

when it is earned, i.e. when the goods or services ordered have been delivered or rendered to the ordering entity. The FBI also earns revenue from the sale of assets, principally vehicles.

T. Earmarked Funds

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 government’s general revenues. The three required criteria for an earmarked fund are:

1. A statute committing the federal government to use specifically identified resources and other financing sources only for designated activities, benefits, or purposes;
2. Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
3. A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the government’s general revenues.

There are no funds that meet the definition of an earmarked fund.

U. Tax Exempt Status

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

V. Use of Estimates

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

W. Reclassifications

The FY 2009 financial statements were reclassified to conform to the FY 2010 Departmental financial statement presentation requirements. The reclassifications had no material effect on total assets, liabilities, net position, change in net position, or budgetary resources as previously reported.

X. Subsequent Events

Subsequent events and transactions occurring after September 30, 2010 through the date of the auditors’ opinion have been evaluated for potential recognition or disclosure in the financial statements. The date of the auditors’ opinion also represents the date that the financial statements were available to be issued.



Notes to the Financial Statements

2. Non-Entity Assets

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

As of September 30, 2010 and 2009		
	2010	2009
Intragovernmental		
Fund Balance with U.S. Treasury	\$ 8,031	\$ 8,236
With the Public		
Cash and Monetary Assets	44,684	40,098
Total Non-Entity Assets	52,715	48,334
Total Entity Assets	6,164,515	5,397,258
Total Assets	<u>\$ 6,217,230</u>	<u>\$ 5,445,592</u>

3. Fund Balance with U.S. Treasury

As of September 30, 2010 and 2009		
	2010	2009
Fund Balances		
Trust Funds	\$ 4	\$ 38
General Funds	3,686,204	3,283,792
Other Fund Types	8,031	8,236
Total Fund Balances with U.S. Treasury	<u>\$ 3,694,239</u>	<u>\$ 3,292,066</u>
Status of Fund Balances		
Unobligated Balance - Available	\$ 547,896	\$ 737,212
Unobligated Balance - Unavailable	398,981	322,822
Obligated Balance not yet Disbursed	2,742,550	2,225,753
Other Funds (With)/Without Budgetary Resources	4,812	6,279
Total Status of Fund Balances	<u>\$ 3,694,239</u>	<u>\$ 3,292,066</u>

The Trust Funds amount includes the remaining funds resulting from the Violent Crime Reduction Trust Fund which was established by the Violent Crime and Law Enforcement Act of 1994. The General Funds amount includes the remaining funds resulting from budget authority to pay valid obligations. Other Fund Types amount includes deposit clearing and suspense accounts temporarily held with Treasury until such time they are required for use.

Unobligated Balance-Available includes current year apportionments that may be used for new obligations. Unobligated Balance-Unavailable includes amounts appropriated in prior fiscal years that are



Notes to the Financial Statements

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

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

4. Cash and Monetary Assets

As of September 30, 2010 and 2009		
	2010	2009
Cash		
Undeposited Collections	\$ 3,111	\$ 10,004
Imprest Funds	3,219	1,955
Other Cash	2,567	2,709
Total Cash	<u>8,897</u>	<u>14,668</u>
Monetary Assets		
Seized Monetary Instruments	42,120	37,390
Total Cash and Monetary Assets	<u>\$ 51,017</u>	<u>\$ 52,058</u>

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

Imprest Funds reflects monies dedicated for operational support, such as petty cash and emergency funds. Other Cash consists of project-generated revenue from undercover operations.

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



Notes to the Financial Statements

5. Accounts Receivable, Net

As of September 30, 2010 and 2009		
	2010	2009
Intragovernmental		
Accounts Receivable	\$ 158,737	\$ 137,156
With the Public		
Accounts Receivable	31,600	32,518
Allowance for Uncollectible Accounts	(1,216)	(1,359)
Total With the Public	<u>30,384</u>	<u>31,159</u>
Total Accounts Receivable, Net	<u>\$ 189,121</u>	<u>\$ 168,315</u>

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

6. Inventory and Related Property, Net

As of September 30, 2010 and 2009		
	2010	2009
Operating Materials and Supplies		
Held for Current Use	\$ 7,927	\$ 8,804



7. Seized Property

Analysis of Change in Seized Property:

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

The item counts and financial value of non-monetary valuable property in the custody of the FBI as of September 30, 2010 and September 30, 2009, for evidentiary purposes, and activity during each fiscal year are summarized in the following charts in accordance with SFFAS No. 3, *Accounting for Inventory and Related Property*. Items are disclosed at their appraised value or their estimated market value.

Adjustments to Seized Monetary Instruments, Personal Property, and Non-Valued Firearms include corrections to previously reported item counts and valuation of seizures and disposals not reported in previous financial statements due to timing differences between the recording of the evidence items and the production of the financial statements, and evidence items previously omitted due to initial classification as “forfeiture” items.

Drug evidence is presented in accordance with Federal Financial Accounting and Auditing Technical Release No. 4, *Reporting on Non-Valued Seized and Forfeited Property*. Analyzed drug evidence represents actual laboratory-tested classification and weight in kilograms (KG). Since enforcement of the controlled substances laws and regulations of the U.S. is incidental to the mission of the FBI, only individual seizures exceeding 1 KG in weight are reported.

“Adjustments” are primarily due to the validation of drug weights that occurs in fiscal years subsequent to seizure. “Other Drugs” are substances seized for evidence not including cocaine, heroin, marijuana, or methamphetamine. The actual drug weight may vary from seizure weight due to changes in moisture content over time.

Unanalyzed drug evidence is not reported by the FBI because it is neither weighed nor confirmed by laboratory chemists. Seized drug evidence must be analyzed and confirmed through laboratory testing to be placed in one of the five categories of drugs above. “Disposals” occur when evidence is either returned to the owner or destroyed in accordance with federal guidelines.



Notes to the Financial Statements

7. Seized Property (continued)

For the Fiscal Year Ended September 30, 2010

Seized Property Category		Beginning Balance	Adjustments	Seizures	Disposals	Ending Balance
Seized for Evidence						
Seized Monetary Instruments	Value	\$ 37,390	\$ (2,167)	\$ 25,732	\$ (18,835)	\$ 42,120
Personal Property	Number	1,263	47	270	(195)	1,385
	Value	\$ 25,791	\$ (2,180)	\$ 12,891	\$ (11,810)	\$ 24,692
Non-Valued Firearms	Number	26,060	(94)	2,829	(1,231)	27,564
Drug Evidence						
Cocaine	KG	6,309	381	185	(514)	6,361
Heroin	KG	256	164	9	(1)	428
Marijuana	KG	4,230	(26)	75	(289)	3,990
Methamphetamine	KG	527	(47)	20	(19)	481
Other Drugs	KG	995	386	101	(249)	1,233
Total Drug Evidence		12,317	858	390	(1,072)	12,493

For the Fiscal Year Ended September 30, 2009

Seized Property Category		Beginning Balance	Adjustments	Seizures	Disposals	Ending Balance
Seized for Evidence						
Seized Monetary Instruments	Value	\$ 33,898	\$ (4,977)	\$ 28,735	\$ (20,266)	\$ 37,390
Personal Property	Number	1,009	(23)	570	(293)	1,263
	Value	\$ 28,669	\$ (18,489)	\$ 23,933	\$ (8,322)	\$ 25,791
Non-Valued Firearms	Number	26,002	(184)	699	(457)	26,060
Drug Evidence						
Cocaine	KG	6,001	540	55	(287)	6,309
Heroin	KG	346	(81)	-	(9)	256
Marijuana	KG	6,055	(1,776)	326	(375)	4,230
Methamphetamine	KG	317	204	29	(23)	527
Other Drugs	KG	1,325	(370)	57	(17)	995
Total Drug Evidence		14,044	(1,483)	467	(711)	12,317



Notes to the Financial Statements

7. Seized Property (continued)

Method of Disposition of Seized Property:

During FYs 2010 and 2009, there were no seized properties forfeited, \$11,589 and \$7,458 of seized property were returned to parties with a bona fide interest, and \$19,056 and \$21,130 were disposed of by other means, respectively. Other means of disposition include seized property that is sold, converted to cash, or destroyed.

8. General Property, Plant and Equipment, Net

As of September 30, 2010				
	Acquisition Cost	Accumulated Depreciation	Net Book Value	Useful Life
Land and Land Rights	\$ 12,590	\$ -	\$ 12,590	N/A
Construction in Progress	277,706	-	277,706	N/A
Buildings, Improvements, and Renovations	557,035	(236,997)	320,038	10-50 years
Other Structures and Facilities	35,088	(8,448)	26,640	10-50 years
Aircraft	195,566	(42,364)	153,202	5-30 years
Boats	7,442	(4,116)	3,326	5-25 years
Vehicles	241,139	(144,128)	97,011	2-25 years
Equipment	856,435	(500,538)	355,897	2-25 years
Leasehold Improvements	279,628	(81,064)	198,564	3-10 years
Internal Use Software	225,468	(87,857)	137,611	3-10 years
Internal Use Software in Development	615,005	-	615,005	N/A
Total	\$ 3,303,102	\$ (1,105,512)	\$ 2,197,590	

During FY 2010, the FBI purchased \$142,287 in capital property from federal sources and \$536,580 from the public.

As of September 30, 2009				
	Acquisition Cost	Accumulated Depreciation	Net Book Value	Useful Life
Land and Land Rights	\$ 12,567	\$ -	\$ 12,567	N/A
Construction in Progress	242,150	-	242,150	N/A
Buildings, Improvements, and Renovations	546,845	(217,975)	328,870	10-50 years
Other Structures and Facilities	32,335	(6,968)	25,367	10-50 years
Aircraft	154,869	(33,822)	121,047	5-30 years
Boats	7,536	(3,658)	3,878	5-25 years
Vehicles	215,391	(129,044)	86,347	2-25 years
Equipment	808,764	(487,379)	321,385	2-25 years
Leasehold Improvements	177,006	(48,153)	128,853	3-10 years
Internal Use Software	167,023	(65,645)	101,378	3-10 years
Internal Use Software in Development	443,009	-	443,009	N/A
Total	\$ 2,807,495	\$ (992,644)	\$ 1,814,851	

During FY 2009, the FBI purchased \$166,148 in capital property from federal sources and \$372,164 from the public.



Notes to the Financial Statements

9. Other Assets

As of September 30, 2010 and 2009		
	<u>2010</u>	<u>2009</u>
Intragovernmental		
Advances and Prepayments	\$ 30,638	\$ 57,512

10. Liabilities not Covered by Budgetary Resources

As of September 30, 2010 and 2009		
	<u>2010</u>	<u>2009</u>
Intragovernmental		
Accrued FECA Liabilities	\$ 31,231	\$ 32,785
Other Unfunded Employment Related Liabilities	191	188
Total Intragovernmental	<u>31,422</u>	<u>32,973</u>
With the Public		
Actuarial FECA Liabilities	176,353	176,818
Accrued Annual and Compensatory Leave Liabilities	265,775	244,863
Environmental and Disposal Liabilities (Note 11)	9,755	-
Contingent Liabilities (Note 15)	66,762	128,978
Total With the Public	<u>518,645</u>	<u>550,659</u>
Total Liabilities not Covered by Budgetary Resources	<u>550,067</u>	<u>583,632</u>
Total Liabilities Covered by Budgetary Resources	<u>998,845</u>	<u>813,719</u>
Total Liabilities	<u>\$ 1,548,912</u>	<u>\$ 1,397,351</u>

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

11. Environmental and Disposal Liabilities

In accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, and Technical Release No. 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*, federal agencies are required to recognize liabilities for environmental cleanup costs when the future outflow or sacrifice of resources is probable and reasonably estimable.

As environmental-related cleanup costs are paid, the liabilities are reduced. Additionally, estimates will be revised periodically to account for material changes due to inflation, technology, and applicable



11. Environmental and Disposal Liabilities (continued)

laws and regulations. Any material changes in the estimated total cleanup costs will be expensed when estimates are revised and the liability balance adjusted.

Asbestos

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

The FBI is recognizing an estimated asbestos cleanup liability this fiscal year. The FBI exercises due care in determining the presence of contamination in adherence to the law, rules and regulations and policies by the Clean Air Act. The Facilities and Logistics Service Division (FLSD), responsible for managing and maintaining FBI and non-FBI owned facilities, has identified FBI-owned facilities in Quantico that contain hazardous friable and non-friable asbestos. The facilities were built prior to 1986 with an expected useful life of 50 years. The estimated total liability of \$11,613 is based on the square footage of the facilities that may be contaminated. This value, divided by the useful life and multiplied by the number of years in service, is the estimated cleanup liability. The FBI recognized the estimated cleanup liability of \$9,755 and reported the offsetting charge as a "Change in Accounting Principles" in the Statement of Changes in Net Position and Note 19. There are no other potentially responsible parties to the environmental liability and there are no unrecognized amounts to disclose as of September 30, 2010.

12. Leases

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

Typically, the minimum lease term for a Resident Agency (RA) is five years and the maximum is 10 years. The minimum lease term for a field office is 15 years and the maximum is 30 years.

The FBI has a long-range program to relocate all field offices into single tenant, stand-alone, secure facilities. All new leases for field offices and some RAs will be noncancelable, whereas the Headquarters Annex lease will be cancelable. The GSA has not determined whether the Central Records Complex lease is cancelable or noncancelable. The FBI currently anticipates relocating 19 field offices between FY 2011 and FY 2017. A total of seven offices were relocated in FY 2009 and FY 2010. When field offices relocate, often from space leased for 20 years or longer, the rental rates increase significantly to accommodate the FBI's growth in workforce, space needs, and specialized security requirements.



Notes to the Financial Statements

12. Leases (continued)

As of September 30, 2010 and 2009

Operating Lease Expenses

<u>Lease Type</u>	<u>2010</u>	<u>2009</u>
Noncancelable Operating Leases	\$ 85,656	\$ 77,795
Cancelable Operating Leases	492,195	447,167
Total Operating Lease Expenses	<u>\$ 577,851</u>	<u>\$ 524,962</u>

As of September 30, 2010

Future Noncancelable Operating Lease Payments Due

<u>Fiscal Year</u>	<u>Land and Buildings</u>	<u>Machinery and Equipment</u>	<u>Total</u>
2011	\$ 138,510	\$ 10,250	\$ 148,760
2012	210,771	8,824	219,595
2013	257,447	8,910	266,357
2014	270,469	4,320	274,789
2015	268,365	4,320	272,685
After 2015	<u>3,223,731</u>	<u>-</u>	<u>3,223,731</u>
Total Future Noncancelable Operating Lease Payments	<u>\$ 4,369,293</u>	<u>\$ 36,624</u>	<u>\$ 4,405,917</u>

13. Seized Cash and Monetary Instruments

Seized Cash and Monetary Instruments represents liabilities for seized assets held by the FBI pending disposition. The Seized Cash and Monetary Instruments as of September 30, 2010 and 2009 are \$42,120 and \$37,390, respectively and are recorded in the financial statements.



Notes to the Financial Statements

14. Other Liabilities

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

As of September 30, 2010 and 2009		
	2010	2009
Intragovernmental		
Employer Contributions and Payroll Taxes Payable	\$ 56,213	\$ 46,624
Other Post-Employment Benefits Due and Payable	334	314
Other Unfunded Employment Related Liabilities	191	188
Advances from Others	57,850	40,387
Total Intragovernmental	<u>114,588</u>	<u>87,513</u>
With the Public		
Advances from Others	2	2
Liability for Deposit Funds, Clearing Accounts and Undeposited Collections	727	3,425
Other Liabilities	2,568	1,935
Total With the Public	<u>3,297</u>	<u>5,362</u>
Total Other Liabilities	<u>\$ 117,885</u>	<u>\$ 92,875</u>

15. Contingencies and Commitments

	Accrued Liabilities	Estimated Range of Loss	
		Lower	Upper
As of September 30, 2010			
Probable	\$ 66,762	\$ 66,762	\$ 172,217
Reasonably Possible		16,268	21,088
As of September 30, 2009			
Probable	\$ 128,978	\$ 128,978	\$ 147,385
Reasonably Possible		17,838	21,956

16. Net Cost of Operations by Suborganization

The FBI reports on two of three DOJ Strategic Goals. The table below breaks out expenses and revenues by these two goals. Additionally, the FBI utilizes decision units to identify operational net costs.

The Intelligence Reform and Terrorism Prevention Act of 2004 reads, “The Director of the Federal Bureau of Investigation shall, establish a budget structure of the Federal Bureau of Investigation to reflect the four principal missions of the Bureau as follows: Intelligence, Counterterrorism and



Notes to the Financial Statements

16. Net Cost of Operations by Suborganization (continued)

Counterintelligence, Criminal Enterprises/Federal Crimes, [and] Criminal Justice Services.” Consistent with the law, the FBI budgets according to these four broad categories, or decision units.

The Intelligence Decision Unit includes the Directorate of Intelligence, Intelligence Analysts, Field Intelligence Group agents, the Language Program, the Terrorist Screening Center, Foreign Terrorist Tracking Task Forces, Asset/Informant Funding, and several other programs. The Counterterrorism/Counterintelligence Decision Unit includes the Counterintelligence Division, Counterterrorism Division, a portion of the Cyber Division, and several other programs. The Criminal Enterprises/Federal Crimes Decision Unit includes the Criminal Investigative Division, a portion of the Cyber Division, and several other programs. The Criminal Justice Services Decision Unit consists primarily of the CJIS Division. All FBI programs fall within a decision unit, though several programs (particularly support programs) span multiple decision units.

Expenses are broken out by decision unit based on programmatic function and workload percentages.

For the Fiscal Year Ended September 30, 2010					
	Suborganizations				Consolidated
	Intelligence Decision Unit	Counterterrorism/Counterintelligence Decision Unit	Criminal Enterprises/Federal Crimes Decision Unit	Criminal Justice Services Decision Unit	
Goal 1: Prevent Terrorism and Promote the Nation's Security					
Gross Cost	\$ 824,534	\$ 2,243,935	\$ 1,693,449	\$ 423,409	\$ 5,185,327
Less: Earned Revenue	395,375	43,888	33,591	35,142	507,996
Net Cost (Revenue) of Operations	429,159	2,200,047	1,659,858	388,267	4,677,331
Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People					
Gross Cost	611,686	1,664,678	1,256,297	314,109	3,846,770
Less: Earned Revenue	8,798	24,960	378,267	355,185	767,210
Net Cost (Revenue) of Operations	602,888	1,639,718	878,030	(41,076)	3,079,560
Net Cost (Revenue) of Operations	\$ 1,032,047	\$ 3,839,765	\$ 2,537,888	\$ 347,191	\$ 7,756,891

For the Fiscal Year Ended September 30, 2009					
	Suborganizations				Consolidated
	Intelligence Decision Unit	Counterterrorism/Counterintelligence Decision Unit	Criminal Enterprises/Federal Crimes Decision Unit	Criminal Justice Services Decision Unit	
Goal 1: Prevent Terrorism and Promote the Nation's Security					
Gross Cost	\$ 696,377	\$ 1,698,244	\$ 1,543,610	\$ 281,963	\$ 4,220,194
Less: Earned Revenue	459,733	37,371	28,794	34,705	560,603
Net Cost (Revenue) of Operations	236,644	1,660,873	1,514,816	247,258	3,659,591
Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People					
Gross Cost	630,287	1,537,072	1,397,111	255,203	3,819,673
Less: Earned Revenue	10,179	29,420	357,932	321,158	718,689
Net Cost (Revenue) of Operations	620,108	1,507,652	1,039,179	(65,955)	3,100,984
Net Cost (Revenue) of Operations	\$ 856,752	\$ 3,168,525	\$ 2,553,995	\$ 181,303	\$ 6,760,575



17. Imputed Financing from Cost Absorbed by Others

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

SFFAS No. 5 requires that employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS No. 5 requires OPM to provide cost factors necessary to calculate cost. OPM actuaries calculate the value of pension benefits expected to be paid in the future, and then determine the total funds to be contributed by and for covered employees, such that the amount calculated would be sufficient to fund the projected pension benefits. For employees covered by CSRS, the cost factors are 30.1 percent of basic pay for regular, 51.1 percent law enforcement officers, 23.5 percent regular offset, and 45.6 percent law enforcement officers offset. For employees covered by FERS, the cost factors are 13.8 percent of basic pay for regular and 29.8 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, other retirement benefits, which include health and life insurance that are paid by other federal entities, must also be recorded.

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



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

For the Fiscal Years Ended September 30, 2010 and 2009		
	2010	2009
Imputed Inter-Departmental Financing		
Treasury Judgment Fund	\$ 117,846	\$ 5,075
Health Insurance	163,604	157,519
Life Insurance	635	583
Pension	72,779	44,328
Total Imputed Financing Sources	<u>\$ 354,864</u>	<u>\$ 207,505</u>

18. Information Related to the Statement of Budgetary Resources

Apportionment Categories of Obligations Incurred:

The apportionment categories are determined in accordance with the guidance provided in Part 4, *Instructions on Budget Execution*, of OMB Circular A-11, *Preparation, Submission and Execution of the Budget*. Category A represents resources apportioned for calendar quarters. Category B spending includes supplemental “bridged” funding for: Overseas Contingency Operations, Render Safe mission, and FBI Laboratory requirements. Category B also includes funds appropriated for digital technology upgrades; mortgage fraud investigations; biometric operations; training operations at Quantico, Virginia; secure facilities; and improvised explosive devices analysis. These are per OMB’s guidance.

	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
For the Fiscal Year Ended September 30, 2010			
Obligations Apportioned Under:			
Category A	\$ 7,800,198	\$ 1,214,320	\$ 9,014,518
Category B	478,216	-	478,216
Total	<u>\$ 8,278,414</u>	<u>\$ 1,214,320</u>	<u>\$ 9,492,734</u>
For the Fiscal Year Ended September 30, 2009			
Obligations Apportioned Under:			
Category A	\$ 7,579,608	\$ 1,149,687	\$ 8,729,295
Category B	92,710	-	92,710
Total	<u>\$ 7,672,318</u>	<u>\$ 1,149,687</u>	<u>\$ 8,822,005</u>

Status of Undelivered Orders:

Undelivered Orders (UDO) represents 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.



Notes to the Financial Statements

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

As of September 30, 2010 and 2009		
	2010	2009
UDO Obligations Unpaid	\$ 2,334,713	\$ 2,081,621
UDO Obligations Prepaid/Advanced	80,434	119,515
Total UDO	<u>\$ 2,415,147</u>	<u>\$ 2,201,136</u>

Legal Arrangements Affecting Use of Unobligated Balances:

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

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

The Statement of Budgetary Resources versus the Budget of the U.S. Government as of September 30, 2009 is presented below.

The reconciliation as of September 30, 2010 is not presented because the submission of the Budget of the United States Government (Budget) for FY 2012, which presents the execution of the FY 2010 Budget, occurs after publication of these financial statements. The DOJ Budget Appendix can be found on the OMB website (<http://www.whitehouse.gov/omb/budget>) and will be available in early February 2011.

Offsetting Receipts and Expired Funds are reported in the FBI's Statement of Budgetary Resources, but not reported in the Budget.

For the Fiscal Year Ended September 30, 2009 (Dollars in Millions)				
	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources (SBR)	\$ 9,882	\$ 8,822	\$ 2	\$ 6,587
Funds not Reported in the Budget				
Expired Funds	(517)	(196)	-	-
Offsetting Receipts	-	-	(2)	1
Budget of the United States Government	<u>\$ 9,365</u>	<u>\$ 8,626</u>	<u>\$ -</u>	<u>\$ 6,588</u>



19. Restatements and Adjustments

Cleanup Cost Adjustments

FASAB Technical Bulletin 2006-1, paragraphs 40 and 44, directs, upon implementation, that any cleanup cost liability recognized shall be shown in the Statements of Changes in Net Position (SCNP) as a prior period adjustment. The FBI recognized the estimated total cleanup cost for friable and non-friable asbestos as a liability, described in Note 11, and reported the offsetting charge as a “Change in Accounting Principles” in the SCNP, presented in the table below.

As of September 30, 2010 and 2009	<u>2010</u>	<u>2009</u>
Statement of Changes in Net Position	\$ (9,755)	\$ -



Notes to the Financial Statements

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

For the Fiscal Years Ended September 30, 2010 and 2009

	2010	2009
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	\$ 9,492,734	\$ 8,822,005
Less: Spending Authority from Offsetting Collections and Recoveries	1,416,924	1,478,340
Obligations Net of Offsetting Collections and Recoveries	8,075,810	7,343,665
Less: Offsetting Receipts	253	1,668
Net Obligations	8,075,557	7,341,997
Other Resources		
Transfers-In/Out Without Reimbursement	69,206	61,342
Imputed Financing from Costs Absorbed by Others (Note 17)	354,864	207,505
Net Other Resources Used to Finance Activities	424,070	268,847
Total Resources Used to Finance Activities	8,499,627	7,610,844
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	(303,377)	(534,878)
Resources That Fund Expenses Recognized in Prior Periods (Note 21)	(64,235)	(81)
Budgetary Offsetting Collections and Receipts That do not Affect Net Cost of Operations	253	1,668
Resources That Finance the Acquisition of Assets	(677,990)	(540,859)
Other Resources or Adjustments to Net Obligated Resources That do not Affect Net Cost of Operations	4,847	(632)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(1,040,502)	(1,074,782)
Total Resources Used to Finance the Net Cost of Operations	\$ 7,459,125	\$ 6,536,062
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 21)	\$ 29,230	\$ 48,003
Depreciation and Amortization	193,657	185,828
Revaluation of Assets or Liabilities	24,101	12,042
Other	50,778	(21,360)
Total Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period	297,766	224,513
Net Cost of Operations	\$ 7,756,891	\$ 6,760,575



Notes to the Financial Statements

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

Liabilities that are not covered by realized budgetary resources and for which there is not certainty that budgetary authority will be realized, such as the enactment of an appropriation, are considered liabilities not covered by budgetary resources. These liabilities totaling \$550,067 and \$583,632 as of September 30, 2010 and 2009, respectively, are discussed in Note 10, Liabilities not Covered by Budgetary Resources. Decreases in these liabilities result from current year budgetary resources that were used to fund expenses recognized in prior periods. Increases in these liabilities represent unfunded expenses that were recognized in the current period. These increases along with the change in the portion of exchange revenue receivables from the public, which are not considered budgetary resources until collected, represent components of current period net cost of operations that will require or generate budgetary resources in future periods. The changes in liabilities not covered by budgetary resources and receivables generating resources in future periods are comprised of the following:

For the Fiscal Years Ended September 30, 2010 and 2009		
	2010	2009
Resources that Fund Expenses Recognized in Prior Periods		
Decrease in Actuarial FECA Liabilities	\$ (465)	\$ -
Decrease in Accrued FECA Liabilities	(1,554)	(81)
Decrease in Contingent Liabilities	(62,216)	-
Total Resources that Fund Expenses Recognized in Prior Periods	<u>\$ (64,235)</u>	<u>\$ (81)</u>
Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods		
Increase in Accrued Annual and Compensatory Leave Liabilities	\$ 20,912	\$ 20,907
Increase in Environmental and Disposal Liabilities	9,755	-
(Increase)/Decrease in Exchange Revenue Receivable from the Public	351	1,407
Other		
Increase in Actuarial FECA Liabilities	-	5,916
Increase in Contingent Liabilities	-	8,208
Increase in Other Unfunded Employment Related Liabilities	3	15
(Increase)/Decrease in Surcharge Revenue Receivable from Other Federal Agencies	(1,791)	11,550
Total Other	<u>(1,788)</u>	<u>25,689</u>
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	<u>\$ 29,230</u>	<u>\$ 48,003</u>

U.S. DEPARTMENT OF JUSTICE

FEDERAL BUREAU OF INVESTIGATION

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)



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**U.S. Department of Justice
Federal Bureau of Investigation
Required Supplementary Information
Combining Statement of Budgetary Resources
By Major Appropriation
Unaudited
For the Fiscal Year Ended September 30, 2010**

Dollars in Thousands	2010			
	<u>CNST</u>	<u>VCRP</u>	<u>S&E</u>	<u>TOTAL</u>
Budgetary Resources				
Unobligated Balance, Brought Forward, October 1	\$ 254,582	\$ -	\$ 805,452	\$ 1,060,034
Recoveries of Prior Year Unpaid Obligations	2,426	44	164,093	166,563
Budget Authority				
Appropriations Received	239,915	-	7,682,622	7,922,537
Spending Authority from Offsetting Collections				
Earned				
Collected	-	-	1,338,006	1,338,006
Change in Receivables from Federal Sources	-	-	1,699	1,699
Change in Unfilled Customer Orders				
Advance Received	-	-	17,463	17,463
Without Advance from Federal Sources	-	-	(106,807)	(106,807)
Subtotal Budget Authority	<u>239,915</u>	<u>-</u>	<u>8,932,983</u>	<u>9,172,898</u>
Nonexpenditure Transfers, Net, Actual	30,000	-	60,116	90,116
Permanently not Available	<u>-</u>	<u>-</u>	<u>(50,000)</u>	<u>(50,000)</u>
Total Budgetary Resources	<u>\$ 526,923</u>	<u>\$ 44</u>	<u>\$ 9,912,644</u>	<u>\$ 10,439,611</u>
Status of Budgetary Resources				
Obligations Incurred				
Direct	\$ 360,923	\$ 40	\$ 7,917,451	\$ 8,278,414
Reimbursable	<u>-</u>	<u>-</u>	<u>1,214,320</u>	<u>1,214,320</u>
Total Obligations Incurred	360,923	40	9,131,771	9,492,734
Unobligated Balance - Available				
Apportioned	<u>165,716</u>	<u>4</u>	<u>382,176</u>	<u>547,896</u>
Total Unobligated Balance - Available	165,716	4	382,176	547,896
Unobligated Balance not Available	<u>284</u>	<u>-</u>	<u>398,697</u>	<u>398,981</u>
Total Status of Budgetary Resources	<u>\$ 526,923</u>	<u>\$ 44</u>	<u>\$ 9,912,644</u>	<u>\$ 10,439,611</u>
Change in Obligated Balance				
Obligated Balance, Net - Brought Forward, October 1				
Unpaid Obligations	\$ 102,765	\$ 38	\$ 2,707,319	\$ 2,810,122
Less: Uncollected Customer Payments from Federal Sources	<u>-</u>	<u>-</u>	<u>584,369</u>	<u>584,369</u>
Total Unpaid Obligated Balance, Net - Brought Forward, October 1	102,765	38	2,122,950	2,225,753
Obligations Incurred, Net				
Less: Gross Outlays	360,923	40	9,131,771	9,492,734
Less: Recoveries of Prior Year Unpaid Obligations, Actual	81,427	34	8,833,021	8,914,482
Change in Uncollected Customer Payments from Federal Sources	2,426	44	164,093	166,563
	<u>-</u>	<u>-</u>	<u>105,108</u>	<u>105,108</u>
Obligated Balance, Net - End of Period				
Unpaid Obligations	379,835	-	2,841,976	3,221,811
Less: Uncollected Customer Payments from Federal Sources	<u>-</u>	<u>-</u>	<u>479,261</u>	<u>479,261</u>
Total Unpaid Obligated Balance, Net - End of Period	<u>\$ 379,835</u>	<u>\$ -</u>	<u>\$ 2,362,715</u>	<u>\$ 2,742,550</u>
Net Outlays				
Gross Outlays	\$ 81,427	\$ 34	\$ 8,833,021	\$ 8,914,482
Less: Offsetting Collections	<u>-</u>	<u>-</u>	<u>1,355,469</u>	<u>1,355,469</u>
Less: Distributed Offsetting Receipts	<u>-</u>	<u>-</u>	<u>253</u>	<u>253</u>
Total Net Outlays	<u>\$ 81,427</u>	<u>\$ 34</u>	<u>\$ 7,477,299</u>	<u>\$ 7,558,760</u>



**U.S. Department of Justice
Federal Bureau of Investigation
Required Supplementary Information
Combining Statement of Budgetary Resources
By Major Appropriation
Unaudited
For the Fiscal Year Ended September 30, 2009**

Dollars in Thousands	<u>CNST</u>	<u>VCRP</u>	<u>S&E</u>	<u>TOTAL</u>
Budgetary Resources				
Unobligated Balance, Brought Forward, October 1	\$ 175,218	\$ 501	\$ 900,767	\$ 1,076,486
Recoveries of Prior Year Unpaid Obligations	2,844	-	267,662	270,506
Budget Authority				
Appropriations Received	153,491	-	7,182,700	7,336,191
Spending Authority from Offsetting Collections				
Earned				
Collected	-	-	1,442,098	1,442,098
Change in Receivables from Federal Sources	-	-	(86,453)	(86,453)
Change in Unfilled Customer Orders				
Advance Received	-	-	(26,471)	(26,471)
Without Advance from Federal Sources	-	-	(121,340)	(121,340)
Subtotal Budget Authority	<u>153,491</u>	<u>-</u>	<u>8,390,534</u>	<u>8,544,025</u>
Nonexpenditure Transfers, Net, Actual	<u>-</u>	<u>-</u>	<u>(8,978)</u>	<u>(8,978)</u>
Total Budgetary Resources	<u>\$ 331,553</u>	<u>\$ 501</u>	<u>\$ 9,549,985</u>	<u>\$ 9,882,039</u>
Status of Budgetary Resources				
Obligations Incurred				
Direct	\$ 76,971	\$ 501	\$ 7,594,846	\$ 7,672,318
Reimbursable	-	-	1,149,687	1,149,687
Total Obligations Incurred	<u>76,971</u>	<u>501</u>	<u>8,744,533</u>	<u>8,822,005</u>
Unobligated Balance - Available				
Apportioned	<u>254,298</u>	<u>-</u>	<u>482,914</u>	<u>737,212</u>
Total Unobligated Balance - Available	<u>254,298</u>	<u>-</u>	<u>482,914</u>	<u>737,212</u>
Unobligated Balance not Available	<u>284</u>	<u>-</u>	<u>322,538</u>	<u>322,822</u>
Total Status of Budgetary Resources	<u>\$ 331,553</u>	<u>\$ 501</u>	<u>\$ 9,549,985</u>	<u>\$ 9,882,039</u>
Change in Obligated Balance				
Obligated Balance, Net - Brought Forward, October 1				
Unpaid Obligations	\$ 55,047	\$ 85	\$ 2,207,819	\$ 2,262,951
Less: Uncollected Customer Payments from Federal Sources	<u>-</u>	<u>-</u>	<u>792,162</u>	<u>792,162</u>
Total Unpaid Obligated Balance, Net - Brought Forward, October 1	<u>55,047</u>	<u>85</u>	<u>1,415,657</u>	<u>1,470,789</u>
Obligations Incurred, Net	76,971	501	8,744,533	8,822,005
Less: Gross Outlays	26,409	548	7,977,371	8,004,328
Less: Recoveries of Prior Year Unpaid Obligations, Actual	2,844	-	267,662	270,506
Change in Uncollected Customer Payments from Federal Sources	-	-	207,793	207,793
Obligated Balance, Net - End of Period				
Unpaid Obligations	102,765	38	2,707,319	2,810,122
Less: Uncollected Customer Payments from Federal Sources	<u>-</u>	<u>-</u>	<u>584,369</u>	<u>584,369</u>
Total Unpaid Obligated Balance, Net - End of Period	<u>\$ 102,765</u>	<u>\$ 38</u>	<u>\$ 2,122,950</u>	<u>\$ 2,225,753</u>
Net Outlays				
Gross Outlays	\$ 26,409	\$ 548	\$ 7,977,371	\$ 8,004,328
Less: Offsetting Collections	-	-	1,415,627	1,415,627
Less: Distributed Offsetting Receipts	-	-	1,668	1,668
Total Net Outlays	<u>\$ 26,409</u>	<u>\$ 548</u>	<u>\$ 6,560,076</u>	<u>\$ 6,587,033</u>

U.S. DEPARTMENT OF JUSTICE

FEDERAL BUREAU OF INVESTIGATION

APPENDIX



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

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

Recommendation Number:

1. **Resolved.** The FBI concurred with our recommendation. This recommendation can be closed when subsequent annual financial statement audit testing verifies that the FBI has fully implemented the updates to the certification, accreditation, and security assessment processes and effectively addressed the identified deficiency.