UNITED STATES MARSHALS SERVICE ANNUAL FINANCIAL STATEMENTS FISCAL YEAR 2010

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UNITED STATES MARSHALS SERVICE ANNUAL FINANCIAL STATEMENTS FISCAL YEAR 2010

OFFICE OF THE INSPECTOR GENERAL COMMENTARY AND SUMMARY

This audit report contains the Annual Financial Statements of the United States Marshals Service (USMS) for the fiscal years (FY) ended September 30, 2010, and September 30, 2009. Under the direction of the Office of the Inspector General (OIG), Cotton & Company LLP performed the USMS'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 USMS also received an unqualified opinion on its financial statements (OIG Report No. 10-09).

Cotton & Company 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 material weakness, which is an improvement over the prior year, when the auditors reported one material weakness and one significant deficiency. This year's material weakness related to inadequate funds management controls. The auditors found that financial and compliance controls are not adequate to ensure that obligation transactions are executed and recorded in accordance with laws and regulations, and related undelivered orders and accounts payable balances are accurate and complete.

In the FY 2010 *Independent Auditors' Report on Compliance and Other Matters*, the auditors concluded that the USMS's financial management systems did not substantially comply with federal financial management system requirements and applicable federal accounting standards as required by the *Federal Financial Management Improvement Act of 1996*.

The OIG reviewed Cotton & Company LLP's reports and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the USMS's financial statements, conclusions about the effectiveness of internal control, conclusions on whether the USMS's financial management systems substantially complied with the *Federal Financial Management Improvement Act of 1996*, or conclusions on compliance with laws and regulations. Cotton & Company LLP is responsible for the attached auditors' reports dated November 3, 2010, and the conclusions expressed in the reports. However, our review disclosed no instances where Cotton & Company LLP did not comply, in all material respects, with U.S. generally accepted government auditing standards.

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U.S. DEPARTMENT OF JUSTICE

UNITED STATES MARSHALS SERVICE

MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)

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U.S. Department of Justice
United States Marshals Service
Management's Discussion and Analysis
(unaudited)

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

MISSION

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

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

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

ORGANIZATION STRUCTURE

The USMS headquarters (HQ) is located in Arlington, Virginia, with 94 district offices operating in over 400 Federal courts and other locations throughout the United States and its territories. The USMS organizational chart and district office locations are contained in Attachments 1 and 2. Specific courthouse locations can be found on the USMS internet web site at: www.usmarshals.gov. The decentralized organizational structure ensures that the USMS is able to respond to law enforcement challenges in an efficient and effective manner.

FINANCIAL STRUCTURE

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

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

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

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

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

Allocation Transfer Authority from the Administrative Office of the U.S. Courts (AOUSC):
AOUSC receives an annual Court Security Appropriation that includes allocation transfer authority to the USMS. AOUSC transfers funds to the USMS each year using a non-expenditure transfer authorization (SF-1151). The funds are used to pay the wages, supplies, and equipment for Court Security Officers (CSO) who provide security at Federal courthouses and other facilities that have Federal court operations. Funds are also used to obtain and install security equipment to screen and monitor visitors and packages that enter Federal courthouses.

Violent Crime Appropriation:
This no-year funding was instituted to directly investigate, arrest, and prosecute violent criminals. The USMS did not receive appropriations for this program in FY 2010 or FY 2009. Residual funds appropriated in prior years were fully expended in FY 2009.

ANALYSIS OF FINANCIAL STATEMENTS

Assets: The USMS's Balance Sheet as of September 30, 2010 shows $1,112.5 million in total assets, an increase of $166.8 million (17.6%) over the previous year's total assets of $945.7 million. The largest assets include Fund Balance with U.S. Treasury (FBWT) and General Property, Plant, and Equipment in the combined amounts of $942.6 million and $751.9 million as of September 30, 2010 and 2009, respectively. This comprised 84.7% and 79.5% of total assets as of September 30, 2010 and 2009, respectively.

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

The General Property, Plant, and Equipment net balance represents property and leasehold improvement items with a cost basis greater than $25,000 ($100,000 for airplanes and leasehold improvements) less accumulated depreciation. As of September 30, 2010, the General Property, Plant, and Equipment net balance was $257.9 million. As of September 30, 2009, the General Property, Plant, and Equipment net balance was $254.3 million.

Liabilities: Total USMS liabilities were $646.6 million as of September 30, 2010, an increase of $56.4 million (9.6%) over the previous year's total liabilities of $590.2 million. The largest liability is Accounts Payable with the Public which equaled $406.3 million and $353.9 million, as of September 30, 2010 and 2009, respectively. This comprised 62.8% and 60.0% of total liabilities, as of September 30, 2010 and 2009, respectively. The USMS provides secure confinement and housing at non-Federal (state, local, and private) detention facilities for Federal prisoners prior to judicial proceedings. Accounts Payable with the Public are impacted by the fluctuation of the Federal prisoner population housed at these facilities.

Net Cost of Operations: The USMS's Statement of Net Cost presents the gross and net cost by strategic goal. The net cost of USMS operations totaled $1,512.1 million for the year ended September 30, 2010, an increase of $181.6 million (13.6%) from the previous year's net cost of operations of $1,330.5 million. The increase in the FY 2010 net cost was primarily due to the higher costs associated with housing, transporting, and providing medical care for prisoners that were in USMS custody prior to final sentencing.

Budgetary Resources: The USMS's FY 2010 Statement of Budgetary Resources shows $3,265.5 million in total budgetary resources, an increase of $276.8 million (9.3%) from the previous year's total budgetary resources of $2,988.7 million. The increase is primarily due to an increase in the appropriations received from Congress for FY 2010.

Net Outlays: The USMS's FY 2010 Statement of Budgetary Resources shows $1,394.0 million in net outlays, an increase of $113.0 million (8.8%) from the previous year's total net outlays of $1,281.1 million. The increase is primarily a result of increased outlays for prisoner costs as well as the increase in overall expenditures from having received more appropriated funds from Congress for FY 2010.

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

Source	FY 2010	FY 2009	Change%
Earned Revenue	$1,514,103	$1,471,465	**2.9%**
Budgetary Financing Sources			
Appropriations Received	1,190,039	964,000	**23.4%**
Appropriations Transferred-In/Out	393,936	354,616	**11.1%**
Other Financing Sources			
Transfers-In/Out Without Reimbursement	186	335	**(44.5)%**
Imputed Financing From Costs Absorbed by Others	38,441	32,295	**19.0%**
Total	**$3,136,705**	**$2,822,711**	**11.1%**

Table 2. How USMS 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	$5,159	$5,138	
Less: Earned Revenue	-	-	
Net Cost	$5,159	$5,138	**0.4%**
SG 2. Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People			
Gross Cost	$4,872	$4,129	
Less: Earned Revenue	-	-	
Net Cost	$4,872	$4,129	**18.0%**
SG 3. Ensure the Fair and Efficient Administration of Justice			
Gross Cost	$3,016,174	$2,792,695	
Less: Earned Revenue	1,514,103	1,471,465	
Net Cost	$1,502,071	$1,321,230	**13.7%**
Total Gross Cost	**$3,026,205**	**$2,801,962**	
Less: Total Earned Revenue	**1,514,103**	**1,471,465**	
Total Net Cost of Operations	**$1,512,102**	**$1,330,497**	**13.6%**

2010 FINANCIAL HIGHLIGHTS

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

Strategic Goal 1, Prevent Terrorism and Promote the Nation's Security, includes activities that strengthen partnerships to prevent, deter, and respond to terrorist incidents. The Goal 1 costs include payroll and operating costs for the Office of Protective Intelligence (OPI) and payroll costs for deputies working with the Federal Bureau of Investigation (FBI) Joint Terrorism Task Forces. The USMS expended net program costs of $5.2 million for the fiscal year ending September 30, 2010 and $5.1 million for the fiscal year ending September 30, 2009 on Strategic Goal 1.

Strategic Goal 2, Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People, includes activities related to fugitive investigation and apprehension efforts that prevent, suppress, and intervene in crimes against children. When the Adam Walsh Child Protection and Safety Act was enacted in 2006, the Attorney General gave the USMS primary enforcement responsibility. The Goal 2 costs include payroll and operating costs related to the Sex Offender Apprehension Program. The USMS expended net program costs of $4.9 million for the fiscal year ending September 30, 2010 and $4.1 million for the fiscal year ending September 30, 2009 on Strategic Goal 2.

Strategic Goal 3, Ensure the Fair and Efficient Administration of Justice, includes activities that protect the Federal judiciary and other participants in Federal proceedings, and ensure the apprehension of fugitives from justice. The USMS expended net program costs of $1,502.1 million for the fiscal year ending September 30, 2010 and $1,321.2 million for the fiscal year ending September 30, 2009 on Strategic Goal 3.

PERFORMANCE INFORMATION

Data Reliability and Validity

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

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

FY 2010 REPORT ON SELECTED RESULTS

The USMS performance measure, "Ensure Judicial Proceedings are not Interrupted due to Inadequate Security," supports two DOJ strategic goals. They are:

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

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

STRATEGIC GOAL 3: Ensure the Fair and Efficient Administration of Justice – *More than 99% of the USMS Net Costs support this Goal. The programs that support this goal are Judicial and Courthouse Security, Prisoner Security and Transportation, Protection of Witnesses, and Tactical Operations.*

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

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

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

The USMS measures the number of judicial proceedings that are interrupted due to inadequate security. An "interruption" occurs when a judge is removed from the courtroom as a result of a potentially dangerous incident or when court proceedings are suspended until additional Deputy U.S. Marshals are assigned to guarantee the safety of the judge, witness, and other participants.

The USMS Communications Center collects Weekly Activity Reports and Incident Reports from the districts. Before data is disseminated agency-wide, the USMS Communications Center verifies the information with HQ operational program managers to ensure accuracy. These reports have been collected by the USMS Communications Center via email since FY 2003.

Table 3. Performance Measure

Ensure Judicial Proceedings are not Interrupted due to Inadequate Security

Performance Measure:	Number of Judicial Proceedings Interrupted Due to Inadequate Security
FY 2001 Actual Performance:	N/A
FY 2002 Actual Performance:	N/A
FY 2003 Actual Performance:	1
FY 2004 Actual Performance:	0
FY 2005 Actual Performance:	0
FY 2006 Actual Performance:	0
FY 2007 Actual Performance:	2
FY 2008 Actual Performance:	1
FY 2009 Actual Performance:	2
FY 2010 Target Performance:	0
FY 2010 Actual Performance:	0

Discussion of FY 2010 Results: The USMS met its FY 2010 target of zero interrupted judicial proceedings due to inadequate security.

The USMS revised the previously reported figure for the FY 2009 performance measure from one to two interruptions. The change is a result of a subsequent review of courtroom incidents within the definition of “interruption” as defined above.

The USMS performance measure "Total Primary Fugitives Apprehended or Cleared" supports two DOJ strategic goals. They are:

STRATEGIC GOAL 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People – *Less than 1% of the USMS Net Costs support this Goal. The program that supports this goal is the Sex Offender Apprehension Program.*

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

STRATEGIC GOAL 3: Ensure the Fair and Efficient Administration of Justice – *More than 99% of the USMS Net Costs support this Goal. The program that supports this goal is the Fugitive Apprehension Program.*

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

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

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

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

- Escaped Federal prisoners
- Probation parole and bond default violators
- Warrants generated by the Drug Enforcement Administration (DEA) and referred to the USMS
- Any other Federal warrant referred by another Federal agency without arrest powers
- Any warrant referred by state and local agencies

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

The USMS maintains a centralized Warrant Information Network (WIN) within the Justice Detainee Information System (JDIS) to collect warrant information, investigative leads, and other criminal information. Upon receipt of a warrant from a Federal judge, Deputy U.S. Marshals query the FBI's National Crime Information Center (NCIC) through WIN to look for previous criminal information. WIN data is accessible to all USMS district offices and is continuously updated as new information is collected, thus there may be a lag in the reporting of data.

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

Table 4. Performance Measure:

Total Primary Fugitives Apprehended or Cleared

Performance Measure:	**Total Primary Fugitives Apprehended or Cleared**	
	Number	**Percent**
FY 2001 Actual Performance:	**21,522**	**49%**
FY 2002 Actual Performance:	**25,054**	**53%**
FY 2003 Actual Performance:	**27,278**	**54%**
FY 2004 Actual Performance:	**29,140**	**55%**
FY 2005 Actual Performance:	**30,434**	**55%**
FY 2006 Actual Performance:	**30,192**	**54%**
FY 2007 Actual Performance:	**33,437**	**55%**
FY 2008 Actual Performance:	**34,393**	**55%**
FY 2009 Actual Performance:	**32,860**	**52%**
FY 2010 Target Performance:	**33,000**	**53%**
FY 2010 Actual Performance:	**36,126**	**56%**

Discussion of FY 2010 Results: The USMS exceeded its target of 33,000 primary Federal felony fugitives apprehended or cleared by apprehending or clearing 36,126 primary Federal felony fugitives in FY 2010. This resulted in 56% of total primary Federal felony fugitives apprehended or cleared which is more than half of all warrants on hand or received during FY 2010. Among those arrested, 3,610 were for crimes of homicide, 4,857 were gang members, and 11,072 were sex offenders. In addition, the USMS extradited or deported 805 fugitives in FY 2010.

The seven operating Regional Fugitive Task Forces (RFTF), in addition to the 75 district task forces, are directing their investigative efforts toward reducing the number of violent crimes. These crimes include terrorist activities, organized crime, drugs, and gang violence. The Regional Fugitive Task Forces and District Fugitive Task Forces combined led to the arrest of 81,919 state and local fugitive felons in FY 2010. The USMS initiated 3,025 Federal investigations into the failure of sex offenders to meet their registration requirements.

The USMS revised the previously reported figure for the FY 2009 performance measure from 31,119 to 32,860. This adjustment was a result of the data lag referenced earlier as district offices continuously review and update new information as it is collected.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

USMS Major Systems

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

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

Automated Prisoner Scheduling System (APSS): Assists the transportation specialists in Kansas City to schedule and track air movements electronically.

Prisoner Tracking System (PTS): Tracks all prisoner information, contract jail usage, and court scheduling data.

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

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

Due to the costs of maintaining multiple accounting systems, delays of the DOJ's Unified Financial Management System (UFMS) project, and the emphasis placed on accurate and timely financial reporting, the USMS completed implementation of STARS to the district offices in FY 2009. The migration of the USMS district offices to STARS has helped to address deficiencies identified by auditors within the USMS internal control framework. Future plans include migrating STARS functions to the Department's UFMS. UFMS is being designed and developed to allow all the components of the DOJ to integrate their operations into one system from which they will process all financial and procurement activity.

The Federal Managers' Financial Integrity Act of 1982

The Federal Managers' Financial Integrity Act (FMFIA) provides the statutory basis for management's responsibility for and assessment of internal accounting and administrative controls. Such controls include program, operational, and administrative areas, as well as accounting and financial management. FMFIA requires Federal agencies to establish controls that reasonably ensure obligations and costs are in compliance with applicable law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to maintain accountability over the assets. FMFIA also requires agencies to annually assess and report on the internal controls that protect the integrity of Federal programs (FMFIA § 2) and whether financial management systems conform to related requirements (FMFIA § 4).

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

FMFIA Assurance Statement

Management of the USMS is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of FMFIA. The USMS assessed its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, "Management's Responsibility for Internal Control," as required by Section 2 of FMFIA. The USMS also assessed whether its financial management systems conform to government-wide requirements, as required by Section 4 of FMFIA. Based on the results of this assessment, the USMS can provide reasonable assurance that its systems substantially conform to government-wide requirements, except for the non-conformance related to the material weakness reported in our sub-certification on internal control over financial reporting and further described in the Corrective Action Plan(s) accompanying the sub-certification.

The USMS based this assertion on the following sources of information:

- Monitoring of corrective action plans;
- Office of the Inspector General reports;
- Financial management system evaluations and reports pursuant to OMB Circular A-127, "Financial Management Systems;"
- Evaluations and reports pursuant to the Federal Information Security Management Act (FISMA) and OMB Circular A-130, "Management of Federal Information Resources;" and
- Management knowledge and experience gained from daily operation of component programs and systems of accounting and administrative controls.

The material weakness in internal controls over accounting for undelivered orders and accounts payable was related to the processing and recording of obligations as undelivered orders and accounts payable. The results of testing identified deficiencies in ensuring periodic reviews of obligations were performed; calculating undelivered orders and delivered orders; ensuring transactions were properly authorized and approved; ensuring transactions were processed in accordance with the prompt payment rules; ensuring sufficient documentation for procurement actions; and ensuring travel authorizations and reimbursements were adequately processed.

USMS internal control has improved through the corrective actions implemented by management. As stated in the June 30, 2010 sub-certification, the USMS has implemented the following remedial actions, as related to undelivered orders (UDO) and accounts payable:

- an institutionalized quarterly UDO review,
- periodic control testing of UDO review (detective control),
- targeted UDO review and accrual methodology training, and
- standardization and documentation of accrual methodologies.

Internal Controls Program

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

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

Legal Compliance

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act (FFMIA) was designed to improve Federal financial and program managers' accountability, provide better information for decision-making, and improve the efficiency and effectiveness of Federal programs. FFMIA requires agencies to have financial management systems that substantially comply with Federal financial management 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. FISMA states that to be substantially compliant with FFMIA, there are to be no significant deficiencies in information security policies, procedures, or practices.

FFMIA Compliance Determination

USMS management assessed its financial management systems for compliance with FFMIA and determined that the systems were not fully compliant in FY 2010.

- The USMS's financial management system, STARS, does not meet Federal financial management systems requirements established in OMB Circular No. A-127, "Financial Management Systems," because STARS lacks integrated subsidiary records to support certain material account balances. USMS must rely on manually-prepared subsidiary ledgers and manual processes to generate financial reports.
- The USMS's posting of undelivered orders and accounts payable transactions has some departure from Federal accounting standards (promulgated by the Federal Accounting Standards Advisory Board) and the form and content provisions of OMB Circular No. A-136, "Financial Reporting Requirements."

POSSIBLE FUTURE EFFECTS OF EXISTING EVENTS AND CONDITIONS

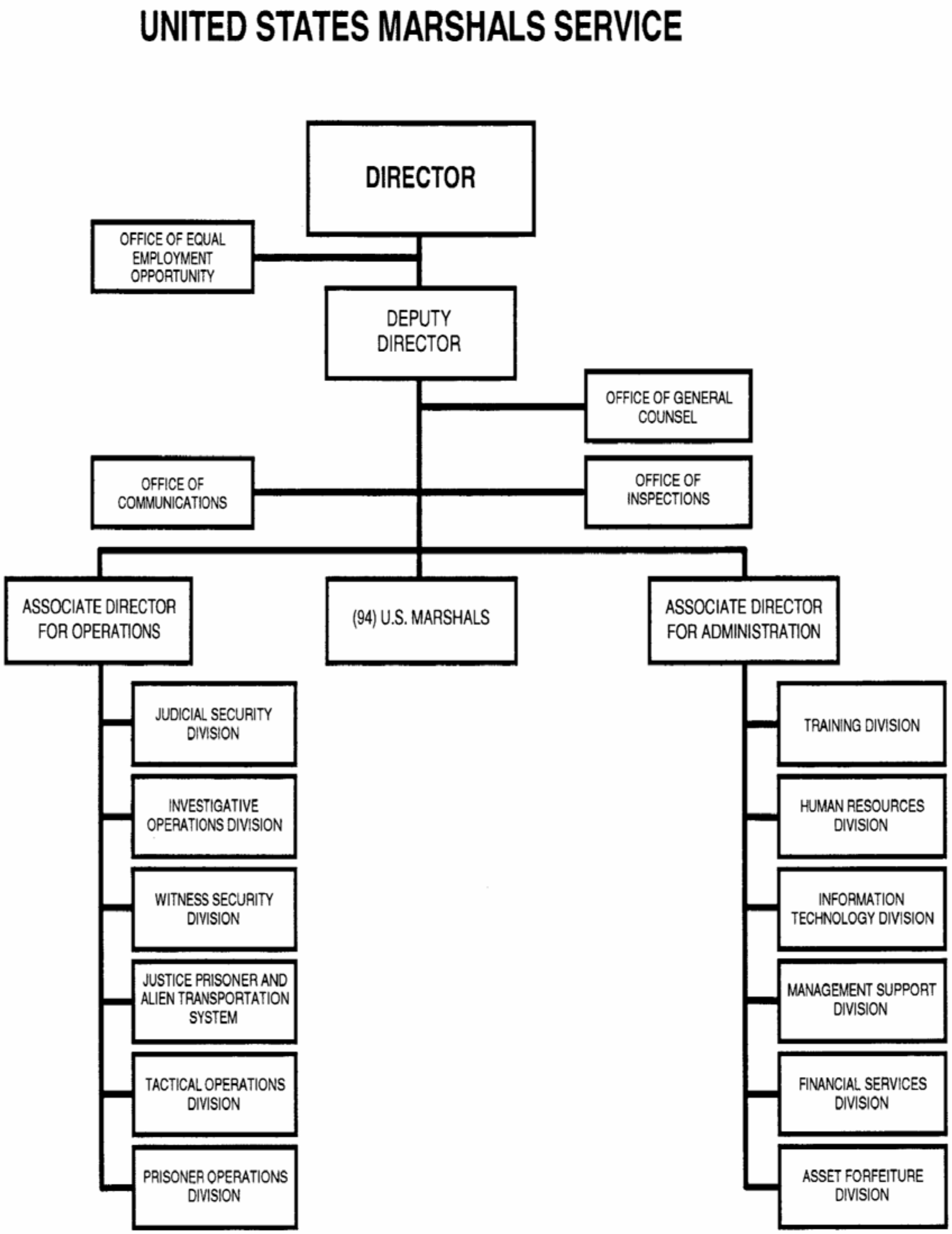
USMS financial statements document existing, currently-known events, conditions and trends. Through the agency financial transactions, one can learn how the USMS has used its appropriated resources to meet its strategic goals. What is not evident are the anticipated future demands that will be placed upon the USMS in FY 2011 and beyond. The President has signed executive orders to close the Guantanamo Bay military detention facility. A number of the detainees will be introduced into the Federal judicial system rather than be tried in military tribunals. The logistical and tactical planning to transport and produce these high-threat individuals to court requires an unprecedented level of security and resources. The workload associated with these detainees affects all operational and administrative areas of the agency. The USMS is working with the Department of Defense, Department of State, and other DOJ components to ensure that this new workload can be handled without compromising national security.

In addition, beginning in FY 2011, ICE will no longer be utilizing JPATS for the transportation of ICE detainees. The transportation of ICE detainees accounted for a substantial portion of the workload and flight hours for JPATS; therefore, the DHS decision to withdraw will have a major impact on the operations of JPATS. In response to the ICE withdrawal and the related reduction in workload, JPATS will close some facilities and eliminate positions in multiple locations.

LIMITATIONS OF THE FINANCIAL STATEMENTS

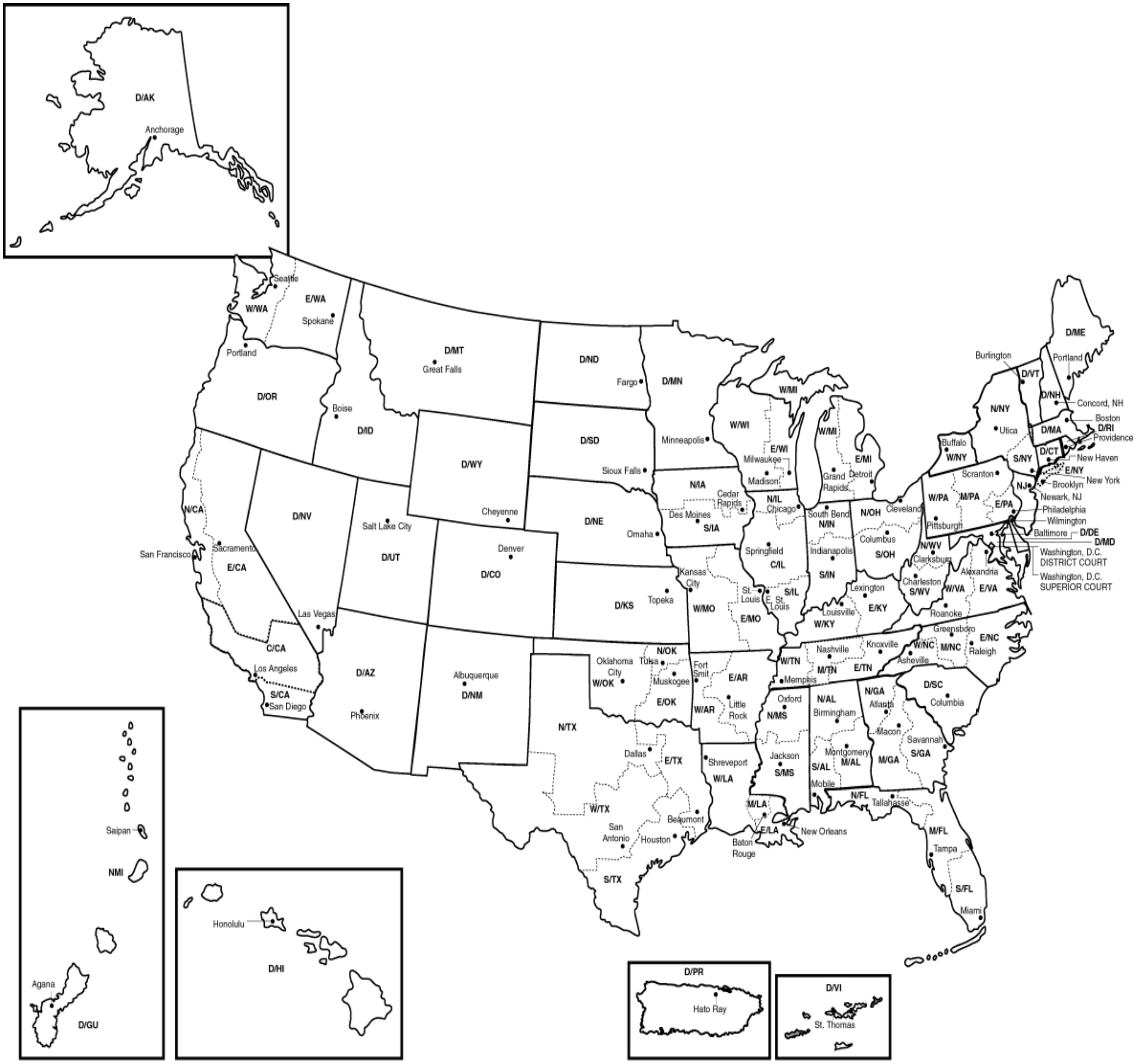
- USMS financial statements have been prepared to report the financial position and results of agency operations, pursuant to the requirements of 31 U.S.C. 3515(b).
- While the statements have been prepared from the books and records of the USMS in accordance with U.S. generally accepted accounting principles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

Attachment 1



Attachment 2

THE 94 USMS DISTRICT OFFICES



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U.S. DEPARTMENT OF JUSTICE

UNITED STATES MARSHALS SERVICE

INDEPENDENT AUDITORS' REPORTS

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

Inspector General
United States Department of Justice

Director
United States Marshals Service
United States Department of Justice

We have audited the accompanying Consolidated Balance Sheets of the United States Marshals Service (USMS), a component of the United States Department of Justice (DOJ), as of September 30, 2010, and 2009, and the related Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and Combined Statements of Budgetary Resources for the years then ended. These financial statements are the responsibility of the USMS's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended by OMB Memorandum M-09-33. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the USMS's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the USMS as of September 30, 2010, and 2009; and its consolidated net costs, consolidated changes in net position, and combined budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the *Management's Discussion and Analysis* and *Required Supplementary Information* sections is not a required part of the basic consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles, or by OMB Circular No. A-136, *Financial Reporting Requirements*. 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.

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

COTTON & COMPANY LLP

Catherine L. Nocera, CPA, CISA
Partner

November 3, 2010
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Inspector General
United States Department of Justice

Director
United States Marshals Service
United States Department of Justice

We have audited the Consolidated Balance Sheets of the United States Marshals Service (USMS), a component of the United States Department of Justice (DOJ), as of September 30, 2010, and 2009, and the related Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and Combined Statements of Budgetary Resources for the years then ended, and 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 by OMB Memorandum M-09-33.

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

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

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

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

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

The USMS does not have adequate financial and compliance controls to ensure that obligation transactions are executed and recorded in accordance with laws and regulations, and that related undelivered orders and accounts payable balances are accurate and complete. During fiscal year 2009, USMS management implemented procedures to perform quarterly reviews and certifications of headquarters and district office undelivered orders and accounts payable balances. The certification process is still evolving; it was refined throughout fiscal year 2010. During fiscal year 2010, the USMS created the Audit Coordination and Remediation (ACR) team, which serves as the audit liaison, recommends and implements funds management process improvements, and advises the Financial Services Division on remediation strategies. The ACR team developed a Corrective Action Plan (CAP) to address the previously reported material weakness related to undelivered orders and accounts payable. The control procedures outlined in the CAP appear to be well designed and should address the control weaknesses identified during this and prior audits. However, elements of the CAP were implemented throughout fiscal year 2010, and it was not yet fully effective to reduce the sample error rates to an insignificant level.

During interim and year-end testing, we identified the following accounting errors and instances of non-compliance with accounting standards, OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, the United States Standard General Ledger (USSGL), and other accounting guidance.

A. UNDELIVERED ORDERS

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

UNDELIVERED ORDERS FISCAL YEAR 2010 TEST RESULTS			
Sample Population	**Number of Errors/ Transactions Tested**	**Known Errors**	**Likely Misstatement[1]**
Headquarters (March 31, 2010)	37/152	$5.8 million net overstatement	$17.9 million net overstatement
District Offices (March 31, 2010)	16/45	$650 thousand net overstatement	$2.6 million net overstatement
Headquarters (June 30, 2010)	25/148	$3.4 million net overstatement	$861 thousand net understatement
Headquarters and District Offices (September 30, 2010)	17/101	$2.9 million net overstatement	$18.7 million net overstatement

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

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

Headquarters (March 31, 2010)

- Fourteen undelivered order transactions were overstated by $4.2 million because the USMS did not record an accrual for goods and services received as of March 31, 2010.

- Nine undelivered order transactions were overstated by a net $489 thousand because of errors in calculating accounts payable accruals.

- Five undelivered order transactions were understated by a net $141 thousand because approved modification increases or deobligations were not recorded in STARS as of March 31, 2010 and one modification increase was recorded in STARS although it was not approved or valid.

- Seven instances in which the period of performance had expired or the contract was completed prior to the beginning of fiscal year 2010, and remaining undelivered order amounts had not been deobligated. This resulted in a $734 thousand overstatement.

- Two undelivered order transactions were overstated by a net $505 thousand because amounts recorded in STARS did not agree to the underlying source documents. For one transaction, the USMS could not provide supporting documents for the entire amount obligated in STARS, and for the other item, the supporting documentation for the amount paid was less than the amount recorded in STARS.

District Offices (March 31, 2010)

- Nine undelivered order transactions were overstated by a total $606 thousand because the USMS did not record an accrual for goods and services received as of March 31, 2010. Accruals were not posted in some instances, because of limitations with the current purchase card accrual process. The USMS records purchase card accruals based on payment information provided by the bank issuing the purchase cards, which does not capture instances in which the USMS has received goods or services but payment has not been initiated by the vendor providing the goods or services.

- Two undelivered order transactions were overstated by $25 thousand because the same obligation was recorded twice for one item and the obligated amount exceeded the source documents for the other item.

- Two undelivered order transactions were understated by $4 thousand because the full contract value had not been obligated even though the clause referencing "availability of funds" had been removed from the contract. In addition, an accrual for March services was not recorded for one of these transactions.

- One undelivered order transaction was understated because a payment was posted against it in error. The payment should have been posted to the same document number but a different budget fiscal year. The undelivered order balance was not misstated, in total, because of this error.

- Two undelivered order transactions were overstated by $22 thousand. The accounting entries could not be tied to the underlying source documentation.

Headquarters (June 30, 2010)

- Nine undelivered order transactions were overstated by $2.2 million because the USMS did not record an accrual for goods and services received as of June 30, 2010.

- Three undelivered order transactions were overstated by a net $22 thousand because of errors in calculating accounts payable accruals.

- Five undelivered order transactions were overstated by a net $141 thousand because the obligation was not recorded correctly. For one item, the USMS recorded an obligation for the entire revised contract amount rather than only the increase. For another item, the USMS obligated amounts in excess of the original plus modifications. For three items, the entire contract amount had not been obligated in STARS.

- Five undelivered order transactions were overstated by $944 thousand because the period of performance had expired or the contract was completed prior to the beginning of fiscal year 2010, and remaining undelivered order amounts had not been deobligated.

- Three undelivered order transactions were overstated by a net $59 thousand because amounts recorded in STARS did not agree to the underlying source documents. For one transaction, the USMS stated that the transaction was recorded during the STARS conversion process and should be deobligated. For another item, the supporting documentation for obligated amounts and amounts paid did not agree to STARS. For the third transaction, the USMS did not process a refund in STARS.

Headquarters and District Offices (September 30, 2010)

- Seven undelivered order transactions were overstated by $2.9 million because the USMS did not record an accrual for goods and services received as of September 30, 2010. For two transactions, the accrual was not recorded because of the limitation with the USMS's current purchase card accrual process, discussed previously.

- Four undelivered order transactions were overstated by $40 thousand because the obligation was not recorded correctly. For three items, the USMS recorded the obligation based on the requisition amount rather than the purchase order amount. For another item, the recorded obligation was not supported by a valid obligating document.

- Two undelivered order transactions were understated by $361 thousand; the USMS could not provide supporting documentation for the recorded accruals.

- Two undelivered order transactions were overstated by $344 thousand; the period of performance had expired at September 30, 2009 for one item, and the other item was for a canceled construction project. Remaining undelivered order amounts had not been deobligated.

- Two undelivered order transactions were understated by $49 thousand because an error was made when calculating the accrual for one item and an accrual for August services was not reversed after the invoice was paid for the second item.

B. DELIVERED ORDERS – OBLIGATIONS UNPAID (ACCOUNTS PAYABLE)

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

DELIVERED ORDERS – OBLIGATIONS UNPAID FISCAL YEAR 2010 TEST RESULTS			
Sample Population	**Number of Errors/Transactions Tested**	**Known Errors**	**Likely Misstatement[2]**
Headquarters (March 31, 2010)	1/32	$1 million overstatement	$704 thousand overstatement
District Offices (March 31, 2010)	10/57	$12 thousand net overstatement	$9.2 million net overstatement
Headquarters (June 30, 2010)	4/43	$1.1 million net understatement	$6.3 million net understatement
Headquarters and District Offices (September 30, 2010)	18/61	$1.7 million net understatement	$15.8 million net understatement

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

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

Headquarters (March 31, 2010)

- One accounts payable transaction in which the accrual was overstated by approximately $1 million because the methodology used to calculate the unidentified IPAC accrual did not take into consideration provider-listing accruals that were already posted.

District Offices (March 31, 2010)

- One accounts payable transaction in which the accounts payable was overstated by $14 thousand because the district office accrued the remaining undelivered order balance without regard to the estimated cost of goods or services provided but not paid for.

- Nine accounts payable transactions at one district office in which documentation to support recorded accounts payable balances was not adequate, resulting in understated accounts payable totaling a net $2 thousand. In some instances, explanations for accounts payable accrual estimates could not be provided, and in other instances the USM-268a, *Jail Utilization Report*, or other supporting source documentation was not retained.

Headquarters (June 30, 2010)

- Three accounts payable transactions in which the USMS did not accrue for goods or services received but not yet paid, causing the accounts payable balance to be understated by approximately $1.2 million. For one transaction, the accrual was not recorded because of the limitation with the USMS's current purchase card accrual process, discussed previously.

- One accounts payable transaction in which the accrual was overstated by $74 thousand because the USMS accrued the remaining undelivered order balance rather than calculating the accrual based on its established accrual methodology.

Headquarters and District Offices (September 30, 2010)

- Five accounts payable transactions were understated by $1.5 million because the USMS did not record an accrual for goods and services received as of September 30, 2010. Three items related to court security officer accruals, one related to prisoner housing costs, and one related to information technology support services.

- Five accounts payable transactions were overstated by a net $58 thousand because the USMS erred in calculating its accounts payable accruals. The USMS did not use the USM-268a report, or did not use the correct USM-268a report for two items; erred in applying its accrual methodology for one item; did not reduce its accounts payable accrual by the amount that exceeded the actual July disbursement; and accrued for September services twice.

- Eight accounts payable transactions were not adequately supported by source documentation. Seven items related to prisoner housing accruals, including three items that were accrued based on amounts provided to the district offices by the Office of Budget. The Office of Budget amounts were not supported, but appeared to be calculated based on remaining undelivered order balances for prisoner housing obligations rather than an analysis of services received but not paid for as of year-end. In addition, one item related to court security officer accruals. We used the best information available at the time of our audit to determine an appropriate accounts payable estimate for these transactions; we calculated a net understatement of $289 thousand.

C. Prisoner Medical Obligations and Accounts Payable

The USMS does not have consistent procedures or policies in place for estimating and recording medical obligations incurred by the district offices. During fiscal year 2010, the USMS established Medical Services Procedures that were scheduled to be implemented in July 2010 under a pilot program. These procedures were not implemented when we conducted district office site visits during June and July. Based on discussions with district office personnel during the site visits, we determined that district offices were applying the same inconsistent procedures the USMS has used in prior years.

D. Unauthorized Commitments

The USMS made unauthorized commitments during fiscal year 2010, resulting in 16 contract ratifications authorizing payments totaling about $2.3 million. Unauthorized commitments were made for services including security system monitoring, court security officers, guard services, and prisoner medical services and prescriptions. We reviewed two sample ratifications. For both items, we noted that incumbent contractors provided services beyond the contract performance periods when new contract awards were delayed.

In addition, 24 ratification actions totaling approximately $2.2 million were in process pending receipt of additional information from the program offices. Eleven of these 24 ratification actions had been identified as possible ratifications prior to June 30, 2010. No resolution had been achieved as of year-end. Unauthorized commitments could result in Anti-Deficiency Act violations or other funds management concerns if funds are not sufficient to cover the unauthorized commitments.

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

Title 31 U.S.C. §1501(a) states:

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

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

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

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

OMB Circular A-123, *Management's Responsibility for Internal Control*. Section IIA, Control Environment, states:

> *…management must clearly… uphold the need for personnel to possess and maintain the proper knowledge and skills to perform their assigned duties as well as understand the importance of maintaining effective internal control within the organization.*

OMB Circular A-123, Appendix A, Section IIA*, Objectives of Internal Control over Financial Reporting*, states:

> *Reliability of financial reporting means that management can reasonably make the following assertions: … Documentation for internal control, all transactions, and other significant events is readily available for examination.*

The Federal Acquisition Regulation (FAR), Subpart 1.6, Section 1.601 (a) states: "contracts may be entered into and signed on behalf of the Government only by contracting officers." Additionally, Subpart 1.6, Section 1.602-1 (b) states: "no contract shall be entered into unless the contracting officer ensures that all requirements of law, executive orders, regulations, and all other applicable procedures... have been met."

RECOMMENDATIONS

We recommend the USMS:

1. Enhance the ACR team's efforts to ensure that accruals for goods and services provided but not paid for are properly calculated, recorded timely, and adequately supported, and that undelivered orders are valid. Efforts should include:

- Development and documentation of accrual policies and procedures, including methodologies for specific types of accrual transactions;
- Development and documentation of policies and procedures for conducting periodic reviews of undelivered orders and accounts payable balances and process controls;
- Review, assessment, and recommendations for improving the control environment and control activities;
- Continued training of headquarters and district office personnel;
- Continued emphasis on periodic testing of undelivered orders and accounts payable transactions to identify and correct misstatements; and
- Documentation of control and substantive test results, including completed checklists; evidence of supervisory review and approval for corrective actions; evidence that corrective action was taken; and performance metrics (such as transaction population, sample size, error rate, and corrective actions), so that progress can be measured and resources can be shifted and prioritized accordingly.
  (Updated)

Management Response:

USMS management concurs with this recommendation. In an effort to address current and prior year audit findings and recommendations and strengthen the Agency's overall management of undelivered orders, the USMS's financial management has implemented a number of activities in the second half of FY 2010 and plans to continue these activities in FY 2011.

The USMS has increased the support and visibility of the Audit Coordination and Remediation (ACR) team. The ACR team currently serves as an audit liaison, recommends and implements improvements in the funds management process, and advises the Office of the Chief Financial Officer (OCFO) on remediation strategies. In order to maximize the impact of ACR activities, the team has primarily focused on six material USMS divisions comprised of eight-five percent of the USMS headquarters' budget as of March 31, 2010 - Financial Services Division (FSD), Investigative Operations Division (IOD), Information Technology Division (ITD), Judicial Security Division (JSD), Management Support Division (MSD), and Justice Prisoner and Alien Transportation System (JPATS). Within each of the six aforementioned divisions, the ACR team has documented the procure-to-pay process and the internal control environment. ACR will perform testing on the controls' operating effectiveness, provide recommendations on control improvements, and help to implement business process and control improvements. ACR will address additional divisions and district offices during FY 2011.

The ACR team developed and delivered one-on-one specialized accruals and undelivered orders training to applicable staff within the six program offices (as referenced earlier) on the estimation and recording of accruals and the process of verifying and validating undelivered orders. In addition, USMS will standardize accrual procedures to incorporate appropriate review, approval controls, and estimation needed to prevent and detect inaccurate accrual transactions.

In addition to accrual improvements, the ACR team has developed a Corrective Action Plan (CAP) for the Undelivered Order (UDO) review process. This CAP addresses audit findings on UDOs and has the following key components that the ACR team will execute:

- add guidance on roles and responsibilities for UDO review to USMS Directive 5.1, paragraph c.3 *Monitoring Obligations*;
- update UDO review checklist and monitor results of reviews;
- deliver training on verification and validation of UDOs;
- standardize the UDO review process to incorporate consistent review and approval processes and correct accrual methodologies;
- test whether key controls are working as intended;
- develop a reporting template and tracking tool used to report consistently on results of UDO review; and
- perform periodic tests and evaluations of controls.

This CAP was initiated in 2010 for the six HQ divisions referenced previously. In FY 2011, the CAP will be expanded to encompass additional headquarters divisions and offices, as well as district offices.

USMS management also conducted the UDO Quarterly Review process in September 2010 for 12 headquarters divisions, which included six divisions in addition to those mentioned previously. Experienced USMS staff were trained and supported by ACR staff to conduct a thorough review of their open obligations portfolio. This process will be completed on a quarterly basis in FY 2011 until the existing monthly open obligation review is comparably strengthened.

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

Management Response:

USMS management concurs with this recommendation. The USMS has escalated the open obligation review process to be directly under the purview of the Assistant Directors. On a quarterly basis, financial performance scorecards are completed to monitor and track the progress of the open obligations reporting compliance for all headquarters staff offices and divisions.

USMS management also initiated the UDO Quarterly Review process in June 2010 for the six divisions referenced in management response #1. The USMS extended and enhanced this process through repetition and refinement in quarter 4 and in FY 2011. Experienced USMS staff were trained and supported by ACR staff to conduct a thorough review of their open obligations portfolio. Division staff utilized standardized checklists (e.g., examined period of performance to determine expiration) and other guidance to determine whether an individual UDO was valid and verified amounts were properly recorded. USMS management recognized the further need to formalize development and retention of documentation. Specifically, USMS management recognized the requirement to understand which obligations were examined, which ones required adjustments, and exactly what adjustments were made in order to produce an acceptable audit trail and institutionalize the process as a quarterly detective control. This process will be completed on a quarterly basis until the existing monthly open obligation review is comparably strengthened.

3. Enhance procedures to ensure that obligations are recorded timely after the period of continuing resolution ends, and develop procedures to ensure that appropriate "availability of funds" clauses are included in all agreements that are not fully obligated. *(Updated)*

Management Response:

USMS management concurs with this recommendation. The USMS will continue its training efforts in FY 2011 to ensure staff and contractors understand their responsibilities for timely recording of obligations after a continuing resolution has ended or appropriated funds have been allocated to their workplan. The Financial Services Division will work closely with program offices to ensure that contracts are properly recorded in the financial system, per OMB Circular A-11, and clearly articulate the funds that are available. The Offices of Finance and Budget will work closely with program offices to ensure that all reimbursable agreements are prepared properly to reflect the availability of funds are fully obligated in STARS on a timely basis.

4. Develop procedures to ensure that purchase card accruals are recorded for all goods and services received, regardless of whether the vendor has processed the payment for the goods or services. *(New)*

Management Response:

USMS management concurs with this recommendation. In addition to assessing the control environment around accrued expenses, the ACR team developed a comprehensive CAP for the accrual process. Execution of that CAP began with the development and delivery of an accrual training/working session with each of the six material headquarters divisions during FY 2010. This comprehensive training addressed all aspects of the accrual process, including: what constitutes proper funds control management, the monthly open obligations review, correct reporting of received goods and services, Federal Laws and USMS policy, entry of receiving information in the financial system, and accrual estimation methodologies for various categories of goods and services. The intent of the training is to provide a consistently applied methodology to record accruals and to reinforce that proper oversight and management approvals are essential to prevent errors such as posting of duplicate accruals. In FY 2011, this training will be expanded to encompass remaining headquarters divisions and districts.

5. Review financial management and accounting processes in place at district offices to identify process, knowledge and training gaps affecting the execution of and adherence to the USMS directives and policies; implement corrective action to address the identified gaps; and develop and implement procedures for maintaining source documentation that can be easily retrieved for review and audit purposes. *(New)*

Management Response:

USMS management concurs with this recommendation. The Associate Director for Administration issued a memorandum entitled Fiscal Year 2010 District and Headquarters Closeout Instructions on July 2, 2010, which addressed the review and reconciliation of UDOs to source documents, as well as processing and reconciling receiving reports against accounts payable. This instruction was distributed to all Chief Deputy US Marshals, Assistant Directors, Staff Offices, and Administrative Officers (AOs) throughout the USMS, including all district offices.

Starting in FY 2011, the ACR team will distribute UDO and accrual training materials to district offices. The training will be reinforced through web-enabled technology to address the importance of maintaining adequate supporting documentation for obligation and accounts payable amounts recorded in the general ledger. District training will also stress the importance of retaining supporting documentation for audit review and testing. The ACR team will examine selected district office financial management policies and procedures and perform UDO and Accounts Payable testing in fiscal year 2011 to help verify that transactions are well supported, and maintained by the district offices' leadership. The ACR team will then update the CAP based on gaps noted in this testing.

In addition, the OCFO and ACR team implemented a standardized checklist to be utilized during Quarterly UDO reviews that includes a documentation attribute to provide evidence that transactions were accurately initiated, processed, and recorded; and that adequate trails of supporting documentation exist for transactions. The scope of the quarterly open obligation review will be expanded to include the district offices at the beginning of fiscal year 2011.

6. Fully implement procedures developed during fiscal year 2010 to ensure district office personnel utilize a consistent and reasonable methodology for recording prisoner medical obligations and accruals. *(Updated)*

Management Response:

USMS management concurs with this recommendation. USMS policies and procedures provide clear guidelines on the medical treatment of prisoners. In cases of emergency care and life-threatening situations, USMS follows all policies necessary to ensure that the prisoners are treated in a timely manner. Historically, exceptions to policy occurred during times of emergency care when prisoners required immediate medical attention.

As of July 1, 2010, USMS began employing the services of an independent vendor to oversee the complete prisoner medical process. The new vendor will standardize management of all costs associated with the treatment of prisoners. Through this vendor and through new policy the USMS will continue strengthening controls around the prisoner medical process. USMS plans to continue implementation of the new process throughout all district offices in FY 2011.

7. Coordinate efforts among the Office of Procurement, the Office of Budget, and the program offices to identify all unauthorized commitments and ensure that ratifications are completed in a timely manner. In addition, we recommend that the USMS provide Federal Acquisition Regulation training to appropriate personnel to minimize instances of unauthorized commitments in the future. *(Repeat)*

Management Response:

USMS management concurs with this recommendation. Chief Deputy and Financial Management Training held in March, April, May, July, and August 2010 included a discussion of unauthorized commitments resulting in ratification. In response to FY 2009 audit findings, individuals involved in unauthorized commitments have been notified that all violations will be reported to the Office of Internal Investigations and Employee Relations Division, and may result in personal financial consequences and/or disciplinary action, up to and including removal. In addition, the Office of Procurement is updating USMS Directive 6.1 to include a "Ratification Guide" which provides examples of situations that could lead to unauthorized commitments. Managers whose employees are involved in unauthorized commitments will be asked to provide a corrective action plan; i.e., training or other preventive measures to avoid future violations. Pursuant to DOJ Procurement Guidance Document 10-08, when a Contracting Officer becomes aware of an unauthorized commitment, a descriptive memorandum satisfying FAR 1.602-3(c) with supportive materials will be submitted to an individual with ratification authority within 30 days of such discovery. The ratification official will review the unauthorized commitment and approve or disapprove of the ratification within 60 days.

Copies of all ratifications will be submitted to the Department's Procurement Executive within 30 days of ratification.

*　　*　　*　　*

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

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

COTTON & COMPANY LLP

Catherine L. Nocera, CPA, CISA
Partner

November 3, 2010
Alexandria, Virginia

STATUS OF PRIOR YEARS' FINDINGS AND RECOMMENDATIONS

As required by *Government Auditing Standards* issued by the Comptroller General of the United States, and by OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended by OMB Memorandum M-09-33, we have reviewed the status of prior years' findings and recommendations. The following table provides our assessment of the progress the USMS has made in correcting the previously identified significant deficiencies. We also provide the Office of the Inspector General report number where the deficiency was reported, our recommendation for improvement, and the status of the recommendation as of the end of fiscal year 2010.

Report	Significant Deficiency	Recommendation	Status
Annual Financial Statement Fiscal Year 2007 Report No. 08-15	Improvements Needed to Strengthen Information System Controls	**Recommendation No. 9:** Continue with planned efforts to upgrade servers that will allow the USMS to enable auditing at the Informix database level for the FMS.	Completed
Annual Financial Statement Fiscal Year 2008 Report No. 09-13	Funds Management Controls Need Improvement	**Recommendation No. 4:** Coordinate efforts among the Office of Procurement, the Office of Budget, and the program offices to identify all unauthorized commitments and ensure that ratifications are completed in a timely manner. In addition, we recommend that the USMS provide Federal Acquisition Regulation training to appropriate personnel to minimize instances of unauthorized commitments in the future.	In Process (Fiscal Year 2010 Recommendation No. 7)
	Improvements Needed to Strengthen Information System Controls	**Recommendation No. 11:** Fully implement procedures for monitoring the FMS and STARS system and application activities to ensure that reviews are documented; potential issues are identified and investigated; and, if needed, issues are reported to management.	Completed
		Recommendation No. 12: Develop and implement policies and procedures, including roles and responsibilities for the process of monitoring JCON logs; define security events that require monitoring and provide guidance on how these events will be monitored; and document investigations of events which require management follow-up.	Completed

Report	Significant Deficiency	Recommendation	Status
Annual Financial Statement Fiscal Year 2008 Report No. 09-13	Improvements Needed to Strengthen Information System Controls	**Recommendation No. 13:** Ensure individuals responsible for account reviews adhere to the USMS mandated policies and procedures for reviewing accounts and perform more frequent and thorough reviews of inactive administrator and user accounts.	Completed
Annual Financial Statement Fiscal Year 2009 Report No. 10-09	Funds Management Controls Need Improvement	**Recommendation No. 1:** Enhance supervisory review and approval controls, including review of source documentation, calculations, and posting logic for accounts payable, obligations, and deobligation transactions, and ensure that adequate resources are available to properly segregate the supervisory review and approval of, and posting of transactions in STARS.	In Process (Updated by Fiscal Year 2010 Recommendation No. 2)
		Recommendation No. 2: Develop procedures to ensure that obligations are recorded timely after the period of continuing resolution ends, and that obligations for reimbursable agreements with other entities and other contractual documents are fully recorded in STARS on a timely basis.	In Process (Updated by Fiscal Year 2010 Recommendation No. 3)
		Recommendation No. 3: Develop procedures to ensure that accruals for goods and services provided but not paid for are recorded at least quarterly, and that disbursements that are unidentified and recorded in the suspense fund are reclassified and recorded as expenditures at least quarterly.	In Process (Updated by Fiscal Year 2010 Recommendation No. 1)
		Recommendation No. 4: Develop procedures to ensure district office personnel utilize a consistent and reasonable methodology for recording prisoner medical obligations and accruals.	In Process (Updated by Fiscal Year 2010 Recommendation No. 6)
		Recommendation No. 5: Continue to provide training to headquarters' and district offices' finance, budget, and program personnel on the quarterly open obligation review and certification process. This training should include emphasis on assessing the status of each open obligation. In addition, we recommend that the USMS management consider enhancing its certification process with analytical procedures, such as reviews of specific significant obligations (for example GSA rent or aircraft leases), aged undelivered orders in prior budget fiscal years, and obligations with expired periods of performance.	In Process (Updated by Fiscal Year 2010 Recommendation No. 1)

Report	Significant Deficiency	Recommendation	Status
Annual Financial Statement Fiscal Year 2009 Report No. 10-09	Improvements Needed to Strengthen Information System Controls	**Recommendation No. 7:** Implement policies and procedures that require IT resources to be configured on a timely basis to mitigate vulnerabilities that may be present to both external and internal facing interfaces. Additionally, we recommend that the USMS incorporate a formal review process, which includes management's acceptance of risk associated with vulnerabilities identified in the vulnerability scanning program.	Completed

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND OTHER MATTERS

Inspector General
United States Department of Justice

Director
United States Marshals Service
United States Department of Justice

We have audited the Consolidated Balance Sheets of the United States Marshals Service (USMS), a component of the United States Department of Justice (DOJ), as of September 30, 2010, and 2009, and the related Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and Combined Statements of Budgetary Resources for the years then ended, and have issued our report thereon, dated November 3, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended by OMB Memorandum M-09-33.

The USMS's management is responsible for complying with laws, regulations, and contract agreements applicable to the USMS. As part of obtaining reasonable assurance about whether the USMS's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contract agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04, as described in the following paragraphs.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA) (REPEAT)

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

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

- **Federal Financial Management System Requirements:** The USMS's financial management system, Standardized Tracking, Accounting, and Reporting System (STARS), does not meet federal financial management systems requirements established in OMB Circular No. A-127, *Financial Management Systems*, because STARS lacks integrated subsidiary records to support certain material account balances.

Accordingly, the USMS must rely on manually-prepared subsidiary ledgers and ad-hoc business processes to generate financial reports.

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

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

Management Response:

USMS Management concurs. Please refer to the management responses in the Independent Auditors' Report on Internal Control over Financial Reporting.

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

COTTON & COMPANY LLP

Catherine L. Nocera, CPA, CISA
Partner

November 3, 2010
Alexandria, Virginia

U.S. DEPARTMENT OF JUSTICE

UNITED STATES MARSHALS SERVICE

PRINCIPAL FINANCIAL STATEMENTS
AND RELATED NOTES

See Independent Auditors' Report on Financial Statements

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U.S. Department of Justice
United States Marshals Service
Consolidated Balance Sheets
As of September 30, 2010 and 2009

Dollars in Thousands		2010		2009
ASSETS (Note 2)				
Intragovernmental				
Fund Balance with U.S. Treasury (Note 3)	$	684,686	$	497,604
Accounts Receivable (Note 4)		149,713		188,213
Other Assets (Note 7)		17,212		3,025
Total Intragovernmental		851,611		688,842
Accounts Receivable (Note 4)		47		146
Inventory and Related Property (Note 5)		2,739		2,150
General Property, Plant and Equipment, Net (Note 6)		257,937		254,273
Advances and Prepayments		17		68
Other Assets (Note 7)		184		184
Total Assets	**$**	**1,112,535**	**$**	**945,663**
LIABILITIES (Note 8)				
Intragovernmental				
Accounts Payable	$	26,177	$	35,165
Accrued Federal Employees' Compensation Act Liabilities		15,725		15,222
Other Liabilities (Note 10)		24,344		20,878
Total Intragovernmental		66,246		71,265
Accounts Payable		406,268		353,922
Actuarial Federal Employees' Compensation Act Liabilities		83,490		81,314
Accrued Payroll and Benefits		30,525		24,728
Accrued Annual and Compensatory Leave Liabilities		42,138		38,931
Contingent Liabilities (Note 11)		17,000		18,250
Capital Lease Liabilities (Note 9)		946		1,831
Total Liabilities	**$**	**646,613**	**$**	**590,241**
NET POSITION				
Unexpended Appropriations	$	328,900	$	222,502
Cumulative Results of Operations		137,022		132,920
Total Net Position	**$**	**465,922**	**$**	**355,422**
Total Liabilities and Net Position	**$**	**1,112,535**	**$**	**945,663**

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

U.S. Department of Justice
United States Marshals Service
Consolidated Statements of Net Cost
For the Fiscal Years Ended September 30, 2010 and 2009

Dollars in Thousands

		Gross Costs			Less: Earned Revenues			Net Cost of
	FY	**Intra-governmental**	**With the Public**	**Total**	**Intra-governmental**	**With the Public**	**Total**	**Operations (Note 12)**
Goal 1:	**2010**	$ 5,159	$ -	$ 5,159	$ -	$ -	$ -	$ 5,159
	2009	$ 5,138	$ -	$ 5,138	$ -	$ -	$ -	$ 5,138
Goal 2:	**2010**	4,872	-	4,872	-	-	-	4,872
	2009	4,129	-	4,129	-	-	-	4,129
Goal 3:	**2010**	523,823	2,492,351	3,016,174	1,511,198	2,905	1,514,103	1,502,071
	2009	467,739	2,324,956	2,792,695	1,468,876	2,589	1,471,465	1,321,230
Total	**2010**	**$ 533,854**	**$ 2,492,351**	**$ 3,026,205**	**$ 1,511,198**	**$ 2,905**	**$ 1,514,103**	**$ 1,512,102**
	2009	**$ 477,006**	**$ 2,324,956**	**$ 2,801,962**	**$ 1,468,876**	**$ 2,589**	**$ 1,471,465**	**$ 1,330,497**

Goal 1 Prevent Terrorism and Promote the Nation's Security
Goal 2 Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People
Goal 3 Ensure the Fair and Efficient Administration of Justice

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

Consolidated Statements of Changes in Net Position
For the Fiscal Years Ended September 30, 2010 and 2009

Dollars in Thousands		2010		2009
Unexpended Appropriations				
Beginning Balances	**$**	**222,502**	**$**	**191,625**
Budgetary Financing Sources				
Appropriations Received		1,190,039		964,000
Appropriations Transferred-In/Out		393,936		354,616
Appropriations Used		(1,477,577)		(1,287,739)
Total Budgetary Financing Sources		**106,398**		**30,877**
Unexpended Appropriations	**$**	**328,900**	**$**	**222,502**
Cumulative Results of Operations				
Beginning Balances	**$**	**132,920**	**$**	**143,048**
Budgetary Financing Sources				
Appropriations Used		1,477,577		1,287,739
Other Financing Sources				
Transfers-In/Out Without Reimbursement		186		335
Imputed Financing from Costs Absorbed by Others (Note 13)		38,441		32,295
Total Financing Sources		**1,516,204**		**1,320,369**
Net Cost of Operations		**(1,512,102)**		**(1,330,497)**
Net Change		4,102		(10,128)
Cumulative Results of Operations	**$**	**137,022**	**$**	**132,920**
Net Position	**$**	**465,922**	**$**	**355,422**

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

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	$	75,661	$	93,320
Recoveries of Prior Year Unpaid Obligations		66,898		61,319
Budget Authority				
Appropriations Received		1,190,039		964,000
Spending Authority from Offsetting Collections				
Earned				
Collected		1,592,758		1,482,381
Change in Receivables from Federal Sources		(39,937)		22,610
Change in Unfilled Customer Orders				
Advance Received		4,475		1,078
Without Advance from Federal Sources		(18,314)		9,393
Subtotal Budget Authority		2,729,021		2,479,462
Nonexpenditure Transfers, Net, Anticipated and Actual		393,936		354,616
Total Budgetary Resources (Note 14)	**$**	**3,265,516**	**$**	**2,988,717**
Status of Budgetary Resources				
Obligations Incurred				
Direct	$	1,569,307	$	1,375,617
Reimbursable		1,562,834		1,537,439
Total Obligations Incurred (Note 14)		3,132,141		2,913,056
Unobligated Balance - Available				
Apportioned		97,391		51,934
Total Unobligated Balance - Available		97,391		51,934
Unobligated Balance not Available		35,984		23,727
Total Status of Budgetary Resources	**$**	**3,265,516**	**$**	**2,988,717**
Change in Obligated Balance				
Obligated Balance, Net - Brought Forward, October 1				
Unpaid Obligations	$	634,587	$	546,861
Less Uncollected Customer Payments from Federal Sources		223,465		191,462
Total Unpaid Obligated Balance, Net - Brought Forward, October 1		411,122		355,399
Obligations Incurred, Net		3,132,141		2,913,056
Less Gross Outlays		2,991,279		2,764,011
Less Recoveries of Prior Year Unpaid Obligations, Actual		66,898		61,319
Change in Uncollected Customer Payments from Federal Sources		58,251		(32,003)
Obligated Balance, Net - End of Period				
Unpaid Obligations		708,551		634,587
Less Uncollected Customer Payments from Federal Sources		165,214		223,465
Total Unpaid Obligated Balance, Net - End of Period	**$**	**543,337**	**$**	**411,122**
Net Outlays				
Gross Outlays	$	2,991,279	$	2,764,011
Less Offsetting Collections		1,597,233		1,483,459
Less Distributed Offsetting Receipts (Note 14)		-		(520)
Total Net Outlays (Note 14)	**$**	**1,394,046**	**$**	**1,281,072**

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

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The USMS is an entity of the DOJ and functions to facilitate the following DOJ strategic goals as presented in the DOJ Strategic Plan:

"Prevent Terrorism and Promote the Nation's Security"
"Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People"
"Ensure the Fair and Efficient Administration of Justice"

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

The USMS receives funding needed to support its programs through congressional appropriations. Both annual and multi-year appropriations are used, within statutory limits, for operating and capital expenditures. The USMS appropriations include Salaries and Expenses, Construction, and Violent Crime Reduction. The USMS also receives an appropriation transfer from the AOUSC for court security. The USMS also has a Revolving Fund called the JPATS. The Federal Prisoner Detention program is entirely funded through a reimbursable agreement with the Office of the Federal Detention Trustee.

B. Basis of Presentation

These financial statements have been prepared from the books and records of the USMS in accordance with United States generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) and presentation guidelines in the OMB Circular A-136, "Financial Reporting Requirements." These financial statements are different from the financial reports prepared pursuant to OMB directives which are used to monitor and control the use of USMS budgetary resources. To ensure that the USMS financial statements are meaningful at the entity level and to enhance reporting consistency within the Department, Other Assets and Other Liabilities as defined by OMB Circular A-136 have been disaggregated on the balance sheet. These include Advances and Prepayments, Actuarial Federal Employees' Compensation Act Liabilities, Accrued Federal Employees' Compensation Act Liabilities, Accrued Payroll and Benefits, Accrued Annual and Compensatory Leave Liabilities, Contingent Liabilities, and Capital Lease Liabilities.

Note 1. Summary of Significant Accounting Policies (continued)

C. Basis of Consolidation

The consolidated/combined financial statements include the accounts of the USMS. All significant proprietary intra-entity transactions and balances have been eliminated in consolidation. The Statements of Budgetary Resources is a combined statement for FYs 2010 and 2009, and as such, intra-entity transactions have not been eliminated.

D. Basis of Accounting

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

E. Non-Entity Assets

Non-entity assets are composed of deposit and suspense funds, which temporarily hold receipts for service of process fees.

F. Fund Balance with U.S. Treasury

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

G. Accounts Receivable

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

Note 1. Summary of Significant Accounting Policies (continued)

H. Inventory and Related Property

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

I. General Property, Plant, and Equipment

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

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

J. Advances and Prepayments

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

K. Liabilities

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

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

Note 1. Summary of Significant Accounting Policies (continued)

L. Contingencies and Commitments

The USMS is party to various administrative proceedings, legal actions, and claims. The balance sheet includes an estimated liability for those legal actions where management and the Chief Counsel consider adverse decisions "probable" and amounts are reasonably estimable. Legal actions where management and the Chief Counsel consider adverse decisions "probable" or "reasonably possible" and the amounts are reasonably estimable are disclosed in Note 11, *Contingencies and Commitments*. However, there are cases where amounts have not been accrued or disclosed because the amounts of the potential loss cannot be estimated or the likelihood of an unfavorable outcome is considered "remote".

M. Annual, Sick, and Other Leave

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

N. Interest on Late Payments

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

O. Retirement Plans

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

For employees covered by the CSRS, the USMS contributes 7% of the employee's gross pay for normal retirement or 7.5% for hazardous duty retirement. For employees covered by the FERS, the USMS contributes 11.2% of the employee's gross pay for regular employees, and 24.9% of the employee's gross pay for law enforcement officers. All employees are eligible to contribute to the Federal Thrift Savings Plan (TSP). For those employees covered by the FERS, a TSP account is automatically established, and the USMS is required to contribute an additional 1% of gross pay to this account and match employee contributions up to 4% of gross pay. No matching contributions are made to the TSP accounts established by the CSRS employees. The USMS does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, which may be applicable to its employees. Such reporting is the responsibility of the Office of Personnel Management (OPM).

Note 1. Summary of Significant Accounting Policies (continued)

P. Federal Employee Compensation Benefits

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

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

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

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

Note 1. Summary of Significant Accounting Policies (continued)

Q. Intragovernmental Activity

Intragovernmental costs and exchange revenue represent transactions made between two reporting entities within the Federal Government. Costs and earned revenues with the public represent exchange transactions made between the reporting entity and a non-Federal entity. The classification of revenue or cost as “intragovernmental” or “with the public” is defined on a transaction-by-transaction basis. The purpose of this classification is to enable the Federal Government to prepare consolidated financial statements, not to match public and intragovernmental revenue with the costs incurred to produce public and intragovernmental revenue.

R. Revenues and Other Financing Sources

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

S. Earmarked Funds

Statement of Federal Financial Accounting Standards (SFFAS) No. 27, “Identifying and Reporting Earmarked Funds” defines ‘earmarked funds’ as being financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the Federal Government’s general revenues. The three required criteria for an earmarked fund are:

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

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

Note 1. Summary of Significant Accounting Policies (continued)

T. Allocation Transfer of Appropriations

The USMS is a party to allocation transfers with another Federal agency as a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. Generally, all financial activity related to allocation transfers is reported in the financial statements of the parent entity, from which the underlying authority, appropriations, and budget apportionments are derived.

The USMS receives, as a child entity, allocation transfers of appropriations from the AOUSC. However, per OMB guidance the USMS reports all budgetary and proprietary activity for court security funds transferred from the Judiciary to the USMS. Exceptions to this general rule affecting the USMS include the Funds transferred from The Judicial Branch to the Department of Justice U.S. Marshals Services, for whom the USMS is the child in the allocation transfer but, per OMB guidance, will report all activity relative to these allocation transfers in the Reporting Entity's financial statements.

U. Tax Exempt Status

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

V. Use of Estimates

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

W. 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.

Dollars in Thousands, Except as Noted

Note 2. Non-Entity Assets

As of September 30, 2010 and 2009	2010	2009
Intragovernmental		
Fund Balance with U.S. Treasury	$ 7,974	$ 10,818
Total Non-Entity Assets	7,974	10,818
Total Entity Assets	1,104,561	934,845
Total Assets	$ 1,112,535	$ 945,663

Note 3. Fund Balance with U.S. Treasury

As of September 30, 2010 and 2009	2010	2009
Fund Balances		
Revolving Funds	$ 30,803	$ 30,583
General Funds	645,909	456,203
Other Fund Types	7,974	10,818
Total Fund Balances with U.S. Treasury	$ 684,686	$ 497,604
Status of Fund Balances		
Unobligated Balance - Available	$ 97,391	$ 51,934
Unobligated Balance - Unavailable	35,984	23,727
Obligated Balance not yet Disbursed	543,337	411,122
Other Funds (With)/Without Budgetary Resources	7,974	10,821
Total Status of Fund Balances	$ 684,686	$ 497,604

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

Dollars in Thousands, Except as Noted

Note 4. Accounts Receivable

As of September 30, 2010 and 2009	2010	2009
Intragovernmental		
Accounts Receivable	$ 149,713	$ 188,213
With the Public		
Accounts Receivable	47	146
Total Accounts Receivable	$ 149,760	$ 188,359

Intragovernmental accounts receivable primarily consists of reimbursable revenue with OFDT.

Note 5. Inventory and Related Property

As of September 30, 2010 and 2009	2010	2009
Operating Materials and Supplies		
Held for Current Use	$ 2,739	$ 2,150

Dollars in Thousands, Except as Noted

Note 6. General Property, Plant and Equipment, Net

As of September 30, 2010

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

As of September 30, 2009

	Acquisition Cost	Accumulated Depreciation	Net Book Value	Useful Life
Construction in Progress	$ 30,836	$ -	$ 30,836	N/A
Buildings, Improvements, and Renovations	3,422	(3,137)	285	12 years
Aircraft	27,327	(9,795)	17,532	7-25 years
Vehicles	24,521	(17,185)	7,336	5-10 years
Equipment	40,414	(20,905)	19,509	5-15 years
Assets Under Capital Lease	10,727	(9,654)	1,073	20 years
Leasehold Improvements	361,001	(183,299)	177,702	12 years
Total	$ 498,248	$ (243,975)	$ 254,273	

The USMS purchased capitalized property from Federal sources and from the Public in the amounts of $24,187 and $17,798, respectively, for the fiscal year ended September 30, 2010 and $19,234 and $18,436, respectively, for the fiscal year ended September 30, 2009.

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

Dollars in Thousands, Except as Noted

Note 7. Other Assets

As of September 30, 2010 and 2009	2010	2009
Intragovernmental		
Advances and Prepayments	$ 17,212	$ 3,025
Other Assets With the Public	184	184
Total Other Assets	$ 17,396	$ 3,209

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

Note 8. Liabilities not Covered by Budgetary Resources

As of September 30, 2010 and 2009	2010	2009
Intragovernmental		
Accrued FECA Liabilities	$ 15,725	$ 15,222
Other Unfunded Employment Related Liabilities	91	74
Total Intragovernmental	15,816	15,296
With the Public		
Actuarial FECA Liabilities	83,490	81,314
Accrued Annual and Compensatory Leave Liabilities	42,138	38,931
Contingent Liabilities (Note 11)	17,000	18,250
Total With the Public	142,628	138,495
Total Liabilities not Covered by Budgetary Resources	158,444	153,791
Total Liabilities Covered by Budgetary Resources	488,169	436,450
Total Liabilities	$ 646,613	$ 590,241

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

Dollars in Thousands, Except as Noted

Note 9. Leases

As of September 30, 2010 and 2009

Capital Leases		2010		2009
Summary of Assets Under Capital Lease				
Land and Buildings	$	10,727	$	10,727
Accumulated Amortization		(10,190)		(9,654)
Total Assets Under Capital Lease (Note 6)	$	537	$	1,073

The USMS has one capital lease that covers an aircraft hangar in Oklahoma City, Oklahoma which expires in FY 2011. The remaining lease obligation for the aircraft hangar is $946 and $1,831 as of September 30, 2010 and 2009 respectively.

Future Capital Lease Payments Due

Fiscal Year		Land and Buildings
2011		1,013
Total Future Capital Lease Payments	$	1,013
Less: Imputed Interest		67
FY 2010 Net Capital Lease Liabilities	$	946
FY 2009 Net Capital Lease Liabilities	$	1,831

		2010		2009
Net Capital Lease Liabilities Covered by Budgetary Resources	$	946	$	1,831

Operating Lease Expenses

Lease Type		2010		2009
Cancelable Operating Leases	$	226,685	$	226,622

The USMS has significant operating leases with GSA for the rental of office space and with commercial vendors for the use of aircraft.

Dollars in Thousands, Except as Noted

Note 10. Other Liabilities

As of September 30, 2010 and 2009	2010	2009
Intragovernmental		
Employer Contributions and Payroll Taxes Payable	$ 9,902	$ 8,162
Other Post-Employment Benefits Due and Payable	149	70
Other Unfunded Employment Related Liabilities	91	74
Advances from Others	6,228	1,753
Liability for Deposit Funds, Clearing Accounts and Undeposited Collections	7,974	10,819
Total Intragovernmental	24,344	20,878
Total Other Liabilities	$ 24,344	$ 20,878

Non-current liabilities consist of future employee related expenses.

Note 11. Contingencies and Commitments

	Accrued Liabilities	Estimated Range of Loss	
		Lower	Upper
As of September 30, 2010			
Probable	$ 17,000	$ 17,000	$ 17,000
Reasonably Possible		5,000	10,000
As of September 30, 2009			
Probable	$ 18,250	$ 18,250	$ 18,250
Reasonably Possible		5,000	10,000

Dollars in Thousands, Except as Noted

Note 12. Net Cost of Operations by Suborganization

For the Fiscal Year Ended September 30, 2010

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

For the Fiscal Year Ended September 30, 2009

	Suborganizations					
	Justice Prisoner and Alien Transportation System	Court Security	Federal Prisoner Detention	All Other Funds	Eliminations	Consolidated
Goal 1: Prevent Terrorism and Promote the Nation's Security						
Gross Cost	$ -	$ -	$ -	$ 5,138	$ -	$ 5,138
Net Cost (Revenue) of Operations	-	-	-	5,138	-	5,138
Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People						
Gross Cost	-	-	-	4,129	-	4,129
Net Cost (Revenue) of Operations	-	-	-	4,129	-	4,129
Goal 3: Ensure the Fair and Efficient Administration of Justice						
Gross Cost	122,127	355,070	1,302,048	1,043,851	(30,401)	2,792,695
Less: Earned Revenue	118,431	-	1,302,048	81,387	(30,401)	1,471,465
Net Cost (Revenue) of Operations	3,696	355,070	-	962,464	-	1,321,230
Net Cost (Revenue) of Operations	$ 3,696	$ 355,070	$ -	$ 971,731	$ -	$ 1,330,497

Note 13. Imputed Financing from Costs Absorbed by Others

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

SFFAS No. 5, "Accounting for Liabilities of the Federal Government," requires that employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS No. 5 requires OPM to provide cost factors necessary to calculate cost. OPM actuaries calculate the value of pension benefits expected to be paid in the future, and then determine the total funds to be contributed by and for covered employees, such that the amount calculated would be sufficient to fund the projected pension benefits. For employees covered by Civil Service Retirement System (CSRS), the cost factors are 30.1% of basic pay for regular, 51.1% law enforcement officers, 23.5% regular offset, and 45.6% law enforcement officers offset. For employees covered by Federal Employees Retirement System (FERS), the cost factors are 13.8% of basic pay for regular and 29.8% for law enforcement officers.

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

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

Dollars in Thousands, Except as Noted

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

not specifically related to the receiving entity's output. The USMS does not have any imputed intra-departmental costs to be recognized.

For the Fiscal Years Ended September 30, 2010 and 2009	2010	2009
Imputed Inter-Departmental Financing		
Treasury Judgment Fund	$ 1,563	$ 966
Health Insurance	25,166	24,263
Life Insurance	95	86
Pension	11,617	6,980
Total Imputed Inter-Departmental	$ 38,441	$ 32,295

Note 14. Information Related to the Statement of Budgetary Resources

Apportionment Categories of Obligations Incurred:

	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
For the Fiscal Year Ended September 30, 2010			
Obligations Apportioned Under			
Category A	$ 1,569,307	$ 1,562,834	$ 3,132,141
For the Fiscal Year Ended September 30, 2009			
Obligations Apportioned Under			
Category A	$ 1,375,617	$ 1,537,439	$ 2,913,056

The apportionment categories are determined in accordance with the guidance provided in Part 4 "Instructions on Budget Execution" of OMB Circular A-11, "Preparation, Submission and Execution of the Budget." Category A represents resources apportioned for calendar quarters. Category B represents resources apportioned for other time periods; for activities, projects, and objectives or for combination thereof. The USMS does not have any Category B obligations.

Dollars in Thousands, Except as Noted

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

Status of Undelivered Orders:

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

As of September 30, 2010 and 2009	2010	2009
UDO Obligations Unpaid	$ 232,071	$ 206,683
UDO Obligations Prepaid/Advanced	17,229	3,091
Total UDO	$ 249,300	$ 209,774

Legal Arrangements Affecting Use of Unobligated Balances:

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

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

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

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

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)	$ 2,989	$ 2,913	$ (1)	$ 1,281
Funds not Reported in the Budget				
Expired Funds	(33)	(14)	-	-
USMS Court Security Funds	(378)	(371)	-	(347)
Suspense Account Activity	-	-	1	(1)
Rounding	(2)	(1)	-	-
Budget of the United States Government	$ 2,576	$ 2,527	$ -	$ 933

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

Dollars in Thousands, Except as Noted

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

For the Fiscal Years Ended September 30, 2010 and 2009

	2010	2009
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$ 3,132,141	$ 2,913,056
Less: Spending Authority from Offsetting Collections and Recoveries	1,605,880	1,576,781
Obligations Net of Offsetting Collections and Recoveries	1,526,261	1,336,275
Less: Offsetting Receipts	-	(520)
Net Obligations	1,526,261	1,336,795
Other Resources		
Transfers In/Out Without Reimbursement	186	335
Imputed Financing from Costs Absorbed by Others (Note 13)	38,441	32,295
Net Other Resources Used to Finance Activities	38,627	32,630
Total Resources Used to Finance Activities	1,564,888	1,369,425
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	(53,365)	(48,689)
Resources That Fund Expenses Recognized in Prior Periods (Note 16)	(1,250)	(27)
Budgetary Offsetting Collections and Receipts That do not Affect Net Cost of Operations	-	(520)
Resources That Finance the Acquisition of Assets	(42,574)	(37,946)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(97,189)	(87,182)
Total Resources Used to Finance Net Cost of Operations	$ 1,467,699	$ 1,282,243
Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period		
Components That Will Require or Generate Resources in Future Periods (Note 16)	$ 6,002	$ 10,914
Depreciation and Amortization	37,266	35,722
Revaluation of Assets or Liabilities	1,048	536
Other	87	1,082
Total Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period	44,403	48,254
Net Cost of Operations	$ 1,512,102	$ 1,330,497

Dollars in Thousands, Except as Noted

Note 16. Explanation of Differences Between Liabilities not Covered by Budgetary Resources and Components of Net Cost of Operations Requiring or Generating Resources in Future Periods

Liabilities that are not covered by realized budgetary resources and for which there is not certainty that budgetary authority will be realized, such as the enactment of an appropriation, are considered liabilities not covered by budgetary resources. These liabilities totaling $158,444 and $153,791 on September 30, 2010 and 2009, respectively, are discussed in Note 8, Liabilities not Covered by Budgetary Resources. Decreases in these liabilities result from current year budgetary resources that were used to fund expenses recognized in prior periods. Increases in these liabilities represent unfunded expenses that were recognized in the current period. These increases along with the change in the portion of exchange revenue receivables from the public, which are not considered budgetary resources until collected, represent components of current period net cost of operations that will require or generate budgetary resources in future periods. The changes in liabilities not covered by budgetary resources and receivables generating resources in future periods are composed 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 Other Unfunded Employment Related Liabilities	$ -	$ (27)
Decrease in Contingent Liabilities	(1,250)	-
Total Other	(1,250)	(27)
Total Resources that Fund Expenses Recognized in Prior Periods	$ (1,250)	$ (27)
Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods		
Increase in Accrued Annual and Compensatory Leave Liabilities	$ 3,207	$ 2,597
(Increase)/Decrease in Exchange Revenue Receivable from the Public	99	211
Other		
Increase in Actuarial FECA Liabilities	2,176	6,641
Increase in Accrued FECA Liabilities	503	215
Increase in Contingent Liabilities	-	1,250
Increase in Other Unfunded Employment Related Liabilities	17	-
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	$ 6,002	$ 10,914

These notes are an integral part of the financial statements.

U.S. DEPARTMENT OF JUSTICE

UNITED STATES MARSHALS SERVICE

REQUIRED SUPPLEMENTARY INFORMATION

(UNAUDITED)

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

Dollars in Thousands							2010
	Salaries & Expense	Court Security	Construction	Federal Prisoner Detention	Justice Prisoner and Alien Transportation System	Violent Crime Reduction	Total
Budgetary Resources							
Unobligated Balance, Brought Forward, October 1	$ 43,468	$ 7,037	$ 1,115	$ -	$ 24,041	$ -	$ 75,661
Recoveries of Prior Year Unpaid Obligations	50,755	11,625	1,738	-	2,780	-	66,898
Budget Authority							
Appropriations Received	1,155,414	-	34,625	-	-	-	1,190,039
Spending Authority from Offsetting Collections							
Earned							
Collected	1,475,438	-	-	-	117,320	-	1,592,758
Change in Receivables from Federal Sources	(39,124)	-	-	-	(813)	-	(39,937)
Change in Unfilled Customer Orders							
Advance Received	4,475	-	-	-	-	-	4,475
Without Advance from Federal Sources	(18,314)	-	-	-	-	-	(18,314)
Subtotal Budget Authority	2,577,889	-	34,625	-	116,507	-	2,729,021
Nonexpenditure Transfers, Net, Anticipated and Actual	(5,201)	399,137	-	-	-	-	393,936
Total Budgetary Resources	**$ 2,666,911**	**$ 417,799**	**$ 37,478**	**$ -**	**$ 143,328**	**$ -**	**$ 3,265,516**
Status of Budgetary Resources							
Obligations Incurred							
Direct	$ 1,144,137	$ 398,323	$ 26,847	$ -	$ -	$ -	$ 1,569,307
Reimbursable	1,445,480	-	-	-	117,354	-	1,562,834
Total Obligations Incurred	2,589,617	398,323	26,847	-	117,354	-	3,132,141
Unobligated Balance - Available							
Apportioned	49,942	11,940	9,582	-	25,927	-	97,391
Total Unobligated Balance - Available	49,942	11,940	9,582	-	25,927	-	97,391
Unobligated Balance not Available	27,352	7,536	1,049	-	47	-	35,984
Total Status of Budgetary Resources	**$ 2,666,911**	**$ 417,799**	**$ 37,478**	**$ -**	**$ 143,328**	**$ -**	**$ 3,265,516**
Change in Obligated Balance							
Obligated Balance, Net - Brought Forward, October 1							
Unpaid Obligations	$ 466,546	$ 125,632	$ 25,920	$ -	$ 16,489	$ -	$ 634,587
Less Uncollected Customer Payments from Federal Sources	213,518	-	-	-	9,947	-	223,465
Total Unpaid Obligated Balance, Net - Brought Forward, October 1	253,028	125,632	25,920	-	6,542	-	411,122
Obligations Incurred, Net	2,589,617	398,323	26,847	-	117,354	-	3,132,141
Less Gross Outlays	2,477,965	379,839	16,376	-	117,099	-	2,991,279
Less Recoveries of Prior Year Unpaid Obligations, Actual	50,755	11,625	1,738	-	2,780	-	66,898
Change in Uncollected Customer Payments from Federal Sources	57,438	-	-	-	813	-	58,251
Obligated Balance, Net - End of Period							
Unpaid Obligations	527,443	132,491	34,653	-	13,964	-	708,551
Less Uncollected Customer Payments from Federal Sources	156,080	-	-	-	9,134	-	165,214
Total Unpaid Obligated Balance, Net - End of Period	**$ 371,363**	**$ 132,491**	**$ 34,653**	**$ -**	**$ 4,830**	**$ -**	**$ 543,337**
Net Outlays							
Gross Outlays	$ 2,477,965	$ 379,839	$ 16,376	$ -	$ 117,099	$ -	$ 2,991,279
Less Offsetting Collections	1,479,913	-	-	-	117,320	-	1,597,233
Less Distributed Offsetting Receipts	-	-	-	-	-	-	-
Total Net Outlays	**$ 998,052**	**$ 379,839**	**$ 16,376**	**$ -**	**$ (221)**	**$ -**	**$ 1,394,046**

U.S. Department of Justice
United States Marshals Service
Required Supplementary Information
Combining Statement of Budgetary Resources
Broken Down by Major Appropriation
For the Fiscal Year Ended September 30, 2009

Dollars in Thousands							2009
	Salaries & Expense	Court Security	Construction	Federal Prisoner Detention	Justice Prisoner and Alien Transportation System	Violent Crime Reduction	Total
Budgetary Resources							
Unobligated Balance, Brought Forward, October 1	$ 57,267	$ 7,451	$ 2,456	$ 1,055	$ 25,091	$ -	$ 93,320
Recoveries of Prior Year Unpaid Obligations	43,059	13,044	2,183	55	2,978	-	61,319
Budget Authority							
Appropriations Received	960,000	-	4,000	-	-	-	964,000
Spending Authority from Offsetting Collections							
Earned							
Collected	1,357,249	-	-	-	125,132	-	1,482,381
Change in Receivables from Federal Sources	28,457	-	-	-	(5,847)	-	22,610
Change in Unfilled Customer Orders							
Advance Received	1,078	-	-	-	-	-	1,078
Without Advance from Federal Sources	9,393	-	-	-	-	-	9,393
Subtotal Budget Authority	2,356,177	-	4,000	-	119,285	-	2,479,462
Nonexpenditure Transfers, Net, Anticipated and Actual	(1,703)	357,429	-	(1,110)	-	-	354,616
Total Budgetary Resources	**$ 2,454,800**	**$ 377,924**	**$ 8,639**	**$ -**	**$ 147,354**	**$ -**	**$ 2,988,717**
Status of Budgetary Resources							
Obligations Incurred							
Direct	$ 997,206	$ 370,887	$ 7,524	$ -	$ -	$ -	$ 1,375,617
Reimbursable	1,414,126	-	-	-	123,313	-	1,537,439
Total Obligations Incurred	2,411,332	370,887	7,524	-	123,313	-	2,913,056
Unobligated Balance - Available							
Apportioned	24,140	4,087	190	-	23,517	-	51,934
Total Unobligated Balance - Available	24,140	4,087	190	-	23,517	-	51,934
Unobligated Balance not Available	19,328	2,950	925	-	524	-	23,727
Total Status of Budgetary Resources	**$ 2,454,800**	**$ 377,924**	**$ 8,639**	**$ -**	**$ 147,354**	**$ -**	**$ 2,988,717**
Change in Obligated Balance							
Obligated Balance, Net - Brought Forward, October 1							
Unpaid Obligations	$ 377,763	$ 115,243	$ 31,298	$ 86	$ 22,324	$ 147	$ 546,861
Less Uncollected Customer Payments from Federal Sources	175,668	-	-	-	15,794	-	191,462
Total Unpaid Obligated Balance, Net - Brought Forward, October 1	202,095	115,243	31,298	86	6,530	147	355,399
Obligations Incurred, Net	2,411,332	370,887	7,524	-	123,313	-	2,913,056
Less Gross Outlays	2,279,490	347,454	10,719	31	126,170	147	2,764,011
Less Recoveries of Prior Year Unpaid Obligations, Actual	43,059	13,044	2,183	55	2,978	-	61,319
Change in Uncollected Customer Payments from Federal Sources	(37,850)	-	-	-	5,847	-	(32,003)
Obligated Balance, Net - End of Period							
Unpaid Obligations	466,546	125,632	25,920	-	16,489	-	634,587
Less Uncollected Customer Payments from Federal Sources	213,518	-	-	-	9,947	-	223,465
Total Unpaid Obligated Balance, Net - End of Period	**$ 253,028**	**$ 125,632**	**$ 25,920**	**$ -**	**$ 6,542**	**$ -**	**$ 411,122**
Net Outlays							
Gross Outlays	$ 2,279,490	$ 347,454	$ 10,719	$ 31	$ 126,170	$ 147	$ 2,764,011
Less Offsetting Collections	1,358,327	-	-	-	125,132	-	1,483,459
Less Distributed Offsetting Receipts	(520)	-	-	-	-	-	(520)
Total Net Outlays	**$ 921,683**	**$ 347,454**	**$ 10,719**	**$ 31**	**$ 1,038**	**$ 147**	**$ 1,281,072**

U.S. DEPARTMENT OF JUSTICE

UNITED STATES MARSHALS SERVICE

APPENDIX

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

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

Recommendation Number:

1. **Resolved.** The USMS concurred with our recommendation. This recommendation can be closed when subsequent annual financial statement audit testing verifies that the USMS has enhanced efforts to ensure that accruals for goods and services provided but not paid for are properly calculated, recorded timely, and adequately supported, and that undelivered orders are valid.

2. **Resolved.** The USMS concurred with our recommendation. This recommendation can be closed when subsequent annual financial statement audit testing verifies that the USMS has enhanced supervisory review and approval controls, including review of source documentation, calculations, and posting logic for accounts payable, obligation, and deobligation transactions.

3. **Resolved.** The USMS concurred with our recommendation. This recommendation can be closed when subsequent annual financial statement audit testing verifies that the USMS has enhanced procedures to ensure that obligations are recorded timely after the period of continuing resolution ends, and the USMS has developed procedures to ensure that appropriate "availability of funds" clauses are included in all agreements that are not fully obligated.

4. **Resolved.** The USMS concurred with our recommendation. This recommendation can be closed when subsequent annual financial statement audit testing verifies that the USMS developed procedures to ensure that purchase card accruals are recorded for all goods and services received, regardless of whether the vendor has processed the payment for the goods or services.

5. **Resolved.** The USMS concurred with our recommendation. This recommendation can be closed when subsequent annual financial statement audit testing verifies that the USMS has reviewed financial management and accounting processes in place at district offices to identify process, knowledge, and training gaps affecting the execution of and adherence to the USMS directives and policies; implemented corrective action to address the identified gaps; and developed and implemented procedures for maintaining source documentation that can be easily retrieved for review and audit purposes.

6. **Resolved.** The USMS concurred with our recommendation. This recommendation can be closed when subsequent annual financial statement audit testing verifies that the USMS has fully implemented procedures developed during fiscal year 2010 to ensure district office personnel utilize a consistent and reasonable methodology for recording prisoner medical obligations and accruals.

7. **Closed.** The status of corrective action related to this recommendation will be tracked through Recommendation No. 4 of the FY 2008 Annual Financial Statement Audit Report (OIG Report No. 09-13).