FINANCIAL MANAGEMENT CHALLENGES AT THE DEPARTMENT OF JUSTICE

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE, AND ACCOUNTABILITY

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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CONTENTS

	Page
Hearing held on May 4, 2005	1
Statement of:	
Corts, Paul R., Assistant Attorney General for Administration and Chief Financial Officer, U.S. Department of Justice; and Glenn A. Fine, Inspector General, U.S. Department of Justice, accompanied by Marilyn Kessinger, Director, Financial Statement Audit Office, Office of Inspector General	13
Corts, Paul R.	13
Fine, Glenn A.	28
Letters, statements, etc., submitted for the record by:	
Corts, Paul R., Assistant Attorney General for Administration and Chief Financial Officer, U.S. Department of Justice, prepared statement of	16
Fine, Glenn A., Inspector General, U.S. Department of Justice, prepared statement of	31
Platts, Hon. Todd, a Representative in Congress from the State of Pennsylvania, prepared statement of	3
Towns, Hon. Edolphus E., a Representative in Congress from the State of New York, prepared statement of	10

FINANCIAL MANAGEMENT CHALLENGES AT THE DEPARTMENT OF JUSTICE

WEDNESDAY, MAY 4, 2005

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
FINANCE, AND ACCOUNTABILITY,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:15 p.m., in room 2247, Rayburn House Office Building, Hon. Todd Russell Platts (chairman of the subcommittee) presiding.

Present: Representatives Platts, Gutknecht and Duncan.

Staff present: Mike Hettinger, staff director; Dan Daly, counsel; Tabetha Mueller, professional staff member; Jessica Friedman, legislative assistant; Nathaniel Berry, clerk; Adam Bordes, minority professional staff member; and Jean Gosa, minority assistant clerk.

Mr. PLATTS. A quorum being present, this hearing of the Government Reform Subcommittee on Government Management, Finance, and Accountability will come to order.

The programs of the Department of Justice impact the lives of millions of Americans on a daily basis. From overseeing the Federal prison system and enforcing the Nation's laws and providing grants to State and local governments, management at DOJ affects law enforcement at every level of society. Since the terrorist attacks of September 11, 2001, Federal law enforcement continues to divert resources away from traditional crime fighting to strengthen counterterrorism capabilities, leaving a void that only State and local law enforcement are positioned to fill. To help meet this need, DOJ administers nearly $5 billion in grants annually.

In times of tightening budgets, accountability and efficiency are imperative. It becomes increasingly important to account for every dollar in the most effective manner possible, whether an agency is managing grants or investing in information technology. Without accurate financial information and appropriate controls, it becomes nearly impossible to manage programs effectively and responsibly.

The latest financial audit revealed serious accounting problems that have impacted the Department of Justice's ability to achieve its mission. The most serious problems occurred in areas of grants management.

Proper accounting and management controls could prevent these problems. Recognizing the importance of sound financial management, Congress passed the Chief Financial Officers Act of 1990 to require Federal agencies to submit audited financial statements. For fiscal year 2004, DOJ's auditors were unable to express an

opinion as to the reliability of the financial statements and rescinded the unqualified opinion rendered on the 2003 statements. It is important to recognize the seriousness of this audit: In the private sector, anything other than an unqualified or "clean" audit opinion is unacceptable, and any restatement of a prior year's audit is front-page news.

The subcommittee is meeting today to hear about efforts to address the challenges identified in the audit and how best to support these efforts by ensuring that the Department has the appropriate resources to correct them. We are pleased to have the Honorable Paul Corts, the Chief Financial Officer at the Department of Justice, and the Honorable Glenn Fine, Inspector General for the Department. We thank both of you for being here today.

We appreciate the written testimonies you have provided, and we also appreciate your efforts day in and day out. We know you have a challenge before you, but we appreciate you throwing yourselves and your colleagues into the challenge and addressing the financial issues before the Department. We know, working together, you will fulfill those challenges; and we are glad to have you here today to see how we can better understand the challenges as well as to assist you as you go forward.

[The prepared statement of Hon. Todd Russell Platts follows:]

COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE AND ACCOUNTABILITY

OPENING STATEMENT OF

CHAIRMAN TODD RUSSELL PLATTS

MAY 4, 2005

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COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE AND ACCOUNTABILITY
TODD RUSSELL PLATTS, CHAIRMAN

Oversight Hearing:

Financial Management Challenges at the Department of Justice

Wednesday, May 4, 2005, 2:00 p.m.
Room 2247 Rayburn House Office Building

BRIEFING MEMORANDUM

SUMMARY

The programs of the Department of Justice (DOJ) impact the lives of millions of Americans on a daily basis. From overseeing the Federal prison system and enforcing the nations laws to providing grants for state and local governments, management at DOJ affects law enforcement at every level of society. Since the terrorist attacks of September 11, 2001, Federal law enforcement continues to divert resources away from traditional crime fighting to strengthen counterterrorism capabilities, leaving a void that only State and local law enforcement are positioned to fill. To help meet this need, DOJ administers nearly $5 billion in grants annually.

In times of tightening budgets, accountability is imperative. It becomes increasingly important to account for every Federal dollar in the most effective manner possible, whether an agency is managing grants or investing in information technology. Without accurate financial information and appropriate controls, it becomes nearly impossible to manage programs effectively.

The latest financial audit revealed serious accounting problems that have impacted DOJ's ability to achieve its mission. The most serious problems occurred in the area of grants management, including the Community Oriented Policing Services (COPS) Program. In the COPS Program alone, a recent story in *USA Today* stated that audits by DOJ's Inspector General (OIG) alleged that $277 million was misspent, and that the OIG has requested documentation from 82 police agencies that have not explained in detail how they spent $111 million. It is clear that poor financial management has undermined confidence in the COPS Program and other grants programs. DOJ has also endured criticism for its mismanagement of a large information technology investment at another of DOJ's components, the Federal Bureau of Investigation, which spent nearly $170 million on a system that will not work as intended.

Proper accounting and management controls could prevent these problems. Recognizing the importance of sound financial management, Congress passed the Chief Financial Officers Act of 1990 to require Federal agencies to submit audited financial statements. For fiscal year 2004, DOJ's auditors were unable to express an opinion as to the reliability of the financial statements, and they rescinded the unqualified opinion rendered on the 2003 statements. It is important to recognize the

seriousness of this audit result: in the private sector, anything other than an unqualified or "clean" audit opinion is unacceptable, and any restatement of a prior year's audit is front-page news.

The Subcommittee is interested in hearing about efforts to address the challenges identified in the audit and how best to support these efforts by ensuring that the Department has the appropriate resources to correct them.

BACKGROUND

In fiscal year 2004, the taxpayers spent nearly $30 billion to fund the operation of the Department of Justice[1]. According to the Government Accountability Office statement on *Major Management Challenges at the Department of Justice*, the results of the fiscal year 2004 financial statement audit indicate "serious financial management issues," particularly at one of Justice's significant components, the Office of Justice Programs (OJP). OJP has assets of $8.4 billion (31% of DOJ's total assets) and net costs of $4 billion (13% of DOJ's total net costs). Because OJP is such a large component, it is "material" to – meaning large enough to affect – the financial statements for the entire Department.

DOJ Financial Structure

Under the direction of the Chief Financial Officer, the Justice Management Division prepares the Department's consolidated financial statements. The Office of the Inspector General is responsible for the audit of these statements, and OIG contracted with KPMG, LLP to conduct the FY04 audit. The Department's statements are consolidated based upon the results of separate audits undertaken at each of the 10 departmental reporting entities or components. Components received the following opinions[2]:

Component	*Audit Opinion*	*Auditor*
Asset Forfeiture Fund/Seized Asset Deposit Fund	Clean Opinion	KPMG, LLP
Working Capital Fund (WCF)	Clean Opinion	KPMG, LLP
U.S. Marshals Service (USMS)	Clean Opinion	Cotton & Co., LLP
Office of Justice Programs (OJP)	**Disclaimer**	PwC, LLP
Drug Enforcement Administration (DEA)	Clean Opinion	KPMG, LLP
Federal Bureau of Investigation (FBI)	Clean Opinion	KPMG, LLP
Alcohol, Tobacco, Firearms & Explosives (ATF)	**Qualified**	KPMG, LLP
Bureau of Prisons (BOP)	Clean Opinion	PwC, LLP
Federal Prison Industries, Inc. (FPI)	Clean Opinion	PwC, LLP
Offices, Boards and Divisions (OBD)	Clean Opinion	KPMG, LLP

While auditors found accounting problems (called "reportable conditions" and "material weaknesses[3]") at all ten components, the audit for OJP affected the financial statements for the entire Department. ATF received a qualified audit opinion based on problems with how it documented amounts recorded as "accounts payable." A qualified opinion means that the financial statements were

[1] U.S Department of Justice FY2004 Performance and Accountability Report, Combined Statements of Budgetary Resources reported Net Outlays of $29,250,890,000 in FY2004 and $23,285,017,000 in FY2003. (page III-37).

[2] Financial audit opinions include: "unqualified" or "clean," meaning that information is reliable; "qualified," indicating that certain weaknesses are present; "disclaimed," meaning that not enough information is available to render a judgment; and "adverse," which would indicate the presence of intentional misrepresentation.

[3] "Reportable conditions" are matters coming to the auditors' attention that could adversely affect the department's ability to record and process financial data; "material weaknesses" are reportable conditions that would be large enough to affect the financial statement.

presented fairly except for matters identified specifically, and that those matters were small enough not to affect the entire statements.

Audit Findings from the Office of Justice Programs

The primary responsibility of OJP is the administration of grants to states and localities. In FY04, OJP reported that it expended $4,261,000 for its grants programs, which are administered through computerized information systems. The independent auditor, PricewaterhouseCoopers, LLP, found numerous control problems with these systems. PwC identified material weaknesses in internal controls governing:

- changes to data in the system (*i.e.*, corrections to accounting entries were made without proper documentation);
- integrity of data passing between feeder and core financial systems; and
- access to systems and data (*i.e.*, the auditor could not be sure that the systems were accessible only to authorized employees).

These weaknesses were so serious that they precluded PwC from obtaining the evidence they needed to conduct the audit. Furthermore, they were not able to verify the data underlying the financial statements even through other auditing procedures.

Additional concerns were raised in the audit, including differences in amounts between OJP's general ledger (central accounting database) and subsidiary ledgers (feeder systems). The majority of these accounting differences – or reconciliations – did not have adequate supporting documentation. PwC reported that they were "unable to obtain adequate responses from management to [their] inquiries about apparent inconsistencies."

PwC also found that financial reports (SF-269's) for grant recipients were incomplete or included errors. For example, OJP had current SF-269s for only 39% of grant recipients for the quarter ending June 2004. Also, OJP provides grant administration services to other Federal agencies under reimbursement agreements. Auditors found that OJP did not have effective controls over the processes and computer systems used to account for these transactions, and PwC reports that "[OJP management] did not adequately respond to inquiries" that would explain discrepancies.

Specifically, approximately 170 Juvenile Accountability Incentive Block Grants were incorrectly coded as discretionary block grants since FY02, and Crime Victim Fund collections were incorrectly reported as offsetting receipts, thereby understating the net outlays reported in the Statement of Budgetary Resources.

These matters coming to the attention of PwC during the FY04 audit caused KPMG, LLP, the previous year's auditors, to withdraw their unqualified audit opinion for FY03 and reissue it as a disclaimer of opinion.

Audit Findings from DOJ's Consolidated Statements

As discussed above, DOJ's auditor, KPMG, LLP, was unable to issue an opinion on the FY04 financial statements because of issues with the OJP audit. Problems at OJP also resulted in DOJ's FY03 opinion being rescinded. The consolidated audit identified the following reportable conditions, the first two of which are considered to be material weaknesses:

1. **Financial Management Systems and Internal Controls**: Components' financial management systems are not integrated or configured to support accurate and timely reporting. Components did not adequately record transactions in accordance with Federal accounting standards.
2. **OJP Grant Accounting and Monitoring Policies**: OJP's auditor discovered significant deficiencies with grants management and accounting.
3. **Information Technology Security**: Improvements are needed is the Department's component financial management systems' general and application controls.

New Financial System: The Unified Financial Management System Program

DOJ is in the midst of implementing a new core financial system – the Unified Financial Management System (UFMS), which is a CGI-AMS, Inc. "commercial-off-the-shelf" product. With plans to begin to use the new system beginning in FY06, DOJ management expressed confidence in their FY04 Performance and Accountability Report that the UFMS will address many of the audit recommendations – namely those involving financial systems weaknesses and IT security issues. UFMS is being designed to centralize and completely automate financial management systems for financial statement preparations and to update its cost-tracking capabilities.

Conclusion

This hearing will provide an opportunity to discuss the audit findings in more detail and to hear the Department's plan of action as it implements the recommendations. Also, Members will have an opportunity to learn about the status of the UFMS.

Witnesses: The Honorable Paul R. Corts
Assistant Attorney General for Administration and Chief Financial Officer
U.S. Department of Justice

The Honorable Glenn A. Fine
Inspector General
U.S. Department of Justice

Staff Contact:

Please contact Subcommittee Staff Director, Mike Hettinger, at (202) 225-3741.

Mr. PLATTS. I now yield to Congressman Duncan from Tennessee for purposes of an opening statement.

Mr. DUNCAN. Thank you very much, Mr. Chairman; and I thank you for calling this hearing. This is a very important topic, and it is a continuation of other hearings you have held.

I want to, first of all, commend you, because you are trying to do as much as you possibly can to see that the Federal Government operates in a fiscally conservative manner. I can tell you that if we don't have all of us on both sides of the aisle working on that, helping this government to watch its money more closely and become much more fiscally conservative, we are not going to be able to pay the military pensions, Civil Service pensions, Social Security, Medicare, Medicaid along with the guaranteed 44 million private pensions under the Pension Benefit Guaranty Corporation. And I can tell you, from talking to members on both sides, nobody on either side up here will seriously tell you we are going to be able to meet all those obligations in the very near future. So this is good.

I remember a few years ago when people all over the Nation got upset about the Federal Government spending $500,000 on the Lawrence Welk home in South Dakota. And I remember a few years ago when they got upset—and they should have—over the National Park Service spending I think it was $260,000—it was well over $200,000 to build a fancy outhouse in your State.

Mr. PLATTS. Not in my district.

Mr. DUNCAN. People got upset about those things, because they can comprehend figures like that. But when we hear these billion dollar figures today—we are dealing with $277 million misspent, and nobody really is upset about that, but they should be. They should be shocked. And people in charge of this should be ashamed, embarrassed; and we should be bending over backward to do everything possible to make sure that this type of misspending or misappropriation of funds or this scandalous waste doesn't happen again. But because it's not coming out of anybody's pocket except the poor taxpayers, nobody is really going to get upset about it.

But I commend you for holding this hearing, and I hope we can hear something about how we can keep this from happening in the future.

Thank you very much, Mr. Chairman.

Mr. PLATTS. Thank you, Mr. Duncan.

Your emphasis on the challenges for us fiscally, we hear most often about the challenges of how we address the mandatory spending and how it impacts discretionary. And one of the things that is important for us to emphasize when we use the term discretionary, that includes the Department of Justice law enforcement spending. So it is described as discretionary, but it's obviously critically important to the well-being of our citizens' quality of life.

Mr. DUNCAN. A few years down the road, that mandatory spending is going to become discretionary spending, because we're not going to be able to have enough money to cover all the mandatory spending, and then we are going to have to make—our future Congresses are going to have to make some very painful choices at that

time.

Mr. PLATTS. I know our ranking member, Mr. Towns, is on his way; and we'll come back to him for an opening statement.

[The prepared statement of Hon. Edolphus E. Towns follows:]

Congressman Ed Towns
Committee on Government Reform
Department of Justice Financial Management
May 4, 2005

Thank you, Mr. Chairman, for holding this hearing on a review of the Department of Justice's financial management practices. I appreciate having our witnesses here today, and look forward to hearing their testimony on these matters.

While the financial management of our agency community has made significant progress over the past decade, we continue to identify significant accounting and internal control deficiencies at a handful of agencies. In fact, FY 2004 is the first year in which there has been an increase in the number of agencies receiving disclaimers when compared to the prior reporting year.

More troubling is the sharp increase in the number of agencies restating their results from the previous year, including the Department of Justice. According to GAO, there were eleven agencies that offered restatements for FY 2003, compared to only four agencies during the previous reporting cycle.

Although the root cause for Justice's restatements stems from accounting and internal control irregularities at one unit, the Office of Justice Programs, it is unclear why past audits have not uncovered such gross accounting deficiencies. To be sure of the financial stakes at hand, we are talking about a unit responsible for administering $4.2 billion in grants annually. If a publicly traded entity with $4.2 billion in revenues were to restate its results from the previous two years, that company would face the wrath of

regulators and investors alike. I believe our agencies ought to be treated in similar fashion.

A key question before us today not only concerns the plans DOJ is pursuing to remedy OJP's accounting woes, but whether the accounting industry is effective in carrying out its charge to independently evaluate agency accounting systems and internal controls. Like a troubled private corporation, the institution in question must be held accountable to its investors. In the case of DOJ, the investors are our nation's citizens. Thus, it is imperative for us to ensure that DOJ and the auditing community work toward stronger and more effective financial management practices for all programs.

Once again, I look forward to hearing from our witnesses and hearing their perspectives for making DOJ a more effective and accountable institution.

Mr. PLATTS. We will proceed to our witnesses and opening statements. So if I could ask the two of you to be sworn in; and any staff who will be advising you in your testimony here today, if they would join you in taking the oath.

[Witnesses sworn.]

Mr. PLATTS. The clerk would note that all witnesses affirmed the oath.

Again, we appreciate your written testimony. If we can, we will try to keep your opening statements to roughly 5 minutes so we can get to a good give and take, but we're not going to be real strict on that if you need a few extra minutes as you begin. And then we will go to questions from the Members here.

Dr. Corts, we are going to begin with you.

STATEMENTS OF PAUL R. CORTS, ASSISTANT ATTORNEY GENERAL FOR ADMINISTRATION AND CHIEF FINANCIAL OFFICER, U.S. DEPARTMENT OF JUSTICE; AND GLENN A. FINE, INSPECTOR GENERAL, U.S. DEPARTMENT OF JUSTICE, ACCOMPANIED BY MARILYN KESSINGER, DIRECTOR, FINANCIAL STATEMENT AUDIT OFFICE, OFFICE OF INSPECTOR GENERAL

STATEMENT OF PAUL R. CORTS

Mr. CORTS. Thank you, Mr. Chairman and Congressman Duncan.

I am very pleased to appear before you today to discuss the 2004 financial statement and audit results of the Department of Justice. As the Department's Chief Financial Officer, I am fully committed to ensuring our financial information and controls are of the highest reliability and that they meet or exceed the Federal accounting standards. The Attorney General and I are committed to restoring the Department's unqualified audit opinion, eliminating our control weaknesses and ensuring that our program managers have timely, accurate and meaningful information for decisionmaking.

The Department has made significant strides in improving its financial operations in the past 4 years, but, as last year's results demonstrate, we still face major challenges. Certain operations still lack the internal controls and fundamental reliability that enable us to routinely produce accurate financial reports. We are still at risk where our operations remain dependent on manual practices and outdated, overtaxed systems. We have gained valuable insights from the Inspector General and the independent auditors, and we are committed to providing a full and accurate accounting for all of the funds we receive.

This afternoon, I am pleased to discuss our efforts in three areas: the weaknesses from last year's audits, our corrective actions to restore the Department's unqualified financial opinion, and our efforts to improve our critical financial systems infrastructure.

When fiscal year 2004 began, the Department, like other executive branch agencies, was faced with the challenge of preparing its financial statements and completing the audit by November 15. This accelerated date cut nearly 10 weeks from the previous audit time. While we met the accelerated date, we were unable to obtain an unqualified audit opinion as we had done in the past. Last year,

because of problems accurately reporting certain grant balances and weaknesses in grant systems, the Office of Justice Programs [OJP], received a disclaimed audit opinion. The balances at OJP are so large—so "material" to use the accountants' and auditors' terms—that the DOJ statements were disclaimed once the OJP statements were disclaimed. The problems were extensive enough that the auditors from fiscal year 2003 ultimately rescinded the qualified opinions they had previously issued to OJP and to the Department for fiscal year 2003.

I think it's important to mention that despite the disclaimed DOJ-wide opinion, 8 of our 10 components received unqualified opinions from the auditors. I was pleased to see that the Bureau of Prisons, Drug Enforcement Administration, Federal Prison Industries, the Offices, Boards, and Divisions, the Working Capital Fund and Assets Forfeiture all earned unqualified opinions and had no material weaknesses reported in their internal controls.

Nonetheless, fiscal year 2004 fell far short of our goals. I have already discussed the grant and accounting systems issues at OJP. While we do not see evidence that OJP's overall grant programs were compromised, DOJ and OJP management are dedicated to correcting those OJP weaknesses. We also have material weaknesses at the FBI, the U.S. Marshals Service, and the Bureau of Alcohol, Tobacco, Firearms and Explosives, and ATF's weaknesses in determining accurate amounts owed on vendor obligations caused it to receive a qualified opinion.

Now, our corrective actions efforts in fiscal year 2005 started actually last summer as soon as we realized the severity of the difficulties in OJP. While corrective action at OJP is clearly the key to restoration of the Department's unqualified opinion, I want to assure the committee that we have plans in action at every component to address the weaknesses from last year's audit report. DOJ and OJP teams are working closely to correct the OJP accounting and system weaknesses and are making good progress.

The final area I would like to discuss is the precarious state of our financial systems. On a personal note, Mr. Chairman, I want to thank you for your request that my testimony address ways that you could be helpful and supportive for our efforts to provide high-quality financial management support. We currently have to assemble our financial data from seven different core accounting systems in order to manage our budget and our finances. Additionally, the independent auditors have noted that the FBI's legacy financial system is over 25 years old and was not designed for today's accounting standards. The FBI has transformed—has really transformed itself to meet its critical counterterrorism mission, yet we support the FBI financial backbone with an outdated system that began use before personal computers became popular household items. We devote extensive resources to provide Department-wide reporting, and we have no Department-wide diagnostic reports which would have given us the kind of early warning needed of the type of problems that occurred in OJP last year.

We are seeking resources to implement a unified financial management system, a core single system that will give us coordinated Department-wide information for managing our programs. Our foundation work on this is near completion, but we do not have

funding to launch the implementation efforts at our components. We have requested next year's unified system funds as a part of the President's 2006 budget, and we urge Congress to support that request.

In closing, I would like to assure the committee that improved financial management and reliable financial reporting are two of the Attorney General's and my highest priorities. The Department has proven in the past it can produce reliable financial statements, and we are determined to regain that status this year.

Mr. Chairman, I will be happy to answer any questions from you or members of the committee.

Mr. PLATTS. Thank you, Mr. Corts.

[The prepared statement of Mr. Corts follows:]

Opening Remarks
House Subcommittee on Government Management, Finance, and Accountability of the Committee on Government Reform

Hearing on the Fiscal Year 2004 Financial Statement Audit
and Corrective Actions at the Department of Justice

Mr. Chairman and Members of the Subcommittee:

I am very pleased to have the opportunity to appear before you today to discuss the FY 2004 financial statement audit results at the Department of Justice. As the Department's Chief Financial Officer, I am fully committed to ensuring our financial operations, systems, controls, and reports are of the highest reliability, and that they meet or exceed federal accounting standards. Excellence in financial management is a key element of the Department's performance plan, and the Attorney General and I are committed to restoring the Department's unqualified audit opinion on our financial statements, reducing the number of significant control weaknesses, and improving the ongoing quality of financial data. It is a goal that is shared across the Department, not just by our financial managers, but by senior leadership throughout the Department's components.

The Department has made significant strides in improving its financial operations in the past four years, but, as last year's results demonstrate, we still face major challenges. Despite notable improvements in terms of correcting financial weaknesses, certain areas of our operations still do not have the needed internal controls or fundamental reliability that enable us to routinely produce accurate and timely financial reports. We are still at risk where our operations

remain dependent on manual business practices and outdated systems while performing ten separate financial audits across seven distinctly different core accounting systems. We are targeting our corrective actions in these areas. We value the insights we gain from the Inspector General and reports of the independent auditors, and we are committed to meeting the increased financial management reporting and internal control requirements demanded by new federal guidance.

This afternoon, I would like to discuss our efforts in three areas: first, the weaknesses identified in last year's audits; second, our efforts to correct those weaknesses and restore the Department's unqualified financial opinion; and third, our ongoing efforts to improve the financial systems infrastructure of the Department.

The Fiscal Year 2004 Financial Audits

When FY 2004 began, the Department, like other executive branch federal agencies, was faced with the challenge of preparing its financial statements and completing the audit of the statements by November 15th. This accelerated due date, set by the Office of Management and Budget (OMB), reduced the timeframe for preparation and audit by nearly ten weeks from the previous Fiscal Year. While the Department was able to meet the accelerated submission date, we were unable to obtain an unqualified opinion on our financial statements as we had

done in previous years. Last year, because of difficulties in accurately reporting certain grant related balances and internal control weaknesses in grant related systems, the Office of Justice Programs (OJP) received a disclaimed audit opinion from the independent auditors. The balances at OJP are so large – so "material" to use the accountants' and auditors' term - that the Department-wide consolidated financial statements were disclaimed on the same basis even though eight of ten individual audits in the Department were unqualified. OJP Balances represent over 13% of the Department's net cost. The problems had a perverse psychological affect on the financial statements issued in prior years, and the auditors from FY 2003 ultimately rescinded the unqualified opinions they had previously issued to OJP and the Department. Beyond the OJP issue, a second, smaller component, Alcohol, Tobacco, Firearms, and Explosives (ATF), received a qualified opinion due to weaknesses in its payables reporting.

Before outlining our corrective actions, I think it is important to mention that despite the disclaimed opinion on last year's consolidated financial statements, individual audit reports showed that many components of the Department made solid improvements in their reporting and operations. The Department's statements are based on ten component-level audits, and eight of our ten components received unqualified opinions from the auditors. I was pleased to see that the Bureau of Prisons (BOP), the Drug Enforcement Administration (DEA), the Federal Prison Industries, the Offices, Boards, and Divisions (OBD's), the Working Capital Fund (WCF), and the Assets Forfeiture

Fund all earned unqualified opinions and had no material weaknesses reported in their internal controls. The Federal Bureau of Investigation (FBI) and the United States Marshals Service (USMS) earned unqualified opinions but still had material weaknesses reported in their accounting procedures, property, or information systems. Overall, three of our components eliminated material weaknesses from prior year audits. Additionally, the majority of the components demonstrated they have well-developed reporting structures and controls, and that they are well positioned to meet the FY 2005 quarterly statement due dates and the annual November 15th due date.

Nonetheless, despite the noticeable progress I've mentioned, FY 2004 was a year that fell far short of our goals. At the OJP, the audit firm closely questioned the reliability and accuracy of the accounting practices used in prior years, particularly with regard to the estimation techniques for determining amounts expended by grantees and the balance of amounts advanced to grantees. Ultimately, the auditors could not complete testing at OJP to opine on the accuracy of OJP's financial data because OJP's information technology (IT) system controls were found to be unreliable. Once the auditors determined they could not rely on system generated accounting data, OJP was unable to present grantee expense data that could be sufficiently tested and the financial statements were disclaimed. Overall, the auditors determined that OJP's grant accrual and advance accounting practices were inadequate, accounting for intragovernmental transactions needed improvement , monitoring of grantee expense data was weak,

and significant weakness existed in OJP's IT general and application controls. While we did not see evidence that OJP's overall grant programs were compromised due to the reporting and system problems, it is clear that we must correct the OJP accounting and systems weaknesses so that we provide our grants managers and grantees with reliable and timely information.

In addition to the accounting and systems weaknesses at OJP, auditors reported two material weaknesses at the FBI, two at the USMS, and one at ATF. At the FBI, auditors determined that the management of obligations needs improvement, that FBI's accrual practices are overly manual due to an outdated system, and that improvements are needed in several other areas, most notably in FBI's management of and control over property and equipment. At the USMS, the auditors reported weaknesses in IT systems general and application controls, and weaknesses in the separation of duties within the finance office. Auditors at the USMS also reported issues with property related accounting. At ATF, weaknesses in determining accurate amounts owed on vendor obligations prevented an unqualified opinion and disclosed that fundamental improvements in ATF's business practices are needed in that area.

Corrective Action Efforts

Our corrective action efforts for FY 2005 started last summer when the severity of the difficulties at OJP surfaced. While corrective action at OJP is clearly the key to the restoration of the Department's unqualified opinion, I want

to assure the Committee that we are making concerted efforts to address the material weaknesses and other conditions reported by the auditors at every component. Each component is responsible for preparing and following individual corrective action plans that I oversee as Chief Financial Officer. These are detailed plans containing timelines for deliverables and metrics for measuring progress towards completion. For example, within the Justice Management Division (JMD), I have a Finance Staff team dedicated to quality assurance reviews within the OBD's and the WCF. This group, which focuses on both training and accountability, has been successfully deployed for several years. The team has made over 30 trips to headquarters and field offices already this year to review financial transactions for completeness and accuracy. BOP and DEA employ similar quality reviews to prepare for the audits. The FBI's Finance Division is working hard to carry out planned improvements in its accounting and property areas, giving particular attention to ensuring an effective and efficient communication process is established with the auditors this year so that any audit issues are promptly surfaced and resolved. ATF and the USMS are also actively pursuing their corrective action plans.

Our efforts at OJP are extensive and ongoing. Last summer we formed two dedicated JMD teams to work with OJP management to address the problems identified in the 2004 audit. One group is working to address the grant accounting weaknesses and one group is working to address the IT systems weaknesses. On the accounting side, we have assigned a senior JMD finance

professional to be the full time 2005 audit manager at OJP. Joint teams of OJP and JMD financial managers, with contract accounting support, have performed extensive accounting reviews and data reconciliations in order to demonstrate the reliability of OJP journal vouchers and other system entries. The teams have three separate efforts ongoing to produce reliable and auditable grant accruals for 2003, 2004, and the 2005 financial statements, key work that must be done successfully for the Department to again earn an unqualified clean opinion. On the IT systems side, OJP has hired a new Chief Information Officer (CIO), and the new CIO, working with one of my deputies who is also the Department's CIO, has developed and implemented a wide array of new security controls, strengthened separation of duties, eliminated application and data access weaknesses, and installed formal change control procedures across the OJP applications. While our corrective action efforts are still in process and it is too early in the 2005 audit to see any confirmed audit results yet, I am committed to ensuring that the new generation of systems and accounting controls that we have been installing will provide OJP with the necessary tools to produce reliable and auditable financial statements.

In addition to the corrective actions at our components that I've mentioned, we have implemented two innovations from a Department-wide CFO perspective that I believe are important. First, one of the hard lessons learned from last year was that we did not have adequate "early warning" of audit problems, especially the severity of the problems, within our component audits.

As a result, we could not, from a CFO standpoint, intervene and implement corrective actions in time when severe problems arose. This year we have instituted several formal "checkpoints" throughout the audit process where I meet personally with the Inspector General and the auditors on the status of the ongoing audits. While I am cognizant of the fact that even these reviews cannot disclose every potential problem early, since by necessity the detailed testing results are often not known until late in the audit process, I believe these sessions will aid us greatly in our oversight of the audits.

A second innovation this year is a dedicated CFO internal evaluation and review group. When I became the Department's CFO in late November of 2002, I was surprised to learn that, despite the CFO's responsibility to manage and report on the financial activities of an agency with an annual budget of over $22 billion (including reimbursable authority), the CFO had no organization designed to perform Department-wide reviews of internal controls and financial reporting. It is virtually unheard of in private industry to have a $22 billion dollar corporation without an internal auditing or review function reporting to the CFO. As a result, we have formed a dedicated internal review and evaluation group within the CFO function that will help assist us in evaluating the adequacy and integrity of our financial operations and internal controls on an ongoing basis. The dedicated group will also assist us in meeting the new federal internal control guidelines set by OMB in Circular A-123, *Management's Responsibility for Internal Control.* These guidelines, modeled after the Sarbanes-Oxley legislation

enacted by Congress, become effective in FY 2006, but we have moved to get an early start. In the long term, we expect this function to help improve the overall quality of data and the efficiency of operations. We also expect it to provide timely alerts to management of significant accounting issues that could adversely affect the audit and enable correction action before such issues negatively impact the audit.

Financial Systems at Justice

The final area I would like to discuss is the precarious state of the Department's financial systems. On a personal note, Mr. Chairman, I particularly appreciate your request that my testimony address ways you could be helpful and supportive for our efforts to provide high quality financial management as well as accurate and timely financial reporting. Our Department's financial systems are at the core of our ability to protect and manage our financial resources. Our ability to ensure reliable management of our financial resources depends primarily on replacing the myriad of financial systems in DOJ with one modern integrated accounting system which supports the Department's needs. I believe most people would be surprised to learn that the Department uses seven different core accounting systems to manage its budget and financial operations. These seven systems perform our core accounting and enable our public financial reporting. We also manage dozens of subsidiary systems, often called "feeder" systems, but that is a fairly typical situation across government and many corporations. What is not typical, or desirable, is having key management and financial data spread

out across seven core accounting systems using dissimilar conventions and which do not provide compatibility for Department-wide financial status reporting. Beyond that fundamental limitation, the FBI's system is seriously outdated and requires replacement immediately. The independent auditors have noted that the FBI's legacy financial system is over 25 years old and was not designed for today's accounting standards. Since 9/11, the FBI budget has increased by 80% or almost $2.6 billion. We have transformed the FBI to meet its critical counter-terrorism mission, yet we support the financial backbone of this agency with an outdated financial management system that was installed before personal computers became popular household items. Systems at DEA and ATF are newer but they are commercial systems that must be upgraded to the vendor's latest software version to stay current. OJP's systems have extensive weaknesses in controls, security, and accounting functionality, all of which we are attempting to address short term through the corrective action plans I've mentioned.

We devote extensive – and expensive – resources to collecting financial data from these separate and dissimilar systems in order to do Department-wide financial reporting. On a daily basis, the CFO at Justice has no real time access to Department-wide financial data or performance information. We have no Department-wide diagnostic reports which would have given us early warning of the type of problems that occurred at OJP last year. Instead, dependent on seven systems, we use manual collection procedures and after the fact month-end

reporting as a substitute. It is an inefficient and unsatisfactory way to manage a $22 billion dollar organization in today's fiscal environment.

We are now seeking resources to implement a Unified Financial Management System, a single core system that will give us coordinated Department-wide financial management capabilities and lower maintenance and operational costs once implemented. We awarded a software contract to a commercial vendor last year, we have completed the testing of the baseline software, and we are now at the stage where our foundation planning for the new system is near completion. However, we do not currently have sufficient funds for the integration work required to configure and implement the system at our components.

While our components have gotten extensive mileage from their current systems, we are at the stage where several of the systems require replacement in the short term. We are at a critical juncture at Justice – we have at least three systems that require immediate replacement or upgrade, with two other systems close behind. It is essential that we obtain sufficient funding for the Unified System and achieve a uniform Department-wide reporting base, or our components will be left to individually replace their systems in the disjointed, uncoordinated manner of the past. We believe, and equally important, based on Inspector General reports, the auditors have also opined that Justice will continue to have financial management problems and have difficulty meeting new federal

security and reporting standards unless we are able to replace our outdated and weak systems. We are requesting funding for the new Unified System rollout in the President's FY 2006 budget, and we urge Congress to support that request.

In closing, I would like to assure the Committee that improved financial management and the production of accurate, auditable public financial statements is one of the Attorney General's, and one of my, highest priorities. We will continue to work closely and effectively with the Inspector General's office to ensure our financial operations are sound and reliable, aggressively re-engineering those that are not. I can assure you that improving our financial management has the personal and direct involvement of our component heads. The Department has proven in the past it can produce reliable financial statements, and we are determined to regain that status this year.

Mr. Chairman, that concludes my prepared statement. I will be happy to answer any questions you or the other subcommittee members may have.

Mr. PLATTS. Mr. Fine.

STATEMENT OF GLENN A. FINE

Mr. FINE. Mr. Chairman, Congressman Duncan, I appreciate the opportunity to testify today about the Department of Justice's financial statement audits and the State of the Department's financial management systems.

I would like to introduce Marilyn Kessinger who is with me today. She is the head of the OIG's financial statement audit office, which is responsible for overseeing the work of the independent auditors who perform the financial statement audits of the Department's 10 reporting components. Marilyn is right here with me.

2004 was a difficult year for the Department. It received a disclaimer of opinion on its consolidated financial statements and also had its 2003 unqualified opinion withdrawn and reissued as a disclaimer. Prior to that withdrawal, the Department had earned 3 years of unqualified opinions on its consolidated statements.

These disclaimers were caused by problems in one component of the Department, the Office of Justice Programs. A second component, the ATF, received a qualified opinion for 2004, but it had no effect on the Department's overall consolidated opinion.

On a positive note, the other eight Department components, including the FBI, the BOP, Marshals Service and DEA, continued to earn unqualified opinions for fiscal year 2004. However, the total number of material weaknesses and reportable conditions increased from 19 in 2003 to 23 in 2004.

The OIG believes the Department's financial controls are and will continue to be a top management challenge for the foreseeable future. In our opinion, for long-term success, the Department must concentrate on standardizing financial processes and systems and it must implement a unified financial management system to replace the multiple accounting systems currently used throughout the Department. Now none of the Department's accounting systems are integrated with each other. The OIG strongly supports the Department's implementation of a unified system, which we believe would be a wise investment.

My written testimony addresses in more detail three main issues. It discusses how the Department ended up with the disclaimers of opinion on its 2004 and 2003 financial statements. Second, it discusses the progress made by the Department and the challenges it faces on its financial statement in 2005. Third, it offers observations on the long-term challenges faced by the Department and on the steps we believe are necessary for the Department to improve its financial systems, financial reporting and, ultimately, its financial management.

I will not repeat my written statement here, but instead will highlight for the committee a few key points and observations.

Because of the accelerated timeframes imposed by OMB, agencies no longer have time at fiscal year end to conduct extensive manual cleanup or updating of financial data. Similarly, no time is available to validate financial data if audit testing reveals problems during the latter stages of an audit. Rather, the auditors must be able to rely on the agency's financial and information technology controls throughout the year.

As the Department's primary grantmaking agency, OJP is particularly dependent on IT controls because its grant activities are processed electronically, from applications to cash disbursement to reporting of results. Unfortunately, in the 2004 audit, the auditors determined that they were unable to rely on OJP's financial and IT controls. For example, the auditors cited the lack of effective internal controls over the computerized information systems used to process grant transactions and the lack of sufficient documentation and adequate responses from OJP to support its financial statements. To its credit, after receiving the disclaimer, the Department decided that it wanted to go back to ensure the financial statements for 2003 and 2004 were accurate.

The OIG has worked closely with the Department's CFO, Dr. Corts, and his staff as they seek to accomplish this objective. He and the Department's senior financial managers also are regularly conducting meetings with components on corrective action plans and stressing the importance of improved financial management.

It is also fair to say that the Department has made some progress in its financial management, but it must confront a variety of challenges and longstanding issues in order to obtain clean opinions on its financial statements. These include improving data quality and improving the ability to timely provide adequate support for transactions during testing. Over time, we have seen some improvement in data quality and timeliness, but more improvement is needed.

Department components also have started conducting more frequent internal quality control reviews of financial data. We strongly encourage the use of these internal review functions, but we continue to have concerns about staffing problems at some Department components, including that they have sufficient, qualified financial management staff. This can also be a particular problem overseeing the many contractors that are used to supplement the Department's own staff. Where contractors are used, component staff must provide adequate oversight of them to ensure the work is performed properly.

In sum, with less than 5 months remaining in fiscal year 2005, I believe it is fair to say that the Department has made strides in addressing some of the significant issues identified during the 2004 audits that resulted in the disclaimer of opinion. While it is too early to predict the outcome of the Department's 2005 audit, we believe the Department has taken an aggressive approach to resolving the significant challenges it faces. It will take a sustained effort to move from a disclaimer to an unqualified opinion in 1 year. Most importantly, the Department needs to improve, on a long-term basis, its ability to provide timely, accurate and useful financial data throughout the year. Implementation of a unified financial management system is critical to meet this part of the challenge.

That concludes my prepared statement, and I will be glad to answer any questions.

Mr. PLATTS. Thank you, Mr. Fine.

I appreciate Dr. Corts and your written statements. You touched on it briefly here today, the issue of internal controls and how critical having strong internal controls is going to play into long-term success at the Department and getting your hands around some of the financial challenges that you have.

[The prepared statement of Mr. Fine follows:]

Office of the Inspector General
United States Department of Justice

Statement of Glenn A. Fine
Inspector General, U.S. Department of Justice

before the

House Committee on Government Reform
Subcommittee on Government Management,
Finance, and Accountability

concerning

The Department of Justice's Fiscal Year 2004 Financial Statement Audit

May 4, 2005

Statement of Glenn A. Fine
Inspector General, U.S. Department of Justice,
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House Committee on Government Reform
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The Department of Justice's Fiscal Year 2004
Financial Statement Audit

Mr. Chairman, Congressman Towns, and Members of the Subcommittee on Government Management, Finance, and Accountability:

I. Introduction

I appreciate the opportunity to testify before the Subcommittee about the Department of Justice's (DOJ or Department) Fiscal Year (FY) 2004 Consolidated Financial Statement Audit and the state of the DOJ's financial management systems. FY 2004 was a difficult year for the Department. It received a disclaimer of opinion on its consolidated financial statements and also had its FY 2003 unqualified ("clean") opinion withdrawn and reissued as a disclaimer of opinion. Prior to withdrawal of the FY 2003 opinion, the Department had earned three years of unqualified opinions on its consolidated financial statements.

The reason for the disclaimers was that the Office of Justice Programs (OJP) received a disclaimer of opinion on its FY 2004 and FY 2003 financial statements, and these disclaimers were significant enough to affect the Department's overall consolidated opinions. A second Department component, the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF), received a qualified opinion for FY 2004, although that had no effect on the Department's overall consolidated opinion.

On a positive note, the other eight Department components, including the Federal Bureau of Investigation (FBI), the Federal Bureau of Prisons (BOP), the United States Marshals Service (USMS), and the Drug Enforcement Administration (DEA), all continued to earn unqualified opinions for FY 2004. However, the Department's consolidated report included two material weaknesses and one reportable condition, up from one material weakness and one reportable condition in FY 2003. The number of material weaknesses and reportable conditions at the component level increased to 23 from the 19 reported in FY 2003.

It is important to note that the Department faced significant challenges in FY 2004 because of the accelerated reporting timetables imposed on all Executive Branch agencies by the Office of Management and Budget (OMB). The Department's Performance and Accountability Report now must be submitted to the OMB by November 15 of each year. To accomplish this, component audits must be completed within 20 days of fiscal year-end. This means that internal controls must be in place and operating effectively throughout the year. With only 20 days to complete the component audits, effective internal controls are the only way to ensure a successful consolidated result. There simply is no time at year-end to do extensive clean-up of financial records and account balances.

The Office of the Inspector General (OIG) believes the Department's financial controls remain a top management challenge, as we have reported for several years in our "Top Management Challenges" document submitted annually to OMB as part of the Performance and Accountability Report. In our opinion, for long-term success in its financial reporting, the Department must concentrate on standardizing financial processes and systems to more efficiently support accounting operations, facilitate preparation of financial statements, and enable the auditors to streamline their audit processes.

In that regard, the Department has begun the process to obtain a Unified Financial Management System that will replace the seven major accounting systems currently used throughout the Department. Currently, none of the Department's accounting systems are integrated with each other. Consequently, production of Department-wide information must be done manually or by duplicative inputting of data from one system into another. As I discuss later in this statement, the OIG supports this Department initiative and believes it would be a wise investment.

My testimony today will address in more detail three main issues. I will begin with a discussion of how the Department ended up with a disclaimer of opinion on its FY 2004 financial statements, and why the auditors revised the Department's previously unqualified opinion in FY 2003 and downgraded it to a disclaimer. Second, I will discuss the progress made by the Department, and the challenges it faces, on its FY 2005 financial statement opinion. Finally, I will offer the OIG's observations on the long-term challenges faced by the Department and the steps we believe are necessary to improve its financial systems, financial reporting, and ultimately its financial management.

II. FY 2004 and 2003 Opinions

The Department of Justice OIG directs the work of the independent public accounting firms that perform the financial statement audits of the Department's ten reporting components. The consolidated audit is a "rollup" of the ten component results, with the consolidated audit firm relying upon the

work of the component auditors.[1] For FY 2004, KPMG LLP was the consolidated auditors and also audited six of the ten components. PricewaterhouseCoopers LLP audited three Department components, while Cotton & Company LLP audited one component. For FY 2003, PricewaterhouseCoopers LLP was the consolidated auditors and also audited five components, while KPMG LLP audited four components, and Urbach Kahn & Werlin LLP audited two components (including the Immigration and Naturalization Service, now part of the Department of Homeland Security).

For FY 2004, OMB accelerated the timeframe for completion of federal financial statement audits – 45 days after close of the fiscal year, as opposed to the 120 days permitted in FY 2003.[2] Under this framework, it is critical that the auditors be able to test internal controls and determine they can rely upon their effectiveness at year-end. Agencies no longer have time at year-end to do extensive manual clean-up or updating of financial data. Similarly, no time is available to validate financial data if audit testing reveals problems during the latter stages of an audit. The auditors must be able to rely on both the agency's financial and information technology (IT) controls, because the financial statements are produced using the agency's IT systems.

As the Department's primary grant-making agency, OJP is particularly dependent on IT controls because all stages of its grant activity are processed electronically from application to cash disbursement to reporting of results. Therefore, if the auditors cannot rely on an agency's internal controls, there is little possibility the audit can be completed within the accelerated OMB reporting deadlines.

Unfortunately, in the OJP FY 2004 audit, the auditors determined that they were unable to rely upon OJP's financial and IT controls. The auditors cited the lack of effective internal controls over computerized information systems used to process grant transactions, inconsistencies in the assumptions made by OJP in determining estimates of its grant accounts payable and grant advance balances, lack of sufficient documentation to support OJP's reconciliation of the grant and non-grant subsidiary ledgers to the general ledger, and OJP's inability to respond to inquiries on advances and transfers-in/out without reimbursement and related budgetary accounts. In other words, OJP was unable to provide sufficient support to validate the

[1] The ten component audits are: Assets Forfeiture Fund/Seized Asset Deposit Fund; Bureau of Alcohol, Tobacco, Firearms and Explosives; Drug Enforcement Administration; Federal Bureau of Investigation; Federal Bureau of Prisons; Federal Prison Industries, Inc.; Offices, Boards and Divisions; Office of Justice Programs; U.S. Marshals Service; and Working Capital Fund.

[2] After the passage of the Chief Financial Officers Act in 1990, the initial timeframe for completion of federal financial statement audits was 272 days. The timeframe was accelerated to 150 days in FY 1998 and then to 120 days in FY 2002.

balances reported in its financial statements that would enable the auditors to conclude they were fairly presented, in all material respects, in accordance with generally accepted accounting principles.

The auditors also reported five material weaknesses in OJP: 1) improvements needed in cross-cutting elements of OJP's internal control structure, including its control environment, risk assessment, control activities, information and communications, and monitoring of control activities and financial transactions; 2) lack of adequate financial management system controls, including weak controls over changes made to OJP's computerized information systems, weak controls over access to computerized information systems, and system interfaces between mixed feeder systems and the core financial management system need improvement; 3) grant accounting and monitoring, including information related to assumptions made by OJP in estimating grant payables and advances, grant monitoring procedures, and accuracy of grantee financial reports; 4) documenting and maintaining support for adjusting entries; and 5) improvements needed in OJP's financial reporting process to ensure compliance with generally accepted accounting principles.

OJP is one of the Department's largest components in terms of annual appropriations. As a result, its disclaimer of opinion had a material affect on the Department's consolidated balances and caused the Department to receive a disclaimer of opinion.

In another component's audit, the ATF received a qualified opinion on its FY 2004 financial statements because the auditors were unable to rely on ATF's internal controls over its accounts payable accrual methodology. However, because the ATF's accounts payable balances are not material to the Department's consolidated accounts payable balances, this had no affect on the overall consolidated opinion.

In terms of the overall FY 2004 opinion, in addition to the disclaimer of opinion, the consolidated auditors reported two material weaknesses at the consolidated level versus one the previous year. The new issue involved OJP's grant and monitoring policies and procedures. At the component level, the auditors reported a total of ten material weaknesses, which represented an overall increase of one from FY 2003. This was due primarily to the five new OJP material weaknesses previously identified, plus new material weaknesses reported at the ATF and the USMS.

The FBI also had one new material weakness, but because it was able to eliminate one prior year material weakness, it still had a total of two for both FY 2004 and 2003. The good news for the Department was that three components (Assets Forfeiture Fund/Seized Asset Fund; Offices, Boards and Divisions; and Working Capital Fund) were able to eliminate their prior year

material weaknesses, and three other components (DEA, BOP, and Federal Prison Industries) continued to have no material weaknesses reported.

Because of the significance of the issues identified at OJP during its FY 2004 audit, the independent public accounting firm that conducted the FY 2003 OJP audit subsequently withdrew its unqualified opinion. OJP's previous auditors determined that additional procedures were needed to resolve these issues, but noted they could not perform such procedures because of the lack of time before the November 15, 2004, due date for all federal agencies' opinions. This action had a cascading affect and resulted in withdrawal of the FY 2003 unqualified opinion on the Department's consolidated financial statements.

To its credit, the Department decided that it wanted to ensure that its financial statements for FY 2003 and FY 2004 were accurate. It therefore decided to bring the auditors back in to look at OJP's FY 2003 and 2004 records and ATF's FY 2004 records, and to resolve the issues found during the FY 2004 audits. The OIG has worked closely with the Department's Chief Financial Officer (CFO) as he seeks to accomplish this task. Work on OJP's FY 2003 financial statements was restarted in January 2005. In recent months, efforts at OJP have concentrated on the grant accrual and general ledger to subsidiary ledger reconciliation efforts – the primary issues of concern. The auditors are nearing completion of the additional FY 2003 work and are beginning their additional work on OJP's FY 2004 financial statements. While the work on OJP's FY 2003 financial statements is not yet complete, the Department has aggressively addressed the issues that the auditors identified, and we believe that they are close to producing a set of FY 2003 financial statements that are materially correct.

The re-audit of the FY 2003 balances has been a significant undertaking because OJP has many and varied grant programs that are included in any accrual estimates. Therefore, multiple variables must be considered in developing the appropriate methodology for the estimates. If these efforts are successful, this should also provide the foundation for success for the FY 2004 and 2005 opinions.

With regard to the ATF, the auditors have been performing testing on the FY 2004 qualified balance and believe that the ATF will be able to come to a materially correct balance. This testing has taken longer than originally anticipated but is expected to be completed soon. We believe that the detailed work performed on the ATF accounts payable balance will ultimately allow for a more accurate and supportable accounts payable balance for FY 2005. Additionally, the auditors will be able to take advantage of the additional work performed on the FY 2004 accounts payable balance to more efficiently test the FY 2005 accounts payable balance.

III. Progress and Challenges in FY 2005

The Department has made progress in its financial management, but it faces various challenges and long-standing issues in order to obtain clean opinions on its financial statements. Some of those issues include the need to use manual workarounds, staffing issues, financial system issues, and data quality issues. Each year's audit has required extraordinary efforts on the part of both the DOJ Finance staff and the auditors as they have struggled to meet accelerating audit due dates, an especially difficult task given the manual workarounds necessary to compile the financial statements.

For the FY 2005 financial statement audit, the Department's CFO and OIG staff have worked together to develop a detailed timeline for completion. This timeline is published as part of the Department's Financial Statements Requirements and Preparation Guide and reemphasized in a joint CFO/OIG memo to all component heads. The OIG is closely monitoring the progress of the individual audits and reporting any problems or slippages in the schedule to the Department's CFO. Also, throughout the audits, senior management of the Department is stressing and reinforcing the requirement to meet the deadlines as part of their periodic meetings on corrective action plans and at other executive-level meetings.

Unlike in previous years, there is only one change in audit firms this year. In FY 2004, there were changes in audit firms at four components and at the consolidated level. The first year of an audit with a new firm is always challenging, as the firm obtains an understanding of the component. In subsequent years, the audit firms are better able to plan and execute audit procedures with the knowledge that was gained in the prior years.

The OIG is also committed to performing IT testing earlier this year to better support the financial auditors' work on the financial statements. The results of the IT testing are used to establish the amount of reliance the financial auditors can place on financial systems and thus help them determine how much testing to perform. Last year we encountered significant delays in obtaining supporting documentation at some components and therefore the auditors were unable to complete the work on schedule. The Department has become even more involved this year in helping ensure that the components address past findings and that the IT audit work is completed timely. When this work is done earlier, auditors can also identify problems and give the Department more time to resolve issues that might prevent the auditors from being able to rely on information system controls at the components, a major issue at OJP last year.

The OIG also has scheduled bi-monthly meetings with the Department's CFO, Deputy CFO, and Chief Information Officer (CIO), along with

representatives from all the audit firms, to discuss the progress of the audits and raise any problems that have been encountered.

The Department has many other challenges to overcome in obtaining clean opinions. These include data quality and the ability to timely provide adequate support for transactions during testing. In the past, the auditors encountered problems at some components with the amount of time taken to gather supporting documentation and the completeness of the supporting documentation provided. The Department's financial accounting is decentralized, with many offices processing financial transactions throughout the country and overseas. Therefore, extensive coordination efforts are required on the part of each component to obtain timely audit documentation. Over time, we have seen an overall improvement in data quality and timeliness in providing supporting documentation, although there is still room for improvement. The improvement has been accomplished through increased training for both program and financial staff, establishment of and improved adherence to financial policies and procedures, and better use of dedicated audit liaison staff to facilitate the audits.

Some components also have started instituting aggressive procedures for monitoring controls over their financial data by conducting more frequent internal quality control reviews of financial data and performing monthly closings. Some of the Department's components also have established internal inspection or program review functions that are involved to varying extents in reviewing financial records and processes, which should eventually result in improved quality of financial records and adherence to established controls. We strongly encourage the use of these internal review functions.

The Department and its components must also quickly address audit weaknesses identified from prior years. If not addressed, these weaknesses would be considered even more of a risk by the auditors because of the components' continued failure to resolve them.

On a positive note, we have seen increased involvement by the Department's Justice Management Division in monitoring and assisting with corrective actions at components, and we strongly support this continued involvement. We alert the Department's CFO and CIO staff of any problems we find during the audit, and we regularly brief them to ensure they are aware of where components are struggling with the audit requirements. They have been taking aggressive action in response to our concerns. For example, we support their efforts in holding periodic meetings with the components to discuss the corrective action plans, providing staff or contractor staff to assist components with difficult issues, assisting with training of component finance and program staff, improving financial and IT policies, and using best practices developed by other Department or federal government agencies. The Department is also holding biennial financial management conferences to improve communication

and knowledge of financial management practices throughout the Department. In fact, the next Department-wide financial management conference is scheduled for next week.

It also is important to note that the focus of federal financial statement audits has evolved from an audit of ending account balances to an audit of established internal controls, with testing of account balances and activity throughout the year to verify the effectiveness of these internal controls. The auditors must be able to rely upon the effectiveness of the controls in order to be able to opine on the financial statements so close to year-end. Successful testing of the financial statements at interim periods, particularly at June 30 but also at March 31, is critical because it allows the auditors to perform less testing at September 30. But for control testing to be successful at interim, the interim statements must include full accrual accounting. If control testing at interim is not successful, there will not be time to perform detailed substantive testing of account balances at year-end and the probable result will be a disclaimer.

We continue to have concerns about staffing problems at some components, including whether there is sufficient, qualified staff to maintain current, accurate accounting records. This can also be a problem with contractor staff used to supplement the Department's own staff. Where contractors are used, component staff must provide adequate oversight of their work to ensure the work is performed properly. Also, we have sometimes experienced lack of component staff cooperation, which is often evidenced by failure to quickly address prior years' audit issues or failure to timely provide supporting documentation as mentioned above. Yet, we have seen improvements in these staffing areas as the Department's CFO and CIO have stepped in to address these issues aggressively. We will continue to work with them to give the Department every opportunity to timely address its audit issues.

With regard to the problems in OJP and the ATF, the Department's CFO and his staff are working very closely with both components to bring about necessary changes. These efforts include:

- a complete overhaul of financial policies and internal controls at OJP;
- establishment of a Program Review Office in OJP that reports directly to the Assistant Attorney General;
- placement of an Audit Manager at OJP to oversee audit efforts;
- additional contractor resources to support the extra effort required to complete the FY 2003 and 2004 audit work; and
- testing of work done at OJP and the ATF by Justice Management Division staff prior to submission to the auditors, to help ensure success.

These efforts should help improve OJP and ATF's performance on the financial statements this year and in the future.

IV. Long-Term Challenges

Approximately three years ago, the Department initiated efforts to acquire a core Unified Financial Management System to replace the seven legacy financial management systems that are currently in use at Department components. This planned core system would allow standardization and integration of financial processes and systems to more efficiently support financial management operations of the Department. This system would also provide Department managers with more timely, accurate financial information and allow audit processes to be performed more efficiently, including preparation of financial statements.

The Department selected a commercial, "off the shelf" system approximately one year ago. Since then, testing and preparation for implementation of the system have been ongoing. Progress has been slow, however, due primarily to funding constraints. Implementation of the system at the components will be a major challenge for the Department, and thus is planned to be accomplished in a phased approach at the components rather than all at one time. The challenge will be to implement the new system while maintaining current processes, many of which are still manual and require extensive resources.

While this implementation process occurs, the Department and its components also must continue to identify and take corrective actions for the problems identified in the FY 2004 audits, some of which cannot wait for implementation of the new system.

V. Conclusion

The key to success in meeting OMB's accelerated timelines for issuance of the financial statement audit is the quality of accounting records throughout the year. Therefore, effective controls must be enforced at the Department component level to ensure accurate, timely financial information is available throughout the year, not solely after the fiscal year ends. The Department must also continue to develop the quality of its financial staff and ensure it does not become overly dependent on contractors to perform essential financial management functions.

With less than 5 months remaining in FY 2005, it is fair to say that the Department has made substantial strides in addressing significant issues identified during the FY 2004 audits that resulted in a disclaimer of opinion. That said, many difficult issues result from systemic inadequacies in Department systems and controls. It is too early to predict the outcome of the

Department's FY 2005 financial statement audit, but the Department is taking an aggressive approach to resolving its outstanding challenges.

However, it will take a sustained effort on the part of the Department's CFO and CIO, their staff, and the components' staff to improve from a disclaimer to an unqualified opinion. Most importantly, the Department also needs to improve on a long-term basis its ability to provide timely, accurate, and useful financial data throughout the year. The Unified Financial Management System is critical for this challenge, and we believe that adequate resources should be provided to implement it effectively and efficiently.

This concludes my prepared statement. I would be pleased to answer any questions.

Mr. PLATTS. We are going to proceed to questions; and I understand, Mr. Fine, that Marilyn Kessinger is going to join you at the witness table now. Ms. Kessinger is Director of the Financial Statement Audit Office. We appreciate her joining us here as well and being available for questions.

I would like to start—we are going to have, in essence, the 5-minute rule for questions. We will not be real strict on that with the number of members here but maybe just get some foundation for our discussion today from a structural standpoint.

Dr. Corts, starting with the CFO office, what is your interaction with or authority regarding the individual CFOs at each of the 10 entities within the Department? Do they answer directly to you? Do you have say in who is in those positions? And what type of interaction occurs there?

Mr. CORTS. The CFOs of the individual components are essentially employees of the individual components. They have a reporting relationship to the heads of those components. They coordinate with my office in the sense it is more of a coordinative role. We have a CFO Council where all of the CFOs get together on a regular basis where we talk about financial issues. There is a great deal of interplay between my staff and their staff certainly as we work on the audit but throughout the year in terms of the financial management issues. We, generally speaking, do broad policy guidelines that give an outline of how we want the processes and procedures to flow in the various components, but there is a great deal of autonomy and authority that they have and they exercise out in their individual components.

Mr. PLATTS. Is that problematic in the sense that—if you are setting Department-wide policy and what you are looking for? Because, ultimately, you are responsible for that consolidated financial report for the Department, and having a uniform gathering and collection is certainly critical to that mission. Is the structure that exists, the fact that they don't answer directly to you perhaps as well as a superior within the individual entity, is that problematic, in your opinion?

Mr. CORTS. Well, I think the bigger problem for us is the unified financial management system. My staff doesn't have the ability in many of the cases of the components to use their system, to go into their system and do any checks within their system. We can't get reports out of their system without asking them for the report. We have to go through them and ask for the report, and they put the report together and give the report back to us. We are not able on our own to go do additional digging or penetration into—we have to go back to them and ask them to go a little deeper into it.

Now we do have—several of our components are on one system. We do have several of them on our one system. But we have seven different systems, and only one of those can my staff actually work with in terms of generating reports and doing analysis and that sort of thing.

So the big weakness for us is the inability to get the information we need and to do it on our own. We can still get it on our own, but we have to send a team out and do a quick audit. And we do do that, send teams out for internal control reviews and things of

that sort, but it is not like we can actually go into their system and manipulate it, because we can't do that.

Mr. PLATTS. So if we get that ultimate goal, that unified financial management system, within the autonomy that exists in those individual components, you will have a better ability to go out and verify the accuracy of what you are getting on a regular basis because of having a unified system?

Mr. CORTS. Correct.

Mr. PLATTS. You are, in essence, relying on what is handed to you in compiling that consolidated financial report?

Mr. CORTS. The Department's report is simply a roll-up of 10 individual audits, and that's why it's very important—I think it is important for us to not lose track of the fact that, though we had a problem in one component, one was completely clean and one that was qualified with a particular issue and only one that really was unqualified.

Mr. PLATTS. I think that is an important point, and we want to focus and look at how we can bring that other one, especially the one in particular, up to speed, but we do acknowledge the good work in the other components.

A similar question, Mr. Fine, with the audits themselves. Does your office, from a funding standpoint, pay for the costs out of your central office or do each of the individual components cover the costs of their audits for their individual components?

Mr. FINE. We don't pay through our appropriation. The appropriation comes through the Department, and the Department's components have to pay. We have a staff to supervise and oversee the independent auditors who do the actual audits themselves, and we get funding for that as well. But the funding for the audits themselves comes through the Department's appropriation, not directly through our appropriation.

Mr. PLATTS. And the fact that we had—8 of the 10 components have clean opinions and that is, in essence, a roll-up to this consolidated—from an efficiency standpoint, is there a reason to have the consolidated versus doing what we are doing today, which is really looking at the individual ones and see where we have the problems and not going through that extra step?

Mr. CORTS. One of the great opportunities that we have with a unified system will be the potential to reduce the number of audits that we do. We have to do these number of audits because independent auditing firms don't want to be getting one audit over multiple systems. One of the things we are looking forward to very much is to be able to reduce the expense. Audits are expensive and very time consuming. Just the hiring of these independent audit firms is very expensive.

Mr. PLATTS. If we get the dollars you need to get to a consolidated unified system, then we can potentially have savings in that. We can have one audit of all 10 as a truly united or consolidated audit as opposed 10 individual efforts that are just wrapped into one?

Mr. CORTS. That would be our hope, to be able to reduce the number of audits.

Mr. PLATTS. Is that a possibility?

Mr. FINE. I think we can possibly move toward that direction. I think the unified financial management system would help in that regard, but there has to be standardized processes and has to be a standardized system. And if throughout the Department they are operating in a unified way, then you have the potential for moving toward less individual component testing and auditing but testing on a Department-wide basis. But, currently, you have a decentralized system with a complex series of legacy systems that are operated in many different ways by many different people; and you can't have one overall audit and expect to get an understanding of how the individual components operate. Moving toward the future down the road can have some cost savings in that regard. But, for many other reasons as well, I think it is very important to have a unified system.

Mr. PLATTS. I certainly have other questions, and we will get into the specifics of internal controls.

We have been joined by Congressman Gutknecht from Minnesota, and I now turn to Mr. Duncan for questions.

Mr. DUNCAN. Thank you, Mr. Chairman.

As critical as my opening statement was about the $277 million being misspent, the situation is actually worse than what I said in my statement because I did not mention the fact that the $277 million comes from an audit of only 3 percent of the programs, is that correct, Mr. Fine?

Mr. FINE. We did audits of—what you are referring to are the COPS grants. We have done a series of audits of COPS grants. There are thousands of them. In total, that is probably correct. We have done a small percentage of them and questioned costs of a significant nature in that 3 percent.

Mr. DUNCAN. We are also told in the papers we received, on top of the $277 million there are 82 departments that haven't given you adequate information about $111 million?

Mr. FINE. I haven't added up the exact amounts in that regard, but clearly there are a significant amount with questionable costs and lack of adequate documentation from many of the COPS grantees. That is exactly right.

Mr. DUNCAN. I have to leave here because I have to speak to a group of Japanese parliament members before 3.

It's amazing to me how many times in recent years that any time a Federal agency fouls up they blame it on one of two things or sometimes both. They always say they are underfunded and/or they always say it's the fault of the computers. They have an outdated computer system. I mean, we hear that all the time.

I remember after September 11th and the fact that 15 of the 19 hijackers were here illegally and the INS said they were underfunded and our colleague, Congressman Gallegly was on 60 minutes saying we had given them a 250 percent increase in the previous 8 years, an average of 30 percent increase in funding every year. But we always hear that.

I remember in the mid-1990's I read a cover article in Forbes magazine, which is a conservative, pro-business, very respected magazine. They had an article saying that we had quadrupled the funding for the Justice Department since 1980 and that there were prosecutors out there all over the country falling over themselves

trying to find cases to prosecute. They didn't have enough work to do. We increased the funding so fast. And now the staff tells me we have roughly doubled the funding for the Justice Department.

Since that time—we are so good to the Justice Department. Then we come in here—and I was a criminal court judge for 7½ years. I believe in law enforcement, and I believe in being tough on criminals, but I don't believe in throwing away money. I get sick and tired of agencies when they foul up saying they are underfunded when they are not. We are giving them barrels full of money; and it gets sickening after awhile to hear these excuses, excuses, excuses when money is just being wasted, wasted, wasted or misspent. And it is frustrating. People should be embarrassed about this and should be ashamed, but they are not, and I understand that. And I know when they go back to the Justice Department, they will laugh about what I said here today, but I think it's shameful.

Thank you, Mr. Chairman.

Mr. PLATTS. Mr. Gutknecht, did you have questions?

Mr. GUTKNECHT. Thank you, Mr. Chairman.

I was only going to ask some questions, but I certainly share some of the feelings that my colleague from Tennessee had.

Mr. Corts, did the accelerated deadline affect your ability to get a clean opinion?

Mr. CORTS. As I mentioned in my opening testimony, before we had several months or 3 to 4 months really to do clean-up work after you are closing your books. That is the way it had been for the years previous where we had received unqualified opinions.

I think it is safe to say that our ability to get unqualified opinions in those preceding years was helped by the fact that we had a period of a number of weak spots after the close of the fiscal year in which to gather the information and to go through the process to get the information that the auditors need in order to get an unqualified opinion.

So the short answer is, yes, it affected us because we didn't have that time to do the work that, frankly, our staff at central Justice in previous years—remember, we're basically rolling up individual independent component audits. So when the auditors would begin their work with the individual components and they found a problem, we would have a team of folks from main Justice who would go in and work to correct that problem as quickly as possible, try to get that fixed in time to get the audit a clean opinion. We didn't have that kind of time to do that repair work this year; and, clearly, that greatly affected us.

Now whether we would have been able to do it this year, given the circumstances that OJP was in, I can't tell you for sure, but I can tell you not having the extended period of time definitely made an impact on us. Basically, we couldn't even make a try at it because you just didn't have any time.

Mr. GUTKNECHT. When you said "get the problem fixed," give us an example of what you mean.

Mr. CORTS. Part of the issue, for example, with the OJP issue this year was it was getting specific information out of the system, working up the number of samples that they would take, getting the information on the samples that they would take to do tests

against the system. And as they would run one test and then require additional information, you just—they eventually just kept finding additional problems, and they ran out of time to do more testing. In the former system when we had more time, you could have continued to extend it, do the testing and go out and retrieve more files and run more tests against them. We just didn't have that time this year.

Mr. GUTKNECHT. I'm still really not really clear, though. I mean, as you do your investigation and you find more problems, that doesn't necessarily make it easier to solve those. That sounds to me like the deeper you got into this, the more problems you found.

Mr. CORTS. That is often the case, and you have to work through that in order to get to the solution. And, again, you need time to do that, and we didn't have the time this year.

Mr. GUTKNECHT. Mr. Fine, do you believe if we would have extended the deadline some of these issues would have been resolved with more clarity?

Mr. FINE. I think some of the issues would have been resolved, but I don't believe that the time, if it had been extended, that the problems of OJP would have been rectified. I think we would have the same problems even if it was a longer period of time. Those issues were too massive and too longstanding to be quickly resolved. They involved cross-cutting issues. They involved internal controls. They involved grant accrual issues. They involved difficult problems that, as we looked further and further and deeper and deeper, we found more and more. And OJP needed to do a thorough review.

It's not going to take weeks. It's not going to take months. It's going to take a significant period of time for review of its financial policy and procedures, of its financial control systems, of its reconciliations, of its grant accrual methodology. I don't believe that could have been resolved in a quick time period. And it has taken a long time even now to go through and deal with those issues.

Having said that, the compressed timeframe did not allow a possibility of doing that, but I don't think that is a cause of the problems. I think the cause of the problems are more deep seated and longstanding.

Mr. GUTKNECHT. We in Congress and the American people have been critical of corporate accounting problems and some of the scandals we have seen, and I don't know if this would rise to a level of scandal. I think that's a term that gets overused. But it is fair to say that the American people expect that we be able to defend the money that we take from them to spend on this, and it sounds to me there is a systemic problem inside the Department of Justice.

Mr. FINE. I don't believe there's a problem—we have to be clear about this—in the spending of the money. It has to do with the financial statements, the accounting and the balances.

Mr. GUTKNECHT. Most government agencies don't have any trouble spending the money. That is never a problem around here.

Mr. FINE. I think that's right. And it is important to recognize that there is a longstanding problem, and the Department is committed I think to rectifying those problems. It wanted to go back

and to present accurate financial statements for 2003 and 2004 after they received the disclaimer of opinion. That's to its credit.

It's going to take a significant amount of time. It's going to take significant effort. And I'm not 100 percent confident that it will be eventually resolved for 2005. The Department is doing its best to do so. We are attempting to aid the Department in that regard, but we'll see what happens. I think that's fair to say. But I think it's a critical issue that needs to be addressed, and this committee is right to focus on this issue, as is the Department, to try and get it right.

Mr. GUTKNECHT. I want to thank you for having this hearing. It sounds to me like we may need to have a followup hearing in some months after we get a chance to get our arms around what the problem is.

Mr. PLATTS. Thank you, Mr. Gutknecht. And we do plan on continuing to work with the Department and continue the subcommittee's oversight and appreciate your participation here today.

I have a couple of followups to Mr. Gutknecht's questions on the timeframe and accelerated deadline for the consolidated report.

Key to being able to have that consolidated report at the Department level is access to, in essence, real-time data, and I think is what you mentioned earlier, getting the unified financial management system that would allow you at the Department CFO level to have that data so you can, throughout the year, verify what you are being told and then quickly at the end of the year consolidate all the information. But what is the challenge at the component level where they do have financial management systems—understandably, some of them are pretty outdated. But even the outdated ones should be able to give more timely information on a daily basis, at least within the component, maybe not to the Department-wide level. Is that an incorrect assumption because of the nature of the systems, are so outdated that they are not going to be able to give us what we are looking for today, which is day-to-day good financial information? And that is to both of you.

Mr. CORTS. At the component level, they have a great deal of capability to do that for themselves. The problem when you get back from trying to look at it from a departmental perspective is each of them, because they have different systems, approach it in different ways. Even when you try to request a report that is as standardized as you can get at across the various components, because they come at it in different ways, they have to, because of the way—the nature of the way their systems are and definition of terms and things like that, you don't necessarily get exactly apples to apples. So it's still problematic for us at the departmental level. It takes time and doesn't give you the real-time ability to investigate situations that you would like to have and that we really need.

Mr. FINE. I think I would respond that the systems within the components, many of them are old systems, legacy systems. That kind of a system doesn't give you accurate, timely, reliable data on a daily basis that you can use to manage the operation, and that is what the goal is. Components are clearly not there. They're not at their goal because of these difficult systems.

And, quite honestly, I think that is one of the benefits of a unified financial management system. It's one system. You can operate it on a Department-wide basis and know how it's working and working appropriately; and, hopefully, the managers will be able to use that system and extract information on a daily basis so they can manage their operations.

Too much of it now is going on after the close of the quarter or after the close of the month or at the end of the year, and they are reconciling the systems and seeing if it's accurate data, finding it's not accurate data and not being able to rely on that data. That's not what a financial management system should do, and it's not doing what it needs to do in the Department.

Mr. PLATTS. It gets to the issue that I want to come back to in a few minutes which is the COPS program, the Community Oriented Policing Program, and some of the problems there. That day-to-day data is so important because in the past when we had several months to reconcile the audits and especially the individual components there were heroic efforts that brought the information together, but what real benefit was it throughout the year? They told us, yeah, there were problems, but day to day we didn't have the benefit of what we should have from a good financial system.

Let me go to a couple of questions before we go into some internal control specifics. And that relates to—Dr. Corts, you reference the A–123 requirements that OMB has put forth; and we are very pleased with OMB. When we passed legislation last year regarding the Department of Homeland Security that I sponsored requiring an internal control audit for that Department because it inherited, I want to say, 18 material weaknesses, if I remember correctly, of 22 different agencies—there was a clear need for it to go to the bedrock of financial information and get a good understanding of the internal controls and buildup. We did it for DHS and did not require that level of—at all levels.

But OMB has come forward with the new regulations. Where does Justice stand? Where are you as far as being able to go forward and prepare with the 123 control audit at the end of the year?

Mr. CORTS. Well, I must say that I was surprised when I came into government service in 2002 to find that there wasn't a good deal more of internal control going on; and it has been an issue of concern to me. I think 123 is certainly the right way to be going.

We have already taken some internal steps to raise our activity in that area; and I'm pleased to say that some of the components, because they operate the way they do, they are beginning to do this within the components. We are looking forward to actually probably doing a preprogramming to try to bring a more full-fledged operation to bear to do this within our organizational structure out of the departmental CFO office.

Mr. PLATTS. And you envision being able to comply with the new requirements?

Mr. CORTS. We are trying to get a head start on it, yes, sir, because it is something we need to do.

We got into this, as I said earlier, quickly as a part of reaction to the OJP issue last summer. For example, in the OJP area, we actually—basically, I took back the delegated authority to the Of-

fice of Justice Programs and brought that back to main Justice so that the CFO at OJP now reports directly to my deputy CFO.

Many of the problems over there were IT related. IT is so crucial to the financial systems these days that the two of those have to be really married very well. We looked about pulling back the authorities on the IT, but because they installed a new CIO over at OJP who had a good understanding of the issues and wanted to work very well with us, our CIO at main Justice felt like we could leave the CIO over at OJP but just have a real close working relationship.

We sent a team of folks over there as soon as we found the major problem. They have remained there and remain today. We have an audit manager from main Justice over at OJP that is running the audit. We have taken a number of actions to try to get more independent eyes looking on that system and doing more checking of the things along the way so—we have a little bit of an effort under way to make sure that these corrective actions that we are trying to take are accomplishing their intended purpose.

One of the challenges that you have when you are trying to do corrective actions, a lot of times you don't find out whether your corrective actions are totally successful until the next audit is done. If they weren't successful, you might get nailed again. But you do testing along the way to try to ensure that the corrective actions are in fact accomplishing their purpose.

Mr. PLATTS. Mr. Fine, I imagine your office is involved in monitoring the progress in the A–123 compliance. What is your assessment of where the Department is and your ability to comply with the new requirements?

Mr. FINE. Our Department is making strides. I'm not sure at this stage we would be able to fully comply with the new requirements.

I think what Dr. Corts says is very important, though. The Department needs to and has taken steps to do internal quality testing prior to the data being turned over to the auditors to determine whether it's a fair and accurate representation. And I think it is important what Dr. Corts and his staff are doing, that is, setting up within the Justice Department an ability to test the controls and test the operations and test the data of the components, so it is not simply hopeful when it's given to us that it is fair and accurate. I think that is the kind of initiative that can help the Department in meeting its challenges.

Mr. PLATTS. Is there any plans or consideration by any of the individual components of actually doing an audit of their internal controls? I know there is extensive cost. I know that DHS is required to do it, and I think it was Department of State. They were looking at doing it voluntarily as far as internal control. Is there any consideration of that by any of the 10 components and specifically regarding the OJP expenditures?

Mr. FINE. I believe the answer is no. I could ask my assistant.

Ms. KESSINGER. No one has asked for an opinion. There is a lot of work going on in internal controls. We do more work in internal controls now than we ever did in the audits before, and I guess there is maybe a perception what we are doing now is sufficient without having to get an opinion.

Mr. PLATTS. I think that type of assessment, I think that's what OMB is after, and what we're after is that we may not need that and those internal changes you are making.

Dr. Corts, you mentioned when you came on in 2002 the fact there wasn't more emphasis on internal controls, that you are placing that emphasis. And something I guess Mr. Gutknecht referenced as following up of what we will be looking for as we get to that compliance time period with the OMB regs, that—what you did find. Are we getting to a point where perhaps in one of the components or collectively an internal control audit would be necessary?

Let me get into some specifics on ICs because referenced earlier was the problems of the COPS program and $277 million that was misspent. My understanding of the money that was misspent, it was spent on law enforcement needs. But it was on equipment, training or other things, but not actually on employment of the new officers, which is what it was supposed to be spent on. Is that an accurate understanding?

Mr. FINE. There is a whole series that go into that $277 million, and it's not as if it was fraudulently used. We found many of the grantees did include some unallowable costs in their claims for reimbursements, but more of it had to do with that they could not show that, for example, they had redeployed officers as a result of technology grants. They could not show that they did not supplant their own funding with the funding that the Federal Government provided. They could not show that they had a good-faith plan to retain the officers after the funding ran out. So those were some of the findings that we had that went into the total of $277 million.

We did a series of individual audits and found various dollar amounts in each of the individual audits. One of the key findings in our audits was that the COPS program needed to do a better job of monitoring those grants. And when they did have those findings that the funds were not—there was not adequate support for the funding, that they take corrective action in a timely and effective way, we found in many cases that didn't happen and still hasn't happened.

Mr. PLATTS. Is it fair to say from an internal control perspective—and this may be for all of you to feel free to answer on—that it is not just a better job monitoring? But from an upfront internal control that when the funds are provided there is a clear message of what the requirements are in receiving it. Meaning that you do need to be able to show it is a good-faith plan to keep the officer on board, that you did not supplant, so that we are certain that when they get the money they are also saying—getting the requirements that are going to be expected when that audit comes to be, that they know what they're going to have to show so they are ready and first accept the money under those terms willingly and are ready to provide the information—that would be an upfront internal control, as I would see it. What assessment of that type of IC has been done?

I ask that because this program is so important and I'm a strong supporter. There has been efforts to reduce this program. I don't support the reductions. I see the benefit of law enforcement receiving these funds but also know some of the recipients are smaller

departments and they are just glad to put officers on the street. And when the red tape goes with it, maybe they are not focusing on as much as they need to be, but I am not sure how much they were told up front they were going to have to focus on it. That is why I ask that. What are we telling them when they get the money?

Mr. CORTS. Could I back up just a minute on the COPS issue that has been raised here and clarify the issues about that does not relate to the Department's financial audit, nor does it relate to COPS' financial audit. COPS had a clean opinion this year as part of the OBD.

Mr. PLATTS. So in the big picture we can technically say we have a clean opinion, but if the Government Accountability Office said but we identified this expenditure, it is clean from a financial audit standpoint but from an appropriate use of taxpayer funds maybe not.

Mr. CORTS. Absolutely, not saying that this is wonderful and not anything to worry about, but I'm trying to separate these. And then we are talking about other audits. And many, many other audits, the Inspector General audits, just constantly is auditing items around. And this is a programmatic audit and so that is—I want to make that distinction.

Mr. PLATTS. The IC issue, internal control, that is part of the big picture of the financial audits.

Mr. CORTS. The second thing I wanted to be sure that people are clear about here is that the COPS office, as a part of its internal control actually brought—probably in the one case that was reported in USA Today actually brought to the Inspector General a large number of those issues as items that they had found. So just that you have some sense of assurance that internal controls are at work and are finding things.

And kind of a third general thing to keep in mind when you are dealing with these grants is that these grants are made to people all over America. They are everywhere, as you say, and they have been very good for a lot of local areas. We make grants to entities that have very sophisticated financial systems, very good reporting systems; and they are very accustomed to handling grants and know what to do and know how to respond to inquiries and know how to account for the money. And we make grants to small entities, and maybe this is the first time they have gotten a grant, and it requires a lot more on the part of the COPS staff to work with them.

That being said, the responsibility for ensuring that the moneys are accurately spent rests with us in the Federal Government because we are making the grants. We have to do a better job of having the internal controls to find these issues when they develop and to resolve them and, of course, to try to keep them from happening. And you do that through having agreements with people over what they will do with the money that they are given, how they draw the money down and whether they draw the money down and then report or whether they have to do it first and then get a reimbursement. These are issues that are part of the grantmaking process and a lot of the control issues, and it is done different ways.

Mr. FINE. I would like to address briefly your statement that there should be awareness and knowledge given the grantees. I think that's right. I mean, I think it's there in the documents but sometimes people don't read those documents. And you do need to make sure that people understand the requirements of the program. The COPS program is not free money, and there are requirements that people have to go through. And some localities decided that they couldn't comply with it, and they didn't accept the money.

Others looked at it as free money, we are going to do it, and made no real effort to ensure there was a good-faith plan to retain these officers, to make sure there was not a supplanting of their own funds.

We have seen some small grants, as Dr. Corts said, some places where they had 2 police officers before and they had 13 afterwards. And it wasn't clear whether they needed all that or whether they could retain all of that and comply with the conditions of the grant.

So there is a need to make sure that everyone understands the needs of the requirements of the program.

There is also a need to make sure that once the grant is given, that it is adequately monitored, followed up on, the forms are sent in. And when they aren't sent in, when they aren't complying with the program, corrective action is taken in a timely and effective way. We have not seen that in many, many instances when there have been problems with those COPS grants.

Mr. PLATTS. And the word I have for the benefits, when the dollars have been well used, I think, are very important that we maintain and that we risk a good program because of some poor management at the Federal level and, in some instances, knowingly or unknowingly, bad management or bad faith at the local level—but that we don't, in the end, kill a good program or an important program for safety in our communities because of how we are managing the program, as opposed to the mission of the program. That is why I raise that under that broad issue of internal controls.

Then a second specific example would be regarding the Federal Bureau of Investigation, the IT project. And it is similar to what we saw DOD—with DOD, I think we had $130 million spent on a new project, got to a certain point, realized it couldn't do what needed to be done, and we were starting over.

My understanding, we have a similar issue here where $170 million has been spent on an information technology program by the FBI. And, that largely is going to be unusable or, again, starting over, because of the way it was set up.

I would be interested, it's a specific example, and again to me, in an internal control breakdown, that we got so far along in a process where we spent that sum of money—and I give a disclaimer, and I regularly do that. I am a guy who balances my checkbook to the penny every month. So when I hear that we somehow spent $170 million and then realized it's not going to do what we needed to do, what broke down internally that we didn't realize that sooner, and, take corrective action? Because we certainly have learned from the error. But for the taxpayers' benefit, we need to learn the error sooner. And I would be interested if you can enlighten me on that issue.

Mr. CORTS. There are a number of things that the FBI has done to take very specific steps to try to approach these kinds of programs in a different manner here in the future.

This program was a part of a three-part program, and two parts of it came off pretty effectively. It was the final part that didn't make it and is the part to which you are referring, the DCF part.

The program for that was really determined pre-September 11th. It was a—basically a cost-plus kind of a program. It didn't have a lot of carefully identified benchmarks and timelines and checkpoints and so forth. So certainly one of the things that the FBI has learned is to do programs that have very specific checkpoints, very specific deliverables, and to do things in phases.

And so the phasing of these kinds of massive programs, to give you an opportunity to ensure that you are getting something of value before you keep on going down the road. I think one of the things that happened here was that as things began to go bad, you try all the harder to make them go well, and you keep going. And then things don't go well and you try harder again to make it go well.

But when you have a specific "oh, stop place" when you say stop, we either got this product, it got delivered, it's successful, it does what it is supposed to do or not. Before you go forward, it gives you a real checkpoint. And that is one of the big changes that the FBI has made.

Mr. PLATTS. Is that type of a—you say expensive lesson, $170 million—is that shared within Justice, with the other components. Let's not just have the FBI learn from the error of this, the lack of metrics and things along the way; but, we all learn from that.

Because, unfortunately, DOD already had done that and had a similar breakdown, and they may get it right the next time, and hopefully will, but obviously that lesson at DOD wasn't learned across the Department, and we repeated it here. So internally there's a good sharing of that error in how to guard against it.

Mr. CORTS. One of the things, we had a new CIO come into the Department in late 2002, again, well after this program was underway and had been started. And he began—as he got into the program and became familiar with the FBI's program, began to raise major concerns almost immediately. The FBI got a new CIO in 2003 and, likewise, very concerned about how that program had been started, how it was coming along.

I think that the leadership of the CIO and the FBI, the leadership of the CIO within the Department of Justice now, the number of programs that we have in place to check this kind of thing, just tremendous compared to what it would have been when this program was initiated.

So we feel like we have learned a lot, and we have good leadership now that understands this. We have greatly strengthened our program management capabilities, run a number of classes throughout the whole Department, throughout the FBI. So a lot of improvement in our ability to manage these kinds of very, very complex programs. And we shouldn't underestimate the complexity of this program.

But I think that there are a number of things that have been done. The FBI has, for example, a life-cycle management directive

now that requires the spelling out of these stop places and these points where you show your successes or you don't move forward. The FBI has recently established an Enterprise Information Technology Governance Board. They have an earned value management system.

As I said, the CIOs of FBI and DOJ are working very, very carefully together. I know we meet—I meet with the CIOs of both of these entities, the CFO of the FBI, people from OMB. We meet every month and talk about these issues as they relate to the FBI. So there is a lot of attention being given to be sure we get this thing right when we go forward with this investigative case management system.

Mr. PLATTS. Mr. Fine, did you want to add anything?

Mr. FINE. Briefly, I generally agree with what Dr. Corts said. What you are referring to is the Trilogy FBI IT upgrade. We have done a number of audits on this program. We have followed it closely. It evolved from a 3-year $380 million project to a $581 million project, which is still not complete. The big problem is the third phase of it, not the first two phases; which the first two phases were hardware and software, and communications.

The third phase is the virtual case file to replace their antiquated case management system. It is absolutely right that the FBI had problems in designing the requirements for the system, setting milestones for the system, setting critical review points and holding people accountable if they didn't meet those milestones.

As a result the system went forward. They were so intent on moving forward that they never got a defined set of requirements, and it never came to fruition. I think that's the main problem here. I think there were contracting weaknesses with a cost-plus contract that allowed the contractor to go without sufficient oversight.

And finally, I think there was a lack of management continuity. The FBI had significant changes in their IT management throughout the course of the project. They must have had 15 different people responsible for phases of the project over a 3-year period, five different CIOs. Without continuity, there is no way that the system is going to be adequately managed.

I am hopeful that they have learned from their lessons. They have a new CIO at the FBI who seems competent and professional. And hopefully there will be continuity. They will move forward in phases, as Dr. Corts says, and they will bring forward a system that is urgently needed to help their case agents manage all the information that they have in their case files.

Mr. PLATTS. If Mr. Duncan were still here, I know probably two followups he would ask and I am going to ask for him; and that's consequences.

Are you aware of any, first, internal personnel consequences, meaning someone who kept pushing the project forward without making sure it was actually going to do what we were paying for it to do? In other words, was anyone let go, anyone reprimanded, demoted, internal consequences?

And then, second, the actual contractors. Was there any effort to recoup funds for moneys paid for not providing apparently what was necessarily what should have been provided to fulfill the terms.

Mr. FINE. I am not aware of any internal consequences. Part of the reason is most of the people left already. I mean, I talked about how 15 of them left, so the main people involved were moving on quickly.

Mr. PLATTS. Left by choice?

Mr. FINE. Left by choice, exactly. In terms of recouping money, Director Mueller has talked about attempting to recoup money from the contractor, SAIC. I don't know the exact status of that and where that is. I know Dr. Corts does, but I do believe the Department is looking into that to see whether that is feasible.

Mr. PLATTS. Dr. Corts, are you aware of any efforts currently to go forward to try to recoup?

Mr. CORTS. I do know that it has been investigated by legal staff at the Department and at FBI.

Mr. PLATTS. Because, I think that's one of the issues that, in previous hearings—and Mr. Duncan and I—that we are all human, errors get made, but we also have to be accountable for errors. But we also want to learn what consequences occur. And I think taxpayers, when they say we spent how much, and we didn't get anything in return—and so some contractors got paid even though we didn't get a product. Those are I think legitimate concerns, taxpayers paid.

My understanding is we have 10 or 15 minutes before the next series of floor votes. I have a couple of issues I am trying to wrap up before those votes because I think there will be a series, and we don't want to have you sitting here 30–45 minutes, waiting. So we will try to get through a number of issues.

We talked about the unified financial management system. And I hope—the way I took both of your statements when I asked about that, is if done right, we will get to a system when we can get more real-time data, day to day; data that we can throughout the year to verify the accuracy, so that it's not at the end of the year just playing catch up, or, after the fact. Is that a fair assessment of what you both said?

Mr. CORTS. Certainly our intent, yes.

Mr. FINE. Yes.

Mr. PLATTS. And as you go forward I know the funding, as far as a hurdle, the funding is one of the, I guess, major hurdles you have, is to be able to have the funds. I am comfortable with indicating support for the funding, because I think we need to be smart and invest wisely up front, because we know we are going to save long term by doing so. We will make that known to the Appropriations Committee. I, unfortunately, am not an appropriator, so I cannot directly help. But I can voice support for your needs.

I think I already know the answer to this question, it may be rhetorical. But given what happened with the FBI, and as you select and now purchase, that we have those benchmarks and those kinds of verifications in place, that if the funding is provided, that we are going to get a unified financial management system that really does what your intent is, that we are doing due diligence to make sure we are on the right track.

Mr. CORTS. Well, Mr. Chairman, that's certainly our intent. We have been working on this for a couple of years now. Most all of this work that we have been doing has been the low-level kind of

grunt work that isn't glamorous but it's so absolutely essential. Because when you are dealing with unifying these various systems, you have to bring together people to agree on common processes and procedures, common policies, common ways of defining things, common sets of terms and ways of doing things; for people to figure out how to do that within what they need to keep going on within their component for all their other purposes, so that you don't tweak something over here that helps the financial side but does something that is a problem for the law enforcement component over here in terms of fulfilling their mission and all.

So working through that sort of thing, we have studied products very diligently. There are commercial off-the-shelf COPS products available. We studied all of those, and did very, very rigorous testing of that and selected a product. So we have our product identified.

We think we have done a lot of the good basic work to roll this out. We plan to roll it out in phases. So that, again, if there is something that isn't working right, we have a chance to catch it as we do it in phases. We do have some of our components that have already worked with this particular software in earlier versions, so they have some familiarity with it.

We were concerned about being sure that the software had the capabilities to handle the size of the Department, with the tremendous diversity that the Department of Justice has. So we tried to work hard on checking that out.

We have the FBI as one of our entities that we have to deal with. And they have very special needs, given their intelligence portion of their mission, the interaction of SDU, along with Secret and Top Secret classified data bases and so forth. So we have a lot of issues with other law enforcement entities that are kind of special.

We are going to have to work through a lot of those. But we have done a lot of that good work already. I am sure there will be more of it as we begin to roll this out. We think we have done the testing, and we are ready to go.

Mr. PLATTS. As you move forward, your checks and balances you have in place there I assume are event-driven as far as what happens in the deployment versus a schedule-driven?

Mr. CORTS. Well, we do have a schedule. But the schedule is to bring it—bring this out in phases so that if we have a problem, we can call a stop till we get the problem corrected before we move forward with the next phase.

Mr. PLATTS. So we don't repeat the errors, as with Trilogy, and get too far down the path?

Mr. CORTS. That's right.

Mr. PLATTS. Turning to the specific 2004 audit and then the rescission of the 2003, there were two specifics I wanted to touch on: the block grants under the juvenile accountability incentive block grants and the crime victim funds, and some specific errors that just happened in the case with the juvenile accountability incentive block grants—I guess 170 that were incorrectly coded as discretionary block grants for several years, I guess, since 2002.

Is that just human error or, again, was it something internal that we just—in the technology, the way the technology program was set up? How did that come to be?

Mr. CORTS. That essentially was a data entry error, and it occurred in some transition that went on in personnel. And it points to a weakness in the internal control issue. A point that the Inspector General has repeatedly referred to is that the internal control issues in OJP really just were inadequate.

Mr. PLATTS. Did that happen in 2002 and 2003? And I think in 2004 is when it was found, right; and then went back and realized it was multiple years?

Mr. CORTS. Go ahead.

Mr. FINE. I think one of the issues that it points up is the need for adequate oversight over contractors. Much of these financial statements are done by, coded by, handled by contractors. Contractors change. The contractors changed here; there was an error but there wasn't sufficient oversight over that. The most important thing is to make sure there is adequate, savvy, financial staff in the components that can adequately supervise the contractors and tell them both what needs to be done and catch the mistakes before they become big issues. I think that didn't happen in the JAIBG grants and it was eventually caught, but too late.

Mr. PLATTS. But is your finding at the component level a staffing shortage or just how we are prioritizing the staff at the component level? In other words, not dedicating staff to that appropriate oversight?

Mr. FINE. I think to some extent it's a staffing shortage. It's stretching staff thin. It's an absence of financially savvy staff in many cases that we find there in the component. They are very thin; but one person here, one person there, you lose that person and the institutional knowledge leaves as well. So you need to have both adequate staff and continuity of staff and adequate oversight over contractors. And I think that's a continuing challenge, both in the Department and elsewhere.

Mr. PLATTS. Dr. Corts, in your testimony you talked about the OJP findings had a psychological effect on the audits for the 2003, the prior audits and the rescission.

Can you explain what you meant by that? And is it that you saw the problems in the 2004 and 2003 audit; the auditor kind of overreacted to the 2004 results and went back to rescind the 2003 opinion? Or I would be interested in kind of exactly what you meant by that psychological effect.

Mr. CORTS. I don't recall using the word "psychological."

Mr. PLATTS. In your written——

Mr. CORTS. I'm sorry, if I—did I use "psychological?"

Mr. PLATTS. I think in your written testimony, you did.

Mr. CORTS. OK.

Mr. PLATTS. I even forget the term. Do you think that there was an overreaction by the 2003 auditor, based on the findings of 2004, and that they really were technicalities versus serious problems that were really existing in 2003?

Mr. CORTS. No. I don't think I would have implied that or meant that. I mean, you have to accept the facts as what they were. And it wasn't there.

Mr. PLATTS. Just so—the way you had it written was the problems had a "perverse psychological effect on statements issued in prior years." I took that as meaning that you thought that maybe

they were overreacting, as opposed to really finding some substantive errors.

Mr. CORTS. It was an interesting set of circumstances that led to going back to 2003. And you can have—as I think we have stated—our intent, and I explained this to the Attorney General. He very quickly wanted to have—be sure that we made a commitment that we were going to go back and get these statements right, so that they will be reliable financial statements that the American people can rely upon, and we are committed to that.

We have run into the possibility that we could go back in 2003 and have 10 component audits that essentially are all clean audits, but be unable to get a restatement of the 2003 DOJ consolidated audit to be a clean audit. So we could end up—it could end up that in 2003, we will be able to get a correction and a restatement of the OJP 2003 audit, but not be able to get the departmental rollup restated. That's a possibility.

Obviously, to have that kind of circumstance occur is going to be a very kind of demoralizing event for those who work with us and take this very seriously and want to be able to clear up our proud record that we had established of having clean audits. So we hope we will be able to go back and get those corrected and be able to move forward with clean audits this year and in the future.

Mr. PLATTS. And that really goes to maybe that broad issue, the fact that all these individual component audits versus the Department-wide consolidated audit being kind of disjointed, versus if we had a more uniform comprehensive review that we are all on the same page. Is that fair to say?

Mr. CORTS. I think.

Mr. PLATTS. What about the—if we accept that the 2003 audit was inaccurate and that the opinion shouldn't have been issued, as it was—and it was rescinded—is there any concern—I mean, my understanding is that auditor is now hired for the 2005 OJP audit as well as the consolidated financial statements audit.

Is there any concern there, or, given that we just had that same auditor rescind their 2003 audit?

Mr. CORTS. Perhaps that's a better one for the IG to speak to.

Mr. PLATTS. Sure.

Mr. FINE. I would be happy to address that. It is an important question. It is the same audit firm. When we went to the 2005 audit for OJP, we put out a request for proposal. And of the four major audit firms, only one was interested in bidding on it and doing that work. That was the audit firm for 2003.

We recognized that might be an issue, so we took certain steps, including ensuring that there was a different audit team and a very aggressive—and we demanded one of their top teams and one of their top auditors, because we wanted it to be an aggressive, far-reaching audit, and they agreed to that.

The audit firm also is putting that audit under the spotlight. Their Department of Professional Practice is making clear that they are going to be watching everything that happens, as are we. We are going to be watching it. We are going to be involved in the decisions. We are going to be involved in the timeframe. We are going to be involved in the working papers, because we want to make sure that it is thorough and aggressive and appropriate and

objective. And so with those steps in mind, we went forward with that audit firm.

Mr. PLATTS. Right. I appreciate the insights to your being—you are conscious of that, and how you sought to kind of address the problems of the past and how you are going forward. I think that's commendable.

Again that's part of that we all learn from the past and hopefully do better as we go forward.

I am going to need to wrap up, because we do have bells going off as votes are going on the floor. A couple maybe closing comments.

One is, in a broad sense, both of your inputs here today is much appreciated as an oversight committee. We take our responsibilities very seriously. And, as I said to you up front, when we—before we started the hearing, as I see the work of this subcommittee and my chairmanship is to work with each of you, as we do with IGs and CFOs across the Federal Government, as partners; and that we can help advance what our shared and ultimate goal is, which is good financial management across the Federal Government, so that the taxpayer funds are spent in an efficient and responsible way and ultimately a good outcome is achieved.

And I know that's what you are both doing, and I thank you and your staffs who—I know day in and day out are trying to fulfill that effort and mission at the Department of Justice. And especially, maybe because of the importance of the work of DOJ, reference FBI and the lead agency here at home on counterterrorism, and given the events of 2001 and the ongoing global war on terror—there's no more important mission out there than protecting our citizens here at home—extend that to the local level, and the COPS program, which you know GAO has identified some challenges there.

But the bottom line is homeland security in many developing communities is that officer walking the beat or in the cruiser or in the neighborhood. It's that local law enforcement, and that's DOJ. You are helping facilitate that law enforcement at the local level as well.

So, my thought is that the more we fulfill our responsibilities, you on the front lines and in this committee as an oversight committee, the more effective COPS and FBI can be, because they are dollars; that $170 million that we lost on the Trilogy could better be going into more agents in the field for FBI or officers on the beat for local police, because we are being more effective and efficient with the management. While we are not the frontline law enforcement, our role is playing a critical role in allowing law enforcement to do their job.

So we look forward to working with you. Then in a broader sense our subcommittee has undertaken the charge here of trying to collectively rewrite our financial management legislation from the last 20 years. We have CFO, we have every acronym—my staff knows them a lot better than I do, I just know what the laws do—but all those acronyms out there.

But you know we are looking over the next year and a half of trying to bring together all of these pieces of legislation so that we have the ability to kind of, as I said, the recipients of a COPS

grant, they know what is expected. But rather than having it spread over 20 years in a disjointed fashion, we bring it together in a consolidated form. So if you are a new financial manager anywhere in the Federal Government, you know what is required of you in a very concise format. And we get rid of requirements that are saying put a report on the shelf and no one looks at it. That's not an efficient use of tax funds either.

Your respective positions throughout the Federal Government, CFOs and IGs, your input will be very helpful to us as we move forward. And we will welcome that in the months and year to come as we try to have some success in that consolidation effort.

Again, I appreciate your being here today and look forward to continuing to work with you and your staff.

We will keep the record open for 2 weeks. If there's any additional information to be submitted—but, we will conclude the hearing, and thank you for your participation. This hearing stands adjourned.

[Whereupon, at 3:43 p.m., the subcommittee was adjourned.]