United States Government Accountability Office
Washington, D.C. 20548

July 22, 2005

The Honorable Paul R. Corts
Chief Financial Officer
Department of Justice

The Honorable Glenn A. Fine
Inspector General
Department of Justice

Subject: *Financial Audit: The Department of Justice's Fiscal Year 2004 Management Representation Letter on Its Financial Statements*

As you know, the Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget (OMB), is required to annually prepare and submit audited financial statements of the U.S. government to the President and the Congress. We are required to audit these consolidated financial statements (CFS) and report on the results of our work.[1] In connection with fulfilling our requirement to audit the fiscal year 2004 CFS, we evaluated the Department of the Treasury's (Treasury) financial reporting procedures and related internal control over the process for compiling the CFS, including the management representation letter provided us by Treasury and OMB. Written representation letters from management, required by U.S. generally accepted government auditing standards, ordinarily confirm oral representations given to the auditor, indicate and document the continuing appropriateness of those representations, and reduce the possibility of a misunderstanding between management and the auditor.

In our report, which is included in the fiscal year 2004 *Financial Report of the United States Government*,[2] we reported a limitation on the scope of our work due to identified concerns with the adequacy of certain federal agencies' management representations on which Treasury and OMB

[1]The Government Management Reform Act of 1994 has required such reporting, covering the executive branch of government, beginning with financial statements prepared for fiscal year 1997. 31 U.S.C. § 331 (e). The federal government has elected to include certain financial information on the legislative and judicial branches in the CFS as well.

[2]The fiscal year 2004 *Financial Report of the United States Government* was completed by the Department of the Treasury on December 15, 2004, and is available through both GAO's Web site at www.gao.gov and Treasury's Web site at www.fms.treas.gov/fr/index.html.

depend to provide their representations to us regarding the CFS. Specifically, Treasury and OMB stated that their representation letter to us on the CFS was based primarily on the individual federal agency representation letters. Consequently, our audit considered the content of the individual federal agency letters, and the incompleteness of certain of these letters impaired our ability to obtain sufficient evidence in support of our audit of the CFS. This limitation contributed to our disclaimer of opinion on the CFS. We performed sufficient audit work to provide the disclaimer of opinion and issued our audit report, dated December 6, 2004, in accordance with U.S. generally accepted government auditing standards.

As part of our audit of the fiscal year 2004 CFS, we received and reviewed selected federal agencies' management representation letters to assess their adequacy in support of our audit of the CFS. As the federal government gets closer to an opinion on its financial statements, it becomes more important that the federal agencies' management representation letters be complete and reliably prepared.

The purpose of this report is to communicate our observations on the Department of Justice's (DOJ) fiscal year 2004 management representation letter. Our objective is to help ensure that future management representation letters submitted by DOJ are sufficient to help support Treasury and OMB's preparation of the CFS management representation letter and our ability to rely on the representations in that letter in combination with individual federal agency representation letters. We reviewed five key areas in each management representation letter: (1) signatures, (2) materiality thresholds, (3) representations, (4) summary of unadjusted misstatements, and (5) reliability of representations. In reviewing the management representation letters, we applied the American Institute of Certified Public Accountants' (AICPA) *Codification of Auditing Standards*, AU Section 333, *Management Representations*; OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements*; and the GAO/President's Council on Integrity and Efficiency (PCIE) *Financial Audit Manual* (FAM) section 1001, entitled "Management Representations."[3]

[3]GAO, *GAO/PCIE: Financial Audit Manual: Update*, GAO-04-1015G (Washington, D.C.: July 30, 2004), an update to *Financial Audit Manual: Volumes 1 and 2*, GAO-01-765G (Washington, D.C.: Aug. 1, 2001).

Results in Brief

DOJ's fiscal year 2004 management representation letter did not provide all the information necessary to support Treasury and OMB's preparation of the CFS management representation letter. This in turn impacted our ability to rely on the representations in the CFS management representation letter in combination with individual federal agency representation letters.

We identified some needed improvements in two of the five key areas we reviewed. First, the letter included 28 of the 29 representations[4] from the FAM that were applicable to DOJ. The other representation was not provided at all. In addition, DOJ did not include a complete summary of unadjusted misstatements with its management representation letter and also did not provide a description of the misstatements.

We believe that these matters can be easily addressed. We are making two recommendations to DOJ's Chief Financial Officer targeted to specific changes needed. Also, we are recommending that the DOJ Inspector General, with the contracted independent public accountant, work with the department to help ensure that future management representation letters meet the key conditions noted as needing improvements in this report.

In commenting on a draft of this report, DOJ's Chief Financial Officer and Inspector General, in separate letters, stated that they will work to address the conditions noted in our report. As it relates to the FAM representation that was not provided, both the Chief Financial Officer and the Inspector General pointed to other representations in DOJ's management representation letter that they believed partially satisfied the representation. However, these representations do not represent that all known instances of noncompliance with laws and regulations were disclosed to the auditor. As such, we continue to believe that the FAM representation was not included in DOJ's fiscal year 2004 management representation letter and should be provided in DOJ's future management representation letters. We are pleased that DOJ's Chief Financial Officer

[4]The FAM lists 27 representations that are ordinarily included, if applicable, in the management representation letter that an agency provides to the auditor. For 4 of the representations, the agency is required to address three separate components. As such, each agency is ordinarily expected to make a total of 35 representations. Six of the 35 representations are not applicable unless the agency received an opinion on its internal control. Since DOJ did not receive an opinion on its internal control for fiscal year 2004, only 29 of the 35 representations were applicable to DOJ's fiscal year 2004 management representation letter.

stated that DOJ will ensure all applicable FAM representations are included in its fiscal year 2005 management representation letter.

Background

In conducting agency financial statement audits, U.S. generally accepted government auditing standards incorporate financial auditing fieldwork and reporting standards issued by the AICPA. Such auditing standards (AU Section 333) require auditors to obtain certain representations from agency management. These representations are part of the evidential matter to be considered by the auditor in its audit of the agency's financial statements. The representations obtained will depend on the circumstances of the engagement and the nature and basis of presentation of the financial statements. AU Section 333 discusses specific representations that should be obtained from management, including a requirement to attach a schedule of unadjusted financial statement misstatements for entities with uncorrected misstatements.

In addition, OMB Bulletin 01-02 and FAM section 1001 contain guidance on preparing federal agencies' management representation letters. According to the FAM, in addition to the representations included in AU Section 333, the auditor generally should consider the need to obtain representations on other matters based on the circumstances of the audited entity. FAM section 1001A lists 35 specific representations ordinarily included in the management representation letter and also includes a requirement to attach a schedule of unadjusted financial statement misstatements for entities with uncorrected misstatements. (See enc. I for these representations.) Representations listed in FAM section 1001A should be customized to the situation of the entity being audited or excluded if inapplicable. We perform our audit of the CFS in accordance with the FAM and related auditing standards.

Treasury and OMB are to receive management representation letters from certain federal agencies. This is important because U.S. generally accepted government auditing standards require that Treasury and OMB provide us, as principal auditor of the CFS, a management representation letter, and their letter depends on the information in such agencies' management representation letters. In their representation letter to us for the audit of the fiscal year 2004 CFS, Treasury and OMB stated that their representations are based primarily on the representations of those agencies covered by the Chief Financial Officers (CFO) Act and other selected agencies that were made in connection with the preparation of these entities' respective financial statements and provided to OMB and

Treasury. For this reason, it is important that all federal agency representation letters be complete and reliable.

Objectives, Scope, and Methodology

In connection with our audit of the fiscal year 2004 CFS, we evaluated Treasury's financial reporting procedures and related internal control, including the CFS management representation letter. For the fiscal year 2004 CFS, 33 of the 35 "verifying agencies" submitted audited financial statements along with their management representation letters to Treasury.[5] In our review of these 33 management representation letters, our overall objective was to assess their adequacy as it relates to our audit of the CFS. Specifically, we reviewed each agency management representation letter to determine whether the following five key conditions were met:

- the management representation letter was signed by appropriate agency officials;
- the management representation letter included designation as to the amounts above which matters were considered material (materiality thresholds);
- the management representation letter included applicable representations from the FAM;
- the management representation letter included a properly prepared summary of unadjusted misstatements for agencies with uncorrected misstatements; and
- the representations in the management representation letter were reliable based on a review of findings in the auditor's report.

[5]See *Treasury Financial Manual*, vol. I, part 2, ch. 4700, for a list of the 35 agencies. These agencies, for fiscal year 2004, consisted of 23 CFO Act agencies and 12 material other agencies. The 33 agencies we reviewed did not include the U.S. Securities and Exchange Commission and the Smithsonian Institution because these audits were not complete before the fiscal year 2004 *Financial Report of the United States Government* was issued. The Department of Homeland Security (DHS) Financial Accountability Act, Pub. L. No. 108-330, 118 Stat. 1275 (Oct. 16, 2004), added DHS to the list of CFO Act agencies, increasing the number of CFO Act agencies again to 24 for fiscal year 2005.

This report is based on the audit work we performed for the audit of the fiscal year 2004 CFS, which was performed in accordance with U.S. generally accepted government auditing standards.

We requested comments on a draft of this report from DOJ's Chief Financial Officer and Inspector General or their designees. Written comments from DOJ's Chief Financial Officer and Inspector General are reprinted in enclosures II and III, respectively, and are also discussed in the Agency Comments and Our Evaluation section.

Identified Issues with DOJ's Fiscal Year 2004 Management Representation Letter

With respect to DOJ's fiscal year 2004 management representation letter, we identified the following two areas that need some improvement: (1) providing applicable representations from the FAM and (2) including a complete summary of unadjusted misstatements. Details regarding these issues are as follows.

Providing Applicable Representations from the FAM

Written representations from management ordinarily confirm oral representations made to the auditor during the audit, document the continuing appropriateness of those representations, and reduce the possibility of a misunderstanding. To meet auditing standards and OMB requirements, federal agencies' management and auditors need to ensure that management representation letters are complete and accurate.

We found that DOJ's fiscal year 2004 management representation letter included 28 of the 29 representations from the FAM that were applicable to DOJ. The other representation, which was not provided at all, is as follows.

- FAM #27: We have disclosed to you all known instances of noncompliance with laws and regulations.

When agencies do not provide all representations in their management representation letters, it impairs our ability to audit the CFS and Treasury and OMB's ability to make these types of representations in the CFS management representation letter.

Including a Complete Summary of Unadjusted Misstatements

U.S. generally accepted government auditing standards require that for each federal agency with uncorrected misstatements, a summary of unadjusted misstatements be attached to the agency's management representation letter. Treasury and OMB use the summaries of unadjusted misstatements to assess the impact of federal agencies' unadjusted misstatements on the CFS and make appropriate management representations to us at the governmentwide level. The summaries are also used by us, as principal auditor of the CFS, to develop an overall governmentwide summary of unadjusted misstatements, which is then attached to the CFS management representation letter prepared by Treasury and OMB.

Also, in a matter related to the compilation process for the CFS, in fiscal year 2004, Treasury required agencies to submit a summary of unadjusted misstatements as part of the closing package using the standardized format provided for in the *Treasury Financial Manual* (TFM). The TFM, however, required additional details to be added to this summary of unadjusted misstatements than those called for by the FAM. Specifically, agencies were to also (1) include a description of the misstatements and (2) distinguish between misstatements affecting intragovernmental accounts and misstatements affecting accounts with the public. We need this additional information to develop the overall governmentwide summary of unadjusted misstatements. In order to avoid duplication of effort by the agencies in preparing two summaries of unadjusted misstatements, the additional information should also be included in the summary of unadjusted misstatements attached to the management representation letter. As such, we plan to work with PCIE to modify the FAM to call for these two additional disclosures to be included in the summary of unadjusted misstatements attached to the management representation letter.

DOJ included a summary of unadjusted misstatements with its management representation letter, but the summary did not separately identify the carry-forward effect of the prior year's unadjusted misstatements, as called for by the FAM. In addition, DOJ did not submit a summary of unadjusted misstatements as part of its closing package to Treasury as required by the TFM. As such, DOJ also did not include a description of the misstatements.

Without a complete summary of unadjusted misstatements from each of the verifying agencies with uncorrected misstatements, it is not possible for us, as principal auditor of the CFS, to reasonably determine the audit risk exposure for each of the line items in the CFS or to prepare an adequate summary of unadjusted misstatements at the governmentwide level.

Conclusions

In two of the five key areas we reviewed, DOJ's fiscal year 2004 management representation letter did not provide all the information necessary to support Treasury and OMB's preparation of the CFS management representation letter and our ability to rely on the representations in that letter in combination with individual federal agency representation letters, including that of DOJ. The additional information needed from DOJ is straightforward and should be easy to address.

Recommendations for Executive Action

We recommend to DOJ's Chief Financial Officer that in the future the management representation letter

- fully include all representations from the FAM that are applicable to DOJ and

- include a complete summary of unadjusted misstatements, if there are any uncorrected misstatements, that also provides a description of the misstatements.

We recommend that the DOJ Inspector General, with the contracted independent public accountant, work with the department to help ensure that future management representation letters meet the key conditions noted as needing improvements in this report.

Agency Comments and Our Evaluation

In written comments on a draft of this report, DOJ's Chief Financial Officer and Inspector General, in separate letters that are reprinted in enclosures II and III, stated that they will work to address the conditions noted in our report. Specifically, DOJ's Chief Financial Officer stated that for the fiscal year 2005 management representation letter DOJ (1) will ensure all applicable FAM representations are made and (2) work with the Office of the Inspector General and the contracted independent public accountant to ensure that the summary of unadjusted misstatements is prepared and submitted in accordance with applicable FAM requirements. In addition, the Inspector General stated that his office (1) has discussed including representation #27 with DOJ management and the contracted independent public accountant and (2) will work with DOJ management and the independent public accountant to ensure that the summary of unadjusted misstatements attached to DOJ's fiscal year 2005 management representation letter separately identifies the carry-forward effect of the prior year's unadjusted misstatements.

As it relates to FAM representation #27, both the Chief Financial Officer and the Inspector General pointed to other representations in DOJ's management representation letter that they believed partially satisfied representation #27. Primarily, they pointed to the representation that DOJ "has complied, in all material respects, with applicable laws, regulations, and contracts that could have a material effect on the consolidated financial statements in the event of noncompliance." While this representation does state that there were no instances of noncompliance that could have a material effect on the financial statements, it does not represent that all known instances of noncompliance were disclosed to the auditor as called for by representation #27. In addition, the other representations pointed to by DOJ are called for by the FAM under representations #11a, 16a, 16b, 16c and relate to either (1) violations that effect the financial statements or (2) fraud. The representations do not represent that all known instances of noncompliance with laws and regulations were disclosed to the auditor. As such, we continue to believe that FAM representation #27 was not included in DOJ's fiscal year 2004 management representation letter and should be provided in DOJ's future management representation letters. We are pleased that DOJ's Chief Financial Officer stated that DOJ will include FAM representation #27 in its fiscal year 2005 management representation letter.

Within 60 days of the date of this report, we would appreciate receiving a written statement on actions taken to address these recommendations.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Homeland Security and Governmental Affairs; the Subcommittee on Federal Financial Management, Government Information, and International Security, Senate Committee on Homeland Security and Governmental Affairs; the House Committee on Government Reform; and the Subcommittee on Government Management, Finance, and Accountability, House Committee on Government Reform. In addition, we are sending copies to the Fiscal Assistant Secretary of the Treasury and the Controller of OMB. Copies will be made available to others upon request. This report is also available at no charge on GAO's Web site at www.gao.gov.

We appreciate the courtesy and cooperation extended to us by your staff throughout our work. We look forward to continuing to work with your offices to help improve financial management in the federal government. If you have any questions about the contents of this report, please contact me at (202) 512-3406.

Gary T. Engel

Gary T. Engel
Director
Financial Management and Assurance

Enclosures – 3

Enclosure I: Representations in FAM 1001A

Guidance contained in FAM 1001 and FAM 1001A deals with the management representations that the auditor should obtain from current management as part of the audit. This guidance also acknowledges that judgment needs to be exercised to obtain representations that depend on the circumstances of the engagement and the nature and basis of presentation of the financial statements. Representations given in FAM section 1001A should be customized to the situation of the entity being audited, and additional representations may need to be obtained.

FAM 1001A lists 27 representations that are ordinarily included, if applicable, in the management representation letter that an agency provides to the auditor. For representations 3, 11, 16, and 18, the agency should address three separate components. As such, each agency is ordinarily expected to make a total of 35 representations. Representations 18, 19, 20, and 21 are not applicable unless the agency received an opinion on its internal control. In addition, representations 22, 23, and 24 address the three requirements of the Federal Financial Management Improvement Act of 1996 and are only applicable to the 24 CFO Act agencies. The 35 representations in FAM 1001A are as follows.

1. We are responsible for the fair presentation of the financial statements and stewardship information in conformity with U.S. generally accepted accounting principles.

2. The financial statements are fairly presented in conformity with U.S. generally accepted accounting principles.

3. We have made available to you all

   a. financial records and related data;

   b. where applicable, minutes of meetings of the Board of Directors [or other similar bodies, such as congressional oversight committees] or summaries of actions of recent meetings for which minutes have not been prepared; and

   c. communications from the Office of Management and Budget (OMB) concerning noncompliance with or deficiencies in financial reporting practices.

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or disclosed in the notes to the financial statements.

5. We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. [If management believes that certain of the identified items are not misstatements, management's belief may be acknowledged by adding to the representation, for example, "We believe that items XX and XX do not constitute misstatements because [description of reason]."]

6. The [entity] has satisfactory title to all owned assets, including stewardship property, plant, and equipment; such assets have no liens or encumbrances; and no assets have been pledged.

7. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

8. Guarantees under which the [entity] is contingently liable have been properly reported or disclosed.

9. Related party transactions and related accounts receivable or payable, including assessments, loans, and guarantees, have been properly recorded and disclosed.

10. All intraentity transactions and balances have been appropriately identified and eliminated for financial reporting purposes, unless otherwise noted. All intragovernmental transactions and balances have been appropriately recorded, reported, and disclosed. We have reconciled intragovernmental transactions and balances with the appropriate trading partners for the four fiduciary transactions identified in Treasury's *Intra-governmental Fiduciary Transactions Accounting Guide*, and other intragovernmental asset, liability, and revenue amounts as required by the applicable OMB Bulletin.

11. There are no

    a. possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency,

    b. material liabilities or gain or loss contingencies that are required to be accrued or disclosed that have not been accrued or disclosed, or

    c. unasserted claims or assessments that are probable of assertion and must be disclosed that have not been disclosed.

12. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

13. No material events or transactions have occurred subsequent to September 30, 20X2 [or date of latest audited financial statements], that have not been properly recorded in the financial statements and stewardship information or disclosed in the notes.

14. We are responsible for establishing and maintaining internal control.

15. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud (intentional misstatements or omissions of amounts or disclosures in financial statements and misappropriation of assets that could have a material effect on the financial statements).

16. We have no knowledge of any fraud or suspected fraud affecting the [entity] involving:

    a. management,

    b. employees who have significant roles in internal control, or

    c. others where the fraud could have a material effect on the financial statements.

    [If there is knowledge of any such instances, they should be described.]

17. We have no knowledge of any allegations of fraud or suspected fraud affecting the [entity] received in communications from employees, former employees, or others. [If there is knowledge of any such allegations, they should be described.]

18. Pursuant to 31 U.S.C. 3512(c), (d) (commonly known as the Federal Managers' Financial Integrity Act), we have assessed the effectiveness of the [entity's] internal control in achieving the following objectives:

    a. reliability of financial reporting—transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and stewardship information in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use or disposition;

    b. compliance with applicable laws and regulations—transactions are executed in accordance with (i) laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the financial statements and (ii) any other laws, regulations, and governmentwide policies identified by OMB in its audit guidance; and

    c. reliability of performance reporting—transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

    [If the entity bases its internal control assessment on suitable criteria other than 31 U.S.C. 3512(c), (d), this item should cite the criteria used (for example, *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission).]

19. Those controls in place on September 30, 20X2 [or date of latest audited financial statements], and during the years ended 20X2 and 20X1, provided reasonable assurance that the foregoing objectives are met. [If there are material weaknesses, the foregoing representation should be modified to read:

    > Those controls in place on September 30, 20X2, and during the years ended 20X2 and 20X1, provided reasonable assurance that the

foregoing objectives are met except for the effects of the material weaknesses discussed below or in the attachment.

or: Internal controls are not effective.

or: Internal controls do not meet the foregoing objectives.]

20. We have disclosed to you all significant deficiencies in the design or operation of internal control that could adversely affect the entity's ability to meet the internal control objectives and identified those we believe to be material weaknesses.

21. There have been no changes to internal control subsequent to September 30, 20X2 [or date of latest audited financial statements], or other factors that might significantly affect it. [If there were changes, describe them, including any corrective actions taken with regard to any significant deficiencies or material weaknesses.]

22. We are responsible for implementing and maintaining financial management systems that substantially comply with federal financial management systems requirements, federal accounting standards (U.S. generally accepted accounting principles), and the U.S. Government Standard General Ledger at the transaction level.

23. We have assessed the financial management systems to determine whether they substantially comply with these federal financial management systems requirements. Our assessment was based on guidance issued by OMB.

24. The financial management systems substantially complied with federal financial management systems requirements, federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of [date of the latest financial statements].

    [If the financial management systems substantially comply with only one or two of the above elements, this representation should be modified as follows:

    As of [date of financial statements], the [entity’s] financial management systems substantially comply with [specify which of the three elements for which there is substantial compliance (e.g., federal accounting standards and the SGL at the transaction level)],

> but did not substantially comply with [specify which of the elements for which there was a lack of substantial compliance (e.g., federal financial management systems requirements)], as described below (or in an attachment).]

[If the financial management systems do not substantially comply with any of the three elements, the following paragraph should be used instead:

> As of [date of financial statements], the [entity's] financial management systems do not substantially comply with the federal financial management systems requirements.]

[If there is a lack of substantial compliance with one or more of the three requirements, identify herein or in an attachment all the facts pertaining to the noncompliance, including the nature and extent of the noncompliance and the primary reason or cause of the noncompliance.]

25. We are responsible for the [entity's] compliance with applicable laws and regulations.

26. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

27. We have disclosed to you all known instances of noncompliance with laws and regulations.

Enclosure II: Comments From the Office of the Chief Financial Officer at the Department of Justice

Note: GAO comments supplementing those in the report text appear at the end of this enclosure.

U.S. Department of Justice

Washington, D.C. 20530

June 7, 2005

The Honorable Mr. Gary T. Engel
Director
Financial Management and Assurance
Government Accountability Office

Dear Mr. Engel:

This letter responds to your request for comments on the Government Accountability Office's (GAO) draft report entitled *Financial Audit: The Department of Justice's Fiscal Year 2004 Management Representation Letter on Its Financial Statements.* We greatly appreciate the opportunity to review the draft report. Our comments follow.

General Comment:

- Page 1001-1.03 of the GAO/PCIE Financial Audit Manual (FAM) – Part II states that "The specific representation obtained will depend on the circumstances of the engagement and the nature and basis of presentation of the financial statement." Following this FAM guidance, the Department's management, with concurrence from the Office of the Inspector General and KPMG LLP (the Department's Consolidated Auditor), prepared the representations to be included in the Department's FY 2004 Management Representation Letter.

Draft Report Comments:

See comment 1.

- Page 4, Paragraph 1 (also Page 8, Paragraph 3) – In regard to the Department's omission of the GAO/PCIE FAM Management Representation #27, which states "We have disclosed to you all known instances of noncompliance with laws and regulations," we agree that the Department's FY 2004 Management Representation Letter did not include a verbatim version of Representation #27 as stated in the FAM; however, our letter did include, in coordination with our auditors, qualified assurance in regard to the following representations:

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See comment 1.

4. The Department has complied, in all material respects, with applicable laws, regulations, and contracts that could have a material effect on the consolidated financial statements in the event of noncompliance.

See comment 1.

6. Except as disclosed to you in writing, there have been no:

   f. Violations, or possible violations, of laws or regulations whose effect should be considered for disclosure in the consolidated financial statements or as a basis for recording a loss contingency, except for unresolved recommendations in prior Office of the Inspector General and GAO audit reports, which have been considered in preparing the consolidated financial statements, and those items noted in the Independent Auditors' Report on Internal Control over Financial Reporting and the Independent Auditors' Report on Compliance with Laws and Regulations.

- Page 10, Paragraph – In regard to the Department's omission of a separate identification of the carry-forward effect of the prior year's unadjusted misstatements and a summary of unadjusted misstatements as part of its closing package to Treasury, your draft states "DOJ included a summary of unadjusted misstatements with its management representation letter, but the summary did not separately identify the carry-forward effect of the prior year's unadjusted misstatements, as called for by the FAM. In addition, DOJ did not submit a summary of unadjusted misstatements as part of its closing package to Treasury as required by the TFM. As such, DOJ also did not include a description of the misstatements."

  For the FY 2005 Consolidated Management Representation Letter, the Department will work with the OIG and KPMG to ensure all applicable FAM representations (including separately identifying the carry-forward effect of the prior year's unadjusted misstatements) shall be made. However, we did not see where Treasury 's TFM for FY 2005 requires a separate summary of unadjusted misstatements to be submitted with the closing package.

See comment 2.

- Page 11 – Department's Responses to Recommendations for Executive Action

  - GAO recommends "fully include all representations from the FAM that are applicable to DOJ."

    Department's Response - For the FY 2005 Consolidated Management Representation Letter, the Department will ensure all applicable FAM representations (including #27) shall be made.

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- GAO recommends "include a complete summary of unadjusted misstatements, if there are any uncorrected misstatements, that also provides a description of the misstatements."

  Department's Response – For the FY 2005 Consolidated Management Representation Letter, the Department will work with the OIG and KPMG to ensure that the summary of unadjusted misstatement is prepared and submitted in accordance with applicable FAM requirements.

Please contact Melinda Morgan, Director, Finance Staff, JMD, at (202) 616-5800, if you have any questions regarding this letter.

Sincerely,

Paul R. Corts
Assistant Attorney General
for Administration

The following are our comments on the Department of Justice's (DOJ) Office of the Chief Financial Officer's letter dated June 7, 2005.

GAO Comments

1. See the "Agency Comments and Our Evaluation" section of this report.

2. DOJ's Chief Financial Officer stated that his office did not see where the *Treasury Financial Manual* (TFM) for fiscal year 2005 requires a separate summary of unadjusted misstatements to be submitted with the closing package. The template for the summary of unadjusted misstatements that was included in the TFM for fiscal year 2004 has been removed from the TFM for fiscal year 2005. However, the TFM for fiscal year 2005 states under section 4705.55 that each applicable verifying agency must provide a management representation letter on the closing package, including a summary of unadjusted misstatements. As noted in our report, we plan to work with the President's Council on Integrity and Efficiency (PCIE) to modify the GAO/PCIE *Financial Audit Manual* (FAM) to call for the additional disclosures on the summary of unadjusted misstatements that were required by the TFM in fiscal year 2004.

Enclosure III: Comments From the Office of the Inspector General at the Department of Justice

U. S. Department of Justice

Office of the Inspector General

June 13, 2005

Mr. Gary T. Engel
Director
Financial Management and Assurance
U.S. Government Accountability Office
Room 5476
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Engel:

This letter is in response to your letter dated May 25, 2005, transmitting the Government Accountability Office's (GAO) draft report entitled *Financial Audit: The Department of Justice's Fiscal Year 2004 Management Representation Letter on Its Financial Statements.* The Office of the Inspector General (OIG) appreciates the opportunity to review and comment on the draft report prior to the final report being issued. The OIG's comments on the draft report recommendations follow:

1. **We found that DOJ's fiscal year 2004 management representation letter included 28 of the 29 representations from the FAM that were applicable to DOJ. The other representation, which was not provided at all, is as follows.**

   - **FAM #27: We have disclosed to you all known instances of noncompliance with laws and regulations.**

The OIG disagrees with the GAO's conclusion that this representation was not provided at all, because the Department of Justice (DOJ) did make a representation that it had "complied, in all material respects, with applicable laws, regulations, contracts, and grants that could have a material effect on the consolidated financial statements in the event of noncompliance." It is correct, however, that the representation as made was limited to known material instances of noncompliance. There also were other representations in the management representation letter, such as disclosure of fraud or suspected fraud, that were made without regard to materiality.

However, the OIG has discussed adding this representation with DOJ management and the consolidated auditors. They have indicated their willingness to consider revising this representation to cover all known instances of noncompliance with laws and regulations.

2. **DOJ included a summary of unadjusted misstatements with its management representation letter, but the summary did not separately identify the carry-forward effect of the prior year's unadjusted misstatements, as called for by the FAM. In addition, DOJ did not submit a summary of unadjusted misstatements as part of its closing package to Treasury as required by the TFM. As such, DOJ also did not include a description of the misstatements.**

The OIG agrees with this statement. The summary of unadjusted misstatements included with the management representation letter did not separately identify the carry-forward effect of the prior year's unadjusted misstatements. The consolidated summary of unadjusted misstatements is a roll-up of the summary of unadjusted misstatements for each of the ten DOJ components. The carry-forward effect of the prior year's unadjusted misstatements is shown at the component level and was not included within the consolidated management representation letter in fiscal year 2004. As previously indicated to the GAO, however, this information is available for GAO's review.

For fiscal year 2005, the OIG will work with the DOJ's management and the consolidated auditors to ensure that (1) the consolidated summary of unadjusted misstatements attached to the management representation letter separately identifies the carry-forward effect of the prior year's unadjusted misstatements, and (2) the DOJ submits a summary of unadjusted misstatements as part of its closing package to Treasury.

If you have any questions or additional concerns, please call Marilyn Kessinger, the Director of the OIG's Financial Statement Audit Office, on (202) 616-4660.

Sincerely,

Glenn A. Fine
Inspector General

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