Audit of the United States Marshals Service Annual Financial Statements Fiscal Year 2013

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

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AUDIT OF THE UNITED STATES MARSHALS SERVICE ANNUAL FINANCIAL STATEMENTS FISCAL YEAR 2013

OFFICE OF THE INSPECTOR GENERAL COMMENTARY AND SUMMARY

This audit report contains the Annual Financial Statements of the United States Marshals Service (USMS) for the fiscal years (FY) ended September 30, 2013, and September 30, 2012. Under the direction of the Office of the Inspector General (OIG), KPMG LLP performed the USMS's audit in accordance with auditing standards generally accepted in the United States of America. Effective for FY 2013, auditing standards generally accepted in the United States of America use the term "unmodified" opinion instead of "unqualified" opinion. The definition of the two terms is substantially the same. An unmodified opinion means that the financial statements are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles. The FY 2013 audit resulted in an unmodified opinion on the financial statements. The FY 2012 financial statements audit was performed by Cotton & Company LLP and resulted in an unqualified opinion (OIG Audit Report No. 13-14).

KPMG LLP also issued reports on internal control over financial reporting and on compliance and other matters. The auditors identified two significant deficiencies in the FY 2013 *Independent Auditors' Report on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. The significant deficiencies related to inadequate controls over the procurement process and financial reporting. The USMS did not have adequate controls over the procurement process to consistently ensure that obligations, reported expenses, and accrued expenses were complete, accurate, and recorded in accordance with the government financial management requirements. Furthermore, existing controls relating to the review and preparation of the financial statements and related notes were not adequately designed at the appropriate level of precision to prevent a misstatement in the financial statements or notes. The USMS management agreed with the report's six recommendations to improve internal controls over the procurement process and financial reporting.

No instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards* were identified during the audit in the FY 2013 *Independent Auditors' Report on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.* Additionally, KPMG LLP's tests disclosed no instances in which the USMS financial management systems did not substantially comply with the *Federal Financial Management Improvement Act of 1996*.

The OIG reviewed KPMG LLP's reports and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an audit in accordance with *Government Auditing Standards*, was not intended to enable us to express, and we do not express, an opinion on the USMS's financial statements, conclusions about the effectiveness of internal control, conclusions on whether the USMS's financial management systems substantially complied with the *Federal Financial Management Improvement Act of 1996*, or conclusions on compliance and other matters. KPMG LLP is responsible for the attached auditors' reports dated December 3, 2013, and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with auditing standards generally accepted in the United States of America.

AUDIT OF THE UNITED STATES MARSHALS SERVICE ANNUAL FINANCIAL STATEMENTS FISCAL YEAR 2013

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U.S. DEPARTMENT OF JUSTICE

UNITED STATES MARSHALS SERVICE

MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)

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

MISSION

The mission of USMS is to enforce Federal laws and provide support to virtually all elements of the Federal justice system by providing for the security of Federal court facilities and the safety of judges and other court personnel; apprehending fugitives; exercising custody of Federal prisoners and providing for their security and transportation to detention facilities; executing Federal court orders; managing and disposing of the assets seized and forfeited by Federal law enforcement agencies; and assuring the safety of protected Government witnesses and their families. To execute this mission, the USMS organizes its workload and allocates resources into five decision units:

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

Additionally, in support of the mission, the USMS administers the Department of Justice (DOJ) Asset Forfeiture Program (AFP) by managing and disposing of properties seized and forfeited by Federal law enforcement agencies (including Drug Enforcement Agency (DEA), Federal Bureau of Investigation (FBI), Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF), Food and Drug Administration (FDA), and the U.S. Postal Inspection Service) and U.S. attorneys nationwide.

USMS missions comprise crosscutting activities that are implemented throughout the country and several foreign office locations. USMS missions correspond with all three DOJ strategic goals as described in the *DOJ Fiscal Years 2013-2017 Strategic Plan (Strategic Plan).*

ORGANIZATION STRUCTURE

The USMS headquarters (HQ) is located in Arlington, Virginia, with 94 district offices operating in over 400 Federal courts and other locations throughout the United States and its territories. The FY 2013 President's Budget merged the Office of Federal Detention Trustee (OFDT) into the USMS organizational structure. USMS designated OFDT to be aligned under the USMS's Prisoner Operations Division (POD) to better align detention resources with existing operations. The USMS organizational chart and district office locations are contained in Attachments 1 and 2. Specific courthouse locations can be found on the USMS internet web site at: www.usmarshals.gov. The decentralized organizational structure ensures that the USMS is able to respond to law enforcement challenges in an efficient and effective manner.

FINANCIAL STRUCTURE

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

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

Construction Appropriation
The Construction Appropriation is a no-year account that is appropriated annually to the USMS. In fiscal year (FY) 2012, the USMS began using additional Southwest Border multi-year construction funding. This funding is to plan, construct, renovate, equip, and maintain any space controlled, occupied, or utilized by the USMS in U.S. courthouses and other buildings. Once enacted, funds are apportioned by OMB and DOJ to the USMS.

Federal Prisoner Detention (FPD) Appropriation
The FPD Appropriation is a no-year account that is appropriated annually to the USMS beginning FY 2013. The FY 2013 President's Budget merged the Office of the Federal Detention Trustee (OFDT) into the USMS. OFDT was established in 2003 as an oversight organization responsible for coordinating detention and transportation requirements on behalf of the DOJ. This funding is used for the care of Federal detainees in private, state and local facilities.

Justice Prisoner and Alien Transportation System Revolving Fund
The Justice Prisoner and Alien Transportation System (JPATS) was established in 1995 by combining the aircraft fleets of several DOJ components. Initially this program was funded within the USMS S&E Appropriation. In 1998, OMB established the JPATS Revolving Fund in order to

finance flight operations and maintenance through customer funding rather than by direct appropriations. The USMS transportation requirements are funded using the FPD Appropriation.

Allocation Transfer Authority from the Administrative Office of the U.S. Courts (AOUSC)
AOUSC receives an annual Court Security Appropriation that includes allocation transfer authority to the USMS. AOUSC transfers funds to the USMS each year using a non-expenditure transfer authorization (SF-1151).

The funds are used to pay the wages, supplies, and equipment for Court Security Officers (CSO) who provide security at Federal courthouses and other facilities that have Federal court operations. Funds are also used to obtain and install security equipment to screen and monitor visitors and packages that enter Federal courthouses.

ANALYSIS OF FINANCIAL STATEMENTS

Assets: The USMS's Consolidated Balance Sheet as of September 30, 2013, shows $917.7 million in total assets, an increase of $7.9 million (0.9 percent) from the previous year's total assets of $909.8 million. The largest assets include Fund Balance with U.S. Treasury (FBWT) and General Property, Plant, and Equipment in the combined amounts of $892.4 million and $754.1 million as of September 30, 2013 and 2012, respectively. This comprised 97.3 percent and 82.9 percent of total assets as of September 30, 2013 and 2012, respectively.

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

The General Property, Plant, and Equipment net balance represents property and leasehold improvement items with a cost basis greater than $25,000 ($100,000 for airplanes and leasehold improvements) less accumulated depreciation/amortization. As of September 30, 2013, the General Property, Plant, and Equipment net balance was $281.5 million. As of September 30, 2012, the General Property, Plant, and Equipment net balance was $265.9 million.

Liabilities: Total USMS liabilities were $461.8 million as of September 30, 2013, a decrease of $19.0 million (4.0 percent) from the previous year's total liabilities of $480.8 million. The largest liability is Accounts Payable with the Public, which equaled $213.2 million and $244.0 million, as of September 30, 2013 and 2012, respectively. This comprised 46.2 percent and 50.7 percent of total liabilities, as of September 30, 2013 and 2012, respectively. The decrease in payables is due to efficiencies gained from the newly implemented Unified Financial Management System (UFMS), which enhanced the ability to expedite the recording of transactions based on the receipt of goods and payment processing.

Net Cost of Operations: The USMS's Consolidated Statements of Net Cost present the gross and net cost by strategic goal. The net cost of operations was $3,108.8 million for the year ended September 30, 2013, an increase of $1,460.7 million (88.6 percent) from the previous year's net cost of operations of $1,648.1 million. The increase is attributed to the merger of OFDT with USMS during FY 2013 where funding increased by $1,647.3 million. In addition to the change in net cost of operations, costs for Strategic Goals 1 and 2 respectively increased during FY 2013; however, this change is attributed to a change in methodology for aligning costs by Strategic Goals due to enhanced functionality of the Unified Financial Management System (UFMS), which was implemented during FY 2013.

Budgetary Resources: The USMS's FY 2013 Combined Statements of Budgetary Resources show $3,322.8 million in total budgetary resources, which remained stable with an increase of $36.2 million (1.1 percent) from the previous year's total budgetary resources of $3,286.6 million. Although OFDT merged with USMS during FY 2013, budgetary resources remained stable as the merger increased direct funding, Appropriations by $1,647.3 million, but simultaneously decreased reimbursable funding, Spending Authority from Offsetting Collections by relatively the same amount.

Net Outlays: The USMS's FY 2013 Combined Statements of Budgetary Resources show $2,976.5 million in net outlays, an increase of $1,303 million (77.9 percent) from the previous year's total net outlays of $ 1,673.5 million. The increase in net outlays is attributed to the transition of OFDT funding from reimbursable to direct. During FY 2012, gross outlays related to OFDT were offset by Actual Offsetting Collections, as the funding was reimbursable; however, during FY 2013, OFDT funding is direct and thus outlays are not reduced.

Table 1. Source of the USMS Resources

(Dollars in Thousands)

Source	FY 2013	FY 2012	Change%
Earned Revenue	$ 57,752	$ 1,543,645	(96%)
Budgetary Financing Sources			
Appropriations Received	2,853,383	1,189,000	140%
Appropriation Transferred-In/Out	436,713	416,211	5%
Other Adjustments and Other Budgetary Financing Sources	(197,806)	(2,200)	(8891%)
Other Financing Sources			
Transfers-In/Out Without Reimbursement	1,670	58	2779%
Imputed Financing from Costs Absorbed by Others	41,674	51,770	(20%)
Total	**$ 3,193,386**	**$ 3,198,484**	(0%)

Table 2. How USMS Resources are Spent

(Dollars in Thousands)

Strategic Goal (SG)	FY 2013	FY 2012	Change%
SG 1: Prevent Terrorism and Promote the Nation's Security Consistent with the Rule of Law			
Gross Cost	$ 80,269	$ 4,794	
Net Cost	80,269	4,794	1574%
SG 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law			
Gross Cost	$ 243,802	$ 32,637	
Net Cost	243,802	32,637	647%
SG 3: Ensure and Support the Fair, Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels			
Gross Cost	2,842,468	3,154,286	
Less: Earned Revenue	57,752	1,543,645	
Net Cost	2,784,716	1,610,641	73%
Total Gross Cost	3,166,539	3,191,717	
Less: Total Earned Revenue	57,752	1,543,645	
Total Net Cost of Operations	$ 3,108,787	$ 1,648,072	89%

2013 FINANCIAL HIGHLIGHTS

The *Strategic Plan* includes three strategic goals, which reflect the goals, objectives, and areas of emphasis of Attorney General Eric H. Holder, Jr. The DOJ Strategic Plan places a strong emphasis on rule of law, international partnerships, reinvigorating the traditional missions of DOJ, and restoring credibility to the Department. The USMS receives funding through direct appropriations (S&E, Construction, and FPD), transfers from AOUSC and others, and a variety of reimbursable sources that support the three strategic goals. During FY 2013, the implementation of the Unified Financial Management System (UFMS) allowed for enhanced functionality that resulted in a change in methodology for aligning costs by Strategic Goals in the reporting of the Net Costs of Operations.

Strategic Goal 1, Prevent Terrorism and Promote the Nation's Security Consistent with the Rule of Law, includes activities that strengthen partnerships to prevent, deter, and respond to terrorist incidents. The Goal 1 costs include payroll and operating costs for the Office of Protective Intelligence and payroll costs for deputies working with the Federal Bureau of Investigation (FBI) Joint Terrorism Task Forces. The USMS expended net program costs of $80.2 million for the FY ending September 30, 2013 and $4.8 million for the FY ending September 30, 2012, on Strategic Goal 1.

Strategic Goal 2, Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law, includes activities related to fugitive investigation and apprehension efforts that prevent, suppress, and intervene in crimes against children. When the Adam Walsh Child Protection and Safety Act was enacted in 2006, the Attorney General gave the USMS primary enforcement responsibility. The Goal 2 costs include payroll and operating costs related to the Sex Offender Apprehension Program (SOAP). The USMS expended net program costs of $243.8

million for the FY ending September 30, 2013 and $32.6 million for the FY ending September 30, 2012, on Strategic Goal 2.

Strategic Goal 3, Ensure and Support the Fair, Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels, includes activities that protect the Federal judiciary and other participants in Federal proceedings, and ensure the apprehension of fugitives from justice. The majority of USMS resources are devoted to support Goal 3. The USMS expended net program costs of $2,784.7 million for the FY ending September 30, 2013 and $1,610.6 million for the FY ending September 30, 2012, on Strategic Goal 3.

PERFORMANCE INFORMATION

Data Reliability and Validity

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

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

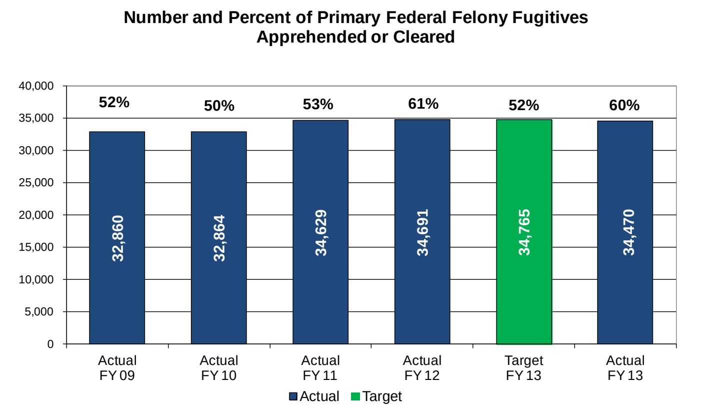
FY 2013 REPORT ON SELECTED RESULTS

STRATEGIC GOAL 3: Ensure and Support the Fair Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels – *90 percent of USMS's Net Costs support this Goal*

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

PROGRAM: Fugitive Apprehension Program

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



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

- escaped Federal prisoners;
- probation, parole, and bond default violators;
- warrants generated by the DEA and referred to the USMS;
- any other Federal warrant referred by another Federal agency.

A fugitive is considered apprehended or cleared if the fugitive is arrested, has a detainer issued, or the warrant is dismissed. The percent cleared is calculated by dividing the number of cleared fugitives by the sum of received fugitives (fugitives who had a warrant issued during the FY) and on-hand fugitives (fugitives who had an active warrant at the beginning of the FY).

Data Collection and Storage: The USMS maintains Justice Detainee Information System 10 (JDIS) to collect warrant information, investigative leads, and other criminal information. Upon receipt of a warrant from a Federal judge, Deputy U.S. Marshals query the FBI's National Crime Information Center (NCIC) and The International Justice & Public Safety Network (Nlets) Integration through JDIS to look for previous criminal information.

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

Data Limitations: JDIS data is accessible to all USMS districts and is updated as new information is collected and thus there may be a lag in reporting of data.

extraditing (or deporting) U.S. fugitives that have fled to foreign countries back into this country. The USMS also apprehends foreign fugitives within the U.S. who are wanted abroad.

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

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

FY 2009 Actual Performance:	32,860/52 percent
FY 2010 Actual Performance:	32,864/50 percent
FY 2011 Revised Performance:	34,629/53percent
FY 2012 Revised Performance:	34,691/61 percent
FY 2013 Target:	34,765/52 percent
FY 2013 Actual Performance:	34,470/60 percent

Discussion of FY 2013 Results: In FY 2013 the USMS cleared 34,470 primary federal fugitives, 295 less than the established target. The percent of primary Federal fugitives cleared exceeded the target by 8 percent.

Current budget realities has a dampening effect on warrant generation as DOJ components arrest fewer individuals. This decreases the number of fugitives received during the fiscal year and frees up USMS resources to address cases active prior to the start of the fiscal year (on-hand). The reduction in wanted primary Federal fugitives (received plus on-hand) increases the percent apprehended or cleared.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

USMS Major Systems

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

Unified Financial Management System (UFMS): The USMS migrated the Standardized Tracking, Accounting and Reporting System (STARS) functions to the DOJ UFMS in FY 2013. UFMS now serves as the primary financial management system of the USMS with integrated funds control, financial management, and procurement functions in a single system.

JPATS Management Information System (JMIS): Draws information from multiple JPATS-specific programs and databases in order to produce financial and managerial information.

Justice Detainee Information System 10 (JDIS 10): JDIS 10 combines all the information from JDIS and Warrant Information Network (WIN) and contains the new module "Suspicious Activities, Assaults, Incidents, and Deaths" module (SAID). JDIS 10 has been designed to automate and integrate the information captured during the prisoner booking process and subsequent USMS custody details, with warrant and investigative information utilized to track fugitives and enables the use of new technology for photo and fingerprint capture equipment, while continuing to support existing legacy equipment.

The Federal Managers' Financial Integrity Act of 1982

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) provides the statutory basis for management's responsibility for and assessment of internal accounting and administrative controls. Such controls include program, operational, and administrative areas, as well as accounting and financial management. The FMFIA requires Federal agencies to establish controls that reasonably ensure obligations and costs comply with applicable law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to maintain accountability over the assets. FMFIA also requires agencies to annually assess and report on the internal controls that protect the integrity of Federal programs (FMFIA § 2) and whether financial management systems conform to related requirements (FMFIA § 4).

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

FMFIA Assurance Statement

The USMS management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of FMFIA. In accordance with OMB Circular A-123, the USMS conducted its annual assessment of the effectiveness of internal controls to support effective and efficient programmatic operations, reliable financial reporting, and compliance with applicable laws and regulations (FMFIA § 2). The USMS also assessed whether its financial management systems conform to financial system requirements (FMFIA § 4). Based on the results of this assessment, the USMS can provide reasonable assurance that its internal control over financial reporting was operating effectively as of June 30, 2013, and the assessment identified no material weaknesses in the design or operations of the controls, with the exception of a reportable condition summarized below.

USMS testing identified that improvements have been made in the area of controls over the processing and recording of obligations, undelivered orders, and accounts payable. Deficiencies were identified in the following areas, which, in the aggregate, are considered to be a reportable condition:

- Obligations are recorded accurately and timely in the financial system and amounts for invalid or residual balances are de-obligated on a timely basis
- Accruals are accurately and timely recorded with a justified methodology.

Internal Controls Program

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

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

Legal Compliance

Federal Financial Management Improvement Act of 1996 (FFMIA)

The Federal Financial Management Improvement Act of 1996 (FFMIA) was designed to improve Federal financial and program managers' accountability, provide better information for decision-making, and improve the efficiency and effectiveness of Federal programs. FFMIA requires agencies to have financial management systems that substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and application of the U.S. Standard General Ledger (USSGL) at the transaction level. Furthermore, the Act requires independent auditors to report on agency compliance with the three requirements in the financial statement audit report. The Federal Information Security Management Act (FISMA) states that to be substantially compliant with FFMIA, there are to be no significant deficiencies in information security policies, procedures, or practices.

FFMIA Compliance Determination

The USMS's financial management systems complied substantially with Federal financial management systems requirements, applicable Federal accounting standards, and application of the U.S. Government Standard General Ledger at the transaction level as of September 30, 2013.

POSSIBLE FUTURE EFFECTS OF EXISTING EVENTS AND CONDITIONS

USMS financial statements document existing, currently known events, conditions and trends. Through the agency financial transactions, one can learn how the USMS has used its appropriated resources to meet its strategic goals.

Current trends, including an increased focus on illegal immigration, the impact of the current economic recession, a merger with the OFDT, and the implementation of UFMS may alter the need and management of resources by the USMS in order to fulfill its law enforcement mission in FY 2013 and beyond.

Illegal Immigration

Illegal immigration has become a key issue across the country as many states have recently passed laws that will increase the demand on law enforcement to apprehend and adjudicate persons living in the country illegally. As a key agency involved in Southwest Border law enforcement activities, the USMS will play a pivotal role in the evolving legal environment.

Current Economic Conditions

Due to operating mandatory spending cuts resulting from sequestration, the USMS experienced reduced funding. The aforementioned budget constraints and the downturn in the economy may place additional demands on USMS operations as fluctuations in criminal activity tend to occur in times of economic distress.

OFDT Merger

The FY 2013 President's Budget merged the OFDT into the USMS. The merger aligns the accountability of resources with the responsibility of Federal detention operations under a single command and control structure within the USMS leadership. The USMS will expand upon OFDT's successes in achieving efficiencies, cost reductions and cost avoidance in detention through process and infrastructure improvements. The care of Federal detainees in private, state and local facilities and the costs associated with these efforts will be funded from the FPD account within the USMS.

FPD's resource needs are directly impacted by law enforcement and prosecutorial priorities. Currently, the challenges facing law enforcement officials at the Southwest Border directly impact the detention population. As Federal law enforcement officials increase their efforts to deal with these issues, the USMS must ensure sufficient detention space is available to house and care for the corresponding detainees. This objective is made even more challenging given the limited detention space available in the Southwest Border region. USMS will continue to explore new approaches to address the increase in the Federal detention population resulting from aggressive immigration and other law enforcement initiatives.

Financial Management

The USMS transitioned to UFMS during the first quarter of FY 2013. UFMS enables program managers to streamline and standardize financial business processes that provide timely financial, budget, and acquisitions data. UFMS provides real-time tracking of the status of funds, along with the seamless integration of spending against budgets and plan. End-to-end visibility through the entries request-to-pay lifecycle is significantly improved, as is monitoring and oversight of projects by tracking costs incurred against reimbursable agreements. Productivity improvements are realized with automated routing and approvals.

IMPROPER PAYMENTS IMPROVEMENT ACT OF 2002, AS AMENDED

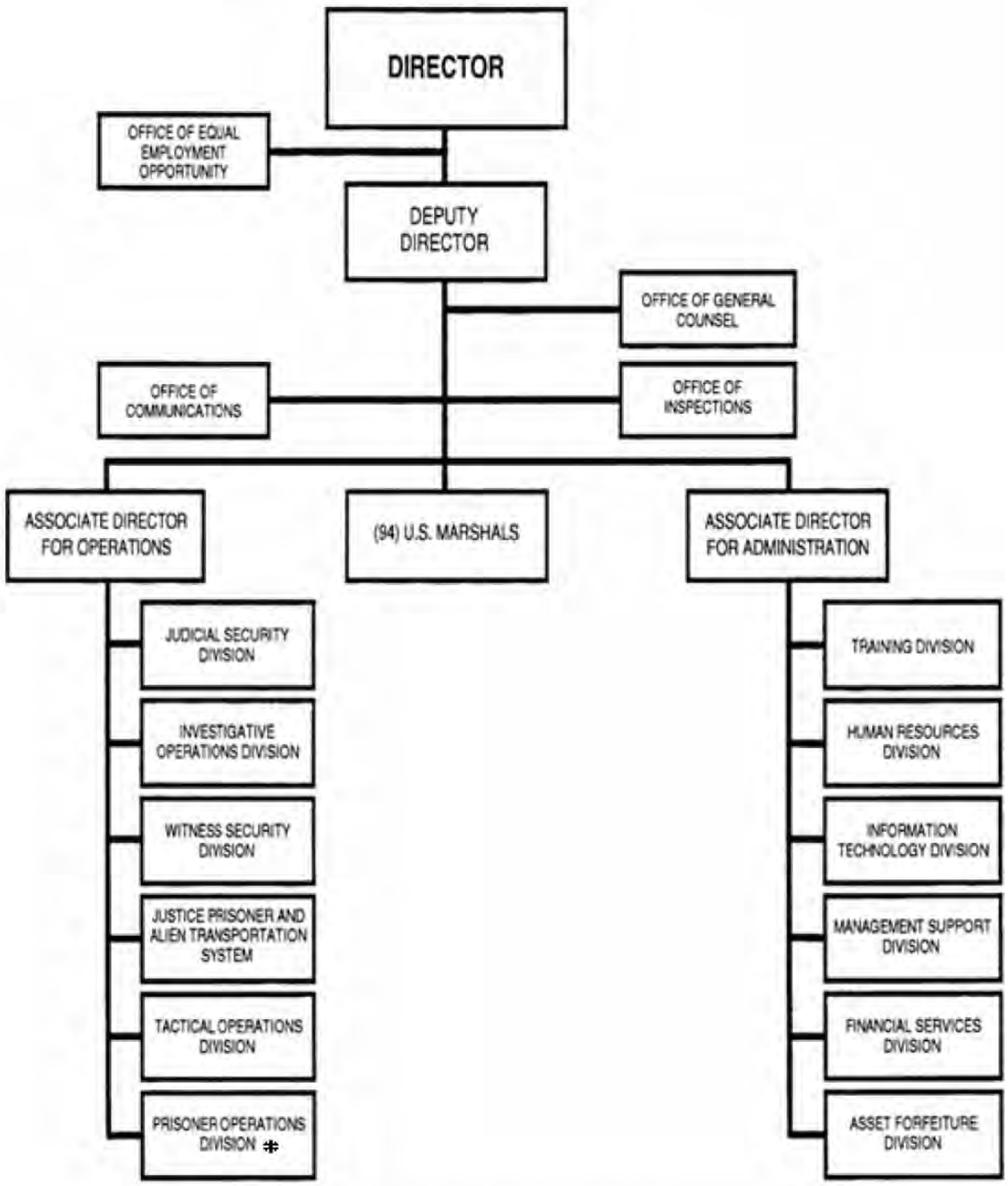
In accordance with OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, and the Departmental guidance for implementing the Improper Payments Elimination and Recovery Act (IPERA), the Department implemented a top-down approach to assess the risk of significant improper payments across all five of the Department's mission-aligned programs, and to identify and recapture improper payments through a payment recapture audit program. The approach promotes consistency across the Department and enhances internal control related to preventing, detecting, and recovering improper payments. Because of the OMB requirement to assess risk and report payment recapture audit activities by agency programs, the results of the Department's risk assessment and recapture activities are reported at the Department-level only.

In accordance with the Departmental approach for implementing IPERA, the USMS assessed its activities for susceptibility to significant improper payments. The USMS also conducted its payment recapture audit program in accordance with the Departmental approach. The USMS provided the results of both the risk assessment and payment recapture audit activities to the Department for the Department-level reporting in the FY 2013 Agency Financial Report.

LIMITATIONS OF THE FINANCIAL STATEMENTS

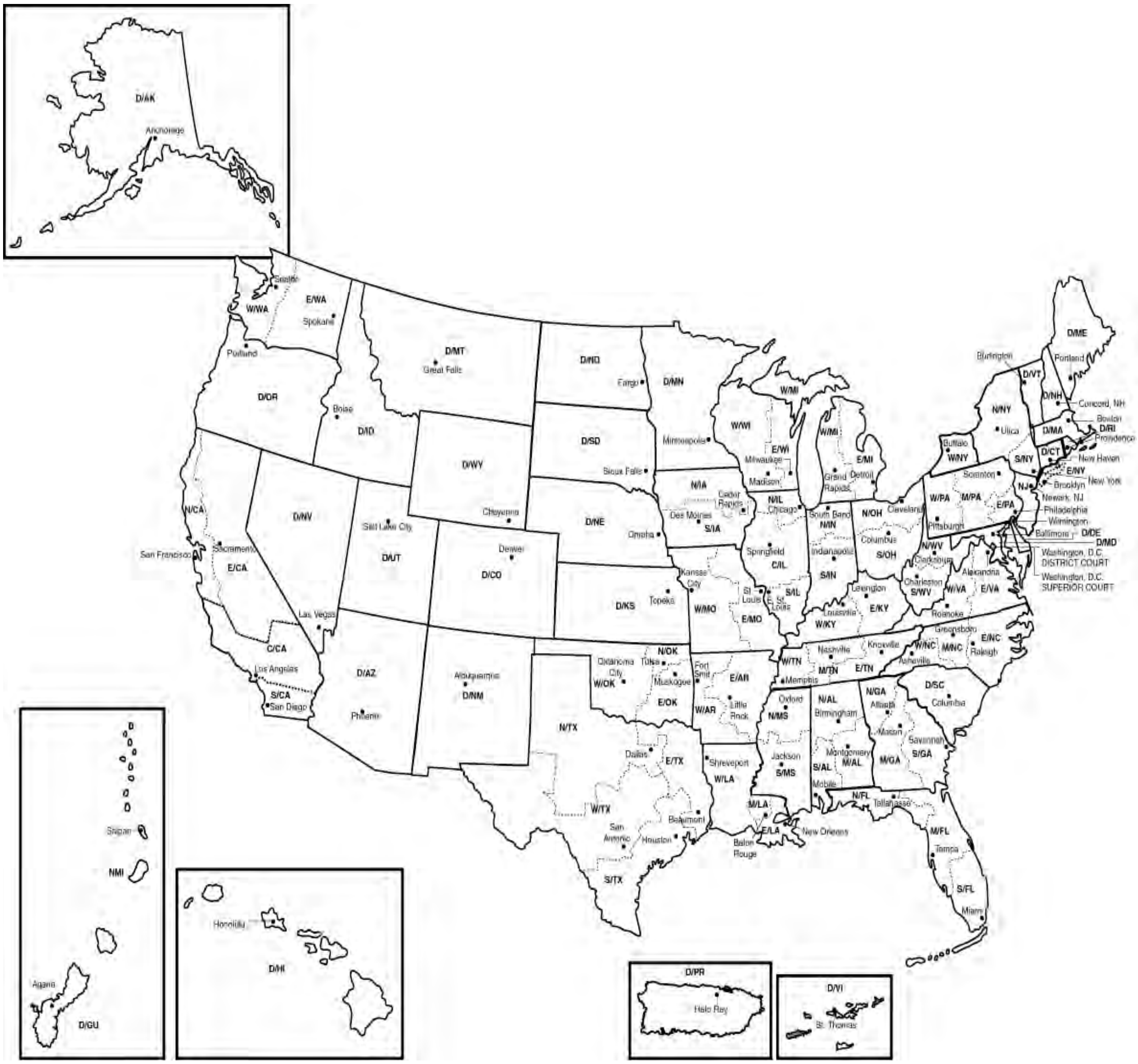
- USMS financial statements have been prepared to report the financial position and results of agency operations, pursuant to the requirements of 31 U.S.C. 3515(b).
- While the statements have been prepared from the books and records of the USMS in accordance with U.S. generally accepted accounting principles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

UNITED STATES MARSHALS SERVICE



* NOTE: THE FY 2013 PRESIDENT'S BUDGET MERGED THE OFFICE OF FEDERAL DETENTION TRUSTEE (OFDT) INTO THE USMS ORGANIZATIONAL STRUCTURE. USMS DESIGNATED OFDT TO BE ALIGNED UNDER THE USMS' PRISONER OPERATIONS DIVISION (POD) IN ORDER TO BETTER ALIGN DETENTION RESOURCES WITH EXISTING OPERATIONS.

THE 94 USMS DISTRICT OFFICES



U.S. DEPARTMENT OF JUSTICE

UNITED STATES MARSHALS SERVICE

INDEPENDENT AUDITORS' REPORTS

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KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report on the Financial Statements

Inspector General
U.S. Department of Justice

Director
United States Marshals Service
U.S. Department of Justice

We have audited the accompanying consolidated financial statements of the U.S. Department of Justice United States Marshals Service (USMS) which comprise the consolidated balance sheet as of September 30, 2013, and the related consolidated statements of net cost, and changes in net position, and the combined statement of budgetary resources (hereinafter referred to as "consolidated financial statements") for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Justice United States Marshals Service as of September 30, 2013, and its net costs, changes in net position, and budgetary resources for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 17 to the consolidated financial statements, the USMS has elected to change its capitalization threshold for internal use software, effective October 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Prior Period Financial Statements Audited by a Predecessor Auditor

The accompanying consolidated financial statements of the USMS as of September 30, 2012 and for the year then ended were audited by other auditors whose report thereon dated November 5, 2012, expressed an unmodified opinion on those financial statements.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, and Required Supplementary Information sections be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We and the other auditors do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Combined Schedule of Spending is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and accordingly, we and the other auditors do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our fiscal year 2013 report dated December 3, 2013 on our consideration of the USMS's internal control over financial reporting, and our fiscal year 2013 report dated December 3, 2013 on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the USMS's internal control over financial reporting and compliance.

KPMG LLP

December 3, 2013

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KPMG LLP
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Washington, DC 20006

Independent Auditors' Report on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Inspector General
U.S. Department of Justice

Director
United States Marshals Service
U.S. Department of Justice

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*, the consolidated financial statements of the U.S. Department of Justice United States Marshals Service (USMS), which comprise the consolidated balance sheet as of September 30, 2013 and the related consolidated statements of net cost, and changes in net position, and the combined statement of budgetary resources (hereinafter referred to as "consolidated financial statements") for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 3, 2013. As discussed in Note 17 to the consolidated financial statements, the USMS has elected to change its capitalization threshold for internal use software, effective October 1, 2012. Our opinion is not modified with respect to this matter.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2013, we considered the USMS's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the USMS's internal control. Accordingly, we do not express an opinion on the effectiveness of the USMS's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control, described in Exhibit I that we consider to be significant deficiencies.

USMS's Responses to Findings

The USMS's responses to the significant deficiencies identified in our audit and presented in Exhibit I were not subjected to the auditing procedures applied in the audit of the USMS's consolidated financial statements and, accordingly, we express no opinion on the responses.

Exhibit II presents the status of prior years' findings and recommendations.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the USMS's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the USMS's internal control. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

December 3, 2013

EXHIBIT I

SIGNIFICANT DEFICIENCIES

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

Improvements Needed in Control over Recording and Reporting the Status of Budgetary Resources and Related Expenses

During fiscal year 2013, the USMS did not have adequate internal controls over its procurement process to consistently ensure that obligations, reported expenses, and accrued expenses were complete, accurate, and recorded in accordance with the government financial management requirements. Specifically, during our test work we identified the following exceptions:

Undelivered Orders and Expenses: 63 exceptions of 712 sample items

- Forty four sample items resulted in a net most likely audit difference of $15 million related to expenses and undelivered orders that were not timely or accurately recorded during interim and at year-end.
- Twelve sample items totaling approximately $134 million related to expenses that were recorded to an incorrect general ledger account. This resulted in discrepancies between the classification of intragovernmental expenses and expenses with the public.
- Seven sample items had an approved vendor invoice that was not paid within 30 days of receipt and acceptance of the goods/services. Interest penalty expenses of approximately $15 thousand were not recorded or paid timely.

It should be noted that the USMS implemented a new financial management system during the year. Some of the exceptions noted above related directly to the implementation of this new financial management system. All exceptions that could be remediated by the USMS have been.

Quarterly Open Obligation Certification: 4 exceptions of 15 sample items

The open obligation certification was not completed prior to the close of the general ledger for the second quarter at 4 of 15 District Offices tested.

OMB Circular A-123, states:

Management is responsible for developing and maintaining effective internal control. … The importance of internal control is addressed in many statutes and executive documents. The FMFIA establishes overall requirements with regard to internal control. The agency head must establish controls that reasonably ensure that:…(iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets. … In addition, periodic reviews, reconciliations or comparisons of data should be included as part of the regular assigned duties of personnel. Periodic assessments should be integrated as part of management's continuous monitoring of internal control, which should be ingrained in the agency's operations.

EXHIBIT I

USMS Policy 5.1, states:

D. Policy

4. *Program managers are responsible for the accurate and timely accounting of their workplans' commitments and obligations.*

5. *Program managers must promptly record obligations and commitments in USMS financial systems. Generally, transactions should be recorded the same day or on the next business day, but no later than three business days unless there are extraordinary circumstances.*

12. *Program managers must ensure that a periodic review of their workplan obligation(s) is performed.*

U.S. Code Title 31, Subtitle III, Chapter 39, states:

…under regulations prescribed under section 3903 of this title, the head of an agency acquiring property or service from a business concern, who does not pay the concern for each complete delivered item of property or service by the required payment date, shall pay an interest penalty to the concern on the amount of payment due.

RECOMMENDATIONS:

We recommend that the USMS:

1. Utilize resources at Headquarters to provide assistance to the District Offices that have a history of untimely completion of the quarterly open obligation certification. (*Updated*)

   Management Response:

   The USMS concurs. The USMS is of the opinion that some of the delays in FY13 were due to the inherent learning curve associated with the implementation of a new financial system and ensuring that financial reports were available that provided accurate and meaningful information. On occasion there are extenuating circumstances that require a District or Program Office to request an extension to the due dates for submitting the Quarterly Open Obligation Certification. The USMS will continue to analyze untimely submissions for trends or other concerns, and provide assistance as necessary.

2. Reinforce policies and procedures and provide training to individuals responsible for recording obligations, non-payroll expenses, accruals, and deobligations within the financial management systems. (*Updated*)

   Management Response:

   The USMS concurs and agrees to continue its efforts to reinforce policies and procedures through training with the individuals responsible for financial management in the agency.

EXHIBIT I

In 2013, The Financial Services Division (FSD) created an intranet webpage, which offers guidance and learning tools related to financial system functionality. Lync sessions were recorded demonstrating step-by-step guidance on how to complete transactions in the financial system and are available on demand. Over 212 financial policies and procedures, checklists, etc., are posted on the intranet webpage.

In June 2013, the FSD facilitated two week-long training programs for 16 District Administrative Officers (AOs) recently placed in the position. These individuals have the primary responsibility for financial management in the District Offices.

The FSD holds monthly calls with the AOs and Program Offices to discuss the status of the audit, disseminate new guidance or policies, and provide a forum for open discussions and questions related to financial management at the USMS. These discussions hosted by the Chief Financial Officer will continue to facilitate opportunities for ongoing training for the financial management stakeholders and provide avenues for continued dialogue regarding policies and procedures of financial management.

3. Develop and implement policies around MIC (Itemized Receipt) accrual transactions that require management approval and require that Headquarters review significant obligations in order to prevent the District Offices and Program Offices from incorrectly recording the obligation, expense, and necessary accruals. (*Updated*)

   Management Response:

   The USMS concurs. The USMS has implemented many controls to support the accurate and timely recording of accruals in the financial system. Furthermore, USMS management believes the findings specific to MIC accrual transactions are a reflection of the inherent learning curve associated with the implementation of a new financial system and the related change in business processes at all locations.

   - The USMS has identified business and financial management processes that pose a material and/or high risk for financial misstatement and has worked to consolidate the accrual process for these at a headquarters level. This includes prisoner housing with a materiality of over $1.5B annually.
   - The USMS Program Offices are involved in reviewing accruals completed by the Districts related to agency-wide programs or contracts such as court security.
   - In FY13, the USMS initiated a pilot for the Austin Processing Center (APC). The APC is a centralized center that processes accruals and payments related to eight defined financial processes within the UFMS for 16 participating pilot Districts. The goal of the agency is to reduce District workload, standardize processes for economies of scale and to reduce audit findings. The APC staff review obligations and documentation to provide proper internal control over financial transactions, including accruals. The USMS plans to move forward with all Districts participating in the APC in FY14 for the eight processes currently in place.
   - In FY13, the USMS also focused on maintaining an open dialogue with the District and Program Offices pertaining to the importance of accruals in overall financial management.

EXHIBIT I

The USMS management will continue to review options for making improvements to the financial management process as well as communicating the importance of proper financial management to the District and Program Offices.

4. Continue efforts to improve the reporting of funding balances at District Offices and Program Offices to enable District Offices and other decision makers to record expense, undelivered order, and accrual transactions in a timely and accurate manner. (*Updated*)

   Management Response:

   The USMS concurs. The USMS financial management will continue to improve the information available to District and Program Offices. Beginning in the latter half of FY13, the new Business Intelligence Enterprise Reporting (BIER) Open Obligation Status Report was developed and provided to all Offices along with the Quarterly Certification Report. These reports complement each other and provide even greater review and control over the open obligations. In FY14, all District and Program Offices will have access to the BIER system, which will further the goal of providing timely and accurate financial data agency wide.

Improvements Needed in Control over Financial Reporting

Existing controls relating to the review and preparation of the financial statements and related notes are not adequately designed at the appropriate level of precision to prevent a misstatement in the financial statements or notes. Specifically, during our test work, we identified the following exceptions:

Certified Annual Financial Statements as of September 30, 2013

- The balance sheet amount for Accrued Payroll and Benefits incorrectly included payroll expenses for one pay period that had already been paid. This resulted in a classification error of $30 million between Accrued Payroll and Benefits, and Accounts Payable.
- The note disclosure for General Property, Plant and Equipment was not properly compiled using the capitalized property sub-ledger. This resulted in a misstatement of a gross amount of $77 million in the Aircraft, Vehicles, Equipment, Leasehold Improvements and Construction in Progress line items.

Certified Quarterly Financial Statements as of June 30, 2013

- The required disclosure relating to the presentation of Resources that Finance the Acquisition of Assets did not include all applicable USMS funds. This resulted in an understatement of this line item of $4 million.
- The Reconciliation of Net Cost of Operations to Budget did not include all appropriate general ledger accounts on the Net Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not Yet Provided line item. This resulted in an overstatement of this line item of $89.7 million.

USMS corrected the errors noted above prior to issuing the final September 30, 2013 financial statements and notes. However, existing USMS internal controls did not identify these errors.

EXHIBIT I

In addition to the errors above, we also identified journal entries used in the preparation of the financial statements that were prepared and reviewed by the same individual. The lack of management review controls increases the risk of error in the financial statements.

OMB Circular A-123, *Management's Responsibility for Internal Control,*

Section I Introduction, states:

Management is responsible for developing and maintaining effective internal control. Effective internal control provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the agency's ability to meet its objectives, would be prevented or detected in a timely manner.

Section II. Standards, C. Control Activities, states*:*

Control activities include policies, procedures and mechanisms in place to help ensure that agency objectives are met. Several examples include: proper segregation of duties (separate personnel with authority to authorize a transaction, process the transaction, and review the transaction); physical controls over assets (limited access to inventories or equipment); proper authorization; and appropriate documentation and access to that documentation.

RECOMMENDATIONS:

We recommend that the USMS:

5. Develop and implement formal policies and procedures at an appropriate level of precision to prevent or detect and correct significant errors in financial reporting. (*New*)

   Management Response:

   The USMS concurs. Additional oversight and edit checks will be put in place to ensure a higher level of precision related to financial reporting. The USMS had many challenges this year including implementation of a new financial system agency wide and merger of the Office of the Federal Detention Trustee and related funding with the USMS upon enactment of the budget.

6. Restrict users from being able to both prepare and review journal entries created in the general ledger. (*New*)

   Management Response:

   The USMS concurs.

EXHIBIT II

STATUS OF PRIOR YEARS' FINDINGS AND RECOMMENDATIONS

As required by *Government Auditing Standards* issued by the Comptroller General of the United States, we have evaluated whether the USMS has taken appropriate corrective action to address findings and recommendations from the prior years' financial statement audits that could have a material effect on the financial statements or other financial data significant to the audit objectives. The following table provides the Office of the Inspector General report number where the deficiency was reported, the predecessor auditor's recommendation for improvement, and the status of previously identified significant deficiencies and recommendations as of the end of fiscal year 2013.

Report	Significant Deficiency	Recommendation	Status
Annual Financial Statements Fiscal Year 2010 Report No. 11-10	Funds Management Controls Need Improvement	**Recommendation No. 2:** Enhance supervisory review and approval controls, including review of source documentation, calculations, and posting logic for accounts payable, obligations, and deobligation transactions.	In Process (Updated by Fiscal Year 2013 Recommendation No. 1 and No. 3)
		Recommendation No. 5: Review financial management and accounting processes in place at district offices to identify process, knowledge and training gaps affecting the execution of and adherence to the USMS directives and policies; implement corrective action to address the identified gaps; and develop and implement procedures for maintaining source documentation that can be easily retrieved for review and audit purposes.	In Process (Updated by Fiscal Year 2013 Recommendation No. 2)
Annual Financial Statements Fiscal Year 2012 Report No. 13-14	Funds Management Controls Need Improvement	**Recommendation No. 1:** Continue coordinated efforts among Financial Services Division and USMS program offices to finalize and consistently implement policies and procedures for recording obligations and deobligations in a timely manner, and to ensure that accruals for goods and services provided but not paid for are properly calculated, recorded timely, and adequately supported.	In Process (Updated by Fiscal Year 2013 Recommendation No. 4)

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Independent Auditors' Report on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Inspector General
U.S. Department of Justice

Director
United States Marshals Service
U.S. Department of Justice

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*, the consolidated financial statements of the U.S. Department of Justice United States Marshals Service (USMS), which comprise the consolidated balance sheet as of September 30, 2013, and the related consolidated statements of net cost, and changes in net position, and the combined statement of budgetary resources (hereinafter referred to as "consolidated financial statements") for the year then ended and the related notes to the consolidated financial statements, and have issued our report thereon dated December 3, 2013. As discussed in Note 17 to the consolidated financial statements, the USMS has elected to change its capitalization threshold for internal use software, effective October 1, 2012. Our opinion is not modified with respect to this matter.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the USMS's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 14-02.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which the USMS's financial management systems did not substantially comply with the (1) federal financial management system requirements, (2) applicable federal accounting standards, and (3) application of the United States Government Standard General Ledger at the transaction level.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the USMS's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the USMS's compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

December 3, 2013

U.S. DEPARTMENT OF JUSTICE

UNITED STATES MARSHALS SERVICE

PRINCIPAL FINANCIAL STATEMENTS
AND
RELATED NOTES

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Consolidated Balance Sheets
As of September 30, 2013 and 2012

Dollars in Thousands	2013	2012
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with U.S. Treasury (Note 3)	$ 610,946	$ 488,186
Accounts Receivable (Note 4)	15,992	145,641
Other Assets (Note 7)	6,052	7,093
Total Intragovernmental	632,990	640,920
Accounts Receivable (Note 4)	130	29
Inventory and Related Property (Note 5)	2,860	2,742
General Property, Plant and Equipment, Net (Note 6)	281,488	265,904
Advances and Prepayments	-	47
Other Assets (Note 7)	184	184
Total Assets	**$ 917,652**	**$ 909,826**
LIABILITIES (Note 8)		
Intragovernmental		
Accounts Payable	$ 44,845	$ 25,874
Accrued Federal Employees' Compensation Act Liabilities	17,207	16,753
Other Liabilities (Note 10)	4,687	12,439
Total Intragovernmental	66,739	55,066
Accounts Payable	213,150	244,011
Actuarial Federal Employees' Compensation Act Liabilities	103,024	93,617
Accrued Payroll and Benefits	20,855	36,317
Accrued Annual and Compensatory Leave Liabilities	42,572	43,258
Other Liabilities (Note 10)	15,440	8,532
Total Liabilities	**$ 461,780**	**$ 480,801**
Contingencies and Commitments (Note 11)		
NET POSITION		
Unexpended Appropriations - All Other Funds	$ 299,299	$ 259,570
Cumulative Results of Operations - All Other Funds	156,573	169,455
Total Net Position	**$ 455,872**	**$ 429,025**
Total Liabilities and Net Position	**$ 917,652**	**$ 909,826**

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

U.S. Department of Justice
United States Marshals Service
Consolidated Statements of Net Cost
For the Fiscal Years Ended September 30, 2013 and 2012

Dollars in Thousands

	FY	Gross Costs: Intra-governmental	Gross Costs: With the Public	Gross Costs: Total	Less: Earned Revenues: Intra-governmental	Less: Earned Revenues: With the Public	Less: Earned Revenues: Total	Net Cost of Operations (Note 12)
Goal 1:	**2013**	$ 37,872	$ 42,396	$ 80,268	$ -	$ -	$ -	$ 80,268
	2012	4,794	-	4,794	-	-	-	4,794
Goal 2:	**2013**	79,516	164,286	243,802	-	-	-	243,802
	2012	32,637	-	32,637	-	-	-	32,637
Goal 3:	**2013**	492,089	2,350,380	2,842,469	52,811	4,941	57,752	2,784,717
	2012	544,969	2,609,317	3,154,286	1,537,097	6,548	1,543,645	1,610,641
Total	**2013**	**$ 609,477**	**$ 2,557,062**	**$ 3,166,539**	**$ 52,811**	**$ 4,941**	**$ 57,752**	**$ 3,108,787**
	2012	**$ 582,400**	**$ 2,609,317**	**$ 3,191,717**	**$ 1,537,097**	**$ 6,548**	**$ 1,543,645**	**$ 1,648,072**

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

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

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

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

Consolidated Statements of Changes in Net Position
For the Fiscal Years Ended September 30, 2013 and 2012

Dollars in Thousands	2013	2012
Unexpended Appropriations		
Beginning Balances	**$ 259,570**	**$ 257,093**
Budgetary Financing Sources		
Appropriations Received	2,853,383	1,189,000
Appropriations Transferred-In/Out	436,713	416,211
Other Adjustments	(197,806)	(2,200)
Appropriations Used	(3,052,561)	(1,600,534)
Total Budgetary Financing Sources	**39,729**	**2,477**
Unexpended Appropriations	**$ 299,299**	**$ 259,570**
Cumulative Results of Operations		
Beginning Balances	**$ 169,455**	**$ 165,165**
Budgetary Financing Sources		
Appropriations Used	3,052,561	1,600,534
Other Financing Sources		
Transfers-In/Out Without Reimbursement	1,670	58
Imputed Financing from Costs Absorbed by Others (Note 13)	41,674	51,770
Total Financing Sources	**3,095,905**	**1,652,362**
Net Cost of Operations	**(3,108,787)**	**(1,648,072)**
Net Change	(12,882)	4,290
Cumulative Results of Operations	**$ 156,573**	**$ 169,455**
Net Position	**$ 455,872**	**$ 429,025**

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

U.S. Department of Justice
United States Marshals Service
Combined Statements of Budgetary Resources
For the Fiscal Years Ended September 30, 2013 and 2012

Dollars in Thousands	2013	2012
Budgetary Resources:		
Unobligated Balance, Brought Forward, October 1	$ 101,959	$ 90,397
Recoveries of Prior Year Unpaid Obligations	42,537	54,620
Other Changes in Unobligated Balance	46,940	(7,632)
Unobligated Balance from Prior Year Budget Authority, Net	191,436	137,385
Appropriations (discretionary and mandatory)	3,045,350	1,610,644
Spending Authority from Offsetting Collections (discretionary and mandatory)	86,010	1,538,614
Total Budgetary Resources	**$ 3,322,796**	**$ 3,286,643**
Status of Budgetary Resources:		
Obligations Incurred (Note 14)	$ 3,166,404	$ 3,184,684
Unobligated Balance, End of Period:		
Apportioned	126,660	61,752
Unapportioned	29,732	40,207
Total Unobligated Balance - End of Period	156,392	101,959
Total Status of Budgetary Resources:	**$ 3,322,796**	**$ 3,286,643**
Change in Obligated Balance:		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1	$ 537,767	$ 648,610
Obligations Incurred	3,166,404	3,184,684
Outlays, Gross (-)	(3,202,913)	(3,240,907)
Recoveries of Prior Year Unpaid Obligations (-)	(42,537)	(54,620)
Unpaid Obligations, End of Period	458,721	537,767
Uncollected Payments:		
Uncollected Payments from Federal Sources, Brought Forward, October 1 (-)	(160,071)	(188,832)
Change in Uncollected Customer Payments from Federal Sources	140,402	28,761
Uncollected Customer Payments from Federal Sources	(19,669)	(160,071)
Memorandum (non-add) Entries:		
Obligated balance, Start of Period	$ 377,696	$ 459,778
Obligated balance, End of Period	$ 439,052	$ 377,696
Budgetary Authority and Outlays, Net:		
Budgetary Authority, Gross (discretionary and mandatory)	3,131,360	3,149,258
Less: Actual Offsetting Collections (discretionary and mandatory)	226,412	1,567,371
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	140,402	28,761
Budget Authority, Net (discretionary and mandatory)	**$ 3,045,350**	**$ 1,610,648**
Outlays, Gross (discretionary and mandatory)	$ 3,202,913	$ 3,240,907
Less: Actual Offsetting Collections (discretionary and mandatory)	226,412	1,567,371
Outlays, Net (discretionary and mandatory)	2,976,501	1,673,536
Agency Outlays, Net (discretionary and mandatory)	**$ 2,976,501**	**$ 1,673,536**

United States Marshals Service

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

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The United States Marshals Service (USMS) is an entity of the Department of Justice (DOJ) and functions to facilitate the following DOJ strategic goals as presented in the DOJ Strategic Plan:

Goal I: "Prevent Terrorism and Promote the Nation's Security Consistent with the Rule of Law"

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

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

The financial statements of the USMS have been prepared to reflect the activity of these core functions from operations in all 94 Districts and Headquarters. The FY 2013 President's Budget merged the Office of Federal Detention Trustee (OFDT) into the USMS organizational structure. USMS designated OFDT to be aligned under the USMS's Prisoner Operations Division (POD) to better align detention resources with existing operations.

The USMS receives funding needed to support its programs through Congressional appropriations. Both annual and multi-year appropriations are used, within statutory limits, for operating and capital expenditures. The USMS appropriations include Salaries and Expenses, Construction, and Federal Prisoner Detention (FPD). The USMS also receives an appropriation transfer from the Administrative Office of the U.S. Courts (AOUSC) for court security. The USMS also has a Revolving Fund called the Justice Prisoner and Alien Transportation System (JPATS).

B. Basis of Presentation

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

Note 1. Summary of Significant Accounting Policies (continued)

C. Basis of Consolidation

The consolidated/combined financial statements include the accounts of the USMS. All significant proprietary intra-entity transactions and balances have been eliminated in consolidation. The Statements of Budgetary Resources are combined statements for the fiscal years ended September 30, 2013 and 2012, and as such, intra-entity transactions have not been eliminated.

D. Basis of Accounting

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

E. Non-Entity Assets

Non-entity assets are comprised of deposit funds, which temporarily hold receipts for service of process fees and seized assets of pending civil cases.

F. Fund Balance with U.S. Treasury

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

G. Accounts Receivable

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

H. Inventory and Related Property

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

Dollars in Thousands, Except as Noted

Note 1. Summary of Significant Accounting Policies (continued)

I. General Property, Plant, and Equipment

DOJ Financial Management Policy Memorandum (FMPM) 13-12, *Capitalization of General Property, Plant, and Equipment, and Internal Use Software*, was issued in fiscal year (FY) 2013 with an effective date for reporting periods ending after September 30, 2014. Early implementation of the policy's increased capitalization thresholds was encouraged beginning October 1, 2012. The USMS implemented the increased Internal Use Software capitalization threshold in FY 2013. For financial statement purposes, the primary changes relate to the capitalization thresholds for Internal Use Software which results in no change to the overall PP&E balance as software on hand will not meet the FY 2013 reporting threshold of $5 million.

Below are the capitalization thresholds:

Type of Property	FY 2013 Thresholds	FY 2012 Thresholds
Real Property	$100	$100
Personal Property	$25	$25
Aircraft	$100	$100
Internal Use Software	$5,000	$500

Except for land, all general PP&E will be capitalized when the cost of acquiring or improving the property meets the thresholds noted in the table above. Land is capitalized regardless of the acquisition cost. Except for land, all general PP&E is depreciated or amortized, based on historical cost, using the straight-line method over the estimated useful life of the asset, which range from 2 to 25 years. Land is never depreciated. Other equipment is expensed when purchased or included in inventory if used for the repair of airplanes. Normal repairs and maintenance are expensed as incurred.

J. Advances and Prepayments

Advances and Prepayments consist of intragovernmental advances provided to Federal Prison Industries, Inc., for the equipping of vehicles and equipment, and the Federal Aviation Administration for aircraft maintenance. Advances provided to the Public include travel advances issued to Federal employees for relocation travel costs.

K. Liabilities

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

Note 1. Summary of Significant Accounting Policies (continued)

The USMS maintains liabilities with the Public for deposit funds, which temporarily hold receipts for service of process fees and seized assets of pending civil cases. These are included as a part of Other Liabilities with the Public on the Balance Sheet.

L. Contingencies and Commitments

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

M. Annual, Sick, and Other Leave

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

N. Interest on Late Payments

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

O. Retirement Plans

With few exceptions, employees hired before January 1, 1984 are covered by the Civil Service Retirement System (CSRS). Employees hired between January 1, 1984 through December 31, 2012 are covered by the Federal Employees Retirement System (FERS). Employees hired after January 1, 2013 are covered by the Federal Employees Retirement System-Revised Annuity Employees (FERS-RAE) System.

For employees covered by the CSRS, the USMS contributes 7.0 percent of the employee's gross pay for normal retirement or 7.5 percent for law enforcement retirement. For employees covered by the FERS, the USMS contributes 11.9 percent of the employee's gross pay for regular employees, and 26.3 percent of the employee's gross pay for law enforcement retirement. For employees covered by FERS-RAE, USMS contributes 9.6 percent of the employees gross pay for regular and 24.0 percent for law enforcement officers’ retirement. All employees are eligible to contribute to the Federal Thrift Savings Plan (TSP).

Note 1. Summary of Significant Accounting Policies (continued)

For those employees covered by the FERS and FERS-RAE, a TSP account is automatically established, and the USMS is required to contribute an additional 1.0 percent of gross pay to this account and match employee contributions up to an additional 4.0 percent of gross pay. No government contributions are made to the TSP accounts established by the CSRS employees. The USMS does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, which may be applicable to its employees. Such reporting is the responsibility of the Office of Personnel Management (OPM). Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, requires employing agencies to recognize the cost of pensions and other retirement benefits during their employees' active years of service. Refer to Note 13, Imputed Financing from Costs Absorbed by Others, for additional details.

P. Federal Employee Compensation Benefits

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

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

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

Accrued Liability: The accrued FECA liability owed to the DOL is the difference between the FECA benefits paid by the FECA SBF and the agency's actual cash payments to the FECA SBF.

Note 1. Summary of Significant Accounting Policies (continued)

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

Q. Intragovernmental Activity

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

R. Revenues and Other Financing Sources

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

S. Funds from Dedicated Collections

Statement of Federal Financial Accounting Standards (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds,* as amended by SFFAS No. 43 *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*, defines funds from dedicated collections' as being financed by specifically identified revenues, provided to the Government by non-Federal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the Government's general revenues. The three required criteria for a fund from dedicated collections are:

1. A statute committing the Federal Government to use specifically identified revenues and/or other financing sources that are originally provided to the Federal Government by a non-Federal source only for designated activities, benefits or purposes;

Note 1. Summary of Significant Accounting Policies (continued)

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

The USMS does not currently have funds that meet the definition of funds from dedicated collections.

T. Allocation Transfer of Appropriations

The USMS is a party to allocation transfers with another Federal agency as a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. An exception to this general rule affecting the USMS includes the Funds transferred from the Judicial Branch to the USMS for court security costs. Per OMB guidance, the USMS will report all activity relative to these allocation transfers in the USMS financial statements.

The USMS uses these allocation transfers to pay for costs associated with the protective guard services – Court Security Officers at United States courthouses and other facilities housing Federal court operations. These costs include their salaries (paid by contracts), equipment, and supplies. The allocation transfers occur periodically throughout the FY.

U. Tax Exempt Status

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

V. Use of Estimates

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

Dollars in Thousands, Except as Noted

Note 1. Summary of Significant Accounting Policies (continued)

W. Reclassifications

The FY 2012 financial statements were reclassified to conform to the FY 2013 Departmental financial statement presentation requirements. Changes to the presentation of the Combined and Combining Statements of Budgetary Resources were made, in accordance with guidance provided in OMB Circular A-136, *Financial Reporting Requirements* and as such, activity and balances reported on the FY 2012 Combined and Combining Statements of Budgetary Resources have been reclassified to conform to the presentation in the current year.

X. Subsequent Events

Subsequent events and transactions occurring after September 30, 2013 through the date of the auditors' opinion have been evaluated for potential recognition or disclosure in the financial statements. The date of the auditors' opinion also represents the date that the financial statements were available to be issued.

Note 2. Non-Entity Assets

As of September 30, 2013 and 2012	2013	2012
Intragovernmental		
Fund Balance with U.S. Treasury	$ 15,497	$ 8,531
Total Non-Entity Assets	15,497	8,531
Total Entity Assets	902,155	901,295
Total Assets	$ 917,652	$ 909,826

Dollars in Thousands, Except as Noted

Note 3. Fund Balance with U.S. Treasury

As of September 30, 2013 and 2012	2013	2012
Fund Balances		
Revolving Funds	$ 28,261	$ 36,488
General Funds	567,183	443,167
Other Fund Types	15,502	8,531
Total Fund Balances with U.S. Treasury	$ 610,946	$ 488,186
Status of Fund Balances		
Unobligated Balance - Available	$ 126,660	$ 61,752
Unobligated Balance - Unavailable	29,732	40,207
Obligated Balance not yet Disbursed	439,052	377,696
Other Funds (With)/Without Budgetary Resources	15,502	8,531
Total Status of Fund Balances	$ 610,946	$ 488,186

Other Fund Types and Other Funds (With)/Without Budgetary Resources include non-entity assets. Non-entity assets are comprised of deposit funds, which temporarily hold receipts for service of process fees and seized assets of pending civil cases. It also includes a rescission of prior year funding.

Dollars in Thousands, Except as Noted

Note 4. Accounts Receivable

As of September 30, 2013 and 2012	2013	2012
Intragovernmental		
Accounts Receivable	$ 15,992	$ 145,641
Total Intragovernmental	15,992	145,641
With the Public		
Accounts Receivable	130	29
Total Accounts Receivable	$ 16,122	$ 145,670

Note 5. Inventory and Related Property

As of September 30, 2013 and 2012	2013	2012
Inventory:		
Operating Materials and Supplies		
Held for Current Use	$ 2,860	$ 2,742

Dollars in Thousands, Except as Noted

Note 6. General Property, Plant and Equipment, Net

Based upon early implementation of DOJ Financial Management Policy Memorandum (FMPM) 13-12, *Capitalization of General Property, Plant, and Equipment and Internal Use Software*, the USMS has been following the capitalization thresholds in accordance with (FMPM) 13-12 as described in Note 1I.

As of September 30, 2013

	Acquisition Cost	Accumulated Depreciation	Net Book Value	Useful Life
Construction in Progress	$ 42,229	$ -	$ 42,229	N/A
Buildings, Improvements, and Renovations	-	-	-	12 years
Aircraft	39,609	(14,760)	24,849	7-25 years
Vehicles	35,282	(24,003)	11,279	5-10 years
Equipment	51,876	(33,101)	18,775	5-15 years
Leasehold Improvements	481,165	(296,809)	184,356	12 years
Total	$ 650,161	$ (368,673)	$ 281,488	

During the fiscal year ended September 30, 2013, the USMS purchased $21,680 in capitalized property from Federal Sources and $35,102 from the Public.

As of September 30, 2012

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

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

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

Dollars in Thousands, Except as Noted

Note 7. Other Assets

As of September 30, 2013 and 2012	2013	2012
Intragovernmental		
Advances and Prepayments	$ 6,052	$ 7,093
Other Assets With the Public	184	184
Total Other Assets	$ 6,236	$ 7,277

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

Note 8. Liabilities not Covered by Budgetary Resources

As of September 30, 2013 and 2012	2013	2012
Intragovernmental		
Accrued FECA Liabilities	$ 17,207	$ 16,753
Other Unfunded Employment Related Liabilities	30	88
Total Intragovernmental	17,237	16,841
With the Public		
Actuarial FECA Liabilities	103,024	93,617
Accrued Annual and Compensatory Leave Liabilities	42,572	43,258
Total With the Public	145,596	136,875
Total Liabilities not Covered by Budgetary Resources	162,833	153,716
Total Liabilities Covered by Budgetary Resources	298,947	327,085
Total Liabilities	$ 461,780	$ 480,801

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

Dollars in Thousands, Except as Noted

Note 9. Leases

The majority of office space occupied by the USMS is either owned by the Federal Government or is leased by GSA from commercial sources. The rental cost is based on the square footage occupied at the commercial rate per square foot which is negotiated by GSA along with appropriate GSA fees. USMS is not committed to continue paying rent to GSA beyond the period occupied, provided that proper advance notice to GSA is made and unless the space occupied is designated as unique to USMS operations. However, it is expected USMS will continue to occupy and lease office space from GSA in future years, and lease charges will be adjusted annually to reflect operating costs incurred by GSA. As of September 30, 2013, estimated future minimum lease payments due under noncancelable operating leases are as follows:

Future Noncancelable Operating Lease Payments

Fiscal Year	Land and Buildings
2014	$ 38,190
2015	35,134
2016	33,893
2017	31,712
2018	30,254
After 2018	231,301
Total Future Noncancelable Operating Lease Payments	$ 400,484

Dollars in Thousands, Except as Noted

Note 10. Other Liabilities

As of September 30, 2013 and 2012	2013	2012
Intragovernmental		
Employer Contributions and Payroll Taxes Payable	$ 4,641	$ 12,261
Other Post-Employment Benefits Due and Payable	16	90
Other Unfunded Employment Related Liabilities	30	88
Total Intragovernmental	4,687	12,439
With the Public		
Liability for Nonfiduciary Deposit Funds and Undeposited Collections	15,440	8,532
Total Other Liabilities	$ 20,127	$ 20,971

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

Note 11. Contingencies and Commitments

Contingencies include various administrative proceedings, legal actions, and claims related to contract disputes and employee and prisoner claims; see Note 1.L for more details. The USMS does not currently have pending legal actions where management and the Chief Counsel consider adverse decisions “probable” or “reasonably possible” and the amounts are reasonably estimable.

Dollars in Thousands, Except as Noted

Note 12. Net Cost of Operations by Suborganization

For the Fiscal Years Ended September 30, 2013

	Suborganizations					
	Justice Prisoner and Alien Transportation System	Court Security	Federal Prisoner Detention	All Other Funds	Eliminations	Consolidated
Goal 1: Prevent Terrorism and Promote the Nation's Security Consistent with the Rule of Law						
Gross Cost	$ -	$ -	$ -	$ 80,269	$ -	$ 80,269
Net Cost of Operations	-	-	-	80,269	-	80,269
Goal 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law						
Gross Cost	-	-	-	243,802	-	243,802
Net Cost of Operations	-	-	-	243,802	-	243,802
Goal 3: Ensure and Support the Fair, Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels						
Gross Cost	54,843	402,176	1,472,674	944,470	(31,695)	2,842,468
Less: Earned Revenue	47,627	-	-	41,820	(31,695)	57,752
Net Cost of Operations	7,216	402,176	1,472,674	902,650	-	2,784,716
Net Cost of Operations	$ 7,216	$ 402,176	$ 1,472,674	$ 1,226,721	$ -	$ 3,108,787

For the Fiscal Years Ended September 30, 2012

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

Note 13. Imputed Financing from Costs Absorbed by Others

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

SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, requires that employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS No. 5 requires OPM to provide cost factors necessary to calculate cost. OPM actuaries calculate the value of pension benefits expected to be paid in the future, and then determine the total funds to be contributed by and for covered employees, such that the amount calculated would be sufficient to fund the projected pension benefits. For employees covered by CSRS, the cost factors are 32.3 percent of basic pay for regular, 54.9 percent law enforcement officers, 24.6 percent regular offset, and 48.1 percent law enforcements offset. For employees covered by FERS, the cost factors are 14.2 percent of basic pay for regular and 30.7 percent for law enforcement officers. For employees covered by FERS-RAE, the cost factors are 14.2 percent of basic pay for regular and 30.7 percent for law enforcement officers.

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

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

Dollars in Thousands, Except as Noted

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

For the Fiscal Years Ended September 30, 2013 and 2012	2013	2012
Imputed Inter-Departmental Financing		
Treasury Judgment Fund	$ 596	$ 7,496
Health Insurance	25,504	28,979
Life Insurance	109	106
Pension	15,465	15,189
Total Imputed Inter-Departmental	$ 41,674	$ 51,770

Note 14. Information Related to the Statement of Budgetary Resources

Apportionment Categories of Obligations Incurred:

	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
For the Fiscal Years Ended September 30, 2013			
Obligations Apportioned Under			
Category A	$ 3,055,276	$ 110,955	$ 3,166,231
Category B	173	-	173
Exempt from Apportionment			
Total	$ 3,055,449	$ 110,955	$ 3,166,404
For the Fiscal Years Ended September 30, 2012			
Obligations Apportioned Under			
Category A	$ 1,693,498	$ 1,490,564	$ 3,184,062
Category B	622	-	622
Total	$ 1,694,120	$ 1,490,564	$ 3,184,684

The apportionment categories are determined in accordance with the guidance provided in Part 4 "Instructions on Budget Execution" of OMB Circular A-11, *Preparation, Submission and Execution of the Budget*. Category A represents resources apportioned for calendar quarters. Category B represents resources apportioned for other time periods; for activities, projects, and objectives or for combination thereof.

Dollars in Thousands, Except as Noted

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

Undelivered Orders (UDO) represent the amount of goods and/or services ordered, which have not been actually or constructively received. This amount includes any orders which may have been prepaid or advanced but for which delivery or performance has not yet occurred. Pursuant to Public Law 113-6, the enacted budget for FY 2013 included a change in the source of budgetary authority for the FPD from OFDT. This shift moved the reimbursable authority previously under the Department of Justice Offices, Boards, and Divisions (OBDs) to the FPD under USMS as a direct appropriated source of funding.

Status of Undelivered Orders:

As of September 30, 2013 and 2012	2013	2012
UDO Obligations Unpaid	$ 182,187	$ 219,158
UDO Obligations Prepaid/Advanced	6,052	7,140
Total UDO	$ 188,239	$ 226,298

Legal Arrangements Affecting Use of Unobligated Balances:

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

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

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

The reconciliation as of September 30, 2013 is not presented, because the submission of the Budget of the United States Government (Budget) for FY 2015, which presents the execution of the FY 2013 Budget, occurs after publication of these financial statements. The Department of Justice Budget Appendix can be found on the OMB website (http://www.whitehouse.gov/omb/budget) and will be available in early February 2014.

For the Fiscal Year Ended September 30, 2012: (Dollars in Millions)	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources (SBR)	$ 3,287	$ 3,185	$ -	$ 1,674
Funds not Reported in the Budget			-	
Expired Funds	(47)	(15)	-	-
USMS Court Security Funds	(438)	(425)	-	(426)
Budget of the United States Government	$ 2,802	$ 2,745	$ -	$ 1,248

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

Dollars in Thousands, Except as Noted

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

For the Fiscal Years Ended September 30, 2013 and 2012	2013	2012
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$ 3,166,404	$ 3,184,684
Less: Spending Authority from Offsetting Collections and Recoveries	128,547	1,593,234
Obligations Net of Offsetting Collections and Recoveries	3,037,857	1,591,450
Net Obligations	3,037,857	1,591,450
Other Resources		
Transfers In/Out Without Reimbursement	1,670	58
Imputed Financing from Costs Absorbed by Others (Note 13)	41,674	51,770
Net Other Resources Used to Finance Activities	43,344	51,828
Total Resources Used to Finance Activities	3,081,201	1,643,278
Resources Used to Finance Items not Part of the Net Cost of Operations		
Net Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not Yet Provided	27,307	(1,092)
Resources That Fund Expenses Recognized in Prior Periods (Note 16)	(744)	(682)
Resources That Finance the Acquisition of Assets	(56,900)	(40,679)
Other Resources or Adjustments to Net Obligated Resources That do not Affect Net Cost of Operations	1,670	-
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(28,667)	(42,453)
Total Resources Used to Finance the Net Cost of Operations	$ 3,052,534	$ 1,600,825
Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period		
Components That Will Require or Generate Resources in Future Periods (Note 16)	$ 9,760	$ 8,110
Depreciation and Amortization	40,793	39,543
Revaluation of Assets or Liabilities	238	855
Other	5,462	(1,261)
Total Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period	56,253	47,247
Net Cost of Operations	$ 3,108,787	$ 1,648,072

Dollars in Thousands, Except as Noted

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

Liabilities that are not covered by realized budgetary resources and for which there is no certainty that budgetary authority will be realized, such as the enactment of an appropriation, are considered liabilities not covered by budgetary resources. These liabilities totaling $162,833 and $153,716 on September 30, 2013 and 2012, respectively, are discussed in Note 8, Liabilities not Covered by Budgetary Resources. Decreases in these liabilities result from current year budgetary resources that were used to fund expenses recognized in prior periods. Increases in these liabilities represent unfunded expenses that were recognized in the current period. These increases along with the change in the portion of exchange revenue receivables from the Public, which are not considered budgetary resources until collected, represent components of current period net cost of operations that will require or generate budgetary resources in future periods. The changes in liabilities not covered by budgetary resources and receivables generating resources in future periods are comprised of the following:

For the Fiscal Years Ended September 30, 2013 and 2012	2013	2012
Resources that Fund Expenses Recognized in Prior Periods		
Decrease in Accrued Annual and Compensatory Leave Liabilities	$ (686)	$ (682)
Other		
Decrease in Other Unfunded Employment Related Liabilities	(58)	-
Total Other	(58)	-
Total Resources that Fund Expenses Recognized in Prior Periods	$ (744)	$ (682)
Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods		
(Increase)/Decrease in Exchange Revenue Receivable from the Public	$ (101)	$ 6
Other		
Increase in Actuarial FECA Liabilities	9,407	7,252
Increase in Accrued FECA Liabilities	454	841
Increase in Other Unfunded Employment Related Liabilities	-	11
Total Other	9,861	8,104
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	$ 9,760	$ 8,110

Note 17. Change in Accounting Principle

Based upon early implementation of DOJ Financial Management Policy Memorandum (FMPM) 13-12, *Capitalization of General Property, Plant, and Equipment and Internal Use Software*, USMS revised its capitalization threshold for Internal Use Software. The primary impact of the policy was an increase in the thresholds for capitalizing and reporting Internal Use Software. The change in accounting principle did not cause a change to the overall PP&E balance. The USMS will implement the new thresholds for the remaining PP&E categories in FY 2014.

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U.S. DEPARTMENT OF JUSTICE

UNITED STATES MARSHALS SERVICE

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

U.S. Department of Justice
United States Marshals Service
Required Supplementary Information
Combining Statement of Budgetary Resources
Broken Down by Major Appropriation
For the Fiscal Year Ended September 30, 2013

Dollars in Thousands	Salaries & Expense	Court Security	Construction	Justice Prisoner and Alien Transportation System	Total 2013
Budgetary Resources:					
Unobligated Balance, Brought Forward, October 1	$ 46,637	$ 13,117	$ 930	$ 41,275	$ 101,959
Unobligated Balance, Brought Forward, October 1, as adjusted	46,637	13,117	930	41,275	101,959
Recoveries of Prior Year Unpaid Obligations	23,312	18,282	581	362	42,537
Other Changes in Unobligated Balance	65,346	(18,406)	-	-	46,940
Unobligated Balance from Prior Year Budget Authority, Net	135,295	12,993	1,511	41,637	191,436
Appropriations (discretionary and mandatory)	2,638,591	396,966	9,793	-	3,045,350
Spending Authority from Offsetting Collections (discretionary and mandatory)	36,367	638	514	48,491	86,010
Total Budgetary Resources	**$ 2,810,253**	**$ 410,597**	**$ 11,818**	**$ 90,128**	**$ 3,322,796**
Status of Budgetary Resources:					
Obligations Incurred (Note 14)	$ 2,680,404	$ 397,225	$ 10,995	$ 77,780	$ 3,166,404
Unobligated Balance, End of Period:					
Apportioned	110,394	3,606	312	12,348	126,660
Unapportioned	19,455	9,766	511	-	29,732
Total Unobligated Balance - End of Period	129,849	13,372	823	12,348	156,392
Total Status of Budgetary Resources:	**$ 2,810,253**	**$ 410,597**	**$ 11,818**	**$ 90,128**	**$ 3,322,796**
Change in Obligated Balance:					
Unpaid Obligations:					
Unpaid Obligations, Brought Forward, October 1	$ 378,099	$ 120,124	$ 35,346	$ 4,198	$ 537,767
Obligations Incurred	2,680,404	397,225	10,995	77,780	3,166,404
Outlays, Gross (-)	(2,716,580)	(414,400)	(8,458)	(63,475)	(3,202,913)
Recoveries of Prior Year Unpaid Obligations (-)	(23,312)	(18,282)	(581)	(362)	(42,537)
Unpaid Obligations, End of Period	318,611	84,667	37,302	18,141	458,721
Uncollected Payments:					
Uncollected Payments from Federal Sources, Brought Forward, October 1 (-)	(151,085)	-	-	(8,986)	(160,071)
Change in Uncollected Customer Payments from Federal Sources	133,648	-	-	6,754	140,402
Uncollected Customer Payments from Federal Sources	(17,437)	-	-	(2,232)	(19,669)
Memorandum (non-add) Entries:					
Obligated balance, Start of Period	$ 227,014	$ 120,124	$ 35,346	$ (4,788)	$ 377,696
Obligated balance, End of Period	$ 301,174	$ 84,667	$ 37,302	$ 15,909	$ 439,052
Budgetary Authority and Outlays, Net:					
Budgetary Authority, Gross (discretionary and mandatory)	2,674,958	397,604	10,307	48,491	3,131,360
Less: Actual Offsetting Collections (discretionary and mandatory)	170,015	638	514	55,245	226,412
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	133,648	-	-	6,754	140,402
Budget Authority, Net (discretionary and mandatory)	**$ 2,638,591**	**$ 396,966**	**$ 9,793**	**$ -**	**$ 3,045,350**
Outlays, Gross (discretionary and mandatory)	$ 2,716,580	$ 414,400	$ 8,458	$ 63,475	$ 3,202,913
Less: Actual Offsetting Collections (discretionary and mandatory)	170,015	638	514	55,245	226,412
Outlays, Net (discretionary and mandatory)	2,546,565	413,762	7,944	8,230	2,976,501
Agency Outlays, Net (discretionary and mandatory)	**$ 2,546,565**	**$ 413,762**	**$ 7,944**	**$ 8,230**	**$ 2,976,501**

U.S. Department of Justice
United States Marshals Service
Required Supplementary Information
Combining Statement of Budgetary Resources
Broken Down by Major Appropriation
For the Fiscal Year Ended September 30, 2012

Dollars in Thousands **2012**

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

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U.S. DEPARTMENT OF JUSTICE

UNITED STATES MARSHALS SERVICE

OTHER INFORMATION
(UNAUDITED)

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U.S. Department of Justice
United States Marshals Service
Combined Schedule of Spending
For the Fiscal Year Ended September 30, 2013

Dollars in Thousands		2013
What Money is Available to Spend?		
Total Resources	$	3,322,796
Less: Amount Available but Not Agreed to be Spent		126,660
Less: Amount Not Available to be Spent		29,732
Total Amounts Agreed to be Spent	**$**	**3,166,404**
How was the Money Spent?		
Personnel Compensation and Benefits		
1100 Personnel Compensation	$	499,395
1200 Personnel Benefits		238,596
Other Program Related Expenses		
2100 Travel & Transportation of Persons		14,242
2200 Transportation of Things		2,226
2300 Rent, Communications, and Utilities		245,027
2400 Printing and Reproduction		314
2500 Other Contractual Services		2,024,376
2600 Supplies and Materials		38,028
3100 Equipment		37,387
3200 Land and Structures		65,546
4200 Insurance Claims and Indeminities		1,267
Total Amounts Agreed to be Spent	**$**	**3,166,404**
Who did the Money go to?		
For Profit	$	1,427,877
Government		997,299
Employees		737,991
Other		3,237
Total Amounts Agreed to be Spent	**$**	**3,166,404**

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U.S. DEPARTMENT OF JUSTICE

UNITED STATES MARSHALS SERVICE

APPENDIX

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

The Office of the Inspector General (OIG) provided a draft of the *Independent Auditors' Report on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* to the United States Marshals Service (USMS). The USMS's response is incorporated in the *Independent Auditors' Report on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* of this final report. The following provides the report's recommendations, the status of the recommendations, the OIG analysis of the response, and a summary of actions necessary to close the report.

Recommendation:

1. **Utilize resources at Headquarters to provide assistance to the District Offices that have a history of untimely completion of the quarterly open obligation certification.**

   Resolved. The USMS concurred with the recommendation. The USMS stated in its response that some of the delays in completing the quarterly open obligation certifications were related to the implementation of a new financial system, and that the USMS will continue to analyze untimely submissions of the quarterly open obligation certifications for trends or other concerns, and provide assistance as necessary.

   This recommendation can be closed when subsequent annual financial statement audit testing verifies that the USMS District Offices have timely completed the quarterly open obligation certifications.

2. **Reinforce policies and procedures and provide training to individuals responsible for recording obligations, non-payroll expenses, accruals, and deobligations within the financial management systems.**

   Resolved. The USMS concurred with the recommendation. The USMS stated in its response that it will continue efforts to reinforce policies and procedures through training with the individuals responsible for financial management in the agency.

   This recommendation can be closed when subsequent annual financial statement audit testing verifies that obligations, non-payroll expenses, accruals, and deobligations are properly recorded within the financial management systems.

3. **Develop and implement policies around MIC (Itemized Receipt) accrual transactions that require management approval and require that Headquarters review significant obligations in order to prevent the District Offices and Program Offices from incorrectly recording the obligation, expense, and necessary accruals.**

   Resolved. The USMS concurred with the recommendation. The USMS stated in its response that it believes the findings specific to MIC accrual transactions were related to the implementation of a new financial management system, and that management will continue to review options for making improvements to the financial management process as well as communicating the importance of proper financial management to District and Program Offices.

   This recommendation can be closed when subsequent annual financial statement audit testing verifies that the USMS has developed and implemented policies around MIC (itemized receipt) accrual transactions that require management approval and require Headquarters to review significant obligations.

4. **Continue efforts to improve the reporting of funding balances at District Offices and Program Offices to enable District Offices and other decision makers to record expense, undelivered order, and accrual transactions in a timely and accurate manner.**

   Resolved. The USMS concurred with the recommendation. The USMS stated in its response that the USMS financial management will continue to improve the information available to District and Program Offices.

   This recommendation can be closed when subsequent annual financial statement audit testing verifies that the USMS has improved the reporting of funding balances at District Offices and Program Offices to enable District Offices and other decision makers to record expense, undelivered order, and accrual transactions in a timely and accurate manner.

5. **Develop and implement formal policies and procedures at an appropriate level of precision to prevent or detect and correct significant errors in financial reporting.**

   Resolved. The USMS concurred with the recommendation. The USMS stated in its response that additional oversight and edit checks will be put in place to ensure a higher level of precision related to financial reporting.

   This recommendation can be closed when subsequent annual financial statement audit testing verifies that the USMS has implemented policies and procedures at an appropriate level of precision to prevent or detect and correct significant errors in financial reporting.

6. Restrict users from being able to both prepare and review journal entries created in the general ledger.

Resolved. The USMS concurred with the recommendation.

This recommendation can be closed when subsequent annual financial statement audit testing verifies that the USMS has restricted users from being able to both prepare and review journal entries created in the general ledger.