



# **FEDERAL BUREAU OF INVESTIGATION ANNUAL FINANCIAL STATEMENTS FISCAL YEAR 2011**

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

Audit Report 12-16  
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# FEDERAL BUREAU OF INVESTIGATION ANNUAL FINANCIAL STATEMENTS FISCAL YEAR 2011

## OFFICE OF THE INSPECTOR GENERAL COMMENTARY AND SUMMARY

This audit report contains the Annual Financial Statements of the Federal Bureau of Investigation (FBI) for the fiscal years (FY) ended September 30, 2011, and September 30, 2010. Under the direction of the Office of the Inspector General (OIG), KPMG LLP performed FBI's audit in accordance with U.S. generally accepted government auditing standards. The audit resulted in an unqualified opinion on the FY 2011 financial statements. An unqualified opinion means that the financial statements present fairly, in all material respects, the financial position and the results of the entity's operations in conformity with U.S. generally accepted accounting principles. For FY 2010, the FBI also received an unqualified opinion on its financial statements (OIG Report No. 11-07).

KPMG LLP also issued reports on internal control over financial reporting and on compliance and other matters. The auditors did not identify any significant deficiencies in the FY 2011 *Independent Auditors' Report on Internal Control over Financial Reporting*. However, in the FY 2011 *Independent Auditors' Report on Compliance and Other Matters*, the auditors noted that FBI's financial management systems did not substantially comply with federal financial management system requirements and the application of the U.S. Government Standard General Ledger at the transaction level as required by the *Federal Financial Management Improvement Act of 1996 (FFMIA)*. This noncompliance with the FFMIA was also reported for FY 2010.

The OIG reviewed KPMG LLP's reports and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on FBI's financial statements, conclusions about the effectiveness of internal control, conclusions on whether FBI's financial management systems substantially complied with the FFMIA, or conclusions on compliance with laws and regulations. KPMG LLP is responsible for the attached auditors' reports dated November 4, 2011, and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with U.S. generally accepted government auditing standards.

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**FEDERAL BUREAU OF INVESTIGATION  
ANNUAL FINANCIAL STATEMENTS  
FISCAL YEAR 2011**

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# **U.S. DEPARTMENT OF JUSTICE**

## **FEDERAL BUREAU OF INVESTIGATION**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)



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## *Management's Discussion and Analysis*

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

#### **MISSION**

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

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

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

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

#### **ORGANIZATION STRUCTURE**

In addition to national headquarters (HQ or Headquarters) located in Washington, D.C., the FBI operates 56 field offices and approximately 380 resident agencies across the U.S. and its territories. Support offices are also located across the country: training centers, forensic laboratories, and engineering research facilities in Quantico, Virginia; operational support centers in Savannah, Georgia and Butte, Montana; a services center unit in Pocatello, Idaho; a records storage facility in Frederick County, Virginia; the Hazardous Devices School at Redstone Arsenal, Alabama; and a fingerprint identification and Criminal Justice Information Services center in Clarksburg, West Virginia.



## ***Management's Discussion and Analysis***

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Through its Legal Attaché Program, the FBI operates 63 offices (Legats) with 13 sub-offices in 67 countries. The FBI Legat coverage extends to over 200 countries, territories, and islands.

FBI Headquarters is organized into five main branches headed by Executive Assistant Directors, and several supporting divisions that are headed by Assistant Directors. Each of the FBI's 56 field offices are headed by a Special Agent in Charge (SAC), with the exception of the three largest offices - Los Angeles, New York, and Washington, D.C. - which are headed by an Assistant Director in Charge. SACs are assisted by two or more Assistant Special Agents in Charge, including one serving as the Intelligence Program Manager. As of September 30, 2011, the FBI employed 13,900 Special Agents and 21,676 professional support staff.

### **FINANCIAL STRUCTURE**

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

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

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

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

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

### **ANALYSIS OF FINANCIAL STATEMENTS**

The FBI's financial statements received an unqualified audit opinion for Fiscal Years (FYs) 2011 and 2010. These financial statements have been prepared from the accounting records of the FBI in conformity with U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board and presentation guidelines in the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*.

Total Assets reflect an overall increase of \$307.4 million or five percent, primarily due to an increase in General Property, Plant and Equipment (PP&E). The FBI recorded capital assets such as Internal-Use Software, Leasehold Improvements, and high performance aircraft, resulting in a \$360.9 million or 16 percent increase from last fiscal year.



## *Management's Discussion and Analysis*

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Total Liabilities increased \$20.7 million or one percent. There was an increase of \$67.1 million or 41 percent in the Intra-governmental Accounts Payable and a decrease of \$72.2 million or 15 percent in the non-federal Accounts Payable. The major driver for the Intra-governmental Accounts Payable increase was for Reimbursable Work Authorizations where the FBI enters into an agreement with the General Services Administration for contracted services to renovate or build work spaces for the FBI. The major drivers for the non-federal Accounts Payable decrease were: a reduction in accruals for information technology projects, a reduction in employee travel transfer vouchers outstanding, a more efficient process for paying invoices, and a more effective process for reviewing purchase orders.

Net Position increased \$286.6 million or six percent in FY 2011. Net Position represents the net investment of the U.S. government in the FBI, and is comprised of the Unexpended Appropriations and the Cumulative Results of Operations.

Unexpended Appropriations decreased by \$60.7 million or three percent. This decrease is largely attributable to a decrease in Appropriations Transferred-In/Out. The FBI incurred a net total of \$61.2 million appropriations transferred-out during FY 2011 and a net total of \$90.1 million appropriations transferred-in during FY 2010, related to major intra-governmental initiatives and programs.

Cumulative Results of Operations increased \$347.3 million or 14 percent. The Cumulative Results of Operations is adjusted annually by the results of operations and by other items. Increases (gains) occur when the results of operations show an excess of financing sources and gains over expenses, losses, and non-expenditure transfer-out. This increase is mainly attributable to the additions of capital assets in the PP&E category.

Total Budgetary Resources available for use in FY 2011 was \$10.3 billion, a decrease of \$89.8 million or less than one percent over last fiscal year. This total includes: Appropriations Received, Unobligated Balances Brought Forward, Recoveries of Prior Year Unpaid Obligations, Spending Authority from Offsetting Collections, Non-expenditure Transfers (net), and Permanently not Available funds.



*Management's Discussion and Analysis*

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

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

| Source  | FY 2011             | FY 2010             | Change%     |
|---|---------------------|---------------------|-------------|
| <b>Earned Revenue</b>                                   | \$ 1,277,122        | \$ 1,275,206        | 0%          |
| <b>Budgetary Financing Sources</b>                      |                     |                     |             |
| Appropriations Received                                 | 7,941,932           | 7,922,537           | 0%          |
| Appropriation Transferred-In/Out                        | (61,176)            | 90,116              | (168%)      |
| Other Adjustments and Other Budgetary Financing Sources | (15,884)            | (50,000)            | 68%         |
| <b>Other Financing Sources</b>                          |                     |                     |             |
| Transfers-In/Out Without Reimbursement                  | 74,270              | 69,206              | 7%          |
| Imputed Financing from Costs Absorbed by Others         | 305,129             | 354,864             | (14%)       |
| <b>Total</b>  | <b>\$ 9,521,393</b> | <b>\$ 9,661,929</b> | <b>(1%)</b> |

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

| Strategic Goal (SG)   | FY 2011             | FY 2010             | Change%   |
|---|---------------------|---------------------|-----------|
| <b>SG 1: Prevent Terrorism and Promote the Nation's Security</b>  |                     |                     |           |
| Gross Cost  | \$ 5,326,383        | \$ 5,185,327        |           |
| Less: Earned Revenue  | 463,936             | 507,996             |           |
| <i>Net Cost</i>   | 4,862,447           | 4,677,331           | 4%        |
| <b>SG 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People</b> |                     |                     |           |
| Gross Cost  | \$ 3,903,753        | \$ 3,846,770        |           |
| Less: Earned Revenue  | 813,186             | 767,210             |           |
| <i>Net Cost</i>   | 3,090,567           | 3,079,560           | 0%        |
| <b>Total Gross Cost</b>   | <b>9,230,136</b>    | <b>9,032,097</b>    |           |
| <b>Less: Total Earned Revenue</b>   | <b>1,277,122</b>    | <b>1,275,206</b>    |           |
| <b>Total Net Cost of Operations</b>   | <b>\$ 7,953,014</b> | <b>\$ 7,756,891</b> | <b>3%</b> |

**FY 2011 Financial Highlights**

**Strategic Goal 1, Prevent Terrorism and Promote the Nation's Security**, includes the FBI's CT/CI Program, Intelligence Program, Computer Intrusions Program, and Weapons of Mass Destruction (WMD) Program. In FY 2011, Goal 1 Net Cost was \$4.9 billion, a net increase of four percent from FY 2010. The increase is attributed to additional activity in Computer Intrusions, Counterterrorism, and WMD Response. This can also be attributed to an overall increase in national security investigative activity.

**Strategic Goal 2, Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People**, includes the majority of the FBI's criminal investigative programs and programs supporting state and local law enforcement. Investigations under Goal 2 include Organized Crime, Drugs, Violent Crime, White-Collar Crime, and Cyber Crime. The FBI investigates more than 200 categories of



## *Management's Discussion and Analysis*

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federal crimes, and monitors activities that threaten the safety of U.S. citizens. Support activities in this goal include training programs for state and local law enforcement agencies, forensic assistance, fingerprint and other identification tools, and statistical crime data. In FY 2011, Goal 2 Net Cost was \$3.1 billion, a net increase of less than one percent from FY 2010. The change is attributed to comparatively steady Goal 2 investigative activity.

### **PERFORMANCE INFORMATION**

#### **Data Reliability and Validity**

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

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

Performance measures included in previous FBI Management's Discussion and Analysis (MD&A) documents may have changed as a result of new information that was unavailable prior to submitting previous financial reports. Due to the requirement to disclose performance data in the MD&A before the close of the data entry period, reports of certain FY 2011 performance measures should be considered tentative and are annotated accordingly. Other subsequent changes to prior year data may have occurred due to factors beyond the control of the FBI's data collection systems (e.g., convictions overturned on appeal). For previously estimated measures, the FBI reviewed and revised selected FY 2010 performance data from the FY 2010 MD&A. The FBI's FY 2012 Authorization and Budget Request to Congress documented these revisions.



FY 2011 REPORT ON SELECTED ACCOMPLISHMENTS

STRATEGIC GOAL 1: Prevent Terrorism and Promote the Nation's Security 61 percent of the FBI's Net Cost supports this Goal.

PROGRAM: Counterterrorism

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

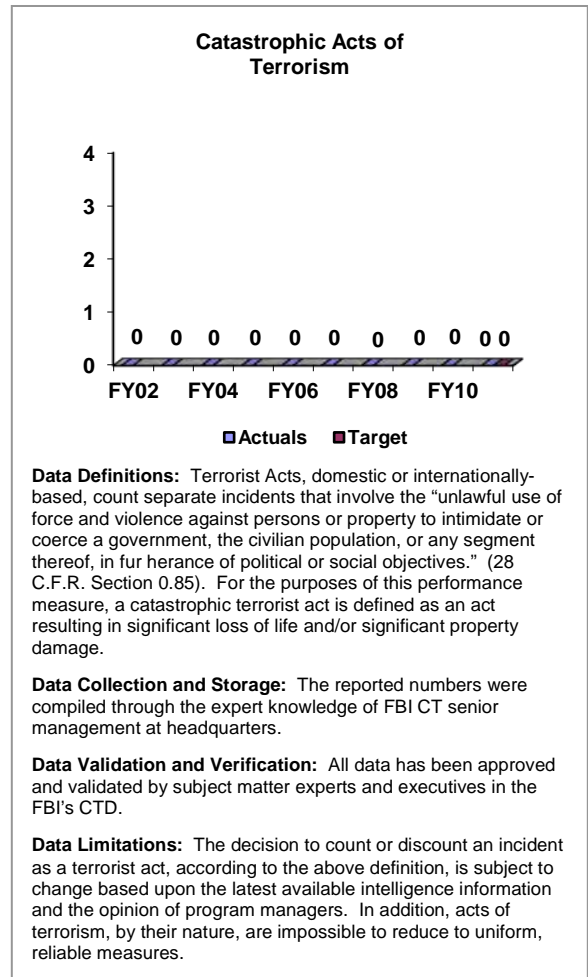
The FBI is dedicated to disrupting terrorist plots before they are executed.

Performance Measure: Catastrophic Acts of Terrorism

Note: A catastrophic terrorist act is defined as an act resulting in significant loss of life and/or significant property damage (e.g., each of the individual attacks that took place on September 11, 2001, the attack on the Alfred P. Murrah Federal Building in Oklahoma City on April 19, 1995).

- FY 2002 Actual Performance: 0
FY 2003 Actual Performance: 0
FY 2004 Actual Performance: 0
FY 2005 Actual Performance: 0
FY 2006 Actual Performance: 0
FY 2007 Actual Performance: 0
FY 2008 Actual Performance: 0
FY 2009 Actual Performance: 0
FY 2010 Actual Performance: 0
FY 2011 Target: 0
FY 2011 Actual Performance: 0

Discussion of FY 2011 Results: The FBI has achieved its target of zero catastrophic terrorist acts for this measure for FY 2011 and will continue its efforts to keep the American people safe from terrorism.





**STRATEGIC GOAL 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People** 39 percent of the FBI's Net Cost supports this Goal.

**PROGRAM: Criminal Enterprises**

**Background/Program Objectives:** The FBI's criminal enterprise investigations, managed by the Criminal Investigative Division at FBI Headquarters, focus on the following types of criminal enterprises.

Organized Criminal Enterprises

Investigative subprograms that focus on criminal enterprises involved in sustained racketeering activities and that are mainly comprised of ethnic groups with ties to Asia, Africa, the Middle East, and Europe are consolidated into the Organized Criminal Enterprise Program. Organized criminal enterprise investigations, through the use of the Racketeering Influenced and Corrupt Organization statute, target the entire entity responsible for the crime problem. With respect to groups involved in racketeering activities, the FBI focuses on: the Russian/Eastern European/Eurasian organized crime groups, Asian criminal enterprises, La Cosa Nostra and Italian organized crime groups, Balkan/Albanian organized crime groups, Middle Eastern criminal enterprises and African criminal enterprises. Each of these groups is engaged in myriad criminal activities.

**Performance Measure:** Organized Criminal Enterprises Dismantled

**FY 2002 Actual Performance:** 17

**FY 2003 Actual Performance:** 17

**FY 2004 Actual Performance:** 29

**FY 2005 Actual Performance:** 34

**FY 2006 Actual Performance:** 36

**FY 2007 Actual Performance:** 43

**FY 2008 Actual Performance:** 38

**FY 2009 Actual Performance:** 43

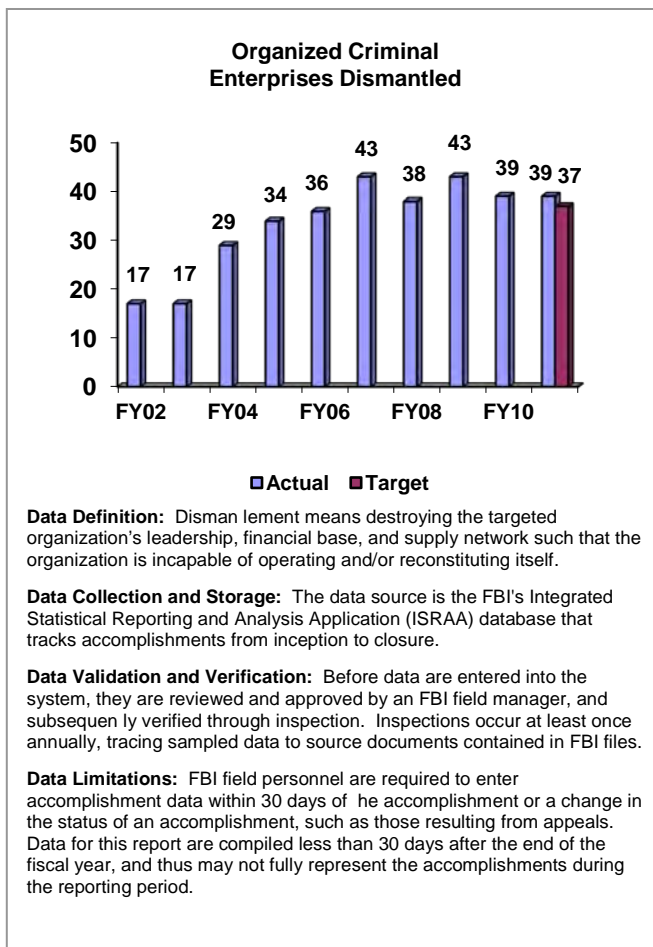
**FY 2010 Revised Performance:** 39

**FY 2011 Target:** 37

**FY 2011 Actual Performance:** 39

**Discussion of FY 2011 Results:** The FBI achieved its target for this measure in FY 2011.

The FBI's Transnational Organized Crime Program exceeded the target of 37 dismantlements through the refinement and capitalization of the advantages of intelligence driven investigations. In addition, the FBI increased coordination and intelligence sharing with domestic and international law enforcement and intelligence agencies. Several significant law enforcement actions during FY





## Management's Discussion and Analysis

2011 highlighted the effectiveness of these efforts, including the examples listed below.

An Armenian Thief-In-Law (TIL) was successfully prosecuted for racketeering for the first time in the United States. The Armenian TIL and 72 other members and associates of an Armenian-American organized crime group were indicted for activities related to more than \$163 million in fraudulent Medicare claims.

127 subjects were arrested for racketeering related crimes, including murder and extortion, resulting in the largest single day operation against La Cosa Nostra.

As stated in the data limitations, it should be noted that there is a potential lag in the reporting of the data for this measure, meaning that the final result may ultimately vary from this report. Final results will be reflected in the FY 2013 President's Budget.

### Gangs/Criminal Enterprises

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

#### **Performance Measure:** Gangs/Criminal Enterprises Dismantled

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

**FY 2002 Actual Performance:** 185

**FY 2003 Actual Performance:** 138

**FY 2004 Actual Performance:** 112

**FY 2005 Actual Performance:** 138

**FY 2006 Actual Performance:** 119

**FY 2007 Actual Performance:** 144

**FY 2008 Actual Performance:** 114

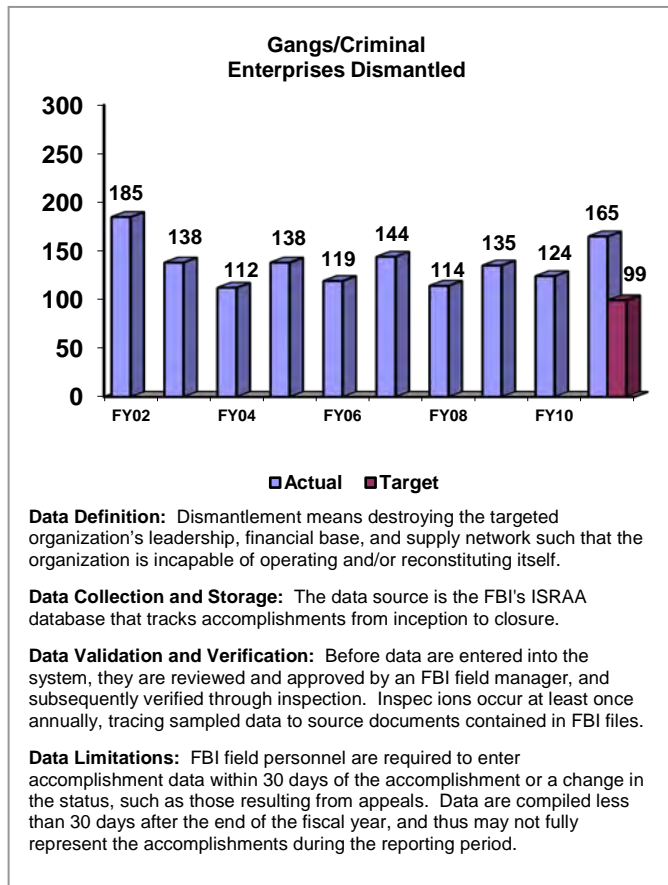
**FY 2009 Actual Performance:** 135

**FY 2010 Revised Performance:** 124

**FY 2011 Target:** 99

**FY 2011 Actual Performance:** 165

**Discussion of FY 2011 Results:** The FBI met and exceeded its target for this measure in FY 2011.







## *Management's Discussion and Analysis*

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In FY 2011, the FBI implemented a new Southwest Border Strategy that included the establishment of a Southwest Border Threat Section in the Criminal Investigative Division. The new section has allowed the FBI to allocate more resources on the threats along the Southwest Border, including numerous Mexican Criminal Enterprises.

The FBI is also a partner on the OCDETF Strike Forces. This partnership fosters the intelligence sharing and coordination necessary to achieve an intelligence-driven, multi-agency strategic enforcement approach to investigations. The OCDETF Executive Office has established co-located Strike Forces in 11 key cities around the country. These Strike Forces serve a dual purpose through aggressively targeting CPOT and high-level trafficking organizations and functioning as a central point of contact for OCDETF agents and prosecutors nationwide, by gathering intelligence and disseminating investigative leads throughout the country. The OCDETF Strike Forces synergize drug trafficking investigations by bringing together the resources and expertise of all of OCDETF's participating investigative agents and prosecutors. By coordinating these efforts, the participants eliminate superfluous efforts and save valuable resources.

As stated in the data limitations, it should be noted that there is a potential lag in the reporting of the data for this measure, meaning that the final result may ultimately vary from this report. Final results will be reflected in the FY 2013 President's Budget.

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

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

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



## Management's Discussion and Analysis

### Performance Measure: CPOT-linked DTOs Dismantled

|                                     |    |
|-------------------------------------|----|
| <b>*FY 2002 Actual Performance:</b> | 16 |
| <b>FY 2003 Actual Performance:</b>  | 15 |
| <b>FY 2004 Actual Performance:</b>  | 12 |
| <b>FY 2005 Actual Performance:</b>  | 18 |
| <b>FY 2006 Actual Performance:</b>  | 17 |
| <b>FY 2007 Actual Performance:</b>  | 15 |
| <b>FY 2008 Actual Performance:</b>  | 18 |
| <b>FY 2009 Actual Performance:</b>  | 20 |
| <b>FY 2010 Revised Performance:</b> | 12 |
| <b>FY 2011 Target:</b>              | 15 |
| <b>FY 2011 Actual Performance:</b>  | 22 |

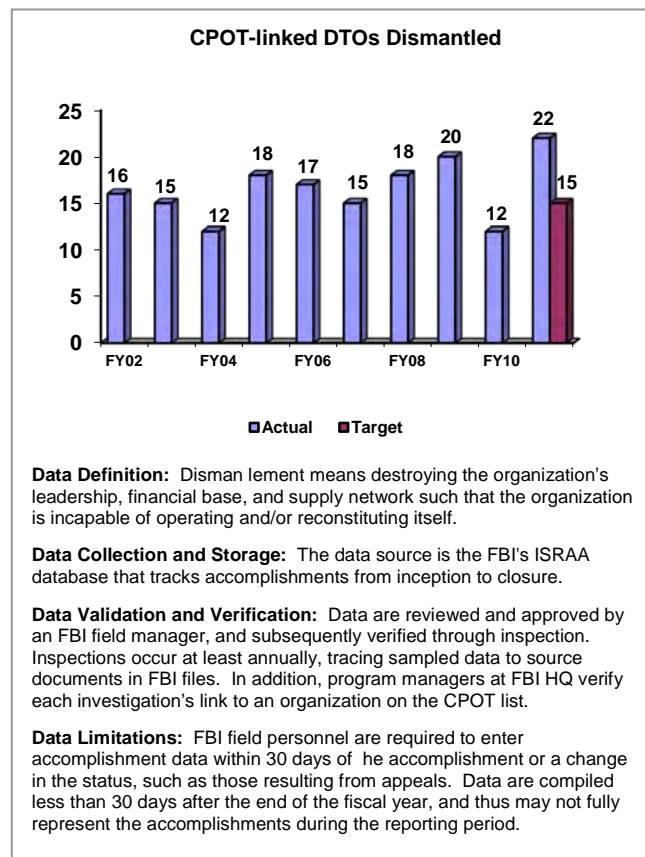
\* Note: The FBI tracked disruptions/dismantlements through its National Priority Target List before the CPOT list prioritized DOJ-wide drug efforts in FY 2003.

**Discussion of FY 2011 Results:** The FBI met and exceeded its target for this measure in FY 2011.

In FY 2011, the FBI implemented a new Southwest Border Strategy that included the establishment of a Southwest Border Threat Section in the Criminal Investigative Division. The new section has allowed the FBI to allocate more resources on the threats along the Southwest Border, including numerous Mexican Criminal Enterprises.

The FBI is also a partner on the OCDETF Strike Forces. This partnership fosters the intelligence sharing and coordination necessary to achieve an intelligence-driven, multi-agency strategic enforcement approach to investigations. The OCDETF Executive Office has established co-located Strike Forces in 11 key cities around the country. These Strike Forces serve a dual purpose through aggressively targeting CPOT and high-level trafficking organizations and functioning as a central point of contact for OCDETF agents and prosecutors nationwide, by gathering intelligence and disseminating investigative leads throughout the country. The OCDETF Strike Forces synergize drug trafficking investigations by bringing together the resources and expertise of all of OCDETF's participating investigative agents and prosecutors. By coordinating these efforts, the participants eliminate superfluous efforts and save valuable resources.

As stated in the data limitations, it should be noted that there is a potential lag in the reporting of the data for this measure, meaning that the final result may ultimately vary from this report. Final results will be reflected in the FY 2013 President's Budget.





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Performance Measure: CPOT-linked DTOs Disrupted

- \*FY 2002 Actual Performance: 30
FY 2003 Actual Performance: 41
FY 2004 Actual Performance: 27
FY 2005 Actual Performance: 25
FY 2006 Actual Performance: 36
FY 2007 Actual Performance: 45
FY 2008 Actual Performance: 50
FY 2009 Actual Performance: 35
FY 2010 Revised Performance: 40
FY 2011 Target: 30
FY 2011 Actual Performance: 50

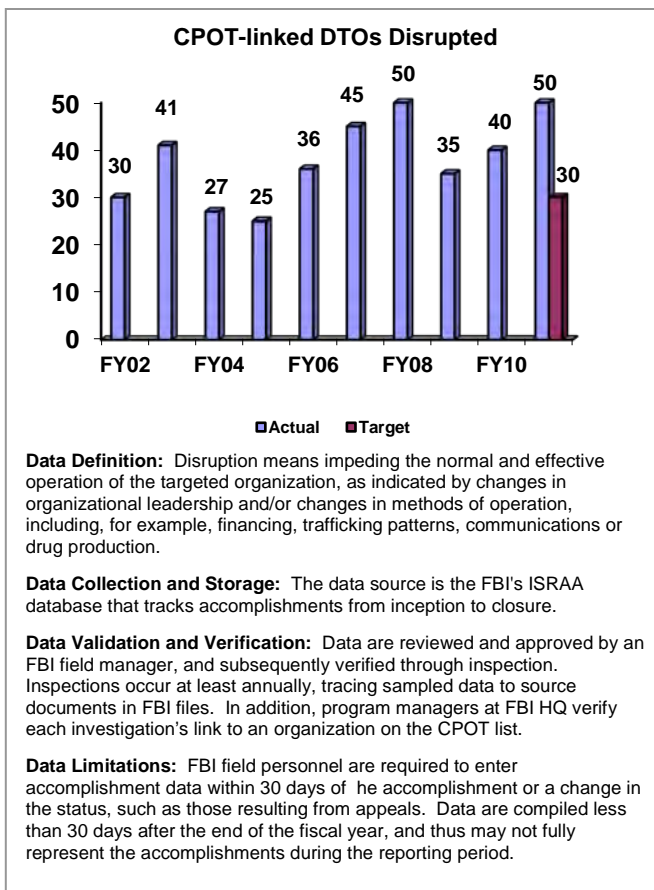
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As stated in the data limitations, it should be noted that there is a potential lag in the reporting of the data for this measure, meaning that the final result may ultimately vary from this report. Final results will be reflected in the FY 2013 President's Budget.





**PROGRAM: White-Collar Crime**

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

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

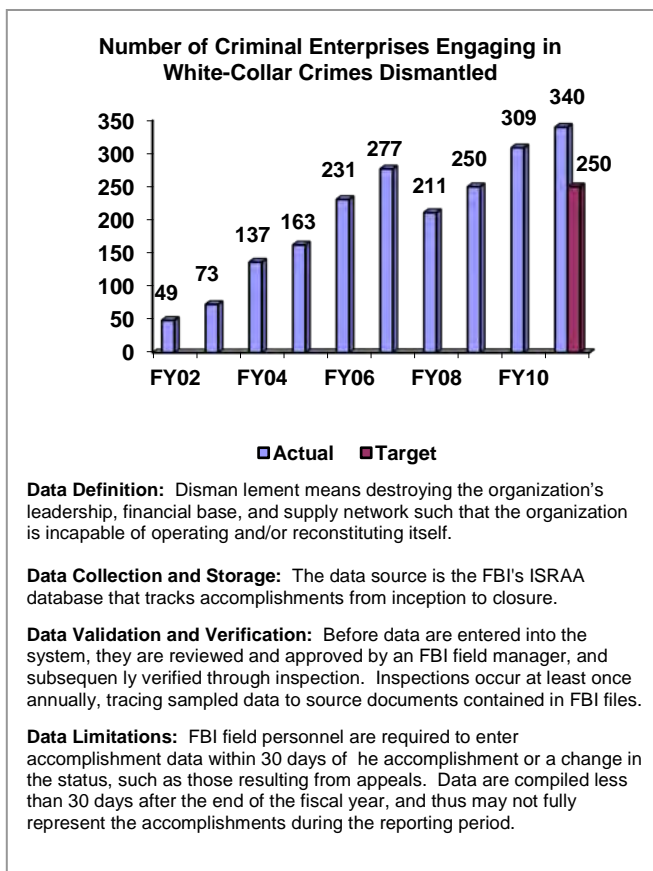
**Performance Measure:** Number of Criminal Enterprises Engaging in White-Collar Crimes Dismantled.

- FY 2002 Actual Performance:* 49
- FY 2003 Actual Performance:* 73
- FY 2004 Actual Performance:* 137
- FY 2005 Actual Performance:* 163
- FY 2006 Actual Performance:* 231
- FY 2007 Actual Performance:* 277
- FY 2008 Actual Performance:* 211
- FY 2009 Actual Performance:* 250
- FY 2010 Actual Performance:* 309
- FY 2011 Target:* 250
- FY 2011 Actual Performance:* 340

**Discussion of FY 2011 Results:** The FBI met and exceeded its target for this measure in FY 2011.

The FBI's success in meeting this target was largely due to an increase in the number of agents focusing on WCC. In addition, the FBI has developed efficiencies through proactive investigative techniques and technological advances used to address various WCC threats.

For example, in relation to Corporate and Securities Fraud, the utilization of Group I Undercover Operations increased from 8 to 11, an increase of 38 percent. These increases, along with advances in the utilization of Title IIIs and other advanced techniques not historically commonly utilized in WCC cases, resulted in significant progress against crime problems such as Insider Trading, as exemplified by the recent conviction and sentencing of Raj Rajaratnam, former founder of hedge fund Galleon Group.





## Management's Discussion and Analysis

In addition, in FY 2011, the FBI was successful at investigating Investment Fraud, as a strong emphasis was placed on this problem through the national "Operation Broken Trust" initiative organized by the Financial Fraud Enforcement Task Force. This initiative was the largest sweep pertaining to investment fraud in U.S. history. Due in part to this initiative and advances in proactive investigations, the FBI obtained the most convictions in the history of its Corporate and Securities Fraud programs.

As stated in the data limitations, it should be noted that there is a potential lag in the reporting of the data for this measure, meaning that the final result may ultimately vary from this report. Final results will be reflected in the FY 2013 President's Budget.

### PROGRAM: Innocent Images National Initiative

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

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

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

**FY 2002 Actual Performance:** Not Available

**FY 2003 Actual Performance:** Not Available

**FY 2004 Actual Performance:** Not Available

**FY 2005 Actual Performance:** Not Available

**FY 2006 Actual Performance:** 37

**FY 2007 Actual Performance:** 73

**FY 2008 Actual Performance:** 187

**FY 2009 Actual Performance:** 118

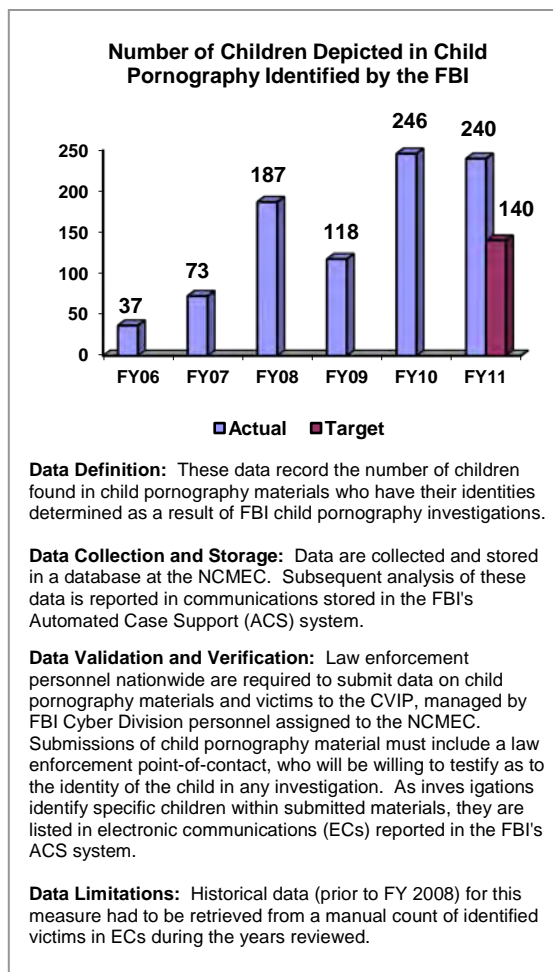
**FY 2010 Actual Performance:** 246

**FY 2011 Target:** 140

**FY 2011 Actual Performance:** 240

**Discussion of FY 2011 Results:** The FBI significantly surpassed its target for this measure.

The FBI continues its collaboration with the National Center for Missing & Exploited Children's (NCMEC) Child Victim Identification Program (CVIP), CyberTipline, the Innocent





## Management's Discussion and Analysis

Images International Task Force, the Endangered Child Alert Program, and other related efforts.

A major contributor to IINI's FY 2011 performance is IINI's presence at NCMEC. Currently, IINI details three employees to NCMEC. For example, an actionable lead relayed to the Jacksonville Field Office in late FY 2010 from a NCMEC CyberTipline Report has led to the identification of 44 child victims to date.

As stated in the data limitations, it should be noted that there is a potential lag in the reporting of the data for this measure, meaning that the final result may ultimately vary from this report. Final results will be reflected in the FY 2013 President's Budget.

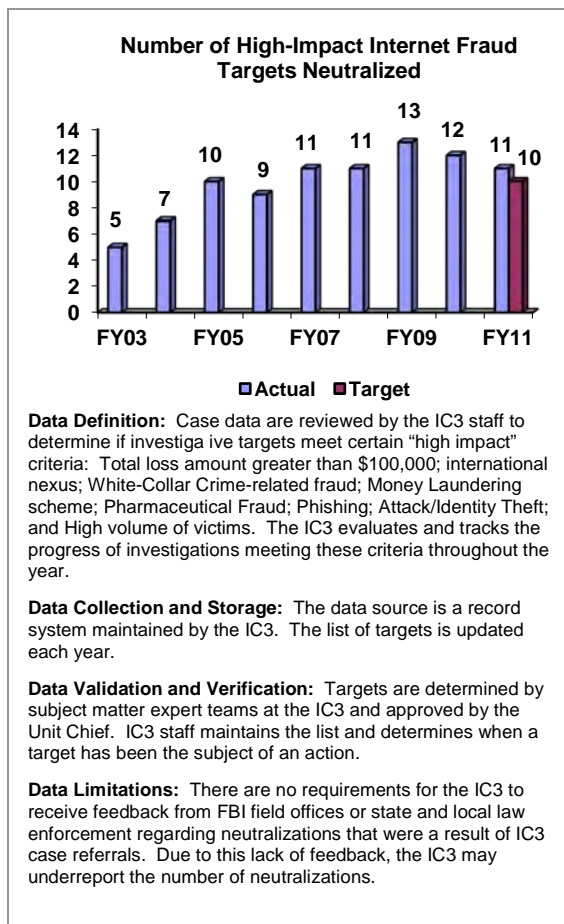
### PROGRAM: Internet Fraud

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

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

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

|                                    |               |
|------------------------------------|---------------|
| <b>FY 2002 Actual Performance:</b> | Not Available |
| <b>FY 2003 Actual Performance:</b> | 5             |
| <b>FY 2004 Actual Performance:</b> | 7             |
| <b>FY 2005 Actual Performance:</b> | 10            |
| <b>FY 2006 Actual Performance:</b> | 9             |
| <b>FY 2007 Actual Performance:</b> | 11            |
| <b>FY 2008 Actual Performance:</b> | 11            |
| <b>FY 2009 Actual Performance:</b> | 13            |
| <b>FY 2010 Actual Performance:</b> | 12            |
| <b>FY 2011 Target:</b>             | 10            |
| <b>FY 2011 Actual Performance:</b> | 11            |



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



## ***Management's Discussion and Analysis***

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**Discussion of FY 2011 Results:** The FBI's actual performance in FY 2011 fell slightly from prior years, but was still above the target.

### **ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE**

#### **Federal Managers' Financial Integrity Act of 1982**

The Federal Managers' Financial Integrity Act of 1982 (Integrity Act or 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 Integrity Act requires federal agencies to establish controls that reasonably ensure obligations and costs are in compliance with applicable law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to maintain accountability over the assets. The Integrity Act also requires agencies to annually assess and report on the internal controls that protect the integrity of federal programs (FMFIA Section 2) and whether financial management systems conform to related requirements (FMFIA Section 4).

#### **Internal Controls Program**

Management of the FBI is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of the FMFIA. In accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*, the FBI 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 Section 2). The FBI also assessed whether its financial management systems conform to financial systems requirements (FMFIA Section 4). Based on the results of the assessments, the FBI provided reasonable assurance that its internal controls and financial management systems met the objectives of the FMFIA, with the exception of the reportable conditions and nonconformances summarized below. Corrective Action Plans were established to institute programs and/or controls to eliminate these conditions.

#### **FMFIA Section 2 – Reportable Conditions**

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

- **National Security Letters (NSLs):** In March 2007, the Office of the Inspector General (OIG) reported that the FBI's use of NSLs grew dramatically and shifted in focus since the enactment of the Patriot Act and that NSLs served as an indispensable investigative tool. The OIG found issues with the FBI's tracking, reporting, and guidance regarding NSL usage. A March 2008 follow-up review assessed the FBI's corrective actions and indicated the FBI and Department had made significant progress in implementing the 2007 recommendations. Improvements included strengthening the controls and automated workflow governing the request, review, and approval of NSLs; field office monthly reconciliations of NSL usage; and improving the database used to track NSL use. The FBI's actions to remediate the March 2007 OIG findings were completed by June 2007 and validated prior to December 31, 2008. The FBI agreed to each of the recommendations proposed in the 2008 report and implemented the proposed changes where appropriate. Several of the recommendations, however, were rendered moot by the FBI's implementation of the NSL Subsystem. The FBI continues to dedicate personnel and resources to ensure appropriate use of NSLs.
- **Management of the Sentinel Program:** The Government Accountability Office (GAO) audited the FBI's delivery of the Sentinel Program during FY 2007, to evaluate the FBI's use of effective acquisition practices and the basis for estimating schedule and costs. Based on the report, the FBI is managing the



## *Management's Discussion and Analysis*

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Sentinel program in accordance with many approved key system acquisition best practices and has established several successful processes for identifying and mitigating associated risks. The GAO also found the FBI was not in accordance with best practices concerning overseeing contractors, and the process to formulate the program's schedule and cost estimates did not adhere to governmental best practices. The FBI completed remediation and provided additional information to GAO in 2010. The recommendation remains open as the FBI works actively with GAO to ensure the FBI is using best practices in different approaches for development (e.g., agile development).

### **FMFIA Section 4 – Nonconformances**

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

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

### **OMB Circular A-123, Appendix A – Internal Control Over Financial Reporting**

In FY 2011, the FBI documented and assessed its significant business processes according to the requirements of DOJ's Implementation Plan for compliance with OMB Circular A-123, *Management's Responsibility for Internal Control*, revised December 21, 2004. The revised Circular A-123 re-examined internal control requirements for federal agencies in light of the requirements for publicly-traded companies implemented by the Sarbanes-Oxley Act of 2002. The full Circular A-123, *Appendix A: Internal Control Over Financial Reporting* assessment covered all processes deemed to be significant to the FBI and the Department of Justice. These processes were: Property Management, Treasury/Fund Balance with Treasury, Procurement and Payable, Financial Reporting, Human Resources, Revenue/Receivables Management, Budget/Funds Management, and Information Technology. The results of the assessment indicated no material weaknesses in the FBI's internal control over financial reporting as of June 30, 2011.





## *Management's Discussion and Analysis*

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### **Federal Financial Management Improvement Act of 1996**

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

### **FFMIA Compliance Determination**

During FY 2011, the FBI performed a self-assessment, and documented several areas in which its key financial management systems, principally FMS, have a moderate risk of not providing reliable and consistent information for decision-making. As a result, the FBI reported several instances in which its key financial management systems do not comply with certain provisions of FFMIA.

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

### **Legal Compliance**

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

## **POSSIBLE FUTURE EFFECTS OF EXISTING EVENTS AND CONDITIONS**

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

#### **The Changing Threat**

Over the past decade, the FBI has moved aggressively to implement a comprehensive plan that has fundamentally transformed the FBI. The FBI has overhauled its counterterrorism operations, expanded its intelligence capabilities, modernized its business practices and technology, and improved coordination with its partners. However, the U.S. continues to face significant challenges to national security from increasingly sophisticated internal and external threats. In addition to well-funded and established terrorist organizations such as al-Qa'ida, the U.S. faces WMD, foreign intelligence, cyber, and domestic concerns, including substantial increases in areas such as violent crimes in Indian Country. Significant and exponential advances in U.S. and global technological markets over the past few years have increased the risk of the FBI's technical capabilities falling significantly behind those of our adversaries. To avert this risk, the FBI must take strategic measures to maintain pace with rapid and complex technology expansion.



## *Management's Discussion and Analysis*

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

### **Constrained Budget Environment**

The FBI, along with the rest of the federal government, will face austere budget constraints in FY 2012 and for the foreseeable future. Due to the high national debt and the overall state of the economy, federal spending is being closely scrutinized. Oversight entities, to include Congress and the White House, are analyzing federal budgets to identify redundancies, inefficiencies, and programs that can be reduced or eliminated. Furthermore, they are leading efforts to find cost savings. The DOJ has implemented a number of measures to monitor and curb component spending, to include a prohibition on unnecessary expenses and a rigorous conference approval process. The FBI must adapt to flat-lined or declining budgets by looking for areas to reduce spending and increase efficiencies while maintaining its high operational tempo in mission-critical areas. The FBI will work with DOJ and other oversight entities to mitigate any potentially negative effects that may result from the constrained budget environment.

### **Strategy Management System (SMS)**

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

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

### **Transitioning Financial Systems**

Beginning in October 2010 the FBI implemented a programmatic funds control and tracking architecture into its financial system. This successful implementation is significantly aiding the FBI as it develops the requirements and configuration framework for transition to the DOJ's UFMS.

### **Unified Financial Management System (UFMS)**

The FBI kicked off its UFMS implementation on November 15, 2010, anticipating enterprise-wide deployment in FY 2014. Since then, the FBI established and staffed its UFMS Project Management Office with seven full time personnel and established the FBI UFMS Project Team site at the Financial Systems Implementation office facility in McLean, Virginia. The UFMS Project Team documented and validated current business process environment through 20 facilitated "as is" working sessions; identified 13 FBI specific business processes through 45 gap analysis and gap review working sessions; completed 18 requirement gathering sessions used to identify and validate the FBI's system requirements; documented and verified the FBI UFMS future business processes through 29 facilitated "to be" working sessions; and, held 15 UFMS familiarization sessions and demonstrations to help users become more familiar with the UFMS functionality. The FBI is preparing for the installation of the secret instance of UFMS. A memorandum of understanding between the DOJ and the FBI to implement UFMS in the secret environment was signed on September 12, 2011.



## Management's Discussion and Analysis

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### **Supply Chain Management (SCM) – Maximo**

In May 2010, the FBI initiated procurement for enhanced SCM technology to modernize asset tracking and reporting, anticipating enterprise-wide deployment in FY 2012. SCM Phase I efforts began in November 2010 with selection of a vendor to assist the FBI transition to a consolidated SCM system. IBM's Maximo platform solution was selected to replace legacy system technology with an enterprise-wide asset tracking solution that will manage nearly 600,000 FBI assets. The SCM solution improves functionality and consolidates four legacy systems, unifying asset management processes that historically have been separated.

In general, this new solution will improve the accuracy of current inventory processes and control, reduce administrative workload associated with manual inventory processes, and provide a scalable system that can be integrated with future system upgrades.

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

The FBI's RMD completed its User Fee Study which updated the fee structure of the National Name Check Program (NNCP). Consistent with guidance in OMB Circular A-25, the FBI evaluates user fee structures every two years, or as prompted by major program changes. The NNCP eliminated a substantial backlog and achieved steady state for all customers in FY 2009. The new fee structure, which became effective March 4, 2011, updated previously outdated salary information and eliminated the incentive for expedited name check requests. The recovery of these costs will allow the NNCP to remain at steady state. In addition, the NNCP will incur significant costs as it continues to implement improvements in information technology to improve the efficiency and effectiveness of the NNCP.

### **IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT IMPLEMENTATION**

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 FBI assessed its activities for susceptibility to significant improper payments. The FBI also conducted its payment recapture audit program in accordance with the Departmental approach. The FBI provided the results of both the risk assessment and payment recapture audit activities to the Department for the Department-level reporting in the FY 2011 Performance and Accountability Report.

### **LIMITATIONS OF THE FINANCIAL STATEMENTS**

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



## *Management's Discussion and Analysis*

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- The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

# U.S. DEPARTMENT OF JUSTICE

## FEDERAL BUREAU OF INVESTIGATION

### INDEPENDENT AUDITORS' REPORTS



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KPMG LLP  
2001 M Street, NW  
Washington, DC 20036-3389

## Independent Auditors' Report on Financial Statements

Acting Inspector General  
U.S. Department of Justice

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

We have audited the accompanying consolidated balance sheets of the U.S. Department of Justice Federal Bureau of Investigation (FBI) as of September 30, 2011 and 2010, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. These consolidated financial statements are the responsibility of the FBI's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Justice Federal Bureau of Investigation as of September 30, 2011 and 2010, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with U.S. generally accepted accounting principles.

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



Independent Auditors' Report on Financial Statements  
Page 2

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 4, 2011, on our consideration of the FBI's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

November 4, 2011



## Independent Auditors' Report on Internal Control over Financial Reporting

Acting Inspector General  
U.S. Department of Justice

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

We have audited the consolidated balance sheets of the U.S. Department of Justice Federal Bureau of Investigation (FBI) as of September 30, 2011 and 2010, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated November 4, 2011.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The management of the FBI is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2011 audit, we considered the FBI's internal control over financial reporting by obtaining an understanding of the FBI's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FBI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the FBI's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the third paragraph of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2011 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



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

The Exhibit presents the status of the prior year's finding and recommendation.

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

KPMG LLP

November 4, 2011

**EXHIBIT**

**STATUS OF PRIOR YEAR'S FINDING AND RECOMMENDATION**

As required by *Government Auditing Standards* issued by the Comptroller General of the United States, and by OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended, we have reviewed the status of the prior year's finding and recommendation. The following table provides our assessment of the progress the FBI has made in correcting the previously identified significant deficiency. We also provide the Office of the Inspector General report number where the deficiency was reported, our recommendation for improvement, and the status of the recommendation as of the end of fiscal year 2011:

| <b>Report</b>  | <b>Significant Deficiency</b>                    | <b>Recommendation</b>  | <b>Status</b>          |
|--|--|--|------------------------|
| Annual Financial Statements Fiscal Year 2010, Report No. 11-07 | Weaknesses Exist in Information Systems Controls | Recommendation No. 1: Ensure that the recent updates to the certification, accreditation, and security assessment processes are fully implemented and effectively address the identified deficiency. | Completed <sup>1</sup> |

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<sup>1</sup> *Sufficient progress has been made in addressing this finding and the related recommendation such that the remaining risk of misstatement no longer merits the attention by those charged with governance. Therefore, the condition has been downgraded to a deficiency in internal control.*

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## Independent Auditors' Report on Compliance and Other Matters

Acting Inspector General  
U.S. Department of Justice

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

We have audited the consolidated balance sheets of the U.S. Department of Justice Federal Bureau of Investigation (FBI) as of September 30, 2011 and 2010, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated November 4, 2011.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The management of the FBI is responsible for complying with laws, regulations, and contracts applicable to the FBI. As part of obtaining reasonable assurance about whether the FBI's fiscal year 2011 consolidated financial statements are free of material misstatement, we performed tests of the FBI's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the FBI. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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



Independent Auditors' Report on Compliance and Other Matters  
Page 2

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

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

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

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

KPMG LLP

November 4, 2011

## INSTANCES OF NONCOMPLIANCE

This section contains our discussion of the instances of noncompliance with laws, regulations, and contracts that we noted during our fiscal year 2011 audit.

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### ***Federal Financial Management Improvement Act of 1996 (FFMIA)***

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

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

The FBI relies upon several systems to provide financial information that is necessary to support the FBI's financial management needs. These systems, other than the general ledger module of FMS, used by the FBI during fiscal year 2011, include the Available Funds File (AFF), the Procurement Module of FMS, the Enterprise Process Automation System (EPAS), the Property Management Application (PMA), the Vehicle Management Application (VMA), the Fixed Assets module of FMS (FA), and the Reimbursable Agreement Management System (RAMS). The FBI's financial management systems are not considered unified because the FMS' general ledger, certain modules of the FMS, and the other systems are not planned for together, are not managed together, do not operate in an integrated fashion, and are not linked together electronically in an efficient and effective manner to provide the agency-wide financial system support necessary to carry out the agency's mission and support the agency's financial management needs.

For example, property acquisitions must be recorded manually into both the FMS and PMA, and then depreciation information must be calculated in the FAS and recorded into the FMS for financial statement and internal reporting purposes. Additionally, FMS is unable to capture all open obligations causing a variance between the population of undelivered orders from the Procurement Module of FMS and the general ledger of the FMS.

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

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

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

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

**Management Response:**

The FBI concurs with the finding. To resolve this finding, the FBI has made an absolute commitment to implement the Department of Justice (DOJ) Unified Financial Management System (UFMS). Since 2002, DOJ has been leading the effort to implement a department-wide financial and procurement management system that will enhance current and future financial management and procurement operations and standardize many business practices. DOJ is addressing these needs through implementation of UFMS, an integrated commercial-off-the-shelf application that will replace the FBI's current Financial Management System (FMS) and legacy financial management and procurement systems throughout the Department. UFMS will fully implement all current federal financial management system requirements and applicable federal accounting standards, including recording all transactions at the USSGL level. As of FY 2011, DOJ has successfully implemented UFMS at the Drug Enforcement Administration and the Bureau of Alcohol, Tobacco, Firearms and Explosives.

Initial planning for the FBI implementation of UFMS was completed by the DOJ UFMS program management office, in conjunction with its Implementation & Integration (I&I) contractor, during FY 2008. A task order to complete the planning phase was issued to DOJ's I&I contractor in October 2010. As of October 2011, this planning work is essentially complete, and DOJ issued an additional task order to begin FBI implementation tasks and activities in August 2011. The FBI plans to implement UFMS in three phases—in Phase 1 the FBI implemented the UFMS Contract Writing Tool in FY 2008; in Phase 2 the FBI will implement full UFMS functionality at the Criminal Justice Information Services Division, three Field Offices, and at least one Legat in FY 2013; and in Phase 3 the FBI will fully implement UFMS at the remaining FBI organizations, Field Offices, and Legats in FY 2014.

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

The archive initiative was completed in June 2010, removing a significant number of records from the FMS mainframe and reducing the risk to UFMS implementation. A comprehensive set of financial reports was developed using the new strategic reporting tool and deployed to all field office divisions in July 2010 and to headquarters divisions in October 2010. This tool provides FBI management with a standard set of reports to rely on for their financial management needs and will be compatible with UFMS. The remaining



modules of the graphical user interface were deployed in stages from September 2009 throughout June 2010. The GUI is now in use in all field offices and headquarters divisions. As of October 1, 2010, the restructured chart of accounts was deployed for all non-personnel funds, providing the FBI with funds control and financial tracking against program and subprogram levels. The chart of accounts restructure supports the financial management activities of headquarters and field office divisions, satisfies the FBI's financial reporting obligation to DOJ, and prepares the FBI for migration to the budget and expense structure of UFMS.

To resolve the findings related to the FBI's property management systems, the Finance Division is leading a Supply Chain Management (SCM) Program to improve the FBI's business processes by implementing new technologies to streamline purchasing and payment activities and improve vendor management, enhance management of assets and inventory processes, and improve management of its growing fleet of vehicles. The SCM Program will be accomplished in three phases. The first phase will consolidate and replace the Property and Vehicle Management Applications (PMA and VMA) as well as Issued Personal Property (IPP) and the Fixed Asset (FA) Module. The current goal for Phase I completion is the second quarter of FY 2012. The implementation of a modern, commercial-off-the-shelf asset management system during this phase will provide improved linkages to the existing procurement processes in FMS; improve the accountability, tracking and accuracy of assets recorded; allow for better performance and metrics for financial statements and other reporting; and will prepare for the tighter integration with accounting and procurement enabled by UFMS.

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# U.S. DEPARTMENT OF JUSTICE

## FEDERAL BUREAU OF INVESTIGATION

### PRINCIPAL FINANCIAL STATEMENTS AND RELATED NOTES



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**U.S. Department of Justice  
Federal Bureau of Investigation  
Consolidated Balance Sheets  
As of September 30, 2011 and 2010**

| <b>Dollars in Thousands</b>                               | <b>2011</b>                | <b>2010</b>                |
|---|----------------------------|----------------------------|
| <b>ASSETS (Note 2)</b>                                    |                            |                            |
| Intragovernmental   |                            |                            |
| Fund Balance with U.S. Treasury (Note 3)                  | \$ 3,618,458               | \$ 3,694,239               |
| Accounts Receivable (Note 5)                              | 181,271                    | 158,737                    |
| Other Assets (Note 9)                                     | 27,867                     | 30,638                     |
| Total Intragovernmental                                   | <u>3,827,596</u>           | <u>3,883,614</u>           |
| <br>  |                            |                            |
| Cash and Monetary Assets (Note 4)                         | 50,843                     | 51,017                     |
| Accounts Receivable, Net (Note 5)                         | 32,369                     | 30,384                     |
| Inventory and Related Property, Net (Note 6)              | 8,103                      | 7,927                      |
| General Property, Plant and Equipment, Net (Note 8)       | 2,558,525                  | 2,197,590                  |
| Advances and Prepayments                                  | 47,144                     | 46,698                     |
| <b>Total Assets</b>                                       | <b><u>\$ 6,524,580</u></b> | <b><u>\$ 6,217,230</u></b> |
| <br>  |                            |                            |
| <b>LIABILITIES (Note 10)</b>                              |                            |                            |
| Intragovernmental   |                            |                            |
| Accounts Payable  | \$ 229,722                 | \$ 162,573                 |
| Accrued Federal Employees' Compensation Act Liabilities   | 30,829                     | 31,231                     |
| Other Liabilities (Note 14)                               | 121,218                    | 114,588                    |
| Total Intragovernmental                                   | <u>381,769</u>             | <u>308,392</u>             |
| <br>  |                            |                            |
| Accounts Payable  | 416,733                    | 488,886                    |
| Actuarial Federal Employees' Compensation Act Liabilities | 182,426                    | 176,353                    |
| Accrued Payroll and Benefits                              | 208,273                    | 187,572                    |
| Accrued Annual and Compensatory Leave Liabilities         | 270,528                    | 265,775                    |
| Environmental and Disposal Liabilities (Note 11)          | 9,987                      | 9,755                      |
| Seized Cash and Monetary Instruments (Note 13)            | 42,880                     | 42,120                     |
| Contingent Liabilities (Note 15)                          | 52,335                     | 66,762                     |
| Other Liabilities (Note 14)                               | 4,687                      | 3,297                      |
| <b>Total Liabilities</b>                                  | <b><u>\$ 1,569,618</u></b> | <b><u>\$ 1,548,912</u></b> |
| <br>  |                            |                            |
| <b>NET POSITION</b>                                       |                            |                            |
| Unexpended Appropriations                                 | \$ 2,194,512               | \$ 2,255,206               |
| Cumulative Results of Operations                          | 2,760,450                  | 2,413,112                  |
| <b>Total Net Position</b>                                 | <b><u>\$ 4,954,962</u></b> | <b><u>\$ 4,668,318</u></b> |
| <br>  |                            |                            |
| <b>Total Liabilities and Net Position</b>                 | <b><u>\$ 6,524,580</u></b> | <b><u>\$ 6,217,230</u></b> |



**U.S. Department of Justice**  
**Federal Bureau of Investigation**  
**Consolidated Statements of Net Cost**  
**For the Fiscal Years Ended September 30, 2011 and 2010**

**Dollars in Thousands**

|               | FY          | Gross Costs         |                     |                     | Less: Earned Revenues |                   |                     | Net Cost of Operations<br>(Note 16) |
|---------------|-------------|---------------------|---------------------|---------------------|-----------------------|-------------------|---------------------|-------------------------------------|
|               |             | Intra-governmental  | With the Public     | Total               | Intra-governmental    | With the Public   | Total               |                                     |
| <b>Goal 1</b> | <b>2011</b> | \$ 1,448,527        | \$ 3,877,856        | \$ 5,326,383        | \$ 449,197            | \$ 14,739         | \$ 463,936          | \$ 4,862,447                        |
|               | <b>2010</b> | \$ 1,358,631        | \$ 3,826,696        | \$ 5,185,327        | \$ 495,393            | \$ 12,603         | \$ 507,996          | \$ 4,677,331                        |
| <b>Goal 2</b> | <b>2011</b> | 1,061,638           | 2,842,115           | 3,903,753           | 652,046               | 161,140           | 813,186             | 3,090,567                           |
|               | <b>2010</b> | 1,007,910           | 2,838,860           | 3,846,770           | 631,012               | 136,198           | 767,210             | 3,079,560                           |
| <b>Total</b>  | <b>2011</b> | <u>\$ 2,510,165</u> | <u>\$ 6,719,971</u> | <u>\$ 9,230,136</u> | <u>\$ 1,101,243</u>   | <u>\$ 175,879</u> | <u>\$ 1,277,122</u> | <u>\$ 7,953,014</u>                 |
|               | <b>2010</b> | <u>\$ 2,366,541</u> | <u>\$ 6,665,556</u> | <u>\$ 9,032,097</u> | <u>\$ 1,126,405</u>   | <u>\$ 148,801</u> | <u>\$ 1,275,206</u> | <u>\$ 7,756,891</u>                 |

Goal 1 Prevent Terrorism and Promote the Nation's Security

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



U.S. Department of Justice  
Federal Bureau of Investigation  
Consolidated Statements of Changes in Net Position  
For the Fiscal Years Ended September 30, 2011 and 2010

| Dollars in Thousands   | 2011                | 2010                |
|--|---------------------|---------------------|
| <b>Unexpended Appropriations</b>                             |                     |                     |
| <b>Beginning Balances</b>                                    | \$ 2,255,206        | \$ 2,114,589        |
| <b>Budgetary Financing Sources</b>                           |                     |                     |
| Appropriations Received                                      | 7,941,932           | 7,922,537           |
| Appropriations Transferred-In/Out                            | (61,176)            | 90,116              |
| Other Adjustments  | (15,884)            | (50,000)            |
| Appropriations Used  | (7,925,566)         | (7,822,036)         |
| <b>Total Budgetary Financing Sources</b>                     | <u>(60,694)</u>     | <u>140,617</u>      |
| <b>Unexpended Appropriations</b>                             | <u>\$ 2,194,512</u> | <u>\$ 2,255,206</u> |
| <b>Cumulative Results of Operations</b>                      |                     |                     |
| <b>Beginning Balances</b>                                    | \$ 2,413,112        | \$ 1,923,897        |
| <b>Budgetary Financing Sources</b>                           |                     |                     |
| Appropriations Used  | 7,925,566           | 7,822,036           |
| <b>Other Financing Sources</b>                               |                     |                     |
| Transfers-In/Out Without Reimbursement                       | 74,270              | 69,206              |
| Imputed Financing from Costs Absorbed<br>by Others (Note 17) | 305,129             | 354,864             |
| Other Financing Sources                                      | (4,613)             | -                   |
| <b>Total Financing Sources</b>                               | <u>8,300,352</u>    | <u>8,246,106</u>    |
| <b>Net Cost of Operations</b>                                | <u>(7,953,014)</u>  | <u>(7,756,891)</u>  |
| <b>Net Change</b>  | 347,338             | 489,215             |
| <b>Cumulative Results of Operations</b>                      | <u>\$ 2,760,450</u> | <u>\$ 2,413,112</u> |
| <b>Net Position</b>  | <u>\$ 4,954,962</u> | <u>\$ 4,668,318</u> |



**U.S. Department of Justice  
Federal Bureau of Investigation  
Combined Statements of Budgetary Resources  
For the Fiscal Years Ended September 30, 2011 and 2010**

| Dollars in Thousands   | 2011                        | 2010                        |
|--|-----------------------------|-----------------------------|
| <b>Budgetary Resources</b>                                       |                             |                             |
| Unobligated Balance, Brought Forward, October 1                  | \$ 946,877                  | \$ 1,060,034                |
| Recoveries of Prior Year Unpaid Obligations                      | 216,564                     | 166,563                     |
| Budget Authority   |                             |                             |
| Appropriations Received  | 7,941,932                   | 7,922,537                   |
| Spending Authority from Offsetting Collections                   |                             |                             |
| Earned   |                             |                             |
| Collected  | 1,307,280                   | 1,338,006                   |
| Change in Receivables from Federal Sources                       | 19,410                      | 1,699                       |
| Change in Unfilled Customer Orders                               |                             |                             |
| Advance Received   | 771                         | 17,463                      |
| Without Advance from Federal Sources                             | (5,967)                     | (106,807)                   |
| Subtotal Budget Authority  | <u>9,263,426</u>            | <u>9,172,898</u>            |
| Nonexpenditure Transfers, Net, Actual                            | (61,176)                    | 90,116                      |
| Permanently not Available  | <u>(15,884)</u>             | <u>(50,000)</u>             |
| <b>Total Budgetary Resources (Note 18)</b>                       | <b><u>\$ 10,349,807</u></b> | <b><u>\$ 10,439,611</u></b> |
| <b>Status of Budgetary Resources</b>                             |                             |                             |
| Obligations Incurred   |                             |                             |
| Direct   | \$ 8,101,889                | \$ 8,278,414                |
| Reimbursable   | <u>1,300,384</u>            | <u>1,214,320</u>            |
| Total Obligations Incurred (Note 18)                             | 9,402,273                   | 9,492,734                   |
| Unobligated Balance - Available                                  |                             |                             |
| Apportioned  | <u>594,313</u>              | <u>547,896</u>              |
| Total Unobligated Balance - Available                            | 594,313                     | 547,896                     |
| Unobligated Balance not Available                                | <u>353,221</u>              | <u>398,981</u>              |
| <b>Total Status of Budgetary Resources</b>                       | <b><u>\$ 10,349,807</u></b> | <b><u>\$ 10,439,611</u></b> |
| <b>Change in Obligated Balance</b>                               |                             |                             |
| Obligated Balance, Net - Brought Forward, October 1              |                             |                             |
| Unpaid Obligations   | \$ 3,221,811                | \$ 2,810,122                |
| Less: Uncollected Customer Payments from Federal Sources         | <u>479,261</u>              | <u>584,369</u>              |
| Total Unpaid Obligated Balance, Net - Brought Forward, October 1 | 2,742,550                   | 2,225,753                   |
| Obligations Incurred, Net  | 9,402,273                   | 9,492,734                   |
| Less: Gross Outlays  | 9,242,252                   | 8,914,482                   |
| Less: Recoveries of Prior Year Unpaid Obligations, Actual        | 216,564                     | 166,563                     |
| Change in Uncollected Customer Payments from Federal Sources     | (13,443)                    | 105,108                     |
| Obligated Balance, Net - End of Period                           |                             |                             |
| Unpaid Obligations   | 3,165,268                   | 3,221,811                   |
| Less: Uncollected Customer Payments from Federal Sources         | <u>492,704</u>              | <u>479,261</u>              |
| <b>Total Unpaid Obligated Balance, Net - End of Period</b>       | <b><u>\$ 2,672,564</u></b>  | <b><u>\$ 2,742,550</u></b>  |
| <b>Net Outlays</b>   |                             |                             |
| Gross Outlays  | \$ 9,242,252                | \$ 8,914,482                |
| Less: Offsetting Collections                                     | 1,308,051                   | 1,355,469                   |
| Less: Distributed Offsetting Receipts                            | <u>(7,284)</u>              | <u>253</u>                  |
| <b>Total Net Outlays (Note 18)</b>                               | <b><u>\$ 7,941,485</u></b>  | <b><u>\$ 7,558,760</u></b>  |





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

**1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

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

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

**B. Basis of Presentation**

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

**C. Basis of Consolidation**

The consolidated/combined financial statements include the accounts of the FBI. All significant proprietary intra-entity transactions and balances have been eliminated in consolidation. The Statements of Budgetary Resources are combined statements for Fiscal Years (FYs) 2011 and 2010, and as such, intra-entity transactions have not been eliminated. The consolidated financial statements do not include centrally administered assets and liabilities of the federal government as a whole, such as General Services Administration (GSA) owned property and equipment, and



**1. Summary of Significant Accounting Policies (continued)**

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

**D. Basis of Accounting**

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

**E. Non-Entity Assets**

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

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

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

**G. Accounts Receivable**

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

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



**1. Summary of Significant Accounting Policies (continued)**

**H. Inventory and Related Property**

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

**I. General Property, Plant, and Equipment**

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

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

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

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

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

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

**J. Advances and Prepayments**

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



**1. Summary of Significant Accounting Policies (continued)**

**K. Seized Property**

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

Cash in the custody of the FBI for evidentiary purposes is recognized as an asset on the balance sheet with an offsetting liability. Non-monetary valuable property held as evidence is disclosed in Note 7 at the appraised or fair market value at the time of the seizure and is not adjusted to any subsequent increases and decreases in estimated fair market value. It is not recognized as an asset on the balance sheet.

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

**L. Liabilities**

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

**M. Contingencies and Commitments**

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

**N. Annual, Sick, and Other Leave**

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



**1. Summary of Significant Accounting Policies (continued)**

**O. Interest on Late Payments**

Pursuant to the Prompt Payment Act of 1999 (31 U.S.C. 3901-3907), the FBI pays interest to commercial concerns for payments made after the payment due date. The payment due date is generally 30 days after the receipt of a valid invoice by the designated activity, or 30 days after the receipt and acceptance of the goods or services, whichever is later. Interest is computed on the principal amount due at the rate of interest established by the Secretary of the Treasury, and published in the Federal Register, for interest payments under section 12 of the Contract Disputes Act of 1978 (41 U.S.C. 611). Interest is paid for the period beginning one day after the principal payment due date and ending on the date on which the principal payment is made.

**P. Retirement Plans**

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

The accompanying financial statements report expenses incurred by the FBI for required contributions made to retirement accounts administered by the Office of Personnel Management (OPM). For employees covered by the CSRS, the FBI contributes 7.0 percent of the support employees' gross pay for normal retirement and for agents 7.5 percent. For employees covered by the FERS, the FBI contributes 11.7 percent of the support employees' gross pay and for agents 25.7 percent. All employees are eligible to contribute to the Federal Thrift Savings Plan (TSP). For employees covered by the FERS, the FBI automatically contributes 1.0 percent of gross pay and matches employee contributions up to 4.0 percent of gross pay. The FBI is not authorized to make automatic or matching contributions to the TSP for employees covered by the CSRS. The FBI's financial statements do not report CSRS or FERS assets, accumulated plan benefits, or any related unfunded liabilities, which may be applicable to its employees. Such reporting is the responsibility of OPM.

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

**Q. Federal Employee Compensation Benefits**

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

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



**1. Summary of Significant Accounting Policies (continued)**

Unbilled claims are estimated by the DOL by applying actuarial projections to incurred (both reported and unreported) claims. The DOL calculates the actuarial liability of the federal government for future compensation benefits, which includes the expected liability for death, disability, medical, and miscellaneous approved compensation costs. The liability is determined using the paid-losses extrapolation method calculated over the next 37-year period. This method uses historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. The projected annual benefit payments were discounted to present value. The resulting federal government liability is then distributed by the DOL to the respective departments.

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

**R. Intragovernmental Activity**

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

**S. Revenues and Other Financing Sources**

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

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



**1. Summary of Significant Accounting Policies (continued)**

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

Appropriations are recognized as financing sources when the goods and services authorized to be paid from the appropriations have been received and accepted, or when program or administrative expenses have been incurred. Revenue from reimbursable activities is recognized when it is earned, i.e. when the goods or services ordered have been delivered or rendered to the ordering entity. The FBI also earns revenue from the sale of assets, principally vehicles.

**T. Earmarked Funds**

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

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

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

**U. Tax Exempt Status**

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

**V. Use of Estimates**

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

**W. Reclassifications**

The FY 2010 financial statements were reclassified to conform to the FY 2011 Departmental financial statement presentation requirements. The reclassifications had no material effect on total assets, liabilities, net position, change in net position, or budgetary resources as previously reported.



*Notes to the Financial Statements*

**1. Summary of Significant Accounting Policies (continued)**

X. Subsequent Events

Subsequent events and transactions occurring after September 30, 2011 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.

**2. Non-Entity Assets**

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

| As of September 30, 2011 and 2010 |                     |                     |
|-----------------------------------|---------------------|---------------------|
|                                   | <u>2011</u>         | <u>2010</u>         |
| Intragovernmental                 |                     |                     |
| Fund Balance with U.S. Treasury   | \$ 429              | \$ 8,031            |
| With the Public                   |                     |                     |
| Cash and Monetary Assets          | 46,005              | 44,684              |
| Total Non-Entity Assets           | 46,434              | 52,715              |
| Total Entity Assets               | 6,478,146           | 6,164,515           |
| Total Assets                      | <u>\$ 6,524,580</u> | <u>\$ 6,217,230</u> |

**3. Fund Balance with U.S. Treasury**

| As of September 30, 2011 and 2010              |                     |                     |
|--|---------------------|---------------------|
|  | <u>2011</u>         | <u>2010</u>         |
| Fund Balances                                  |                     |                     |
| Trust Fund                                     | \$ 4                | \$ 4                |
| General Funds                                  | 3,618,025           | 3,686,204           |
| Other Fund Types                               | 429                 | 8,031               |
| Total Fund Balances with U.S. Treasury         | <u>\$ 3,618,458</u> | <u>\$ 3,694,239</u> |
| Status of Fund Balances                        |                     |                     |
| Unobligated Balance - Available                | \$ 594,313          | \$ 547,896          |
| Unobligated Balance - Unavailable              | 353,221             | 398,981             |
| Obligated Balance not yet Disbursed            | 2,672,564           | 2,742,550           |
| Other Funds (With)/Without Budgetary Resources | (1,640)             | 4,812               |
| Total Status of Fund Balances                  | <u>\$ 3,618,458</u> | <u>\$ 3,694,239</u> |





*Notes to the Financial Statements*

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

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

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

**4. Cash and Monetary Assets**

| As of September 30, 2011 and 2010 |                  |                  |
|-----------------------------------|------------------|------------------|
|                                   | 2011             | 2010             |
| Cash                              |                  |                  |
| Undeposited Collections           | \$ 2,765         | \$ 3,111         |
| Imprest Funds                     | 2,071            | 3,219            |
| Other Cash                        | 3,127            | 2,567            |
| Total Cash                        | <u>7,963</u>     | <u>8,897</u>     |
| Monetary Assets                   |                  |                  |
| Seized Monetary Instruments       | <u>42,880</u>    | <u>42,120</u>    |
| Total Cash and Monetary Assets    | <u>\$ 50,843</u> | <u>\$ 51,017</u> |

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

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

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



*Notes to the Financial Statements*

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**5. Accounts Receivable, Net**

| As of September 30, 2011 and 2010    |                          |                          |
|--------------------------------------|--------------------------|--------------------------|
|                                      | <u>2011</u>              | <u>2010</u>              |
| Intragovernmental                    |                          |                          |
| Accounts Receivable                  | \$ 181,271               | \$ 158,737               |
| With the Public                      |                          |                          |
| Accounts Receivable                  | 33,719                   | 31,600                   |
| Allowance for Uncollectible Accounts | <u>(1,350)</u>           | <u>(1,216)</u>           |
| Total With the Public                | <u>32,369</u>            | <u>30,384</u>            |
| Total Accounts Receivable, Net       | <u><u>\$ 213,640</u></u> | <u><u>\$ 189,121</u></u> |

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

**6. Inventory and Related Property, Net**

| As of September 30, 2011 and 2010 |             |             |
|-----------------------------------|-------------|-------------|
|                                   | <u>2011</u> | <u>2010</u> |
| Operating Materials and Supplies  |             |             |
| Held for Current Use              | \$ 8,103    | \$ 7,927    |



## **7. Seized Property**

### **Analysis of Change in Seized Property:**

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

The item counts and financial value of non-monetary valuable property in the custody of the FBI as of September 30, 2011 and September 30, 2010, for evidentiary purposes, and activity during each fiscal year are summarized in the following charts in accordance with SFFAS No. 3, *Accounting for Inventory and Related Property*. Items are disclosed at their appraised value or their estimated market value.

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

“Other” primarily consists of illegal substances seized for evidence not including cocaine, heroin, marijuana, or methamphetamine. The actual drug weight may vary from seizure weight due to changes in moisture content over time.

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



*Notes to the Financial Statements*

**7. Seized Property (continued)**

For the Fiscal Year Ended September 30, 2011

| Seized Property Category    |        | Beginning Balance | Adjustments** | Seizures  | Disposals   | Ending Balance |
|-----------------------------|--------|-------------------|---------------|-----------|-------------|----------------|
| <b>Seized for Evidence</b>  |        |                   |               |           |             |                |
| Seized Monetary Instruments |        |                   |               |           |             |                |
| Value                       |        | \$ 42,120         | \$ (4,910)    | \$ 38,423 | \$ (32,753) | \$ 42,880      |
| Personal Property           |        |                   |               |           |             |                |
| Number                      |        | 1,385             | 4             | 404       | (451)       | 1,342          |
| Value                       |        | \$ 24,692         | \$ 9,632      | \$ 13,886 | \$ (12,279) | \$ 35,931      |
| Non-Valued                  |        |                   |               |           |             |                |
| Firearms                    | Number | 27,564            | 261           | 3,401     | (1,843)     | 29,383         |
| Drug Evidence               |        |                   |               |           |             |                |
| Cocaine                     | KG     | 6,361             | (356)         | 577       | (438)       | 6,144          |
| Heroin                      | KG     | 428               | (19)          | 28        | (19)        | 418            |
| Marijuana                   | KG     | 3,990             | (111)         | 104       | (294)       | 3,689          |
| Methamphetamine             | KG     | 481               | 1             | 84        | (20)        | 546            |
| Other                       | KG     | 1,233             | (182)         | 140       | (111)       | 1,080          |
| Total Drug Evidence         |        | 12,493            | (667)         | 933       | (882)       | 11,877         |

For the Fiscal Year Ended September 30, 2010

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

\*\*Adjustments include property status and valuation changes received after, but properly credited to, prior fiscal years. Valuation changes include updates and corrections to an asset's value recorded in a prior year.



*Notes to the Financial Statements*

**7. Seized Property (continued)**

**Method of Disposition of Seized Property:**

During FYs 2011 and 2010, \$10,416 and \$11,589 of valued property seized for evidence were returned to parties with a bonafide interest, and \$34,616 and \$19,056 were either released to a designated party or transferred to the appropriate federal entity under forfeiture or abandonment proceedings. Non-valued property was primarily disposed of through destruction.

**8. General Property, Plant and Equipment, Net**

| As of September 30, 2011                 |                     |                             |                     |                |
|--|---------------------|-----------------------------|---------------------|----------------|
|  | Acquisition<br>Cost | Accumulated<br>Depreciation | Net Book<br>Value   | Useful<br>Life |
| Land and Land Rights                     | \$ 12,590           | \$ -                        | \$ 12,590           | N/A            |
| Construction in Progress                 | 312,699             | -                           | 312,699             | N/A            |
| Buildings, Improvements, and Renovations | 567,734             | (256,565)                   | 311,169             | 10-50 years    |
| Other Structures and Facilities          | 35,088              | (9,622)                     | 25,466              | 10-50 years    |
| Aircraft                                 | 248,256             | (50,214)                    | 198,042             | 5-30 years     |
| Boats                                    | 7,813               | (4,661)                     | 3,152               | 5-25 years     |
| Vehicles                                 | 243,191             | (155,673)                   | 87,518              | 2-25 years     |
| Equipment                                | 916,763             | (500,456)                   | 416,307             | 2-25 years     |
| Leasehold Improvements                   | 398,010             | (118,939)                   | 279,071             | 3-10 years     |
| Internal Use Software                    | 530,413             | (147,893)                   | 382,520             | 3-10 years     |
| Internal Use Software in Development     | 529,991             | -                           | 529,991             | N/A            |
| Total                                    | <u>\$ 3,802,548</u> | <u>\$ (1,244,023)</u>       | <u>\$ 2,558,525</u> |                |

During FY 2011, the FBI purchased \$104,894 in capital property from federal sources and \$454,953 from the public.

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

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



*Notes to the Financial Statements*

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**9. Other Assets**

| As of September 30, 2011 and 2010 |             |             |
|-----------------------------------|-------------|-------------|
|                                   | <u>2011</u> | <u>2010</u> |
| Intragovernmental                 |             |             |
| Advances and Prepayments          | \$ 27,867   | \$ 30,638   |

**10. Liabilities not Covered by Budgetary Resources**

| As of September 30, 2011 and 2010                    |                     |                     |
|--|---------------------|---------------------|
|  | <u>2011</u>         | <u>2010</u>         |
| Intragovernmental                                    |                     |                     |
| Accrued FECA Liabilities                             | \$ 30,829           | \$ 31,231           |
| Other Unfunded Employment Related Liabilities        | 288                 | 191                 |
| Total Intragovernmental                              | <u>31,117</u>       | <u>31,422</u>       |
| With the Public                                      |                     |                     |
| Actuarial FECA Liabilities                           | 182,426             | 176,353             |
| Accrued Annual and Compensatory Leave Liabilities    | 270,528             | 265,775             |
| Environmental and Disposal Liabilities (Note 11)     | 9,987               | 9,755               |
| Contingent Liabilities (Note 15)                     | <u>52,335</u>       | <u>66,762</u>       |
| Total With the Public                                | <u>515,276</u>      | <u>518,645</u>      |
| Total Liabilities not Covered by Budgetary Resources | 546,393             | 550,067             |
| Total Liabilities Covered by Budgetary Resources     | <u>1,023,225</u>    | <u>998,845</u>      |
| Total Liabilities                                    | <u>\$ 1,569,618</u> | <u>\$ 1,548,912</u> |

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

**11. Environmental and Disposal Liabilities**

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



## **11. Environmental and Disposal Liabilities (continued)**

As environmental-related cleanup costs are paid, the liabilities are reduced. Additionally, estimates will be revised periodically to account for material changes due to inflation, technology, and applicable laws and regulations. Any material changes in the estimated total cleanup costs will be expensed when estimates are revised and the liability balance adjusted.

### **Asbestos**

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

The FBI exercises due care in determining the presence of contamination in adherence to the law, rules and regulations and policies by the Clean Air Act. The Facilities and Logistics Service Division (FLSD), responsible for managing and maintaining FBI and non-FBI owned facilities, has identified FBI-owned facilities in Quantico that contain hazardous friable and non-friable asbestos. The facilities have a useful life of 50 years. The estimated total liability of \$11,613 is based on the square footage of the facilities that may be contaminated. This value, divided by the useful life and multiplied by the number of years in service, is the estimated cleanup liability. As of September 30, 2011 and 2010, the FBI reported the estimated cleanup liability of \$9,987 and \$9,755, respectively. The estimated asbestos cleanup liability is increased each quarter by recording future funded expenses for the asbestos cleanup costs. During FY 2011, future funded expense for asbestos cleanup is \$232. There are no other potentially responsible parties to the environmental liability and there are no unrecognized amounts to disclose as of September 30, 2011.

## **12. Leases**

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

Typically, the minimum lease term for a Resident Agency (RA) is five years and the maximum is 10 years. The minimum lease term for a field office is 15 years and the maximum is 20 years.

The FBI has a long-range program to relocate all field offices into single tenant, stand-alone, secure facilities. All new leases for field offices and some RAs will be noncancelable, whereas the Headquarters Annex lease will be cancelable.

The FBI currently anticipates relocating 15 field offices between FY 2012 and FY 2017. When field offices relocate, often from space leased for 20 years or longer, the rental rates increase significantly to accommodate the FBI's growth in workforce, space needs, and specialized security requirements.



*Notes to the Financial Statements*

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**12. Leases (continued)**

|  |                               |                                    |                     |
|--|-------------------------------|------------------------------------|---------------------|
| As of September 30, 2011                               |                               |                                    |                     |
| Future Noncancelable Operating Lease Payments Due      |                               |                                    |                     |
| <u>Fiscal Year</u>                                     | <u>Land and<br/>Buildings</u> | <u>Machinery and<br/>Equipment</u> | <u>Total</u>        |
| 2012   | \$ 201,182                    | \$ 8,824                           | \$ 210,006          |
| 2013   | 258,024                       | 8,910                              | 266,934             |
| 2014   | 289,390                       | 4,320                              | 293,710             |
| 2015   | 287,515                       | 4,320                              | 291,835             |
| 2016   | 287,950                       | -                                  | 287,950             |
| After 2016   | 3,284,703                     | -                                  | 3,284,703           |
| Total Future Noncancelable Operating<br>Lease Payments | <u>\$ 4,608,764</u>           | <u>\$ 26,374</u>                   | <u>\$ 4,635,138</u> |

**13. Seized Cash and Monetary Instruments**

Seized Cash and Monetary Instruments represents liabilities for seized assets held by the FBI pending disposition. The Seized Cash and Monetary Instruments as of September 30, 2011 and 2010 are \$42,880 and \$42,120, respectively.





*Notes to the Financial Statements*

**14. Other Liabilities**

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

| As of September 30, 2011 and 2010                |                   |                   |
|--|-------------------|-------------------|
|  | 2011              | 2010              |
| <b>Intragovernmental</b>                         |                   |                   |
| Employer Contributions and Payroll Taxes Payable | \$ 62,866         | \$ 56,213         |
| Other Post-Employment Benefits Due and Payable   | 594               | 334               |
| Other Unfunded Employment Related Liabilities    | 288               | 191               |
| Advances from Others                             | 57,468            | 57,850            |
| Liability for Deposit Funds, Clearing            |                   |                   |
| Accounts and Undeposited Collections             | 2                 | -                 |
| <b>Total Intragovernmental</b>                   | <u>121,218</u>    | <u>114,588</u>    |
| <b>With the Public</b>                           |                   |                   |
| Advances from Others                             | 1,155             | 2                 |
| Liability for Deposit Funds, Clearing            |                   |                   |
| Accounts and Undeposited Collections             | 405               | 727               |
| Other Liabilities                                | 3,127             | 2,568             |
| <b>Total With the Public</b>                     | <u>4,687</u>      | <u>3,297</u>      |
| <b>Total Other Liabilities</b>                   | <u>\$ 125,905</u> | <u>\$ 117,885</u> |

**15. Contingencies and Commitments**

|                          | Accrued<br>Liabilities | Estimated Range of Loss |            |
|--------------------------|------------------------|-------------------------|------------|
|                          |                        | Lower                   | Upper      |
| As of September 30, 2011 |                        |                         |            |
| Probable                 | \$ 52,335              | \$ 52,335               | \$ 166,900 |
| Reasonably Possible      |                        | 9,910                   | 14,690     |
| As of September 30, 2010 |                        |                         |            |
| Probable                 | \$ 66,762              | \$ 66,762               | \$ 172,217 |
| Reasonably Possible      |                        | 16,268                  | 21,088     |

**16. Net Cost of Operations by Suborganization**

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



*Notes to the Financial Statements*

**16. Net Cost of Operations by Suborganization (continued)**

The Intelligence Reform and Terrorism Prevention Act of 2004 reads, “The Director of the Federal Bureau of Investigation shall, establish a budget structure of the Federal Bureau of Investigation to reflect the four principal missions of the Bureau as follows: Intelligence, Counterterrorism and Counterintelligence, Criminal Enterprises/Federal Crimes, [and] Criminal Justice Services.” Consistent with the law, the FBI budgets according to these four broad categories, or decision units.

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

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

| For the Fiscal Year Ended September 30, 2011   |                            |  |   |   |              |
|--|----------------------------|--|---|---|--------------|
|  | Suborganizations           |  |   |   | Consolidated |
|  | Intelligence Decision Unit | Counterterrorism/Counterintelligence Decision Unit | Criminal Enterprises/Federal Crimes Decision Unit | Criminal Justice Services Decision Unit |              |
| Goal 1: Prevent Terrorism and Promote the Nation's Security  |                            |  |   |   |              |
| Gross Cost   | \$ 831,118                 | \$ 2,283,490                                       | \$ 1,759,806                                      | \$ 451,969                              | \$ 5,326,383 |
| Less: Earned Revenue   | 17,274                     | 377,122  | 31,093  | 38,447                                  | 463,936      |
| Net Cost of Operations   | 813,844                    | 1,906,368  | 1,728,713   | 413,522                                 | 4,862,447    |
| Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People |                            |  |   |   |              |
| Gross Cost   | 609,134                    | 1,673,590  | 1,289,777   | 331,252                                 | 3,903,753    |
| Less: Earned Revenue   | 7,990                      | 23,503   | 403,883   | 377,810                                 | 813,186      |
| Net Cost of Operations   | 601,144                    | 1,650,087  | 885,894   | (46,558)                                | 3,090,567    |
| Net Cost of Operations   | \$ 1,414,988               | \$ 3,556,455                                       | \$ 2,614,607                                      | \$ 366,964                              | \$ 7,953,014 |

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



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

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

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

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



*Notes to the Financial Statements*

**17. Imputed Financing from Costs Absorbed by Others (continued)**

| For the Fiscal Years Ended September 30, 2011 and 2010 |                   |                   |
|--|-------------------|-------------------|
|  | 2011              | 2010              |
| Imputed Inter-Departmental Financing                   |                   |                   |
| Treasury Judgment Fund                                 | \$ 11,862         | \$ 117,846        |
| Health Insurance                                       | 181,280           | 163,604           |
| Life Insurance   | 679               | 635               |
| Pension  | 111,308           | 72,779            |
| Total Imputed Financing                                | <u>\$ 305,129</u> | <u>\$ 354,864</u> |

**18. Information Related to the Statement of Budgetary Resources**

**Apportionment Categories of Obligations Incurred:**

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

|  | Direct Obligations  | Reimbursable Obligations | Total Obligations Incurred |
|--|---------------------|--------------------------|----------------------------|
| For the Fiscal Year Ended September 30, 2011 |                     |                          |                            |
| Obligations Apportioned Under:               |                     |                          |                            |
| Category A                                   | \$ 7,807,714        | \$ 1,300,384             | \$ 9,108,098               |
| Category B                                   | 294,175             | -                        | 294,175                    |
| Total  | <u>\$ 8,101,889</u> | <u>\$ 1,300,384</u>      | <u>\$ 9,402,273</u>        |
| For the Fiscal Year Ended September 30, 2010 |                     |                          |                            |
| Obligations Apportioned Under:               |                     |                          |                            |
| Category A                                   | \$ 7,800,198        | \$ 1,214,320             | \$ 9,014,518               |
| Category B                                   | 478,216             | -                        | 478,216                    |
| Total  | <u>\$ 8,278,414</u> | <u>\$ 1,214,320</u>      | <u>\$ 9,492,734</u>        |

**Status of Undelivered Orders:**

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



*Notes to the Financial Statements*

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

|                                   |                     |                     |
|-----------------------------------|---------------------|---------------------|
| As of September 30, 2011 and 2010 |                     |                     |
|                                   | 2011                | 2010                |
| UDO Obligations Unpaid            | \$ 2,258,248        | \$ 2,334,713        |
| UDO Obligations Prepaid/Advanced  | 74,140              | 80,434              |
| Total UDO                         | <u>\$ 2,332,388</u> | <u>\$ 2,415,147</u> |

**Legal Arrangements Affecting Use of Unobligated Balances:**

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

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

The Statement of Budgetary Resources versus the Budget of the U.S. Government as of September 30, 2010 is presented below.

The reconciliation as of September 30, 2011 is not presented because the submission of the Budget of the United States Government (Budget) for FY 2013, which presents the execution of the FY 2011 Budget, occurs after publication of these financial statements. The DOJ Budget Appendix can be found on the OMB website (<http://www.whitehouse.gov/omb/budget>) and will be available in early February 2012.

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

|   |                        |                         |                 |
|---|------------------------|-------------------------|-----------------|
| For the Fiscal Year Ended September 30, 2010<br>(Dollars in Millions) |                        |                         |                 |
|   | Budgetary<br>Resources | Obligations<br>Incurred | Net Outlays     |
| Statement of Budgetary Resources (SBR)                                | \$ 10,440              | \$ 9,493                | \$ 7,559        |
| Funds not Reported in the Budget                                      |                        |                         |                 |
| Expired Funds   | (395)                  | (110)                   | -               |
| Budget of the United States Government                                | <u>\$ 10,045</u>       | <u>\$ 9,383</u>         | <u>\$ 7,559</u> |



## Notes to the Financial Statements

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

For the Fiscal Years Ended September 30, 2011 and 2010

|  | 2011         | 2010         |
|--|--------------|--------------|
| Resources Used to Finance Activities   |              |              |
| Budgetary Resources Obligated  |              |              |
| Obligations Incurred   | \$ 9,402,273 | \$ 9,492,734 |
| Less: Spending Authority from Offsetting Collections and Recoveries  | 1,538,058    | 1,416,924    |
| Obligations Net of Offsetting Collections and Recoveries   | 7,864,215    | 8,075,810    |
| Less: Offsetting Receipts  | (7,284)      | 253          |
| Net Obligations  | 7,871,499    | 8,075,557    |
| Other Resources  |              |              |
| Transfers-In/Out Without Reimbursement   | 74,270       | 69,206       |
| Imputed Financing from Costs Absorbed by Others (Note 17)  | 305,129      | 354,864      |
| Other  | (4,613)      | -            |
| Net Other Resources Used to Finance Activities   | 374,786      | 424,070      |
| Total Resources Used to Finance Activities   | 8,246,285    | 8,499,627    |
| 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   | 77,563       | (303,377)    |
| Resources That Fund Expenses Recognized in Prior Periods (Note 20)   | (14,829)     | (64,235)     |
| Budgetary Offsetting Collections and Receipts That do not Affect Net Cost of Operations                      | (7,284)      | 253          |
| Resources That Finance the Acquisition of Assets   | (560,023)    | (677,990)    |
| Other Resources or Adjustments to Net Obligated Resources That do not Affect Net Cost of Operations          | 13,026       | 4,847        |
| Total Resources Used to Finance Items not Part of the Net Cost of Operations                                 | (491,547)    | (1,040,502)  |
| Total Resources Used to Finance the Net Cost of Operations   | \$ 7,754,738 | \$ 7,459,125 |
| 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 20)                               | \$ 5,076     | \$ 29,230    |
| Depreciation and Amortization  | 247,881      | 193,657      |
| Revaluation of Assets or Liabilities   | 16,217       | 24,101       |
| Other  | (70,898)     | 50,778       |
| Total Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period | 198,276      | 297,766      |
| Net Cost of Operations   | \$ 7,953,014 | \$ 7,756,891 |



*Notes to the Financial Statements*

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

Liabilities that are not covered by realized budgetary resources and for which there is not certainty that budgetary authority will be realized, such as the enactment of an appropriation, are considered liabilities not covered by budgetary resources. These liabilities totaling \$546,393 and \$550,067 as of September 30, 2011 and 2010, respectively, are discussed in Note 10, Liabilities not Covered by Budgetary Resources. Decreases in these liabilities result from current year budgetary resources that were used to fund expenses recognized in prior periods. Increases in these liabilities represent unfunded expenses that were recognized in the current period. These increases along with the change in the portion of exchange revenue receivables from the public, which are not considered budgetary resources until collected, represent components of current period net cost of operations that will require or generate budgetary resources in future periods. The changes in liabilities not covered by budgetary resources and receivables generating resources in future periods are comprised of the following:

| For the Fiscal Years Ended September 30, 2011 and 2010   |                    |                    |
|--|--------------------|--------------------|
|  | <u>2011</u>        | <u>2010</u>        |
| Resources that Fund Expenses Recognized in Prior Periods   |                    |                    |
| Other  |                    |                    |
| Decrease in Actuarial FECA Liabilities   | \$ -               | \$ (465)           |
| Decrease in Accrued FECA Liabilities   | (402)              | (1,554)            |
| Decrease in Contingent Liabilities   | <u>(14,427)</u>    | <u>(62,216)</u>    |
| Total Resources that Fund Expenses Recognized in Prior Periods                                       | <u>\$ (14,829)</u> | <u>\$ (64,235)</u> |
| Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods       |                    |                    |
| Increase in Accrued Annual and Compensatory Leave Liabilities  | \$ 4,753           | \$ 20,912          |
| Increase in Environmental and Disposal Liabilities   | 232                | 9,755              |
| (Increase)/Decrease in Exchange Revenue Receivable from the Public                                   | (1,899)            | 351                |
| Other  |                    |                    |
| Increase in Actuarial FECA Liabilities   | 6,073              | -                  |
| Increase in Other Unfunded Employment Related Liabilities  | 97                 | 3                  |
| (Increase)/Decrease in Surcharge Revenue Receivable from Other Federal Agencies                      | <u>(4,180)</u>     | <u>(1,791)</u>     |
| Total Other  | <u>1,990</u>       | <u>(1,788)</u>     |
| Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods | <u>\$ 5,076</u>    | <u>\$ 29,230</u>   |

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# U.S. DEPARTMENT OF JUSTICE

## FEDERAL BUREAU OF INVESTIGATION

REQUIRED SUPPLEMENTARY INFORMATION  
(UNAUDITED)





**U.S. Department of Justice  
Federal Bureau of Investigation  
Required Supplementary Information  
Combining Statement of Budgetary Resources  
By Major Appropriation  
Unaudited  
For the Fiscal Year Ended September 30, 2011**

| Dollars in Thousands   | <b>2011</b>              |                    |                             |                             |
|--|--------------------------|--------------------|-----------------------------|-----------------------------|
|  | <u>CNST</u>              | <u>VCRP</u>        | <u>S&amp;E</u>              | <u>TOTAL</u>                |
| <b>Budgetary Resources</b>                                       |                          |                    |                             |                             |
| Unobligated Balance, Brought Forward, October 1                  | \$ 166,000               | \$ 4               | \$ 780,873                  | \$ 946,877                  |
| Recoveries of Prior Year Unpaid Obligations                      | 25,421                   | -                  | 191,143                     | 216,564                     |
| Budget Authority   |                          |                    |                             |                             |
| Appropriations Received  | 107,310                  | -                  | 7,834,622                   | 7,941,932                   |
| Spending Authority from Offsetting Collections                   |                          |                    |                             |                             |
| Earned   |                          |                    |                             |                             |
| Collected  | 15                       | -                  | 1,307,265                   | 1,307,280                   |
| Change in Receivables from Federal Sources                       | -                        | -                  | 19,410                      | 19,410                      |
| Change in Unfilled Customer Orders                               |                          |                    |                             |                             |
| Advance Received   | -                        | -                  | 771                         | 771                         |
| Without Advance from Federal Sources                             | -                        | -                  | (5,967)                     | (5,967)                     |
| Subtotal Budget Authority  | <u>107,325</u>           | <u>-</u>           | <u>9,156,101</u>            | <u>9,263,426</u>            |
| Nonexpenditure Transfers, Net, Actual                            | (288)                    | -                  | (60,888)                    | (61,176)                    |
| Permanently not Available  | <u>(215)</u>             | <u>-</u>           | <u>(15,669)</u>             | <u>(15,884)</u>             |
| <b>Total Budgetary Resources</b>                                 | <b><u>\$ 298,243</u></b> | <b><u>\$ 4</u></b> | <b><u>\$ 10,051,560</u></b> | <b><u>\$ 10,349,807</u></b> |
| <b>Status of Budgetary Resources</b>                             |                          |                    |                             |                             |
| Obligations Incurred   |                          |                    |                             |                             |
| Direct   | \$ 194,522               | \$ 4               | \$ 7,907,363                | \$ 8,101,889                |
| Reimbursable   | -                        | -                  | 1,300,384                   | 1,300,384                   |
| Total Obligations Incurred                                       | <u>194,522</u>           | <u>4</u>           | <u>9,207,747</u>            | <u>9,402,273</u>            |
| Unobligated Balance - Available                                  |                          |                    |                             |                             |
| Apportioned  | <u>103,706</u>           | <u>-</u>           | <u>490,607</u>              | <u>594,313</u>              |
| Total Unobligated Balance - Available                            | <u>103,706</u>           | <u>-</u>           | <u>490,607</u>              | <u>594,313</u>              |
| Unobligated Balance not Available                                | <u>15</u>                | <u>-</u>           | <u>353,206</u>              | <u>353,221</u>              |
| <b>Total Status of Budgetary Resources</b>                       | <b><u>\$ 298,243</u></b> | <b><u>\$ 4</u></b> | <b><u>\$ 10,051,560</u></b> | <b><u>\$ 10,349,807</u></b> |
| <b>Change in Obligated Balance</b>                               |                          |                    |                             |                             |
| Obligated Balance, Net - Brought Forward, October 1              |                          |                    |                             |                             |
| Unpaid Obligations   | \$ 379,835               | \$ -               | \$ 2,841,976                | \$ 3,221,811                |
| Less: Uncollected Customer Payments from Federal Sources         | <u>-</u>                 | <u>-</u>           | <u>479,261</u>              | <u>479,261</u>              |
| Total Unpaid Obligated Balance, Net - Brought Forward, October 1 | <u>379,835</u>           | <u>-</u>           | <u>2,362,715</u>            | <u>2,742,550</u>            |
| Obligations Incurred, Net  | 194,522                  | 4                  | 9,207,747                   | 9,402,273                   |
| Less: Gross Outlays  | 153,670                  | -                  | 9,088,582                   | 9,242,252                   |
| Less: Recoveries of Prior Year Unpaid Obligations, Actual        | 25,421                   | -                  | 191,143                     | 216,564                     |
| Change in Uncollected Customer Payments from Federal Sources     | -                        | -                  | (13,443)                    | (13,443)                    |
| Obligated Balance, Net - End of Period                           |                          |                    |                             |                             |
| Unpaid Obligations   | 395,266                  | 4                  | 2,769,998                   | 3,165,268                   |
| Less: Uncollected Customer Payments from Federal Sources         | <u>-</u>                 | <u>-</u>           | <u>492,704</u>              | <u>492,704</u>              |
| <b>Total Unpaid Obligated Balance, Net - End of Period</b>       | <b><u>\$ 395,266</u></b> | <b><u>\$ 4</u></b> | <b><u>\$ 2,277,294</u></b>  | <b><u>\$ 2,672,564</u></b>  |
| <b>Net Outlays</b>   |                          |                    |                             |                             |
| Gross Outlays  | \$ 153,670               | \$ -               | \$ 9,088,582                | \$ 9,242,252                |
| Less: Offsetting Collections                                     | 15                       | -                  | 1,308,036                   | 1,308,051                   |
| Less: Distributed Offsetting Receipts                            | <u>-</u>                 | <u>-</u>           | <u>(7,284)</u>              | <u>(7,284)</u>              |
| <b>Total Net Outlays</b>   | <b><u>\$ 153,655</u></b> | <b><u>\$ -</u></b> | <b><u>\$ 7,787,830</u></b>  | <b><u>\$ 7,941,485</u></b>  |



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

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