



**Office of the Inspector General**  
U.S. Department of Justice

**OVERSIGHT ★ INTEGRITY ★ GUIDANCE**



**Audit of the  
Federal Bureau of Investigation  
Annual Financial Statements  
Fiscal Year 2017**



# Commentary and Summary

*Audit of the Federal Bureau of Investigation Annual Financial Statements  
Fiscal Year 2017*

## Objectives

In support of the Department of Justice's annual financial statements audit, the Office of the Inspector General (OIG) performed an audit of the Federal Bureau of Investigation's (FBI) annual financial statements.

The objectives of the audit are to opine on the financial statements, report on internal control over financial reporting, and report on compliance and other matters, including compliance with the *Federal Financial Management Improvement Act of 1996* (FFMIA).

## Results in Brief

The fiscal year (FY) 2017 audit resulted in an unmodified opinion on the FBI's financial statements. The auditors identified one significant deficiency in their report on internal controls over financial reporting. The auditors' report on compliance and other matters did not report any instances of noncompliance.

The OIG reviewed KPMG LLP's reports and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an audit in accordance with Government Auditing Standards, was not intended to enable us to express, and we do not express, an opinion on the FBI's financial statements, conclusions about the effectiveness of internal control, conclusions on whether the FBI's financial management systems substantially complied with FFMIA, or conclusions on compliance and other matters. KPMG LLP is responsible for the attached auditors' reports dated November 7, 2017, and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with auditing standards generally accepted in the United States of America.

## Recommendations

The OIG provided the FBI two recommendations to enhance internal controls over obligations.

## Audit Results

Under the direction of the OIG, KPMG LLP performed the FBI's audit in accordance with auditing standards generally accepted in the United States of America. The FY 2017 audit resulted in an unmodified opinion on the financial statements. An unmodified opinion means that the financial statements present fairly, in all material respects, the financial position and the results of the entity's operations in accordance with U.S. generally accepted accounting principles. For FY 2016, the FBI also received an unmodified opinion on its financial statements (OIG Audit Division Report No. 17-07).

KPMG LLP also issued reports on internal control over financial reporting and on compliance and other matters. The auditors identified one significant deficiency in the FY 2017 *Independent Auditors' Report on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. The significant deficiency related to improvements needed in controls over obligations. Specifically, the FBI has not consistently implemented financial controls on a quarterly basis to ensure that obligated balances are accurate.

No instances of non-compliance or other matters were identified during the audit that are required to be reported under Government Auditing Standards, in the FY 2017 *Independent Auditors' Report on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. Additionally, KPMG LLP's tests disclosed no instances in which the FBI's financial management systems did not substantially comply with FFMIA.

**AUDIT OF THE  
FEDERAL BUREAU OF INVESTIGATION  
ANNUAL FINANCIAL STATEMENTS  
FISCAL YEAR 2017**

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# U.S. DEPARTMENT OF JUSTICE

## FEDERAL BUREAU OF INVESTIGATION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)





## *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 (IC). The mission of the FBI is to protect the American people and uphold the Constitution of the United States.

The FBI's priorities guide how the organization addresses 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 FBI's mission priorities are to:

- Protect the U.S. from terrorist attacks;
- Protect the U.S. against foreign intelligence operations and espionage;
- Protect the U.S. against cyber-based attacks and high-technology crimes;
- Combat public corruption at all levels;
- Protect civil rights;
- Combat transnational and national criminal organizations and enterprises;
- Combat major white-collar crime; and
- Combat significant violent crime.

The methodology by which the FBI allocates gross costs and earned revenue across its three Strategic Goals (SGs or Goals) is consistent with the methodology used to allocate the FBI's budget to the three SGs in the Fiscal Year (FY) 2017 Authorization and Budget Request to Congress. The three SGs are:

1. Goal 1: Prevent Terrorism and Promote the Nation's Security Consistent with the Rule of Law;
2. Goal 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law; and
3. Goal 3: Ensure and Support the Fair, Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels.

#### **ORGANIZATION STRUCTURE**

Along with the FBI's headquarters (HQ or Headquarters) located in Washington, DC, the FBI operates field offices in 56 major U.S. cities and 355 resident agencies (RAs) throughout the country and territories. RAs are satellite offices, typically staffed with fewer than 20 personnel that support the larger field offices and enable the FBI to maintain a presence in and serve a greater number of communities. The FBI also operates 63 Legal Attaché (Legat) offices and 27 sub-offices in 75 foreign countries. This number fluctuates based upon demand and the global threat environment. FBI employees assigned to field offices, RAs, and Legat offices perform the majority of the investigative and intelligence work for the FBI. Special Agents in Charge and Assistant Directors in Charge of FBI field offices report directly to the Director and Deputy Director.



## *Management's Discussion and Analysis*

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Other major FBI facilities include the FBI Academy, the Engineering Research Facility (ERF), and the FBI Laboratory, all at Quantico, VA; a fingerprint identification complex in Clarksburg, WV that includes the Criminal Justice Information Services (CJIS) Division and the Biometrics Technology Center; and the Hazardous Devices School and Terrorist Explosive Device Analytical Center (TEDAC) at Redstone Arsenal in Huntsville, AL. In April 2017, the General Services Administration awarded a construction contract for the FBI's Central Records Center facility to be located in Winchester, VA. Construction is scheduled to begin in the fall of 2017 and facility completion estimated in FY 2020.

In FY 2017, the FBI's appropriated staffing level consisted of 13,102 Special Agents, 3,100 Intelligence Analysts, and 18,992 professional staff along with an additional 3,146 reimbursable positions.

### **FINANCIAL STRUCTURE**

The FBI's Salaries and Expenses (S&E) funding is appropriated among four decision units that are reflective of the FBI's key mission areas:

1. Intelligence
2. Counterterrorism (CT)/Counterintelligence (CI)
3. Criminal Enterprises and Federal Crimes (CEFC)
4. Criminal Justice Services (CJS)

Resources are allocated to these four decision units in one of three ways:

- Based on core mission function: Certain FBI divisions support one mission area exclusively and thus, are allocated entirely to the corresponding decision unit. For example, all of the resources of the Directorate of Intelligence (DI) are allocated to the Intelligence decision unit while all of the resources of the CJIS are allocated to the CJS decision unit.
- Based on workload: Critical investigative enablers, such as the Laboratory Division (LD), the International Operations Division, and the Operational Technology Division, are allocated to the decision units based on workload. For example, 21 percent of the LD's workload is in support of CT investigations, and accordingly, 21 percent of LD's resources are allocated to the Intelligence decision units. These percentage assignments may be revised upon review of workload.
- Pro-rated across all decision units: Administrative enablers, such as all three Information Technology (IT) Divisions, the Facilities and Logistics Services Division, and the Human Resources Division, are pro-rated across all four decision units since these divisions support the entire organization. This pro-rata spread is based on the allocation of operational divisions and critical investigative enablers.

The FBI's Construction funding is a separate no-year appropriation that is provided to support long-term infrastructure projects.



*Management's Discussion and Analysis*

**FY 2017 RESOURCE INFORMATION**

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, 2, and 3.

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

Source	FY 2017	FY 2016	Change%
<b>Earned Revenue</b>	\$ 964,088	\$ 1,106,239	(13%)
<b>Budgetary Financing Sources</b>			
Appropriations Received	9,006,379	8,798,768	2%
Appropriation Transferred-In/Out	165,741	(45,945)	461%
Other Adjustments	(51,705)	(151)	(34142%)
Transfers-In/Out Without Reimbursement	129,146	131,600	(2%)
Other Budgetary Financing Sources	-	(80,767)	100%
<b>Other Financing Sources</b>			
Transfers-In/Out Without Reimbursement	37,834	10,911	247%
Imputed Financing from Costs Absorbed by Others	230,656	247,408	(7%)
Other Financing Sources	(148,156)	(7,849)	(1788%)
<b>Total FBI Resources</b>	<b>\$ 10,333,983</b>	<b>\$ 10,160,214</b>	<b>2%</b>

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

Strategic Goal (SG)	FY 2017	FY 2016	Change%
<b>SG 1: Prevent Terrorism and Promote the Nation's Security Consistent with the Rule of Law</b>			
Gross Cost	\$ 5,696,716	\$ 5,616,030	
Less: Earned Revenue	305,503	319,400	
<i>Net Cost</i>	\$ 5,391,213	\$ 5,296,630	2%
<b>SG 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law</b>			
Gross Cost	\$ 3,676,740	\$ 3,561,832	
Less: Earned Revenue	217,759	225,117	
<i>Net Cost</i>	\$ 3,458,981	\$ 3,336,715	4%
<b>SG 3: Ensure and Support the Fair, Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels</b>			
Gross Cost	\$ 811,696	\$ 790,470	
Less: Earned Revenue	440,826	561,722	
<i>Net Cost</i>	\$ 370,870	\$ 228,748	62%
<b>Total Gross Cost</b>	<b>\$ 10,185,152</b>	<b>\$ 9,968,332</b>	
<b>Less: Total Earned Revenue</b>	<b>964,088</b>	<b>1,106,239</b>	
<b>Total Net Cost of Operations</b>	<b>\$ 9,221,064</b>	<b>\$ 8,862,093</b>	<b>4%</b>



## **ANALYSIS OF FINANCIAL STATEMENTS**

The FBI's financial statements received unmodified audit opinions for FYs 2017 and 2016. These financial statements were 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 (FASAB) and presentation guidelines in the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*.

**Assets:** Total Assets was \$7.92 billion as of September 30, 2017, an increase of \$182.1 million, or two percent, from the previous fiscal year's Total Assets of \$7.74 billion. The increase is primarily related to increases in Intragovernmental Accounts Receivable and Advances and Prepayments. Intragovernmental Accounts Receivable increased in FY 2017 by \$74.5 million, or 19 percent, which is primarily due to a \$66.0 million increase in billed reimbursable activity with Intelligence Community and DOJ components. Accounts Receivable related to other reimbursable activity increased by an additional \$8.5 million. Advances and Prepayments increased in FY 2017 by \$24.4 million, or 35 percent and Fund Balance with Treasury increased by \$53.7 million, or one percent. The remaining assets reflect a net increase of \$29.5 million.

**Liabilities:** Total Liabilities was \$1.40 billion as of September 30, 2017, an increase of \$33.2 million, or two percent, from the previous fiscal year's Total Liabilities of \$1.37 billion. Intragovernmental Accounts Payable increased by \$41.6 million or 31 percent due mainly to additional accrued liabilities with other DOJ components. Other Intragovernmental Liabilities had a net decrease of \$31.4 million due to an increase of advance liquidation activity that was offset by additional activity in a suspense fund. The remaining liabilities reflect a net increase of \$23.0 million.

**Net Position:** Total Net Position was \$6.52 billion as of September 30, 2017, an increase of \$148.8 million, or two percent, from the previous fiscal year's Total Net Position of \$6.37 billion. The net increase is primarily due to an increase in Appropriations Received and Appropriations Transferred-In/Out. Appropriations Received increased by \$207.6 million, or two percent. Appropriations Transferred-In/Out increased by \$211.7 million or 461 percent, which is mainly due to a \$181 million transfer-in from the Department of Justice Working Capital Fund for a new FBI Headquarters building. The net increase was offset by a net decrease in Cumulative Results of Operations of \$176.6 million and additional rescissions for FY 2017 as compared to FY 2016.

**Net Cost of Operations:** Total Net Cost of Operations was \$9.22 billion for FY 2017, an increase of \$359.0 million, or four percent, from Total Net Cost of Operations of \$8.86 billion for FY 2016. The increase is primarily attributed to a net increase of \$216.8 million, or two percent in Gross Costs and a \$142.2 million decrease or 13 percent in Earned Revenue. The decrease in Earned Revenue is primarily attributed to a decrease in fees charged coupled with a decrease in the number of fingerprint checks.

**Budgetary Resources:** Total Budgetary Resources was \$12.48 billion for FY 2017, an increase of \$327.2 million, or three percent, from Total Budgetary Resources of \$12.15 billion in FY 2016. The change is related to increases in Unobligated Balances, Brought Forward, October 1 of \$149.1 million and Appropriations of \$277.8 million, which were offset by a decrease in Spending Authority from Offsetting Collections of \$164.4 million, or 14 percent.



## *Management's Discussion and Analysis*

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### **FY 2017 Financial Highlights**

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 all FY 2017 performance results should be considered tentative. 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). In addition, prior year results may change due to previously classified accomplishments being declassified and reportable to the public. For previously estimated measures, the FBI reviewed and revised certain FY 2016 performance data from the FY 2016 MD&A. The FBI's FY 2017 Authorization and Budget Request to Congress documented these revisions. For FY 2017 MD&A performance estimates, the final targets will be reflected in the FY 2018 President's Budget.

**Strategic Goal 1, Prevent Terrorism and Promote the Nation's Security Consistent with the Rule of Law**, includes the FBI's CT and CI investigations, intelligence collection and analysis, computer intrusions investigations, and the Weapons of Mass Destruction (WMD) program. In FY 2017, Goal 1 Net Cost was \$5.4 billion, a net increase of two percent from FY 2016.

**Strategic Goal 2, Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law**, includes the majority of the FBI's criminal investigative programs and programs supporting state and local law enforcement. Investigations under Goal 2 includes: organized crime, drugs, violent crime, white-collar crime, and cyber crime. In FY 2017, Goal 2 Net Cost was \$3.5 billion, a net increase of four percent from FY 2016.

**Strategic Goal 3, Ensure and Support the Fair, Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels**, includes the FBI's Integrated Automation Fingerprint Identification Systems, Next Generation Identification, the National Instant Criminal Background Check System, the Law Enforcement National Data Exchange, and other criminal justice services that the FBI offers to law enforcement agencies and local communities. In FY 2017, Goal 3 Net Cost was \$371 million, a net increase of 62 percent from FY 2016.



## **FY 2017 REPORT ON SELECTED RESULTS**

**STRATEGIC GOAL 1: Prevent Terrorism and Promote the Nation's Security Consistent with the Rule of Law** *58 percent of the FBI's Net Cost supports this Goal.*

### **PROGRAM: Counterterrorism**

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

**Performance Measure:** Number of Terrorism Disruptions

**FY 2016 Actual Performance:** 460

**FY 2017 Target:** 200

**FY 2017 Actual Performance:** 723

#### **Discussion of FY 2017 Results:**

The number of terrorism disruptions affected through counterterrorism investigations greatly surpassed the FY 2017 target. In executing the FBI's number one priority to protect the U.S. from terrorist attacks, disruptions remain a key statistic that directly speaks to the Bureau's counterterrorism responsibilities. The FBI is committed to stopping terrorism of any kind at any stage. Reported disruptions can only result from predicated investigations and are contingent upon the actions of the predicated subjects, which is outside the FBI's control. As such, it is a challenge to quantify future anticipated disruptions and it necessitates prudence when forecasting.

### **PROGRAM: Counterintelligence**

**Background/Program Objectives:** Foreign espionage strikes at the heart of U.S. national security, impacting political, military, and economic arenas. The foreign intelligence threat to the U.S. is expanding, becoming more complex and less predictable. While traditional threats to national defense, military operations and policy, intelligence, and science and technology remain, many intelligence threats are expanding their targets to include the burgeoning population of cleared defense contractors. Other sectors affecting U.S. security, most notably sensitive economic information and emerging proprietary technology, are also threatened. Concurrently, foreign threats now have sophisticated networks of governmental and non-governmental entities using a wide array of intelligence collection platforms and engaging in long-term efforts to obtain sensitive information and threaten the security of the U.S.

Outreach is a long-standing FBI strategic priority, and field divisions are expected to evaluate regularly how they use partnerships to detect, report, neutralize, and disrupt foreign intelligence threats. As hostile foreign intelligence services use more sophisticated techniques to penetrate key economic, national security, and technology sectors, the FBI must continue developing robust partnerships outside the intelligence and law enforcement communities.

To address this priority, the Counterintelligence Division (CD) emphasized outreach in its FY 2017 strategy, including the fact that outreach is the responsibility of all counterintelligence personnel, not just a small group of designated liaisons. In furtherance of this, the CD worked with field offices to reintegrate their



## *Management's Discussion and Analysis*

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Strategic Program Coordinators into their counterintelligence squads and ensure all counterintelligence personnel have the tools, mandate, and opportunity to conduct private-sector outreach.

In addition, the CD created a new entity in FY 2017, the Counterintelligence Division Outreach Component (CDOC). CDOC reviews current intelligence to identify previously untapped opportunities for field offices to engage private-sector partners, and CDOC provides those offices with directed outreach taskings supported by detailed intelligence, which can be shared with the private sector. FBI field offices will continue to identify and engage partners on their own initiative, but CDOC is intended to supplement these efforts and bring the benefits of a national-level threat picture.

***Performance Measure:*** Percentage of Counterespionage Actions and Disruptions against National Counterintelligence Priorities that Result from FBI Outreach

***FY 2016 Actual Performance:*** 16.9 percent (28.7 percent including Economic Espionage)

***FY 2017 Target:*** Not Disclosed

***FY 2017 Actual Performance:*** Not Disclosed

### ***Discussion of FY 2017 Results:***

In FY 2017, espionage remained one of the CI program's most significant threats. In addition to traditional tradecraft used to access economic, national security, and proprietary information, the FBI continued to disrupt and monitor more advanced methods to infiltrate organizations.

In previous fiscal years, the FBI reported the percentage of Counterespionage Actions and Disruptions against National Counterintelligence Priorities that Result from FBI Outreach. For FY 2017, the FBI implemented new CI performance measures; however, these measures and/or their related analyses are classified for national security reasons.

The FBI relies heavily on its coordination with the U.S. Intelligence Community, other government agencies, international partners, and public as well as private entities. These relationships increase intelligence collection, identify emerging threats, and disrupt priority threats. As a result of this coordination, the FBI organized regular Counterintelligence Working Group meetings and formed alliances with the academic and business sectors. Outreach predicated the opening of counterintelligence and counterespionage cases.

As hostile foreign intelligence services use more sophisticated techniques to breach key economic, national security, and technology sectors, it is essential that the FBI develop more robust partnerships outside the intelligence and law enforcement communities. In FY 2018, threat-prioritized strategic outreach will remain an important initiative for the CI program. Further, the CI program will address the emerging threat of foreign nation states increasingly using commercial enterprises to achieve their desired intelligence collection and operational capabilities.



**PROGRAM: Cyber**

**Background/Program Objectives:** The FBI Cyber Division (CyD) focuses on countering cyber threats by focusing its resources on targeting and mitigating the top priority cyber threats. The FBI CyD manages computer intrusion disruption and dismantlement operations with the goal of eliminating the capabilities of a threat enterprise/organization that is engaged in criminal or national security intrusion activity.

Disruptions are milestones in the process of dismantling a group or organized criminal enterprise. Disruptions force an organization to adopt unfamiliar patterns or to use less experienced personnel, which creates opportunities for additional disruptions and to build momentum for a dismantlement – the ultimate intended impact on the threat. Dismantlement means that the targeted organization's leadership, financial base, and supply network have been rendered incapable of operating and/or the organization is forced to reconstitute itself. Each fiscal year, FBI CyD continues to communicate cyber threat-level guidance to all FBI field offices, which seeks to influence field offices' progress towards achieving these threat mitigation outcomes.

**Performance Measure:** Number of Computer Intrusion Program Disruptions and Dismantlements (D&D)

**FY 2016 Actual Performance:** 259

**FY 2017 Target:** 500

**FY 2017 Actual Performance:** 262

**Discussion of FY 2017 Results:**

Under the DOJ's Strategic Objectives, FBI CyD is accountable for Objective 1.4 "Combat cyber-based threats and attacks through the use of all available tools, strong public-private partnerships, and the investigation and prosecution of cyber threat actors." During FY 2017, CyD successfully achieved 262 computer intrusion program disruptions and dismantlements against adversaries targeting global U.S. interests. Although CyD did not achieve the FY 2017 target of 500, the FBI made noteworthy progress towards neutralizing global cyber threats.

Throughout FY 2017, CyD, in coordination with other law enforcement agencies and members of the IC, gathered evidence of computer intrusion techniques, patterns of criminal activity, and copies of malicious software. When possible, the FBI notified victims of computer intrusions, which enabled them to protect themselves against such tactics. In many circumstances victims were unaware their networks had been compromised. The FBI's information sharing and analysis capabilities have ensured that computer intrusion information and other information about cyber threats are also shared with other agencies in support of their independent cyber-related missions – both in the U.S. and abroad. Although the total number of disruptions and dismantlements against criminal and national security related cyber threats is unpredictable because of the nature of ongoing cyber campaigns, the FBI expects continued and sustained performance on this metric.



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**STRATEGIC GOAL 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law** *38 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, focuses on violent gangs, drug trafficking organizations (DTOs), and other organized violent criminal actors.

#### Gangs/Criminal Enterprises – Consolidated Priority Organization Target (CPOT) DTOs

DOJ maintains a single national list of major drug trafficking and money laundering organizations. This list of targets, known as the CPOT list, reflects the most significant international narcotic supply and related money laundering organizations, poly-drug traffickers, clandestine drug manufacturers and producers, and major drug transporters supplying the U.S.

The FBI concentrates counter-narcotics resources against Transnational Criminal Organizations (TCOs) with the most extensive drug networks in the U.S. As entire drug trafficking networks, from sources of supply through the transporters/distributors are disrupted or dismantled, the availability of drugs within the U.S. will be reduced. To assess its performance in combating criminal enterprises that engage in drug trafficking, the Organized Crime Drug Enforcement Task Forces (OCDETF) Program works in tandem with the Executive Office for OCDETF to track the number of organizations linked to targets on DOJ's CPOT list.

When an agent enters a disruption or dismantlement claim into the FBI's internal tracking database, the claim is re-drafted by the OCDETF Unit in order to meet the requirements of the OCDETF Executive Office, which is then submitted for ratification by the OCDETF Executive Office. This in turn creates a lag in timely and accurate reporting. Due to the cyclical nature of investigations, Continuing Resolutions, and the overall impact of declining resources, the number of CPOT linked TCO disruptions and dismantlements are lower than in previous years.

#### **Performance Measure:** CPOT-linked DTOs Dismantled

<b>FY 2016 Actual Performance:</b>	23
<b>FY 2017 Target:</b>	20
<b>FY 2017 Actual Performance:</b>	20

#### **Discussion of FY 2017 Results:**

The FBI anticipates that it will meet its FY 2017 target for the number of CPOT linked organizations disrupted or dismantled.



## *Management's Discussion and Analysis*

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### ***Performance Measure:*** CPOT-linked DTOs Disrupted

<b>FY 2016 Actual Performance:</b>	80
<b>FY 2017 Target:</b>	50
<b>FY 2017 Actual Performance:</b>	59

### ***Discussion of FY 2017 Results:***

The FBI expects to surpass its FY 2017 target again this fiscal year for the number of CPOT linked organizations disrupted or dismantled, once the number has been finalized. It is anticipated the FBI will continue to achieve greater efficiency linking cases to CPOTs that were not previously identified or documented; therefore, allowing higher documented production.

### **Violent Gang Criminal Enterprises (VGCEs)**

The mission of the FBI's Violent Gang Program is to address the VGCE threat in the U.S. by aggressively identifying, prioritizing, and targeting the most violent street and prison gangs whose activities constitute criminal enterprises. In January 1992, the FBI established the Safe Streets Violent Crime Initiative to attack gang and drug-related violence through the establishment of long-term, proactive, and coordinated teams of federal, state, and local law enforcement officers and prosecutors. The teams are manifested in Violent Gang Safe Streets Task Forces (VGSSTFs). As of September 30, 2017, the 170 VGSSTFs managed by the FBI were comprised of approximately 775 FBI Special Agents and 1,390 state, local, and other federal law enforcement officials.

Through VGSSTFs, the FBI pursues violent gangs through sustained, proactive, and coordinated investigations and prosecutes gang members for a number of violations that include, but are not limited to, racketeering, drug conspiracy, and firearms violations. The Safe Streets Task Forces (SSTFs) concept expands cooperation and communication among federal, state, and local law enforcement agencies, increasing productivity and avoiding duplication of investigative efforts. SSTFs combine short-term, street-level enforcement activity with sophisticated investigative techniques such as undercover operations and Title III wire taps to root out, prosecute, and disrupt and dismantle the entire gang, from the street-level enforcers and dealers to crew leaders and the gang's command structure.

State and local officers bring an unparalleled level of expertise and knowledge regarding local gangs, gang members, and violent offenders operating in their department's area of responsibility. This knowledge, combined with FBI resources, ensures VGSSTFs are successful in disrupting and dismantling the most violent gangs.



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**Performance Measure:** Number of Gangs/Criminal Enterprise Dismantlements (non-CPOT)

**FY 2016 Actual Performance:** 123

**FY 2017 Target:** 124

**FY 2017 Actual Performance:** 178

**Discussion of FY 2017 Results:**

The FBI exceeded its target for this measure in FY 2017. It should be noted through sustained, proactive, coordinated investigations utilizing sophisticated techniques and technological advances, the FBI had further impact on this crime problem by achieving 1,058 disruptions against the threat in FY 2017. Combining short term, street-level enforcement activity with investigative techniques such as consensual monitoring, financial analysis and Title III wire intercepts, the FBI made significant achievements against the gang and criminal enterprise threat in FY 2017.

**PROGRAM: White-Collar Crime (WCC)**

**Background/Program Objectives:** The FBI's WCC program 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 2016 Actual Performance:** 302

**FY 2017 Target:** 400

**FY 2017 Actual Performance:** 438

**Discussion of FY 2017 Results:**

The FY 2017 Performance Metrics for Dismantlements exceeded projections as the FBI continues its efforts to dismantle criminal enterprises engaging in white-collar crimes through the utilization of proactive investigative techniques and technological advances. Increased utilization of advanced techniques not commonly utilized in past WCC cases enabled significant investigative achievements against WCC threat actors. The FBI only reports dismantlement accomplishments upon the targeted organization's leadership, financial supply base and supply network being destroyed, such that the organization is incapable of operating and/or reconstituting itself. Accordingly, many FBI field offices wait until all subjects have been convicted and/or sentenced before claiming a dismantlement. As such statistics are entirely dependent on the judicial process, it is difficult to compare one year to another. The number reported above includes dismantlements claimed in corporate fraud, securities and commodities fraud, financial institution fraud, mortgage fraud, mass marketing fraud, money laundering, and health care fraud investigations conducted by the FBI. Dismantlement accomplishments associated with white-collar crime investigations conducted by the FBI's Public Corruption and Transnational Organized Crime programs were not included in this analysis.



## *Management's Discussion and Analysis*

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**STRATEGIC GOAL 3: Ensure and Support the Fair, Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels** *Four percent of the FBI's Net Cost supports this Goal.*

The FBI did not include performance measures that significantly led to managing, budgeting, or oversight of Strategic Goal 3.



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

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

The Federal Managers' Financial Integrity Act of 1982 (FMFIA or Integrity Act) 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**

FBI's management 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 Enterprise Risk Management and Internal Control*, revised July 15, 2016, 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 summarized below. Corrective Action Plans were established to institute programs and/or controls to eliminate this condition.

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

**Cyber Threat Prioritization:** In July 2016, Office of the Inspector General (OIG) examined how the FBI prioritizes cyber threats from FY 2014 to FY 2016 under the Threat Review and Prioritization (TRP) process. OIG reported the TRP's subjective terminology is a substantial weakness in the FBI's efforts at prioritizing cyber threats. The OIG determined the FBI's TRP process does not prioritize cyber threats in an objective, data-driven, reproducible, and auditable manner because the criteria used is open to interpretation. The OIG identified two recommendations to include the FBI developing an objective methodology used in scoping and prioritizing cyber threats, and implementing a recordkeeping system that tracks agent time by threats. The FBI is working to implement these recommendations.

**Hiring Disclosures:** In FY 2015, the DOJ provided the FBI an exemption from implementing the hiring disclosure process mandated by the Deputy Attorney General in November 2014. The exemption was provided due to the FBI's ongoing significant resource investment in developing and implementing a new hiring system, HR Source. The FBI's evaluation in FY 2017 found that the hiring disclosure process has not been fully implemented across all Headquarters (HQ) divisions and field offices. The FBI Human Resources Division (HRD) has been striving to automate the disclosure process within HR Source. Until this effort is completed, the HRD will communicate to all HQ divisions and field offices that the hard copy disclosure forms must be used. Also, the HRD will reiterate the requirement during monthly teleconferences with field offices, monthly FBI Administrative Officer teleconferences, leadership briefings at the Special Agent in Charge Conference, advisory committee meetings, and the annual FBI HRD conference.

**Use of National Security Letters (NSL):** In Calendar Year (CY) 2007 through 2014, the FBI's use of NSLs has been the subject of four OIG reviews. The OIG reported in the first report in March 2007 that the FBI's



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

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use of NSLs had grown dramatically and shifted in focus since the enactment of the PATRIOT Act (October 2001) and that NSLs serve as an indispensable investigative tool. The OIG recommended improvements for the FBI's tracking, reporting, and guidance regarding NSL usage. A follow-up report in March 2008 stated that the FBI and DOJ made progress in implementing the CY 2007 recommendations. The report included additional recommendations to further strengthen the use of NSLs. A report in January 2010 on the FBI's use of exigent letters to request information from communications service providers, a practice the FBI discontinued in CY 2007, stated that the FBI took appropriate action in CY 2007 to stop the use of exigent letters and address the problems created by their use. The report included additional recommendations to further strengthen controls over information requests. A follow-up report in August 2014 on the FBI's progress on implementing the recommendations from the prior reviews resulted in 12 additional recommendations.

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

In FY 2017, 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 Enterprise Risk Management and Internal Control*, revised July 15, 2016. 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 DOJ. These processes were: Budget and Funds Management; Revenue and Receivables Management; Procurement; Property Management; Treasury and Fund Balance with Treasury; Human Resources; Financial Reporting; and Information Systems. The results of the assessment indicated no material weaknesses in the FBI's internal control over financial reporting as of June 30, 2017. Subsequently, independent auditors conducting the annual financial statement audit brought to FBI management's attention significant deficiencies in the area of validating the accuracy of open obligations. FBI management has reviewed the auditors' finding and taken appropriate corrective actions.

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

The Federal Financial Management Improvement Act of 1996 (FFMIA) was designed to advance Federal financial management by ensuring that Federal financial management systems provide accurate, reliable, and timely financial management information to the government's managers. Compliance with the FFMIA provides the basis for the continuing use of reliable financial management information by program managers, as well as by the President, Congress, and public. The FFMIA requires agencies to have financial management systems that substantially comply with Federal financial management system requirements, applicable Federal accounting standards, and the application of the U.S. Government 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.

### **FFMIA Compliance Determination**

During FY 2017, the FBI assessed its financial management systems for compliance with the FFMIA and determined that, when taken as a whole, they substantially comply with FFMIA. This determination is based on the results of FISMA reviews and testing performed for OMB Circular A-123, Appendix A. Consideration was also given to any issues identified during the FBI financial statement audit.



### **Digital Accountability and Transparency Act (DATA Act) Compliance Determination**

The OIG is conducting an examination of the Department's compliance with the Digital Accountability and Transparency Act (DATA Act). The DATA Act requires the Inspector General of each Federal agency to review a statistically valid sample of the agency's spending data and submit to Congress a publicly available report assessing the completeness, timeliness, quality, and accuracy of the data sampled and the implementation and use of the Government-wide financial data standards by the agency. The OIG selected its sample from spending data reported in May 2017. The OIG's preliminary findings identified deficiencies with FBI spending data. Due to the timing of the OIG's testing, these deficiencies were based on the FBI's initial submission of DATA Act files and not its final submission. The FBI coordinated with the Department's DATA Act team and has implemented corrective actions. Additionally, the FBI implemented measures to provide the necessary data but still maintain national security interests. The DOJ Justice Management Division's Internal Review and Evaluation Office advised the FBI that a Department-level Corrective Action Plan will be developed as part of Department management's response to the recommendations in the OIG's final report, which is due in November 2017. The FBI will implement additional controls, as necessary.

### **Legal Compliance**

The FBI is not aware of any 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.

### **IMPROPER PAYMENTS INFORMATION ACT OF 2002, AS AMENDED**

In accordance with OMB Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*, and the Departmental guidance for implementing the Improper Payments Information Act of 2002 (IPIA), as amended, 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 IPIA, as amended, the FBI assessed its activities for susceptibility to significant improper payments and conducted its payment recapture audit program. 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 2017 Agency Financial Report.



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

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

#### **The Changing Threat**

Threats from the Islamic State, the increase in violent crime in the U.S., and the increase in domestic and international terrorism attacks are all manifestations of the various threats the FBI faces and will continue to face in the near future.

The FBI continues to identify individuals who seek to join the ranks of foreign fighters traveling in support of the Islamic State of Iraq and the Levant, commonly known as ISIL, and also homegrown violent extremists who may aspire to attack the U.S. from within. These threats remain among the highest priorities for the FBI and the IC as a whole.

The U.S. continues to face a range of criminal, terrorist, and nation-state actor threats, such as organized crime syndicates seeking to defraud banks and corporations or spies seeking to steal defense and intelligence secrets. While these threats are not new, the means by which actors implement them are changing. Today, these actors engage via the Internet and other computer networks. These networks provide ample cover from attribution, making the identification of the intrusion difficult as the motive of the attacker – be it criminal, and terrorist or nation-state espionage – can remain unknown.

The foreign intelligence threat to the U.S. continues to increase as foreign powers seek to establish economic, military, and political preeminence and to position themselves to compete with the U.S. in economic and diplomatic arenas. Criminal threats continue in areas such as gang violence, transnational organized crime, civil rights, crimes against children, Indian country, fugitives, transportation crimes, and Southwest border.

#### **Budget Environment**

The foundation of the FBI's budget strategy is supported by the FBI's mission, vision, and strategic objectives. At the heart of the FBI's strategy is the vision statement: Ahead of the threat through leadership, agility, and integration. The FBI aims to be ahead of the threat in two different ways. First, the FBI's goal is to continuously evolve to anticipate and mitigate existing threats. Second, the FBI needs to be able to recognize and address threats that it has not yet seen.

The mission of the FBI is to protect the American People and uphold the Constitution of the United States. The FBI has identified eight priorities to focus efforts and accomplish the mission. In addition, the FBI uses a threat prioritization process to maximize its effect in these areas and ensure that all threat issues are considered.



## *Management's Discussion and Analysis*

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The FBI must also structure the organization to be as effective as possible by identifying and closing strategic gaps. To close strategic gaps, the FBI has 11 enterprise objectives, organized thematically into four pillars: capability, technology, talent, and stewardship. Each represents a broad area of focus for the entire FBI and an overarching strategy to accomplish FBI's mission. The 11 strategic objective focus areas are as follows:

- Focus on Leadership in Every Aspect of the FBI;
- Incorporate Intelligence in All We Do;
- Enhance Cyber Capabilities;
- Improve Organizational Agility;
- Strengthen Partnerships;
- Improve Information Technology;
- Deploy Innovative Solutions;
- Promote a Culture of Accountability and Transparency;
- Transform Recruitment and Hiring;
- Improve Workforce Development; and,
- Improve Stewardship of Resources.

The FBI's success depends on monitoring and improving its ability to meet these objectives. The FBI conducts headquarters level Quarterly Strategy Reviews to discuss FBI's progress on its objectives, and Project Management Reviews to track particular projects that support the strategy, which are also conducted at an enterprise level. In the field, the strategy is cascaded through the Integrated Program Management Process, which tracks the FBI's execution of its mission. Headquarters operational programs evaluate the threat landscape and develop mitigation strategies. Field offices then evaluate the threat in their areas and create a strategy to address it throughout the year. These strategies undergo mid-year and end-of-year assessments; both Headquarters and the field are held to measure and track their performance. FBI executives and Program managers hold regular meetings to review and evaluate the effectiveness and success of the strategic measures throughout the fiscal year.

By understanding the threat-based landscape and identifying critical enterprise-wide capabilities needed to perform its mission, the FBI's budget strategy and future resource requirements and requests are designed to enable the FBI to address the current range of national security threats and crime problems and also focus on the future needs of the FBI.

The FBI's budget strategy is based on the FBI's knowledge of current and future national security, cyber, and criminal investigative threats. The FBI has identified critical, enterprise-wide capabilities needed to perform its mission. Additionally, an increasing number of the FBI's programs and initiatives are multi-year in nature, and require phased development, deployment, and operations/maintenance funding. A multi-year planning approach allows FBI management to better understand the implications of proposed initiatives, such as information technology refresh and vehicle fleet replacement.

The FBI continues to seek opportunities to leverage its numerous intelligence community and law enforcement partners' reach, expertise, and resources, as well as independently operate efficiently and effectively within an ever-changing threat environment. As always, central to the FBI's success are the talented individuals that support the agency and its mission.



## *Management's Discussion and Analysis*

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### **FBI Headquarters Consolidation**

The FBI will complete a plan requested by Congress by November 2017 that outlines the new FBI Headquarters Consolidation strategy and path forward following the decision to end the Headquarters procurement process due to lack of funding. This plan will include a strategy to obtain sufficient funds for a modern facility that enables our workforce to fully support the mission. In an effort to increase workforce productivity, the FBI is prioritizing the implementation of modern workspace designs, advanced technology, and recruitment of top talent.

### **CJIS User Fee Study**

Consistent with guidance in OMB Circular A-25, the FBI completed the evaluation for the FBI CJIS User Fee Rate Schedule. During FY 2015, FBI CJIS experienced an increase in demand for Criminal History Record Information (CHRI) checks for non-criminal justice purposes and projected that increase would continue through FY 2017 resulting in a reduction to the per transaction cost. The FBI approved an adjustment to the fee schedule and published a Notice of the Change in the Federal Register on July 14, 2016. Effective October 1, 2016, fingerprint-based CHRI checks were reduced by \$2.75 to \$10, fingerprint-based for volunteer CHRI also dropped by \$2.75 to \$8.75, while the name-based CHRI checks dropped 25 cents to \$2.

### **FBI and the Data Center Optimization Initiative**

The DOJ and FBI have committed to operate smaller and smarter, aligning with the Federal Data Center Consolidation Initiative. The Data Center Optimization Initiative optimizes and standardizes IT infrastructure to improve operational efficiencies and agility, reduces the energy and real property footprint of existing data center facilities, enhances security posture, and better aligns the use of IT staff and labor resources supporting DOJ and FBI missions.

The DOJ and FBI will reduce the number of data centers that exist today and consolidate into three Core Enterprise Facilities (CEFs) by the end of 2019. The FBI will host two of the three CEFs in Clarksburg, WV and Pocatello, ID; work is currently underway to prepare these facilities.

### **New Facilities**

The FBI continues to work towards consolidating and improving its operations through the construction of modern facilities. The Consolidated Records Complex near Winchester, VA will provide a state-of-the-art facility to warehouse all of the FBI's paper records. It will employ a sophisticated automatic storage and retrieval system that will allow the FBI to find, pull and file records in a shortened period of time.

The FBI is increasing its presence at the U.S. Army Redstone Arsenal (RSA), Huntsville, AL. Historically, the FBI presence was the Hazardous Devices School (HDS), which provides basic, recertification, and advance training and certification for law enforcement and public safety bomb technicians. HDS was originally started by the U.S. Army at RSA in 1971; the FBI assumed administration of the program in 1980 and, this past September, full operational and instructional responsibility was transferred from the U.S. Army to the FBI. Annually, students attend HDS for training.

Guiding current and future projects is an on-going high-level strategic master plan effort. The FBI is working closely with RSA to identify potential sites for other FBI divisions and offices at RSA. This high-level plan is the basis for a current Environmental Assessment effort necessary for near term construction projects.



## **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.

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





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

## **Independent Auditors' Report on the Financial Statements**

Inspector General  
U.S. Department of Justice

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

We have audited the accompanying consolidated financial statements of the U.S. Department of Justice Federal Bureau of Investigation (FBI), which comprise the consolidated balance sheets as of September 30, 2017, and 2016, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03, require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

### ***Opinion on the Financial Statements***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Justice Federal Bureau of Investigation as of September 30, 2017, and 2016, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.



## ***Other Matters***

### ***Required Supplementary Information***

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2017 on our consideration of the FBI's internal control over financial reporting, and our report dated November 7, 2017 on 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* in considering the FBI's internal control over financial reporting and compliance.

**KPMG LLP**

Washington, D.C.  
November 7, 2017



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

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

Inspector General  
U.S. Department of Justice

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*, the consolidated financial statements of the U.S. Department of Justice Federal Bureau of Investigation (FBI), which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of net cost, and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 7, 2017.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2017, we considered the FBI's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FBI's internal control. Accordingly, we do not express an opinion on the effectiveness of the FBI's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify one deficiency in internal control, described in the Exhibit, that we consider to be a significant deficiency.

### **FBI's Response to Finding**

The FBI's response to the significant deficiency identified in our audit and presented in the Exhibit was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.



**Purpose of this Report**

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

KPMG LLP

Washington, D.C.  
November 7, 2017

## Significant Deficiency

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### Improvements Needed in Controls over Obligations

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The FBI has not consistently implemented financial controls on a quarterly basis to ensure that obligated balances are accurate. Inaccurate obligated balances can result from either: 1) not reducing the obligated balance in a timely manner after the receipt of goods or services; or 2) obligated balances that are no longer needed. These balances should be adjusted or de-obligated to reflect the remaining amount. Management's quarterly review and certification of open obligations failed to identify and correct inaccurate obligated balances, which resulted in a factual overstatement of \$26.8 million as of March 31, 2017, and a projected misstatement of \$119.8 million out of total open obligations of \$2.2 billion. Management made improvements in the quarterly review and certification control during the remaining part of the fiscal year. As of September 30, 2017, of \$2.3 billion in open obligations, there was a factual overstatement of \$2.6 million, and a projected overstatement of \$6.3 million.

Government Accountability Office GAO-14-704G, *Standards for Internal Control in the Federal Government*, Principle 10 – Design Control Activities, states that, “Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.”

Communication gaps and insufficient coordination between certain sections within the FBI's Finance and Facilities Division (FFD) prevented timely identification and correction of inaccurate obligated balances. As a result, we have observed that processes that do not periodically review obligated balances increase the risk that material misstatements may occur and not be detected.

We recommend that FBI management:

1. Enhance the quarterly open obligations certification process by establishing more effective lines of communication and coordination within the FFD to properly validate open obligations. (*New*)

#### **Management Response:**

The FBI concurs with this recommendation. During FY 2017, the FFD increased internal communication related to the obligation validations. Specifically, for the FY 2017 Q3 and Q4 quarter-end processes, the Procurement and Accounting Sections coordinated to:

- Obtain additional details to validation results such as the dates of contact with the vendor or other agency and expected action for obligations confirmed to be valid which have not had recent activities (i.e., expected receipt of invoice or IPAC),
- Record adjustments to deobligate items that were intended to be deobligated but were unable to be posted through the standard process prior to quarter-end, and
- Exclude adjusted deobligations from the accrual population.

The FBI recognizes the importance of executing internal controls throughout the fiscal year. The improvements made during FY 2017 Q3 and Q4 around communication procedures will continue to be integrated into the quarterly internal control and executed throughout FY 2018. The FBI will

continue to identify and implement methods to refine its communication process with UDO stakeholders to maximize validation process efficiencies and effectiveness.

2. Revise the processes for monitoring open obligations in order to timely identify and de-obligate obligated balances that are no longer needed. *(New)*

**Management Response:**

The FBI concurs with this recommendation. Throughout FY 2017, the FBI continued to refine its quarterly internal controls to monitor and validate high risk obligations. Specifically, as discussed in the FBI's response to Recommendation 1, starting in Q3, the FBI requested additional detail within the quarterly validation results to capture the follow-up to vendors and other agencies, which resulted in more timely receipt of invoices and IPACs and timely deobligations. For obligations determined to no longer be valid, the FBI confirmed that deobligations were recorded timely, or if delayed in processing, recorded adjustments to properly reflect deobligations in the financial statements.

The FBI also executed a focused effort by the Procurement Section, Accounting Section and Audit Unit during FY 2017 to reduce the balance of high risk obligations, resulting in timely liquidation or deobligation of open UDO balances.

Similar to improvements to communication, improvements made during FY 2017 Q3 and Q4 to the high risk obligation validation internal control will continue to be executed throughout FY 2018. The FBI will also continue to identify and implement methods to refine its process for validating obligations to maximize efficiencies and effectiveness.



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

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

Inspector General  
U.S. Department of Justice

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*, the consolidated financial statements of the U.S. Department of Justice Federal Bureau of Investigation (FBI), which comprise the consolidated balance sheets as of September 30, 2017, and 2016, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 7, 2017.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the FBI's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 17-03.

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

**Purpose of this Report**

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

**KPMG LLP**

Washington, D.C.  
November 7, 2017

# U.S. DEPARTMENT OF JUSTICE

## FEDERAL BUREAU OF INVESTIGATION

### PRINCIPAL FINANCIAL STATEMENTS AND RELATED NOTES





**U.S. Department of Justice  
Federal Bureau of Investigation  
Consolidated Balance Sheets  
As of September 30, 2017 and 2016**

<b>Dollars in Thousands</b>	<b>2017</b>	<b>2016</b>
<b>ASSETS (Note 2)</b>		
Intragovernmental		
Fund Balance with U.S. Treasury (Note 3)	\$ 4,471,449	\$ 4,417,713
Accounts Receivable (Note 5)	472,806	398,354
Other Assets (Note 8)	29,059	16,460
Total Intragovernmental	<u>4,973,314</u>	<u>4,832,527</u>
Cash and Other Monetary Assets (Note 4)	84,674	81,188
Accounts Receivable, Net (Note 5)	30,368	40,648
General Property, Plant and Equipment, Net (Note 7)	2,742,297	2,718,609
Advances and Prepayments	94,324	69,939
<b>Total Assets</b>	<b><u>\$ 7,924,977</u></b>	<b><u>\$ 7,742,911</u></b>
<b>LIABILITIES (Note 9)</b>		
Intragovernmental		
Accounts Payable	\$ 175,487	\$ 133,927
Accrued Federal Employees' Compensation Act Liabilities	33,049	32,273
Custodial Liabilities (Note 18)	999	864
Other Liabilities (Note 13)	114,131	145,551
Total Intragovernmental	<u>323,666</u>	<u>312,615</u>
Accounts Payable	341,195	334,929
Actuarial Federal Employees' Compensation Act Liabilities	203,492	201,737
Accrued Payroll and Benefits	158,380	155,051
Accrued Annual and Compensatory Leave Liabilities	308,006	300,507
Environmental and Disposal Liabilities (Note 10)	5,565	1,980
Seized Cash and Monetary Instruments (Note 12)	40,074	38,260
Contingent Liabilities (Note 14)	1,659	3,789
Other Liabilities (Note 13)	21,921	21,855
<b>Total Liabilities</b>	<b><u>\$ 1,403,958</u></b>	<b><u>\$ 1,370,723</u></b>
<b>NET POSITION</b>		
Unexpended Appropriations	\$ 3,123,968	\$ 2,798,520
Cumulative Results of Operations	3,397,051	3,573,668
<b>Total Net Position</b>	<b><u>\$ 6,521,019</u></b>	<b><u>\$ 6,372,188</u></b>
<b>Total Liabilities and Net Position</b>	<b><u>\$ 7,924,977</u></b>	<b><u>\$ 7,742,911</u></b>

***Federal Bureau of Investigation***

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



**U.S. Department of Justice  
Federal Bureau of Investigation  
Consolidated Statements of Net Cost  
For the Fiscal Years Ended September 30, 2017 and 2016**

**Dollars in Thousands**

FY	Gross Costs		Less: Earned Revenues		Net Cost of Operations (Note 15)
	Intra-governmental	With the Public	Intra-governmental	With the Public	
	Total	Total	Total	Total	
<b>Goal 1</b>					
2017	\$ 1,593,611	\$ 4,103,105	\$ 296,847	\$ 8,656	\$ 305,503
2016	\$ 1,575,606	\$ 4,040,424	\$ 310,818	\$ 8,582	\$ 319,400
<b>Goal 2</b>					
2017	980,623	2,696,117	212,845	4,914	217,759
2016	959,865	2,601,967	219,776	5,341	225,117
<b>Goal 3</b>					
2017	305,350	506,346	296,972	143,854	440,826
2016	294,711	495,759	366,631	195,091	561,722
<b>Total</b>					
2017	\$ 2,879,584	\$ 7,305,568	\$ 806,664	\$ 157,424	\$ 964,088
2016	\$ 2,830,182	\$ 7,138,150	\$ 897,225	\$ 209,014	\$ 1,106,239

Goal 1 Prevent Terrorism and Promote the Nation's Security Consistent with the Rule of Law  
 Goal 2 Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law  
 Goal 3 Ensure and Support the Fair, Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels

**Federal Bureau of Investigation**

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



U.S. Department of Justice  
Federal Bureau of Investigation  
Consolidated Statements of Changes in Net Position  
For the Fiscal Years Ended September 30, 2017 and 2016

Dollars in Thousands	2017	2016
<b>Cumulative Results of Operations</b>		
Beginning Balances	\$ 3,573,668	\$ 3,548,414
<b>Budgetary Financing Sources</b>		
Appropriations Used	8,794,967	8,586,044
Transfers-In/Out Without Reimbursement	129,146	131,600
Other Budgetary Financing Sources	-	(80,767)
<b>Other Financing Sources</b>		
Transfers-In/Out Without Reimbursement	37,833	10,911
Imputed Financing (Note 16)	230,657	247,408
Other Financing Sources	(148,156)	(7,849)
<b>Total Financing Sources</b>	<b>9,044,447</b>	<b>8,887,347</b>
<b>Net Cost of Operations</b>	<b>(9,221,064)</b>	<b>(8,862,093)</b>
<b>Net Change</b>	<b>(176,617)</b>	<b>25,254</b>
<b>Cumulative Results of Operations</b>	<b>\$ 3,397,051</b>	<b>\$ 3,573,668</b>
<b>Unexpended Appropriations</b>		
Beginning Balances	\$ 2,798,520	\$ 2,631,892
<b>Budgetary Financing Sources</b>		
Appropriations Received	9,006,379	8,798,768
Appropriations Transferred-In/Out	165,741	(45,945)
Other Adjustments	(51,705)	(151)
Appropriations Used	(8,794,967)	(8,586,044)
<b>Total Budgetary Financing Sources</b>	<b>325,448</b>	<b>166,628</b>
<b>Unexpended Appropriations</b>	<b>\$ 3,123,968</b>	<b>\$ 2,798,520</b>
<b>Net Position</b>	<b>\$ 6,521,019</b>	<b>\$ 6,372,188</b>

*Federal Bureau of Investigation*

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



**U.S. Department of Justice  
Federal Bureau of Investigation  
Combined Statements of Budgetary Resources  
For the Fiscal Years Ended September 30, 2017 and 2016**

Dollars in Thousands	2017	2016
<b>Budgetary Resources:</b>		
Unobligated Balance, Brought Forward, October 1	\$ 2,146,191	\$ 1,997,091
Recoveries of Prior Year Unpaid Obligations	297,317	247,237
Other Changes in Unobligated Balance	(10,453)	(25,052)
Unobligated Balance from Prior Year Budget Authority, Net	2,433,055	2,219,276
Appropriations (discretionary and mandatory)	8,997,756	8,720,005
Spending Authority from Offsetting Collections (discretionary and mandatory)	1,047,522	1,211,877
<b>Total Budgetary Resources</b>	<b>\$ 12,478,333</b>	<b>\$ 12,151,158</b>
<b>Status of Budgetary Resources:</b>		
New Obligations and Upward Adjustments (Total) (Note 17)	\$ 10,312,562	\$ 10,004,967
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	1,702,175	1,848,284
Unapportioned, Unexpired Accounts	16,262	1,953
Unexpired Unobligated Balance, End of Year	1,718,437	1,850,237
Expired Unobligated Balance, End of Year	447,334	295,954
Unobligated Balance - End of Year (Total)	2,165,771	2,146,191
<b>Total Status of Budgetary Resources</b>	<b>\$ 12,478,333</b>	<b>\$ 12,151,158</b>
<b>Change in Obligated Balance:</b>		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1	\$ 2,857,435	\$ 2,835,687
New Obligations and Upward Adjustments	10,312,562	10,004,967
Outlays, Gross	(9,944,050)	(9,735,982)
Recoveries of Prior Year Unpaid Obligations	(297,317)	(247,237)
Unpaid Obligations, End of Year	2,928,630	2,857,435
Uncollected Payments:		
Uncollected Payments, Federal Sources, Brought Forward, October 1	(561,024)	(537,226)
Change in Uncollected Payments, Federal Sources	(48,970)	(23,798)
Uncollected Payments, Federal Sources, End of Year	(609,994)	(561,024)
Memorandum (non-add) Entries:		
Obligated Balance, Start of Year	\$ 2,296,411	\$ 2,298,461
Obligated Balance, End of Year	\$ 2,318,636	\$ 2,296,411
<b>Budgetary Authority and Outlays, Net:</b>		
Budgetary Authority, Gross (discretionary and mandatory)	\$ 10,045,278	\$ 9,931,882
Less: Actual Offsetting Collections (discretionary and mandatory)	1,011,528	1,215,877
Change in Uncollected Payments, Federal Sources (discretionary and mandatory)	(48,970)	(23,798)
Recoveries of Prior Year Paid Obligations (discretionary and mandatory)	12,976	27,798
Budgetary Authority, Net (Total) (discretionary and mandatory)	<b>\$ 8,997,756</b>	<b>\$ 8,720,005</b>
Outlays, Gross (discretionary and mandatory)	\$ 9,944,050	\$ 9,735,982
Less: Actual Offsetting Collections (discretionary and mandatory)	1,011,528	1,215,877
Outlays, Net (Total) (discretionary and mandatory)	8,932,522	8,520,105
Less: Distributed Offsetting Receipts	12,279	(1,316)
Agency Outlays, Net (discretionary and mandatory)	<b>\$ 8,920,243</b>	<b>\$ 8,521,421</b>

**Federal Bureau of Investigation**

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



## *Notes to the Principal Financial Statements*

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### **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 year, multi-year, and no-year Salaries and Expense (S&E) funds; and appropriated no-year Construction (CNST) 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. The FBI also receives reimbursable funding from other agencies for services rendered.

##### **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 (FASAB) and presentation guidelines in the OMB Circular A-136, *Financial Reporting Requirements*. These financial statements are different from the financial reports prepared pursuant to OMB directives 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 sheets. These include from Other Assets, Advances and Prepayments with the Public; and from Other Liabilities, 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) 2017 and 2016, 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



## *Notes to the Principal Financial Statements*

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

as a whole, such as General Services Administration (GSA) owned property and equipment, and 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**

Fund balance with the Treasury primarily represent appropriated, revolving, and trust funds available to pay current liabilities and finance future authorized purchases of goods and services. 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. 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 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 collection 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.



*Notes to the Principal Financial Statements*

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**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.

The FBI used the purchase method, under Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property* to record OM&S. Per SFFAS No. 3, an exception to the consumption method is provided when (1) the OM&S are not significant amounts (2) they are in the hands of the end users for use in normal operations, or (3) it is not cost-beneficial to apply the consumption method. The purchase method may be used if any of these circumstances exist.

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

With the exception of land, all general PP&E is capitalized when the cost of acquiring or improving the property meets the capitalization thresholds noted in the table below and has a useful life of two or more years. All general PP&E is depreciated or amortized, based on historical cost, using the straight-line method over the estimated useful life of the asset. The FBI calculates a salvage value of 10 percent or less for capitalized property. Land is capitalized regardless of its acquisition cost and is never depreciated.

Expenditures for property and equipment with an acquisition cost or individual asset recognition value less than the applicable threshold are charged to operating expenses as incurred. The FBI uses work-in-process (WIP) accounts to capitalize expenditures associated with on-going leasehold improvement 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 if the project exceeds the capitalization threshold.

Below are the capitalization thresholds:

<b>Type of Property</b>	<b>Threshold</b>
Real Property	\$250
Personal Property	\$50
Aircraft	\$100
Internal Use Software	\$5,000

While the FBI owns 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. The FBI, independently, enters into lease agreements for the purchase of property, equipment, buildings or facilities expressly for use in undercover investigative operations. These leases are classified as operating leases within the financial statements.



## *Notes to the Principal Financial Statements*

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

#### **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/expenses when the related goods and services are received. Advances and prepayments involving other Federal agencies are classified as *Other Assets* on the balance sheet.

#### **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 6 and valued at the appraised or fair market value upon seizure, or, when market value could not be readily determined, as soon as reasonably possible. These items are not adjusted to any subsequent increases and decreases in estimated fair market value. Non-monetary valuable property is not recognized as assets on the balance sheet.

Quantities of illegal drugs and firearms held as evidence are disclosed in Note 6 in accordance with SFFAS No. 3, 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 considers 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 14, *Contingencies and Commitments*. However, there are cases where amounts have not been



## *Notes to the Principal Financial Statements*

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

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.

#### **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 of the Department are covered by one of the following retirement programs:

- 1) Employees hired before January 1, 1984, are covered by the Civil Service Retirement System (CSRS). The FBI contributes 7.0 percent of the gross pay for regular employees and 7.5 percent for law enforcement officers.
- 2) Employees hired January 1, 1984 or later, are covered by the Federal Employees Retirement System (FERS).
  - a) Employees hired January 1, 1984 through December 31, 2012, are covered by the FERS. The FBI contributes 14.7 percent of the gross pay for regular employees and 32.5 percent for law enforcement officers.
  - b) Employees hired January 1, 2013 through December 31, 2013, are covered by the Federal Employees Retirement System-Revised Annuity Employees (FERS-RAE) System. The FBI contributes 15.3 percent of the gross pay for regular employees and 33.2 percent for law enforcement officers.
  - c) Employees hired January 1, 2014 or later are covered by the Federal Employees Retirement System-Further Revised Annuity Employees (FERS-FRAE). The FBI contributes 15.4 percent of the gross pay for regular employees and 33.3 percent for law enforcement officers.



## *Notes to the Principal Financial Statements*

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

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). All employees are eligible to contribute to the Federal Thrift Savings Plan (TSP). For employees covered by the FERS, FERS-RAE and FERS-FRAE, a TSP account is automatically established to which the FBI is required to contribute an additional 1.0 percent of gross pay and match employee contributions up to 4.0 percent. 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 unfunded liabilities, if any, which may be applicable to its employees. Such reporting is the responsibility of OPM. SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, requires employing agencies to recognize the cost of pensions and other retirement benefits during their employees' active years of service. Refer to Note 16, Imputed Financing, for additional details.

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. Refer to Note 16, Imputed Financing, for additional details.

#### **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.

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 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.



## *Notes to the Principal Financial Statements*

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

#### R. Intragovernmental Activity

Intragovernmental costs and exchange revenues represent transactions made between two reporting entities within the Federal Government. Costs and exchange revenues with the public represent transactions made between the reporting entity and a non-Federal entity. With the exception of certain accruals, 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 executes 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, determined by 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 FBI is not authorized to charge fees for fingerprint identification and criminal justice information services for law enforcement purposes.

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.



## *Notes to the Principal Financial Statements*

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

#### T. Funds from Dedicated Collections

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

The three required criteria for a fund from dedicated collections are:

1. A statute committing the Federal Government to use specifically identified revenues and/or other financing sources that are originally provided to the Federal Government by a non-Federal source only for designated activities, benefits, or purposes;
2. Explicit authority for the funds to retain revenues and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
3. A requirement to account for and report on the receipt, use, and retention of the revenues and/or other financing sources that distinguishes the fund from the Federal Government's general revenues.

There are no funds that meet the definition of funds from dedicated collections.

#### 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 2016 financial statements were reclassified to conform to the FY 2017 Departmental and OMB financial statement presentation requirements. The reclassifications had no material effect on the total assets, liabilities, net position, changes in net position or budgetary resources previously reported.

#### X. Subsequent Events

Subsequent events and transactions occurring after September 30, 2017 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.



*Notes to the Principal Financial Statements*

**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, 2017 and 2016		
	<u>2017</u>	<u>2016</u>
<b>Intragovernmental</b>		
Fund Balance with U.S. Treasury	\$ -	\$ (2,471)
<b>With the Public</b>		
Cash and Other Monetary Assets	61,910	58,768
Accounts Receivable, Net	<u>2,272</u>	<u>1,746</u>
Total With the Public	<u>64,182</u>	<u>60,514</u>
Total Non-Entity Assets	64,182	58,043
Total Entity Assets	<u>7,860,795</u>	<u>7,684,868</u>
Total Assets	<u>\$ 7,924,977</u>	<u>\$ 7,742,911</u>

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

As of September 30, 2017 and 2016		
	<u>2017</u>	<u>2016</u>
<b>Fund Balances</b>		
General Funds	\$ 4,461,643	\$ 4,420,184
Other Fund Types	<u>9,806</u>	<u>(2,471)</u>
Total Fund Balances with U.S. Treasury	<u>\$ 4,471,449</u>	<u>\$ 4,417,713</u>
<b>Status of Fund Balances</b>		
Unobligated Balance - Available	\$ 1,404,946	\$ 1,438,914
Unobligated Balance - Available in Subsequent Periods	297,229	409,370
Unobligated Balance - Unavailable	463,596	297,907
Obligated Balance not yet Disbursed	2,318,636	2,296,411
Other Funds (With)/Without Budgetary Resources	<u>(12,958)</u>	<u>(24,889)</u>
Total Status of Fund Balances	<u>\$ 4,471,449</u>	<u>\$ 4,417,713</u>

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 - Available in Subsequent Periods includes amounts apportioned for



*Notes to the Principal Financial Statements*

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

future years that are available for obligation in a subsequent period (apportioned as Category C). 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 Other Monetary Assets**

As of September 30, 2017 and 2016		
	2017	2016
Cash		
Imprest Funds	\$ 22,764	\$ 22,420
Other	21,836	20,508
Total Cash	<u>44,600</u>	<u>42,928</u>
Other Monetary Assets		
Seized Monetary Instruments	40,074	38,260
Total Cash and Other Monetary Assets	<u>\$ 84,674</u>	<u>\$ 81,188</u>

Imprest Funds reflects monies dedicated for operational support, such as petty cash and emergency funds.

Other Cash consists of project generated proceeds.

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



*Notes to the Principal Financial Statements*

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**5. Accounts Receivable, Net**

As of September 30, 2017 and 2016		
	2017	2016
Intragovernmental		
Accounts Receivable	\$ 472,806	\$ 398,354
With the Public		
Accounts Receivable	30,384	40,712
Allowance for Uncollectible Accounts	<u>(16)</u>	<u>(64)</u>
Total With the Public	<u>30,368</u>	<u>40,648</u>
Total Accounts Receivable, Net	<u>\$ 503,174</u>	<u>\$ 439,002</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.

**6. Seized Property, Net**

**Analysis of Change in Seized Property:**

Seized Monetary Instruments (see also Notes 4 and 12) 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, 2017 and 2016, excluding forfeited property 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*.

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 substances, both controlled and non-controlled as defined per the Controlled Substances Act, other than 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.



*Notes to the Principal Financial Statements*

**6. Seized Property, Net (continued)**

For the Fiscal Year Ended September 30, 2017						
Seized Property Category		Beginning Balance	Adjustments*	Seizures	Disposals	Ending Balance
<b>Seized for Evidence</b>						
Seized Monetary Instruments						
Value	\$	38,260	\$ (6,140)	\$ 14,217	\$ (6,263)	\$ 40,074
Personal Property						
Number		309	(19)	56	(62)	284
Value	\$	4,103	\$ (202)	\$ 1,702	\$ (736)	\$ 4,867
Non-Valued						
Firearms	Number	28,158	(563)	4,509	(2,714)	29,390
Drug Evidence						
Cocaine	KG	5,459	1,684	81	(608)	6,616
Heroin	KG	238	28	4	(24)	246
Marijuana	KG	1,278	(42)	37	(126)	1,147
Methamphetamine	KG	847	120	204	(72)	1,099
Other	KG	209	75	9	(100)	193
Total Drug Evidence	KG	8,031	1,865	335	(930)	9,301

\*Adjustments include property status, asset group, and valuation changes that occurred during the current year for assets that were already on hand at the start of the year. Asset group changes occur primarily when cash is substituted for a different asset category. Valuation changes occur primarily due to changes in appraisals.



*Notes to the Principal Financial Statements*

**6. Seized Property, Net (continued)**

For the Fiscal Year Ended September 30, 2016						
Seized Property Category		Beginning Balance	Adjustments*	Seizures	Disposals	Ending Balance
<b>Seized for Evidence</b>						
Seized Monetary Instruments	Value	\$ 33,179	\$ (3,012)	\$ 18,267	\$ (10,174)	\$ 38,260
Personal Property	Number	317	60	37	(105)	309
	Value	\$ 5,531	\$ 1,339	\$ 609	\$ (3,376)	\$ 4,103
Non-Valued Firearms	Number	28,259	(901)	3,559	(2,759)	28,158
Drug Evidence						
Cocaine	KG	5,653	356	63	(613)	5,459
Heroin	KG	218	22	6	(8)	238
Marijuana	KG	1,313	84	52	(171)	1,278
Methamphetamine	KG	697	73	119	(42)	847
Other	KG	290	(5)	-	(76)	209
Total Drug Evidence	KG	8,171	530	240	(910)	8,031

\*Adjustments include property status, asset group, and valuation changes that occurred during the current year for assets that were already on hand at the start of the year. Asset group changes occur primarily when cash is substituted for a different asset category. Valuation changes occur primarily due to changes in appraisals.

**Method of Disposition of Seized Property:**

During FYs 2017 and 2016, \$2,170 and \$7,119, respectively, were returned to parties with a bonafide interest, and \$4,829 and \$6,431, respectively, were either released to a designated party or transferred to the appropriate Federal entity under abandonment proceedings. Non-valued property was primarily disposed of through destruction.



*Notes to the Principal Financial Statements*

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

As of September 30, 2017				
	Acquisition Cost	Accumulated Depreciation	Net Book Value	Useful Life
Land and Land Rights	\$ 6,667	\$ -	\$ 6,667	N/A
Construction in Progress	183,058	-	183,058	N/A
Buildings, Improvements, and Renovations	1,266,047	(433,137)	832,910	10-50 years
Other Structures and Facilities	72,747	(23,100)	49,647	10-50 years
Aircraft	427,143	(129,311)	297,832	5-30 years
Boats	9,984	(4,248)	5,736	5-25 years
Vehicles	156,577	(95,718)	60,859	2-25 years
Equipment	852,907	(531,853)	321,054	2-25 years
Leasehold Improvements	763,718	(417,225)	346,493	3-10 years
Internal Use Software	1,718,573	(1,185,985)	532,588	3-7 years
Internal Use Software in Development	105,453	-	105,453	N/A
<b>Total</b>	<b>\$ 5,562,874</b>	<b>\$ (2,820,577)</b>	<b>\$ 2,742,297</b>	

	Federal	Public	Total
Sources of Capitalized Property, Plant and Equipment Purchases for FY 2017	<u>\$ 112,088</u>	<u>\$ 362,778</u>	<u>\$ 474,866</u>

As of September 30, 2016				
	Acquisition Cost	Accumulated Depreciation	Net Book Value	Useful Life
Land and Land Rights	\$ 6,667	\$ -	\$ 6,667	N/A
Construction in Progress	167,186	-	167,186	N/A
Buildings, Improvements, and Renovations	1,121,545	(383,069)	738,476	10-50 years
Other Structures and Facilities	59,426	(21,506)	37,920	10-50 years
Aircraft	369,907	(114,450)	255,457	5-30 years
Boats	9,927	(3,975)	5,952	5-25 years
Vehicles	154,404	(100,961)	53,443	2-25 years
Equipment	788,553	(501,837)	286,716	2-25 years
Leasehold Improvements	693,700	(354,617)	339,083	3-10 years
Internal Use Software	1,670,245	(941,429)	728,816	3-7 years
Internal Use Software in Development	98,893	-	98,893	N/A
<b>Total</b>	<b>\$ 5,140,453</b>	<b>\$ (2,421,844)</b>	<b>\$ 2,718,609</b>	

	Federal	Public	Total
Sources of Capitalized Property, Plant and Equipment Purchases for FY 2016	<u>\$ 84,640</u>	<u>\$ 320,048</u>	<u>\$ 404,688</u>



*Notes to the Principal Financial Statements*

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**8. Other Assets**

As of September 30, 2017 and 2016		
	<u>2017</u>	<u>2016</u>
Intragovernmental		
Advances and Prepayments	<u>\$ 29,059</u>	<u>\$ 16,460</u>

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

As of September 30, 2017 and 2016		
	<u>2017</u>	<u>2016</u>
Intragovernmental		
Accrued FECA Liabilities	\$ 33,049	\$ 32,273
Other Unfunded Employment Related Liabilities	86	140
Total Intragovernmental	<u>33,135</u>	<u>32,413</u>
With the Public		
Actuarial FECA Liabilities	203,492	201,737
Accrued Annual and Compensatory Leave Liabilities	308,006	300,507
Environmental and Disposal Liabilities (Note 10)	5,565	1,980
Contingent Liabilities (Note 14)	1,659	3,789
Total With the Public	<u>518,722</u>	<u>508,013</u>
Total Liabilities not Covered by Budgetary Resources	551,857	540,426
Total Liabilities Covered by Budgetary Resources	<u>852,101</u>	<u>830,297</u>
Total Liabilities	<u>\$ 1,403,958</u>	<u>\$ 1,370,723</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.



## Notes to the Principal Financial Statements

### 10. Environmental and Disposal Liabilities

In accordance with the SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, Federal Financial Accounting and Auditing Technical Release No. 2, *Environmental Liabilities Guidance*, and Federal Financial Accounting and Auditing Technical Release No. 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment* Federal agencies are required to recognize liabilities for environmental cleanup costs when the future outflow or sacrifice of resources is probable and reasonably estimable.

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.

As of September 30, 2017 and 2016	2017	2016
<b>Firing Ranges</b>		
Beginning Balance, Brought Forward	\$ 1,504	\$ 1,326
Future Funded Expenses	799	178
<b>Total Firing Range Liability</b>	<b>2,303</b>	<b>1,504</b>
<b>Asbestos</b>		
Beginning Balance, Brought Forward	\$ 476	\$ 10,811
New Asbestos	2,718	-
Inflation Adjustment	1	-
Future Funded Expenses	67	(10,335)
<b>Total Asbestos Liability</b>	<b>\$ 3,262</b>	<b>\$ 476</b>
<b>Total Environmental and Disposal Liabilities</b>	<b>\$ 5,565</b>	<b>\$ 1,980</b>

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 of the Clean Air Act. The Facilities and Logistics Service Division, 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 asbestos liability over the 50 year useful life is \$3,327 and is based on the square footage of the facilities that may be contaminated. This value divided by the useful life and



## *Notes to the Principal Financial Statements*

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

multiplied by the number of years in service, less any current year abatements, and adjusted for inflation is the estimated cleanup liability. The estimated asbestos cleanup liability is increased each quarter by recording future funded expenses for the asbestos cleanup costs.

EPA's Statement on National Guidance EPA-902-B-01-001 discusses the potential environmental impacts of firing ranges. The Facilities and Logistics Service Division, responsible for managing and maintaining FBI and non-FBI owned facilities, has identified FBI-owned range facilities in Quantico and El Toro that contain possible contamination issues based on the Federal Financial Accounting and Auditing Technical Release No. 2, *Environmental Liabilities Guidance* and EPA-902-B-01-001. Due care requires the agency to exert a reasonable effort to identify the presence or likely presence of contamination. Since no remedial investigation/feasibility study (RI/FS) has been completed and there are no comparable sites, remediation costs are not considered reasonably estimable at this time. Technical Release No. 2, *Environmental Liabilities Guidance* then requires the agency to recognize the anticipated cost of conducting a future study, plus any other identifiable costs, as a future environmental and disposal liability.

The estimated total firing range liability of \$2,303 is based on the estimated costs for contamination remediation. As of September 30, 2017 and 2016, the FBI reported the estimated firing range cleanup liability of \$2,303 and \$1,504, respectively.

There are no other potentially responsible parties to the environmental liability and there are no unrecognized amounts to disclose as of September 30, 2017.



*Notes to the Principal Financial Statements*

**11. 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 15 years. The minimum lease term for a field office is 15 years and the maximum is 20 years. Some leases for field offices and RAs are noncancelable.

The FBI is currently reviewing the expirations for the Birmingham, Chicago, Dallas, Houston, Las Vegas, Little Rock, New Haven, Richmond, San Antonio, Seattle and Tampa Field Offices which are scheduled to expire within the next five years. The FBI is relocating five field offices through FY 2021 and anticipates one additional if budget for construction is received in FY 2019. When field offices relocate, often from space leased for 20 years or longer, the rental rates may increase. The field offices that relocate will accommodate the FBI's growth in workforce, space needs, and increased security requirements.

As of September 30, 2017			
Future Noncancelable Operating Lease Payments Due			
<u>Fiscal Year</u>	<u>Land and Buildings</u>	<u>Machinery and Equipment</u>	<u>Total</u>
2018	242,312	7,291	249,603
2019	246,416	-	246,416
2020	247,605	-	247,605
2021	228,269	-	228,269
2022	217,167	-	217,167
After 2022	1,910,427	-	1,910,427
Total Future Noncancelable Operating Lease Payments	<u>\$ 3,092,196</u>	<u>\$ 7,291</u>	<u>\$ 3,099,487</u>

**12. 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, 2017 and 2016 are \$40,074 and \$38,260, respectively.



*Notes to the Principal Financial Statements*

**13. Other Liabilities**

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

As of September 30, 2017 and 2016	2017	2016
<b>Intragovernmental</b>		
Employer Contributions and Payroll Taxes Payable	\$ 55,139	\$ 53,184
Other Post-Employment Benefits Due and Payable	172	260
Other Unfunded Employment Related Liabilities	86	140
Advances from Others	47,668	93,756
Liability for Clearing Accounts	9,751	(2,727)
Liability for Non-Entity Assets Not Reported on the Statement of Custodial Activity	1,315	938
Total Intragovernmental	114,131	145,551
<b>With the Public</b>		
Advances from Others	30	1,091
Liability for Clearing Accounts	55	256
Other Liabilities	21,836	20,508
Total With the Public	21,921	21,855
Total Other Liabilities	\$ 136,052	\$ 167,406

**14. Contingencies and Commitments**

	Accrued	Estimated Range of Loss	
	Liabilities	Lower	Upper
As of September 30, 2017			
Probable	\$ 1,659	\$ 1,659	\$ 3,448
Reasonably Possible	-	6,450	17,450
As of September 30, 2016			
Probable	\$ 3,789	\$ 3,789	\$ 6,003
Reasonably Possible	-	11,630	22,650



*Notes to the Principal Financial Statements*

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

The methodology by which the FBI allocates gross costs and earned revenue across the three Strategic Goals (SGs or Goals) is consistent with the methodology used to allocate the FBI's budget to the three SGs in the FY 2018 Authorization and Budget Request to Congress. The tables below and on the next page break out costs and revenue by these three SGs, as well as by FBI appropriation. 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.

For the Fiscal Year Ended September 30, 2017			
	Suborganizations		Consolidated
	CNST	S&E	
<b>Goal 1: Prevent Terrorism and Promote the Nation's Security Consistent with the Rule of Law</b>			
Gross Cost	\$ 9,059	\$ 5,687,657	\$ 5,696,716
Less: Earned Revenue	-	305,503	305,503
Net Cost of Operations	9,059	5,382,154	5,391,213
<b>Goal 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law</b>			
Gross Cost	\$ 5,785	\$ 3,670,955	\$ 3,676,740
Less: Earned Revenue	-	217,759	217,759
Net Cost of Operations	5,785	3,453,196	3,458,981
<b>Goal 3: Ensure and Support the Fair, Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels</b>			
Gross Cost	\$ 1,394	\$ 810,302	\$ 811,696
Less: Earned Revenue	-	440,826	440,826
Net Cost of Operations	1,394	369,476	370,870
Net Cost of Operations	\$ 16,238	\$ 9,204,826	\$ 9,221,064



*Notes to the Principal Financial Statements*

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

For the Fiscal Year Ended September 30, 2016			
	Suborganizations		Consolidated
	CNST	S&E	
<b>Goal 1: Prevent Terrorism and Promote the Nation's Security Consistent with the Rule of Law</b>			
Gross Cost	\$ 13,149	\$ 5,602,881	\$ 5,616,030
Less: Earned Revenue	-	319,400	319,400
Net Cost of Operations	13,149	5,283,481	5,296,630
<b>Goal 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law</b>			
Gross Cost	7,993	3,553,839	3,561,832
Less: Earned Revenue	-	225,117	225,117
Net Cost of Operations	7,993	3,328,722	3,336,715
<b>Goal 3: Ensure and Support the Fair, Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels</b>			
Gross Cost	2,490	787,980	790,470
Less: Earned Revenue	-	561,722	561,722
Net Cost of Operations	2,490	226,258	228,748
Net Cost of Operations	\$ 23,632	\$ 8,838,461	\$ 8,862,093

**16. Imputed Financing**

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 Federal entity that is not part of the U.S. Department of Justice. In accordance with SFFAS No. 30, *Inter-Entity Cost Implementation Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*, the material Imputed Inter-Departmental Financing Sources recognized by the FBI are the cost of benefits for the Federal Employees Health Benefits Program (FEHB), the Federal Employees Group Life Insurance Program (FEGLI), the Federal Pension plans that are paid by other Federal entities, and any 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 *Accounting for Liabilities of the Federal Government* requires that employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS No. 5 requires OPM to provide cost factors necessary to calculate cost. OPM actuaries calculate the value of pension benefits expected to be paid in the future, and then determine the total funds to be contributed by and for covered employees, such that the amount calculated would be sufficient to fund the projected pension benefits. The cost factors are as follows:

**Federal Bureau of Investigation**

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



*Notes to the Principal Financial Statements*

**16. Imputed Financing (continued)**

	Category	Cost Factor (%)
Civil Service Retirement System (CSRS)	Regular Employees	32.8
	Regular Employees Offset	24.2
	Law Enforcement Officers	56.4
	Law Enforcement Officers Offset	48.5

Federal Employees Retirement System (FERS)	Regular Employees	14.7
	Regular Employees - Revised Annuity Employees (RAE)	15.3
	Regular Employees - Further Revised Annuity Employees (FRAE)	15.4
	Law Enforcement Officers	32.5
	Law Enforcement Officers Offset - RAE	33.2
	Law Enforcement Officers Offset - FRAE	33.3

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 U.S. Department of Justice. Recognition is required for those transactions determined to be material to the receiving entity. The determination of whether the cost is material requires considerable judgment based on the specific facts and circumstances of each type of good or service provided. SFFAS No. 4 also states that costs for broad and general support need not be recognized by the receiving entity, unless such services form a vital and integral part of the operations or output of the receiving entity. Costs are considered broad and general if they are provided to many, if not all, reporting components and not specifically related to the receiving entity's output. The FBI does not have any imputed intra-departmental financing sources.

For the Fiscal Years Ended September 30, 2017 and 2016		
	2017	2016
Imputed Inter-Departmental Financing		
Treasury Judgment Fund	\$ 6,916	\$ 4,180
Health Insurance	169,834	187,182
Life Insurance	754	731
Pension	53,153	55,315
Total Imputed Financing	<u>\$ 230,657</u>	<u>\$ 247,408</u>



*Notes to the Principal Financial Statements*

**17. 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 funds appropriated for digital technology upgrades and construction funding for projects, such as: the FBI’s Secure Work Environment Program, Biometrics Technology Center, Health Care Fraud, Terrorist Explosive Device Analytic Center, Hazardous Devices School, DOJ Consolidated Data Center, and the training academy facility at Quantico, Virginia. Category B also includes mortgage fraud investigations, operations along the U.S. southwest border, Department of State funding, Hurricane Sandy supplemental, Law Enforcement Wireless Communication funding, and Spectrum AWS Funding. A total of \$297,229 of Spectrum AWS Funding is Category C, apportioned for obligation in future fiscal years.

	Direct New Obligations and Upward Adjustments	Reimbursable New Obligations and Upward Adjustments	Total New Obligations and Upward Adjustments
For the Fiscal Year Ended September 30, 2017			
Obligations Apportioned Under:			
Category A	\$ 8,846,545	\$ 1,000,236	\$ 9,846,781
Category B	460,473	5,308	465,781
Total	<u>\$ 9,307,018</u>	<u>\$ 1,005,544</u>	<u>\$ 10,312,562</u>
For the Fiscal Year Ended September 30, 2016			
Obligations Apportioned Under:			
Category A	\$ 8,640,571	\$ 1,045,873	\$ 9,686,444
Category B	316,008	2,515	318,523
Total	<u>\$ 8,956,579</u>	<u>\$ 1,048,388</u>	<u>\$ 10,004,967</u>

**Status of Undelivered Orders:**

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

As of September 30, 2017 and 2016	2017	2016
UDO Obligations Unpaid	\$ 2,198,115	\$ 2,180,081
UDO Obligations Prepaid/Advanced	123,383	86,399
Total UDO	<u>\$ 2,321,498</u>	<u>\$ 2,266,480</u>



*Notes to the Principal Financial Statements*

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

**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, 2016 is presented below.

The reconciliation as of September 30, 2017 is not presented because the submission of the Budget of the United States Government (Budget) for FY 2019, which presents the execution of the FY 2017 Budget, occurs after publication of these financial statements. The DOJ Budget Appendix can be found on the OMB website and will be available in early February 2018.

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

For the Fiscal Year Ended September 30, 2016 (Dollars in Millions)				
	Total Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Agency Outlays, Net
Statement of Budgetary Resources (SBR)	\$ 12,151	\$ 10,005	\$ (1)	\$ 8,521
Funds not Reported in the Budget				
Expired Funds	(397)	(101)	-	-
Distributed Offsetting Receipts	-	-	1	(1)
Budget of the United States Government	<u>\$ 11,754</u>	<u>\$ 9,904</u>	<u>\$ -</u>	<u>\$ 8,520</u>

**18. Net Custodial Revenue Activity**

For the fiscal years ended September 30, 2017 and 2016, the FBI collected \$3,765 and \$3,376, respectively, in restitution payments, seized abandoned cash, and project generated proceeds. These collections were incidental to the FBI's mission. Since the FBI does not have statutory authority to use these funds, the FBI remits these funds upon receipt to the U.S. Treasury's General Fund. As of September 30, 2017 and 2016, the FBI had custodial liabilities of \$999 and \$864 respectively.



## Notes to the Principal Financial Statements

### 19. Reconciliation of Net Cost of Operations to Budget

For the Fiscal Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Resources Used to Finance Activities		
Budgetary Resources Obligated		
New Obligations and Upward Adjustments	\$ 10,312,562	\$ 10,004,967
Less: Spending Authority from Offsetting Collections and Recoveries	<u>1,357,815</u>	<u>1,486,912</u>
Obligations Net of Offsetting Collections and Recoveries	8,954,747	8,518,055
Less: Offsetting Receipts	<u>12,279</u>	<u>(1,316)</u>
Net Obligations	8,942,468	8,519,371
Other Resources		
Transfers-In/Out Without Reimbursement	37,833	10,911
Imputed Financing from Costs Absorbed by Others (Note 16)	230,657	247,408
Other	<u>(148,156)</u>	<u>(7,849)</u>
Net Other Resources Used to Finance Activities	<u>120,334</u>	<u>250,470</u>
Total Resources Used to Finance Activities	9,062,802	8,769,841
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	(132,713)	(97,125)
Resources That Fund Expenses Recognized in Prior Periods (Note 20)	(2,184)	(11,206)
Budgetary Offsetting Collections and Receipts That do not Affect Net Cost of Operations	12,258	79,464
Resources That Finance the Acquisition of Assets	(474,866)	(404,688)
Other Resources or Adjustments to Net Obligated Resources That do not Affect Net Cost of Operations	<u>262,498</u>	<u>44,670</u>
Total Resources Used to Finance Items not Part of the Net Cost of Operations	<u>(335,007)</u>	<u>(388,885)</u>
Total Resources Used to Finance the Net Cost of Operations	<u>\$ 8,727,795</u>	<u>\$ 8,380,956</u>
Components of Net Cost of Operations That Did not Require or Generate Resources in the Current Period		
Components That Will Require or Generate Resources in Future Periods (Note 20)	\$ 21,808	\$ 21,622
Depreciation and Amortization	462,388	442,056
Revaluation of Assets or Liabilities	14,086	17,884
Other	<u>(5,013)</u>	<u>(425)</u>
Total Components of Net Cost of Operations That Did not Require or Generate Resources in the Current Period	<u>493,269</u>	<u>481,137</u>
Net Cost of Operations	<u>\$ 9,221,064</u>	<u>\$ 8,862,093</u>



*Notes to the Principal 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 no certainty that budgetary authority will be realized, such as the enactment of an appropriation, are considered liabilities not covered by budgetary resources. These liabilities totaling \$551,857 and \$540,426 as of September 30, 2017 and 2016 respectively, are discussed in Note 9, *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, 2017 and 2016	2017	2016
Resources that Fund Expenses Recognized in Prior Periods		
Decrease in Liabilities Not Covered by Budgetary Resources:		
Decrease in Accrued FECA Liabilities	\$ -	\$ (1,049)
Decrease in Environmental and Disposal Liabilities	-	(10,157)
Decrease in Contingent Liabilities	(2,130)	-
Decrease in Other Unfunded Employment Related Liabilities	(54)	-
Total Decrease in Liabilities Not Covered by Budgetary Resources	<u>(2,184)</u>	<u>(11,206)</u>
Total Resources that Fund Expenses Recognized in Prior Periods	<u>\$ (2,184)</u>	<u>\$ (11,206)</u>
Components That Will Require or Generate Resources in Future Periods		
(Increase)/Decrease in Exchange Revenue Receivable from the Public	\$ (140)	\$ (130)
(Increase)/Decrease in Surcharge Revenue Receivable from Other Federal Agencies	8,333	(3,948)
Increase in Liabilities Not Covered by Budgetary Resources:		
Increase in Accrued FECA Liabilities	776	-
Increase in Actuarial FECA Liabilities	1,755	8,016
Increase in Accrued Annual and Compensatory Leave Liabilities	7,499	16,749
Increase in Environmental and Disposal Liabilities	3,585	-
Increase in Contingent Liabilities	-	925
Increase in Other Unfunded Employment Related Liabilities	-	10
Total Increase in Liabilities Not Covered by Budgetary Resources	<u>13,615</u>	<u>25,700</u>
Total Components That Will Require or Generate Resources in Future Periods	<u>\$ 21,808</u>	<u>\$ 21,622</u>

The change in the exchange revenue from the public presented in this note does not equal the change in the accounts receivable balance on the Balance Sheet. The Balance Sheet includes non-exchange receivable balances that are not reflected in the exchange revenue balances for this footnote.

# U.S. DEPARTMENT OF JUSTICE

## FEDERAL BUREAU OF INVESTIGATION

REQUIRED SUPPLEMENTARY INFORMATION  
(UNAUDITED)





**U.S. Department of Justice  
Federal Bureau of Investigation  
Combining Statement of Budgetary Resources  
By Major Appropriation  
For the Fiscal Year Ended September 30, 2017**

Dollars in Thousands	2017		
	<u>CNST</u>	<u>S&amp;E</u>	<u>TOTAL</u>
<b>Budgetary Resources:</b>			
Unobligated Balance, Brought Forward, October 1	\$ 319,385	\$ 1,826,806	\$ 2,146,191
Recoveries of Prior Year Unpaid Obligations	34,211	263,106	297,317
Other Changes in Unobligated Balances	104	(10,557)	(10,453)
Unobligated Balance from Prior Year Budget Authority, Net	353,700	2,079,355	2,433,055
Appropriations (discretionary and mandatory)	420,178	8,577,578	8,997,756
Spending Authority from Offsetting Collections (discretionary and mandatory)	-	1,047,522	1,047,522
<b>Total Budgetary Resources</b>	<b>\$ 773,878</b>	<b>\$ 11,704,455</b>	<b>\$ 12,478,333</b>
<b>Status of Budgetary Resources:</b>			
New Obligations and Upward Adjustments (Total) (Note 17)	\$ 164,187	\$ 10,148,375	\$ 10,312,562
Unobligated Balance, End of Year:			
Apportioned, Unexpired Accounts	608,394	1,093,781	1,702,175
Unapportioned, Unexpired Accounts	1,297	14,965	16,262
Unexpired Unobligated Balance, End of Year	609,691	1,108,746	1,718,437
Expired Unobligated Balance, End of Year	-	447,334	447,334
Unobligated Balance - End of Year (Total)	609,691	1,556,080	2,165,771
<b>Total Status of Budgetary Resources</b>	<b>\$ 773,878</b>	<b>\$ 11,704,455</b>	<b>\$ 12,478,333</b>
<b>Change in Obligated Balance:</b>			
Unpaid Obligations:			
Unpaid Obligations, Brought Forward, October 1	\$ 180,814	\$ 2,676,621	\$ 2,857,435
New Obligations and Upward Adjustments (Total)	164,187	10,148,375	10,312,562
Outlays, Gross	(105,973)	(9,838,077)	(9,944,050)
Recoveries of Prior Year Unpaid Obligations	(34,211)	(263,106)	(297,317)
Unpaid Obligations, End of Year	204,817	2,723,813	2,928,630
Uncollected Payments:			
Uncollected Payments, Federal Sources, Brought Forward, October 1	-	(561,024)	(561,024)
Change in Uncollected Payments, Federal Sources	-	(48,970)	(48,970)
Uncollected Payments, Federal Sources, End of Year	-	(609,994)	(609,994)
Memorandum (non-add) Entries:			
Obligated Balance, Start of Year	<b>\$ 180,814</b>	<b>\$ 2,115,597</b>	<b>\$ 2,296,411</b>
Obligated Balance, End of Year	<b>\$ 204,817</b>	<b>\$ 2,113,819</b>	<b>\$ 2,318,636</b>
<b>Budgetary Authority and Outlays, Net:</b>			
Budgetary Authority, Gross (discretionary and mandatory)	\$ 420,178	\$ 9,625,100	\$ 10,045,278
Less: Actual Offsetting Collections (discretionary and mandatory)	104	1,011,424	1,011,528
Change in Uncollected Payments, Federal Sources (discretionary and mandatory)	-	(48,970)	(48,970)
Recoveries of Prior Year Paid Obligations (discretionary and mandatory)	104	12,872	12,976
<b>Budgetary Authority, Net (Total) (discretionary and mandatory)</b>	<b>\$ 420,178</b>	<b>\$ 8,577,578</b>	<b>\$ 8,997,756</b>
Outlays, Gross (discretionary and mandatory)	\$ 105,973	\$ 9,838,077	\$ 9,944,050
Less: Actual Offsetting Collections (discretionary and mandatory)	104	1,011,424	1,011,528
Outlays, Net (Total) (discretionary and mandatory)	105,869	8,826,653	8,932,522
Less: Distributed Offsetting Receipts	-	12,279	12,279
<b>Agency Outlays, Net (discretionary and mandatory)</b>	<b>\$ 105,869</b>	<b>\$ 8,814,374</b>	<b>\$ 8,920,243</b>



**U.S. Department of Justice  
Federal Bureau of Investigation  
Combining Statement of Budgetary Resources  
By Major Appropriation  
For the Fiscal Year Ended September 30, 2016**

Dollars in Thousands	2016		
	<u>CNST</u>	<u>S&amp;E</u>	<u>TOTAL</u>
<b>Budgetary Resources:</b>			
Unobligated Balance, Brought Forward, October 1	\$ 78,935	\$ 1,918,156	\$ 1,997,091
Recoveries of Prior Year Unpaid Obligations	11,158	236,079	247,237
Other Changes in Unobligated Balances	465	(25,517)	(25,052)
Unobligated Balance from Prior Year Budget Authority, Net	90,558	2,128,718	2,219,276
Appropriations (discretionary and mandatory)	308,982	8,411,023	8,720,005
Spending Authority from Offsetting Collections (discretionary and mandatory)	-	1,211,877	1,211,877
<b>Total Budgetary Resources</b>	<b>\$ 399,540</b>	<b>\$ 11,751,618</b>	<b>\$ 12,151,158</b>
<b>Status of Budgetary Resources:</b>			
New Obligations and Upward Adjustments (Total) (Note 17)	\$ 80,155	\$ 9,924,812	\$ 10,004,967
Unobligated Balance, End of Year:			
Apportioned, Unexpired Accounts	319,385	1,528,899	1,848,284
Unapportioned, Unexpired Accounts	-	1,953	1,953
Unexpired Unobligated Balance, End of Year	319,385	1,530,852	1,850,237
Expired Unobligated Balance, End of Year	-	295,954	295,954
Unobligated Balance - End of Year (Total)	319,385	1,826,806	2,146,191
<b>Total Status of Budgetary Resources</b>	<b>\$ 399,540</b>	<b>\$ 11,751,618</b>	<b>\$ 12,151,158</b>
<b>Change in Obligated Balance:</b>			
Unpaid Obligations:			
Unpaid Obligations, Brought Forward, October 1	\$ 240,669	\$ 2,595,018	\$ 2,835,687
New Obligations and Upward Adjustments	80,155	9,924,812	10,004,967
Outlays, Gross	(128,852)	(9,607,130)	(9,735,982)
Recoveries of Prior Year Unpaid Obligations	(11,158)	(236,079)	(247,237)
Unpaid Obligations, End of Year	180,814	2,676,621	2,857,435
Uncollected Payments:			
Uncollected Payments, Federal Sources, Brought Forward, October 1	-	(537,226)	(537,226)
Change in Uncollected Payments, Federal Sources	-	(23,798)	(23,798)
Uncollected Payments, Federal Sources, End of Year	-	(561,024)	(561,024)
Memorandum (non-add) Entries:			
Obligated Balance, Start of Year	<b>\$ 240,669</b>	<b>\$ 2,057,792</b>	<b>\$ 2,298,461</b>
Obligated Balance, End of Year	<b>\$ 180,814</b>	<b>\$ 2,115,597</b>	<b>\$ 2,296,411</b>
<b>Budgetary Authority and Outlays, Net:</b>			
Budgetary Authority, Gross (discretionary and mandatory)	\$ 308,982	\$ 9,622,900	\$ 9,931,882
Less: Actual Offsetting Collections (discretionary and mandatory)	465	1,215,412	1,215,877
Change in Uncollected Payments, Federal Sources (discretionary and mandatory)	-	(23,798)	(23,798)
Recoveries of Prior Year Paid Obligations (discretionary and mandatory)	465	27,333	27,798
<b>Budgetary Authority, Net (Total) (discretionary and mandatory)</b>	<b>\$ 308,982</b>	<b>\$ 8,411,023</b>	<b>\$ 8,720,005</b>
Outlays, Gross (discretionary and mandatory)	\$ 128,852	\$ 9,607,130	\$ 9,735,982
Less: Actual Offsetting Collections (discretionary and mandatory)	465	1,215,412	1,215,877
Outlays, Net (Total) (discretionary and mandatory)	128,387	8,391,718	8,520,105
Less: Distributed Offsetting Receipts	-	(1,316)	(1,316)
<b>Agency Outlays, Net (discretionary and mandatory)</b>	<b>\$ 128,387</b>	<b>\$ 8,393,034</b>	<b>\$ 8,521,421</b>

# U.S. DEPARTMENT OF JUSTICE

## FEDERAL BUREAU OF INVESTIGATION

### APPENDIX



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

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

### Recommendations for the FBI:

- 1. Enhance the quarterly open obligations certification process by establishing more effective lines of communication and coordination within the Finance and Facilities Division (FFD) to properly validate open obligations.**

Resolved. The FBI concurred with our recommendation. FBI management stated in its response that during FY 2017, the FFD increased internal communication related to the obligation validations. The FBI recognized the importance of executing internal controls throughout the fiscal year and stated that improvements made during FY 2017 Q3 and Q4 around communication procedures will continue to be integrated into the quarterly internal control and executed throughout FY 2018. In addition, the FBI will continue to identify and implement methods to refine its communication process with Undelivered Orders (UDO) stakeholders to maximize validation process efficiencies and effectiveness.

This recommendation can be closed when subsequent annual financial statement audit testing verifies that effective lines of communication and coordination within the FFD have been established in order to properly validate open obligations.

- 2. Revise the processes for monitoring open obligations in order to timely identify and de-obligate obligated balances that are no longer needed.**

Resolved. The FBI concurred with our recommendation. FBI management stated that throughout FY 2017, the FBI continued to refine its quarterly internal controls to monitor and validate high risk obligations. Specifically, as discussed in the FBI's response to Recommendation 1, starting in Q3, the FBI requested additional detail within the quarterly validation results to capture

the follow-up to vendors and other agencies, which resulted in more timely receipt of invoices and government collections and timely deobligations.

For obligations determined to no longer be valid, the FBI confirmed that deobligations were recorded timely, or if delayed in processing, recorded adjustments to properly reflect deobligations in the financial statements. The FBI also executed a focused effort by the Procurement Section, Accounting Section and Audit Unit during FY 2017 to reduce the balance of high risk obligations, resulting in timely liquidation or deobligation of open UDO balances. Improvements made during FY 2017 Q3 and Q4 to the high risk obligation validation internal control will continue to be executed throughout FY 2018. The FBI will also continue to identify and implement methods to refine its process for validating obligations to maximize efficiencies and effectiveness.

This recommendation can be closed when subsequent annual financial statement audit testing verifies that the processes for monitoring open obligations have been revised in order to timely identify and de-obligate obligated balances that are no longer needed.



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950 Pennsylvania Avenue, Northwest  
Suite 4760  
Washington, DC 20530 0001

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