



KPMG LLP
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Independent Auditors' Report on Financial Statements

United States Attorney General
U. S. Department of Justice

Inspector General
U. S. Department of Justice

We have audited the accompanying consolidated balance sheets of the U.S. Department of Justice (the Department) as of September 30, 2006 and 2005, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources and custodial activity (hereinafter referred to as "consolidated financial statements") for the years then ended. These consolidated financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the following components of the Department: the U.S. Marshals Service; the Federal Bureau of Prisons; and the Federal Prison Industries, Inc., which financial statements reflect total combined assets of \$9.1 billion and \$9.1 billion, and total combined net costs of \$6.4 billion and \$6.2 billion, as of and for the years ended September 30, 2006 and 2005, respectively. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our report provided herein, insofar as it relates to the amounts included for those components, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion on internal control over financial reporting. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Justice as of September 30, 2006 and 2005, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activity for the years then ended in conformity with U.S. generally accepted accounting principles.



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As discussed in Note 18 to the consolidated financial statements, the Department changed its method of reporting earmarked funds to adopt the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 27, *Identifying and Reporting Earmarked Funds*, effective October 1, 2005.

The information in the *Management's Discussion and Analysis* and *Required Supplementary Information and Required Supplementary Stewardship Information* sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136, *Financial Reporting Requirements*. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we and the other auditors did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The September 30, 2006 consolidating and combining information in the *Consolidating and Combining Financial Statements* section is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activity of the Department's components individually. The September 30, 2006 consolidating and combining information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, based on our audits and the reports of the other auditors, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The information in the fiscal year 2006 *Introduction, Performance Section, Management Section, and Appendices* is presented for purposes of additional analysis and is not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 10, 2006, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

November 10, 2006