

REPORT OF INDEPENDENT ACCOUNTANTS

United States Attorney General and
The Office of the Inspector General
United States Department of Justice

We have audited the accompanying consolidated balance sheets of the U.S. Department of Justice and its components as of September 30, 2002 and 2001, and the related consolidated statements of net cost, changes in net position and financing, and its combined statements of budgetary resources and custodial activity, for the years then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain components of the Department, including the Office of Justice Programs (OJP), Drug Enforcement Administration (DEA), Federal Bureau of Investigation (FBI), Immigration and Naturalization Service (INS), and U.S. Marshals Service (USMS), which statements reflect total combined assets of \$17.5 and \$15.8 billion and total combined net costs of \$15.6 and \$12.8 billion, as of and for the years ended September 30, 2002 and 2001, respectively. We did not audit the financial statements of the Bureau of Prisons (BOP) and the Federal Prison Industries, Inc. (FPI), which statements reflect total combined assets of \$7.6 billion and total combined net costs of \$4.0 billion, as of and for the year ended September 30, 2001; and we did not audit the summarized financial information of the Victim Compensation Fund, which transactions reflect total assets of \$111.8 million and total benefit payments of \$20.2 million, as of and for the year ended September 30, 2002. Those statements and financial information were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for these 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. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above, after giving effect to the restatements described in Note 19, present fairly, in all material respects, the financial position of the Department of Justice and its components, at September 30, 2002 and 2001, and their net cost, changes in net position, budgetary resources, financing and custodial activity for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 19 to the financial statements, the Department implemented OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*, during fiscal year 2002, and reclassified fiscal year 2001 financial statements to conform to this presentation.



Report of Independent Accountants
Page 2

Our audits were conducted for the purpose of forming an opinion on the Department's consolidated and combined financial statements taken as a whole. The consolidating and combining information is presented for purposes of additional analysis of the Department's consolidated and combined financial statements rather than to present the financial position, net cost, changes in net position, budgetary resources, financing, and custodial activity of the Department's components. The consolidating and combining information has been subjected to the auditing procedures applied in the audits of the Department's consolidated and combined financial statements and, in our opinion, after giving effect to the restatements described in Note 19, the consolidating and combining information is fairly stated in all material respects in relation to the Department's consolidated and combined financial statements taken as a whole.

The Management's Discussion and Analysis (MD&A), Required Supplementary Information (RSI), and Required Supplementary Stewardship Information (RSSI) are not required parts of the financial statements but are supplementary information required by the Federal Accounting Standards Advisory Board and OMB Bulletin No. 01-09. We did not audit the information and express no opinion on it. However, we and other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A, RSI and RSSI. The Department did not complete the reconciliation of non-fiduciary transactions with their intra-governmental trading partners as required by OMB Bulletin No. 01-09.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 15, 2003 on our consideration of the Department's internal control and a report dated January 15, 2003 on its compliance with laws and regulations. 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 considering the results of our audits.

A handwritten signature in cursive script that reads "Price Waterhouse Coopers LLP".

January 15, 2003
Washington, DC