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Independent Auditors' Report on Compliance and Other Matters

Inspector General
U.S. Department of Justice

Acting United States Attorney General
U.S. Department of Justice

We have audited the consolidated balance sheets of the U.S. Department of Justice (Department) as of September 30, 2007 and 2006, and the related consolidated statements of net cost and changes in net position and the combined statements of budgetary resources and custodial activity (hereinafter referred to as the "consolidated financial statements") for the years then ended, and have issued our report thereon dated November 9, 2007. We did not audit the financial statements of the U.S. Marshals Service as of and for the year ended September 30, 2007, or the financial statements of the U.S. Marshals Service, the Federal Bureau of Prisons, and the Federal Prison Industries as of and for the year ended September 30, 2006. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our report, insofar as it related to the amounts included for those components, was based solely on the reports of the other auditors. As discussed in Note 1 to the consolidated financial statements, beginning in fiscal year 2007 the activities and balances of the Department's Working Capital Fund, previously reported as a separate entity, have been included in the financial statements of the Offices, Boards and Divisions for fiscal years 2007 and 2006. As discussed in Note 26 to the consolidated financial statements, the Department changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in fiscal year 2007.

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

As stated above, we did not audit the fiscal year 2007 financial statements of the U.S. Marshals Service. Those financial statements were audited by other auditors whose reports thereon, including the other auditors' *Independent Auditors' Report on Compliance and Other Matters*, have been furnished to us. Accordingly, our report on the Department's compliance and other matters, insofar as it relates to that component, is based solely on the reports and findings of the other auditors.

The management of the Department is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the Department. As part of obtaining reasonable assurance about whether the Department's fiscal year 2007 consolidated financial statements are free of material misstatement, we and the other auditors performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including certain requirements referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA). We and the other auditors limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Department. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not



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express such an opinion.

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

Under OMB Bulletin No. 07-04 and FFMIA, we are required to report whether the Department's financial management systems substantially comply with: (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we and the other auditors performed tests of compliance with FFMIA Section 803(a) requirements.

The results of our and the other auditors' tests disclosed no instances in which the Department's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

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

KPMG LLP

November 9, 2007