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Independent Accountants' Report on Financial Statements

United States Attorney General and
Inspector General
U. S. Department of Justice

We were engaged to audit the accompanying consolidated balance sheet of the U.S. Department of Justice (the Department) and its components as of September 30, 2004, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources and custodial activity for the year then ended (hereinafter collectively referred to as the 2004 financial statements). These financial statements are the responsibility of the Department's management. We did not audit the financial statements of certain components of the Department, including the Office of Justice Programs (OJP); U.S. Marshals Service; Federal Bureau of Prisons; and the Federal Prison Industries, Inc., which financial statements reflect total assets of \$17.5 billion and total combined net costs of \$9.8 billion, as of and for the year ended September 30, 2004. Those financial statements, except for OJP's, 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 these components, is based solely on the reports of the other auditors.

Because of limitations on the scope of their work, other auditors disclaimed an opinion on the financial statements of OJP as of and for the year ended September 30, 2004. OJP's financial statements reflect total assets of \$8.4 billion and total net costs of \$4.0 billion, or 31 percent and 13 percent, respectively, of the Department's total assets and total net costs.

Because other auditors were unable to express an opinion with respect to the financial statements discussed in the preceding paragraph, the scope of our engagement and that of other auditors was not sufficient to enable us to express, and we do not express, an opinion on the Department's 2004 financial statements.

As discussed in Note 29, the Department made certain adjustments to correct accounting errors and to adopt changes in accounting principles.

The information in the *Management's Discussion and Analysis*, *Required Supplementary Information*, and *Required Supplementary Stewardship Information* sections is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America, or by OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We and other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. We note that certain data reported in this supplementary information is based on the 2004 financial statements on which we express no opinion. We are not required to audit this information and, accordingly, we express no opinion on it.



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We were engaged to conduct our audit for the purpose of forming an opinion on the 2004 financial statements taken as a whole. The supplementary information in the *Consolidating and Combining Financial Statements* section is presented for purposes of additional analysis of the Department's 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 activities of the Department's components individually. The information included in the *Consolidating and Combining Financial Statements* section is based on the 2004 financial statements on which we express no opinion and, accordingly, we express no opinion on such information.

The accompanying consolidated balance sheet of the Department as of September 30, 2003, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources and custodial activity for the year then ended (hereinafter collectively referred to as the 2003 financial statements), prior to the restatement discussed in Note 29, were audited by other auditors (other consolidated auditors). In fiscal year 2003, the other consolidated auditors did not audit the financial statements of certain components of the Department. Those financial statements were audited by other auditors (other component auditors). The other consolidated auditors' report dated January 16, 2004, expressed an unqualified opinion on the Department's 2003 financial statements. That opinion, insofar as it relates to amounts not audited by the other consolidated auditors, was based solely on the reports of the other component auditors. The other component auditors of OJP's 2003 financial statements, as a result of the subsequent discovery of facts that existed as of their report date, determined that additional procedures were required, and they were restricted from performing such procedures. As a result, the other component auditors of OJP have reissued their report, dated November 25, 2003, and November 12, 2004, expressing a disclaimer of opinion on those financial statements as of and for the year ended September 30, 2003. Consequently, the other consolidated auditors have issued a report dated January 16, 2004, and November 12, 2004, in which they disclaimed an opinion on the Department's 2003 financial statements, which is different from that expressed in their previous report. Furthermore, the restated information discussed in Note 29 and its effect on the 2003 financial statements of the Department have not been subjected to auditing procedures.

In accordance with *Government Auditing Standards*, we have also issued reports dated November 12, 2004, on our consideration of the Department's internal control over financial reporting and its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purposes of those reports are 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 considering the results of our engagement.

KPMG LLP

November 12, 2004