



KPMG LLP
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Independent Accountants' Report on Compliance and Other Matters

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

We were engaged to audit the consolidated balance sheet of the U.S. Department of Justice (the Department) 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 financial statements), and have issued our report thereon dated November 12, 2004. In that report, we disclaimed an opinion on the Department's financial statements.

We did not audit the financial statements of certain components of the Department, including the Office of Justice Programs (OJP); U.S. Marshals; Federal Bureau of Prisons; and the Federal Prison Industries, Inc. Those financial statements, except for OJP's, were audited by other auditors whose reports thereon have been furnished to us, and our report on the Department's compliance and other matters, insofar as it relates to 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 2004 financial statements of OJP.

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 2004 financial statements are free of material misstatement, we and 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 financial statement amounts, and certain provisions of other laws and regulations specified in Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, including certain requirements referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA). We 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 laws, regulations, contracts, and grant agreements was not an objective of our engagement, and, accordingly, we do not express such an opinion.

The results of our and other auditors' tests of components' compliance described in the preceding paragraph, exclusive of those referred to in FFMIA, disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02:

- **Prompt Payment Act** – The USMS did not always assess interest on late payments, nor did it notify the vendors within seven days of receipt in instances where bills were in dispute. The OJP

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did not always pay the correct amount of interest penalties because of incorrect invoice receipt dates in the general ledger.

- **Improper Payments Information Act** – The OJP's risk assessment of improper payments did not include the Southwest Border Prosecution Initiative, Bulletproof Vest Partnership, State Criminal Alien Assistance Program, and non-grant disbursements.

The results of our and other auditors' other tests of compliance with certain provisions of laws and regulations discussed in the fourth 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 or OMB Bulletin No. 01-02. However, as discussed in our *Independent Accountants' Report on Financial Statements*, the scope of our work and that of the other auditors was not sufficient to express an opinion on the financial statements of the Department as of and for the year ended September 30, 2004, and accordingly, other instances of noncompliance may have been identified and reported had we and the other auditors been able to perform all procedures necessary to express an opinion.

Under 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 performed tests of compliance with FFMIA Section 803(a) requirements.

The results of our and other auditors' tests disclosed instances, described below, in which the components did not substantially comply with the three requirements discussed in the preceding paragraph:

- **Federal Financial Management System Requirements** – The OJP and USMS financial management systems do not meet Federal financial management systems requirements, in that deficiencies were noted in entity-wide security, access and change controls, service continuity, interface controls, and segregation of duties.
- **Federal Accounting Standards** – The OJP; Federal Bureau of Investigation (FBI); USMS; and Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) do not initially record financial transactions in accordance with Statements of Federal Financial Accounting Standards (SFFAS). Specifically, deficiencies were reported in recording of obligations, expenses and revenue, grants (advances and accruals), property and equipment (including leasehold improvements and losses on property dispositions), and accounts payable.
- **United States Standard General Ledger (SGL) at the Transaction Level** – The USMS does not maintain transaction detail for upward and downward adjustments of prior-year undelivered orders and does not record gains and losses on disposals using the proper SGL accounts.

All significant facts pertaining to the matters referred to above and the recommended remedial actions are included in the components' auditors' *Reports on Internal Control* or *Reports on Compliance*.



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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, the OMB, the Government Accountability Office, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 12, 2004

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