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Independent Auditors' Report on Compliance and Other Matters

United States Attorney General
U. S. Department of Justice

Inspector General
U. S. Department of Justice

We have audited the consolidated balance sheets of the U.S. Department of Justice (the Department) as of September 30, 2005 and 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 years then ended (hereinafter collectively referred to as the "consolidated financial statements"), and have issued our report thereon dated November 11, 2005. That report indicated that 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. 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. Our report dated November 11, 2005 indicated an update to our report dated November 12, 2004, in which we did not express an opinion on the Department's 2004 consolidated financial statements because, due to limitations on the scope of their work, other auditors disclaimed an opinion on the financial statements of the Office of Justice Programs (OJP). Subsequent to November 12, 2004, OJP restated its 2004 financial statements and we were engaged to audit the restated 2004 financial statements of OJP and, in connection therewith, expressed an unqualified opinion on those restated financial statements in our report dated August 26, 2005. As a result, as described in note 20 to the 2005 consolidated financial statements, the Department has restated its 2004 consolidated financial statements. Accordingly, our present opinion on the 2004 consolidated financial statements is different from our previous report. 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. 01-02, *Audit Requirements for Federal Financial Statements*.

As noted above, we did not audit the financial statements of the U.S. Marshals Service; the Federal Bureau of Prisons; and the Federal Prison Industries, Inc. Those financial statements were audited by other auditors whose reports thereon, including the other auditors' *Independent Auditors' Reports on Compliance and Other Matters*, have been furnished to us. Our report on the Department's compliance and other matters, insofar as it relates to these components, 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 2005 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. 01-02, 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 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 audit, and, accordingly, we do not express such an opinion.

The other auditors reported that, because information was not available as of the date of their report to allow a determination as to whether certain construction projects were properly funded, they were unable to fully test the U.S. Marshals Service's (USMS) compliance with the *Anti-Deficiency Act*.

The results of our and the other auditors' tests of compliance described in the third paragraph of this report, 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.
- *Improper Payments Information Act* – The USMS has not established a program to assess, identify, and track improper payments, nor has it implemented a Recovery Audit Program.
- *Federal Managers' Financial Integrity Act* – The USMS incorrectly reported that the finding captioned "Timeliness of Financial Reporting and the Reliability of Financial Systems and Statements" had been resolved. In addition, that report did not identify each of the material weaknesses disclosed during the other auditors' audit.
- OMB Circular No. A-11, *Preparation, Submission and Execution of the Budget* – In Fiscal Year 1993, the USMS entered into a capital lease without reserving sufficient budget authority to meet the scorekeeping requirements of the OMB circular.
- *Inspector General Act* – OJP did not always prepare and submit to grantees and the Office of the Inspector General a draft Corrective Action Plan and correspondence memorandum within the required timeframes.

Under OMB Bulletin No. 01-02 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 performed tests of compliance with FFMIA Section 803(a) requirements.

The results of our and the 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* – OJP, Federal Bureau of Investigation (FBI), Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF), 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, system software, and segregation of duties.



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- Federal Accounting Standards – OJP, FBI, USMS, and 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, reimbursable agreement-related revenue, grants (advances and accruals), property and equipment (including leasehold improvements), 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 utilize a Federal Employment Compensation Act liability account in its SGL. Additionally, transactions posted to the account grouping worksheets in preparing the financial statements were not traceable to the source documents. The FBI's financial management systems do not permit use of the SGL at the transaction level, in that certain transactions are processed outside of the core financial accounting system and must be recorded into the core system through a manual or automated batch transaction process.

All significant facts pertaining to the matters referred to above, including the required elements of the findings and the recommended remedial actions, are included in the components' auditors' *Independent Auditors' Reports on Internal Control over Financial Reporting* or *Independent Auditors' Reports on Compliance and Other Matters*.

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 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 11, 2005

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