



KPMG LLP
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Washington, DC 20036

Independent Auditors' Report on Financial Statements

Inspector General
U.S. Department of Justice

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

We have audited the accompanying 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 "consolidated financial statements") for the years then ended. These consolidated financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the U.S. Marshals Service, which financial statements reflect total assets of \$864.8 million and \$832.4 million, and total net costs of \$1.2 billion and \$1.1 billion, as of and for the years ended September 30, 2007 and 2006, respectively. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our report provided herein, insofar as it relates to the amounts included for that component, is based solely on the report of the other auditors. The financial statements of the Federal Bureau of Prisons and the Federal Prison Industries as of September 30, 2006, which financial statements reflected total assets of \$8.2 billion and total net costs of \$5.3 billion, were audited by other auditors whose reports dated October 27, 2006, expressed unqualified opinions on those statements.

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. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Justice as of September 30, 2007 and 2006, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in conformity with U.S. generally accepted accounting principles.

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.



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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.

The information in the *Management's Discussion and Analysis* and *Required Supplementary Stewardship Information* sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136, *Financial Reporting Requirements*. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we and the other auditors did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The September 30, 2007, consolidating and combining information in the *Consolidating and Combining Financial Statements* section is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, net costs, changes in net position, budgetary resources, and custodial activity of the Department's components individually. The September 30, 2007, consolidating and combining information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, based on our audit and the report of the other auditors, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The information in the fiscal year 2007 *Introduction, Performance Section, Management Section, and Appendices* is presented for purposes of additional analysis and is not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 9, 2007, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is 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 assessing the results of our audits.

KPMG LLP

November 9, 2007