

**REPORT OF INDEPENDENT ACCOUNTANTS ON
COMPLIANCE WITH LAWS AND REGULATIONS**

United States Attorney General and
The Office of the Inspector General
United States Department of Justice

We have audited the accompanying consolidated balance sheets of the U.S. Department of Justice and its components as of September 30, 2001 and 2000, and the related consolidated statements of net cost, changes in net position and custodial activity, and its combined statements of budgetary resources and financing, for the years then ended, and have issued our report thereon dated February 14, 2002. Except as explained in that report, 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. 01-02, *Audit Requirements for Federal Financial Statements*.

We did not audit the financial statements of certain components of the Department, including the Office of Justice Programs (OJP), Drug Enforcement Administration (DEA), Federal Bureau of Investigation (FBI), Immigration and Naturalization Service (INS), U.S. Marshals Service (USMS), Bureau of Prisons (BOP), and Federal Prison Industries, Inc. (FPI), which statements reflect total combined assets of \$23.4 and \$21.2 billion, and total combined net costs of \$16.7 and \$16.9 billion, as of and for the years ended September 30, 2001 and 2000, respectively. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our report on the Department's compliance with laws and regulations, insofar as it relates to these components, is based solely on the reports of the other auditors.

Compliance with laws and regulations applicable to the Department is the responsibility of management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we and other auditors performed tests of the components' compliance with certain provisions of laws and regulations, non-compliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions and, accordingly, we do not express such an opinion.

The results of other auditors' tests of components' compliance with the laws and regulations described in the preceding paragraph, exclusive of FFMIA, disclosed the following instance of non-compliance that was reported under *Government Auditing Standards* and OMB Bulletin No. 01-02: The FPI did not report past-due debt with the public to the United States Department of the Treasury in accordance with the Debt Collection Improvement Act of 1996.

Under FFMIA, we are required to report whether the Department's financial management systems substantially comply with (1) the Federal financial management systems requirements, (2) the applicable Federal accounting standards, and (3) the United States Standard General Ledger at the transaction level. The results of other auditors' tests disclosed the following instances where the components' financial management systems did not substantially comply with the three FFMIA requirements discussed in this paragraph:

Federal Financial Management System Requirements: Auditors of the INS, FBI, DEA, USMS, and FPI reported that these components' financial management systems did not meet Federal financial management system requirements, including certain provisions of OMB Circulars A-127, *Financial Management Systems*; A-130, *Management of Federal Information Resources*; and A-123, *Management Accountability and Control*.

Federal Accounting Standards: Auditors of the FBI, DEA, INS, and FPI reported material weaknesses related to the accounting and reporting of financial transactions in accordance with Statements of Federal Financial Accounting Standards.

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

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



February 14, 2002
Washington, DC