DEPARTMENT OF THE TREASURY
FORFEITURE FUND
ANNUAL FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 1993

OIG-94-048 JANUARY 31, 1994

Office of Inspector General

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United States Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ACTION

Action Deadline: January 31

JAN 31 1994

MEMORANDUM FOR SECRETARY BENTSEN

FROM: Robert P. Cesca
Deputy Inspector General

SUBJECT: Audited Annual Financial Statements of the Department of the Treasury Forfeiture Fund for Fiscal Year 1993

ACTION FORCING EVENT:

The Chief Financial Officers (CFO) Act of 1990, (P.L. 101-576) requires that the Treasury Department's Inspector General distribute a copy of each annual CFO Act-mandated audit report to you so that the report may be included in the Treasury Department's Annual Management Report which will be sent to the Office of Management and Budget (OMB) by the Chief Financial Officer.

RECOMMENDATION

Please transmit the attached annual audited financial statements to Assistant Secretary for Management George Muñoz.

___________ Agree ___________ Let's Discuss

BACKGROUND/ANALYSIS:

The attached Department of the Treasury Forfeiture Fund (the Fund) Annual Financial Statements for Fiscal Year 1993, were subjected to an audit by an independent public accountant (IPA) under the auspices of the CFO Act of 1990. The Office of Inspector General contracted for this audit. Accompanying the financial statements are reports (opinions) by the IPA on the Fund's financial statements, its internal control structure, and its compliance with laws and regulations for the year ended September 30, 1993. The IPA rendered an unqualified opinion on the financial statements.

The IPA's report on internal controls cited the following five material weaknesses in the Fund's internal control structure: (1) the Fund's accounting records are primarily maintained on the cash basis of accounting, rather than on the accrual basis;

(2) the Fund's general ledger does not record all balances and transactions that are contained in the financial statements; (3) the value of forfeited property is not recorded in the general ledger and forfeited property is not recorded in the subsidiary system in a timely manner; (4) forfeited property is not recorded in the subsidiary system during the year at its net realizable value; and (5) the Fund has not fully developed specific performance indicators to report the progress toward achieving the Fund's goals and objectives.

The IPA's report on compliance cited the following material instance of noncompliance with applicable laws and regulations: the Budget and Accounting Procedures Act of 1950, Section 3512, "Executive Agency's Accounting System" requires federal agencies to establish an internal control structure which ensures the safeguarding of assets and the proper recording of revenues and expenditures. As summarized in the preceding paragraph, the Fund's internal control structure contains certain material weaknesses which result in noncompliance with this Act.

The IPA will also issue a management letter which will discuss various issues for the attention of management that were identified during the audit, but are not required to be included in the audit reports. A copy of the management letter is not required to be sent to OMB.

Attachment: Tab A: Audited Annual Financial Statements of the Department of the Treasury Forfeiture Fund for Fiscal Year 1993

DEPARTMENT OF THE TREASURY FORFEITURE FUND

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Department of the Treasury Forfeiture Fund
Overview
Year Ended September 30, 1993

Initial Year Highlights

As the initial year for the Department of the Treasury Forfeiture Fund (the Treasury Forfeiture Fund, or the Fund), much was accomplished in developing the infrastructure of the new Fund while also continuing the ongoing operations of the Fund. The Treasury Forfeiture Fund was created through enactment of Section 638 of Public Law 102-393 in 1992. The new Fund succeeds the Customs Forfeiture Fund and is similar to the Department of Justice Assets Forfeiture Fund. All fiscal year 1992 and 1991 amounts presented in this Overview are those previously reported for the Customs Forfeiture Fund. Accordingly, references to the "Fund" for fiscal year 1993 refer to the Treasury Forfeiture Fund and references to the "Fund" for fiscal years 1992 and 1991 refer to the Customs Forfeiture Fund. This overview discusses the ongoing operations of the Fund and the initiatives underway to prepare the Fund for managing the asset forfeiture activities of the Department of the Treasury (Treasury) law enforcement organizations.

In response to Section 638 of P.L. 102-393, Treasury created an oversight office through Treasury Order 102-14. As with the development of any new operation, there were numerous activities to undertake before becoming fully operational. Much was accomplished over a short period and there is now a centralized location for the asset accountability for all Treasury bureaus.

In addition to establishing this oversight office, the following are some of the more significant highlights for fiscal year 1993:

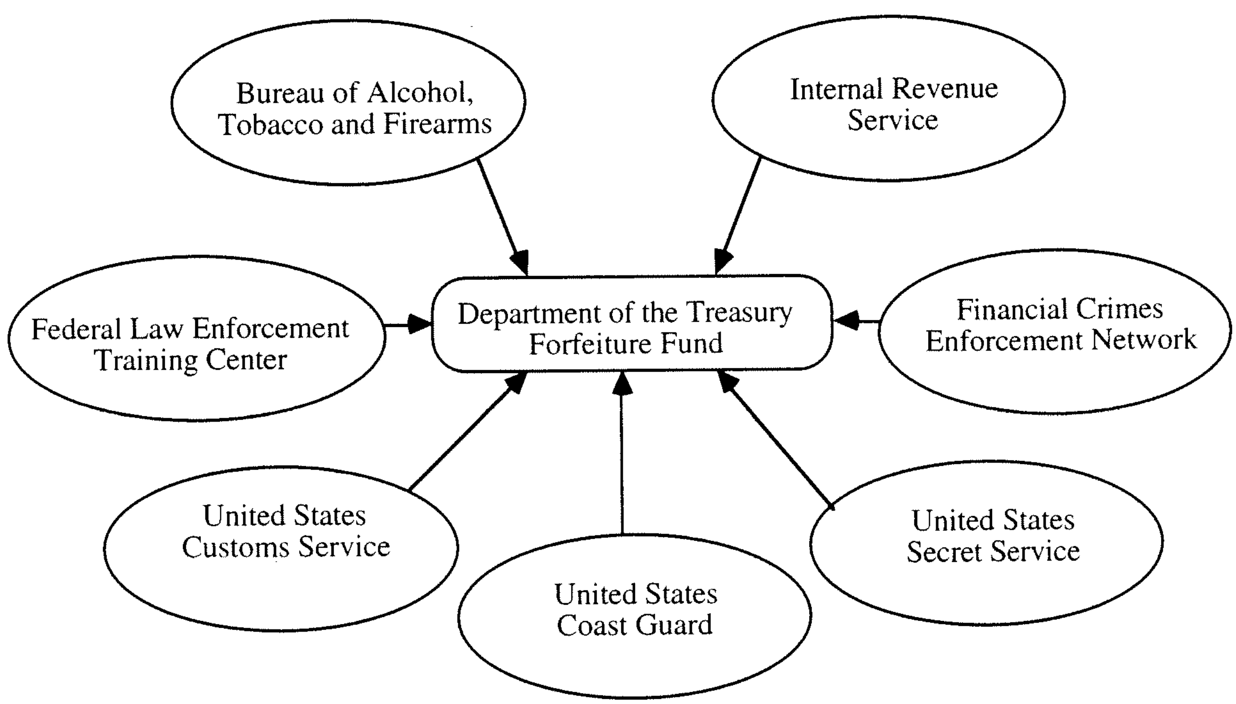
- Fund received unqualified opinion on financial statements
- $73 million in forfeited assets were shared with other federal, state, and local law enforcement agencies or foreign governments
- Uncontested seizures of monetary instruments or proceeds over $100,000 that were not deposited in the Fund within 120 days of the seizure date decreased from $17 million in fiscal year 1992 to $7 million in fiscal year 1993
- Total assets of the Fund at year end were $143 million, up $13 million from the beginning of the year
- Revenue from forfeited currency and other monetary instruments was $113 million during fiscal year 1993, down from $123 million in fiscal year 1992
- Revenue from net payments in lieu of forfeiture increased in fiscal year 1993 to $22 million from $10 million in fiscal year 1992
- Non-discretionary expenses decreased in fiscal year 1993 to $51 million from $69 million in fiscal year 1992
- Authorized retained capital was established to authorized level of $50 million

Profile and Purpose of the Department of the Treasury Forfeiture Fund

Before 1984, investigative organizations paid expenses related to the seizure and forfeiture of property from their appropriated funds. If seized property was forfeited and sold, costs of the seizure and forfeiture could be deducted from the proceeds of the sale of the property. If the property was not forfeited, or the costs exceeded whatever proceeds were realized from the property, seizing organizations were forced to absorb excess costs. As a result, investigative organizations suffered. Confronted with inadequate funds, agencies found it difficult to properly manage and maintain seized property. To address these concerns and provide resources for seizure and forfeiture operations, the Comprehensive Crime Control Act of 1984 created the Assets Forfeiture Fund (AFF) within the Department of Justice (Justice) and the Customs Forfeiture Fund within the U.S. Customs Service (Customs). Treasury law enforcement organizations other than Customs, (Bureau of Alcohol, Tobacco and Firearms (ATF); Criminal Investigation Division of Internal Revenue Service (IRS CID); and U.S. Secret Service (USSS)) participated in the AFF.

Statutes pertaining to forfeiture funds were amended again in October 1992 through the enactment of Section 638 of P.L. 102-393, which created a new Treasury Forfeiture Fund. After October 1, 1992, Customs and the U.S. Coast Guard (USCG) continued to make deposits into the Fund. In addition to Customs, Treasury law enforcement organizations that previously had deposited their forfeitures into the Justice AFF, began making deposits into the Fund in October 1993. The Treasury Forfeiture Fund was created to consolidate all Treasury law enforcement organizations under a forfeiture fund program administered by the Treasury Department. Throughout fiscal year 1993, the Treasury law enforcement organizations other than Customs, continued to fully participate in the Justice AFF, although they also received a limited amount of monies from the Fund. As part of the consolidation effort, two additional Treasury organizations participate in the Fund: the Financial Crimes Enforcement Network (FinCEN) and the Federal Law Enforcement Training Center (FLETC). The following diagram depicts the Treasury law enforcement organizations (and the USCG) participating in the Fund. The USCG, which historically participated in the Customs Forfeiture Fund, continues to be a participant in the Fund.

Treasury Forfeiture Fund Participants in Fiscal Year 1994



The Treasury asset forfeiture program has four primary goals:

- Punish and deter criminal activity by depriving criminals of property used in or acquired through illegal activities
- Be cognizant of the due process rights of all persons
- Enhance cooperation among foreign, federal, state, and local law enforcement agencies through the equitable sharing of assets forfeited
- Produce revenues to enhance the forfeiture program and strengthen law enforcement

As was the Customs Forfeiture Fund, the Treasury Forfeiture Fund was established as a special fund of Treasury. Special funds consist of separate receipt and expenditure accounts and are used to report collections that are earmarked by law for a specific purpose. The Fund has two accounts for paying expenses: a permanent indefinite appropriation and an annual appropriation. The permanent indefinite appropriation is available for costs specifically related to the seizure and forfeiture process, or to expenses tied to a specific seizure. The annual appropriation is enacted in the Treasury Appropriations Act and represents a Congressional limitation on the use of the proceeds of seized and forfeited assets for purposes only generally relating to the forfeiture program. In addition, beginning in fiscal year 1995, any excess unobligated amounts remaining in the Fund at the end of the prior fiscal year constitute the so-called Super Surplus. The Super Surplus is available to the Secretary of the Treasury without fiscal year limitation, for any law enforcement activity of a federal agency. Certain deposits from the net proceeds of forfeitures resulting from joint investigations with other federal agencies are transferred to the Fund under the authority of Section 9703(b)(5). These deposits are available to the Secretary of the Treasury, without further action by Congress, for federal law enforcement related purposes of Treasury law enforcement organizations.

Customs is the executive agent for the Fund. An executive agent is a bureau office designated to manage the operation of a particular program to minimize duplication of effort among the Treasury bureaus. Customs provides accounting, financial services, auditing, and seized property policy direction on behalf of the Fund.

The primary sources of revenue for the Fund are forfeited cash, proceeds of forfeited monetary instruments, and proceeds from the sale of forfeited assets.

The primary sources of revenue for the Fund are forfeited cash, proceeds of forfeited monetary instruments, and proceeds from the sale of forfeited property. In addition, the Fund participates in reverse asset sharing whereby a federal, state, or local law enforcement agency or a foreign government transfers currency or monetary instruments or proceeds from the sale of forfeited property to the Fund when a Treasury bureau participates in a joint seizure operation. The Fund includes only assets that are forfeited. Seized assets and assets in the various stages of forfeiture are reflected in the financial statements of the individual organizations.

To encourage the participation of state and local law enforcement agencies in Treasury law enforcement operations, forfeited property or currency may be shared on a proportional basis with the state and local agencies who provide direct or indirect assistance. In addition, forfeited property or currency may be shared with any federal agency or foreign country that has participated in the investigation. This activity is called asset sharing. The total assets shared with state, local, and federal agencies and foreign countries totaled approximately $73 million during fiscal year 1993.

The Fund's approach to seized property management

Property held for sale represents a significant future source of revenue to the Fund. Customs, as the executive agent for the Treasury Forfeiture Fund and the administrator of the national seized property contract (the national seized property contractor is EG&G Dynatrend or EG&G), is responsible for the acceptance, storage, maintenance, and disposition of seized and forfeited assets. It has been determined that having a national seized property contractor, such as EG&G, to store, maintain, and sell forfeited property is both cost and operationally effective. By having these functions performed by the private sector, the bureaus' personnel can concentrate on their prime areas of responsibility.

The Fund's management monitors the operation of EG&G through utilization of Customs' Headquarters staff, regional Fines, Penalties & Forfeiture program managers, and 102 Seized Property Custodians/Specialists. These personnel oversee the property management and disposal operations for assets seized and consigned to the contractor by participating Treasury law enforcement organizations. EG&G's compliance with the contract is monitored through regular visits to its warehouses and auction sales locations. Follow-up procedures exist to monitor correction of any noted deviation from the contract. Also, the contract contains performance indicators that govern the ultimate compensation paid for services rendered by EG&G.

To maximize operational efficiency, Customs established 102 Seized Property Custodian (SPC) and Seized Property Specialist (SPS) positions in the 44 Customs District/Area offices. These positions oversee the field operations of EG&G and the storage and disposal of property not consigned to the contractor, such as narcotics, currency, and firearms. During fiscal year 1993, these SPC/SPSs expanded their role to include the oversight of the Treasury law enforcement organizations' seized assets that were transferred to EG&G.

In addition, the Fund utilizes EG&G's Seized Property Management System and the Customs Property Tracking System automated databases to track property status from seizure to disposition for all seized and forfeited items. At the end of fiscal year 1993, Customs performed an on-site inventory at all locations holding $50,000 or more of the Fund's forfeited property. The results of the inventory were compared to information maintained in the referenced systems and discrepancies were resolved.

Increased coordination between the SPC/SPSs and EG&G resulted in the average time from determination of disposition to actual disposal being decreased by 9 percent from 36.6 days to 33.3 days. As a result, there was less of a chance for forfeited assets to lose their value from the time of seizure to their ultimate disposition. This helped preserve value for both the alleged offender and the federal government.

Fund expenses

Generally, all personnel and administrative expenses associated with the Fund are paid from the permanent indefinite appropriation. Other authorized Fund expenses that are paid from the permanent indefinite appropriation include:

- **Expenses of seizure**, (including investigative costs leading to a seizure, or the costs of forfeiture and sale, such as expenses of detention, inventory, security, maintenance, advertisement, or disposal of property, and certain costs taxed by the court)
- **Contract services,** (including the employment of outside contractors, and reimbursement of any federal, state, or local agency for seizure-related tasks)
- **Awards of compensation to informers** under section 619 of the Tariff Act of 1930
- **Satisfaction of valid liens and mortgages** against forfeited property

- **Remission and mitigation** amounts authorized by law
- **Claims of parties of interest to property disposed** under section 612(b) of the Tariff Act of 1930
- **Equitable sharing payments** made to federal, state, and local law enforcement agencies and foreign countries
- **Services of experts and consultants** needed to carry out duties related to seizure and forfeiture

At the discretion of the Secretary of the Treasury, the annual appropriation may be used to pay for:

- **Awards for information** leading to civil or criminal forfeitures involving Treasury law enforcement organizations
- **Purchases of evidence or information** with respect to violations of laws enforced or administered by Treasury law enforcement organizations
- **Costs for publicizing awards** available under section 619 of the Tariff Act of 1930
- **Equipment for Treasury** vessels, vehicles, or aircraft available to assist in law enforcement functions, as well as other seizure- and forfeiture-related equipment, including laboratory, protective, and communications equipment, and the costs of their operation and maintenance
- **Equipment for state or local law enforcement agency's** vessels, vehicles, or aircraft to enable assistance in joint law enforcement operations with a Treasury law enforcement organization
- **Expenses incurred by state and local law enforcement organizations during joint operations with Treasury law enforcement organizations** (including overtime salaries, travel, fuel, training, equipment, and other similar costs)
- **Reimbursement of private persons** for expenses incurred in joint investigations and undercover operations with Treasury law enforcement organizations
- **Training** of foreign law enforcement personnel with respect to Treasury seizure and forfeiture activities
- **Necessary and direct seizure and forfeiture expenses** for automated data processing systems, training, printing, as well as contracting for services related to identifying forfeitable assets, processing and accounting for forfeitures, and storing, maintaining, protecting, and destroying controlled substances

Fund Transition

Preparations were made for fiscal year 1994, to incorporate all forfeiture activities of Treasury law enforcement organizations into the Fund

As previously stated, under Section 638 of P.L. 102-393 Treasury established an oversight office to manage the ongoing operations of the Treasury Forfeiture Fund and to integrate the Treasury law enforcement organizations' forfeiture activities into the Fund. In order to obtain a consistent management and policy focus, and to enhance fiscal controls over the Treasury Forfeiture Fund, financial management plans were developed and implemented for all Treasury law enforcement organizations. Some of the achievements to date include:

- Participating Treasury bureaus were briefed on the newly created Treasury Forfeiture Fund in order to understand its impact on their operations in fiscal year 1994. One liaison from each Treasury law enforcement organization was assigned to the Fund's oversight office to assist in the transition stage and encourage cooperation between the bureaus within the Fund.

- Memoranda of Understandings (MOUs) were written and implemented to effect the procedures for custodial responsibilities related to seized property.

- The following publications were produced to provide for the uniform application of Treasury policies:

  Secretary of the Treasury's *Guidelines for Seized and Forfeited Property*

  Department of the Treasury *Guide to Equitable Sharing for Foreign Countries, and Federal, State and Local Law Enforcement Agencies*

  Department of the Treasury *Policy Directives,* related to asset forfeiture

- A staffing plan, space plan, and equipment requirements were developed.

- Reverse asset sharing records were reconciled for Customs; procedures were developed for ATF, IRS CID, and USSS; and a more efficient computer database for tracking requests and actual revenue was designed.

- A budget process was developed for each participating Treasury law enforcement organization to estimate revenue to be deposited into the Fund and expenses to be paid or reimbursed from the Fund. A financial plan was devised to differentiate expenses by each authorized category under mandatory and discretionary appropriations. An MOU was established with each law enforcement organization to identify the conditions under which expenses can be paid from the Fund. These initiatives provide management with the capability to better control obligations and monitor the financial status of the Fund.

As previously stated, the major change in the Fund from fiscal year 1993 to fiscal year 1994 will be the full participation of the non-Customs Treasury law enforcement organizations, which include ATF, IRS CID, and USSS. These Treasury enforcement organizations previously participated in the Department of Justice Assets Forfeiture Fund and will be full participants to the Fund in fiscal year 1994. In addition, FinCEN and FLETC will participate in the Fund. Although not readily determinable, it is anticipated the revenues, expenses, and assets of the Fund will significantly increase in fiscal year 1994 as a result of the inclusion of the forfeiture activities of the additional Treasury bureaus.

Program Performance

Many of the seizure-related performance indicators that will be reported in the Annual Financial Report of Customs also apply to the Treasury Forfeiture Fund as Customs is the executive agent for the Fund. All fiscal year 1992 and 1991 amounts presented are for those previously reported for the Customs Forfeiture Fund. Accordingly, references to the "Fund" for fiscal year 1993 refer to the Treasury Forfeiture Fund and for fiscal years 1992 and 1991 refer to the Customs Forfeiture Fund. Following is discussion of several performance indicators specifically related to the Fund.

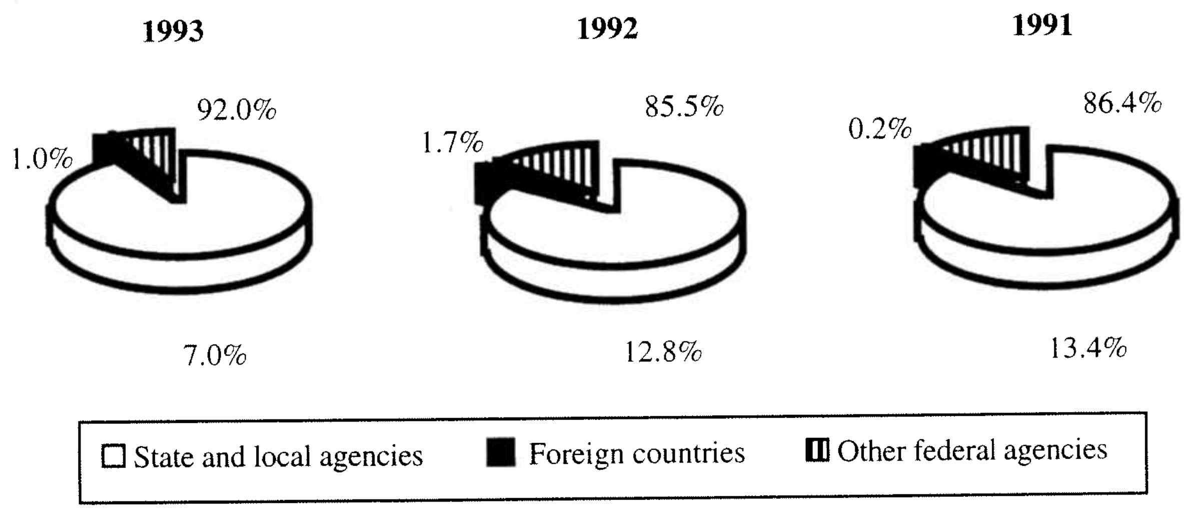
Asset sharing continued as a program emphasis

One goal of the Fund is to share assets with state and local law enforcement agencies and other federal agencies and foreign governments. A comparison (in millions) of assets shared to assets forfeited follows:

	1993	1992	1991
Currency and monetary instruments:			
Assets forfeited	$ **107**	121	191
Assets shared	**65**	77	93
Assets shared as % of assets forfeited	**61%**	64%	49%
Property and net proceeds from sales of forfeited property:			
Assets forfeited	$ **18**	18	28
Assets shared	**8**	10	18
Assets shared as % of assets forfeited	**44%**	56%	64%

As shown, the Fund continues its focus of improving intergovernmental cooperation by sharing proceeds with state and local governments. Over half of the assets forfeited during the year are shared.

The following charts illustrate the distribution of assets shared between state and local law enforcement agencies, other federal agencies, and foreign countries.



Transfer of funds from the contractor

To maximize the monies available to fulfill the goals of the Fund, during fiscal year 1992, Customs executed a contract with EG&G to transfer monies from the sale of property at the five largest sale sites to the Fund via wire transfer. At the remaining sites, the monies are to be transferred within five working days from receipt. Based on information provided by the contractor, during fiscal years 1993 and 1992, 93 percent and 98 percent, respectively, of sales revenue was transferred to the Fund within the time parameters specified.

Improved timeliness of deposits of uncontested seizures into the Fund

31 U.S.C. 9703(f)(2)(E) requires the Secretary of the Treasury to report annually to Congress uncontested seizures of currency or proceeds of monetary instruments over $100,000 that were not deposited in the Treasury Forfeiture Fund within 120 days of the seizure date. The following comparative summary shows the dollar value of uncontested seizures over $100,000 that were not deposited in the Fund within the specified period.

	1993	1992	1991
Uncontested seizures over $100,000 (in millions)	**$ 7**	17	85
Total number of cases	**25**	41	173

The summary shows a continual decrease in the number of uncontested seizures over $100,000 that were not deposited in the Fund within 120 days of the seizure date from 1991 to 1993. This is due to the Customs district offices' ability to electronically communicate that monies can be deposited with the Customs' National Finance Center rather than waiting for the paperwork to be processed. In addition, determination that the seizures are not needed for evidence has been expedited. However, in many cases the seizures are needed for evidence in criminal proceedings and as a result, while the seizures have been forfeited, the monies are still being held as evidence. Delays in transferring the monies also occur due to the time required to convert monetary instruments to cash.

Payments in lieu of forfeiture grew due to increased emphasis

To minimize the expenses related to the forfeiture process, as well as protect the rights of the violator, an increased emphasis has been placed on payments in lieu of forfeiture. In certain violations, if the violator waives the right to due process, the individual can make a payment in lieu of forfeiting the property. As a result, payments in lieu of forfeitures, net of refunds, were $22 million, $10 million and $17 million for fiscal years 1993, 1992, and 1991, respectively.

As Fund management continues to refine its performance measures, it will identify and develop additional performance measures specific to the operations of the new Fund.

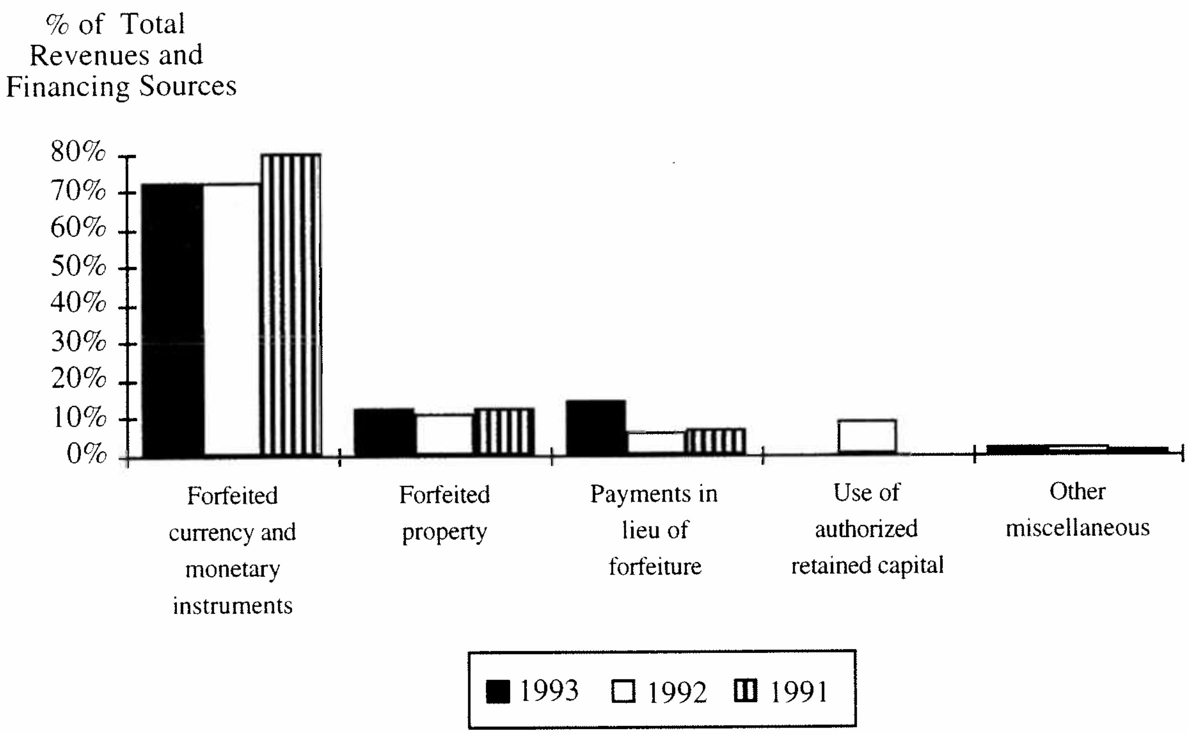
Financial Highlights

The following analysis seeks to assist the reader in understanding the accompanying financial statements. All fiscal year 1992 and 1991 amounts presented are for those previously reported for the Customs Forfeiture Fund. Accordingly, references to the "Fund" for fiscal year 1993 refer to the Treasury Forfeiture Fund and for fiscal years 1992 and 1991 refer to the Customs Forfeiture Fund.

Revenue and financing sources

A comparison of revenues and financing sources (in millions) for the past three fiscal years follows:

	1993	1992	1991
Forfeited currency and monetary instruments	**$ 113**	123	191
Forfeited property	**18**	18	28
Payments in lieu of forfeiture	**22**	10	17
Use of authorized retained capital	**0**	15	0
Other miscellaneous	**3**	4	2
	$ 156	170	238



The Fund's primary source of revenue is **forfeited currency and monetary instruments**. For fiscal year 1993, revenue from forfeited currency and monetary instruments totaled $113 million, or 72 percent of total revenues and financing sources, versus $123 million, or 72 percent of total revenues and financing sources in fiscal year 1992. This includes revenues from participating with other law enforcement organizations (reverse asset sharing) of $6 million, or 4 percent, versus $2 million, or 1 percent of total revenues and financing sources in fiscal year 1992. In addition, the Fund receives revenue from the sale of **forfeited property**. The net revenue from the sale of forfeited property (net of mortgages and claims) for fiscal years 1993 and 1992 was $18 million. This represented 12 percent and 11 percent of total revenues and financing sources in fiscal years 1993 and 1992, respectively. The net revenue does not reflect the cost of related contractor and sales expenses. The third type of revenue received by the Fund is **payments received in lieu of forfeiture** totaling $22 million, or 14 percent of total revenues and financing sources in fiscal year 1993. This represents a significant increase from $10 million, or 6 percent of total revenues and financing sources in fiscal year 1992. During fiscal year 1993, an increased emphasis was placed on negotiating payments in lieu of forfeiting the violator's property. During fiscal year 1992, the Fund utilized the **authorized retained capital** carried over from previous fiscal years to fund current year operations. **Other miscellaneous** revenues are from investment income and sales of subscriptions to the catalogs for sales of forfeited property.

The revenues from forfeiture are directly related to the seizure activity and subsequent forfeiture proceedings -- both administrative and judicial. In any given year, there is no direct relationship between the costs incurred for seizure activities and the assets ultimately forfeited into the Fund. Additionally, in many instances, the assets obtained as a result of the seizure, such as illegal weapons, drugs, and counterfeit merchandise, are destroyed and thus do not result in any revenue to the Fund. Therefore, the content of the seizure can have a significant impact on the amount of revenue recognized in the Fund.

Allocation of revenues

A comparison of allocation of revenues (in millions) for the past three fiscal years follows:

	1993	1992	1991
Addition to authorized retained capital	**$ 20**	0	0
Treasury general fund	**1**	0	80
State and local agencies	**67**	75	95
Foreign countries	**1**	1	0
Other federal agencies	**5**	11	15
	$ 94	87	190

Much of the revenue collected is distributed to state and local law enforcement agencies, foreign governments, and other federal agencies. For fiscal year 1993, distributions to other federal agencies, state and local agencies, and foreign countries totaled $73 million, or 47 percent of total revenues and financing sources. This represents a $13 million decrease from the previous fiscal year and is directly related to the decrease in forfeited assets available for distribution.

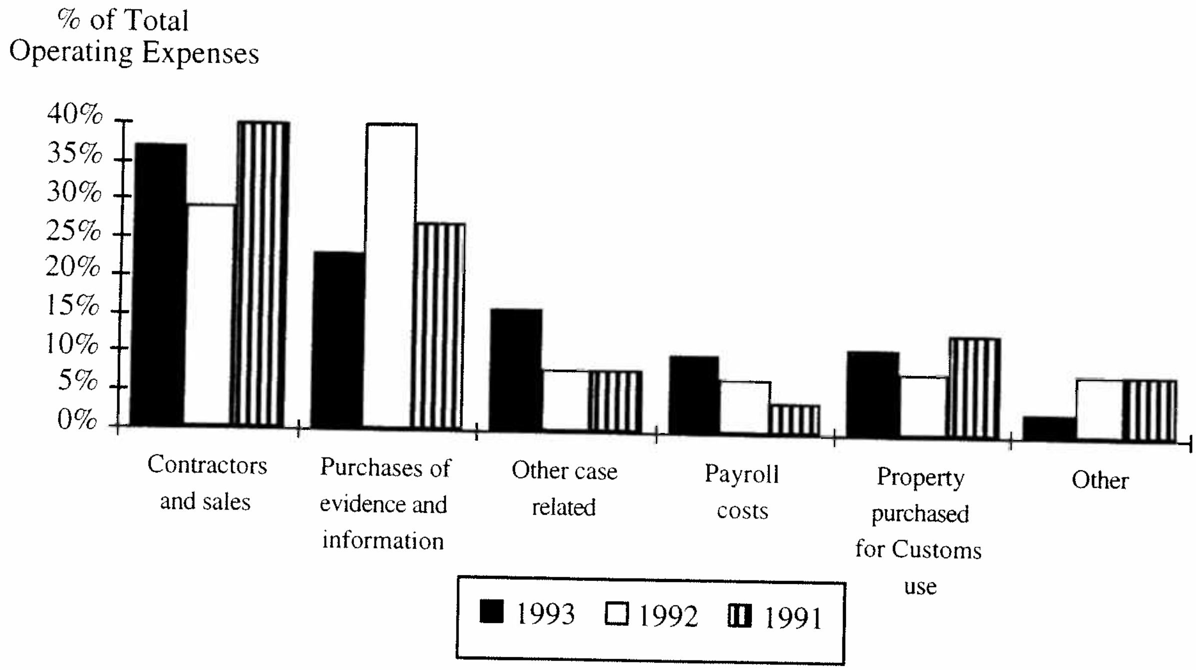
$73 million were shared with other federal, state, and local law enforcement agencies or foreign governments

For fiscal year 1993, the Fund had excess of revenue over expenses and distributions of $21 million, reflected as an addition to authorized retained capital and a distribution to the Treasury general fund. For fiscal year 1992, current year expenses and distributions exceeded revenue by $15 million. As a result, the Fund utilized the authorized retained capital carried over from previous fiscal years; this is reflected as a financing source. Consequently, allocations to the Treasury general fund as shown on the Statement of Operations for fiscal year 1992 are zero.

Operating expenses

After allocation of revenues, the remaining net revenues support the law enforcement activities of the Fund and pay for the storage of seized and forfeited property and sales expenses associated with the disposition of forfeited property. A comparative summary of operating expenses (in millions) of the Fund follows:

	1993	1992	1991
Contractors and sales	**$ 23**	23	19
Purchases of evidence and information	**14**	33	13
Other case related	**10**	7	4
Payroll costs	**6**	6	2
Property purchased for Customs use	**7**	7	6
Other	**2**	7	4
	$ 62	83	48



Operating expenses decreased $21 million

The decrease in operating expenses in fiscal year 1993 is primarily due to the decrease in purchases of evidence and information. **Contractors and sales** expenses correspond to the amount of seized and forfeited property both held and sold during the year. Even though seized property is not included in the Fund's financial statements until the property is forfeited, the associated cost of maintaining and storing the seized property is an allowable expense of the Fund. Contractors and sales expenses remained constant in fiscal year 1993 after an increase in fiscal year 1992 primarily due to a change in the type (or category) of seized and forfeited property held by the contractor. For example, during fiscal years 1993 and 1992, there was a significant increase over fiscal year 1991 in seized real property (especially commercial operating properties), which is more costly to maintain. There was also an increase in the number of auction sales held for forfeited property during both fiscal years 1993 and 1992, which resulted in higher sales expenses. **Purchases of evidence and information** expenses are affected by the amount of payments made during the year without any direct correlation to the amount of revenue from forfeitures ultimately received in the Fund. Many of the payments are related to seizures of drugs and drug paraphernalia, which do not result in revenue to the Fund. During fiscal year 1992, in response to increased emphasis on security and maintenance of seized and forfeited property, approximately 80 new full-time seized property custodians were added, accounting for the majority of the increase in **payroll** expenses over 1991. Included in **other operating costs** in the summary is interest expense, specialized contract services, expenses incurred in joint operations and other program management. Interest expense related to the Prompt Payment Act of 1988 was $7,000, $3,000 and $6,000 for fiscal years 1993, 1992, and 1991, respectively. Interest was paid on 175 (or 2 percent) of the 7,517 invoices; 135 (or 2 percent) of the 7,648 invoices; and 90 (2 percent) of the 4,387 invoices processed during fiscal years 1993, 1992 and 1991, respectively. While the amount of interest paid in the current fiscal year increased, primarily due to an accounting system conversion, Fund management continues to focus on paying bills in a timely manner in compliance with the requirements of the Prompt Payment Act.

Assets

A summary of the assets (in millions) of the Fund as of September 30, 1993, as compared with September 30, 1992 and 1991 follows:

	1993	1992	1991
Undistributed funds and Fund balances with Treasury and cash	**$ 122**	85	97
Receivables	**8**	23	61
Forfeited property	**9**	11	28
Investigative and travel advances	**4**	11	21
	$ 143	130	207

Receivables decreased significantly due to more timely deposits into the Fund

The balance of the **undistributed funds and Fund balances with Treasury and cash** fluctuates based on the timing of receipts for deposits of forfeited currency into the Fund and payments of forfeited currency shared with local, state, and federal law enforcement agencies and foreign governments. A large percentage of **receivables** represents currency that has been forfeited but not yet been deposited into the Fund. (At the time of seizure, the currency is deposited into a Customs suspense account.) The decrease in the receivable balance at year end is due to more timely deposits of forfeited currency into the Fund and an overall decrease in forfeiture activity. The value of **forfeited property** has decreased approximately $2 million, or 18 percent, over the prior year due to an increased emphasis in timely disposition of the forfeited property and the volume of forfeitures of seized property. As discussed earlier, an increased emphasis was placed on negotiating payments in lieu of seizing and forfeiting the violator's property. **Investigative and travel advances** at September 30, 1993, decreased approximately $7 million, or 64 percent, from the prior fiscal year end as recoverable advances are no longer recorded in the Fund. Only those advances that are anticipated to result in an expense to the Fund (i.e., payments for information and evidence) are now recorded in the Fund. Advances are reflected in the Fund when the monies are provided to the agents. In addition, at the end of fiscal year 1992, an allowance was recorded for advances spent for their intended purposes before year end, but the supporting documentation evidencing the intended uses had not been received by the date the fiscal year 1992 financial statements were issued. During fiscal year 1993, the supporting documentation was received. In fiscal year 1993, no such allowance was necessary.

Liabilities and net position

A summary of the liabilities and net position (in millions) of the Fund as of September 30, 1993, as compared with September 30, 1992 and 1991 follows:

	1993	1992	1991
Distribution payable to Treasury general fund	**$ 22**	52	89
Other distributions	**33**	36	37
Mortgages and claims payable	**2**	1	1
Deferred revenue	**6**	9	25
Accounts payable	**11**	8	4
Net position	**69**	24	51
	$ 143	130	207

Net position increased $45 million

At the end of fiscal year 1993, and at the end of each fiscal year thereafter, the Secretary of the Treasury is authorized to retain in the Fund up to $50 million of the unobligated balance of the Fund, or, if the Secretary determines a greater amount is necessary for asset specific expenses, an amount equal to not more than 10 percent of the total obligations from the Fund in the preceding fiscal year. Prior to the enactment of Section 638 of P.L. 102-393, the Customs Forfeiture Fund was required to transfer all unobligated amounts over $15 million. For purposes of these financial statements, unobligated amounts are defined as total assets less total liabilities (excluding distribution payable to Treasury general fund) and less unliquidated obligations and reserve for advances. Therefore, the decrease in the **distribution payable to Treasury general fund** reflects the increased amount the Fund is allowed to retain as well as the overall decrease in activities of the Fund for the year. The actual cash distributed to the Treasury at the end of any fiscal year is determined on a budgetary basis which differs from the amount shown as distributions payable in the financial statements. **Other distributions** represent asset sharing of forfeited currency or property or transfers of forfeited property approved before the end of the fiscal year, but not yet physically transferred. Revenue from the forfeiture of property is deferred until the property is sold or transferred. Accordingly, the decrease in **deferred revenue** parallels the decrease in forfeited property held for sale. While the other Treasury law enforcement organizations will not begin making deposits into the Fund until fiscal year 1994, the Fund began paying certain expenses related to seizure activities of those bureaus in fiscal year 1993. At the end of fiscal year 1993, the Fund owed approximately $3 million to the other Treasury bureaus related to these expenses, accounting for the increase in **accounts payable**. The **net position** of the Fund has increased approximately $45 million, or 188 percent, from the prior year. As discussed earlier, approximately $50 million of the increase is due to the Fund's addition to the authorized retained capital. This was offset by a decrease in the reserve for advances. Recoverable advances are no longer in the Fund, therefore, a corresponding reserve for advances is not necessary.

Summary

In summary, the Fund continues to fulfill its mission of providing significant resources to Treasury law enforcement organizations and state and local law enforcement agencies while simultaneously reducing the economic power of criminals and their enterprises.

Financial Management

Financial operations of the Fund are continually improved upon by its management. This is evidenced by an unqualified "clean" opinion given to the accompanying financial statements by independent auditors. This continues the tradition of the Customs Forfeiture Fund, which received an unqualified opinion from the independent auditors for fiscal years 1992 and 1991.

The Independent Auditors' Report on Internal Control included in this report details five material weaknesses in the Fund's internal control structure. Specifically, the report states:

- **Accounting records are primarily maintained on a cash basis** - The Fund's accounting records are primarily maintained on the cash basis of accounting, rather than the accrual basis. Accordingly, most transactions are reflected in the accounting system when cash is received or disbursed rather than when the transactions occur. Year-end manual procedures were developed in order to produce accrual basis financial statements that could be substantiated through an audit.

- **General ledger** - The Fund's general ledger does not record all balances and transactions that are contained in the financial statements. Rather, procedures were developed to identify and capture information manually from other systems in order to compile the financial statements.

- **Forfeited property** - The value of forfeited property is not recorded in the general ledger and forfeited property is not recorded in the subsidiary system in a timely manner. As a result, year-end procedures were developed to identify forfeited property not entered in the subsidiary system as of September 30, 1993, and to adjust the financial statements for the value of forfeited property.

- **Forfeited property valuation** - Forfeited property is not recorded in the subsidiary system during the year at its net realizable value. An adjustment is made to the financial statements as of September 30, 1993, to record forfeited property at its net realizable value.

- **Performance indicators** - As the requirement to develop and monitor performance indicators is relatively new, the Fund has not fully developed specific performance indicators to report the progress toward achieving the Fund's goals and objectives.

While these material weaknesses were included in the fiscal year 1992 Report on Internal Control, many improvements in internal controls have been made as the result of a corrective action plan developed from the findings of the 1992 audit. Also, because corrections to the material weaknesses may require significant computer system improvements, management developed a series of temporary manual "fixes" until the longer-term system changes can be implemented. The temporary fixes were monitored during the year through the corrective action plan, which will be updated for the findings from the 1993 audit with procedures put in place to ensure the findings are corrected to improve the financial management of the Fund. This effort is an ongoing focus.

One significant accomplishment of the Fund during fiscal year 1992 was the development of year-end procedures to assist in gathering information for the preparation of the financial statements. These year-end procedures compensate for many of the system weaknesses for which the correction will take longer to implement. Also, regional Fines, Penalties and Forfeitures coordinators attended a two-day training session to acquaint them with the year-end procedures. During fiscal year 1993, these procedures were reviewed and refined with the participation of Customs' field personnel. While there has been much improvement, refinements to the procedures are still needed and district personnel still require additional training. This process will continue to be refined until the longer-term system changes can be implemented.

The fiscal year 1993 Independent Auditors' Report on Compliance includes the following finding, which was also included in the 1992 report:

- The Fund's internal control structure does not comply with the Budget and Accounting Procedures Act of 1950, which requires federal agencies to establish an internal control structure that ensures the safeguarding of assets and the proper recording of revenues and expenditures.

This material instance of noncompliance is related to the previously identified material weaknesses in internal controls and will be corrected when the applicable internal control weaknesses are corrected.

The accompanying financial statements have been prepared to report the financial position, results of operations and changes in net position, and cash flows of the Fund, pursuant to the requirements of the Chief Financial Officers Act of 1990. While the financial statements have been prepared from the books and records of the Fund in accordance with the formats prescribed by the Office of Management and Budget (OMB), the statements are different from the financial reports used to monitor and control budgetary resources that are prepared from the same books and records. The financial statements should be read with the understanding that they are for a component of a sovereign entity (the United States government), that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity. In addition, the financial statements are presented in accordance with applicable provisions of OMB Bulletin No. 94-01, "Form and Content of Agency Financial Statements."

FMFIA Program Summary

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) report for the Department of the Treasury discusses issues related to the Treasury Forfeiture Fund. While these issues are not identified as specific FMFIA deficiencies for Treasury Department offices, they reflect significant weaknesses in the management of seized property by the participating Treasury bureaus, which could jeopardize the integrity of the Treasury Forfeiture Fund unless appropriate safeguards are established and maintained.

The managers of the Fund are aware of certain problems, vulnerabilities and weaknesses associated with the operations of the participating bureaus, primarily in the areas of recording, tracking, and safeguarding seized property. Some of these problems constitute material weaknesses under FMFIA and are reported as such by Customs and the Internal Revenue Service in their FMFIA reports.

Material weaknesses in the financial and accounting systems as disclosed in previous audits of the Customs Forfeiture Fund were also addressed in the Treasury's FMFIA report. As indicated in the Financial Management section of this Overview, many of these weaknesses involve Customs automated systems.

In conclusion, the managers of the Fund recognize deficiencies in the existing systems and operations of the Treasury law enforcement organizations in the area of seized and forfeited property. It is management's responsibility to oversee corrective actions designed to ensure the identification and elimination of system weaknesses. Additionally, the Fund's management intends to work with the participating bureaus to complete a program of risk assessments of their seized property programs and develop an appropriate system of internal controls.

The Fund management is poised to accept the challenges of the expanded role of the Fund

KPMG Peat Marwick

Certified Public Accountants

2400 First Indiana Plaza
135 North Pennsylvania Street
Indianapolis, IN 46204-2452

Independent Auditors' Report on Financial Statements

The Inspector General
United States Department of the Treasury
Washington, D.C.:

We have audited the accompanying statements of financial position of the Department of the Treasury Forfeiture Fund (the Fund) as of September 30, 1993 and 1992, and the related statements of operations, changes in net position, and cash flows for the years then ended, and the statement of budgetary resources and actual expenses for the year ended September 30, 1993. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin 93-06, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in note 2, these financial statements were prepared in conformity with the applicable accounting practices prescribed or permitted by OMB Bulletin No. 94-01, "Form and Content of Agency Financial Statements," which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of the Treasury Forfeiture Fund as of September 30, 1993 and 1992, and the results of its operations and changes in net position, and its cash flows for the years then ended, and its budgetary resources and actual expenses for the year ended September 30, 1993, on the basis of accounting described in note 2.

As discussed in note 1 to the financial statements, fiscal year 1993 is the initial year of operations of the Department of the Treasury Forfeiture Fund, which was established by the Treasury Forfeiture Fund Act of 1992. Under the Act, the Department of the Treasury Forfeiture Fund succeeded the Customs Forfeiture Fund. For comparative purposes, the Customs Forfeiture Fund's financial statements are presented for fiscal year 1992.

KPMG Peat Marwick

The Inspector General
United States Department of the Treasury
Washington, D.C.

Our audits were conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph taken as a whole. The information in the Overview of the Department of the Treasury Forfeiture Fund and the Supplemental Financial and Management Information sections is not a required part of the financial statements but is supplementary information required by OMB Bulletin No. 94-01, "Form and Content of Agency Financial Statements," or the Treasury Forfeiture Fund Act of 1992. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

This report is intended for the information and use of the U.S. Congress, the management of the Fund, the U.S. Department of the Treasury, and the U.S. Customs Service. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick

December 30, 1993

DEPARTMENT OF THE TREASURY FORFEITURE FUND

Statements of Financial Position
September 30, 1993 and 1992
(Dollars in thousands)

	1993	1992
Assets		
Custodial assets:		
Undistributed funds with Treasury and cash	$ 46,351	63,272
Receivables:		
Federal-U.S. Customs Service funds	7,212	22,691
Non-federal	319	276
	7,531	22,967
Forfeited property (note 3):		
Held for sale	7,358	9,232
To be shared with federal, state or local agencies, or foreign governments	1,617	1,753
	8,975	10,985
Total custodial assets	62,857	97,224
Operating assets:		
Fund balances with Treasury and cash	76,313	21,234
Investigative and travel advances, net of allowance of $2,700 in 1992	3,610	11,067
Total operating assets	79,923	32,301
Total assets	$ 142,780	129,525
Liabilities		
Current liabilities:		
Custodial liabilities:		
Distributions payable:		
Federal:		
Treasury general fund	22,208	52,294
Other federal agencies	2,730	1,367
	24,938	53,661
Non-federal:		
State and local agencies	29,935	32,535
Foreign countries	238	1,486
	30,173	34,021
	55,111	87,682
Mortgages and claims payable	1,972	1,239
Deferred revenue from forfeited assets	5,774	8,303
Total custodial liabilities	62,857	97,224
Operating liabilities:		
Accounts payable:		
Non-federal	7,125	7,916
Federal	3,486	-
Total operating liabilities	10,611	7,916
Total liabilities	73,468	105,140
Net Position		
Authorized retained capital	50,000	238
Unliquidated obligations	19,312	16,421
Reserve for advances	-	7,726
Total net position	69,312	24,385
Commitments (note 5)	-	-
Total liabilities and net position	$ 142,780	129,525

See accompanying notes to financial statements.

DEPARTMENT OF THE TREASURY FORFEITURE FUND

Statements of Operations
For the years ended September 30, 1993 and 1992
(Dollars in thousands)

	1993	1992
Revenues and financing sources:		
Undistributed forfeited currency and monetary instruments	$ 42,020	44,196
Distributed forfeited assets:		
Currency	65,261	76,910
Property	5,482	7,936
Proceeds from sales of forfeited property (note 3)	2,110	2,273
Sales of forfeited property, net of mortgages and claims of $2,039 and $1,561, respectively (note 3)	10,297	8,015
Payments received in lieu of forfeitures, net of refunds of $2,215 and $1,541, respectively	21,487	10,198
Reimbursed storage costs	2,188	2,822
Use of authorized retained capital	-	14,762
Proceeds from participating with other federal agencies	5,676	1,686
Other miscellaneous	1,118	1,127
Total revenues and financing sources	155,639	169,925
Allocations of revenues:		
Addition to authorized retained capital	19,762	-
Treasury general fund	741	-
State and local agencies	67,035	74,507
Foreign countries	719	1,448
Other federal agencies	5,099	11,164
Total allocations of revenues	93,356	87,119
Net revenues and financing sources	62,283	82,806
Operating expenses:		
Non-discretionary expenses:		
Contractors and sales	22,602	23,418
Purchases of evidence and information leading to seizures	12,200	32,340
Other case related	9,905	7,692
Payroll costs	5,926	5,557
Interest expense	7	3
Total non-discretionary expenses	50,640	69,010
Discretionary expenses:		
Other purchases of evidence and information	2,209	506
Specialized contract services	1,243	2,291
Joint operations	1,611	4,119
Other program management	40	212
Property purchased and transferred to a U.S. Customs Service fund (note 4)	6,540	6,668
Total discretionary expenses	11,643	13,796
Total operating expenses	62,283	82,806
Excess of net revenues and financing sources over total operating expenses	$ -	-

See accompanying notes to financial statements.

DEPARTMENT OF THE TREASURY FORFEITURE FUND

Statements of Changes in Net Position
For the years ended September 30, 1993 and 1992
(Dollars in thousands)

	Authorized retained capital	Unliquidated obligations	Reserve for advances	Total net position
Balances, September 30, 1991	$ 15,000	14,796	21,121	50,917
Net change in obligations of current resources	-	1,625	-	1,625
Net change in reserve for advances	-	-	(13,395)	(13,395)
Use of authorized retained capital	(14,762)	-	-	(14,762)
Balances, September 30, 1992	238	16,421	7,726	24,385
Net change in obligations of current resources	-	2,891	-	2,891
Net change in reserve for advances	-	-	(7,726)	(7,726)
Distribution to authorized retained capital	30,000	-	-	30,000
Addition to authorized retained capital	19,762	-	-	19,762
Balances, September 30, 1993	$ 50,000	19,312	-	69,312

See accompanying notes to financial statements.

DEPARTMENT OF THE TREASURY FORFEITURE FUND

Statements of Cash Flows
For the years ended September 30, 1993 and 1992
(Dollars in thousands)

	1993	1992
Cash flows from operating activities:		
Excess of net revenues and financing sources over total operating expenses	$ -	-
Adjustments to reconcile excess of net revenues and financing sources over total operating expenses to cash provided from operating activities:		
Decrease in accounts receivable	15,436	37,782
Decrease in forfeited property	2,010	17,150
Decrease in investigative and travel advances	7,457	10,054
Decrease in custodial liabilities	(39,202)	(66,847)
Increase in accounts payable	2,695	4,210
Net cash provided (used) by operating activities	(11,604)	2,349
Cash flows from financing activities:		
Use of authorized retained capital	-	(14,762)
Distribution to authorized retained capital	30,000	-
Addition to authorized retained capital	19,762	-
Net cash provided (used) by financing activities	49,762	(14,762)
Net cash provided (used) by operating and financing activities	38,158	(12,413)
Cash, beginning of year	84,506	96,919
Cash, end of year	$ 122,664	84,506

Property forfeited of approximately $5 million and $8 million was shared with state and local agencies and foreign countries, or transferred to other federal agencies during the years ended September 30, 1993 and 1992, respectively.

Unliquidated obligations and reserve for advances decreased approximately $5 million and $12 million for the years ended September 30, 1993 and 1992, respectively.

Interest paid amounted to approximately $7,000 and $3,000 for the years ended September 30, 1993 and 1992, respectively.

See accompanying notes to financial statements.

DEPARTMENT OF THE TREASURY FORFEITURE FUND

Statement of Budgetary Resources and Actual Expenses
For the year ended September 30, 1993
(Dollars in thousands)

	BUDGET			ACTUAL
		Obligations		
	Resources	Direct	Reimbursed	Expenses
	$ 209,993	$ 167,064	$ -	$ 155,639

Budget Reconciliation:

Total operating expenses and allocations of revenues	$ 155,639
Net adjustments to present accrual financial statements	(5,349)
Subsequent adjustments	13,002
Expenses netted against revenues:	
Mortgages and claims	2,039
Refunds	2,215
Allocation of revenues not requiring outlays, distributed forfeited assets - property	(5,482)
Accrued expenditures, direct	$ 162,064

See accompanying notes to financial statements.

(1) Department of the Treasury Forfeiture Fund

The Tariff and Trade Act was signed into law on October 12, 1984. The Tariff and Trade Act authorized the United States Customs Service (Customs) to utilize the net proceeds it generates from the forfeiture of monetary instrument seizures and the sale of forfeited seized property to fund certain administrative and enforcement expenses. The Tariff and Trade Act established the Customs Forfeiture Fund within Customs to account for these net proceeds and related expenses. The Tariff and Trade Act established the Customs Forfeiture Fund to be in operation through September 30, 1987. In 1988, the Anti-Drug Abuse Act (Drug Act) re-established the fund and authorized its continuance indefinitely. However, in October 1992, the Treasury Forfeiture Fund Act of 1992 (Section 638 of P.L. 102-393, or the Act) established the Department of the Treasury Forfeiture Fund (the Treasury Forfeiture Fund, or the Fund). The new Fund succeeds the Customs Forfeiture Fund. For fiscal year 1993, only Customs and the U.S. Coast Guard deposited receipts into the Fund. All fiscal year 1992 amounts presented in the accompanying financial statements are those previously reported for the Customs Forfeiture Fund. Accordingly, references to the "Fund" for fiscal year 1993 refer to the Treasury Forfeiture Fund and for fiscal years 1992 and 1991 refer to the Customs Forfeiture Fund. Beginning October 1, 1993, all law enforcement organizations within the Department of the Treasury (Treasury) will fully participate in the Fund, including making deposits. In addition to Customs, the fiscal year 1994 Fund activity will include the law enforcement operations of the Criminal Investigation Division of the Internal Revenue Service (IRS CID); the United States Secret Service; the Bureau of Alcohol, Tobacco and Firearms; the Financial Crimes Enforcement Network; and the Federal Law Enforcement Training Center. The U.S. Coast Guard, which historically participated in the Customs Forfeiture Fund, continues to be a participant in the Fund.

The primary objectives of the forfeiture program are to (1) punish and deter criminal activity by depriving criminals of property used in or acquired through illegal activities, (2) be cognizant of the due process rights of all persons, (3) enhance cooperation among foreign, federal, state, and local law enforcement agencies through the equitable sharing of assets forfeited, and (4) produce revenues to enhance the forfeiture program and strengthen law enforcement.

Because in fiscal year 1993 the Fund related primarily to the U.S. Customs Service, the following is a discussion of the relevant activities of Customs. In addition, the Secretary of the Treasury has designated Customs as its executive agent for the financial operations of the Fund.

Under the 1930 Tariff Act and later amendments, Customs enforces importing and exporting and drug-related laws of the United States. Accordingly, when violations are discovered, Customs has the authority to immediately seize the possessions of the violator. The seized property or currency may eventually be returned to the violator if the violation is cured or otherwise dismissed. Also, Customs may return the property to the violator if the violator accepts Customs' terms for a mitigated seizure and, accordingly, makes a payment in lieu of forfeiture. However, if the possessions are not returned to the violator, the property is forfeited through either administrative or judicial procedures. Once forfeited, the property is either retained for official use of Customs, destroyed, sold, or transferred to another local, state, or federal agency or foreign country. Currency, once forfeited, is either shared with another local, state, or federal agency or foreign country or used for the intended purpose of the Fund.

(Continued)

Under the Act, in fiscal years 1993 and thereafter, the Fund is available for payment of certain discretionary and non-discretionary expenses. Non-discretionary expenses include all proper expenses of the seizure (including investigative costs and purchases of evidence and information leading to seizure, holding costs, security costs, etc.), awards of compensation to informers, satisfaction of liens against the forfeited property, and claims of parties in interest to forfeited property. Discretionary expenses include purchases of evidence and information related to smuggling of controlled substances; equipment to enable vessels, vehicles or aircraft to assist in law enforcement activities; reimbursement of private persons for expenses incurred while cooperating with a Treasury law enforcement organization in investigations; reimbursements of costs incurred by state and local law enforcement agencies in joint law enforcement operations with a Treasury law enforcement organization; and publication of the availability of awards. Commencing in fiscal year 1993, the Fund incurred expenses relating to all Treasury law enforcement organizations including those whose collections will not be deposited into the Fund until fiscal year 1994.

Discretionary expenses are subject to an annual Congressional appropriation from the Fund. Under the Act, $30 million of the unobligated balance was transferred from the Customs Forfeiture Fund to the Treasury Forfeiture Fund. Congress had appropriated $15 million for the Customs Forfeiture Fund for fiscal year 1993. Therefore, $15 million of the $30 million transferred was used for these purposes, as it was determined the congressional intent was to provide the same level as had been appropriated for Customs Forfeiture Fund. The Fund is accounted for under Treasury symbol numbers 20X5693 and 20X5697. Under the Act, non-discretionary expenses may be financed through the revenue generated from forfeiture activities without limitation.

At the end of fiscal year 1993, certain excess unobligated balances remaining in the Fund are to be transferred to the general fund of Treasury. At the end of fiscal year 1992, as provided by the Drug Act, unobligated amounts in excess of $15 million were to be transferred from Customs Forfeiture Fund to the general fund of Treasury. However, $14,762,000 of the authorized retained capital was used for fiscal year 1992, and therefore, unobligated amounts in excess of $238,000 were shown as distributions payable to the Treasury general fund at September 30, 1992. The unobligated amount is determined to be total assets less total liabilities (excluding distributions payable to the Treasury general fund) and less unliquidated obligations and reserve for advances. As of September 30, 1993 and 1992, unobligated amounts of approximately $72 million and $53 million, respectively, remained in the Fund. Accordingly, a liability of approximately $22 million and $52 million to the Treasury general fund has been recognized in the accompanying Statements of Financial Position. Distributions payable to the Treasury general fund has been recognized in the accompanying Statement of Changes in Net Position. The actual amount returned to the Treasury general fund is determined on a budgetary basis. On a budgetary basis, unobligated balances as originally reported on the Office of Management and Budget Reports, SF-133, "Report on Budget Execution", approximated $38.8 million for fiscal year 1993. However, subsequent to submission of the SF-133, adjustments were identified which result in the unobligated balance exceeding $50 million. Accordingly, a transfer of approximately $2 million is anticipated to be made to the Treasury general fund pertaining to fiscal year 1993. In future years, the Secretary of the Treasury is authorized to retain in the Fund up to $50 million of the unobligated balance of the Fund, or, if the Secretary determines a greater amount is necessary for asset specific expenses, an amount equal to not more than 10 percent of the total obligations from the Fund in the preceding fiscal year.

(Continued)

The Fund maintains a contract with an unrelated entity whereby the other entity holds seized property on consignment. Upon forfeiture, the contractor conducts auction sales on behalf of Treasury, collects sales proceeds from the purchaser and deposits the sale proceeds in the Fund. For assets returned to the violator, the contractor collects reimbursements from violators for asset management expenses incurred.

The Fund is a component unit of Treasury and as such, employees of Treasury perform certain operational and administrative tasks related to the Fund. Payroll costs of employees directly involved in the security and maintenance of forfeited property are included in the financial statements of the Fund.

(2) Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The Chief Financial Officers Act of 1990 (CFO Act) requires certain executive agencies or components of the executive agencies of the federal government to prepare and have audited financial statements and related footnotes for all agency activities and funds. Applicable accounting standards and principles for federal entities, as well as the form and content to be followed for the preparation of these statements, are currently published by the Director of the Office of Management and Budget (OMB).

To assist OMB in recommending and publishing comprehensive accounting standards and principles for agencies of the federal government, the Secretary of the Treasury, the Comptroller General of the United States and the Director of the OMB (the Joint Financial Management Improvement Program (JFMIP) Principles) established in 1990 the Federal Accounting Standards Advisory Board (FASAB). However, as FASAB is in its inception, FASAB recommended agencies continue using the applicable accounting standards contained in agency accounting policy and procedures manuals now in effect for the preparation of financial statements. The Fund continues to prepare its financial statements based upon the accounting principles included in Title 2 of "The Policy and Procedures Manual for Guidance of Federal Agencies," published by the U.S. General Accounting Office (GAO).

Additionally in November 1993, the OMB provided guidance on the presentation of fiscal year 1993 financial statements in OMB Bulletin No. 94-01, "Form and Content of Agency Financial Statements." These standards, principles and the applicable provisions of OMB Bulletin No. 94-01, used to prepare these financial statements, are a comprehensive basis of accounting other than generally accepted accounting principles.

Financial Statements Presented

The majority of the revenue recorded by the Fund is distributed to the general fund of the Treasury, state and local law enforcement agencies, other federal agencies, and other foreign governments in accordance with the various laws and regulations governing the operations and activities of the Fund. These activities reflect the custodial/fiduciary responsibilities that the Fund has been authorized by law to enforce.

(Continued)

To more appropriately present the results of its principal activities (i.e., custodial/fiduciary responsibilities) and the funding of such, the Fund has presented Statements of Operations (which net to $-0-) and Statements of Changes in Net Position in place of the Statements of Operations and Changes in Net Position as suggested by OMB.

The form and content of the Statements of Financial Position, as suggested by OMB, has been adjusted to present custodial assets (and offsetting liabilities) for revenue collected or to be collected but not yet distributed to the various entities expected to receive these funds.

Custodial Assets and Liabilities

Custodial assets consist principally of undistributed funds to the general fund of the Treasury, receivables, and forfeited property which are held for sale or to be distributed primarily to other federal, state and local agencies or foreign governments. Because substantially all of the custodial assets are not considered as financing sources (revenues) available to offset operating expenses, corresponding liabilities are recorded and presented as "Custodial Liabilities" in the Statements of Financial Position to reflect the custodial nature of the Fund's activities.

The presentation of custodial assets and liabilities in a separate, self-balancing set of accounts ensures the net position of the Fund presents only those resources which will be consumed in current or future operating cycles, while the custodial categories contain resources relating to the Fund's custodial/fiduciary activities.

Operating Assets

Operating assets are used to conduct the operations and activities of the Fund (i.e., non-custodial assets). Operating assets consist of cash or other assets which could readily be converted into cash to meet the Fund's current or future operational needs.

Undistributed Funds with Treasury and Cash

Undistributed funds with Treasury and cash represents custodial monies, including cash held as evidence, to be distributed to various federal, state or local agencies. Cash held as evidence amounted to approximately $5,667,000 and $5,398,000 at September 30, 1993 and 1992, respectively.

Forfeited Property

Forfeited property is recorded at estimated net realizable value based on historical sales experiences. Direct and indirect holding costs are not capitalized for individual forfeited assets. Forfeited currency is reflected as funds with Treasury in the accompanying Statements of Financial Position.

Fund Balances with Treasury and Cash

Fund balances with Treasury and cash are funds remaining as of fiscal year end and represent the Fund's authority to incur allowable expenditures. Cash receipts and disbursements are processed by Treasury.

(Continued)

Investigative and Travel Advances

Investigative and travel advances include monies advanced to agents for use in conducting investigative operations and payments to informants. Advances are reflected in the Fund when the monies are provided to the agents. An expense is recognized in the Fund when the payment to the informant or purchase of evidence is made. In fiscal year 1992, an allowance of $2,700,000 was recorded for advances spent for their intended purpose prior to year end, but the supporting documentation evidencing the intended use had not been received by the date the fiscal year 1992 financial statements were issued. During fiscal year 1993, the supporting documentation was received. Accordingly, in fiscal year 1993, no such allowance is necessary.

In fiscal year 1992, reserve for advances, a separate component of the Fund's net position, represented monies disbursed which are not anticipated to result in an expense to the Fund. In fiscal year 1993, it was determined these types of advances no longer belong in the Fund and accordingly, have been transferred to a fund within Customs.

Assets Distributed

Forfeited property, currency or proceeds from the sales of forfeited property may be shared with federal, state or local law enforcement agencies or foreign countries who provide direct or indirect assistance in the related seizure. In addition, the Fund may transfer forfeited property to other federal agencies which would benefit from the use of the item. Upon proper approval to share or transfer the asset, both revenue from distributed forfeited assets and distributions (allocations of revenues) are recognized for the net realizable value of the asset to be shared or transferred, thereby resulting in no gain or loss recognized.

Mortgages and Claims Payable

Mortgages and claims on forfeited assets are recognized as a liability and a reduction of deferred revenue from forfeited assets when the asset is forfeited. The payable includes mortgages and claims on forfeited property held for sale and mortgages and claims on forfeited property previously sold. Mortgages and claims expense is recognized when the related asset is sold and is reflected as a reduction of sales of forfeited property.

Authorized Retained Capital

Under the Act, the Secretary of the Treasury is authorized to retain in the Fund up to $50 million of the unobligated balance of the Fund, or, if the Secretary determines a greater amount is necessary for asset specific expenses, an amount equal to not more than 10 percent of the total obligations from the Fund in the preceding fiscal year. Authorized retained capital as of September 30, 1992, was the unobligated statutory amount that was allowed to be retained by the Fund under the Drug Act. During fiscal year 1992, approximately $14.8 million of the $15 million authorized retained capital was utilized to fund current year operations, and is shown as a financing source in the Statement of Operations.

(Continued)

Unliquidated Obligations

Unliquidated obligations represent the amount of undelivered purchase orders and contracts which have been obligated with current resources. A liability is recognized and the corresponding unliquidated obligations are reduced as goods are received or services are performed.

Revenue and Expense Recognition

Revenue from the forfeiture of property is deferred until the property is sold, or transferred to a state, local or federal agency or foreign government. Revenue is not recorded if the forfeited asset is ultimately destroyed.

Revenue from currency is recognized upon forfeiture. Payments in lieu of forfeiture (mitigated seizures) are recognized as revenue when the payment is received.

Revenue received from participating with certain other federal agencies is recognized when the payment is received. Similar to the distributions of forfeited property or currency made to federal, state or local agencies or foreign countries who provide direct or indirect assistance in related seizures, the Fund receives proceeds from certain other federal agencies. Operating costs are recorded as expenses when goods are received or services are performed.

Tax status

The Fund, as part of a federal agency, is not subject to federal, state or local income taxes.

Statement of Budgetary Resources and Actual Expenses

The accompanying Statement of Budgetary Resources and Actual Expenses reconcile total expenses and distributions, as reported in the accompanying Statements of Operations, with outlays as reported in the Office of Management and Budget Report, SF-133, "Report on Budget Execution" for the year ended September 30, 1993. Subsequent adjustments represent adjustments made to the financial statements subsequent to the preparation of SF-133 and will be reflected as such on a future SF-133.

Reclassifications

Certain reclassifications of fiscal year 1992 amounts have been made to conform with fiscal year 1993 financial statement presentation.

(Continued)

(3) Forfeited Property

Forfeited property consists of the following as of September 30, 1993 and 1992 (dollars in thousands):

	1993	1992
General property	$ 2,685	2,709
Real property	2,920	4,200
Vessels	488	934
Aircraft	1,367	1,410
Vehicles	1,515	1,732
	$ 8,975	10,985

As of September 30, 1993 and 1992, 92% and 79%, respectively, of the inventory of forfeited assets was held by the outside contractor discussed in note 1. The remaining inventory was held by Customs.

Seized property and currency result principally from enforcement activities. Such property is not legally owned by the Fund until judicially or administratively forfeited and, accordingly, is not reflected as custodial assets in the Statements of Financial Position. Customs total seized currency, which is not included in the accompanying financial statements, is $143 million (unaudited) and $167 million (unaudited) as of September 30, 1993 and 1992, respectively, of which $16 million (unaudited) and $33 million (unaudited) is evidentiary, respectively. Customs total seized property, which is also not included in the accompanying financial statements, is valued at $333 million (unaudited) and $644 million (unaudited) as of September 30, 1993 and 1992, respectively. These estimated values are determined by Customs and contractor officials.

As of September 30, 1993, the other applicable Treasury bureaus that will participate in the Fund beginning October 1, 1993, had seized property and currency which has the potential of being forfeited, at which time the proceeds will be deposited into the Fund. Accurate information regarding the amounts as of September 30, 1993 is not available. However, on September 30, 1993, Customs maintained custody of approximately $331,000 (unaudited) of IRS CID seized property which is not included in the accompanying financial statements. Customs held the property in a fiduciary capacity only. This estimated value was determined by Customs and contractor officials.

The following schedule summarizes sales of forfeited property by category for the year ended September 30, 1993 and 1992 (dollars in thousands):

	1993	1992
General property	$ 3,421	3,498
Real property	4,601	3,104
Vessels	1,095	1,480
Aircraft	1,476	1,210
Vehicles	3,853	2,557
	$ 14,446	11,849

(Continued)

The estimated value of destroyed forfeited property was approximately $17 million (unaudited) and $18 million (unaudited) for the years ended September 30, 1993 and 1992, respectively. These estimated values are determined by Customs and contractor officials. Property destroyed primarily consisted of general property, such as illegal weapons and counterfeit merchandise.

(4) Related Party Transactions

Certain capital assets of Customs, such as communication equipment and conveyances, are utilized at times for the Fund's activities. These assets are capitalized in a separate Customs fund. During the years ended September 30, 1993 and 1992, $6,540,000 and $6,668,000, respectively, of capital assets purchased with forfeited currency were transferred to that fund within Customs and are shown as discretionary expenses in the accompanying financial statements.

(5) Commitments

As of year end, there are asset sharing requests in the various stages of approval. Because final approval had not been obtained by September 30, they are not recorded as liabilities of the Fund. However, the Fund has identified asset sharing requests in the amount of approximately $8,400,000 which were approved or in the final stages of approval subsequent to September 30, 1993. The forfeited currency revenue was recognized in fiscal year 1993; however, the distribution will not be recognized in the financial statements until fiscal year 1994. In addition to the amount estimated above, there are additional amounts which may ultimately be shared which are not identified at this time.

KPMG Peat Marwick

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Independent Auditors' Report on Compliance

The Inspector General
United States Department of the Treasury
Washington, D.C.:

We have audited the financial statements of the Department of the Treasury Forfeiture Fund (the Fund) as of and for the year ended September 30, 1993, and have issued our report thereon dated December 30, 1993.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin 93-06, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the Fund is the responsibility of the management of the Fund. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatements, we performed tests of the Fund's compliance with certain provisions of laws and regulations that may directly affect the financial statements, including the Budget and Accounting Procedures Act of 1950, Anti-Deficiency Act, Federal Managers' Financial Integrity Act of 1982 (FMFIA), Prompt Payment Act, and Chief Financial Officers Act of 1990, which have been identified by OMB; and Treasury Forfeiture Fund Act of 1992, Anti-Drug Abuse Act, Trade and Traffic Act, 19 USC 1300 Series, 19 USC 1500 Series, 19 USC 1600 Series, 18 USC 981, 21 USC 881, 31 USC 9703, Customs and Trade Act, and Comprehensive Crime Control Act, which have been identified by the Fund. As part of our audit, we also obtained an understanding of management's process for evaluating and reporting on internal control and accounting systems as required by the FMFIA and compared the Department of the Treasury's and the U.S. Customs Service's fiscal year 1993 FMFIA reports with our consideration of the Fund's internal control structure. We also reviewed and tested the Fund's policies, procedures, and systems for documenting and supporting financial, statistical, and other information presented in management's Overview of the Department of the Treasury Forfeiture Fund and Supplemental Financial and Management Information. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such laws and regulations. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in laws or regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements. The results of our tests of compliance disclosed the following material instance of noncompliance, the effects of which have been corrected in the Fund's fiscal year 1993 financial statements.

KPMG Peat Marwick

The Inspector General
United States Department of the Treasury
Washington, D.C.

The Budget and Accounting Procedures Act of 1950, Section 3512, "Executive Agency's Accounting System" requires federal agencies to establish an internal control structure which ensures the safeguarding of assets and the proper recording of revenues and expenditures. As described in our Report on Internal Controls dated December 30, 1993, the Fund's internal control structure has certain material weaknesses which results in noncompliance with this Act. Most of the material weaknesses require significant computer system improvements to correct. Until the system enhancements can be implemented, management has developed year-end manual procedures to compensate for many of the system weaknesses.

We considered this material instance of noncompliance in forming our opinion on whether the Fund's fiscal year 1993 financial statements are presented fairly, in all material respects, in conformity with the applicable accounting principles described in note 2 to the financial statements, and this report does not affect our report dated December 30, 1993 on those financial statements.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the Fund complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to the items not tested, nothing came to our attention that caused us to believe the Fund had not complied, in all material respects, with those provisions.

We noted certain immaterial instances of noncompliance that we will report to the management of the Fund in a separate letter dated December 30, 1993.

This report is intended for the information and use of the U.S. Congress, the management of the Fund, the U.S. Department of the Treasury, and the U.S. Customs Service. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick

December 30, 1993

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Independent Auditors' Report on Internal Controls

The Inspector General
United States Department of the Treasury
Washington, D.C.:

We have audited the financial statements of the Department of the Treasury Forfeiture Fund (the Fund) as of and for the year ended September 30, 1993, and have issued our report thereon dated December 30, 1993.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin 93-06, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the Fund for the year ended September 30, 1993, we considered its internal control structure in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and to determine whether the internal control structure meets the objectives identified in the following paragraph. Our consideration included obtaining an understanding of the significant internal control structure policies and procedures and assessing the level of control risk relevant to all significant cycles, classes of transactions, or account balances.

The management of the Fund is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are as follows:

- to provide management with reasonable, but not absolute, assurance that transactions, including those related to obligations and costs, are executed in compliance with applicable laws and regulations that could have a direct and material effect on the financial statements and any other laws and regulations that the OMB, Fund management, or the Inspector General have identified as being significant for which compliance can be objectively measured and evaluated;
- funds, property, and other assets are safeguarded against loss from unauthorized use or disposition;
- transactions are properly recorded and accounted for to permit the preparation of reliable financial reports in accordance with applicable accounting principles described in note 2 to the financial statements and to maintain accountability over the assets; and
- data that support reported performance indicators are properly recorded and accounted for to permit preparation of reliable and complete performance information.

KPMG Peat Marwick

The Inspector General
United States Department of the Treasury
Washington, D.C.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Financial reporting
- Cash at U.S. Treasury
- Forfeiture of currency
- Forfeiture and sale of property
- Operating expenditures
- Payments in lieu of forfeiture and reimbursed storage costs
- Revenues from and distributions of assets shared or transferred
- Compliance with laws and regulations
- Budget compliance
- Performance indicators

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk. Our evaluation of the controls for performance indicators was limited to those controls designed to ensure the existence and completeness of the information.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB Bulletin 93-06. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Fund's ability to ensure that the objectives of the internal control structure, as previously defined, are being achieved.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited, or material to a performance indicator or aggregation of related performance indicators, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We believe all the identified reportable conditions are material weaknesses, as defined above, and have summarized them below with further explanation in Exhibit 1 of this report.

The Inspector General
United States Department of the Treasury
Washington, D.C.

- **Accounting records are primarily maintained on a cash basis** - The Fund's accounting records are primarily maintained on the cash basis of accounting, rather than the accrual basis. Accordingly, most transactions are reflected in the accounting system when the cash is received or disbursed rather than when the transactions occur. Year-end manual procedures were developed in order to produce accrual basis financial statements that could be substantiated through an audit.

- **General ledger** - The Fund's general ledger does not record all balances and transactions that are contained in the financial statements. Rather, procedures were developed to identify and capture information manually from other systems in order to compile financial statements.

- **Forfeited property** - The value of forfeited property is not recorded in the general ledger and forfeited property is not recorded in the subsidiary system in a timely manner. As a result, year-end procedures were developed to identify forfeited property not entered in the subsidiary system as of September 30, 1993, and to adjust the financial statements for the value of forfeited property.

- **Forfeited property valuation** - Forfeited property is not recorded in the subsidiary system during the year at its net realizable value. An adjustment is made to the financial statements as of September 30, 1993, to record forfeited property at its net realizable value.

- **Performance indicators** - As the requirement to develop and monitor performance indicators is relatively new, the Fund has not fully developed specific performance indicators to report the progress toward achieving the Fund's goals and objectives.

Although in preparing the financial statements the Fund's management implemented year-end manual procedures to compensate for the above identified weaknesses, these weaknesses existed throughout the year and therefore information obtained from the accounting system during the year may not be reliable and management of the Fund should not place reliance on the information as the sole basis on which to base decisions.

Because these weaknesses impact many functions and lines of authority within the U.S. Customs Service and other Treasury bureaus, we recommend the Fund's management, together with the other Treasury bureaus, develop a joint plan to implement the recommendations included in Exhibit 1.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

We also noted other matters involving the internal control structure and its operation that we will report to the management of the Fund in a separate letter dated December 30, 1993.

KPMG Peat Marwick

The Inspector General
United States Department of the Treasury
Washington, D.C.

This report is intended for the information and use of the U.S. Congress, the management of the Fund, the U.S. Department of the Treasury, and the U.S. Customs Service. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick

December 30, 1993

DEPARTMENT OF THE TREASURY FORFEITURE FUND

Material Weaknesses

The Secretary of the Treasury designated U.S. Customs Service (Customs) as its executive agent for financial operations of the Department of the Treasury Forfeiture Fund (Fund). In addition, because in fiscal year 1993 the Fund consisted of primarily Customs forfeiture activities, references, where applicable, are to Customs activities and personnel.

ACCOUNTING RECORDS ARE MAINTAINED ON A CASH BASIS

Title 2 of the United States General Accounting Office's *Policy and Procedures Manual for Guidance of Federal Agencies* requires federal agencies to maintain accounts of the agency on the accrual basis. If the differences between the results of cash and accrual accounting are insignificant, the cash basis of accounting may be followed. Customs maintains the general ledger and associated supporting systems for the Fund primarily on a cash basis. As a result, certain account balances differ significantly between the accrual and cash basis of accounting. Accrual accounting contributes significantly to effective financial control over resources and costs of operations and is essential to the development of meaningful cost information. Accrual accounting involves identifying and recording costs and revenues in the period in which the revenue is earned or the cost incurred, rather than in the period revenue is collected or the cost disbursed. This position is further supported by the Office of Management and Budget (OMB) Bulletin 94-01, "Form and Content of Agency Financial Statements," which recommends the use of accrual accounting by federal agencies.

Further, the individual supporting computer systems are not interfaced with one another to ensure all transactions are accurately and timely recorded. Accordingly, financial statements produced directly from the system are not reliable and are not in accordance with the accrual basis of accounting. To produce accrual basis financial statements that can be substantiated through an audit, year-end manual procedures were developed. Under the authority of the Chief Financial Officers Act of 1990, the Assistant Commissioner of Customs (Management) issued a directive to Customs Field Offices explaining the year-end procedures that were to be performed. Customs has planned changes to the existing systems which they believe will correct many of the weaknesses noted during the audit. Until the necessary system changes can be implemented, which in all likelihood will take several years, the manual procedures should be improved and continued.

Although the necessary adjustments are made each September 30 to convert the cash basis financial data to the accrual basis, to comply with the requirements of Title 2 and OMB Bulletin 94-01 and to improve financial information on which daily decisions are based, we recommend the following specified procedures be implemented to properly account for transactions on the accrual basis of accounting throughout the year.

Establishing Year-End Account Balances

As stated above, to prepare the year-end financial statements, the Fund's management revised year-end manual procedures (e.g., procedures to supplement information contained in the numerous cash basis sub-systems) to identify amounts which should be accrued in the financial statements at year end. In fiscal year 1992, to ensure the Field Offices understood the year-end procedures and to increase compliance with the procedures, Customs National Finance Center (NFC) held a two-day training program for Regional Fines, Penalties and Forfeitures (FP&F) Coordinators to explain the year-end procedures and to make any changes to the procedures that the Coordinators believed were necessary. In the current year, the procedures were revised and distributed for comment and clarification. The final agreed-upon procedures were distributed to the Field Offices by the Assistant Commissioner (Management) in the form of a directive. However, because the procedures were not consistently followed by the Field Offices, significant financial statement adjustments were required in order for the financial statements to be fairly presented.

Because manual year-end procedures will continue to be necessary in the foreseeable future to prepare subsequent year financial statements, we recommend the Field Offices be reminded of the importance of properly following the year-end procedures. We also recommend the procedures be again reviewed with the Field Offices to identify any possible misunderstandings or refinements to the procedures (e.g., revenue misclassifications). The review should focus on:

- The completeness and clarity of the instructions;
- Definitions of transactions to be included in each account;
- Timing of the accounting closing dates contained in the procedures; and
- Completeness of the procedures performed.

In looking forward, when most of the recommendations that follow are implemented, many of the manual supplemental year-end procedures will no longer be necessary.

Accounts Payable and Accrued Liabilities

The Fund does not follow accrual accounting whereby a liability and an expense is recognized when the underlying goods are received or the services have been performed. In the day to day operations, the Fund generally incurs two types of expenses. The first type is one for which a physical receipt of goods or services is made at Field Offices. This receipt is processed through an entry made by the Field Office to the Automated Receiving Report System (ARRS). The corresponding vendor invoice is received at the NFC and also entered into ARRS. ARRS compares the information on the receiving report, the invoice and the related purchase order, and if the information agrees, records a liability in the general ledger (the Asset Information Management Systems or AIMS). At this time, a scheduled payment date is also established by the system based on the terms of the contract with the vendor and the invoice receipt date or goods receipt date.

The above described procedure does not capture the liability monthly for items which have been received and for which an invoice has not been entered into the system. To properly recognize this liability at each month end, an accrual should be posted to the general ledger for all receiving reports, regardless of whether or not an invoice has been received. ARRS has the capacity to generate an unmatched receiving report listing which could be the source to make the appropriate accrual entry. The entry could be automatically performed by the system each month. For the entry to occur automatically, the interface between ARRS and AIMS would have to be modified. Additionally, an employee at the NFC could review the ARRS listing in order to follow up on old receiving reports for which no invoice has been received.

The second type of expense is one for which there is no indication of physical receipt entered into ARRS; an invoice is received directly at the Field Offices. The Field Offices are responsible for verifying the correctness of the information on the invoice and when verified, will "certify" the invoice with a stamp and send it to the NFC for payment. The invoice is not entered into ARRS. Rather, it is directly entered to the general ledger by an NFC technician. The payment date is scheduled by the system based on the terms of the contract with the vendor and the invoice receipt date or goods receipt date. Such invoices should be accrued as a liability when the services are performed. As part of the year-end procedures, Fund management extended their procedures to identify unrecorded liabilities and found significant liabilities pertaining to these invoices that were not accrued properly at year end. However, the year-end procedures failed to capture all liabilities pertaining to these invoices, as we identified several additional liabilities during our testwork.

An alternative method to properly control and account for these invoices in the short-term is to require Field Offices to log in all invoices received at their locations. This log should include: vendor name, invoice number, invoice date, invoice amount, a description of the charges with the period in time to which the charges relate, the status of the certification process and the date mailed to the NFC. On a monthly basis, a copy of this log should be sent to the NFC. From this information, the appropriate NFC employees can determine whether the invoice has already been received at the NFC and paid, or whether an accrual for the liability is necessary. The appropriate general ledger entry could be made from the information submitted.

An alternative which could be developed over time involves making necessary procedure modifications to include more items in ARRS such as purchase orders that are currently non-ARRS items. The Field Offices could input acceptance directly to ARRS when the goods or services are received. The invoices then could be sent to the NFC. The acceptance by the Field Office would automatically post a journal entry to the general ledger once the invoice has been received.

ARRS could provide monthly listings of both accepted and non-accepted invoices and provide information for contracts which are still open. The list of accepted invoices provides support for the accounts payable balance on the general ledger. The lists of non-accepted invoices and the open contract information are similar to the unmatched receiving report listing ARRS presently has the capacity to generate. These listings could be reviewed by appropriate NFC personnel monthly to determine the liability for services which have been rendered, but for which no invoice has been received. The appropriate accrual entry can then be recorded in the general ledger.

In conjunction with these system changes, it will be necessary to formalize procedures for Field Offices to follow, including providing them with necessary training. These system modifications, along with the formalized procedures and training for Field Offices, should provide sufficient information for the subsidiary ledger to support the general ledger accounts payable balance.

Mortgages and Claims Payable

When Customs seizes property, a claim or mortgage may be outstanding against the property. If, upon forfeiture, the property is later sold, the Fund honors the claim or mortgage to the extent of the net proceeds received from the sale of the property or the fair market value at the time of seizure if the asset is a vessel (preferred ship mortgage) or real estate. On the day before payment, the liability is recorded in the general ledger. This procedure results in mortgages and claims being recorded essentially on the cash basis of accounting. We recommend the liability be recorded at the time the asset is forfeited. Because this liability reduces the net amount of revenue which will ultimately be realized through the sale of the asset, deferred revenue should be reduced at the time of forfeiture for the amount of the claim against the property.

The seizing officer is responsible for identifying information related to the mortgage or claim at the time the asset is seized. The seizing officer identifies the mortgage or claim through inquiry of the violator. In addition, during forfeiture proceedings, a public notice is issued through newspapers indicating the property has been seized and notifying any lienholders to file a claim/petition with Customs for any outstanding claims or mortgages.

Field Offices are required to input mortgage and claim information into the Customs Property Tracking System (CPTS) as this information is identified. Historically a listing of forfeited property with unpaid claims was generated only at year end, to record the related lien payable and reduce deferred revenue on the financial statements. Beginning in June 1993, the report is generated on a monthly basis. However, adjustments were still necessary to this listing as a result of year-end procedures and audit tests, because additional mortgages and claims not previously recorded by Field Offices were identified. We recommend the Field Offices be reminded of the importance of timely updating the CPTS. This CPTS listing can then be produced monthly from the system in order to manually update the general ledger. This information should pass to the general ledger via a journal entry when the related asset is forfeited.

While it may be less efficient, if the information in CPTS is not timely updated, an alternative method to capture all mortgage and claim liabilities in the short-term is to instruct the seizing officer to list all mortgage and claim information as it is identified through the aforementioned procedures. This log should include all relevant information pertaining to the mortgage or claim, such as the lienholder's name, seizure number, description of asset and amount of claim. On a monthly basis, a copy of this log should be sent to the NFC. Appropriate personnel at the NFC could identify the claims which have been paid to date and, for remaining claims, record a liability as previously discussed.

In addition to the aforementioned procedures, Customs could develop an historical analysis of unidentified mortgages and claims. Because the current procedures to identify such liabilities would not necessarily reveal all mortgages and claims that will ultimately be presented for forfeited property, a liability should be estimated for the amount of yet-to-be identified claims. This estimate should consider historical percentages of claims paid versus claims identified by the seizing officer's procedures and should be updated periodically. Recording estimated unidentified mortgages and claims will provide for a more complete liability and the financial position of the Fund can be more accurately presented.

Forfeited Currency

When Customs seizes currency, it is retained in a secured area such as sealed evidence bags in a vault at the district office or in a bank safe deposit box. When the currency is declared to be non-evidentiary, the currency is deposited to a U.S. Treasury general bank account and recorded in a suspense account in a Customs fund. Subsequently, the currency is either administratively or judicially declared to be forfeited. Administrative forfeiture occurs when Customs uses their authority, in given circumstances, to declare the currency forfeited. Judicial forfeiture requires the court system to legally decide whether the currency is to be forfeited. Upon forfeiture, the cash becomes property of the Fund and revenue should be recognized. A time lag exists between when the Field Offices are notified of the forfeiture and when the NFC is notified of the forfeiture and therefore records revenue in the general ledger. This situation arises because (1) the Field Offices are not properly monitoring and updating their system to reflect the change in the currency status and (2) a standardized procedure for documenting the forfeiture date in the system has not been implemented. For example, we noted instances at two Field Offices, Detroit and New Orleans, where currency was seized prior to fiscal year end, but the currency was not recorded in the Seized Currency Tracking System (SCTS) until 3 months and 1 month, respectively, later. In another situation the NFC was notified the forfeiture had occurred when in fact it had not, thus, revenue was overstated in the financial statements presented for audit. Because the forfeiture date is input into the system by the field and the supporting documentation maintained by the field, the NFC is unable to identify when these situations occur.

We recommend forfeited currency be recognized as revenue at the time of forfeiture. The SCTS is designed to account for seized currency from the point of seizure (at which time it is recorded in a Customs Fund) until the seized currency is either returned to the violator or forfeited. The F-13 report, produced from the SCTS, includes information for all currency seizures presently maintained in security vaults, bank suspense accounts, and safe deposit boxes at Customs locations and banks throughout the country. If the status of seizures are timely updated in SCTS by the Field Offices and the system is modified to record the forfeiture date, a forfeited currency receivable could be recorded by NFC based on the F-13 report.

While it may be less efficient, if the information in SCTS is not timely updated, an alternative method to implement this recommendation is to require, at each month end, each District FP&F officer to submit a signed letter to the appropriate individual at the NFC indicating all seizures forfeited during the current month. A journal entry could then be recorded in the general ledger to recognize the forfeited currency as revenue.

We understand procedures for updating SCTS are contained in the Seized Property Handbook. We recommend the procedures be followed. In the future, when the timeliness of the updating of the status of the data in SCTS is improved, a systems interface between SCTS and the general ledger should be considered, to automatically update forfeited currency receivable and revenue on the general ledger when a change in status from seized to forfeited is input to SCTS. With such modifications, SCTS could also provide supporting detail for the revenue balance on the general ledger.

Distributions Payable

The Fund, under certain laws and regulations, has the authority to share forfeited property and currency with federal, state, and local agencies or foreign countries who participate either directly or indirectly in a related seizure. In addition, the Fund may transfer forfeited property to other federal agencies with appropriate approval. Presently, currency shared with federal, state or local agencies or foreign countries is not recognized as a distribution until the cash is disbursed to the other agency. In addition, property shared with or transferred to another agency is not recorded on the general ledger. As part of the year-end procedures, NFC makes an adjustment to record this information on the financial statements.

A record of approved asset sharing and property transfer transactions is maintained at the Assistant Commissioner's (Enforcement) office. All asset sharing and property transfer requests, whether approved by Special Agents In Charge or by the Assistant Commissioner (Enforcement), are sent to the Assistant Commissioner's (Enforcement) office. Through our audit procedures, we determined the asset sharing approval listing was not complete, as we identified asset sharing transactions which had been approved and distributed; however, they were not included on the approval listing. We recommend the Assistant Commissioner's (Enforcement) office track all asset sharing requests to ultimate disposition. This will ensure asset sharing requests are fully accountable.

A possible solution to properly record asset sharing and property transfer transactions is for NFC to access the data base at each month end, and from that information, the proper accrual entry be made. Currently, this procedure is only being performed at year end. Because there is sometimes a time lag between when the Special Agents In Charge approve an asset sharing and property transfer transaction and when it is received at the Assistant Commissioner's office, the Special Agents In Charge should access the data base and update it, by month end, for all asset sharing and property transfer transactions they have approved for the month. In this manner, the record will be updated and complete for monthly posting of transactions by NFC.

Finally, the Seized Property Management System (SPMS) contains disposition codes for all seized property held by the contractor. There are separate disposition codes for property transferred to other federal agencies and for property shared with state or local agencies. We recommend the balances of property transferred, by code, be reconciled to the approval records and, thus, to the general ledger on a monthly basis.

Accounts Receivable from Contractor

Customs has a contract with EG&G Dynatrend (EG&G) whereby EG&G stores property seized by Customs, conducts auction sales of forfeited property, and collects storage costs reimbursed by violators. Cash collections made by EG&G on behalf of Customs are deposited to various bank accounts in the name of EG&G and, within one week, are accumulated and transferred to the U.S. Treasury account at the Federal Reserve Bank of New York. Customs receives a validated deposit slip approximately one week later, at which time revenue is recognized.

Under accrual accounting, a receivable should be recorded at the time the revenue is earned (i.e., when the reimbursement from the violator is assessed or when the auction sale is completed). An alternative method to properly recognize the receivable and revenue is to establish the following formalized procedures. On a monthly basis, EG&G should be instructed to send to the NFC certain information regarding auction sales conducted during the month. (Currently, EG&G sends a "flash report" with limited information.) The information submitted should, at a minimum, include the cash received in each auction, the sale number and the seizure numbers of the assets sold. This information is available on EG&G's Presale Control log. The NFC can manually record a receivable from the auction sale, along with the related revenue. When SPMS is later integrated with the general ledger, the receivable can be updated automatically as the contractor enters sale information to the SPMS system. In addition, the NFC could make the appropriate entries to inventory and mortgages and claims payable by identifying the fair market value of the items sold from SPMS and by identifying associated claims on CPTS.

EG&G should also provide copies of their statements (on a timely basis) from the banks to which they deposit the Fund's money. Because, at month end, the Fund's cash is contained in these accounts, EG&G should provide details of the cash balances (i.e., related to auction sales, reimbursed storage costs). This information can then be compared to the actual sales revenue from sales which took place in this time period according to the control log.

When it is determined property may be returned to the violator, the District FP&F officer completes a disposition order. A copy of the disposition order is sent to EG&G. When EG&G receives the order, the amount of holding costs owed by the violator is recalculated and documented on the disposition order. The District Seized Property Custodian should be instructed to update CPTS as to the proper status of seized property. In addition, SPMS has the capacity to track holding costs to be reimbursed by the violator. Thus, EG&G should be instructed to update SPMS when the reimbursement amount is determined. At each month end, an employee at the NFC should compare the seizures to be returned per the CPTS system with the related reimbursements to be received from the SPMS system and the collection deposit slips received from the Federal Reserve Bank of New York to obtain a complete receivable listing from which an accrual can be posted in the general ledger.

On a monthly basis, an NFC employee should also review the receivables balance, monthly, to determine the age of individual items which comprise the receivables. Follow-up procedures should be performed to determine the status of the receivables. Through this process, appropriate adjustments and/or reserves can be determined.

Distribution Payable to Treasury General Fund

The Fund, by law, must remit excess unobligated amounts to the U.S. Treasury general fund at the end of the fiscal year. This liability is not recorded on the general ledger of the Fund. It is recognized as a distribution only when the transfer takes place. We recommend, on a monthly basis, the calculation of the liability be adjusted and recorded appropriately as a liability on the general ledger.

GENERAL LEDGER

The general ledger system maintained by Customs processes, groups, and summarizes transactions into account balances for all Customs funds and the Department of the Treasury Forfeiture Fund. The general ledger currently is not utilized to track all balances and transactions that comprise the Fund, such as forfeited property and revenue, which are tracked by separate systems not directly interfaced with the general ledger. Therefore, complete financial statements cannot be compiled at month end or year end by using the general ledger balances. Rather, information is identified and captured manually from other systems in order to properly compile financial statements. Proper tracking of all Fund information is critical to properly monitor and analyze Fund activity. By not maintaining a complete general ledger for the Fund, the likelihood of not capturing all Fund transactions increases.

The Asset Information Management System project to revamp the general ledger system was implemented on October 1, 1992. However, the new system does not correct the lack of automatic interfaces between the general ledger and subsidiary systems. We have been informed that the interfaces will be implemented in subsequent system projects. Until the interfaces are operational, we recommend developing a separate trial balance to track all Fund related activity for the production of monthly financial statements to maintain control and an understanding of the Fund's operational results. When the subsequent system projects are complete, the trial balance can be compared to the financial statements produced from the enhanced general ledger system to verify its accuracy.

FORFEITED PROPERTY

The Fund currently does not record forfeited property, and the related deferred revenue, in the general ledger. We recommend forfeited property and the related deferred revenue be recorded in the Fund's general ledger at the time of forfeiture. If the status of property is updated from seized to forfeited and the ultimate disposition of the property is recorded on a timely basis, a listing of forfeited property could be generated from CPTS in order to record the entry in the general ledger.

While it may be less efficient, if the information in CPTS is not timely updated, an alternative method to implement this recommendation in the short term is to require, at each month-end, each District FP&F officer to submit a signed letter to the NFC Revenue Branch Chief indicating all seizures forfeited during the current month. (This is the same procedure as described under "Forfeited Currency" and the two letters may be submitted in the same reporting package.) A journal entry should be recorded in the general ledger to recognize the forfeited property and the related deferred revenue. An appropriate individual at the NFC should compare this information to the property subsidiary systems (SPMS and CPTS) and investigate differences.

During our audit procedures, we noted that property listings produced by SPMS and CPTS contained inaccurate data about property on hand. We identified items at the physical inventory observation locations that were not listed on the SPMS reports and items that remained on the SPMS reports that had already been sold, transferred, or disposed. One cause of these problems is that documentation for seizures is not prepared and input to SPMS and CPTS on a consistent and timely basis.

Also during our audit procedures, we noted the final forfeited property listings produced by CPTS failed to include all forfeitures occurring in the current fiscal year. The main cause of this problem is the FP&F staff are not properly monitoring and updating their systems to communicate the change in status to the appropriate personnel to update CPTS and/or SPMS.

We recommend existing procedures be followed requiring FP&F staff to forward the disposition order for new forfeiture information as authorized, to the appropriate personnel to update CPTS and/or to EG&G to update SPMS to reflect changes in property status. Additionally, FP&F staff should be required to specifically identify and report to the NFC, monthly, the status of all seized property items older than six months or with appraised/fair market values greater than $50,000. Procedures by which CPTS and SPMS are updated and maintained should be followed. These procedures include formal training of FP&F and district employees as well as written policies providing guidance to FP&F, district, and EG&G employees. We recommend these reconciliation procedures continue to be performed on a routine basis (e.g., quarterly). Finally, we recommend a systems interface between the general ledger and CPTS or SPMS be developed to record changes in status on CPTS or SPMS from seized to forfeited on the general ledger property balance.

FORFEITED PROPERTY VALUATION

Under the 1930 Tariff Act and later amendments, Customs enforces importing and exporting and drug-related laws of the United States. Accordingly, when violations are discovered, Customs has the authority to seize the possessions of the violator at the time of violation. The seized property may eventually be returned to the violator upon payment of a penalty, or if the violation is canceled or otherwise dismissed. However, if the possessions are not returned to the violator, the property is forfeited through either administrative or judicial procedures. Once forfeited, the property is either retained for official use of Customs, destroyed, sold, or transferred to another state, local, or federal agency or foreign country.

Generally, for financial reporting purposes, forfeited property should be stated at the lower of cost or market. While it is not practical to determine the approximate cost of each item forfeited, forfeited property should be valued at its net realizable value. Because it is the Fund's intention to sell some of the forfeited property at auction, net realizable value--in these circumstances--should be the expected estimated selling price of the forfeited property. Further, because it is not reasonably possible to determine the approximate costs of forfeited property, the estimated selling price of forfeited property sold at auction should be the basis for determining the net realizable value of forfeited property which is retained by Customs, shared with state and local agencies, or transferred to other federal agencies or foreign country.

The value of forfeited property is currently recorded in SPMS at appraised value, determined at seizure by the seizing agent or import specialist, or at its fair market value, determined by independent appraisal immediately before its sale at auction. While this information is important to report the value of seizures to Congress and to the American public, it should not be used in all instances for financial reporting purposes. Forfeited property, such as counterfeit goods and other seizures which must ultimately be destroyed, should reflect a net realizable value of zero for financial reporting purposes.

Using seizure values, in particular, for financial reporting purposes is misleading because forfeited property may be overvalued and does not present an accurate picture of the net realizable value to the Fund. For example, if a seizure of counterfeit goods was recorded in SPMS at its street value these goods would ultimately be destroyed and the net amount realized by the Fund is actually zero. Therefore, for financial reporting purposes, we recommend the Fund's management, as was done for both the 1992 and 1993 financial statements, assign a zero value to forfeited property that will ultimately be destroyed. In addition, we recommend the Fund's management evaluate the accuracy of market values assigned to forfeited property in SPMS. This could be achieved by comparing these values to the actual sales proceeds obtained at subsequent auction sales.

To develop numbers for inclusion in the Fund's 1992 and 1993 financial statements, management performed a historical analysis of the ultimate sales values compared to the initial appraised amounts. These ratios were applied to the ending forfeited property amount to value it at its anticipated net realizable value. This analysis is an important first step to properly value forfeited property. We encourage management to continue reviewing this analysis to refine its accuracy and ease in preparation. As the process is refined, it will become easier to prepare the analysis monthly to properly value and record month-end forfeited property balances.

PERFORMANCE INDICATORS

OMB Bulletin No. 94-01, "Form and Content of Agency Financial Statements" requires the inclusion of performance indicators in the Overview section of the annual financial statements. As such, as part of the audit of the annual financial statements, the auditor is to consider the internal control structure surrounding the development and reporting of performance indicators and to report on any identified material weaknesses in the procedures used to develop and report performance indicators.

As the requirement to develop and monitor performance indicators is relatively new, the Fund has not fully developed performance indicators specific to the Fund and implemented ongoing procedures to measure performance indicators and report the progress toward achieving the Fund's goals and objectives.

Accordingly, we recommend performance indicators specific to the goals and objectives of the Fund be developed. In addition, policies and procedures should be implemented to accumulate and report performance indicators on a routine (e.g., monthly) and consistent basis.

* * * * *

All the above comments were identified in prior year reports and are of continuing significance.

DEPARTMENT OF THE TREASURY FORFEITURE FUND

Asset Sharing Summarized by State and U.S. Territories
For the year ended September 30, 1993
(Dollars in thousands)
(Unaudited)

State	Currency Value	Property Value
Alabama	$ 291	38
Alaska	9	-
Arizona	870	311
Arkansas	17	43
California	23,010	26
Colorado	50	-
Florida	9,853	97
Georgia	213	13
Hawaii	2	-
Idaho	27	3
Illinois	1,482	8
Louisiana	36	45
Maryland	68	-
Massachusetts	17	7
Michigan	1,132	32
Minnesota	34	-
Mississippi	1,550	75
Missouri	32	15
Montana	66	-
Nevada	92	-
New Jersey	1,110	-
New Mexico	17	211
New York	28,400	308
North Carolina	236	44
North Dakota	7	-
Ohio	60	-
Oklahoma	40	4
Oregon	60	-
Pennsylvania	20	30
South Carolina	38	7
Tennessee	4	-
Texas	17,650	145
Utah	12	5
Vermont	2	-
Virginia	122	7
Washington	100	5
Total	$ 86,729	1,479

Summarized above are the currency and property values of assets forfeited and shared with state and local agencies and U.S. territories participating in the seizure. This supplemental schedule is not a required part of the financial statements of the Department of the Treasury Forfeiture Fund. Information in this schedule represents assets physically transferred during the year and therefore does not agree with total assets shared with state and local agencies in the financial statements. In addition, the above numbers do not include the adjustment to present property distributed at net realizable value.

DEPARTMENT OF THE TREASURY FORFEITURE FUND

Uncontested Seizures of Currency and Monetary Instruments Valued Over
$100,000, Taking More than 120 Days From Seizure to Deposit in Fund
For the year ended September 30, 1993
(Dollars in thousands)
(Unaudited)

Region/Districts	Total Number of Cases	Forfeited Being Held as Evidence	Uncontested Cash
Northeast			
Region totals	-	-	-
New York			
Seaport	2	$ 202	317
JFK	7	1,467	343
Region totals	9	1,669	660
North Central			
Region totals	-	-	-
Southeast			
Miami	11	860	2,551
Region totals	11	860	2,551
South Central			
Region totals	-	-	-
Southwest			
Houston	5	-	1,428
Region totals	5	-	1,428
Pacific			
Region totals	-	-	-
National totals	25	$ 2,529	4,639

31 U.S.C. 9703(f)(2)(E) requires the Secretary of Treasury to report annually to Congress uncontested seizures of currency or proceeds of monetary instruments over $100,000, which were not deposited in the Department of the Treasury Forfeiture Fund within 120 days of the seizure date.

DEPARTMENT OF THE TREASURY FORFEITURE FUND

Analysis of Revenue and Expenses and Distributions
For the year ended September 30, 1993
(Dollars in thousands)
(Unaudited)

Revenue and expenses and distributions by asset category:

	Revenue	Expenses and Distributions
Vehicles	$ 4,694	3,624
Vessels	3,760	3,057
Aircraft	6,815	2,328
General property	17,854	81,961
Real property	13,813	3,662
Currency and monetary instruments	112,957	65,261
	159,893	159,893
Less:		
Mortgages and claims	(2,039)	(2,039)
Refunds	(2,215)	(2,215)
	$ 155,639	155,639

Revenue and expenses and distributions by type of disposition:

	Revenue	Expenses and Distributions
Sales of property and forfeited currency and monetary instruments	$ 61,150	31,972
Reimbursed storage costs	2,188	847
Placed into official use of other Customs funds	3,032	3,200
Assets shared with state and local agencies	67,035	67,160
Destructions	-	1,669
Cancellations (including payments in lieu of forfeiture)	23,702	2,215
Assets shared with other federal agencies	2,067	2,161
Assets shared with foreign countries	719	719
Pending disposition	-	29,447
	159,893	139,390
Less:		
Mortgages and claims	(2,039)	(2,039)
Refunds	(2,215)	(2,215)
Add:		
Addition to authorized retained capital	-	19,762
Allocation of revenue to Treasury general fund	-	741
	$ 155,639	155,639

This supplemental schedule "Analysis of Revenue and Expenses and Distributions" is required under the Treasury Forfeiture Fund Act of 1992. The amounts in the schedule were determined from information obtained from a U.S. Customs Service' information system. This system maintains revenue and expenses by each seizure for property held at the contractor. The percentages of revenue and expenses from this system were applied to revenue and expenses and distributions as reflected in the Statement of Operations. Because Customs does not have a cost accounting system for the Fund, the method used does not provide reliable information in the analysis of revenue and expenses and distributions by type of disposition. The information is presented to comply with the requirements of the Treasury Forfeiture Fund Act of 1992. Management believes a cost accounting system may be in place during 1994 in order to provide this information.

DEPARTMENT OF THE TREASURY FORFEITURE FUND

Information Required by 31 U.S.C. 9703(f)
For the year ended September 30, 1993
(Unaudited)

The Treasury Forfeiture Fund Act of 1992, 31 U.S.C. 9703(f), requires the Secretary of the Treasury to transmit to the Congress, not later than February 1 of each year certain information. The following summarizes the required information.

(1) A report on:

(A) **the estimated total value of property forfeited with respect to which funds were not deposited in the Department of the Treasury Forfeiture Fund (Treasury Forfeiture Fund or Fund) during the preceding fiscal year under any law enforced or administered by the United States Customs Service or the United States Coast Guard, in the case of fiscal year 1993**

At September 30, 1993, the Fund had forfeited currency and other monetary instruments of $5,667,000 held as evidence. These amounts are reported as undistributed funds with Treasury and cash in the audited financial statements.

As reported in the audited financial statements, at September 30, 1993, the Fund had forfeited property held for sale of $7,358,000. The proceeds will be deposited in the Fund when the property is sold.

Upon seizure, currency and other monetary instruments not needed for evidence in judicial proceedings are deposited in a U.S. Customs Service (Customs) suspense account. Upon forfeiture, it is transferred to the Treasury Forfeiture Fund. At September 30, 1993, there was $7,212,000 of forfeited currency and other monetary instruments that had not yet been transferred to the Fund. This is reported as "receivables: federal - U.S. Customs Service funds" in the audited financial statements.

(B) **the estimated total value of all property transferred to any state or local law enforcement agency**

The estimated total value of all property transferred to any state or local law enforcement agency is summarized by state and U.S. territories on page IV-1.

(2) a report on:

(A) **the balance of the Fund at the beginning of the preceding fiscal year**

The total net position of the Customs Forfeiture Fund on September 30, 1992, which became the beginning balance for the Treasury Forfeiture Fund on October 1, 1992, as reported in the audited financial statements is $24,385,000.

(Continued)

DEPARTMENT OF THE TREASURY FORFEITURE FUND

Information Required by 31 U.S.C. 9703(f)
For the year ended September 30, 1993
(Unaudited)

(B) **liens and mortgages paid and the amount of money shared with federal, state, local and foreign law enforcement agencies during the preceding fiscal year**

Mortgages and claims expensed as reported in the audited financial statements were $2,039,000. The amount actually paid on a cash basis was not materially different.

The amount of forfeited currency and property shared with federal, state, local and foreign law enforcement agencies as reported in the audited financial statements was as follows:

State and local agencies	$ 67,035,000
Foreign countries	719,000
Other federal agencies	5,099,000

(C) **the net amount realized from the operations of the Fund during the preceding fiscal year, the amount of seized cash being held as evidence, and the amount of money that has been carried over into the current fiscal year**

The net amount realized from the operations of the Fund is shown in the audited financial statements:

Addition to authorized retained capital	$ 19,762,000
Allocation to Treasury general fund	741,000
	$ 20,503,000

The amount of seized cash being held as evidence at September 30, 1993, is approximately $16 million.

On a budgetary basis, unobligated balances as originally reported on the Office of Management and Budget Reports, SF-133, "Report on Budget Execution," was $38,755,000 for fiscal year 1993. However, subsequent to submission of the SF-133, adjustments were identified which result in the unobligated balance exceeding $50 million. Accordingly, a transfer of approximately $1,757,000 is anticipated to be made to the Treasury general fund pertaining to fiscal year 1993.

(D) **any defendant's property, not forfeited at the end of the preceding fiscal year, if the equity in such property is valued at $1 million or more**

The total value of such property for the U.S. Customs Service, at estimated values determined by Customs and contractor officials, is approximately $135 million and consists of 45 seizures.

(E) **the total dollar value of uncontested seizures of monetary instruments having a value of over $100,000 which, or the proceeds of which, have not been deposited into the Fund within 120 days after the seizure, as of the end of the preceding fiscal year**

The total dollar value of such seizures is $7,168,000.

(Continued)

DEPARTMENT OF THE TREASURY FORFEITURE FUND

Information Required by 31 U.S.C. 9703(f)
For the year ended September 30, 1993
(Unaudited)

(F) **the balance of the Fund at the end of the preceding fiscal year**

The total net position of the Fund at September 30, 1993, as reported in the audited financial statements is $69,312,000.

(G) **the net amount, if any, of the excess unobligated amounts remaining in the Fund at the end of the preceding fiscal year and available to the Secretary for federal law enforcement related purposes**

In fiscal year 1993, $50 million was allowed to be retained in the Fund. Any excess amounts were to be transferred to the general fund of the Treasury of the United States. Beginning in fiscal year 1995, any excess unobligated amounts remaining in the Fund at the end of the prior fiscal year are available to the Secretary, without fiscal year limitation, for any law enforcement activity of a federal agency.

(H) **a complete set of audited financial statements prepared in a manner consistent with the requirements of the Chief Financial Officers Act of 1990**

The audited financial statements, including the Independent Auditors' Report is on pages I-1 through I-14.

(I) **an analysis of income and expense showing revenue received or lost (i) by property category (such as general property, vehicles, vessels, aircraft, cash, and real property); and (ii) by type of disposition (such as sale, remission, cancellation, placement into official use, sharing with state and local agencies, and destruction).**

A separate schedule is presented on page IV-3.