1994 AUDITED ANNUAL CHIEF FINANCIAL OFFICER'S REPORT FOR THE TREASURY FORFEITURE FUND

OIG-95-043 JANUARY 26, 1995

THE DEPARTMENT OF THE TREASURY 1789

Office of Inspector General

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United States Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

JAN 26 1995

MEMORANDUM TO: Jan P. Blanton
Director, Executive Office for Asset Forfeiture

FROM: Jay M. Weinstein by M. Weinstein
Assistant Inspector General for Audit

SUBJECT: 1994 Audited Annual Chief Financial Officer's Report for the Treasury Forfeiture Fund

The attached 1994 Audited Annual Chief Financial Officer's Report for the Treasury Forfeiture Fund was subjected to an audit by an independent public accountant (IPA) under the auspices of the Chief Financial Officer's Act of 1990. The Office of Inspector General (OIG) contracted for this audit. The report package includes the audited Fiscal Year (FY) 1994 financial statements for the Treasury Forfeiture Fund (Fund), an audit report (opinion) on the Fund's FY 1994 financial statements, a report on the Fund's internal control structure, and a report on the Fund's compliance with laws and regulations. The OIG has submitted a copy of the report package to the Secretary of the Treasury.

The IPA rendered a qualified opinion on the financial statements. The qualification was due to the Fund's inability to provide detailed documentation to support amounts presented in the *Analysis of Change in Seized Property* and in the *Analysis of Change in Forfeited Property* disclosures appearing in the Notes to the Fund's financial statements. Accordingly, the IPA was unable to satisfy themselves as to the fair presentation of these disclosures.

The IPA's report on internal control structure cited the following six material weaknesses in the Fund's internal control structure: (1) the Customs Service and the Internal Revenue Service (IRS) were not able to provide an auditable analysis of change in seized property, and IRS was not able to provide an auditable analysis of change in forfeited property in a timely manner; (2) the Fund's accounting records are primarily maintained on the cash basis of accounting, rather than the accrual basis; (3) the Fund's general ledger does not record all balances and transactions that are reflected in the financial statements; (4) the value of forfeited and seized property is not recorded in the general ledger and is not recorded in supporting subsidiary systems in a timely manner; (5) forfeited property is not recorded in the subsidiary system during the year at its fair value at the time of forfeiture; and (6) the Fund has not fully developed specific performance indicators to report the progress toward achieving the Fund's goals and objectives.

In addition, the IPA's report on internal control structure cited the following four reportable conditions: (1) the current management structure of the Fund does not facilitate an effective system of communication nor present Fund management with line authority for forfeiture operations of the individual law enforcement agencies; (2) there are no procedures in place which reconcile actual sales activity as reported on the general ledger to individual sales removed from the property listing; (3) the field offices do not reconcile the seizure numbers and line items per the property listing to the seizure numbers and line items per the Seized Property Management System; (4) and the Bureau of Alcohol, Tobacco and Firearms does not maintain a detailed listing of the quantity and dollar amounts for individual property.

The IPA's report on compliance cited the following 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 above, the Fund's internal control structure has certain material weaknesses which result in noncompliance with this Act.

The management of the Fund reviewed the report and concurs with the findings.

Should you or your staff have any questions, please contact me at (202) 927-5400 or Kim H. Stroud, Acting Director, Technical Services Audit Program Group at (202) 927-5460.

Attachment

DEPARTMENT OF THE TREASURY FORFEITURE FUND

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Department of the Treasury Forfeiture Fund
Overview
Year Ended September 30, 1994

Highlights for the Year

The Department of the Treasury Forfeiture Fund (the Treasury Forfeiture Fund, or the Fund) was created through enactment of Section 638 of Public Law 102-393 in 1992. The Fund succeeds the Customs Forfeiture Fund and is similar to the Department of Justice Assets Forfeiture Fund. The Fund's primary purpose is to consolidate all Treasury asset forfeitures under one Fund controlled by the Secretary, to be used to pay or reimburse expenses related to seizures of property involved in criminal activity. The major change from fiscal year 1993 to fiscal year 1994 was the full participation of the non-Customs Treasury law enforcement organizations; which include the Bureau of Alcohol, Tobacco, and Firearms (ATF), the Internal Revenue Service, Criminal Investigation Division (IRS CID), and the U.S. Secret Service (USSS). This overview discusses the ongoing operations of the Fund, as well as the initiatives for managing the asset forfeiture activities of all the Department of the Treasury (Treasury) law enforcement organizations in fiscal year 1994.

This document presents the financial statements of the Treasury Forfeiture Fund for the fiscal year ended September 30, 1994. These statements have been prepared to report the financial position, results of operations, 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, the statements are different from the financial reports used to monitor and control budgetary resources that are prepared from the same books and records and are subsequently presented in Federal budget documents. Therefore, readers are advised that direct comparisons are not possible between figures found in this report and similar financial concepts found in the fiscal year 1993 and fiscal year 1994 *Budget of the United States Government.*

The following are some of the significant highlights for fiscal year 1994:

- Developed performance indicators and processes for measuring these indicators in order to report the progress toward achieving the Fund's goals and objectives. These performance indicators will be regularly monitored throughout the next year.

- Implemented eight new guidelines for the Secretary of Treasury's *Guidelines for Seized and Forfeited Property* to ensure that all Treasury bureaus are handling forfeitures in a uniform manner.

- In conjunction with the requirements of the Federal Accounting Standards Advisory Board Statement 3 - Accounting for Inventory and Related Property (FASAB 3), the participating bureaus in the Fund performed a 100% inventory of all seized property.

- Revenues, expenses, and assets of the Fund significantly increased as a result of the participation of the additional Treasury Forfeiture bureaus in the Fund.

- $61 million in forfeited assets were shared with other federal, state, and local law enforcement agencies or foreign governments.

- Revenue from forfeited currency and other monetary instruments, including proceeds received from participating with non-Treasury agencies, increased from $113 million in fiscal year 1993 to $143 million during fiscal year 1994.

- Revenue from net payments in lieu of forfeiture increased from $22 million in fiscal year 1993 to $29 million in fiscal year 1994.

- Non-discretionary expenses increased from $51 million in fiscal year 1993 to $70 million in fiscal year 1994.

Profile and Purpose of the Department of the Treasury Forfeiture Fund

Before 1984, seizing agencies 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, seizing agencies 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, (ATF, IRS CID, and 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 U.S. Coast Guard (USCG) continued to make deposits into the Fund. In addition to Customs, Treasury law enforcement organizations that deposited their forfeitures into the Justice AFF, began making deposits into the Fund in fiscal year 1994. 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 USCG continues to be a participant in the Fund.

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

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. Further, P.L. 103-322 states that at the end of fiscal years 1994, 1995, 1996, and 1997 the Secretary shall transfer from the Fund not more than $100 million of the excess unobligated amounts remaining in the Fund at the end of the fiscal year, to the Office of National Drug Control Policy's (ONDCP) Special Forfeiture Fund. 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, payment processing, auditing, and seized property management and administration 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 for participating in a joint seizure operation. The Fund includes forfeited assets, as well as seized currency and monetary instruments of all participating bureaus. Seized property assets of all participating bureaus are presented as a footnote disclosure to the Fund's financial statements.

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 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 $61 million during fiscal year 1994.

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 (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. During fiscal year 1994, Customs prepared the "Request For Proposal" for the five-year national seized property contract.

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 1994, the SPC/SPSs oversaw property management for all Treasury law enforcement agencies from the point of seizure until disposition.

In addition, the Fund utilizes the Custom's Seized Property Management System and the Internal Revenue Service's Asset Forfeiture Tracking System (AFTRAK) databases to track property status from seizure to disposition for all seized and forfeited items. At the end of fiscal year 1994, all Treasury law enforcement agencies performed a 100% on-site inventory of all seized and forfeited property, and the auditors observed selected inventories across the country. 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 approximately 10 percent from 33.3 days to 30.1 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

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Major issues facing the Fund

There are several major issues which arose in fiscal year 1994, including a reorganization, court cases, and the expiration of the national seized property contract. The Fund will prepare to meet the challenges that will occur with regards to these, as well as any other issues.

Management & Reorganization: During fiscal year 1994, Treasury Forfeiture Fund personnel were divided between the Assistant Secretary (Management) and the Under Secretary (Enforcement). A task force was assembled to study a proposed reorganization. The task force recommended a consolidation of the entire staff under the Under Secretary (Enforcement). Pursuant to an Order of the Secretary, Fund personnel were consolidated on January 10, 1995. Although responsibility for the Fund is now within one office, full authority to affect Fund operations remains divided. Offices providing executive agent functions for the Fund report to the Commissioner of Customs. Further, the Under Secretary (Enforcement) has no line authority over any activities of the Internal Revenue Service.

Court Cases: There have been recent Supreme Court decisions that will have a significant effect on the seizure and forfeiture programs of the Federal law enforcement agencies. Generally, these decisions have limited the ability of the Government to use forfeiture proceedings to assist law enforcement. Further, the U.S. Court of Appeals for the 9th Circuit recently held that the government cannot pursue separate civil forfeiture cases against an individual's property while simultaneously prosecuting them for the underlying criminal conduct. The court ruled that this would violate the Constitution's double-jeopardy clause. If this opinion is upheld, it will likely result in a decrease in revenues, since approximately 25 percent of the Fund revenues originate in the 9th Circuit.

Seized Property Contract: The National Seized Property Contract began the recompetition process during fiscal year 1994. The current contract with EG&G Dynatrend has been extended until March 31, 1995. On April 1, 1995, a "bridge" contract will be initiated with EG&G Dynatrend to cover the period of April 1, 1995 through September 30, 1995. It is anticipated that the successful bidder for the seized property contract will be in place to begin operations on October 1, 1995. Proper planning and adequate management controls will offer minimal disruption to the forfeiture community.

Fund Transition

The major change in the Fund from fiscal year 1993 to fiscal year 1994 was the full participation of the non-Customs Treasury law enforcement organizations

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:

- The Treasury Forfeiture Fund provided operational guidance and instructions to the operative field organizations to accomplish the transition goals. In addition, the national seized property contractor provided training opportunities for the Treasury law enforcement agencies in the local processing and transfer of seized property. As a result, there were very few disruptive incidents nationwide, and all were quickly resolved.

- 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. This has resulted in enhanced and expeditious resolution of field operational problems, as well as providing the Fund with the agency's perspective on policy and procedural issues.

- Memoranda of Understandings (MOUs) were fully implemented to effect the procedures for custodial responsibilities related to seized property, resulting in an organized and effective transition of the Treasury law enforcement agencies seized property management to the national seized property contractor.

- Implemented financial reimbursement MOUs with all Treasury law enforcement bureaus and the U.S. Coast Guard. These MOUs established the funding arrangement, the financial plan, and the reimbursement process which enabled the Fund to pay for asset forfeiture activities performed by these agencies.

- Fund Management continued to develop additional policy directives in cooperation with the Department of Justice to ensure that the procedures are uniform in the federal seized asset management community.

- A directive was written that established policy for the proper handling and timely deposit of seized cash into the Fund's suspense account.

- A computer database was designed to track asset sharing records for all Treasury bureaus. This database includes prior year records, and tracks all new sharing requests.

- Members of the Fund attended all Asset Forfeiture Conferences held by the Department of Justice in order to promulgate the goals of the Treasury Forfeiture Fund, as well as seminars and conferences sponsored by Treasury bureaus.

- Fund Management co-hosted interdepartmental monthly meetings with the Department of Justice and the Department of the Treasury law enforcement asset forfeiture offices, the United States Postal Service, and the Food & Drug Administration to discuss issues of mutual concern, and to establish uniform guidelines and procedures.

As previously stated, the major change in the Fund from fiscal year 1993 to fiscal year 1994 was the full participation of the non-Customs Treasury law enforcement organizations, which include the ATF, IRS CID, and USSS. These Treasury enforcement organizations previously participated in the Department of Justice Assets Forfeiture Fund and were full participants in the Fund in fiscal year 1994. In addition, FinCEN and FLETC participate in the Fund.

Program Performance

Asset sharing

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:

	1994	1993
Currency and monetary instruments:		
Assets forfeited	**$ 139**	107
Assets shared **	**53**	65
Assets shared as % of assets forfeited	**38%**	61%
Property and net proceeds from sales of forfeited property:		
Assets forfeited	**$ 20**	18
Assets shared	**8**	8
Assets shared as % of assets forfeited	**40%**	44%

** The FY 1994 amount excludes significant Customs' asset sharing payments that had been obligated, but had not been liquidated, at year end. This excluded amount is included in the unliquidated obligation amount on the Statement of Financial Position.

Transfer of funds from the contractor

To maximize the monies available to fulfill the goals of the Fund, during fiscal year 1992, Customs had 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 1994 and 1993, 98 percent and 93 percent, respectively, of sales revenue was transferred to the Fund within the time parameters specified. The fiscal year 1994 amount includes the transfer of monies for the sale of merchandise from all Treasury law enforcement agencies.

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.

	1994	1993
Uncontested seizures over $100,000 (in millions)	**$ 16**	7
Total number of cases	**44**	25

The summary shows an increase in the number of uncontested seizures over $100,000 that were not deposited in the Fund within 120 days of the seizure date from 1993 to 1994.

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 $29 million and $22 million for fiscal years 1994 and 1993, respectively.

In fiscal year 1994, the Fund identified several performance measures to further monitor the Treasury Department's seizure and forfeiture program and the ongoing operations of the Fund. These include the processing time for asset sharing payments, the administrative seizure inventory, the maintenance costs of assets, as well as the administrative and fund expenses. Data collection systems and methods will be developed during fiscal year 1995 to monitor these performance measures.

Financial Highlights

The following analysis seeks to assist the reader in understanding the accompanying financial statements. As stated previously, the major change from fiscal year 1993 to fiscal year 1994 was the full participation of all Treasury law enforcement bureaus.

Revenue and financing sources

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

	1994	1993
Forfeited currency and monetary instruments	**$ 143**	113
Forfeited property	**20**	18
Payments in lieu of forfeiture	**29**	22
Other miscellaneous	**6**	3
	$ 198	156

The Fund's primary source of revenue is **forfeited currency and monetary instruments**. For fiscal year 1994, revenue from forfeited currency and monetary instruments, including proceeds received from participating with other Federal agencies, totaled $143 million, or 72 percent of total revenues, versus $113 million, also 72 percent of total revenues in fiscal year 1993. The increase is primarily attributable to the participation of the additional Treasury law enforcement bureaus in the Fund. This amount also includes revenues from participating with other law enforcement organizations (reverse asset sharing) of $4 million, or 2 percent, versus $6 million, or 4 percent of total revenues and financing sources in fiscal year 1993. 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 1994 was $15 million and fiscal year 1993 was $12 million. Additionally, $5 million of property was placed into official use by state and local, and federal agencies. This represented 10 percent of total revenues and financing sources in fiscal years 1994 and 12 percent in fiscal year 1993. 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 $29 million, or 15 percent of total revenues and financing sources in fiscal year 1994. This represents an increase from $22 million, or 14 percent of total revenues and financing sources in fiscal year 1993. During fiscal year 1994, an even greater emphasis was placed on negotiating payments in lieu of forfeiting the violator's property. **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 two fiscal years follows:

	1994	1993
ONDCP Special Forfeiture Fund	4	0
State and local agencies	53	67
Foreign countries	1	1
Other federal agencies	7	5
	$ 65	73

The total revenues allocated from the Fund decreased to $65 million in fiscal year 1994 from $73 million in fiscal year 1993. Much of the revenue collected is distributed to state and local law enforcement agencies, foreign governments, and other federal agencies. For fiscal year 1994, distributions to other federal agencies, state and local agencies, and foreign countries totaled $61 million, or 94 percent of the total revenue allocated.

$61 million were shared with other federal, state, and local law enforcement agencies or foreign governments

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:

	1994	1993
Contractors and sales	**$ 33**	23
Secretary's Enforcement Expenses	**4**	0
Purchases of evidence and information	**20**	14
Other case related	**6**	10
Payroll costs	**10**	6
Property purchased for TFF bureaus use	**7**	7
Other	**9**	2
	$ 89	62

Operating expenses increased $27 million

Operating expenses increased $27 million in fiscal year 1994. **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. The **Secretary's Enforcement expenses** are made available from the amounts transferred by the Attorney General pursuant to section 524(c)(1) of title 28, or by the Postmaster General pursuant to section 2003 of title 39, for Federal law enforcement related purposes of the Department of Treasury law enforcement organizations. This amount was used to further enhance the Secretary's Anti-Violent Crime program. **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. 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 $3,000 and $7,000 for fiscal years 1994 and 1993, respectively.

Assets

A summary of the assets (in millions) of the Fund as of September 30, 1994, as compared with September 30, 1993 follows:

	1994	1993
Undistributed funds and Fund balances with Treasury and cash	**$ 175**	122
Receivables	**4**	8
Forfeited property (net of liens payable)	**29**	7
Seized currency and monetary instruments **	**195**	0
Prepaid expenses	**1**	0
Investigative and travel advances	**4**	4
	$408	141

** Under FASAB 3, effective September 30, 1994 and thereafter, seized currency and monetary instruments are reported as a custodial asset upon seizure. The FY 1994 amount represents the currency held by the Fund's suspense account, on hand at field offices, as well as all other seized currency held in the custody of the United States Marshals Service.

Forfeited property grew significantly with the full participation of all Treasury law enforcement bureaus in 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. However, a large portion of the increase is due to the inclusion of all Treasury law enforcement bureaus participation in the Fund. A large percentage of **receivables** represents currency that has been forfeited but not yet been deposited into the Fund. (The Fund requires that as soon as practical after the seizure the currency is deposited into the Treasury Forfeiture Fund suspense account.) The decrease in the receivable balance at year end is due to more timely deposits of forfeited currency into the Fund. The value of **forfeited property** has increased approximately $22 million, or 314 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. Also, included in the financial statements for fiscal year 1994 are the **seized currency and monetary instruments** from all Treasury law enforcement bureaus, which totaled $195 million. **Investigative and travel advances** at September 30, 1994, remained constant at approximately $4 million.

Liabilities and net position

A summary of the liabilities and net position (in millions) of the Fund as of September 30, 1994, as compared with September 30, 1993 follows:

	1994	1993
Distributions	**25**	33
Deferred revenue	**29**	6
Seized currency & monetary instruments	**195**	0
Accounts payable	**24**	11
Net position	**135**	91
	$ 408	141

Net position increased $44 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. **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 increase in **deferred revenue** parallels the increase in forfeited property held for sale. Since the other Treasury law enforcement organizations started making deposits into the Fund in 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 1994, the Fund owed approximately $14 million, up from $3 million in fiscal year 1993, to the other Treasury bureaus related to these expenses, accounting for the increase in **accounts payable**. The **net position** of the Fund in fiscal year 1994 had increased approximately $44 million, or 48 percent, from the prior year.

Summary

As fiscal year 1994 marked the first year of full scale Treasury Forfeiture Fund operations, there were numerous obstacles to overcome. The inclusion of all Treasury law enforcement bureaus to the Fund required modifications to the financial operations of the Fund. The Fund's accompanying financial statements received a "qualified" opinion by independent auditors. The Treasury Forfeiture Fund received an "unqualified" opinion from the independent auditors for fiscal year 1993.

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

- **Analysis of changes in seized and forfeited property** - USCS and IRS CID were not able to provide an auditable analysis of changes in seized property, and IRS CID was not able to provide an auditable analysis of changes in forfeited property in a timely manner, which resulted in a scope limitation qualification in the auditors' report to the financial statements.

- **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 reflected 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 and seized property is not recorded in the general ledger and is not recorded in supporting subsidiary systems in a timely manner. As a result, year-end procedures were developed to identify forfeited and seized property not entered in the subsidiary systems as of September 30, 1994, and to adjust the financial statements for the value of forfeited and seized property on hand at year end.

- **Forfeited property valuation** - Forfeited property is not recorded in the subsidiary system during the year at its fair value at the time of forfeiture. An adjustment is made to the financial statements as of September 30, 1994, to record forfeited property at an estimate of fair value.

- **Performance indicators** - 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 1993 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 1993 audit. An example of internal controls improvements are the internal accounting reports that the Treasury Fund developed to generate monthly Income Summaries and Cash Flow Statements. Additionally, Performance Indicators were identified during fiscal year 1994. Further, in conjunction with the Customs National Finance Center, the Treasury Forfeiture personnel rewrote and updated existing internal control procedures. The National Finance Center issued the procedures and trained the appropriate personnel. The alleviation of the remaining material weaknesses will require major improvements to Customs' computer 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.

KPMG Peat Marwick LLP

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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, 1994 and 1993, and the related statements of operations, changes in net position, cash flows and budgetary resources and actual expenses for the years then ended. 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.

Except as discussed in the following paragraph, we conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards (1994 revision)*, 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 3, the Statement of Federal Financial Accounting Standards Number 3, *Accounting for Inventory and Related Property*, became effective and was implemented during fiscal year 1994. Statement Number 3 requires an analysis of change in seized and forfeited property, including both the dollar value and number of seizures and forfeitures. Although the Fund initiated procedures during fiscal year 1994 to develop this analysis, the Fund was unable to present detailed documentation to support activity presented in the analysis. Accordingly, we were unable to satisfy ourselves as to the fair presentation of the analysis of change in seized and forfeited property, other than forfeited property held by U.S. Customs Service, the U.S. Secret Service and the Bureau of Alcohol, Tobacco and Firearms, described in notes 4 and 5.

As described in note 2, these financial statements were prepared in conformity with the hierarchy of accounting principles and standards as approved by the principals of the Federal Accounting Standards Advisory Board. This hierarchy is a comprehensive basis of accounting other than generally accepted accounting principles.

KPMG Peat Marwick LLP

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

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the analysis of change in seized and forfeited property, other than forfeited property held by U.S. Customs Service, the U.S. Secret Service and the Bureau of Alcohol, Tobacco and Firearms (as discussed in third paragraph of this report), 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, 1994 and 1993, and the results of its operations and changes in net position, its cash flows, and its budgetary resources and actual expenses for the years then ended, on the basis of accounting described in note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 6, 1995 on our consideration of the Fund's internal control structure and a report dated January 6, 1995 on its compliance with laws and regulations.

Our audits were conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph of this report taken as a whole. The information presented in management's 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, and the U.S. Department of the Treasury. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

January 6, 1995

DEPARTMENT OF THE TREASURY FORFEITURE FUND

Statements of Financial Position
September 30, 1994 and 1993
(Dollars in thousands)

Assets	1994	1993
Custodial assets:		
Undistributed funds with Treasury and cash	$ 20,949	24,143
Receivables:		
Federal-U.S. Customs Service funds	3,323	7,212
Non-federal	38	319
	3,361	7,531
Forfeited property (note 4):		
Held for sale	29,929	7,358
To be shared with federal, state or local agencies, or foreign governments	1,601	1,617
Allowance for mortgages and claims	(2,363)	(1,972)
	29,167	7,003
Seized currency and monetary instruments (note 5)	195,386	-
Total custodial assets	248,863	38,677
Operating assets:		
Fund balances with Treasury and cash	154,673	98,521
Investigative and travel advances	3,573	3,610
Prepaid expenses	600	-
Total operating assets	158,846	102,131
Total assets	$ 407,709	140,808
Liabilities		
Current liabilities:		
Custodial liabilities:		
Distributions payable:		
Federal:		
ONDCP Special Forfeiture Fund	3,843	-
Other federal agencies	2,768	2,730
	6,611	2,730
Non-federal:		
State and local agencies	18,172	29,935
Foreign countries	-	238
	18,172	30,173
Total distributions payable	24,783	32,903
Deferred revenue from forfeited assets	28,694	5,774
Seized currency and monetary instruments (note 5)	195,386	-
Total custodial liabilities	248,863	38,677
Operating liabilities:		
Accounts payable:		
Non-federal	10,120	7,125
Federal	13,534	3,486
Total operating liabilities	23,654	10,611
Total liabilities	272,517	49,288
Net Position		
Authorized retained capital	50,000	50,000
Unliquidated obligations	52,513	19,312
Cumulative results of operations	32,679	22,208
Total net position	135,192	91,520
Commitments (note 7)	-	-
Total liabilities and net position	$ 407,709	140,808

See accompanying notes to financial statements.

DEPARTMENT OF THE TREASURY FORFEITURE FUND

Statements of Operations
For the years ended September 30, 1994 and 1993
(Dollars in thousands)

	1994	1993
Revenues and financing sources:		
Undistributed forfeited currency and monetary instruments	$ 85,569	42,020
Distributed forfeited assets:		
Currency	53,375	65,261
Property	4,967	5,482
Proceeds from sales of forfeited property (note 4)	2,715	2,110
Sales of forfeited property, net of mortgages and claims of $2,382 and $2,039, respectively (note 4)	12,037	10,297
Payments received in lieu of forfeitures, net of refunds of $2,669 and $2,215, respectively	29,192	21,487
Reimbursed storage costs	2,793	2,188
Proceeds from participating with other federal agencies	3,966	5,676
Other miscellaneous	3,084	1,118
Total revenues and financing sources	197,698	155,639
Allocations of revenues:		
ONDCP Special Forfeiture Fund	3,843	-
State and local agencies	53,372	67,035
Foreign countries	366	719
Other federal agencies	7,318	5,099
Total allocations of revenues	64,899	72,853
Net revenues and financing sources	132,799	82,786
Operating expenses:		
Non-discretionary expenses:		
Contractors and sales	33,130	22,602
Purchases of evidence and information leading to seizures	17,269	12,200
Other case related	6,430	9,905
Payroll costs	9,834	5,926
Interest expense	3	7
Secretary enforcement expense	3,783	-
Total non-discretionary expenses	70,449	50,640
Discretionary expenses:		
Other purchases of evidence and information	2,372	2,209
Specialized contract services	4,125	1,243
Joint operations	3,040	1,611
Other program management	1,653	40
Property purchased and transferred to a participating agency (note 6)	7,488	6,540
Total discretionary expenses	18,678	11,643
Total operating expenses	89,127	62,283
Excess of net revenues and financing sources over total operating expenses	$ 43,672	20,503

See accompanying notes to financial statements.

DEPARTMENT OF THE TREASURY FORFEITURE FUND

Statements of Changes in Net Position
For the years ended September 30, 1994 and 1993
(Dollars in thousands)

	Authorized retained capital	Unliquidated obligations	Reserve for advances	Cumulative results of operations	Total net position
Balances, September 30, 1992, as previously presented	$ 238	16,421	7,726	-	24,385
Reclassification (note 2)	-	-	-	54,358	54,358
Balances, September 30, 1992, as reclassified	238	16,421	7,726	54,358	78,743
Excess of net revenues and financing sources over total operating expenses	-	-	-	20,503	20,503
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	-	22,208	91,520
Excess of net revenues and financing sources over total operating expenses	-	-	-	43,672	43,672
Net change in obligations of current resources	-	33,201	-	(33,201)	-
Balances, September 30, 1994	$ 50,000	52,513	-	32,679	135,192

See accompanying notes to financial statements.

DEPARTMENT OF THE TREASURY FORFEITURE FUND

Statements of Cash Flows
For the years ended September 30, 1994 and 1993
(Dollars in thousands)

	1994	1993
Cash flows from operating activities:		
Excess of net revenues and financing sources over total operating expenses	$ 43,672	20,503
Adjustments to reconcile excess of net revenues and financing sources over total operating expenses to cash provided from operating activities:		
Decrease in accounts receivable	4,170	15,436
(Increase) decrease in forfeited property	(22,555)	2,010
Decrease in investigative and travel advances	37	7,457
Increase in prepaids	(600)	-
Increase (decrease) in custodial liabilities	15,191	(59,705)
Increase in accounts payable	13,043	2,695
Net cash provided (used) by operating activities	52,958	(11,604)
Cash flows from financing activities:		
Distribution to authorized retained capital	-	30,000
Addition to authorized retained capital	-	19,762
Net cash provided (used) by financing activities	-	49,762
Net cash provided (used) by operating and financing activities	52,958	38,158
Cash, beginning of year	122,664	84,506
Cash, end of year	$ 175,622	122,664

Property forfeited of approximately $5 million was shared with state and local agencies and foreign countries, or transferred to other federal agencies during both the years ended September 30, 1994 and 1993.

Unliquidated obligations increased approximately $33 million for the year ended September 30, 1994 and when combined with reserve for advances, decreased approximately $5 million for the year ended September 30, 1993.

Interest paid amounted to approximately $3 thousand and $7 thousand for the years ended September 30, 1994 and 1993, respectively.

See accompanying notes to financial statements.

DEPARTMENT OF THE TREASURY FORFEITURE FUND

Statements of Budgetary Resources and Actual Expenses
For the years ended September 30, 1994 and 1993
(Dollars in thousands)

	1994 BUDGET			ACTUAL
		Obligations		
	Resources	Direct	Reimbursed	Expenses
	$ 246,808	$ 117,017	$ -	$ 154,026
Budget Reconciliation:				
Total operating expenses and allocations of revenues				$ 154,026
Net adjustments to present accrual financial statements				(35,056)
Subsequent adjustments				(2,037)
Expenses netted against revenues:				
Mortgages and claims				2,382
Refunds				2,669
Allocation of revenues not requiring outlays, distributed forfeited assets - property				(4,967)
Accrued expenditures, direct				$ 117,017

	1993 BUDGET			ACTUAL
		Obligations		
	Resources	Direct	Reimbursed	Expenses
	$ 209,993	$ 162,064	$ -	$ 135,136
Budget Reconciliation:				
Total operating expenses and allocations of revenues				$ 135,136
Net adjustments to present accrual financial statements				15,154
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.

DEPARTMENT OF THE TREASURY FORFEITURE FUND

Notes to Financial Statements

September 30, 1994 and 1993

(1) Department of the Treasury Forfeiture Fund

Background

The Department of the Treasury Forfeiture Fund (TFF or the Fund) was established by the Treasury Postal Appropriations Act of 1992, Public Law 102-393 (the Act), and is codified at 31 USC 9703. The TFF was created to consolidate all Treasury law enforcement organizations under a single forfeiture fund program administered by the Treasury Department. Treasury law enforcement agencies fully participating in the TFF in fiscal year 1994 are the U.S. Customs Service (USCS or Customs); the Criminal Investigation Division of the Internal Revenue Service (IRS CID); the United States Secret Service (USSS); the Bureau of Alcohol, Tobacco and Firearms (ATF); the Financial Crimes Enforcement Network (FinCEN); and the Federal Law Enforcement Training Center (FLETC). The U.S. Coast Guard (USCG) also participates in the Fund. Prior to the establishment of the Fund, ATF, IRS CID and USSS participated in the Asset Forfeiture Fund of the Department of Justice. USCS had its own forfeiture fund into which deposits of all Customs and USCG forfeitures were made. The TFF basically transformed the Customs Forfeiture Fund into a Departmental fund serving the forfeiture needs of all Treasury enforcement bureaus. FinCEN and FLETC did not previously participate in any forfeiture fund. Prior to fiscal year 1994, only USCS and USCG participated in the Fund.

The principal goals of the Treasury 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 affected 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.

The following is a discussion of the relevant activities of the most significant participating agencies. In addition, under a Memorandum of Understanding (MOU) with the Department of the Treasury, the U.S. Customs Service acts as the executive agent for certain Fund operations. Pursuant to that executive agency role, the Customs National Finance Center (NFC) is responsible for accounting and financial reporting for the Fund; including timely and accurate reporting and compliance with Treasury, the General Accounting Office (GAO), and the Office of Management and Budget (OMB) regulations and reporting requirements.

U.S. Customs Service

The USCS is responsible for controlling carriers of imports and exports as well as combating smuggling, commercial frauds, money laundering and the illegal export of items such as munitions and critical technologies. Customs inspectors and special agents nationwide are empowered to seize narcotics and other contraband being illegally transported into or out of the United States.

(Continued)

Since enactment of the Bank Secrecy Act of 1970, it has become increasingly difficult to hide the profits of criminal activity by depositing them in domestic banks. To avoid required financial reporting, currency is smuggled out of the United States, deposited in foreign financial institutions and later spent or transferred back to the United States where it is then less likely to be exposed. Customs has authority to seize and forfeit smuggled monetary instruments involved in international money laundering schemes.

The lineage of federal seizure and forfeiture authority begins with USCS. The laws governing a significant portion of modern federal forfeiture activity are derived from Customs statutes. Today, the authority of USCS in these areas flows mainly from two sources, the Tariff Act of 1930 as codified in Title 19 USC which pertains to the importation of articles contrary to law, and from Title 22 USC which refers to the illegal export of materials of war.

Criminal Investigation Division of the Internal Revenue Service

The IRS CID is charged with enforcing federal tax, bank secrecy and money laundering statutes. IRS CID financial investigations of tax, currency and money laundering violations often provide the basis for its own or multi-agency initiatives against those engaged in narcotics trafficking and other illegal activities as well as for the subsequent seizure and forfeiture of their assets.

IRS CID's seizure and forfeiture authorities are derived from its responsibilities for pursuing violations of required cash transaction reporting under the Bank Secrecy Act (Title 31) and money laundering (Title 18) provisions of the United States Code.

United States Secret Service

The USSS was created in 1865 for the express purpose of stopping counterfeiting operations which had arisen after the introduction of paper currency during the Civil War. The executive protection function of the USSS began after the assassination of President William McKinley in 1901.

The principal statute which authorizes the USSS to seize and forfeit assets is Title 18 USC 981. The USSS has the authority to seize and forfeit property in money laundering cases involving counterfeit and fraud violations as well as in investigations relating to frauds against federally insured financial institutions.

Bureau of Alcohol, Tobacco and Firearms

The ATF was established on July 1, 1972. It is a Treasury bureau succeeding what had previously been the Alcohol Tax Unit of the Internal Revenue Service. Its principal authorities are established under the National Firearms Act of 1934 and the Gun Control Act of 1968, as amended.

ATF has authority to seize and forfeit firearms, ammunition, explosives, alcohol, tobacco, currency, conveyances and certain real property involved in violations of law. The primary statute used by ATF in combating drug trafficking is 18 USC 924(c), which prohibits the use or the carrying of a firearm during a drug trafficking crime. Oftentimes, ATF's forfeiture activities arise from investigations focusing on violent criminals using firearms in furtherance of their illegal activities.

(Continued)

TFF Operations

Under the Act, 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.

Discretionary expenses are subject to an annual, definite Congressional appropriation from deposits made to the Fund. Congress authorized up to $25 million in fiscal year 1993 and up to $50 million in fiscal year 1994. Under the Act, non-discretionary expenses are subject to permanent indefinite Congressional appropriation and may be financed through the revenue generated from forfeiture activities without limitation. The Fund is accounted for under Treasury symbol numbers 20X5693 and 20X5697.

TFF expenses are generally paid on a reimbursement basis. Reimbursable expenses are incurred by the individual agencies participating in the TFF against their appropriation and then submitted to TFF for reimbursement. The agencies are reimbursed through Inter-Agency Transfer (SF-1081) or Off-line Payment and Collection (OPAC). Certain expenses such as equitable sharing payments, are paid directly from the TFF.

At the end of fiscal year 1994, certain excess unobligated balances, on a budgetary basis, remaining in the Fund are to be transferred to the Office of National Drug Control Policy (ONDCP) Special Forfeiture Fund. 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). The Omnibus Crime Control Act of 1994, effective for fiscal year 1994, changed the distribution for requirements to require the transfer of one half of all excess unobligated balances, up to $100 million dollars, to the ONDCP Special Forfeiture Fund. The remaining excess unobligated balances were retained in the Fund in fiscal year 1994. As of September 30, 1994, a liability of approximately $3.8 million to the ONDCP Special Forfeiture Fund has been recognized in the accompanying Statements of Financial Position. On a budgetary basis, unobligated balances as originally reported on the Office of Management and Budget Reports, SF-133, *Report on Budget Execution*, approximated $57.7 million for fiscal year 1994.

In fiscal year 1993, any excess unobligated balances, on a budgetary basis, remaining in the Fund were required to be transferred to the Treasury general fund. During fiscal year 1993, no such excess occurred so no such transfer was made.

(Continued)

The Fund maintains a contract with an unrelated entity whereby the other entity holds certain seized and forfeited property on consignment. Upon direction from TFF, the contractor conducts auction sales on behalf of the Fund, 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 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) Principals) 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's financial statements are prepared in accordance with the following hierarchy which constitutes a comprehensive basis of accounting:

- Individual standards agreed to and published by the Joint Financial Management Improvement Program (JFMIP), based upon recommendations from the Federal Accounting Standards Advisory Board (FASAB).

- Form and content requirements included in OMB Bulletin 94-01, *Form and Content of Agency Financial Statements* dated November 16, 1993, and subsequent issuances.

- Accounting standards contained in agency accounting policy, procedures manuals, and/or related guidance as of March 29, 1991 so long as they are prevalent practices.

- Accounting principles published by authoritative standard setting bodies and other authoritative sources (1) in the absence of other guidance in the first three parts of this hierarchy, and (2) if the use of such accounting standards improve the meaningfulness of the financial statements.

Financial Statements Presented

The majority of the revenue recorded by the Fund is utilized for operating expenses or distributed to state and local law enforcement agencies, other federal agencies, other foreign governments and the ONDCP Special Forfeiture Fund 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.

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 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 with Treasury, receivables, seized currency and monetary instruments, and forfeited property which is 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 forfeited cash held as evidence, to be distributed to various federal, state or local agencies. Forfeited cash held as evidence amounted to approximately $8,221,000 and $5,667,000 at September 30, 1994 and 1993, respectively.

(Continued)

Forfeited Property

Forfeited property is recorded at estimated fair value at the time of forfeiture, 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.

Allowance for Mortgages and Claims

Mortgages and claims on forfeited assets are recognized as a valuation allowance and a reduction of deferred revenue from forfeited assets when the asset is forfeited. The allowance includes mortgages and claims on forfeited property held for sale and mortgages and a minimal amount of 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.

Seized Property

Seized property (including currency and monetary instruments) is recorded at its market value at the time of seizure. This value is determined by the seizing entity and is usually based on market analysis such as a third party appraisal, standard property value publications or bank statement.

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.

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.

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.

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 on a budgetary basis 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)

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.

Cumulative Results of Operations

Cumulative results of operations represents the net difference, since the inception of the activity, between 1) expenses and losses and 2) financing sources including appropriations, revenues and gains.

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, such as counterfeit property.

Revenue from currency and monetary instruments 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.

As provided for in the Act, the Fund has invested seized and forfeited currency. Treasury's Financial Management Service invests the funds in obligations of, or guaranteed by, the United States government. Interest is reported to the Fund and recognized quarterly on the general ledger.

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 Statements 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 years ended September 30, 1994 and 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.

(Continued)

Reclassifications

During fiscal year 1994, the Fund's management determined that due to the change in the law governing the activities of the Fund, the Fund was not authorized to transfer amounts to the Department of the Treasury. Therefore, amounts shown in fiscal year 1993 as distributions payable to the Treasury general fund should be shown in net position as cumulative results of operations. Therefore, beginning net position for fiscal year 1993 has been increased by $54,358,000 to show the amount previously reported as distributions payable to the Treasury general fund as the amount of cumulative results of operations.

Mortgages and claims payable of $1,972,000 in fiscal year 1993 was reclassified as a valuation allowance against forfeited property to conform with fiscal year 1994 financial statement presentation.

(3) Change in Accounting Principle

In October 1993, the Federal Accounting Standards Advisory Board issued Statement of Federal Financial Accounting Standards Number 3, *Accounting for Inventory and Related Property* (FASAB No. 3). FASAB No. 3 is effective for fiscal years ending September 30, 1994, and thereafter. FASAB No. 3 requires seized monetary instruments to be recognized in the financial statements and a liability be established in an amount equal to the seized asset value. FASAB No. 3 also specifies a valuation allowance be established against forfeited property for liens or claims from a third party.

FASAB No. 3 requires certain additional disclosures in the notes to the financial statements, including an analysis of change in seized property and an analysis of change in forfeited property, for both carrying value and quantities from that on hand at the beginning of the year to that on hand at the end of the year. These analyses are disclosed in notes 4 and 5.

Prior to fiscal year 1994, seized currency and property was unaudited and disclosed, in total only, in the notes to the financial statements.

(Continued)

(4) Analysis of Change in Forfeited Property

The following schedule presents the changes in the forfeited property balance from October 1, 1993 to September 30, 1994. Although these financial statements and related notes are presented on a two year comparative basis, an analysis of change in forfeited property during fiscal year 1993 is not available, and therefore not presented. FASAB No. 3, which requires this disclosure, was effective for fiscal years ending September 30, 1994, and thereafter, and did not require retroactive application. The separate dollar amounts and number of items shown for IRS CID, the Fund as a whole and the number of items for USCS, ATF and USSS are unaudited.

U.S. Customs, ATF and U.S. Secret Service

	10/1/93 Financial Statement Balance		Fair Value Adjustment		10/1/93 Unadjusted Carrying Value		Forfeitures		Deposits/Sales		Disposals/Transfers	
	Value	Number (unaudited)	Value	Number (unaudited)	Value	Number (unaudited)	Value	Number (unaudited)	Value	Number (unaudited)	Value	Number (unaudited)
CMI	$ 5,667,245	-	-	-	5,667,245	-	108,238,632	176	110,346,516	149	-	-
Real Property	2,920,000	26	606,600	-	3,526,600	26	28,149,712	56	19,504,393	36	-	-
General Property	2,685,000	(139,765)	10,349,539	-	13,034,539	(139,765)	48,652,729	159,466	34,212,675	670,461	2,599,027	15,790
Vessels	488,000	17	194,500	-	682,500	17	2,469,666	84	703,878	43	510,820	24
Aircraft	1,367,000	5	59,444	-	1,426,444	5	6,959,626	27	5,058,200	16	202,000	4
Vehicles	1,515,000	560	521,636	-	2,036,636	560	11,043,497	3,303	4,392,947	2,416	5,972,344	593
Grand Total	$ 14,642,245	(139,157)	11,731,719	-	26,373,964	(139,157)	205,513,862	163,112	174,218,609	673,121	9,284,191	16,411

	Trans. to 3rd Party		Destroyed		Other Adjustments		Value Change		Fair Value Adjustment		9/30/94 Financial Statement Balance	
	Value	Number (unaudited)	Value	Number (unaudited)	Value	Number (unaudited)	Value	Number (unaudited)	Value	Number (unaudited)	Value	Number (unaudited)
CMI	144,594	17	-	-	20,655	-	-	-	-	-	3,394,112	10
Real Property	597,000	2	-	-	497,500	(3)	1,868	-	1,107,555	-	9,967,996	47
General Property	18,719	13	5,477,066	7,523	(117,957)	(689,164)	(62,979)	(15)	15,398,292	-	4,162,425	15,093
Vessels	-	-	-	-	18,400	(3)	577,604	-	590,244	-	751,220	37
Aircraft	-	-	-	-	1,160,000	(1)	1,031,444	-	252,295	-	682,131	13
Vehicles	40,375	1	-	-	42,788	-	278,086	-	802,566	-	1,551,027	853
Grand Total	800,688	33	5,477,066	7,523	1,621,386	(689,171)	1,826,023	(15)	18,150,952	-	20,508,911	16,053

The fair value adjustments above are necessary to convert forfeited property from its unadjusted carrying value (market value at the time of seizure) to an estimate of the fair value at the time of forfeiture, which is an amount recorded in the financial statements. Other adjustments above primarily represent property forfeited in prior fiscal years but reverted to seized status during the current fiscal year. Due to the varied mix of specific types of assets within each asset category, the number of items presented in the above schedule represent quantities calculated using many different units of measure. Due to the use of different units of measure, within each asset category, the usefulness of this quantity disclosure is questionable.

IRS CID (Unaudited)

Category	10/1/93 Financial Statement Balance Value	Number	Forfeitures Value	Number	Deposits/Sales Value	Number	Disposals/Trans. Value	Number	Trans. to 3rd Party Value	Number	Other Adjustments Value	Number	Fair Value Adjustment Value	Number	9/30/94 Financial Statement Balance Value	Number
CMI	$ -	-	44,138,864	712	36,505,428	621	-	-	2,427,453	24	378,651	1	-	-	4,827,332	66
Real Property	-	-	17,874,228	74	3,888,770	8	-	-	-	-	-	-	1,398,546	-	12,586,912	66
General Property	-	-	7,576,277	840	3,402,836	32	204,196	379	-	-	-	-	3,135,704	-	833,541	429
Vessels	-	-	1,058,125	9	1,045,000	6	13,125	1	-	-	-	-	-	-	-	2
Aircraft	-	-	160,000	2	-	-	100,000	1	-	-	-	-	16,200	-	43,800	1
Vehicles	-	-	3,589,596	207	719,325	28	1,429,232	93	-	-	-	-	489,953	-	951,086	86
Totals	$ -	-	74,397,090	1,844	45,561,359	695	1,746,553	474	2,427,453	24	378,651	1	5,040,403	-	19,242,671	650

(Continued)

DEPARTMENT OF THE TREASURY FORFEITURE FUND

Notes to Financial Statements

Total Forfeited Property (Unaudited)

	10/1/93 Financial Statement Balance Value	10/1/93 Financial Statement Balance Number (unaudited)	Fair Value Adjustment Value	Fair Value Adjustment Number (unaudited)	10/1/93 Unadjusted Carrying Value Value	10/1/93 Unadjusted Carrying Value Number (unaudited)	Forfeitures Value	Forfeitures Number (unaudited)	Deposits/Sales Value	Deposits/Sales Number (unaudited)	Disposals/Transfers Value	Disposals/Transfers Number (unaudited)
CMI	$ 5,667,245	-	-	-	5,667,245	-	152,377,496	888	146,851,944	770	-	-
Real Property	2,920,000	26	606,600	-	3,526,600	26	46,023,940	130	23,393,163	44	-	-
General Property	2,685,000	(139,765)	10,349,539	-	13,034,539	(139,765)	56,229,006	160,306	37,615,511	670,493	2,803,223	16,169
Vessels	488,000	17	194,500	-	682,500	17	3,527,791	93	1,748,878	49	523,945	25
Aircraft	1,367,000	5	59,444	-	1,426,444	5	7,119,626	29	5,058,200	16	302,000	5
Vehicles	1,515,000	560	521,636	-	2,036,636	560	14,633,093	3,510	5,112,272	2,444	7,401,576	686
Grand Total	$ 14,642,245	(139,157)	11,731,719	-	26,373,964	(139,157)	279,910,952	164,956	219,779,968	673,816	11,030,744	16,885

	Trans. to 3rd Party Value	Trans. to 3rd Party Number (unaudited)	Destroyed Value	Destroyed Number (unaudited)	Other Adjustments Value	Other Adjustments Number (unaudited)	Value Change Value	Value Change Number (unaudited)	Fair Value Adjustment Value	Fair Value Adjustment Number (unaudited)	9/30/94 Financial Statement Balance Value	9/30/94 Financial Statement Balance Number (unaudited)
CMI	2,572,047	41	-	-	399,306	1	-	-	-	-	8,221,444	76
Real Property	597,000	2	-	-	497,500	(3)	1,868	-	2,506,101	-	22,554,908	113
General Property	18,719	13	5,477,066	7,523	(117,957)	(689,164)	(62,979)	(15)	18,533,996	-	4,995,966	15,522
Vessels	-	-	-	-	18,400	(3)	577,604	-	590,244	-	751,220	39
Aircraft	-	-	-	-	1,160,000	(1)	1,031,444	-	268,495	-	725,931	14
Vehicles	40,375	1	-	-	42,788	-	278,086	-	1,292,519	-	2,502,113	939
Grand Total	3,228,141	57	5,477,066	7,523	2,000,037	(689,170)	1,826,023	(15)	23,191,355	-	39,751,582	16,703

(Continued)

(5) Analysis of Change in Seized Property (Unaudited)

Seized property and currency result principally from enforcement activities. Such property is not legally owned by the Fund until judicially or administratively forfeited. Because of the fungible nature of currency and monetary instruments and the high level of control necessary over it, seized currency and monetary instruments are reported as a custodial asset upon seizure. Seized property other than currency and monetary instruments is reported as a custodial asset upon forfeiture.

The following schedule represents the changes in the seized property balance from October 1, 1993 to September 30, 1994. Although these financial statements and related notes are presented on a two year comparative basis, an analysis of change in seized property during fiscal year 1993 is not available and therefore not presented. FASAB No. 3, which requires this disclosure, was effective for fiscal years ending September 30, 1994, and thereafter, and did not require retroactive application.

Total Seized Property

	10/1/93 Financial Statement Balance		Seizures		Remissions		Forfeitures		Other Adjustments		Value Change		9/30/94 Financial Statement Balance	
	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number
CMI	$ 148,766,740	2,031	266,641,718	717	63,102,591	226	152,377,496	888	4,542,371	97	-	-	195,386,000	1,537
Real Property	119,396,002	376	48,643,989	175	25,721,192	133	46,023,940	133	7,221,325	49	25,889,620	-	63,183,914	236
General Property	217,726,237	9,210	197,280,150	31,498	173,710,721	11,510	56,213,156	18,739	9,727,134	1,262	11,281,239	-	164,074,137	9,197
Vessels	9,821,495	92	40,218,146	229	39,262,977	58	3,527,791	81	2,758,219	67	357,940	-	4,132,714	115
Aircraft	14,466,747	41	5,469,280	64	4,964,177	33	7,119,626	27	(313,454)	9	2,742,036	-	5,423,642	36
Vehicles	28,272,320	2,184	84,727,493	9,512	39,860,002	3,396	14,648,943	3,640	31,283,292	3,271	10,822,669	-	16,384,907	1,389
Grand Total	$ 538,449,541	13,934	642,980,776	42,195	346,621,660	15,356	279,910,952	23,508	55,218,887	4,755	51,093,504	-	448,585,314	12,510

In February 1994, USCS performed an inventory of seized property which included a physical count to verify quantities in the Customs Property Tracking System (CPTS) and a review of case file documentation to verify values in the CPTS. As a result of this process, significant changes were made to the values of seized property in the CPTS. These adjustments are reflected in the Value Change column above.

Due to the varied mix of specific types of assets within each asset category, the number of items presented in the above schedule represent quantities calculated using many different units of measure. Due to the use of different units of measure within each asset category, the usefulness of this quantity disclosure is questionable.

(Continued)

(6) Related Party Transactions

Certain capital assets of the agencies, such as communication equipment and conveyances, are utilized at times for the Fund's activities. These assets are capitalized and reported by the participating agencies. During the years ended September 30, 1994 and 1993, $7,488,000 and $6,540,000, respectively, of capital assets purchased with forfeited currency were transferred to that fund within the agencies and are shown as discretionary expenses in the accompanying financial statements.

(7) 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 $18,427 which were approved or in the final stages of approval subsequent to September 30, 1994. The forfeited currency revenue was recognized in fiscal year 1994; however, the distribution will not be recognized in the financial statements until fiscal year 1995. In addition to the amount estimated above, there are additional amounts which may ultimately be shared which are not identified at this time.

(8) Property Held as Evidence

In addition to the seized and forfeited property and monetary instruments disclosed in these financial statements and related notes, all law enforcement agencies possessing investigative responsibility in their respective enabling legislation, have the authority, in accordance with provisions of the Federal Crime Code and Federal Rules of Criminal Procedure, to seize property for evidentiary purposes only. Because this property is not seized under seizure and forfeiture laws, it cannot become property of the TFF and is intended to be returned to the owner at some future date. This evidence is not disclosed in the financial statements or related notes, but does represent a fiduciary responsibility of the custodial agency. The dollar value of property held as evidence at September 30, 1994, is not determinable.

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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, 1994, and have issued our report thereon dated January 6, 1995.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards (1994 revision)*, 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, Title VI sections 670 and 685 of the North American Free Trade Agreement Implementation Act, section 90205 of the Violent Crime Control and Law Enforcement Act of 1994, section 112 of the Treasury/Postal Appropriations Bill and Title II of the Health and Human Services Appropriations Bill, 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 participating agencies' fiscal year 1994 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.

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

The results of our tests disclosed the following instance of noncompliance that is required to be reported herein under *Government Auditing Standards*.

> 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 January 6, 1995, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 6, 1995 on our audit of the Fund's financial statements which was qualified for the inability of the Fund's management to provide documentation to support the analysis in change of seized and forfeited property and a report dated January 6, 1995 on our consideration of the Fund's internal control structure.

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

KPMG Peat Marwick LLP

January 6, 1995

KPMG Peat Marwick LLP

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

Independent Auditors' Report on Internal Control Structure

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, 1994, and have issued our report thereon dated January 6, 1995.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards (1994 revision)*, 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.

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 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.

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.

KPMG Peat Marwick LLP

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

In planning and performing our audit of the financial statements of the Fund for the year ended September 30, 1994, we obtained an understanding of the internal control structure. With respect to the internal control structure, 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion. 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.

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 over financial reporting 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.

The identified material weaknesses and reportable conditions, as defined above, are summarized below with further explanation in Exhibit 1 of this report.

Material Weaknesses

- **Analysis of changes in seized and forfeited property** - The U.S. Customs Service (USCS) and the Criminal Investigation Division of the Internal Revenue Service (IRS CID) were not able to provide an auditable analysis of changes in seized property, and IRS CID was not able to provide an auditable analysis of changes in forfeited property in a timely manner, which resulted in a scope limitation qualification in the auditors' report to the financial statements.

- **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 reflected 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 and seized property is not recorded in the general ledger and is not recorded in supporting subsidiary systems in a timely manner. As a result, year-end procedures were developed to identify forfeited and seized property not entered in the subsidiary systems as of September 30, 1994, and to adjust the financial statements for the value of forfeited and seized property on hand at year end.

- **Forfeited property valuation** - Forfeited property is not recorded in the subsidiary system during the year at its fair value at the time of forfeiture. An adjustment is made to the financial statements as of September 30, 1994, to record forfeited property at an estimate of fair value.

- **Performance indicators** - The Fund has not fully developed specific performance indicators to report the progress toward achieving the Fund's goals and objectives.

All of the above material weaknesses with the exception of Analysis of Changes in Seized and Forfeited Property were identified in prior year reports and are of continuing significance.

Reportable Conditions

- **Fund organization** - The current management structure of the Fund, while in the process of being reorganized, does not facilitate an effective system of communication nor present the management with line authority for forfeiture operations of the individual law enforcement agencies.

- **Reconciliation of property activity** - Currently there are no procedures in place that reconcile actual sales activity as reported on the general ledger to individual sales removed from the property listing. As a result, cases can be closed on the property system for which no revenues are recorded.

- **Reconciliation between the Seized Property Management System (SPMS) and agencies' property systems** - The field offices do not reconcile the seizure numbers and line items per the property listing to the seizure numbers and line items per SPMS. Several instances were noted at each of the Fund's participating agencies during inventory observation, where the property listing per the agency contained items which had been sold by EG&G prior to the inventory date.

- **ATF does not maintain a detailed property listing** - ATF does not maintain a detailed listing of the quantity and dollar amounts for individual property. Therefore, the year end balances of property reported were not supported by a detailed listing of balances.

* * * * *

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

Although in preparing the financial statements, the Fund's management implemented year-end manual procedures to compensate for the above identified conditions and weaknesses, these conditions and 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 conditions and weaknesses impact many functions and lines of authority between the 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 over financial reporting and its operation that we will report to the management of the Fund in a separate letter dated January 6, 1995.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 6, 1995 on our audit of the Fund's financial statements which was qualified for the inability of the Fund's management to provide documentation to support the analysis in change of seized and forfeited property and a report dated January 6, 1995 on its compliance with laws and regulations.

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

KPMG Peat Marwick LLP

January 6, 1995

DEPARTMENT OF THE TREASURY FORFEITURE FUND

The Secretary of the Treasury designated U.S. Customs Service (Customs or USCS) as its Executive Agent for financial operations of the Department of the Treasury Forfeiture Fund (Fund). Pursuant to the executive agency role, the Customs National Finance Center (NFC) is responsible for accounting and financial reporting for the Fund. In fiscal year 1994, the following agencies participated in the Fund: Customs, Internal Revenue Service-Criminal Investigations Division (IRS CID), U.S. Secret Service (USSS), Bureau of Alcohol, Tobacco and Firearms (ATF), Financial Crimes Enforcement Network (FinCEN), the Federal Law Enforcement Training Center (FLETC) and the U.S. Coast Guard (USCG).

MATERIAL WEAKNESSES

ANALYSIS OF CHANGES IN SEIZED AND FORFEITED PROPERTY

As discussed in note 3 to the financial statements, the Federal Accounting Standards Advisory Board (FASAB) issued Statement of Federal Financial Accounting Standards No. 3, Accounting for Inventory and Related Property, FASAB No. 3 which became effective for fiscal year 1994. As such, fiscal year 1994 was the first year the Fund was required to present the disclosures of FASAB No. 3. FASAB No. 3 requires disclosure of an analysis of changes in forfeited and seized property. The standard requires presentation of both dollar amounts and quantity changes.

USCS, IRS CID, USSS and ATF maintain seized and forfeited property, the value of which is included, on the TFF financial statements. Due to the reasons explained below, USCS and IRS CID were not able to prepare in a timely manner an auditable analysis of changes in seized property and IRS CID was not able to prepare an auditable analysis of changes in forfeited property, which resulted in a scope limitation qualification in the auditors' report to the financial statements. In addition to the auditors' opinion qualification, the inability to prepare the changes in forfeited and seized property analysis raises questions as to whether the Fund has been able to properly account for all activity related to seized and forfeited property.

The USCS analysis of changes in seized property was unauditable because it contained a difference of approximately $13 million which could not be supported by documentation. Customs was unable to determine the nature and cause for this difference. In addition, the final analysis was not presented for audit until approximately 2 weeks prior to the completion of the audit.

The IRS CID analysis of changes in seized property was also unauditable. The IRS CID analysis of changes in seized property had to be reworked several times. In one of the submissions, the detail transactions supporting the analysis contained an unsupported amount of $15 million. Upon further analysis, including discussions with the preparer of the analysis, it was determined the detail did not add to the purported total. In a revised analysis of changes in seized property submitted for audit, that we received one week prior to completion of the audit, we were again unable to trace certain individual transactions through the analysis of changes in seized property.

The IRS CID analysis of changes in forfeited property was presented for audit approximately 2 weeks prior to the completion of the audit. We were unable to determine whether all transactions were included in the analysis.

None of the participating agencies' individual property tracking systems contain sufficient data to prepare the required analysis of seized and forfeited property, without significant manual manipulation and reconciliation. And as evident from our review, some agencies were unable to account for all transactions. For example, the USCS tracking system, CPTS, maintains no historical data. The system overwrites data when changes are made and leaves no evidence of when, how or why the changes were made.

We understand several systems initiatives are underway. The Justice and Treasury Departments recently implemented the CATS system which will be utilized by IRS CID, USSS and ATF as their property tracking system. The USCS Office of Field Operations has begun working on developing another system to replace CPTS. We recommend all initiatives in progress be reviewed by appropriate personnel from operations as well as certain individuals from the TFF team at the USCS National Finance Center who have prepared the current fiscal year schedules to ensure the new system will provide all data necessary to produce the analysis of seized and forfeited property and provide management with meaningful information. We also recommend TFF consider the best aspects of both systems and implement one property tracking system to meet the needs of all participating law enforcement agencies. In addition, as none of the agencies current seized and forfeited property tracking systems provide sufficient information to prepare the analysis of changes and any new system will not be fully operational for fiscal year 1995, we recommend the Fund immediately begin the process necessary to prepare fiscal year 1995 analysis of change in seized and forfeited property. This process includes identifying weakness in the current processes and developing procedures or systems to compensate for the identified weaknesses. We understand initiatives are underway to improve communications and facilitate this process.

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. The NFC maintains the general ledger for the Fund primarily on a cash basis. Additionally, associated supporting systems are maintained by the agencies 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, individual supporting computer systems are not interfaced with one another or with the Fund's general ledger to ensure all transactions are accurately and timely recorded. Accordingly, financial statements produced directly from the systems are not necessarily 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 for each agency were developed. Under the authority of the Chief Financial Officers Act of 1990, TFF management provided each agency representative with year-end close out procedures that were to be performed. TFF 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 1994, to help ensure the agencies understood the year-end procedures, a working group meeting was held between representatives of TFF management, NFC and each of the agencies. After the meeting, a final version of the procedures were distributed to each of the agencies by TFF management. However, because the procedures were not consistently followed by all agencies, 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 agencies be reminded of the importance of properly following the year-end procedures. We also recommend the procedures be again reviewed with the agencies 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, direct payments and reimbursements. Under the "Memorandum of Understanding between the Fund's participating agencies and the Departmental Offices Regarding the Treasury Forfeiture Fund" (MOU), the agencies are required to incur certain types of expenses related to TFF activities and subsequently request reimbursement from the Fund. Expenses paid directly from the Fund include payments of mortgage and liens, refunds, remission and mitigation claims, claims of parties in interest, national contractor storage, equitable asset sharing, and joint operations. All other expenses incurred related to TFF activities are submitted for payment through a reimbursement request. Types of reimbursable expenses include purchase of information and evidence, equipment, rent and contracting services.

During fiscal year 1994, reimbursement requests were not submitted on a regular predetermined basis throughout the year. Requests for reimbursements of significant amounts, approximately 28% of total reimbursement requests, occurred near year end. The MOU allows each agency to submit a reimbursement request to TFF monthly. Each agency should take full advantage of this policy and submit requests for reimbursement monthly. The monthly submission of reimbursements will provide more timely results of operations for the Fund and thereby allow for more timely analysis of the financial position of the Fund.

The reimbursement requests submitted by the agencies, but not yet paid by TFF should be accrued as liabilities at each month end. Also, any direct payment requests which have been received but not paid at month end should be accrued as liabilities.

Mortgages and Claims Payable

When an agency 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 Fund's 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 or agent is responsible for identifying information related to the mortgage or claim at the time the asset is seized or before. The seizing officer identifies the mortgage or claim through inquiry of the violator and/or title search. When the seizure is made as a result of an on-going investigation, a title search should be performed before the seizure. 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 the proper agency for any outstanding claims or mortgages.

Customs Field Offices are required to input mortgage and claim information into the Customs Property Tracking System (CPTS) as this information is identified. A listing of forfeited property with unpaid claims 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. The CPTS listing can be produced monthly from the system in order to manually update the general ledger. This information should be recorded in the general ledger through a journal entry when the related asset is forfeited.

IRS CID, USSS and ATF submitted a schedule of mortgages and liens payable on forfeited property as of year end; however, this list was not complete and required adjustments. We recommend a similar procedure be established monthly in order to record the liability. In addition, all significant forfeited real property and vehicles on the month end inventory should be reviewed for the existence of mortgages and claims to ensure the schedule of mortgage and lien payable is complete.

While it may be less efficient, an alternative method to capture all mortgage and claim liabilities in the short-term is to instruct the seizing agent to list all mortgage and claim information as they are identified. 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, the Fund could develop a 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 or agent'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 an agency 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. Currently, 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 monitoring and updating the system timely 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, at four Customs Field Offices (El Paso, Houston, Laredo and Miami) where currency was seized prior to fiscal year end, the currency was not recorded in the Seized Currency Tracking System (SCTS) at year end. In another situation the NFC was not notified the forfeiture had occurred when the item had been forfeited prior to year end, thus, revenue was understated in the financial statements presented for audit. Because the forfeiture date is input into the system by the field and the supporting documentation is maintained by the field, the NFC is unable to identify when these situations occur. Both of the above situations were adjusted for in the accompanying financial statements.

In accordance with Statement of Federal Financial Accounting Standards No. 3, we recommend forfeited currency be recognized as revenue at the time of forfeiture. The SCTS is designed to account for U.S. Customs 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.

We understand procedures for updating SCTS are contained in the Customs 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.

When IRS CID seizes currency, safeguard procedures, similar to Customs as described above, are implemented. Upon seizure of currency, the seizing agent completes a standard input form, which is sent to the Asset Forfeiture Tracking System (AFTRAK) headquarters in Dallas for input into AFTRAK.

Changes made to the status of a seizure, such as forfeiture, are also made via a standard input form sent to Dallas. Periodically, the IRS CID headquarters personnel in Washington D.C. review AFTRAK reports of items forfeited. A disposition form is completed and sent to NFC for recognition of the revenue.

The aforementioned procedures result in significant time lags from the date the items are seized or forfeited and when the status is updated in AFTRAK. We recommend the IRS CID district personnel have on-line access to AFTRAK and appropriate review and reconciliations be implemented to verify the accuracy of the information entered. Implementing this recommendation would result in more timely recording of revenue to TFF as the disposition forms would be sent to the NFC on a more timely basis.

While it may be less efficient, an alternative method to implement this recommendation is to require, at each month end, each District coordinator 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.

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 Customs. IRS CID, ATF and USSS do not have an internal tracking system that supports an accrual at any point in time. However, TFF does track all asset sharing requests that reach final approval status. Through our audit procedures, we determined the asset sharing approval listings were not complete as several transactions approved and distributed were not included on any approval listing. We recommend that TFF 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 each participating agency to have a centralized tracking system. On a monthly basis, reports on the asset sharing accruals will be sent to TFF for monitoring purposes. TFF would review the reports and supporting documents as an overall control, then forward the accrual to NFC to be posted.

There are separate disposition codes for property transferred to other federal agencies and for property shared with state or local agencies. We recommend items with asset sharing dispositions per the inventory system be reconciled to TFF approval listings and, thus, to the general ledger on a monthly basis.

Accounts Receivable from Contractor

Customs maintains a contract with EG&G Dynatrend (EG&G) whereby EG&G stores property seized by any agency participating in the Fund, conducts auction sales of forfeited property, and collects storage costs reimbursed by violators. Cash collections made by EG&G on behalf of the Fund 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. The NFC 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 currently provides a listing from SPMS which lists all auction sales for the month. This report is reconciled monthly to ACS (includes all cash collected from sales). This report could be used by NFC to manually record a receivable from the auction sale, along with the related revenue. When ACS is later integrated with the general ledger, the receivable can be updated automatically as the cash collection is input into ACS from deposit information received from banks. 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 bank statements (on a timely basis) from 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 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 coordinator 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 should be instructed to update their inventory tracking system 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 reconcile the seizures to be returned per each agencies' inventory 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 to determine the age of individual items which comprise the receivable balance. Follow-up procedures should be performed to determine the status of the receivables. Through this process, appropriate adjustments and/or reserves can be determined.

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 (AIMS) project to revamp the general ledger system was implemented on October 1, 1992. However, the new system did 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, and to maintain control and an understanding of the Fund's operational results, we recommend developing a separate trial balance to track all Fund related activity for the production of monthly financial statements. 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 completeness.

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 for Customs; AFTRAK for IRS CID; USSS Forfeiture System for the USSS; and manually for ATF; to record the entry in the general ledger. Likewise, the Fund also does not record seized currency, and the related liability, in the general ledger. As seized currency is now required to be presented on the balance sheet, by Statement of Federal Financial Accounting Standards No. 3, we recommend the asset and related liability be recorded in the general ledger at the time of seizure.

While it may be less efficient, if the information in the agencies' inventory system is not timely updated, an alternative method to implement this recommendation in the short term is to require, at each month-end, each District, field office or division coordinator to submit a signed letter to the NFC TFF Team 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. A designated individual at the NFC should compare this information to the property subsidiary systems and investigate differences.

Property listings produced by CPTS, AFTRAK and the USSS Forfeiture System contained inaccurate data about property on hand. We identified items during the physical inventory observation that were not listed on the inventory property reports, and items on the reports that had been sold, transferred, or disposed. One cause of these exceptions is that documentation for seizures is not prepared and input to the participating agencies' inventory systems on a consistent and timely basis.

Also, the final forfeited property listings produced by CPTS, AFTRAK and the USSS Forfeiture System failed to include all forfeitures occurring in the current fiscal year. The main cause of this situation is that the agencies staff are not properly monitoring and updating their systems to communicate the change in status to the appropriate personnel for updating the CPTS, AFTRAK and the USSS Forfeiture System.

We recommend existing procedures be followed requiring agencies' staff to forward the forfeiture instructions as authorized, to the appropriate personnel for updating the agencies' inventory system and, if held by the contractor, to EG&G, to update SPMS to reflect changes in property status. Additionally, agencies' 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 the agencies' inventory system are updated and maintained should be followed. These procedures include formal training of agency employees as well as written policies providing guidance to the districts, and EG&G employees. We recommend these reconciliation procedures continue to be performed on a routine basis (e.g., quarterly). Additionally, since seized currency is also reported on the balance sheet, similar procedures should be implemented for seized property.

FORFEITED PROPERTY VALUATION

Under the 1930 Tariff Act and later amendments, Customs enforces importing and exporting and drug-related laws of the United States. Under Bank Secrecy Act (Title 31) and money laundering (Title 18), IRS-CID enforces federal tax, bank secrecy and money laundering statutes. The USSS's principal statute is Title 18 USC 981 which authorizes the USSS to seize and forfeit assets in conjunction with counterfeiting operations. The principal authorities of ATF are the National Firearms Act of 1934 and the Gun Control Act of 1968, as amended.

Accordingly, when violations are discovered, the agencies have 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 by the agencies, destroyed, sold, or transferred to another state, local, or federal agency or foreign country.

Statement of Federal Financial Accounting Standards No. 3 requires forfeited property to be stated at the fair value at the time of forfeiture. The value of forfeited property is currently recorded in CPTS, AFTRAK and the USSS Forfeiture System at appraised value, determined at the seizure date, by the seizing agent or import specialist, or at its fair market value, determined by independent appraisal immediately before its sale at auction. 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 can be misleading because the values are often overstated and therefore 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 CPTS at its street value, these goods would then be ultimately 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 in previous 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 CPTS, AFTRAK and the USSS Forfeiture System. Due to the relatively short time from the time of forfeiture to the sale, the subsequent sales price becomes a good estimate for the fair value at the time of forfeiture. Accordingly, the fair value could be estimated by comparing the seizure values to the actual sales proceeds obtained at subsequent auction sales.

To develop numbers for inclusion in the Fund's 1993 and 1994 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 approximate fair value at the time of forfeiture. 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.

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. We understand initiatives are underway to develop additional performance indicators such as processing time for equitable sharing payments and the number of days between the forfeiture of property and disposal through sale.

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

REPORTABLE CONDITIONS

FUND ORGANIZATION

The accountability for the operations of the Fund rests with the Executive Office for Asset Forfeiture (EOAF) and Asset Forfeiture Financial Management (AFFM) herein referred to as TFF management. The activities of the participating law enforcement agencies are governed by the individual policies and procedures of the individual agencies. This leads to a disconnect between the operations of the Fund and the management of the Fund whereby the management of the Fund has no or little line authority for the forfeiture operations of the individual agencies. In addition, the communication channels within and between EOAF and AFFM did not appear to be clearly established and operating effectively. As a result, communication between TFF management and the individual law enforcement agencies often is cumbersome, inefficient or non-existent. For example: 1) the reporting process for cash paid in lieu of forfeited property is compiled inconsistently among the bureaus, 2) the methods and frequency for reconciling accounts and balances is performed inconsistently among bureaus (for example the reconciliation of ACS cash collections to the individual agencies records is not consistently performed by all of the agencies) and 3) there is an apparent cumbersome process of decision making within TFF management. Recognizing that TFF management has the responsibility to manage the Fund, but minimal line authority to manage the forfeiture activities of the individual law enforcement agencies, we recommend the establishment of a structure with the law enforcement agencies to ensure cooperation between TFF management and the agencies. In addition, NFC, as Executive Agent for financial operations of the Fund, should be an integral part of this structure for developing accounting policies and procedures to support consistent accounting and in gathering information for the preparation of the financial statements. We understand the management structure of the Fund is currently being reorganized. In finalizing the new management structure, we recommend establishing clear lines of decision making authority and communication channels.

RECONCILIATION OF PROPERTY ACTIVITY

Currently, there are no procedures in place to reconcile inventory sold as reported by the individual agencies property tracking systems with the actual sales proceeds reported in the general ledger. When the auction sales packages are received at the NFC, the list of items sold, the notice of award and the deposit ticket indicating sales proceeds are all reconciled. However, the auction sales packages are not reconciled to the system data of sold items. Without such a reconciliation being performed, it is possible for cases to be closed on the system indicating disposition was obtained through sale when, in fact, the sale never occurred. We recommend that monthly a listing of items sold be generated from the individual agencies property tracking systems, which is in turn reconciled with the sales packages received that month to determine whether all sales have been included in the general ledger.

In addition, we noted a similar review of property destruction was not occurring. Again, it is possible for cases to be closed on the system indicating disposition was obtained through destruction which never actually occurred. This situation would generally only be discovered if the property remained on the premises at the time of physical inventory. We recommend monthly a report of all destructions be prepared and a sample of the items be selected from the report to review documentation proving the destruction occurred.

RECONCILIATION BETWEEN SPMS AND AGENCIES' PROPERTY SYSTEMS

The agencies' property tracking systems, Customs Property Tracking System (CPTS), IRS CID's AFTRAK and the USSS Forfeiture System, are used to track the property seized and forfeited by each agency. The Seized Property Management System (SPMS) is used by EG&G Dynatrend to track inventory held for each participating TFF agency. When EG&G has a sale of forfeited property, a Notice of Award (NOA) package is submitted to the NFC. At the same time, a listing of items sold by seizure and line item number is sent to the individual field offices. The field offices do not reconcile the seizure numbers and line items per the property listing to the seizure numbers and line items per SPMS. Several instances were noted at each agency during inventory observation where the property listing per the agency contained items which had been sold by EG&G prior to the inventory date.

We recommend that each agency receive and reconcile the monthly report from SPMS to their respective property listings.

As stated before, ATF does not maintain a detailed inventory listing. ATF's Chain of Custody Forms (3400.16), are maintained in a log book which is kept in the district vaults. We previously recommend ATF develop a comprehensive detailed automated listing of property. Before this listing is developed, we recommend ATF reconcile the SPMS listing to the Chain of Custody Forms.

ATF DOES NOT MAINTAIN A DETAILED INVENTORY LISTING

ATF does not maintain a detailed listing of the quantity and dollar amount of individual property items which adds to the total quantity and amount of property on hand at any point in time. ATF completes a Property Inventory/Forfeited Appraisal Report, Form 3400, for each seizure. These 3400 forms are maintained in property log books at each field office location. The individual property log book, in essence constitutes the controls over property items. We noted no significant differences in the information recorded on these forms when compared to the property on hand during the year end site visits. However, we do recommend ATF develop a comprehensive detailed automated listing of property seized and forfeited to more efficiently keep track of the property items. We understand ATF has begun implementing the CATS systems as their property tracking system.

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All the above material weaknesses, with the exception of Analysis of Changes in Seized and Forfeited Property, were identified in prior year reports and are of continuing significance. No reportable conditions were noted in prior year reports, however there were four reportable conditions noted for the current year; Fund Organization, Reconciliation of Property Activity, Reconciliation Between SPMS and Agencies' Property Systems, and ATF Does Not Maintain A Detailed Inventory Listing.

DEPARTMENT OF THE TREASURY FORFEITURE FUND

Asset Sharing Summarized by State and U.S. Territories
For the year ended September 30, 1994
(Dollars in thousands)
(Unaudited)

State	Currency Value	Property Value
Alabama	$ 480	37
Alaska	73	-
Arizona	925	1,735
Arkansas	-	-
California	11,335	166
Colorado	148	9
Connecticut	-	5
D.C., Washington	-	69
Florida	12,006	628
Georgia	353	10
Hawaii	38	16
Idaho	2	-
Illinois	759	-
Indiana	527	-
Iowa	8	1
Kansas	26	86
Kentucky	55	3
Louisiana	110	21
Maryland	26	10
Massachusetts	89	-
Michigan	613	70
Minnesota	35	-
Mississippi	54	-
Missouri	80	24
Montana	19	4
Nebraska	72	-
Nevada	2	31
New Jersey	689	36
New Mexico	5	65
New York	7,319	165
North Carolina	481	53
North Dakota	1	-
Ohio	807	5
Oklahoma	242	13
Oregon	17	-
Pennsylvania	150	16
Puerto Rico	-	-
South Carolina	-	-
South Dakota	-	-
Tennessee	371	1
Texas	11,666	255
Utah	25	15
Vermont	-	3
Virgin Islands	-	110
Virginia	269	21
Washington	155	59
West Virginia	-	80
Wyoming	18	-
Total	$ 50,050	3,822

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, 1994
(Dollars in thousands)
(Unaudited)

Region/Districts	Total Number of Cases	Forfeited Being Held as Evidence	Uncontested Cash
United States Customs Service (USCS)			
New York - JFK	3	$ 1,072	-
Detroit	2	1,291	-
Chicago	1	395	-
Odensburg			
U.S. currency	2	130	-
Canadian currency	2	411	-
Tampa	1	2,074	-
Miami	14	-	5,482
Houston	2	-	1,109
Seattle	1	143	-
Agency Total	28	5,516	6,591
Internal Revenue Service-CID (IRS CID)			
Manhattan	3	-	845
Ft. Lauderdale	4	-	845
Nashville	1	-	340
Dallas	1	-	151
Laguna Niguel	3	-	805
San Francisco	2	-	160
Los Angeles	2	-	351
Agency Total	16	-	3,497
Grand Total	44	$ 5,516	10,088

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, 1994
(Dollars in thousands)
(Unaudited)

Revenue and expenses and distributions by asset category:	Revenue	Expenses and Distributions
Vehicles	$ 19,747	15,279
Vessels	3,590	19,353
Aircraft	2,993	6,112
General property	16,755	59,078
Real property	16,755	2,037
Currency and monetary instruments	142,909	53,375
	202,749	155,234
Less:		
Mortgages and claims	(2,382)	(2,382)
Refunds	(2,669)	(2,669)
Add:		
Allocation of revenue to ONDCP Special Forfeiture Fund	-	3,843
Excess of net revenues and financing sources over total operating expenses	-	43,672
	$ 197,698	197,698

Revenue and expenses and distributions by type of disposition:	Revenue	Expenses and Distributions
Sales of property and forfeited currency and monetary instruments	$ 107,039	7,774
Reimbursed storage costs	2,793	4,697
Placed into official use of other Customs funds	-	285
Assets shared with state and local agencies	53,372	54,406
Destructions	-	9,733
Cancellations (including payments in lieu of forfeiture)	31,861	2,669
Assets shared with other federal agencies	7,318	8,334
Assets shared with foreign countries	366	366
Pending disposition	-	66,970
	202,749	155,234
Less:		
Mortgages and claims	(2,382)	(2,382)
Refunds	(2,669)	(2,669)
Add:		
Allocation of revenue to ONDCP Special Forfeiture Fund	-	3,843
Excess of net revenues and financing sources over total operating expenses	-	43,672
	$ 197,698	197,698

This supplemental schedule "Analysis of Revenue and Expenses and Distributions" is required under the Treasury Forfeiture Fund Act of 1992. The allocations 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 the Fund does not have a cost accounting system, 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.

DEPARTMENT OF THE TREASURY FORFEITURE FUND

Information Required by 31 U.S.C. 9703(f)
For the year ended September 30, 1994
(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 Department of Treasury law enforcement organizations or the United States Coast Guard, in the case of fiscal years beginning after 1993**

At September 30, 1994, the Fund had forfeited currency and other monetary instruments of $8,221,000 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, 1994, the Fund had forfeited property held for sale of $29,929,000. 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, 1994, there was $3,323,000 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 Treasury Forfeiture Fund on September 30, 1993, which became the beginning balance for the Fund on October 1, 1993, as reported in the audited financial statements is $91,520,000.

(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 expense as reported in the audited financial statements were $2,382,000. The amount actually paid on a cash basis was not materially different.

(Continued)

DEPARTMENT OF THE TREASURY FORFEITURE FUND

Information Required by 31 U.S.C. 9703(f)
For the year ended September 30, 1994
(Unaudited)

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	$ 53,375,000
Foreign countries	366,000
Other federal agencies	7,318,000

(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 is $43,672,000.

The amount of seized cash being held as evidence at September 30, 1994, is approximately $24 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 $57,687,000 for fiscal year 1994. As required by the Omnibus Crime Control Act of 1994, $50 million and one half of the excess unobligated balances of $3.8 million in fiscal year 1994, are retained in the Fund.

(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 approximate value of such property for the Treasury Forfeiture Fund, at estimated values determined by Agency and contractor officials, and the number of seizures is as follows:

U.S. Customs Service	$ 87,869,506	34 seizures
IRS CID	24,516,318	14 seizures
U.S. Secret Service	2,841,630	2 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 $15,604,000. A detailed schedule is provided on page IV-2.

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

The total net position of the Fund at September 30, 1994, as reported in the audited financial statements is $135,192,000.

(Continued)

DEPARTMENT OF THE TREASURY FORFEITURE FUND

Information Required by 31 U.S.C. 9703(f)
For the year ended September 30, 1994
(Unaudited)

(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 1994, $50 million was allowed to be retained in the Fund. One half of all excess unobligated amounts were to be transferred to the ONDCP Special Forfeiture Fund. In addition, on a budgetary basis, the Fund was allowed to retain the remaining $3.8 million of the excess unobligated amounts.

(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-16.

(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.