

# TREASURY FORFEITURE FUND

*Annual Report*  
*Fiscal Year 1995*

*Cover: A View of the Department of the Treasury in Washington taken from the southeast corner of Lafayette Park. This photograph was originally used in a 1906 brochure for the Third Annual Encampment of the United Spanish War Veterans.*



DEPARTMENT OF THE TREASURY  
OFFICE OF THE UNDER SECRETARY  
WASHINGTON, DC

TO TREASURY LAW ENFORCEMENT:

The Department of the Treasury has been entrusted by the citizens of the United States with significant asset forfeiture authority. We are responsible for exercising this authority in the pursuit of various illegal activities that threaten the safety, security and prosperity of the American people. In one form or another, Treasury law enforcement has accepted and acted upon this delegation for over two hundred years.

This annual report of the Treasury Forfeiture Fund for fiscal year 1995 first looks at our achievements in light of the four basic goals of the program and then provides an overview of fund operations and financial performance during the year. Our efforts in these areas derive from the underlying charge to pursue our forfeiture responsibilities wherever they apply in our law enforcement operations and always in the sound and fair manner that bolsters public confidence in the integrity of the forfeiture program.

The year that is the subject of this report will always be shadowed by the tragedy of the Oklahoma City bombing and the lives that were taken from us. Forfeiture is but one of the legitimate authorities bestowed upon federal law enforcement. Our obligation is to make proper use of these public trusts so that we may realize their purpose of protecting the law abiding, while, at the same time, maintaining unbroken faith with those who have gone before us.

RONALD K. NOBLE

*Under Secretary (Enforcement)*

Treasury Forfeiture Fund  
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# SAFEGUARDING INDIVIDUAL RIGHTS

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**I**N DECEMBER OF 1994, *THE NEW YORK TIMES MAGAZINE* CARRIED AN ARTICLE ON CIVIL FORFEITURE WRITTEN by a former assistant district attorney entitled, *The Law Goes on a Treasure Hunt*. Although the examples cited dealt largely with seizures and forfeitures outside of the federal purview, the general concerns raised about non-criminal forfeitures reverberate across government jurisdictions. Two underlying concerns expressed in the essay were that this type of forfeiture deprives citizens of due process of law and, by allowing those assets taken to be used to finance seizure units, it simply serves as a pretext for augmenting government revenues. In closing, it posed the rhetorical question of whether or not this powerful tool has turned law enforcement officers into dangerous bounty hunters.

The Department of the Treasury Forfeiture Fund (the Fund) is the result of administrative as well as judicial forfeitures involving violations of federal law. The Fund has become an increasingly valuable resource for the Treasury Department's enforcement bureaus and organizations since it was established as the successor to the Customs Service Forfeiture Fund in October of 1992. Along with its growth as a Treasury resource, however, lies the recognition that the Treasury asset forfeiture program ultimately relies for its effectiveness and standing upon public confidence in its integrity. If concerns about due process and bounty hunting are dismissed or not addressed at all, then that confidence can be eroded, to the detriment of the program itself and law enforcement in general.

In FY 1995, the Treasury Forfeiture Fund not only continued to contribute directly to law enforcement but also worked to merit public trust by pursuing its fundamental program goal of safeguarding individual rights. To address these two most commonly mentioned criticisms of government forfeiture activities, the program must afford fair process to those affected by the seizure, especially in non-criminal cases, and then, after the fact of forfeiture, it must regulate and filter disbursements from the Fund to ensure against the development of a bounty inducement to further seizures. Some explanation of how the Fund's authorizing

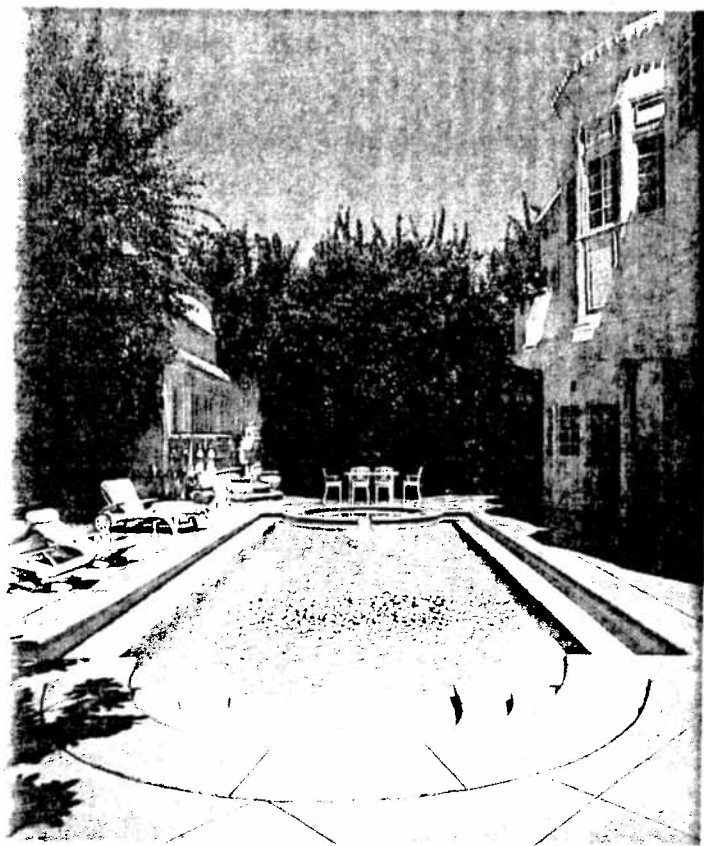
statute, as well as its operating policies and procedures, all work together to accomplish these ends will provide a context for assessing the degree of continued support for this goal in FY 1995.

## RECOGNIZING THE INTERESTS OF AFFECTED PERSONS

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While civil forfeiture actions can be pursued either administratively by the seizing agency or judicially in court, they always proceed against property and not persons. It is, however, readily apparent that property, by definition, cannot exist without someone, somewhere, having an ownership or other interest in it. Fairness demands that those persons having any interest in seized property be notified of the seizure and the intent to forfeit so that they may have an opportunity to come forward and be heard. Such notification begins a process designed to safeguard the rights of affected parties. Some of the main points of this process include:

- **Personal Notice**—This is the most direct form of notice and occurs whenever the true owner or owners of the property are known or if there is a valid lien against the property held by an individual or institution. In these circumstances, these persons must be extended personal notice of the seizure and intended proceedings by registered or certified mail.
- **Publication**—To be sure that anyone with an interest in the property is not overlooked, even if they are unknown to the seizing agency, personal notice is supplemented by publishing a notice of the specific seizure and pending proceedings in a newspaper of general circulation.
- **The Claim and Cost Bond**—Upon being notified of the seizure of the property, the interested person may choose to contest the forfeiture of the property by filing a claim and cost bond. This action stops the investigative agency from ruling on the forfeiture and requires that the matter be resolved in civil court. At this point the action is referred to the U.S. Attorney. If an interested person cannot afford the cost bond,



The pool and fountain area of one of the Mizuno properties on North Walden Drive in Beverly Hills, California. This luxury home had earlier served as a set for the 1989 film, *Beverly Hills Cop II*, starring Eddie Murphy as Detroit detective, Axel Foley.

he or she may file an *in forma pauperis* petition to have the requirement of the cost bond waived and still move the matter into the judicial arena.

- **Petitions for Remission or Mitigation**—Filing a claim and cost bond is only one course of action available to the interested party. Alternatively, the party may acknowledge the validity of the seizure and file what is known as a petition for remission or mitigation. In this course of action, the party is asking, in effect, that the property be pardoned. For a remission, the party must prove that they have an interest in the property and that they had no knowledge that the property would be used illegally. If the petition for remission is granted, the government will return the property or make a payment equal to the petitioner's interest in the property. A mitigation is a partial pardon and usually results in the government returning the property on the condition that the petitioner pay a penalty.

Federal civil forfeiture is not a covert activity, bereft of concerns for process and rights. Whether

civil forfeiture is accomplished administratively by the investigative agency or judicially in a court of law, it must always proceed through a very structured and delineated process—a process that comprehensively notifies affected parties, invites arguments against the intention to forfeit, accommodates the indigent and offers opportunities to achieve compromise resolutions.

## ADMINISTERING THE PROCEEDS OF FORFEITURE

The statute that authorizes the Treasury Forfeiture Fund, as well as the policies and guidelines adopted by Treasury's Executive Office for Asset Forfeiture in administering the Fund, provide checks, safeguards and an important degree of filtering distance between seizing personnel and the ultimate benefit of forfeited value that make it exceedingly difficult to creditably ascribe bounty hunting as a motivation in the conduct of seizure and forfeiture activities. In Treasury's national program, forfeited value is first deposited in the Fund and only then disbursed according to the available mandatory, discretionary and other payment categories specified by law. Every asset taken does not go directly to financing the seizure units themselves. The Treasury Forfeiture Fund does indeed strengthen law enforcement but only through a reasoned, comprehensive and deliberative method. An examination of some of the allowable payment categories of the Fund will show how they strengthen law enforcement while defusing the enticement to hunt for bounty.

- **Mandatory Payments**—Seizing property is not without costs. Often it must be moved, stored, maintained, operated if it is a business, newspaper advertisements must be purchased to inform interested persons of the proceedings, and, if it is forfeited, the property must be disposed of—auctioned off, donated, transferred or even destroyed. Before the establishment of the modern federal forfeiture funds, all these costs were taken out of the limited mission oriented appropriations available to the investigative agency and any value realized from forfeiture went to the general fund. Now, the Congress has designated seizure specific costs such as these as a priority for payments from the Fund and this category also includes the satisfaction of valid liens as well as the payment of amounts remitted to victims of fraud.

- **Discretionary Payments**—These are payments from the Fund not related to a specific seizure but more generally supportive of the forfeiture programs of Treasury enforcement bureaus. These may include payments for the costs of training, payments for laboratory, communications and protective equipment, payments for certain state and local costs incurred in joint operations with Treasury law enforcement bureaus and payments to equip vessels, vehicles and aircraft.

- **Other Payments**—These are payments made from either surpluses available to the Fund after mandatory and discretionary expenses are met or from asset sharings received by the Fund in recognition of Treasury bureau contributions to other law enforcement agency forfeitures. These payments must be for law enforcement purposes.

Payments from the Treasury Fund, therefore, either go to paying the costs associated with a specific seizure or to strengthening law enforcement. If they go to strengthening law enforcement, the decision regarding the amount of value involved and where it should be applied is based upon the recommendation of the headquarters of the Treasury bureau, revised and modified in light of the Department's national enforcement needs as determined by the offices of the Secretary of the Treasury. These decisions on the allocation of for-

feited proceeds are purposefully distanced from the daily operational choices that confront field personnel so that they may pursue their sworn enforcement missions free of any ulterior concerns.

## ***APPLYING A DUE PROCESS SAFEGUARD IN FY 1995***

Administrative and civil judicial forfeiture cases play a significant role in federal asset forfeiture programs. To help ensure that the Department of the Treasury and its law enforcement bureaus are vigilant in seeing to it that due process is fully observed in these cases, the Executive Office for Asset Forfeiture issued a policy directive in the spring of 1995 on the timely processing of administrative and civil judicial forfeitures. Twice each year, Treasury enforcement bureaus are asked to examine their open civil forfeiture cases and determine how many have exceeded what are general timeliness standards in the administrative and judicial categories. If more than a minimal amount are found to be untimely in any category according to the standard, then a report on these cases is forwarded to the Executive Office for Asset Forfeiture. This policy aims at promoting active caseload monitoring so that seized property will either proceed to forfeiture or be returned to an interested party without suffering any undue delay.



*A custom designed, sunken, circular wet bar overlooking the pool acts as the focal point of the entertainment/family room in the Walden Drive Beverly Hills residence. Part of the proceeds from the sale of this and other Mizuno properties have gone to compensate the Japanese victims of the original fraud.*

## DETECTING CRIMINAL ACTIVITY

**T**HE REACH OF TREASURY LAW ENFORCEMENT IS EXTENSIVE. PRESERVING THE INTEGRITY OF OUR NATIONAL borders, attacking drug and firearms trafficking, safeguarding our currency, pursuing tax and banking fraud, are just some of the more prominent responsibilities of the Department's law enforcement personnel. Since the Department of the Treasury is at the center of our government's financial operations, its related enforcement authorities have tended to evolve around the flows of value in our market economy, especially those flows of value that involve the national or international economy. Whether they derive from the tax centered authorities of the Internal Revenue Service, the Customs Service and the Bureau of Alcohol, Tobacco and Firearms or the original and still pivotal responsibility of the Secret Service to ensure public confidence in our medium of exchange, the daily operations of Treasury law enforcement are important to the smooth and proper functioning of the economic life of the United States.

This fundamental relationship between the Department's enforcement organizations and Treasury's key role in the national economy has resulted

in wide-ranging law enforcement responsibilities since the allure of easy and substantial profit has always been a primary criminal motivator. Aside from crimes of passion, profit is usually the goal, and always the lifeblood, of most criminal enterprise. Keeping that profit out of the economy and taking it away from those who have disregarded our rule of law has always been a basic aim of Treasury's asset forfeiture program. As such, it seeks at the federal level to deter profit motivated criminal behavior that undermines the legitimate operations of our market economy. During fiscal year 1995, seizure and forfeiture activities accompanied and supported the reach of Treasury law enforcement in a broad variety of areas.

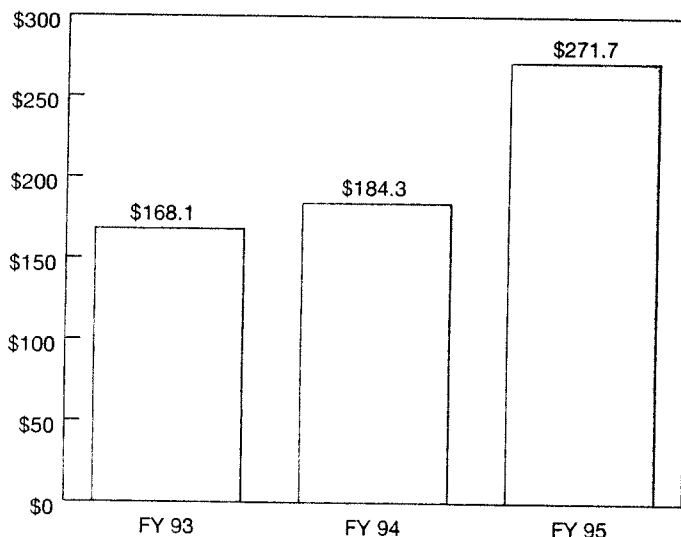
### OPERATION EXODUS—A PROGRAM IN EXPORT CONTROL

To most United States citizens, experience with the Customs Service has involved clearing customs upon return from a trip abroad and answering the question whether or not one has anything to declare. This concern with regulating the importation of goods into the U.S. is certainly one of the principal and traditional tasks of the U.S. Customs Service but imports are only one part of the international trade equation. Operation Exodus is the Customs Service effort to address its responsibilities on the export side of the trade ledger—to prevent illegal exports and/or the diversion of controlled commodities.

Exodus has been a Customs operation since October of 1981 and FY 1995 marked a particularly successful year in terms of the results achieved. During the fiscal year, there were a total of 273 arrests made for export violations, the second highest arrest total since the beginning of the program. Also, during FY 1995, Operation Exodus saw over \$46 million in seizures, with the average seizure being valued at just over \$100,000. Some of the highlights of Operation Exodus accomplishments in FY 1995 involved the following cases:

FORFEITURE FUND RECEIPTS—FY 93-95

(\$ millions)



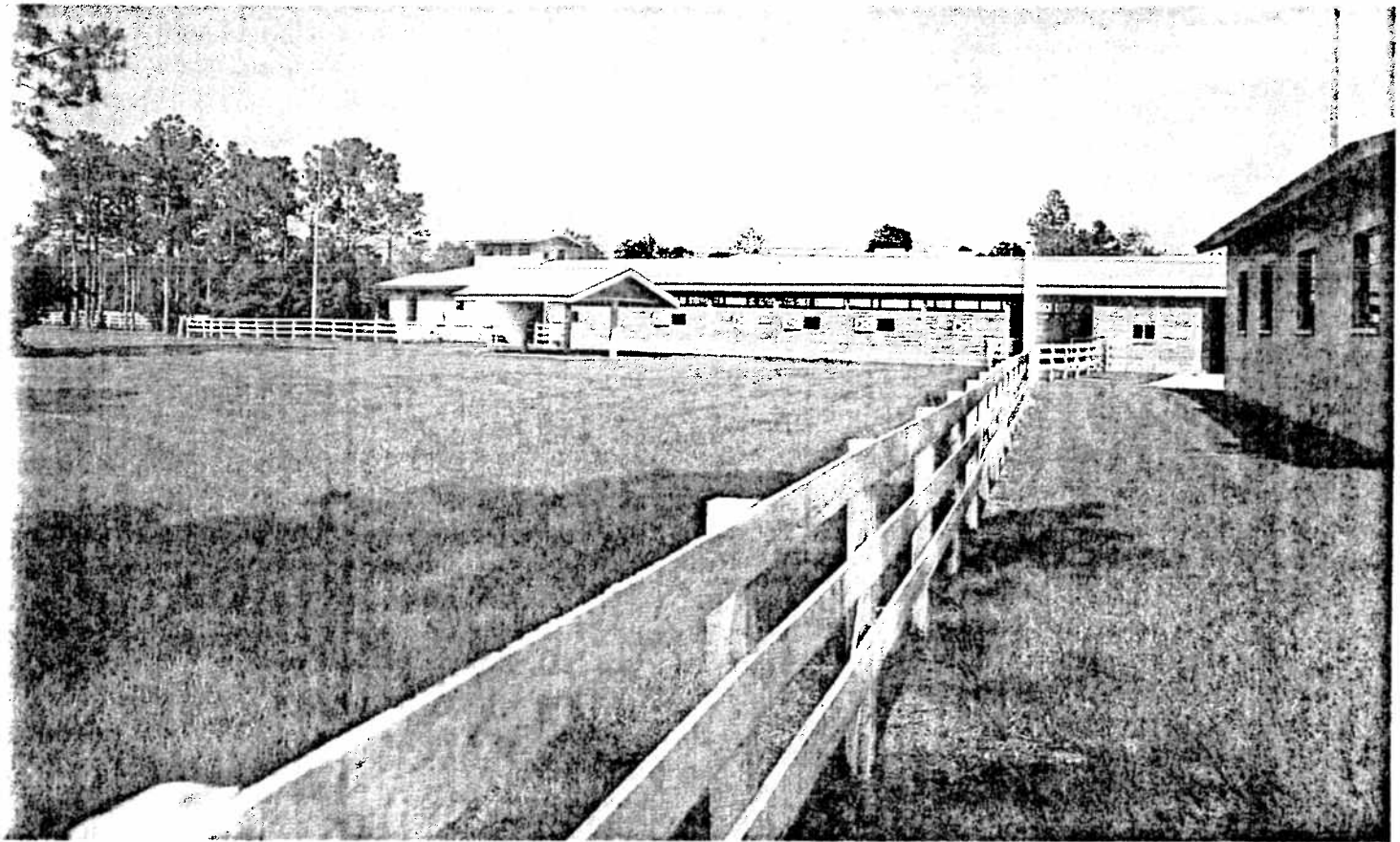


- In New York, undercover Customs agents posing as representatives of Saddam Hussein's Iraqi government, negotiated for over a year with three suspects regarding obtaining zirconium, a strategic material with various weapons applications. In June of 1995, the three New York residents were arrested on charges of attempting to illegally export the zirconium to Iraq in violation of the Iraqi sanction regulations which have been in effect since August, 1990. It is believed that the seized zirconium, a metallic element similar to titanium and used primarily to cover nuclear fuel in the core of a reactor, had been stolen in the Ukraine from the reserves of the former Soviet Union. Five tons had been brought into the U.S. via Germany and stored in a Queens warehouse, while two more tons had been shipped directly to Cyprus for forwarding to Iraq. This case represented a significant milestone in the federal government's anti-proliferation law enforcement efforts.

- In 1993, the Customs resident agent-in-charge in Lake Charles, Louisiana, began an investigation

of a company known as Smith Aviation Inc., which had licenses for the export of military aircraft parts to Germany and Saudi Arabia. The problem was that neither the governments of Germany nor Saudi Arabia had ordered the parts listed on the licenses. Working with British Customs, who had developed information that the shipments from Smith Aviation were being diverted to Iran, a search warrant was executed in the first quarter of FY 1995 which uncovered evidence that the company was also making other illegal and unlicensed exports. Smith Aviation and a British intermediate consignee had been exporting the military aircraft parts to Iran through Switzerland. The owner of Smith Aviation has pled guilty and agreed to provide testimony against the other firm in British courts.

- Export controls have not only enforced the United States trade embargo of Cuba but also, in FY 1995, have thwarted several anti-Castro planned raids and terrorist activities in that island



*Stable and paddock area from the 30 acre Double D Farm in North Fort Myers, Florida, which was sold at auction in September 1995. With access to a private air park, the property was used to smuggle an estimated 9,000 pounds of Cali Cartel cocaine into the United States between 1986 and 1992.*

nation. The Customs Service in Miami conducted an investigation that led to the conviction of two leaders of the Commandos F-4, an anti-Castro group who tried to purchase explosives and rockets to be used as underwater mines on tourist cruise ships in Havana harbor. Also, Customs agents assigned to the Joint Miami Terrorism Task Force seized numerous weapons and military equipment destined for armed incursions to Cuba and commando-type raids there.

Operation Exodus has been a significant long-term export control program of the Customs Service and owes much of its success to cooperation with other federal, state, local and international law enforcement. From addressing the critical problem of nuclear weapons proliferation to the more routine interdiction of handguns that become the instruments of foreign street crimes, the seizures resulting from Operation Exodus have had an impact in deterring criminal activity while advancing U.S. foreign policy objectives.

## ***BATTLING CREDIT CARD FRAUD***

Credit cards are ubiquitous accompaniments to the American economy. It is difficult to conceive of payment transactions before their widespread use. Along with this, however, is the substantial problem of credit card fraud with upwards of \$700 million in losses to bank card companies annually according to the American Bankers Association. In the first quarter after the end of FY 1995, a Secret Service undercover operation that was initiated in Orange County, California, nine months earlier, resulted in forty-one individuals being charged with fraud and the seizure of a vast array of criminal proceeds.

This particular fraud took advantage of a federal consumer credit regulation that requires card issuing banks to credit an account as soon as payment is received. The suspects in the case would send booster checks, checks that were considerably above the amount due and that were certain to bounce, to the card issuers and then take advantage of the temporarily increased credit line to finance shopping sprees for costly jewelry, clothing, and other merchandise. The items that were thereby fraudulently purchased were then sold for cash and the proceeds divided between the ringleaders of the operation and those who allowed their checks and credit cards to be used. Oftentimes, the cardholding individuals, having little or no income but having

charged thousands of dollars worth of goods, would end up filing for bankruptcy protection.

Indictments in the case contain criminal forfeiture counts which would allow for the forfeiture of the homes, cars and other possessions of those guilty of the fraud. The case sends a strong signal that the U.S. Secret Service working with the American banking industry will not tolerate credit card fraud.

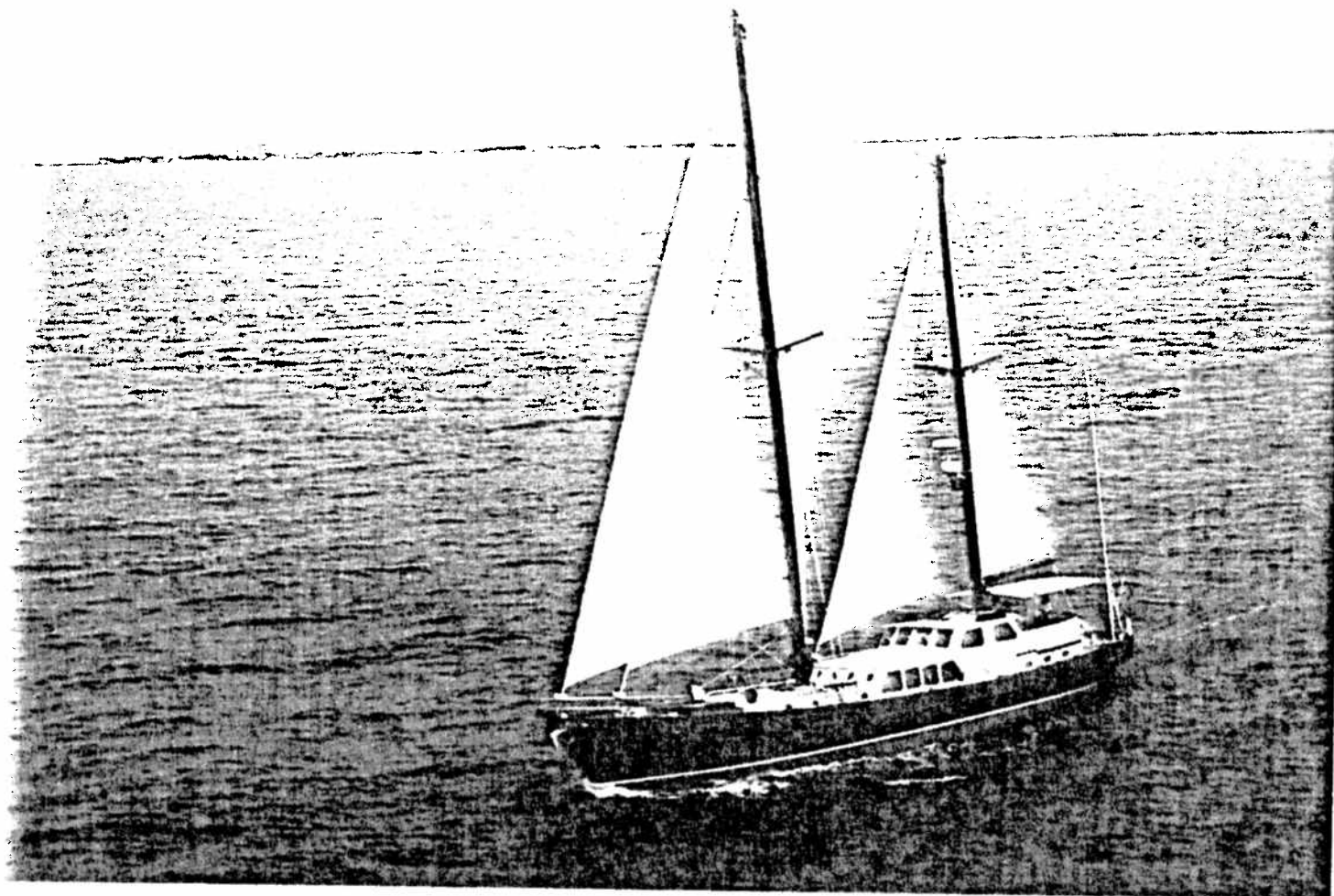
**BUREAU COLLECTIONS SUMMARY—FY 95**  
(*\$ thousands*)

| <i>Collections</i>    | <i>USCS</i>      | <i>IRS</i>      | <i>USSS</i>    | <i>ATF</i>     |
|-----------------------|------------------|-----------------|----------------|----------------|
| Currency              | \$128,099        | \$39,988        | \$1,444        | \$82           |
| Property              | 14,957           | 11,952          | 389            | 297            |
| Reverse Asset Sharing | 2,146            | 4,051           | 72             | 637            |
| <b>Total</b>          | <b>\$145,202</b> | <b>\$55,991</b> | <b>\$1,905</b> | <b>\$1,016</b> |

## ***MONEY LAUNDERING: A MOTOR FUEL TAX EVASION SCHEME***

Along Pennington Road in New Jersey's Ewing Township, just outside Trenton, was a business known as Packer Petroleum. Likely of little notice to its neighbors in this industrial stretch of the northeast corridor until it burned down in February of 1992, Packer Petroleum was actually an undercover operation run by the Criminal Investigation Division of IRS and the FBI and was instrumental in finally unmasking, by the summer of 1995, what was reportedly the largest motor fuel tax evasion scheme in U.S. history.

In the legitimate gasoline and diesel fuel business, excise taxes are paid at some point along the wholesale to retail distribution chain and the cost of the tax is passed along to gasoline and diesel fuel customers. In this scheme, however, a Brooklyn, New York firm known as Kings Motor Oil purchased hundreds of millions of gallons of tax-free home heating oil and then sold it as tax paid diesel fuel to PetroPlus Petroleum, a major motor fuel distributorship in New Jersey. When PetroPlus then turned around and sold the diesel fuel to its customers, eventually including the IRS/FBI undercover business, it charged them the requisite federal and state taxes. Instead of going to the U.S. and New Jersey state treasuries, these tax amounts were distributed among the conspirators at Kings Motor Oil and PetroPlus.



*The 80 foot ocean-going motorsailer Tangier on the waters off Fort Lauderdale. With four staterooms accommodating eight persons plus an additional crew's quarters, the vessel was seized and forfeited by the Customs Service for being purchased with the proceeds of narcotics trafficking.*

A series of sham or nominee companies were set up in the chain between Kings Motor Oil and PetroPlus for the purpose of obscuring who was responsible for paying federal and state taxes. A number of Russian emigrés participated in the scheme, using false identification, overseas bank accounts and storefront offices to create the insulating companies. The indictment in the case included charges of money laundering, wire fraud, tax evasion, extortion and a currency reporting violation. The government is seeking to forfeit at least \$11 million based upon the money laundering charges.

### **RECORD DRUG BUST ON HIGH SEAS**

A Coast Guard law enforcement detachment, working from the U.S. Navy cruiser, Cape St. George, seized in excess of twelve tons of cocaine found on a Panamanian fishing vessel in July,

1995. This was the largest maritime drug seizure ever made by U.S. law enforcement.

The Coast Guard group came upon the fishing ship, the Nataly I, approximately 800 miles off the Peruvian coast. The ship's Colombian crew consented to a search of the vessel and the Coast Guard conducted tests suggesting that cocaine was concealed somewhere on board. The next day, with the permission of the Government of Panama, the ship was re-boarded and the search for drugs began. A first sign of the formidable cache of cocaine was discovered when waste oil was drained from a storage tank revealing a hidden compartment. Upon finding the contraband, the Government of Panama authorized arrest of the crew and their removal to the United States for prosecution. The Nataly I was then brought to San Diego at the end of a Coast Guard towline.

**SEIZED CURRENCY SUSPENSE  
ACCOUNT BALANCES—FY 95**

(\$ thousands)

| <i>Bureau</i>   | <i>Beginning<br/>FY 95<br/>Balance</i> | <i>Ending<br/>FY 95<br/>Balance</i> | <i>12 months<br/>change in<br/>account balance</i> |
|-----------------|--|-------------------------------------|--|
| Customs Service | \$74,289                               | \$72,787                            | (\$1,502)  |
| IRS             | 42,198                                 | 79,869                              | 37,671   |
| USSS            | 2,766                                  | 3,998                               | 1,232  |
| ATF             | 372                                    | 1,565                               | 1,193  |
| <b>Total</b>    | <b>\$119,625</b>                       | <b>\$158,219</b>                    | <b>\$38,594</b>                                    |

In San Diego, the U.S. Customs Service off-loaded 24,325 pounds of cocaine wrapped in fifty pound parcels. The Treasury Forfeiture Fund's national seized property management contractor removed the perishables on board, inventoried the contents of the vessel and arranged for the Navy to drain and recycle its diesel fuel. The ship itself was moved to a storage facility where it awaited final disposition. Initial estimates had put the value of the vessel somewhere in the neighborhood of \$200,000.

## **TARGETING THE MULTI-LEVEL DRUG ORGANIZATION**

Its membership included financiers, manufacturers, cooks and first and second level distributors. In the legitimate economy, it might have been a purveyor of fine foods and gourmet kitchenware. Instead, it was a violent, large scale methamphetamine organization, supplying this potent, addictive stimulant in and around the City of Dallas. It was broken up in June, 1995, after a two year investigation by agents of the Bureau of Alcohol, Tobacco and Firearms and the Dallas Police Department. Undercover agents and officers infiltrated the organization setting up buys and developing the government's case against the group's members.

Along with 54 arrests, agents seized forty pounds of methamphetamine, 316 pounds of marijuana, 19 gallons of synthesized hashish oil and other ingredients used in the manufacture of illegal narcotics. Other seized items included Yamaha Jet Ski Watercraft, a Range Rover, a Lexus and a Toyota 4-Runner, night vision goggles, assorted firearms and over \$40,000 in currency.

## FOSTERING LAW ENFORCEMENT COOPERATION

**T**HE COMPREHENSIVE CRIME CONTROL ACT OF 1984 AUTHORIZED THE EQUITABLE SHARING OF FEDERALLY forfeited proceeds with state and local law enforcement agencies who contributed to the investigation that led to the forfeiture. That authority to share, which has subsequently been extended to include sharing with foreign governments who assist the United States with its investigations, has gone a long way to promote cooperation among law enforcement agencies as they pursue their common efforts against criminal activity. The ability to share forfeited assets provides a very real incentive to work together, share resources and apply different areas of expertise for best results in task force settings. It has served to emphasize the many shared goals of the different levels of law enforcement and at the same time to break down some of the jurisdictional or organizational barriers to joint initiatives that may have existed in the past.

The federal government's leading role in promoting law enforcement cooperation through asset sharing has served as a model for foreign, state and local governments to increasingly allow for the sharing of their forfeited assets with U.S. federal enforcement agencies who have contributed to their investigations. The Treasury Forfeiture Fund, therefore, both disburses payments of equitable shares to other federal, state and local law enforcement agencies as well as foreign countries and receives deposits of equitable shares that recognize Treasury enforcement or Coast Guard contributions to forfeitures under other federal, state, local or foreign law.

The dollars involved in the equitable sharing program make them probably the single most significant support of the Treasury Forfeiture Fund goal of fostering law enforcement cooperation, yet they are not the only means by which the Fund pursues this endeavor. Another important statutory authority of the Treasury Fund in this regard is its ability to pay for the overtime of state and local law enforcement officers that is incurred in joint operations with Treasury. This overtime reimbursement authority is a key contributing factor in

the success of many of the investigations in which Treasury enforcement has a lead role.

The 1995 fiscal year saw inter-agency law enforcement cooperation in a wide variety of areas both domestically and internationally. From daily and routine operational activities to high profile multi-agency cases with significant media attention, from overseas capitols to our own rural counties, suburbs and urban cores, the Treasury Forfeiture Fund served its purpose of facilitating that cooperation so vital to law enforcement's capacity to comprehensively and successfully respond to today's criminal challenge.

### EQUITABLE SHARING BY BUREAU—FY 95 (Obligations—\$ thousands)

| Bureau          | Amount*         |
|-----------------|-----------------|
| Customs Service | \$57,763        |
| IRS             | 18,636          |
| USSS            | 327             |
| ATF             | 123             |
| <b>Total</b>    | <b>\$76,849</b> |

\* Amounts shown represent obligations against FY 95 collections.

### CROSS-BORDER ASSISTANCE IN OPERATION CHOZA-RICA

When the notorious drug trafficker, Juan Garcia-Abrego, was apprehended by Mexican authorities in January of 1996 and flown to Houston as part of his extradition to the United States to stand trial, it marked a milestone in the long pursuit of an extensive criminal organization. A formidable foreshadowing blow against his illegal enterprise was delivered earlier by the U.S. Customs Service working closely with the Office of the Attorney General of Mexico, New Scotland Yard and the local Pharr, Texas, Police Department in an operation code named Choza-Rica.

Garcia-Abrego and his minions had been responsible for the smuggling of hundreds of tons of cocaine and marijuana into the United States from

Mexico when a member of the organization, Ricardo Aguirre-Villagomez, met with bankers in New York to figure out how to launder the millions of dollars in drug profits being generated. Over six years ago, a scheme was developed involving the establishment of off-shore investments, bank accounts in several foreign countries and the movement of proceeds by courier from Aguirre's *casa de cambio* or money exchange house in Monterrey, Mexico, to the First City Bank in McAllen, Texas. It was this Monterrey to McAllen link in the plan that first attracted the attention of the Customs resident agent-in-charge in McAllen.

Operation Choza-Rica received national business press coverage in FY 1995 because of the complicity of executives of American Express Bank International (AEBI) in the laundering of the money. The case included the illegal disclosure to a target by AEBI officials that Customs was investigating his accounts, the likelihood of Aguirre's faked death in a car crash so his widow could claim unwitting ownership of a portfolio of seized assets and the servicing of several London bank accounts by New Scotland Yard that was critical in maintaining the undercover operation.

A little less than a year before Garcia-Abrego was himself apprehended, Choza-Rica had already levelled a hit against his criminal business that resulted in 32 indictments, 23 arrests, 19 convictions and seizures with a value of approximately \$64 million. In FY 1995, to acknowledge the important contributions from the several enforcement agencies and foreign governments to Customs forfeitures then totalling in excess of \$33 million, the Department of the Treasury approved equitable shares for the Drug Enforcement Administration, the Office of the Mexican Attorney-General, Britain's Metropolitan Police New Scotland Yard and the police department of the City of Pharr, Texas.

**EQUITABLE SHARING COLLECTIONS  
SUMMARY—FY 95**  
(\$ thousands)

| <i>Receiving Bureau</i> | <i>FBI</i>     | <i>DEA</i>     | <i>USPS</i> | <i>Other*</i> |
|-------------------------|----------------|----------------|-------------|---------------|
| Customs Service         | \$288          | \$1,849        | \$0         | \$9           |
| IRS                     | 2,493          | 1,537          | 21          | 0             |
| USSS                    | 9              | 40             | 23          | 0             |
| ATF                     | 94             | 499            | 0           | 44            |
| <b>Total</b>            | <b>\$2,884</b> | <b>\$3,925</b> | <b>\$43</b> | <b>\$53</b>   |

\* Includes equitable sharing payments received from a state or local government.

## **SHARING TO HELP VICTIMS OF ABUSE**

The trade in illegal drugs has negatively impacted the lives of countless individuals but in Douglas, Arizona, forfeited assets of real property are offering shelter and hope for victims of domestic violence thanks to the equitable sharing authority of the Treasury Forfeiture Fund.

Six years ago, the international commerce between Douglas and the City of Agua Prieta on the other side of the Mexican border was being clandestinely augmented by a 200 foot tunnel that was used to move drugs from Mexico into the United States. The Customs Service received information that there might be more than simply commuting convenience between the proximate locations of two businesses in Douglas and the home of their owner on the other side of the international fence in Agua Prieta. Francisco Raphael Camarena ran the building supply and concrete companies in Douglas that shared a square block directly across the border from his residence. When Customs agents first searched a tractor-trailer parked at the business site, they found it loaded with over a ton of cocaine. A further search of the business revealed the northern terminus of a tunnel concealed under the false floor of a warehouse drain. The southern portal came up in what purported to be a recreational outbuilding behind Camarena's home and was masked by a pool table atop a concrete slab that could be raised or lowered by hydraulic lifts.

On June 16th, 1995, the Customs Service turned over the forfeited square block of property on the American side to the City of Douglas through an equitable sharing with the municipal police department who had assisted with the case. The transfer was done through the Weed and Seed program to further the goal of turning criminal property to productive community use. An office building on the site will serve as the shelter and be operated by the Douglas Task Force to Stop Domestic Violence.

## **IRS INVESTIGATIVE SUPPORT FOR THE COMMONWEALTH OF PUERTO RICO**

In the summer of 1993, an agent of Puerto Rico's Special Investigation Bureau took the initiative in looking at a criminal organization on the island



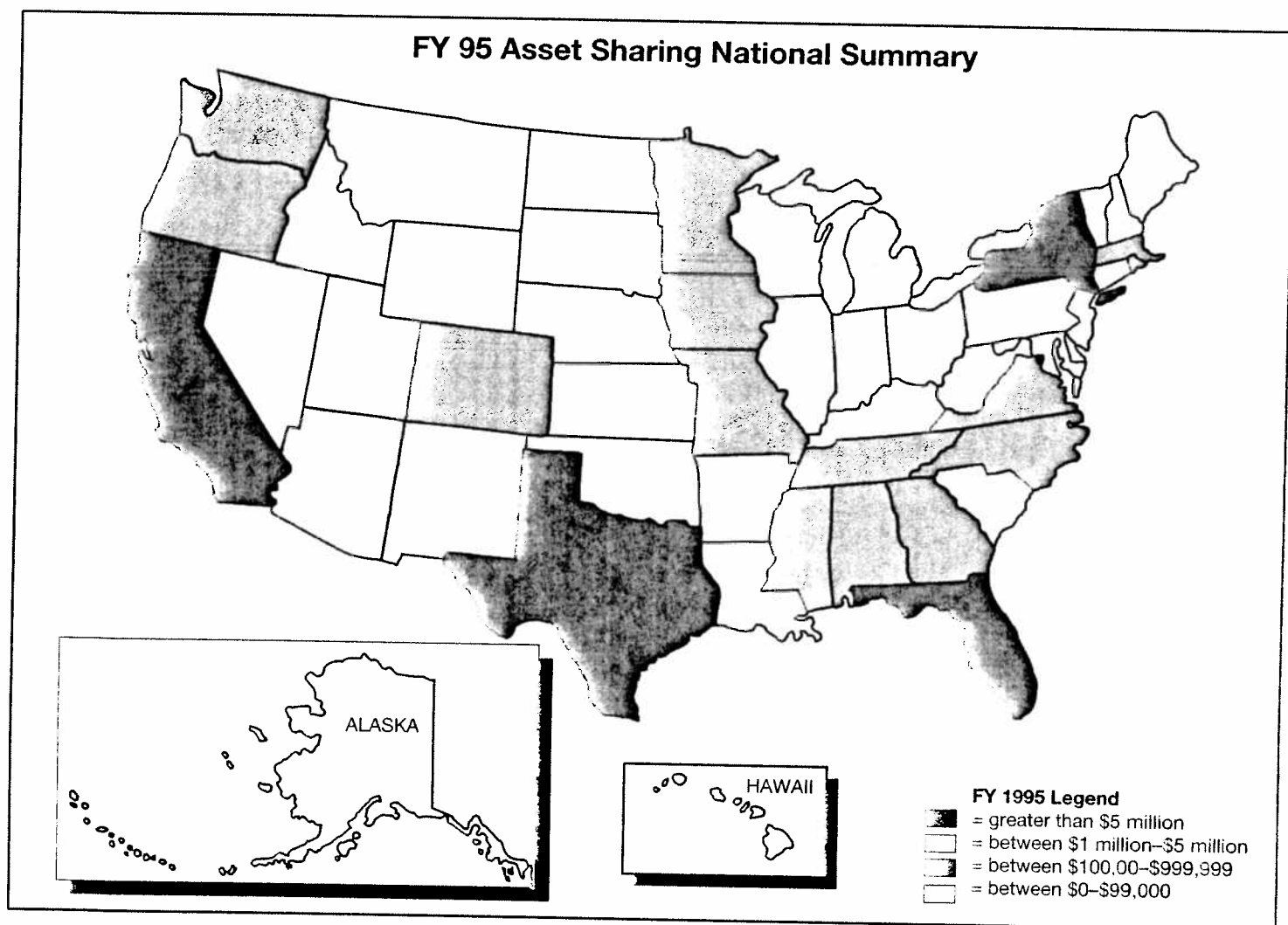
implicated in narcotics and weapons trafficking, murder and money laundering. The agent enrolled cooperating informants, corroborated their information and supervised an undercover operation. Not long after the investigation began, the expertise of the Criminal Investigation Division of IRS was called in to show how the target laundered money by purchasing real estate and prized lottery tickets.

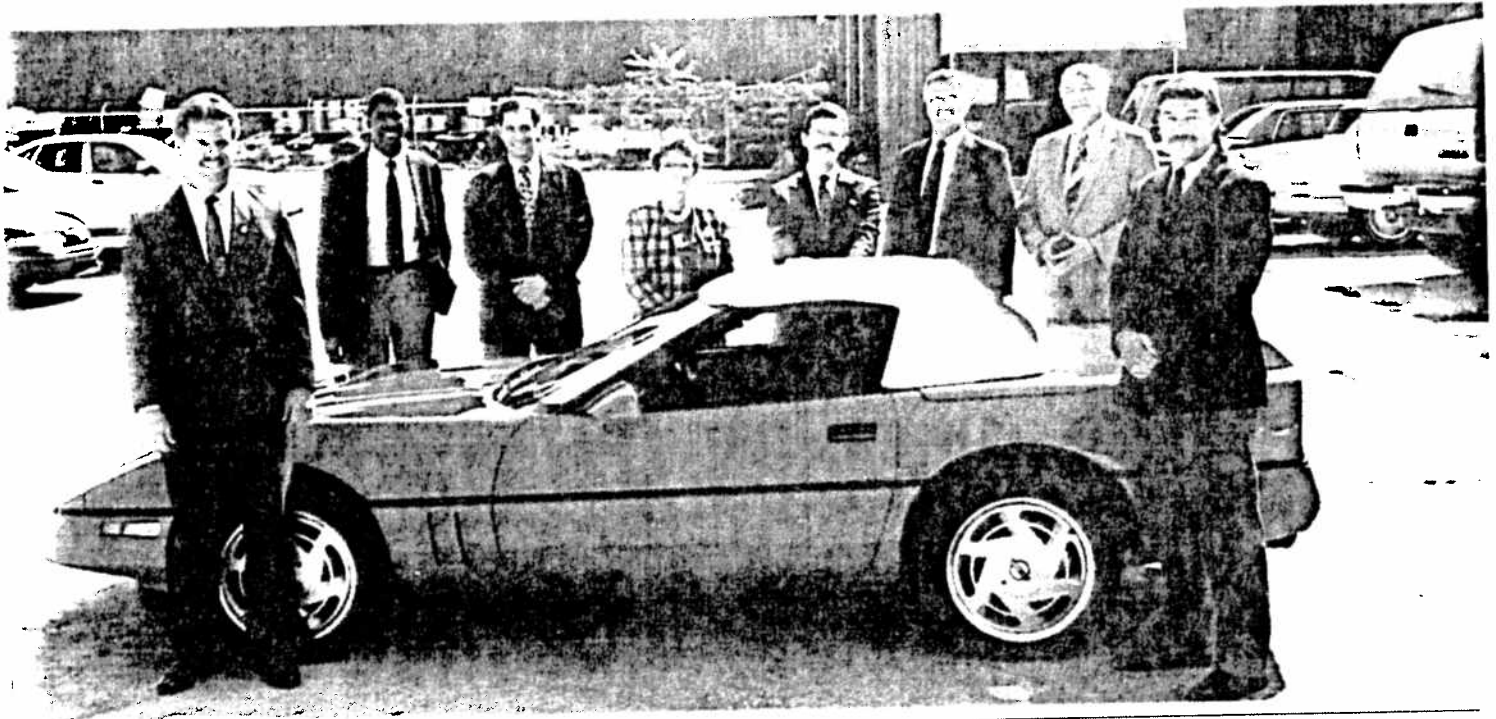
By the end of 1994, property with an aggregate value of more than \$2 million had been seized including bank accounts, certificates of deposit, residential properties, a 140 acre farm, 125 head of cattle and about an equal number of fighting game cocks. IRS lent the financial analysis that supported the seizures for violations of federal money laundering statutes. The efficient division of labor between the Commonwealth's enforcement agency and the IRS Criminal Investigation Division with its authorities and specialized skills has been ac-

knowledgeed in this instance by the approval of a 70 percent share of the net proceeds of forfeiture for Puerto Rico's Special Investigation Bureau.

## ***TRAFFICKING FOOD STAMPS ALONG THE GULF COAST***

As FY 1995 drew to a close, Secret Service agents from the Mobile, Birmingham, Jackson and New Orleans offices arrested twelve Vietnamese store owners and their employees on food stamp fraud and related money laundering charges. The investigation had begun about a year and a half earlier when it was noted that certain stores in the Pensacola area were redeeming food stamps in amounts large enough to cover anywhere from 95 to 120 percent of their food sales. In these types of discounting operations, food stamps are exchanged for cash, usually at a mere fraction of their value. When undercover agents started sell-





*A 1989 red Corvette convertible seized and forfeited by the Criminal Investigation Division of the Internal Revenue Service in a drug paraphernalia and money laundering case. The forfeited vehicle was presented to the Polk County Iowa Sheriff's Office in recognition of their contributions to the investigation leading to forfeiture.*

ing food stamps to these stores, it was learned that the profits generated were then being laundered through a network of Vietnamese grocers spread across the coast from Florida to Louisiana.

When the Secret Service made the arrests, they were assisted by other Treasury agents from ATF and IRS along with officers from the Florida Department of Law Enforcement, the Escambia County Sheriff's Department, the Florida Division of Alcohol, Beverage and Tobacco and the Office of the Inspector General of the U.S. Department of Agriculture. Protective orders, similar to temporary restraining orders, were served on the owners of all the food stores to preserve the government's interest in the properties pending criminal forfeiture. In related earlier raids, over a quarter of a million dollars in cash, jewelry and genuine food stamps were seized for forfeiture.

## **NEW YORK CITY FIRES AND A BOMBING OUTSIDE BALTIMORE**

Besides sharing from the proceeds of forfeited property, the Treasury Forfeiture Fund also fosters law enforcement cooperation through its ability to reimburse state and local governments for certain expenses incurred in joint law enforcement operations. Three cases from the Bureau of Alcohol,

Tobacco and Firearms provide examples of how this authority was instrumental in FY 1995 in helping to defray the immediate and critical post-incident overtime costs of two arson fires in New York and a hauntingly tragic bombing in Essex, Maryland.

- Manhattan's renowned Fulton Fish Market is a key wholesale distribution point for much of the seafood consumed along the east coast. Long suspected of being infiltrated and influenced by organized crime elements, the market became the target of a crackdown announced by New York City Mayor, Rudolph Giuliani, in late March of 1995. Only days later, the building housing the market was heavily damaged in a fire of suspicious origin. An ATF task force including investigators from the New York City Police and Fire Marshal's offices was formed to examine the cause and circumstances of the blaze, and ATF was able to channel over \$7,000 to the NYPD from the Treasury Fund to meet overtime costs and ensure crucial continuity in the investigation.

- Another New York City landmark wracked by fire in 1995 was the St. George Hotel. Originally built in 1885, the St. George at 51 Clark between Henry, Pineapple and Hicks Streets in Brooklyn Heights had come into its own by 1930 with the



addition of architect Emery Roth's 400 foot high tower, bringing what critics considered skyscraper sophistication to a hotel outside Manhattan. By the end of August, 1995, the St. George along with the remnants of its 11,000 sq. ft. and three story high ballroom, a paeon to Jazz Age stylishness, was seriously damaged from one of the largest fires in New York City history. The fire itself had gone to eighteen alarms and required hundreds of pieces of equipment to bring it under control. Again, ATF along with city police and fire marshals worked around the clock on the fire investigation and about \$10,000 in Treasury Forfeiture Fund money was able to support the city's contribution to this effort.

- The Middlesex Shopping Center is a strip mall on Eastern Boulevard in Essex just outside of the City of Baltimore. In September, it was supposed

to be the destination of a back-to-school shopping trip for a father, his estranged wife and their three children but instead became the site of a suicide-murder when the father detonated a powerful bomb in the family station wagon, killing himself, his wife and all three children—a boy of six and two girls ages eleven and four. The force of the blast obliterated the vehicle, scattering debris over the roof of the mall and into nearby woods. Shortly after the explosion, Baltimore County police and ATF bomb experts went to work to reconstruct just what had happened at the shopping center to shatter the early evening routine along with the lives of five individuals. The immediate post-blast probe into the bombing involved significant local overtime expense and the Treasury Forfeiture Fund, through ATF, was able to reimburse the Baltimore County Police Department for part of the costs of their personnel.

## CHAPTER 4:

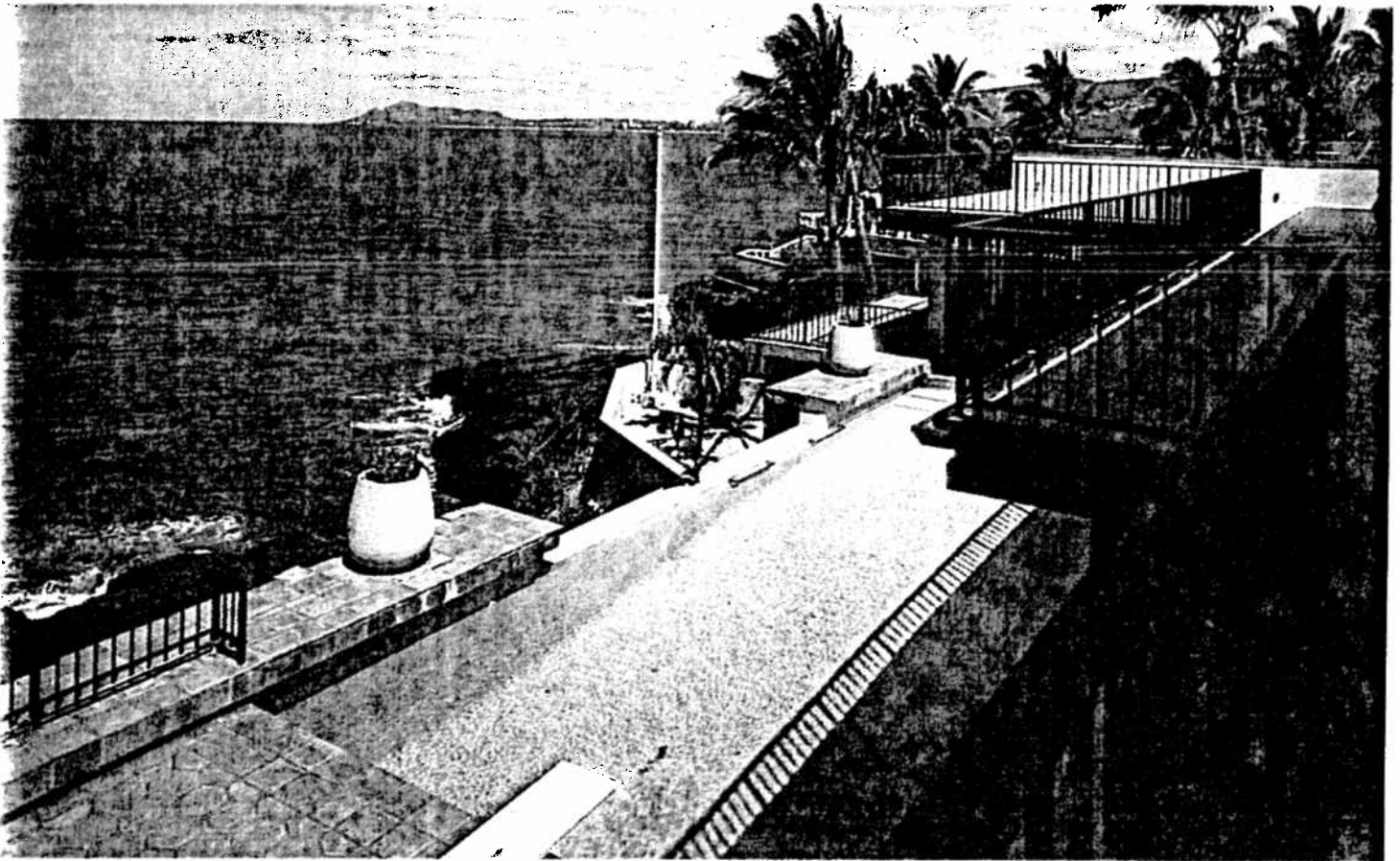
# STRENGTHENING LAW ENFORCEMENT

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**T**here was a time not too long ago, before the creation of today's federal asset forfeiture funds, when forfeiting criminal assets was likely to be a drain on law enforcement resources. Proceeds of forfeiture went to the general fund and the costs of seizing property and managing it through final forfeiture and disposition were borne out of the normal appropriations for salaries and expenses available to a federal law enforcement agency. The more that was seized, the more these expenses mounted. The more time special agents had to devote to property management issues outside of their vocation and training, the less time they had available for their primary enforcement missions.

Seizing property meant that both time and money had to be obligated and taken out of already limited resources for tasks that were often unfamiliar and distracting.

The creation of federal asset forfeiture funds with enactment of the Comprehensive Crime Control Act of 1984 along with subsequent related fund legislation has done much to turn around that previous situation. Today, the Treasury Forfeiture Fund is a repository for retention of the value of Treasury forfeitures. This retained value is then invested in a variety of ways to strengthen law enforcement at all levels of government. Whether it is equitably shared with state and local



*Commanding a classic view of Diamond Head and Maunalua Bay, this Honolulu residence featured such amenities as a Spanish tiled lanai or patio by the pool as well as a 156 bottle temperature controlled wine vault. Forfeited as part of a U.S. Customs case for violations of money laundering statutes, it was sold at auction in September 1995.*

police and foreign governments in recognition of their participation in joint investigations, or used to pay contractor employees to do the program support and property management work so necessary to free up investigators' expertise to attend to their primary duties, or channeled back to Treasury enforcement bureaus to cover their direct forfeiture expenses and more generally support their seizure and forfeiture programs, or even contributed from certain fund surpluses to the promotion of the national anti-drug effort, the Treasury Forfeiture Fund is constantly about the work of strengthening law enforcement. A sampling of some specific FY 1995 examples in this area should give some idea of the breadth of Fund accomplishments in pursuit of this goal.

### ***COMBATTING VIOLENT STREET CRIME IN THE NATION'S CAPITOL***

Behind the White House and the national monuments commemorating the famous and the dead, behind world class museums and the headquarters of federal agencies, behind the imposing dome of the Capitol Building and network news anchors reporting against that backdrop, lies the City of Washington and the struggle of its residents with many of the violent criminal activities that challenge our nation's urban centers. Operation Ceasefire, a citywide gun seizure program, is part of the District of Columbia's response to this challenge and involves important contributions from the Bureau of Alcohol, Tobacco and Firearms supported by the Treasury Forfeiture Fund.

Ceasefire's goal is to reduce gun-related violence to pre-1986 levels, the time before crack cocaine trafficking brought record numbers of illegal weapons into the city. Gun squads of from six to eight Metropolitan Police officers, accompanied by an ATF agent operate in six of the city's seven police districts. Their purpose is to seek out and seize illegal handguns with a view toward extracting as much investigative information as possible from these seizures. Recovered handguns are examined and compared in an effort to link weapons to crimes and to determine a gun's place of origin and the trail it followed in eventually getting to the streets of D.C. The Treasury Forfeiture Fund has underwritten this key analytical phase of the operation through its funding of ATF's own, and similarly named, Ceasefire technology, a sophisticated computerized system that inventories, iden-

tifies and matches bullet projectiles, as well as through the acquisition of recent database enhancements at ATF's National Firearms Tracing Center in Martinsburg, West Virginia.

### ***ENABLING STATE AND LOCAL POLICE IN NEW YORK, CALIFORNIA AND FLORIDA***

The ability of the Treasury Fund to share the forfeited proceeds of crime with state and local law enforcement agencies which assisted in an investigation recognizes the valuable contributions they make to the total effort leading to forfeiture and paves the way for future cooperation. The requirement that these shared amounts then be used for law enforcement purposes enables many state and local police agencies to strengthen their programs and initiatives in ways that may not have been options absent these additional resources. Examples from three of our most populous states demonstrate how FY 1995 monies from the Treasury Forfeiture Fund not only benefit Treasury enforcement bureaus but also the state and local departments with whom they work and serve.

- **The New York State Police**—For years, the State Police in New York have been supported by their forensic laboratory in Albany. Over time the lab's capacity to keep up with increasing investigative demands, advancing technologies and newer and higher standards for such facilities has been tested. Now, thanks in part to equitable sharing payments received from the Treasury Forfeiture Fund, the State of New York is building a brand new, state-of-the-art Forensic Investigation Center that will meet all current standards for forensic science laboratories and bring in, under one roof, other associated disciplines to aid investigations. Since almost half of the work of the State Police lab serves the needs of county and municipal authorities in New York, this new center will strengthen all of the state's criminal justice system.

- **Orange County's Regional Narcotics Suppression Program (RNSP)**—A task force of over fifty officers from twenty-one city, county and federal agencies represents a main weapon in this California jurisdiction's fight against drugs. Shared amounts from the Treasury Forfeiture Fund have been used not only to supplement the supply interdiction sides of member budgets but also to help in educating youths to resist the lure of drugs

and gangs. These funds have offset the costs of materials and supplies in the County Sheriff's Department's *Positively kNOW Drugs* curriculum and have allowed that department's drug education unit to get its message to tens of thousands of county schoolchildren from kindergarten through sixth grade.

- **West Palm Beach Police Department**—Beneficial ripple effects for the community are apparent in some of the uses of Treasury shared assets by the police in Florida's West Palm Beach. After using these funds to purchase upgraded and enhanced computer systems for the department, the prior equipment was transferred to city owned neighborhood recreation facilities where it remains serviceable teaching computer skills and applications to the city's youth. Additionally, these Treasury Fund resources were able to sufficiently augment the police budget to allow for a department contribution from state forfeitures, in excess of that required by the state, to support drug abuse education, crime prevention and safe neighborhood programs.

## ***APPLYING SCIENCE AND TECHNOLOGY IN THE SECRET SERVICE***

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Between its own protective and investigative missions, the United States Secret Service has work to keep its Forensic Services Division occupied. The reputation for talent and expertise of the Division's researchers and investigators, however, has also made it a valuable resource for other parts of the government beyond the Department of the Treasury. In FY 1995, the Division added to its list of accomplishments due, in notable measure, to technology acquisitions paid for out of the Treasury Forfeiture Fund.

- **Uncovering War Criminals Half a Century Later**—The Division's Questioned Document Branch probably knows more about inks, papers and printing processes than most people could possibly imagine. Thanks to forfeiture funded equipment that replaced outdated and unserviceable technology, the branch was able to act on a referral from the Department of Justice's Office of Special Investigations and show that papers purported by a suspect to be of more recent vintage were actually World War II era documents showing involvement in Nazi concentration camps.

- **Falsifying AIDS Research**—The Questioned Documents Branch in another referred case, this time by the Department of Health and Human Services, used a Treasury Forfeiture Fund supplied thin layer chromatography and densitometry system to show that a primary AIDS researcher receiving funds from the National Institute of Health had falsified up to 25 percent of a notebook supporting publication of his findings. The case was brought to the attention of the House Subcommittee on Oversight and Investigations and due to the Secret Service analysis, all research money to the recipient was terminated.

- **Selling Expired Baby Formula**—A Food and Drug Administration case was referred to the Division in which the popular baby formula, Similac, was being removed from store shelves, re-stamped with a new expiration date, and re-sold to the public. The ink used to re-stamp the bottoms of the cans of formula was compared to a number of inks recovered from the trash of a principal suspect. When one of the inks in the trash sample seemed to match, this preliminary finding was confirmed by the chromatography and densitometry system, acquired courtesy of the Treasury Forfeiture Fund.

## ***CONTRIBUTING TO THE OFFICE OF NATIONAL DRUG CONTROL POLICY***

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For the second straight year, the Treasury Forfeiture Fund was able to draw from certain of its surpluses to contribute to the Office of National Drug Control Policy (ONDCP). Commonly referred to as the office of the Drug Czar, ONDCP is part of the Executive Office of the President and from that vantage point it reviews, coordinates and assists the many federal efforts aimed at cutting the flow of drugs into America and reducing American demand for drugs. This contribution of excess Treasury funds totalled approximately \$22 million for the 1995 fiscal year.

## ***REACHING OUT TO INTERNATIONAL LAW ENFORCEMENT***

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When President Clinton addressed the fiftieth anniversary meeting of the United Nations in New York in October, 1995, he cited the globalization of criminal activity and the threat that this poses to national security interests. The President's remarks regarding such threats as illegal arms and drug trafficking, money laundering, the spread of

weapons of mass destruction and terrorism reaffirmed what have been Department of the Treasury priorities and concerns in international enforcement for a number of years. As organized criminal elements operate with less and less regard for national boundaries, a cooperative international response is crucial to adequately meet these threats. In FY 1995, the Treasury Forfeiture Fund discretionary payment authority was used to further develop such a response by funding combined Treasury bureau presentations and training on asset forfeiture and money laundering to foreign enforcement agency counterparts in Israel, Japan and South Africa.

- **Jerusalem**—Meetings with the Israeli National Police focused on the problem of laundering criminal proceeds in financial transactions between Israel and the United States. Follow-on actions that were also assisted by the Treasury Fund included refining proposals for Israeli asset forfeiture and anti-money laundering legislation and laying the groundwork for targeted joint investigations.

- **Tokyo**—This forfeiture funded training was conducted with Japan's National Police Agency and established protocols for exchanges of informa-

tion as well as the implementation of reciprocal initiatives. Some of these initiatives include exchanging selected enforcement personnel to work several rotations within the hosting organization.

- **Pretoria**—The Treasury Fund allowed for a demonstration of its usefulness to the South African Police Service, which was particularly interested in the forfeiture fund model as a means of strengthening that country's law enforcement. Exchanges on asset forfeiture and money laundering produced a basis for further cooperation in combatting the trade in illegal firearms and pursuing other investigative and training efforts.

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Apart from these combined Treasury enforcement bureau presentations to their operational colleagues overseas, the Treasury Forfeiture Fund also lent its resources in FY 1995 to restoring and ensuring democratic governance in Haiti. The Bureau of Alcohol, Tobacco and Firearms, the Secret Service and Treasury's Federal Law Enforcement Training Center all used amounts of forfeited monies to help develop the Haitian police organization into a professional law enforcement agency capable of preserving public order in a democratic setting.

# PROGRAM PERFORMANCE AND FINANCIAL HIGHLIGHTS

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## PROGRAM PERFORMANCE

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In FY 95, the Fund developed and put into place performance measures to monitor major seizure and forfeiture operations. In FY 95, these measures were: (1) monitoring the processing time for equitable sharing payments; (2) measuring the time for disposing of forfeited property; (3) calculating maintenance costs of sold assets; and (4) monitoring administrative seizure cases greater than nine months. (For the performance measures presented in this section, no comparison data are available for FY 1994, since a system had not yet been developed to track this information.)

### *Processing Time for Equitable Sharing Payments*

Equitable sharing of Fund revenue is one of the most visible operations of the Executive Office for Asset Forfeiture (EOAF). State and local law enforcement agencies derive a valuable benefit from equitable sharing proceeds which assists them in ongoing operations to combat drug trafficking and violent crime. In FY 1995, the average time between forfeiture and the issuance of an asset sharing check was approximately **8 months**. The EOAF management believes this time interval can be shortened significantly. Much of the delay is associated with an elaborate approval process within some bureaus, before a request to process an asset sharing check reaches the Fund. EOAF plans to work with the bureaus during FY 1996 in an effort to speed the processing of these important payments.

### *The Average Time Between Forfeiture and Disposal of Real Property*

The timely processing of forfeited assets through auction is deemed significant because of the need to reduce maintenance, storage, and holding costs of assets in inventory. Due to the large number of assets in the forfeited inventory (over 7,000 items), Fund management decided to focus initially on a class of high value assets — real property. During

FY 1995, the average time between forfeiture and disposal of real property was **7 months**. Given the complex nature of these transactions, this interval seems reasonable. However, the Fund management will be working to identify ways of improving this performance during FY 1996.

### *Maintenance Costs of Assets Sold as a Percent of Sales Revenue*

Fund management is concerned that maintenance costs for property held in inventory be kept as low as possible, without jeopardizing the value of property prior to sale. In FY 1995, maintenance costs incurred by the seized property contractor as a percentage of gross sales revenue was only about **0.7 percent**. This ratio of maintenance costs to sales is in an appropriate range. (This statistic does not include salaries and other property maintenance costs which may be expended by individual bureaus before the property is consigned to EG&G.)

### *Age of Administrative Seizure Inventory*

To ensure that revenue is collected timely, as well as protect the due process rights of citizens, a goal of the forfeiture program is to process administrative cases quickly. A standard established by the Fund for the timely completion of administrative cases was 9 months for the Customs Service and 6 months for all other enforcement bureaus. On this basis, during FY 1995 approximately **49 percent**<sup>1</sup> of Treasury cases could not meet the standard established by the Fund. However, about three-fourths of these items were ATF cases, principally associated with illegal weapons. When ATF is factored out, only **23 percent** of administrative cases could not meet the Fund's timeliness standard.

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<sup>1</sup> EOAF Directive 26 outlines the procedures for calculating these data. IRS does not report to EOAF the detailed explanations associated with each administrative case taking longer than six months to resolve. IRS data are included in the summary statistics reported here, but even if these data were excluded, the percentages reported would not change.

## FINANCIAL HIGHLIGHTS

The following provides a brief explanation for each major section of the audited financial statements accompanying this report for the fiscal year ended September 30, 1995. These statements have been prepared to disclose 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, be advised that direct comparisons are not possible between figures found in this report and similar financial concepts found in the fiscal year 1994 and fiscal year 1995 *Budget of the United States Government*. Further, the notes to the financial statements and the independent auditor's opinion and report on internal controls and compliance with laws and regulations are also integral components to understanding fully the financial highlights of Fund operations highlighted in this chapter.

### Revenues and Financing Sources

A comparison of revenues and financing sources (in millions) for the past two fiscal years is shown in the table below.

| REVENUES AND FINANCING SOURCES<br>(\$ millions)            |              |              |
|--|--------------|--------------|
|  | 1995         | 1994         |
| Forfeited currency<br>and monetary instruments             | \$146        | \$154        |
| Forfeited property   | 75           | 20           |
| Payments in lieu<br>of forfeiture                          | 7            | 14           |
| Reimbursed costs   | 3            | 3            |
| Proceeds from participating<br>with other Federal agencies | 8            | 4            |
| Interest   | 7            | 2            |
| Other miscellaneous  | 6            | 1            |
| <b>Total</b>   | <b>\$252</b> | <b>\$198</b> |

### • Currency and Monetary Instruments

The Fund's primary source of revenue is forfeited currency and monetary instruments. For FY 1995, revenue from forfeited currency and monetary instruments, totaled \$154 million, or 61 percent of total revenues, versus \$158 million (80 percent) in FY 1994. This amount includes revenues from participating in joint investigations with other federal agencies of \$8 million, or 3 percent, versus \$4 million, or 2 percent of total revenues and financing sources in FY 1994.

### • Forfeited Property

The net revenue from the sale of forfeited property (net of mortgages) was \$75 million in FY 1995 and \$20 million in FY 1994. The increase of 275 percent is primarily attributable to the sale of properties associated with the final disposition of a significant Customs' case, *United States v. Ken International*. This case involved the disposition of property with a gross value of close to \$60 million. In addition to property sales, \$9 million of property was placed into official use by state, local, and federal agencies in FY 1995.

### • Payments in Lieu of Forfeiture

After property is seized for forfeiture, the government may enter into negotiations with the violator for a cash payment to settle the pending case, instead of proceeding with the formal forfeiture process. Such payments in lieu of forfeiture totalled \$7 million in FY 1995, a decrease of \$7 million from FY 1994.

### • Interest

The Fund is authorized to invest cash balances in certain special Treasury securities. At September 30, 1995, investments totalled \$120 million. This included \$35 million invested from balances of the Fund, and \$85 million invested in seized balances, which were not yet forfeited. Interest income earned on these investments totalled \$7 million, an increase of \$5 million, or 71 percent, over FY 1994.

### Allocation of Revenues

A comparison of allocation of revenues (in millions) for the past two fiscal years is shown in the table that follows.

The total revenues allocated from the Fund increased to \$112 million in FY 1995. Most of this increase is attributable to \$38 million in restitution that was paid by the Fund to the Federal Bank-



ruptcy Court to reimburse innocent victims of fraud. These victims lost money in a major money laundering case, previously cited, of *United States v. Ken International*. In addition, much of the revenue collected was distributed to state and local law enforcement agencies, foreign governments, and other federal agencies. For FY 1995, such distributions totalled \$74 million, or 66 percent of the total revenue allocated.

#### ALLOCATION OF REVENUES (\$ millions)

|                          | 1995            | 1994           |
|--------------------------|-----------------|----------------|
| State and local agencies | \$58            | \$53           |
| Foreign countries        | 7               | *              |
| Other federal agencies   | 8               | 7              |
| Victim restitution       | 39              | 0              |
| <b>Total</b>             | <b>** \$112</b> | <b>** \$61</b> |

\* Less than 500,000

\*\* Columns do not foot due to rounding of amount.

### 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 associated with the disposition of forfeited property. Operating expenses increased \$22 million in FY 1995. A comparative summary of operating expenses (in millions) of the Fund is given in the following table.

#### OPERATING EXPENSES (\$ millions)

|   | 1995            | 1994           |
|---|-----------------|----------------|
| Property contractor                               | \$28            | \$30           |
| Purchase of evidence and information              | 17              | 20             |
| Payroll costs                                     | 12              | 10             |
| Super Surplus                                     | *               | 0              |
| Secretary's Enforcement Fund                      | 4               | 4              |
| Equipment to support forfeiture program           | 17              | 7              |
| Specialized contracts                             | 22              | 7              |
| Joint operations with state and local governments | 4               | 3              |
| Case related and program management               | 6               | 8              |
| <b>Total</b>                                      | <b>** \$111</b> | <b>** \$89</b> |

\* Less than 500,000

\*\* Columns do not foot due to rounding of amounts.

### • Property Contractor

The single largest operating expense of the Fund is for the storage, maintenance and disposal of real and personal property. This function is performed by a private firm, EG&G Dynatrend, under contract to the U.S. Customs Service. EG&G provides coverage for Treasury's forfeiture program through a nationwide system of 17 warehouse facilities as well as supplemental facilities provided by vendors under contract to EG&G. In FY 1995, EG&G expenses were approximately \$28 million, somewhat less than the prior year.

### • Purchase of Evidence and Information

Expenses for the purchase of evidence and information totalled \$17 million in FY 1995. Most of these costs are incurred as investigative expenses and are authorized under the Fund's permanent indefinite authority. Such expenses are asset-specific and may be traced to individual seizures. In addition, some purchases of evidence and information are authorized as a discretionary expense of the Fund and need not be tied to a specific seizure. Although these expenditures are helpful in investigating laws enforced by the Treasury Department, many of these payments are related to the seizure of illegal narcotics, which do not result in revenue to the Fund.

### • Payroll Costs

Payroll costs totalled \$12 million in FY 1995. Approximately two-thirds of these expenses provided reimbursement for 146 employees of the Customs Service. Most Customs employees reimbursed by the Fund are Seized Property Custodians or Specialists who process seized property into inventory before it is turned over to EG&G, or who maintain custody of sensitive property, such as narcotics. In addition to these Customs employees, the Fund also reimburses a portion of the salaries of approximately 40 IRS employees who help manage the seizure and forfeiture program. Finally, the Fund pays the salaries of all 20 employees of the Executive Office for Asset Forfeiture.

### • Super Surplus and the Secretary's Enforcement Fund

Super Surplus expenses totalled \$399,000 in FY 1995. No Super Surplus funding was available in FY 1994. The Super Surplus is one of the Fund's permanent spending authorities, authorized under



31 U.S.C. § 9703(g)(4)(B). At the end of each fiscal year, after reserving the Fund's authorized retained capital of \$50 million, one-half of the remaining Funds are appropriated as the Super Surplus — available to the Secretary of the Treasury for any federal law enforcement activity.

Expenses of the Secretary's Enforcement Fund (SEF) totalled \$4 million in FY 1995, approximately the same level as FY 1994. As with the Super Surplus, the SEF is another one of the Fund's permanent spending authorities. The SEF is authorized under 31 U.S.C. § 9703(b)(5) and is derived from asset sharing revenue received from the Justice Department or the U.S. Postal Service. Such revenue represents Treasury's share of forfeitures that resulted from joint investigations with these departments. The SEF is available without fiscal year limitation for any Treasury law enforcement purpose.

#### • Equipment to Support Forfeiture Program

Expenses in this category totalled \$17 million in FY 1995, an increase from the FY 1994 level of \$10 million. Generally, most of these expenses are provided for under the Fund's discretionary authority, which authorizes equipment for federal law enforcement vehicles, as well as communications equipment, protective equipment, and certain types of laboratory equipment. Discretionary spending is authorized by the Fund's annual appropriation.

#### • Specialized Contracts

The Fund is authorized to pay for certain contracts which support Treasury's forfeiture program. In FY 1995, these expenses totalled \$22 million. Included in this total were the costs of the Consolidated Assets Tracking System (CATS), contract employees who help identify assets to be forfeited, ADP systems, training, and expenses associated with the destruction of narcotics. In FY 1994, many of these expenses were provided for under the Fund's limited annual appropriation. Effective in FY 1995, however, these kinds of contract services were authorized from the Fund's permanent authority. Further, a significant portion of the increase from FY 1994 to FY 1995 is associated with prior year budgetary obligations which were liquidated during FY 1995 and recognized as expenses.

#### Assets

A summary of the assets (in millions) of the Fund as of September 30, 1995 is presented in the following table. **Undistributed Funds and Fund bal-**

**ances with Treasury and cash** totals \$220 million at September 30. This balance fluctuates based on the timing of deposits of forfeited currency into the Fund and distributions of forfeited currency shared with local, state, and foreign law enforcement agencies. At September 30, the Fund had **investments** in Treasury securities of \$35 million (at par), and **accrued interest** on investments of \$566,000. None of the Fund's assets were invested at September 30, 1994. The balance for **receivables** totals \$4 million at September 30 and is principally associated with sales proceeds owed from EG&G. The value of forfeited property at September 30 was \$30 million, a decrease of \$6 million from FY 1994. Finally, the total for **seized currency** at September 30, 1995 was \$177 million, an increase of \$33 million from FY 1994.

END OF YEAR ASSETS OF THE FUND  
(\$ millions)

|   | 1995         | 1994         |
|---|--------------|--------------|
| Undistributed funds and fund              |              |              |
| balances with Treasury and cash           | \$220        | \$178        |
| Investments                               | 35           | 0            |
| Accrued Interest                          | 1            | 0            |
| Receivables                               | 4            | 1            |
| Forfeited property (net of liens payable) | 30           | 36           |
| Seized currency & other investments *     | 177          | 144          |
| Other                                     | 0            | 4            |
| <b>Total</b>                              | <b>\$467</b> | <b>\$363</b> |

\* Under the Statement of Federal Financial Accounting Standards (SFFAS) Number 3, effective September 30, 1994 and thereafter, seized currency is reported as a custodial asset upon seizure. The amount cited here represents currency held in the Fund's suspense account, on hand at field office locations, or seized currency balances invested in Treasury securities.

#### Liabilities and Net Position

A summary of the liabilities and net position (in millions) of the Fund as of September 30, 1995, as compared with September 30, 1994 is shown in the following table. The large increase in **distributions payable** is principally associated with \$38 million in victim restitution payments owed arising from *United States v. Ken International*. Revenue from forfeited property is deferred until the property is sold or transferred. When compared to FY 1994, less forfeited property was held for sale at September 30, which accounts for the decrease in **deferred revenue** of \$7 million. **Accounts payable** totalled \$34 million at September 30, an increase over FY 1994 of \$10 million.

END OF YEAR FUND LIABILITIES AND NET POSITION  
(\$ millions)

|  | 1995         | 1994         |
|--|--------------|--------------|
| <b>Liabilities:</b>                              |              |              |
| Distributions payable                            | \$69         | \$25         |
| Deferred revenue                                 | 29           | 36           |
| Seized currency & other investments              | 177          | 144          |
| Accounts payable                                 | 34           | 24           |
| <b>Net Position:</b>                             |              |              |
| Authorized retained capital                      | 50           | 50           |
| Unliquidated obligations                         | 57           | 52           |
| Distributions to ONDCP's Special Forfeiture Fund | (22)         | (4)          |
| Cumulative results of operations                 | 73           | 37           |
| <b>Total</b>                                     | <b>\$467</b> | <b>\$363</b> |

\* Columns do not foot due to rounding of amounts.

In addition to liabilities of \$309 million recognized by the Fund at September 30, 1995, \$50 million was reserved as **authorized retained capital**, and \$56 million was reserved for **unliquidated obligations**. Further, the Fund recorded a large increase in distributions to the Office of National Drug Control Policy's (ONDCP) **Special Forfeiture Fund**. After further appropriations by Congress, the \$22 million provided to ONDCP will be available to support important drug control programs of the President. Finally, FY 1995 ended with the **cumulative results of Fund operations** totalling \$73 million.

### Summary of Financial Management Improvements

During FY 1995, the Fund management focused on a number of operations and procedures in need of improvement. Progress has been made during FY 1995. Among those areas receiving significant attention were the following issues cited in the FY 1994 audit of the Fund:

**SFFAS Compliance** — The Fund was not able to comply adequately with certain inventory reporting requirements mandated by the Statement of Federal Financial Accounting Standards (SFFAS) Number 3, issued by the Office of Management and Budget.

**Inventory Tracking Systems** — Two material weaknesses were identified relating to inventory tracking systems which support the Fund: 1) the value of forfeited property and seized property is not

recorded in the general ledger and is not recorded in supporting subsidiary systems in a timely manner; and 2) forfeited property is not recorded in the property tracking systems during the year at its fair market value.

**Accounting Systems** — Two material weaknesses were identified relating to accounting systems which support Fund operations: 1) accounting records are primarily maintained on a cash basis; and 2) the Fund's general ledger does not record all balances and transactions that are reflected in the financial statements.

**Performance Indicators** — The FY 1994 audit found that the Fund had not fully developed specific performance indicators to report the progress toward achieving the Fund's goals and objectives.

The Fund management has taken significant steps towards addressing these issues. The following is a summary of progress in each of the areas cited as material weaknesses. In addition to these efforts, also highlighted are other important internal control improvements which should have an important effect on the Fund's financial operations.

#### • SFFAS Compliance

As a new requirement during FY 1994, OMB issued SFFAS Number 3 regarding accounting for seized and forfeited property. SFFAS mandates a special disclosure as part of the audited financial statements of the Fund. This disclosure requires the Fund to account fully for all transactions during the fiscal year which would crosswalk the seized and forfeited property inventory balances at the beginning of the year to the ending balances as of September 30. As part of the FY 1994 audit, neither the Customs Service nor the IRS could satisfactorily produce all elements of this financial disclosure. The failure to produce supportable SFFAS information was reported as a material weakness and resulted in a qualified FY 94 audit opinion.

Although some minimal preparations were made in advance of the FY 1994 audit to prepare the bureaus for the SFFAS requirements, these efforts proved to be inadequate. In order to get an early start on this process for FY 1995, Fund management worked closely with each bureau to produce this information. Detailed instructions associated with the SFFAS requirements were drafted in late February and provided to the bureaus for comment. Based on a revised set of instructions, bureaus conducted a practice exercise for produc-

ing the SFFAS information on seized and forfeited property balances as of March 30, 1995. Fund management subsequently reviewed this material and provided an assessment to bureau program officials on how well they had done.

- **Inventory Tracking Systems**

In order to alleviate problems with inventory tracking systems which support the Fund, the Customs Service has undertaken a major development effort for a new seized asset and case tracking system (SEACATS). With the assistance and participation of Fund management, SEACATS has been approved under Treasury Directive 32-02, which requires that the development of all such financial management systems be sanctioned by the Assistant Secretary for Management. When fully developed, there will be an integrated system built around SEACATS to record the seized and forfeited property transactions of Treasury enforcement bureaus. SEACATS will provide a cradle-to-grave system for tracking all property from case initiation to final financial resolution. Also, SEACATS will meet all SFFAS accounting requirements for seized and forfeited property and will eliminate the two material weaknesses associated with inventory systems. SEACATS will be used to help produce the audited financial statements for both Customs and the Fund starting in FY 1997.

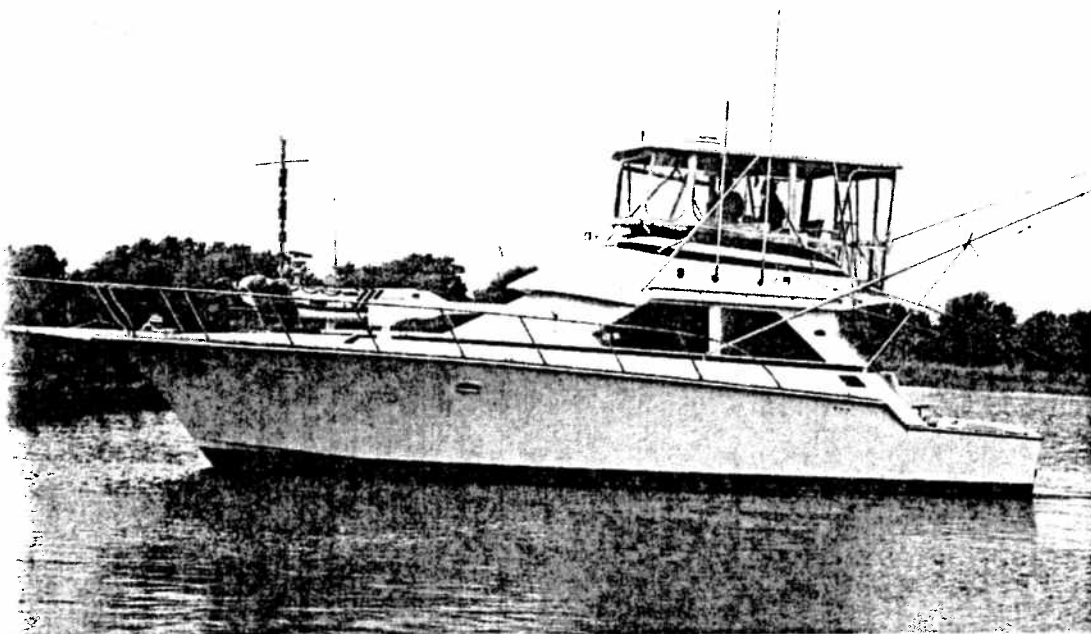
- **Accounting Systems**

The Customs Service provides all accounting support for the Fund. Accounting weaknesses identified by the Fund's auditor are principally issues associated with systems operated by Customs. However, Fund management initiated some improvements with respect to these weaknesses during FY 1995. To help compensate for accounting records being maintained on a cash basis, the Fund approved revisions to extensive year-end adjustment procedures designed to produce accrual basis financial statements that could be sustained through an audit. These revised procedures were drafted in February and reviewed by each bureau for comment. The final instructions, *FY 1995 Year End Closing Procedures*, were issued by the Fund on August 10. In addition, the successful development of the SEACATS system should substantially improve the two material weaknesses associated with accounting systems.

- **Performance Indicators**

The Fund made important progress during FY 1995 at developing performance measures. Although current measures yet need to be refined, and additional measures are contemplated, the Fund began tracking several performance measures in late FY 1995 through a manual data collection and calculation process. Performance indi-

*A 48 foot Vista Sportfisherman, the Good Times, at dockside in Freeport, Texas. This vessel was forfeited as a result of an investigation of marijuana smuggling by the Customs Service office in Galveston and was sold during the summer of 1995.*



cators developed and implemented include those cited earlier in this chapter.

- **Internal Control Improvements**

In addition to addressing several of the material weaknesses cited by the Fund's auditors, Fund management also made significant improvements in FY 1995 to internal control procedures, systems, and organizational arrangements which affect Fund operations. Management of the Fund was reorganized in January 1995 from two offices which reported to different Treasury officials, to one office reporting to the Under Secretary for Enforcement. Further, during FY 1995, the Fund's managers issued new financial management delegations regarding the obligation and certification of Funds and developed a new *Financial Operations and Processes Manual*. In addition, during FY 1995, the Fund worked closely with each bureau to ensure their ability to reconcile and track property inventories and provide sufficient documentation to support SFFAS requirements. Finally, the Management Letter prepared by the independent auditors, based on their FY 1994 audit, contained 32 recommendations to improve

Fund operations. The Fund management reviewed and considered each recommendation.

- **FY 1995 Audit**

The Fund's independent auditors have given the FY 1995 financial statements an unqualified opinion. This is a significant improvement from the qualified opinion received by the Fund in FY 1994, and is based, in large measure, on the several financial management improvements undertaken by the Fund during FY 1995. Notwithstanding these considerable efforts, however, the accompanying *Independent Auditor's Report on Internal Control* details some material weaknesses in the Fund's internal control structure that existed during FY 1995. These weaknesses are principally related to the accounting and inventory tracking systems which support Fund operations and are maintained by the U.S. Customs Service. These weaknesses have been identified in past audit reports, and Fund management is well aware of these issues and hopes to make yet further improvements during FY 1996 to correct these material weaknesses. The implementation of SEACATS should do much to correct or mitigate many of the weaknesses cited in the FY 1995 audit report.

## ***FUND FINANCIAL STATEMENTS***

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## Independent Auditor's 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, 1995, and the related statements of operations, changes in net position, and cash flows for the year 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 audit. The financial statements of the Fund as of September 30, 1994 were audited by other auditors whose report dated January 6, 1995 on those statements included an explanatory paragraph that described the inability of the auditors to satisfy themselves as to the fair presentation of the analysis of change in seized and forfeited property, other than forfeited property held by the U.S. Customs Service, the U.S. Secret Service and the Bureau of Alcohol, Tobacco and Firearms. The Fund's management could not present detailed documentation to support activity presented in the analysis of change in seized and forfeited property, other than forfeited property held by the U.S. Customs Service, the U.S. Secret Service and the Bureau of Alcohol, Tobacco and Firearms discussed in the notes to the fiscal year 1994 financial statements.

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

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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of the Treasury

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Forfeiture Fund as of September 30, 1995, and the results of its operations and changes in net position and its cash flows for the year then ended, on the basis of accounting described in note 2.

In accordance with the OMB Bulletin 94-01 which defines the form and content of financial statements to be used by executive departments and agencies, the Treasury Department requested and received a waiver from the OMB for all Treasury organizations preparing the statement of budgetary resources and actual expenses, beginning fiscal year 1995. Accordingly, the Fund did not include the statement of budgetary resources and actual expenses in its fiscal year 1995 financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 23, 1996 on our consideration of the Fund's internal control structure and a report dated February 23, 1996 on its compliance with laws and regulations.

Our audit was 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 audit 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.

*Gardner, Hanna & Associates, P. C.*

February 23, 1996

# Treasury Forfeiture Fund Statement of Financial Position

September 30, 1995 and 1994  
(Dollars in thousands)

## Assets

|   | 1995      | 1994      |
|---|-----------|-----------|
| <b>Entity Assets:</b>   |           |           |
| Undistributed funds with Treasury and cash                        | \$220,417 | \$178,320 |
| Investments (note 4)  | 34,646    | 0         |
| Accrued interest (note 4)   | 566       | 0         |
| Receivables:  |           |           |
| Federal   | 2,086     | 626       |
| Non-Federal   | 1,766     | 38        |
|   | 3,852     | 664       |
| Investigative and travel advances                                 | 0         | 3,573     |
| Prepaid expenses  | 487       | 600       |
| Forfeited Property (note 5):                                      |           |           |
| Held for sale   | 30,187    | 37,091    |
| To be shared with federal, state or local, or foreign governments | 2,228     | 1,601     |
| Allowances for mortgages and claims                               | (2,770)   | (2,363)   |
|   | 29,645    | 36,329    |
| <b>Total entity assets</b>  | 289,613   | 219,486   |
| <b>Non-Entity Assets:</b>   |           |           |
| Seized currency   |           |           |
| Cash  | 91,307    | 143,603   |
| Investments (note 4)  | 85,814    | 0         |
| Total Seized Currency (note 6)                                    | 177,121   | 143,603   |
| <b>Total non-entity assets</b>                                    | 177,121   | 143,603   |
| <b>Total Assets</b>   | \$466,734 | \$363,089 |

The accompanying notes are an integral part of the financial statements.



# Treasury Forfeiture Fund Statement of Financial Position

September 30, 1995 and 1994  
(Dollars in thousands)

## Liabilities and Net Position

|  | 1995      | 1994      |
|--|-----------|-----------|
| <b>Entity Liabilities:</b>                       |           |           |
| Distributions Payable:                           |           |           |
| Federal:   |           |           |
| ONDCP Special Forfeiture Fund                    | \$ 21,922 | \$ 3,843  |
| Other federal agencies                           | 2,107     | 2,768     |
|  | 24,029    | 6,611     |
| Non-federal:                                     |           |           |
| State and local agencies and foreign governments | 6,628     | 18,172    |
| Victim restitution (note 9)                      | 38,276    | 0         |
|  | 44,904    | 18,172    |
| <b>Total distributions payable:</b>              | 68,933    | 24,783    |
| Accounts Payable:                                |           |           |
| Non-federal                                      | 5,853     | 10,120    |
| Federal  | 28,218    | 13,534    |
|  | 34,071    | 23,654    |
| Deferred revenue from forfeited assets           | 28,692    | 35,857    |
|  | 131,696   | 84,294    |
| <b>Total entity liabilities</b>                  | 177,121   | 143,603   |
| <b>Non-entity liabilities:</b>                   |           |           |
| Seized currency (note 6)                         | 177,121   | 143,603   |
| <b>Total non-entity liabilities</b>              |           |           |
| Commitments and contingencies (note 8)           |           |           |
| <b>Total liabilities</b>                         | 308,817   | 227,897   |
| <b>Net Position:</b>                             |           |           |
| Authorized retained capital                      | 50,000    | 50,000    |
| Unliquidated obligations                         |           |           |
| Discretionary                                    | 10,001    | 25,816    |
| Non-discretionary—asset sharing                  | 21,199    | 10,605    |
| Non-discretionary—other                          | 25,969    | 16,092    |
| Distributions to ONDCP's Special Forfeiture Fund | (21,922)  | (3,843)   |
| Cumulative results of operations                 | 72,670    | 36,522    |
| <b>Total net position</b>                        | 157,917   | 135,192   |
| <b>Total liabilities and net position</b>        | \$466,734 | \$363,089 |

The accompanying notes are an integral part of the financial statements.

# Treasury Forfeiture Fund Statement of Operations

For the years ended September 30, 1995 and 1994  
(Dollars in thousands)

|  | 1995             | 1994             |
|--|------------------|------------------|
| <b>Revenues and financing sources:</b>   | \$ 81,892        | \$100,255        |
| Undistributed forfeited currency and monetary instruments  |                  |                  |
| Distributed forfeited assets   | 64,078           | 53,375           |
| Currency   | 9,084            | 4,967            |
| Property   | 39,091           | 2,715            |
| Proceeds from sales of forfeited property<br>(note 5 and 9)                                      |                  |                  |
| Sales of forfeited property, net of mortgages and claims<br>of \$4,789 and \$2,382, respectively | 26,452           | 12,037           |
| Payments received in lieu of forfeiture, net of refunds<br>of \$4,423 and \$2,669, respectively  | 6,649            | 14,506           |
| Reimbursed costs   | 2,807            | 2,793            |
| Proceeds from participating with other federal agencies  | 8,137            | 3,966            |
| Investment interest income   | 6,894            | 1,904            |
| Other miscellaneous  | 6,418            | 1,180            |
| <b>Total revenues and financing sources</b>  | <b>251,502</b>   | <b>197,698</b>   |
| <b>Allocation of revenues:</b>   | 58,100           | 53,372           |
| State and local agencies   | 7,319            | 366              |
| Foreign countries  | 8,393            | 7,318            |
| Federal agencies   | 38,441           | 0                |
| Victim restitution (note 9)  | 112,253          | 61,056           |
| <b>Total allocations of revenue</b>  | <b>139,249</b>   | <b>136,642</b>   |
| <b>Net revenues and financing sources</b>  |                  |                  |
| <b>Operating expenses—Non-discretionary:</b>   | 27,938           | 29,943           |
| Seized property contractor   | 14,289           | 17,269           |
| Purchases of evidence and information leading to seizure   | 19,352           | 3,187            |
| Specialized contracts  | 3,213            | 0                |
| Joint operations   | 6,006            | 6,433            |
| Other case related   | 12,192           | 9,834            |
| Payroll costs  | 399              | 0                |
| Super Surplus (note 10)  | 4,505            | 3,783            |
| Secretary's Enforcement Fund (note 11)   | 87,894           | 70,449           |
| <b>Total non-discretionary expenses</b>  |                  |                  |
| <b>Operating expenses—Discretionary:</b>   | 2,794            | 2,372            |
| Purchases of evidence and information  | 2,378            | 4,125            |
| Specialized contracts  | 463              | 3,040            |
| Joint operations   | 414              | 1,653            |
| Other program management   | 16,797           | 7,488            |
| Equipment to support forfeiture program  | 22,846           | 18,678           |
| <b>Total discretionary expenses</b>  | <b>110,740</b>   | <b>89,127</b>    |
| <b>Total operating expenses</b>  |                  |                  |
| <b>Excess of net revenues and financing sources<br/>over total operating expenses</b>            | <b>\$ 28,509</b> | <b>\$ 47,515</b> |

The accompanying notes are an integral part of the financial statements.

# Treasury Forfeiture Fund

## Statement of Changes in Net Position

September 30, 1995 and 1994  
(Dollars in thousands)

|   | Authorized<br>retained<br>capital | Unliquidated<br>Obligations<br>Discretionary | Unliquidated<br>Obligations<br>Asset<br>Sharing | Unliquidated<br>Obligations<br>Non-discr.<br>Other | Cumulative<br>results of<br>operations | Total<br>net<br>position |
|---|-----------------------------------|--|---|--|--|--------------------------|
| Balances, September 30, 1993  | \$50,000                          | \$13,662                                     | \$8   | \$ 5,642   | \$22,208                               | \$ 91,520                |
| Excess of net revenues and<br>financing sources over total<br>operating expenses          | 0                                 | 0  | 0   | 0  | 47,515                                 | 47,515                   |
| Net change in obligations<br>of current resources   | 0                                 | 12,154                                       | 10,597  | 10,450   | (33,201)                               | 0                        |
| Balances, September 30, 1994<br>before Distribution to ONDCP's<br>Special Forfeiture Fund | \$50,000                          | \$25,816                                     | \$10,605  | \$16,092   | \$36,522                               | \$139,035                |
| Distribution to ONDCP's<br>Special Forfeiture Fund  | 0                                 | 0  | 0   | 0  | (3,843)                                | (3,843)                  |
| Balances, September 30, 1994<br>as previously presented                                   | 50,000                            | 25,816                                       | 10,605  | 16,092   | 32,679                                 | 135,192                  |
| Prior period adjustment<br>(note 12)  | 0                                 | 0  | 0   | 0  | 16,138                                 | 16,138                   |
| Balances, September 30, 1994<br>as restated   | 50,000                            | 25,816                                       | 10,605  | 16,092   | 48,817                                 | 151,330                  |
| Excess of net revenues and<br>financing sources over total<br>operating expenses          | 0                                 | 0  | 0   | 0  | 28,509                                 | 28,509                   |
| Net change in obligations of<br>current resources   | 0                                 | (15,815)                                     | 10,594  | 9,877  | (4,656)                                | 0                        |
| Balances, September 30, 1995<br>before Distribution to ONDCP's<br>Special Forfeiture Fund | \$50,000                          | \$10,001                                     | \$21,199  | \$25,969   | \$72,670                               | \$179,839                |
| Distribution to ONDCP's<br>Special Forfeiture Fund  | 0                                 | 0  | 0   | 0  | (21,922)                               | (21,922)                 |
| Balances, September 30, 1995<br>Net of Distribution to ONDCP's<br>Special Forfeiture Fund | \$50,000                          | \$10,001                                     | \$21,199  | \$25,969   | \$50,748                               | \$157,917                |

The accompanying notes are an integral part of the financial statements.

# Treasury Forfeiture Fund Statement of Cash Flows

September 30, 1995 and 1994  
(Dollars in thousands)

|   | 1995             | 1994             |
|---|------------------|------------------|
| <b>Cash flows from operating activities:</b>  |                  |                  |
| Excess of net revenues and financing sources over total operating expenses  | \$ 28,509        | \$ 47,515        |
| Adjustments to reconcile excess of net revenues and financing sources over total operating expenses to cash provided from operating activities: |                  |                  |
| (Increase) decrease in accrued interest and receivables   | (3,754)          | 6,867            |
| Decrease (increase) in forfeited property   | 6,277            | (29,717)         |
| Decrease in investigative and travel advances   | 3,573            | 37               |
| Decrease (increase) in prepaids   | 113              | (600)            |
| Increase (decrease) in distributions payable  | 44,150           | (8,120)          |
| Increase in allowances for mortgages and claims   | 407              | 391              |
| Increase in accounts payable  | 10,417           | 13,043           |
| (Decrease) increase in deferred revenue   | (7,165)          | 30,083           |
| Prior period adjustment   | 16,138           | 0                |
| <b>Net cash provided by operating activities</b>  | <b>98,665</b>    | <b>59,499</b>    |
| <b>Cash flows from investing activities:</b>  |                  |                  |
| Purchase of investments   | (34,646)         | 0                |
| <b>Net cash provided (used) by investing activities</b>   | <b>(34,646)</b>  | <b>0</b>         |
| <b>Cash flows from financing activities:</b>  |                  |                  |
| Distributions to ONDCP  | (21,922)         | (3,843)          |
| <b>Net cash provided (used) by financing activities</b>   | <b>(21,922)</b>  | <b>(3,843)</b>   |
| <b>Cash, beginning of year</b>  | <b>178,320</b>   | <b>122,664</b>   |
| <b>Cash, end of year</b>  | <b>\$220,417</b> | <b>\$178,320</b> |

Property forfeited of approximately \$9 million and \$5 million respectively was shared with state and local agencies and foreign countries, or transferred to other federal agencies during the years ended September 30, 1995 and 1994.

Unliquidated obligations increased approximately \$5 million and \$33 million for the years ended September 30, 1995 and 1994, respectively.

Interest paid amounted to approximately \$1 thousand and \$3 thousand for the years ended September 30, 1995 and 1994, respectively.

The accompanying notes are an integral part of the financial statements.

## NOTES TO FINANCIAL STATEMENTS

### (1) Reporting Entity

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 1995 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). FinCEN and FLETC contribute no revenue to the Fund and receive relatively small support from the Fund. 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 Assets 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 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 Fund is accounted for under Treasury symbol numbers 20X5693 and 20X5697.

The principal goals of the Treasury forfeiture program are to (1) be cognizant of the due process rights of affected persons, (2) punish and deter criminal activity by depriving criminals of property used in or acquired through illegal activities, (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.

### (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.

## NOTES TO FINANCIAL STATEMENTS

### Basis of Accounting and Presentation—Continued

- Accounting principles published by authoritative standards setting 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 Statement of Operations and Statements of Changes in Net Position in place of the Statement of Operations and Changes in Net Position as suggested by OMB. Further, OMB has made the Statement of Budgetary Resources and Actual Expenses optional in FY 1995. As such, this optional statements are not included in the FY 1995 annual report of the fund.

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

### Allowable Fund Expenses

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 cost, security costs, etc.), awards of compensation to informers, satisfaction of liens against the forfeited property, and claims of parties in interest to forfeited property. Reimbursements of costs incurred by state and local law enforcement agencies in joint law enforcement operations with a Treasury law enforcement organization are also reimbursable non-discretionary expenses.

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; and publication of the availability of awards.

Discretionary expenses are subject to an annual, definite Congressional appropriation from deposits made to the Fund. Under the Act, non-discretionary expenses are subject to a permanent indefinite Congressional appropriation and may be financed through the revenue generated from forfeiture activities without limitation.

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 Online Payments and Collections (OPAC). Certain expenses such as equitable sharing payments, are paid directly from the TFF.

## NOTES TO FINANCIAL STATEMENTS

### Allowable Fund Expenses—Continued

Further, 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 cost of employees directly involved in the security and maintenance of forfeited property are included in the financial statements of the Fund.

#### 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 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 monthly on the general ledger.

#### Transactions with Office of National Drug Control Policy

At the end of fiscal year 1995, 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 requires 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 are retained in the Fund. Liabilities of approximately \$21.9 million and \$3.8 million to the ONDCP Special Forfeiture fund for fiscal years 1995 and 1994 respectively have been recognized in the accompanying Statements of Financial Position.

#### Assets Distributed

Forfeited property, currency or proceeds from the sales of forfeited property may be shared with federal, state and local law enforcement agencies or foreign governments which 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 revenue) are recognized for the net realizable value of the asset to be shared or transferred, thereby resulting in no gain or loss recognized. In prior years, the individual bureaus participating in the Fund had authority to approve asset distribution payments and therefore a liability was recognized when it was determined that bureau approval was given. In fiscal year 1995, EOAF established procedures where no obligations of or payments from the Fund could be made without review and approval from EOAF management. Beginning fiscal year 1995, liabilities are recognized when final EOAF approval for payment is given. Beginning fiscal year 1995, a new class of asset distribution was established for victim restitution. This distribution includes property and cash returned to victims of fraud and other illegal activity.

# NOTES TO FINANCIAL STATEMENTS

## Tax Status

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

## Reclassifications

During fiscal year 1995, the Fund's management determined that payments received in lieu of forfeiture collected against currency cases is more appropriately reported as currency forfeitures. Unliquidated obligations of the fund have been classified and reported as discretionary, non-discretionary asset sharing, and other non-discretionary. Contractor and sales expenses for the current year include only the expenses of the national seized property management contract. Other non-discretionary contractor expenses charged to the Fund are reported as specialized contract services. The accompanying financial statements of the fund for 1994 have been restated to be comparable to 1995's presentation.

## Entity Assets and Liabilities

Entity assets are used to conduct the operations and activities of the Fund. Entity assets consist of cash or other assets which could readily be converted into cash to meet the Fund's current or future operational needs, investments, receivables, and forfeited property which is held for sale or to be distributed.

- **Undistributed Funds with Treasury and Cash** — Undistributed funds with Treasury and cash represents monies, including forfeited cash not deposited. Forfeited cash held as evidence amounted to \$12,635,267 and \$7,064,564 at September 30, 1995 and 1994, respectively.
- **Receivables** — Federal receivables principally represent monies due from the Justice Assets Forfeiture Fund. This includes asset sharing income from Justice cases which included Treasury's participation, as well as interest due on asset sharing income that was not delivered to the Treasury Forfeiture Fund at year end. The values reported for non-federal receivables is primarily associated with funds owed from EG&G Dynatrend.
- **Investigative and Travel Advances** — Investigative and travel advances include monies advanced to agents for use in conducting investigative operations and payments to informants. An expense is recognized in the Fund when the payment to the informant or purchase of evidence is made. Beginning fiscal year 1994 the fund discontinued the practice of directly advancing monies for investigative purposes. All investigative advances are made by participating bureaus. In fiscal year 94, investigative advances issued by U.S. Customs for expenditures which would eventually be reimbursed by the Fund were included in the balances of investigative and travel advances.
- **Prepaid Expenses** — In some instances, mortgages and other claims are paid in advance of the actual forfeiture date, as required by court order. The values reported here are associated with these special transactions.
- **Forfeited Property** — Forfeited property is recorded at estimated fair value at the time of seizure. However, based on historical sales experiences, properties are adjusted to reflect the current fair market value at September 30. Direct and indirect holding costs are not capitalized for individual forfeited assets. Forfeited currency is reflected as funds with Treasury in the accompanying Statement of Financial Position.

Further, 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 expenses are recognized when the related asset is sold and is reflected as a reduction of sales of forfeited property.



## NOTES TO FINANCIAL STATEMENTS

### Entity Assets and Liabilities—Continued

- **Distributions Payable** — Distributions payable to federal sources is principally related to surplus revenue that, by law, must be transferred to the Office of National Drug Control Policy (ONDCP). (See “Transactions with Office of National Drug Control Policy”.) Distributions payable to non-federal sources is associated with asset sharing payments to state and local governments, and payments to be made by the fund to victims of fraud.
- **Accounts Payable** — Amounts reported in this category are mainly associated with accrued expenses authorized by the *Treasury Forfeiture Fund Act* (See “Allowable Fund Expenses”) for which reimbursement was pending at September 30, 1995.
- **Deferred Revenue** — At September 30, forfeited assets were held by the fund which had not yet been converted into cash through sale and deposited. The amount reported here represents the value of these assets.

### Non-entity Assets and Liabilities

“Non-entity assets” consists of seized currency. Because the non-entity assets are not considered as financing sources (revenue) available to offset operating expenses, a corresponding liability is recorded and presented as “Non-entity Liabilities” in the Statements of Financial Position to reflect the custodial/fiduciary nature of these activities.

The presentation of non-entity 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 non-entity categories contain resources relating to the Fund’s custodial/fiduciary activities.

- **Seized Property: Currency** — Seized property is recorded at its market value at the time of seizure. The 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. **Seized currency** is defined as cash or financial instruments that are readily convertible to cash on a dollar for dollar basis without consideration to delivery of specific goods or services.

### Net Position

- **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.
- **Unliquidated Obligations Discretionary** — This represents the amount of undelivered purchase orders and contracts which have been obligated with current discretionary budget resources. A discretionary expense is recognized and the corresponding obligations are reduced as the goods are received and services performed.
- **Unliquidated Obligations Non-discretionary-asset sharing** — This category represents the amount of asset sharing requests for which the related forfeiture revenue has been recognized and have been obligated by the Fund from current non-discretionary budget resources. A non-discretionary expense is recognized and the corresponding obligations are reduced as the goods are received and services performed.

## NOTES TO FINANCIAL STATEMENTS

### Net Position—Continued

- **Unliquidated Obligations Non-discretionary-other** — This category represents the amount of undelivered purchase orders and contracts which have been obligated with current non-discretionary budget resources. A non-discretionary expense is recognized and the corresponding obligations are reduced as the goods are received and the services performed.
- **Cumulative Results of Operations** — This category represents the net difference, since the inception of the activity, between 1) expenses and losses and 2) financing sources including appropriations, revenues and gains.

### Statement of Federal Financial Accounting Standards Number 3 Requirement

In October 1993, the Office of Management and Budget issued Statement of Federal Financial Accounting Standards Number 3, *Accounting for Inventory and Related Property* (SFFAS No. 3). SFFAS No. 3 is effective for fiscal years ending September 30, 1994 and thereafter. SFFAS 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. SFFAS No. 3 also specifies a valuation allowance be established against forfeited property for liens or claims from a third party.

SFFAS 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 5 and 6.

### (3) Change in Accounting Principle

In fiscal year 1995, the Department of Treasury issued guidance defining currency for the purposes of applying SFFAS 3. This definition excluded marketable securities, foreign currency and other non-cash equivalents from the definition of currency. The change in accounting principle results from the reclassification of other financial instruments from cash which does not produce revenue until it is disposed. In prior years these types of assets were treated as currency and revenue was recognized immediately upon forfeiture. The cumulative effect of the change in accounting principle is recognized in FY 1995 as a reduction of revenue instead of an accounting change due to the immateriality of the amount.

### (4) Investments

All investments are short term (30 days or less) nonmarketable par value Federal debt securities issued by the Bureau of Public Debt and purchased through Treasury's Financial Management Service. When securities are purchased, the investment is recorded at face value and the discount is recorded for the full amount earned at maturity. Investments are always purchased at a discount. They are not amortized and are always held to maturity. Investments are made from cash in the Treasury Forfeiture Fund and from seized currency held in the Customs Suspense Account. As of September 30, 1995, Fund investments included \$34,770,000 in 24 day 5.34 percent U.S. Treasury Bills from excess forfeited cash and Suspense Account investments of \$86,160,000 in 27 day 5.35 percent U.S. Treasury Bills from seized currency deposited in the Customs Suspense Account. Interest earned on investments of seized currency is recognized as revenue of the Fund. The following schedule presents the investments on hand as of September 30, 1995:

# NOTES TO FINANCIAL STATEMENTS

## Investments—Continued

| Dollars in Thousands          | Par       | Discount | Net       |
|-------------------------------|-----------|----------|-----------|
| Treasury Forfeiture Fund      | \$ 34,770 | (\$124)  | \$ 34,646 |
| U.S. Customs Suspense Account | \$ 86,160 | (\$346)  | \$ 85,814 |
| Total                         | \$120,930 | (\$470)  | \$120,460 |

As of September 30, 1994 investments in the Customs Suspense Account and the Treasury Forfeiture Fund were zero.

Accrued interest at September 30, 1995 is \$566,000.

## (5) Analysis of Change in Forfeited Property

The following schedule presents the changes in the forfeited property balances from October 1, 1994 to September 30, 1995. The detail of this schedule is presented in the notes to the financial statement of each bureau

|   | 10/1/94 Financial Statement Balance |        |  | Fair Value Adjustment |        |  | 10/1/94 Unadjusted Carrying Value |        |  | Adjustments to 10/1/94 Carrying Value |         |  | 10/1/94 Adjusted Carrying Value |         |  | Forfeitures   |        |  | Deposits/Sales |        |  |
|---|-------------------------------------|--------|--|-----------------------|--------|--|-----------------------------------|--------|--|---------------------------------------|---------|--|---------------------------------|---------|--|---------------|--------|--|----------------|--------|--|
|   | Value                               | Number |  | Value                 | Number |  | Value                             | Number |  | Value                                 | Number  |  | Value                           | Number  |  | Value         | Number |  | Value          | Number |  |
| Currency                                      |                                     |        |  |                       |        |  |                                   |        |  |                                       |         |  |                                 |         |  |               |        |  |                |        |  |
| Total Currency                                | 7,064,564                           | 76     |  | 0                     |        |  | 7,064,564                         | 76     |  | 22,847,096                            | (76)    |  | 29,911,660                      | (76)    |  | 151,957,907   |        |  | 177,968,672    |        |  |
|   | \$7,064,564                         | 76     |  | \$0                   |        |  | \$7,064,564                       | 76     |  | \$22,847,096                          | (76)    |  | \$29,911,660                    | (76)    |  | \$151,957,907 |        |  | \$177,968,672  |        |  |
| Other Monetary Instruments                    | 1,156,880                           |        |  | 0                     |        |  | 1,156,880                         |        |  | 817,900                               |         |  | 1,974,780                       |         |  | 12,251,885    |        |  | 1,210,890      |        |  |
| Real Property                                 | 22,554,908                          | 113    |  | 2,506,101             |        |  | 25,061,009                        | 113    |  | 8,664,558                             | (113)   |  | 33,725,567                      | 64      |  | 25,095,278    | 103    |  | 35,082,538     | 143    |  |
| General Property                              | 4,995,966                           | 15,522 |  | 18,533,996            |        |  | 23,529,962                        | 15,522 |  | 784,944                               | (9,801) |  | 24,314,906                      | (9,801) |  | 30,869,666    | 22,939 |  | 23,475,852     | 4,014  |  |
| Vessels                                       | 751,220                             | 39     |  | 590,244               |        |  | 1,341,464                         | 39     |  | 225,000                               | (1)     |  | 1,566,464                       | (1)     |  | 3,393,136     | 101    |  | 3,404,790      | 68     |  |
| Aircraft                                      | 725,931                             | 14     |  | 268,495               |        |  | 994,426                           | 14     |  | (25,000)                              | 0       |  | 969,426                         | 0       |  | 1,244,220     | 14     |  | 671,477        | 12     |  |
| Illegal Drugs                                 | 2,502,113                           | 939    |  | 1,292,519             |        |  | 3,794,632                         | 939    |  | 515,677                               | 18      |  | 4,310,309                       | 18      |  | 10,122,655    | 2,790  |  | 5,150,561      | 2,481  |  |
|   | 0                                   |        |  | 0                     |        |  | 0                                 |        |  | 0                                     |         |  | 0                               |         |  | 11,565        |        |  | 0              |        |  |
|   | 0                                   |        |  | 0                     |        |  | 0                                 |        |  | 0                                     |         |  | 0                               |         |  | 8,071         |        |  | 0              |        |  |
| Total Other Monetary Instruments and Property | \$52,687,018                        | 16,627 |  | \$23,191,355          |        |  | \$55,878,373                      | 16,627 |  | \$10,983,079                          | (8,556) |  | \$66,861,452                    | (8,556) |  | \$82,976,840  | 37,512 |  | \$68,996,108   | 6,718  |  |
|   | \$52,687,018                        | 16,627 |  | \$23,191,355          |        |  | \$55,878,373                      | 16,627 |  | \$10,983,079                          | (8,556) |  | \$66,861,452                    | (8,556) |  | \$82,976,840  | 37,512 |  | \$68,996,108   | 6,718  |  |
| Grand Total                                   | \$39,751,582                        | 16,703 |  | \$23,191,355          |        |  | \$62,942,937                      | 16,703 |  | \$33,830,175                          | (8,632) |  | \$96,773,112                    | (8,632) |  | \$234,934,747 | 37,512 |  | \$246,964,780  | 6,718  |  |
|   | \$39,751,582                        | 16,703 |  | \$23,191,355          |        |  | \$62,942,937                      | 16,703 |  | \$33,830,175                          | (8,632) |  | \$96,773,112                    | (8,632) |  | \$234,934,747 | 37,512 |  | \$246,964,780  | 6,718  |  |
| Currency                                      |                                     |        |  |                       |        |  |                                   |        |  |                                       |         |  |                                 |         |  |               |        |  |                |        |  |
| Total Currency                                | 0                                   |        |  | 277,473               |        |  | 0                                 |        |  | 9,011,377                             |         |  | 468                             |         |  | 0             |        |  | 12,035,287     |        |  |
|   | \$0                                 |        |  | \$277,473             |        |  | \$0                               |        |  | \$9,011,377                           |         |  | \$468                           |         |  | \$0           |        |  | \$12,035,287   |        |  |
| Other Monetary Instruments                    | 679,200                             | 6      |  | 100,000               |        |  | 0                                 |        |  | (2,992,560)                           |         |  | (8)                             |         |  | 2,349,721     |        |  | 9,923,215      |        |  |
| Real Property                                 | 7,187,878                           | 6,245  |  | 2,038,571             |        |  | 0                                 |        |  | (110,200)                             |         |  | (131)                           |         |  | 5,517,932     |        |  | 15,675,264     |        |  |
| General Property                              | 410,810                             | 21     |  | 19,941                |        |  | 0                                 |        |  | (8,457,595)                           |         |  | (131)                           |         |  | 564,807       |        |  | 2,781,968      |        |  |
| Vessels                                       | 542,500                             | 7      |  | 0                     |        |  | 0                                 |        |  | 365,700                               |         |  | (2)                             |         |  | 2,027         |        |  | 876,643        |        |  |
| Aircraft                                      | 5,670,196                           | 703    |  | 76,525                |        |  | 0                                 |        |  | (80,000)                              |         |  | (1)                             |         |  | 606,433       |        |  | 917,642        |        |  |
| Illegal Drugs                                 | 0                                   |        |  | 0                     |        |  | 0                                 |        |  | (508,925)                             |         |  | (25)                            |         |  | 0             |        |  | 2,240,247      |        |  |
|   | 0                                   |        |  | 0                     |        |  | 0                                 |        |  | 0                                     |         |  | (2)                             |         |  | 0             |        |  | 1,059          |        |  |
| Total Other Monetary Instruments and Property | \$14,490,584                        | 7,843  |  | \$2,235,037           |        |  | \$0                               |        |  | (\$1,783,580)                         |         |  | (169)                           |         |  | \$9,140,920   |        |  | \$32,414,979   |        |  |
|   | \$14,490,584                        | 7,843  |  | \$2,235,037           |        |  | \$0                               |        |  | (\$1,783,580)                         |         |  | (169)                           |         |  | \$9,140,920   |        |  | \$32,414,979   |        |  |
| Grand Total                                   | \$14,490,584                        | 7,843  |  | \$2,235,037           |        |  | \$0                               |        |  | (\$1,783,580)                         |         |  | (169)                           |         |  | \$9,140,920   |        |  | \$45,050,246   |        |  |
|   | \$14,490,584                        | 7,843  |  | \$2,235,037           |        |  | \$0                               |        |  | (\$1,783,580)                         |         |  | (169)                           |         |  | \$9,140,920   |        |  | \$45,050,246   |        |  |

The fair value adjustments above are necessary to convert forfeited property from 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 10/01/94 balance 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. In 1995, in order to present a more meaningful quantity, the number presented for each class of property represents the number of seizure line items recorded regardless of the unit of measure or unit quantity.

In 1994, currency and other monetary instruments were presented combined as CMI. The Department of Treasury issued a memo in 1995 which defined currency as cash and cash equivalents while other monetary instruments such as marketable securities and foreign currency should be treated separately. Currency and other monetary instruments are presented separately in the 1995 schedule of changes in forfeited property.

Adjustments to the October 1, 1994 carrying value represent corrections of prior year balances, adjustments to the beginning property classifications, and conversion from quantities reported in recorded units of measure to number of seizure case records.

## (6) Analysis of Change in Seized Property

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 the high level of control necessary over it, seized currency is reported as a custodial asset upon seizure. Seized property other than currency is reported as a custodial asset upon forfeiture.

The following schedule presents the changes in the seized property balance from October 1, 1994 to September 30, 1995. The detail of this schedule is presented in the notes to the financial statement of each bureau.

|  | 10/1/94 Financial Statement Balance |        | Adjustments to 10/1/94 Values |         | Adjusted 10/1/94 Balance |        | Seizures      |        | Remissions    |        |
|--|-------------------------------------|--------|-------------------------------|---------|--------------------------|--------|---------------|--------|---------------|--------|
|  | Value                               | Number | Value                         | Number  | Value                    | Number | Value         | Number | Value         | Number |
| Currency                                     | \$176,091,493                       | 1,537  | (32,488,913)                  | (1,537) | 143,602,580              | -      | 237,521,775   | -      | 46,474,281    | -      |
| Total Currency                               | \$176,091,493                       | 1,537  | (\$32,488,913)                | (1,537) | \$143,602,580            | -      | \$237,521,775 | -      | \$46,474,281  | -      |
| Other Monetary Instruments                   | 19,294,507                          | -      | 3,507,295                     | -       | 22,801,802               | -      | 22,872,080    | -      | 11,567,451    | -      |
| Real Property                                | 63,183,914                          | 236    | (477,160)                     | 1       | 62,706,754               | 237    | 71,091,057    | 369    | 9,529,600     | 65     |
| General Property                             | 164,074,137                         | 9,197  | (545,811)                     | 10,217  | 163,528,326              | 19,414 | 172,788,775   | 43,576 | 113,037,599   | 12,076 |
| Vessels                                      | 4,132,714                           | 115    | (132,412)                     | (5)     | 4,000,302                | 110    | 43,520,417    | 231    | 19,114,373    | 34     |
| Aircraft                                     | 5,423,642                           | 36     | 165,000                       | -       | 5,588,642                | 36     | 29,621,081    | 39     | 13,854,335    | 17     |
| Vehicles                                     | 16,384,907                          | 1,389  | 124,458                       | 110     | 16,509,365               | 1,499  | 94,999,630    | 10,327 | 37,336,858    | 3,257  |
| Illegal Drugs                                | 0                                   | 0      | 0                             | 4,940   | 0                        | 4,940  | 18,405        | 0      | 0             | 4      |
| Total Other Monetary Instrument and Property | \$272,493,821                       | 10,973 | \$2,641,370                   | 15,263  | \$275,135,191            | 26,236 | \$434,893,040 | 72,947 | \$204,440,216 | 15,453 |
| Grand Total                                  | \$448,585,314                       | 12,510 | (\$29,847,543)                | 13,726  | \$418,737,771            | 26,236 | \$672,414,815 | 72,947 | \$250,914,497 | 15,453 |

|  | Forfeitures   |        | Other Adjustments |          | Value Change   |        | 9/30/95 Financial Statement Balance |        |
|--|---------------|--------|-------------------|----------|----------------|--------|-------------------------------------|--------|
|  | Value         | Number | Value             | Number   | Value          | Number | Value                               | Number |
| Currency                                     | 151,957,907   | -      | (5,432,980)       | -        | (137,936)      | -      | 177,121,251                         | -      |
| Total Currency                               | \$151,957,907 | -      | (\$5,432,980)     | -        | (\$137,936)    | -      | \$177,121,251                       | -      |
| Other Monetary Instruments                   | 12,251,885    | -      | (5,136,728)       | -        | -              | -      | 16,717,818                          | -      |
| Real Property                                | 25,095,278    | 103    | (46,564,288)      | (129)    | (2,025,326)    | -      | 50,583,319                          | 309    |
| General Property                             | 30,869,667    | 22,938 | (35,991,540)      | (8,510)  | (10,257,835)   | -      | 146,160,460                         | 19,466 |
| Vessels                                      | 3,393,136     | 101    | (21,448,465)      | (90)     | 122,770        | -      | 3,687,515                           | 116    |
| Aircraft                                     | 1,244,220     | 14     | (14,643,354)      | (10)     | 91,017         | -      | 5,558,831                           | 34     |
| Vehicles                                     | 10,122,655    | 2,791  | (39,690,732)      | (2,821)  | (2,925,787)    | -      | 21,432,963                          | 2,957  |
| Illegal Drugs                                | 0             | 11,565 | 0                 | (5,400)  | -              | -      | 6,376                               | -      |
| Total Other Monetary Instrument and Property | \$82,976,841  | 37,512 | (\$163,475,107)   | (16,960) | (\$14,995,161) | -      | \$244,140,906                       | 29,258 |
| Grand Total                                  | \$234,934,748 | 37,512 | (\$168,908,087)   | (16,960) | (\$15,133,097) | -      | \$421,262,157                       | 29,258 |

Due to the varied mix of specific types of assets within each asset category, the number of items presented in the 10/01/94 balance 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. In 1995, in order to present a more meaningful quantity, the number presented for each class of property represents the number of seizure line items recorded regardless of the unit of measure or unit quantity.

In 1994, currency and other monetary instruments were presented combined as CMI. The Department of Treasury issued a memo in 1995 which defined currency as cash and cash equivalents while other monetary instruments such as marketable securities and foreign currency should be treated separately. Currency and other monetary instruments are presented separately in the 1995 schedule of changes in forfeited property.

Adjustments to the October 1, 1994 values represent corrections to prior year balances and conversion from quantities reported in recorded units of measure to number of seizure case records.

## NOTES TO FINANCIAL STATEMENTS

### (7) 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 reported by the participating agencies. During the years ended September 30, 1995 and 1994 \$16,797,000 and \$7,488,000, respectively, of capital assets purchased with forfeited currency were transferred to the agencies and are shown as discretionary expenses in the accompanying financial statements.

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 Accounting Services Division (ASD) 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.

### (8) Commitments and Contingencies

As of year end, there are asset sharing requests in various stages of approval. Because final approval has not been obtained as of September 30, 1995, they are not recorded as liabilities of the Fund. However, the Fund has identified asset sharing requests in the amount of approximately \$23,731,000 which were approved or in the final stages of approval subsequent to September 30, 1995. The forfeited currency revenue was recognized in fiscal year 1995; however, the distribution will not be recognized in the financial statements until fiscal year 1996. In addition to the amount estimated above, there are additional amounts which may ultimately be shared which are not identified at this time.

In recent decisions the United States Court of Appeals for the Ninth, Sixth and Fifth Circuits ruled that a criminal prosecution and a civil forfeiture proceeding against the same defendant for the same offense constituted double jeopardy in violation of the United States Constitution. In these Circuits, which include the states of Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon, and Washington in the Ninth Circuit; Kentucky, Ohio, Tennessee in the Sixth Circuit; and Louisiana, Mississippi, and Texas in the Fifth Circuit, individuals may request that any property forfeited in a subsequent civil forfeiture proceedings be returned. The assets of the Treasury Forfeiture Fund will be used to pay the value of property returned. At present, it is not possible to determine the number of individuals who may request that their property be returned. The courts will then be required to examine each case individually. Similarly, it is not possible to determine the value of potential claims against the Fund. It is likely that any civil forfeiture cases within the prohibition defined by the Court of Appeals for the respective Circuit will be overturned and require that the forfeited property be returned. The amount representing the value of the returned property will be paid from the assets of the Fund.

### (9) Mizuno Fraud and Money Laundering Case

The Mizuno case arose out of criminal activities of a Japanese firm headed by Ken Mizuno (Ken International Inc.) a Japanese citizen. Mizuno purchased U.S. properties with illegal funds obtained from a conspiracy to oversell memberships in a nonexistent Japanese golf course. The case involved \$800 million in fraudulent memberships, of which \$260 million was concealed, disguised, and laundered in the U.S. Through numerous complex financial transactions, large purchases of automobiles, jewelry, a DC-9 jet, and various real properties in Nevada, California, and Hawaii, were made. Approximately \$100 million of the \$260 million was traced to the purchase of these assets.

## NOTES TO FINANCIAL STATEMENTS

The Japanese court system and the U.S. Attorney entered into an agreement in 1992 to dispose of designated assets belonging to the Mizuno firm that were located by Customs officials in the U.S. Under this agreement, certain proceeds from the sale of the Mizuno assets and forfeiture of currency were to be returned to Japan to pay victims of the fraud. The Treasury Forfeiture Fund would get ten percent of the net proceeds after costs.

In 1994, EG&G Dynatrend was engaged, through their contract with Customs, to dispose of the property through auction. As of the end of fiscal year 1995, net sales proceeds were \$54 million, net currency forfeiture proceeds were \$2 million, and other revenues were \$3 million. Expenses incurred, including a \$38 million accrual made at year-end to pay victims of fraud, were \$53 million.

### (10) Super Surplus

31 USC 9703 (g)(4)(B) allows for the expenditure, without fiscal year limitation, of funds amounting to one half of the excess of fund balances after the reservation of \$50 million and unliquidated obligations for law enforcement activities of any Federal agency.

### (11) Secretary's Enforcement Fund

31 USC 9703 (b)(5) allows for expenditures for law enforcement related purposes of the Department of Treasury law enforcement organizations from amounts transferred by the Attorney General or the Postmaster General. Monies are transferred to the Fund when Treasury law enforcement organizations participate in law enforcement actions resulting in the seizure and forfeiture of assets.

### (12) Prior Period Adjustments

Certain adjustments were made in the current year to restate the beginning balances of seized and forfeited property and currency. These adjustments were for corrections to prior year balances, adjustments to the beginning property classifications, and conversion from quantities reported in recorded units of measure to number of seizure case records. Also, sales revenue recorded in the current year was determined to be earned in the prior year. Adjustments were also made to reduce previously recorded liabilities for mortgages and claims on forfeited property which were subsequently determined to be invalid. The effect of the adjustments on excess of net revenues and financing sources over total expenditures for fiscal year 1995 is as follows:

Dollars in thousands

Effect on excess of net revenues and financing sources over  
total operating expenses for:

|                                 |                 |
|---------------------------------|-----------------|
| Forfeited property and currency | \$14,377        |
| Sales revenue                   | 1,458           |
| Mortgages and claims            | 299             |
| Other                           | 4               |
| <b>Total</b>                    | <b>\$16,138</b> |

# NOTES TO FINANCIAL STATEMENTS

## Prior Period Adjustments—Continued

Details of the adjustments are as follows:

### FORFEITED PROPERTY

|                               | Balance as Reported<br>September 30, 1994 |        | Prior Period<br>Adjustments |         | Restated Balance<br>September 30, 1994 |        |
|-------------------------------|---|--------|-----------------------------|---------|--|--------|
|                               | Value                                     | Number | Value                       | Number  | Value                                  | Number |
| Currency                      | \$ 7,064,564                              | 76     | \$22,847,096                | (76)    | \$29,911,660                           | 0      |
| <b>Total Currency</b>         | 7,064,564                                 | 76     | 22,847,096                  | (76)    | 29,911,660                             | 0      |
| Other Monetary Instruments    | 1,156,880                                 | 0      | 817,900                     | 0       | 1,974,780                              | 0      |
| Real Property                 | 22,554,908                                | 113    | 8,664,558                   | 64      | 31,219,466                             | 177    |
| General Property              | 4,995,966                                 | 15,522 | 784,944                     | (9,801) | 5,780,910                              | 5,721  |
| Vessels                       | 751,220                                   | 39     | 225,000                     | (1)     | 976,220                                | 38     |
| Aircraft                      | 725,931                                   | 14     | (25,000)                    | 0       | 700,931                                | 14     |
| Vehicles                      | 2,502,113                                 | 939    | 515,677                     | 18      | 3,017,790                              | 957    |
| Illegal Drugs                 | 0   | 0      | 0                           | 1,164   | 0                                      | 1,164  |
| <b>Total OMI and Property</b> | 32,687,018                                | 16,627 | 10,983,079                  | (8,556) | 43,670,097                             | 8,071  |
| <b>Total</b>                  | \$39,751,582                              | 16,703 | \$33,830,175                | (8,632) | \$73,581,757                           | 8,071  |

### SEIZED PROPERTY

|                               | Balance as Reported<br>September 30, 1994 |        | Prior Period<br>Adjustments |         | Restated Balance<br>September 30, 1994 |        |
|-------------------------------|---|--------|-----------------------------|---------|--|--------|
|                               | Value                                     | Number | Value                       | Number  | Value                                  | Number |
| Currency                      | \$176,091,493                             | 1,573  | (\$32,488,913)              | (1,537) | \$143,602,580                          | 0      |
| <b>Total Currency</b>         | 176,091,493                               | 1,573  | (32,488,913)                | (1,537) | 143,602,580                            | 0      |
| Other Monetary Instruments    | 19,294,507                                | 0      | 3,507,295                   | 0       | 22,801,802                             | 0      |
| Real Property                 | 63,183,914                                | 236    | (477,160)                   | 1       | 62,706,754                             | 237    |
| General Property              | 164,074,137                               | 9,197  | (545,811)                   | 10,217  | 163,528,326                            | 19,414 |
| Vessels                       | 4,132,714                                 | 115    | (132,412)                   | (5)     | 4,000,302                              | 110    |
| Aircraft                      | 5,423,642                                 | 36     | 165,000                     | 0       | 5,588,642                              | 36     |
| Vehicles                      | 16,384,907                                | 1,389  | 124,458                     | 110     | 16,509,365                             | 1,499  |
| Illegal Drugs                 | 0   | 0      | 0                           | 4,940   | 0                                      | 4,940  |
| <b>Total OMI and Property</b> | 272,493,821                               | 10,973 | 2,641,370                   | 15,263  | 275,135,191                            | 26,236 |
| <b>Total</b>                  | \$448,585,314                             | 12,510 | (\$29,847,543)              | 13,726  | \$418,737,771                          | 26,236 |



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## Independent Auditor's Report on Compliance

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

We have audited the financial statement of the Department of the Treasury Forfeiture Fund (the Fund) as of and for the year ended September 30, 1995, and have issued our report thereon dated February 23, 1996.

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

Compliance with laws and regulations applicable to the Fund is the responsibility of the management of the Fund. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatements, we performed tests of the Fund's compliance with certain provisions of laws and regulations that may directly affect the financial statements, including the following.

- Budget Accounting Procedures Act of 1950
- Anti-Deficiency Act, Federal Manager's Financial Integrity Act of 1982 (FMFIA), Prompt Payment Act, and Chief Financial Officers Act of 1990
- 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
- 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

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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 1995 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 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 February 23, 1996, the Fund's internal control structure has certain material weaknesses which result 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 reports dated February 23, 1996 on our audit of the Fund's financial statements and 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.

*Gardner, Hamya & Associates, P. C.*

February 23, 1996

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## Independent Auditor's Report on Internal Control Structure

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

We have audited the financial statement of the Department of the Treasury Forfeiture Fund (the Fund) as of and for the year ended September 30, 1995, and have issued our report thereon dated February 23, 1996.

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

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.

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In planning and performing our audit of the financial statements of the Fund for the year ended September 30, 1995, 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 Exhibits I and II of this report.

## Material Weaknesses

- **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. Financial information and transactions from each bureau are not received timely to accurately record the Fund's activities during the year. Hence, 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, 1995, and to adjust the financial statements for the value of forfeited and seized property on hand at year-end.

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

## Reportable Conditions

- **Inventory property tracking systems**—United States Customs Service (USCS), United States Secret Service (USSS) and the Bureau of Alcohol, Tobacco and Firearms' (ATF) individual property tracking systems do not contain accurate and sufficient data required to prepare the analysis of change in forfeited and seized property, without significant manual manipulation and reconciliation. The USCS, USSS, ATF and the Internal Revenue Service Criminal Investigation Division (IRS CID) prepared manual reconciliations of property with respect to dollar values. However, due to limitations of the inventory tracking

systems, the appropriate unit of measurement for quantities (e.g., cases, pounds, etc.) was not presented in accordance with the requirements of SFFAS No. 3.

- **Reconciliation between the Seized Property Management System (SPMS) and the agencies' property systems**—Currently, the USCS field offices, ATF and USSS do not reconcile the seizure numbers and line items per the property listing to the seizure numbers and line items per SPMS. IRS prepared a reconciliation of its inventory listing to SPMS as of September 30, 1995. However, this procedure was not performed on a regular basis during the year. During the fiscal year 1995 inventory observation, several instances were noted where the agencies' property listings contained items which had been re-mitted or sold by EG&G prior to the inventory date. Also, there were instances where seizures were placed in EG&G's custody prior to the inventory date, but the agencies' property systems did not reflect these seizures.
- **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, 1995, 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.

Although in preparing the financial statements, the Fund's management uses 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 Exhibits I and II.

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 February 23, 1996.

In accordance with *Government Auditing Standards*, we have also issued reports dated February 23, 1996 on our audit of the Fund's financial statements and 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.

*Gardner, Kanya & Associates, P. C.*

February 23, 1996

***EXHIBIT I***

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***INDEPENDENT AUDITOR'S EXHIBIT ON MATERIAL WEAKNESSES***

## ACCOUNTING RECORDS ARE MAINTAINED ON A CASH BASIS

### CONDITION

The Treasury Forfeiture Fund's (Fund) general ledger as well as each bureau's supporting system are maintained primarily on a cash basis. In addition, these supporting computer systems maintained by each bureau do not interface with one another or with the Fund's general ledger to ensure that all transactions are accurately and timely recorded. To produce accrual basis financial statements that can be substantiated through an audit, year-end manual procedures for each agency were developed. The Fund's management provided each bureau representative with year-end close out procedures to identify the amounts which should be accrued in the financial statements at year end.

*Accounts Payable and Accrued Liabilities*—The Fund does not follow accrual accounting whereby a liability and an expense are recognized when the underlying goods are received or the services have been performed. Furthermore, during the fiscal year, reimbursement requests were not submitted regularly and on a timely basis. In the day-to-day operations, the Fund generally incurs two types of expenses, direct payments and reimbursements. Under the Memorandum of Understanding (MOU) between the Fund's participating agencies and the Treasury Departmental Offices regarding the Fund, the agencies are required to incur certain types of expenses related to the Fund's 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 the Fund's activities are submitted for payment through a reimbursement request. Types of reimbursable expenses include purchase of information and evidence, equipment, rent and contracting services.

*Mortgages and Claims Payable*—Property that is seized in anticipation of forfeiture may have security interests, such as liens, property taxes, and mortgages. The seizing officer or agent is responsible for identifying the existence of a mortgage or claim at the time of seizure through inquiry of the violator and/or title search. When the seizure is made as a result of an ongoing investigation, a title search should be performed before the seizure. In addition, during forfeiture proceedings, a public notice is issued through newspapers indicating that the property has been seized and notifying any lien holder to file a claim/petition with the proper agency for any outstanding claims or mortgages.

Subsequent to forfeiture and the sale of the property, the Fund is responsible for paying all security interests attached to the property in accordance with Treasury Guidelines for Seized and Forfeited Property which prescribe that liens and mortgages be satisfied after the sale of forfeited property. Payment of the liens may be made from the Fund prior to sale if: the payment prior to sale or other disposition will improve the United States' ability to convey title to the property; the United States has substantial equity in forfeited real property and payment prior to sale will not result in a net loss to the United States; or the property is approved for placement into official use by an investigative agency and all necessary approvals have been obtained. The payment of the liens and mortgages related to real property, as prescribed by Title 31 USCS Section 9703 (a)(1)(D), cannot exceed the value of the property at the time of the seizure.

Throughout the year, the Fund records the lien expenses as approvals for the payment of liens and mortgages that are received from EOAF. At year end, a list of open liens is received from each bureau and a liability is created to accrue the liens and mortgages payable on forfeited property.

*Forfeited Currency*—When USCS 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 into a U.S. Treasury general bank account and recorded in a suspense account in a USCS' fund. Subsequently, the currency is either administratively or judicially declared to be forfeited. Administrative forfeiture occurs when agencies use

their authority, in a given circumstance, 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 Accounting Services Division, ASD, is notified of the forfeiture and therefore records revenue in the general ledger.

When IRS CID seizes currency, safeguard procedures, similar to USCS 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) unit 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. These procedures, occasionally, result in significant time lags from the date the items are seized or forfeited and when the status is updated in AFTRAK.

*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. Currently, the Fund does not record the transfer of property to other federal agencies during the fiscal year. Instead, the Fund makes an adjustment to record this information on the financial statements as part of the year-end manual procedures.

*Accounts Receivable*—USCS 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 into 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 money collected by EG&G represents a significant portion of the revenues earned by the Fund. However, the ASD only records revenue upon receipt of a validated deposit slip, which is approximately one week later.

## **CRITERIA**

The Statement of Federal Financial Accounting Standards (SFFAS) No. 1 requires federal agencies to maintain accounts of the agency on the accrual basis. If the difference between the results of cash and accrual basis of accounting are insignificant, the cash basis of accounting may be followed.

Accrual basis of accounting contributes significantly to effective financial control over resources and costs of operations and is essential to the development of meaningful cost information. Accrual basis of accounting involves identifying and recording costs and revenues in the period in which the revenue is earned or the cost is incurred, rather than in the period revenue is collected or the cost is 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 basis of accounting by federal agencies and Title 2 of the United States General Accounting Office's *Policy and Procedures Manual for Guidance of Federal Agencies*.

## **CAUSE**

In order for the ASD to accurately record the Fund's activities on an accrual basis of accounting, financial transactions received from each bureau must be current and timely. Currently, the financial statement information received from the bureaus for accounts payable and accrued liabilities, mortgages and claims payable, and forfeited currency is not current. For example, the ASD is not notified timely of the forfeiture of currency 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. The ASD is unable to identify that the forfeiture has occurred prior to year end unless the system is updated or proper notification is given, because the forfeiture date is entered into the system by the field and the supporting documentation is maintained by the field.

## **EFFECT**

The Fund's maintenance of the general ledger on a cash basis and the untimely recordation of transactions distorts the information reported in the financial statements on a monthly basis and results in the unavailability of financial information on which to rely for management's daily decision making procedures and evaluating the achievement of the Fund's objectives.

## **RECOMMENDATION**

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 SFFAS No. 1 and to improve financial information on which daily decisions are based, we recommend that the following specified procedures be implemented to properly account for transactions on the accrual basis of accounting throughout the year.

*Accounts Payable and Accrued Liabilities*—Each agency should submit requests for reimbursement monthly to 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 the Fund 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*—The issue of how to determine a lien liability and when to reduce it has been addressed by EOAF in the updated directive number 14, "Expeditionary Payment of Liens, Mortgages and Taxes by the Department of the Treasury", effective October 1995. However, the updated directive does not provide clear instructions as to when the liability is to be recorded. Therefore, implementation of the instructions, while resolving other issues will not ensure that a liability is recorded for claims and mortgages throughout the year. In fact, the directive requires that upon EOAF's approval of payment, the appropriate accounting strip data be affixed to the paperwork authorizing the obligation and disbursement of funds which is then to be forwarded to ASD for processing. Also, the directive requires ASD to disburse the approved payments within 14 calendar days from the date of EOAF's approval of payment. These requirements do not provide for a complete accrual of all liens and mortgages that would provide reliable information throughout the year, because ASD cannot record the liability unless EOAF's approval with the accompanying accounting strip is received allowing recordation of a liability only for claims and mortgages that have been approved for payment. Therefore, we recommend that EOAF approve the accrual of the liens and mortgages upon forfeiture of the property to enable ASD to record the liability at the time the asset is forfeited. We also recommend that deferred revenue be reduced at the time of forfeiture for the amount of the claim against the property because the liability reduces the net amount of revenue which will ultimately be realized through the sale of the asset; and accordingly that monthly procedures should be established in order to record the liability.

*Forfeited Currency*—ASD performed a reconciliation of forfeited currency between the revenue recorded in ACS and the forfeited currency balance reported in the "Analysis of Change in Forfeited Property" schedule required by the Statement of Federal Financial Accounting Standards No. 3 (SFFAS No. 3). However, if the system is not timely updated, this reconciliation cannot provide the information necessary to capture the recognition of revenue for currency that was forfeited prior to year end.

In accordance with the SFFAS No.3, we recommend that forfeited currency be recognized as revenue at the time of forfeiture. The SCTS is designed to account for USCS seized currency from the point of seizure (at which time it is recorded in a USCS Fund) until the seized currency is either re-

turned 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 USCS 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 ASD based on the F-13 report.

We understand procedures for updating SCTS are contained in the USCS Seized Property Handbook. We recommend that 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.

While it may be less efficient, an alternative method to implement these recommendations is to require, at each month end, each district coordinator to submit a signed letter to the appropriate individual at the ASD 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*—We recommend that the Fund establish and implement policies and procedures to ensure the recordation of property distributed to federal, state, and local agencies or foreign countries during the fiscal year. The procedures may require that each Treasury investigative bureau submit, on a monthly basis, a list of all property distributed to federal, state, and local agencies or foreign countries for accrual in the general ledger.

*Accounts Receivable*—Due to the significance of the revenues collected by EG&G and the average two weeks lapse between receipt of funds by EG&G and the recordation of revenue by the ASD, we recommend that EG&G provide the Fund with details of cash held as of month-end indicating the composition of revenue (that is sales, reimbursed storage cost, etc.). Based on this information, we recommend that the ASD accrue revenues not collected.

Until the necessary system changes can be implemented the manual year-end procedures will continue to be necessary to prepare subsequent year financial statements. Therefore, we recommend that 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.

## GENERAL LEDGER

### CONDITION

The Asset Information Management System (AIMS), that is the general ledger system maintained by USCS, processes, groups and summarizes transactions into account balances for all USCS funds and the Fund. The general ledger currently is not utilized to track all balances and transactions that comprise the Fund, such as accounts receivable, liens and mortgages payable, forfeited property and seized currency, which are tracked by separate systems not directly interfaced with the general ledger. Rather, information is identified and captured manually from other systems in order to properly compile financial statements.

### CRITERIA

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. It is further reinforced by the Federal Manager's Financial Integrity Act of 1982 (FMFIA) which requires that internal accounting and administrative con-

trols be established to provide reasonable assurances that revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

## **CAUSE**

The Fund's general ledger is maintained on the cash basis. Accordingly, accrual basis accounts are not maintained during the year. In addition, the inventory subsidiary systems maintained by each of the Treasury investigative bureaus do not interface with the Fund's general ledger. Accordingly, inventory related transactions that are non-cash generated are not recorded in the Fund's general ledger.

## **EFFECT**

The combined effect of the use of cash basis accounts and the lack of interface between the relevant subsidiary systems and the general ledger increases the likelihood of not capturing all transactions related to the Fund. As a result, financial statements produced during the year do not correctly present the results of operation and net position of the Fund.

## **RECOMMENDATION**

We have been informed that the lack of automatic interfaces between the general ledger and subsidiary systems will be corrected via the subsequent implementation of the SEACATS inventory systems. However, until the interfaces are operational, and to maintain control and an understanding of the Fund's operational results, we recommend that a separate trial balance be utilized to track all Fund related activity for the production of monthly financial statements. When the SEACATS system and general ledger interfaces 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**

## **CONDITION**

The Fund currently does not record forfeited property and related deferred revenue in the general ledger. In addition, the Fund does not record seized currency and the related liability in the general ledger. The inventory data obtained from each of the inventory systems for input in the general ledger is often not updated.

## **CRITERIA**

The OMB issued Statement of Federal Financial Accounting Standards Number 3 (SFFAS No. 3) requiring that seized monetary instruments be recognized as assets when seized and a liability established in an amount equal to the seized asset value. Upon forfeiture, seized monetary instruments shall be reclassified to forfeited and revenue recognized. In addition, other forfeited property (intangible, real and tangible property) shall be recorded with an offsetting deferred revenue when forfeiture judgement is obtained. To properly monitor and analyze Fund activity, seized currency and forfeited property should be recorded in the general ledger at the time of seizure and forfeiture.

## **CAUSE**

The inventory tracking systems utilized by the participating bureaus do not interface with the Fund's general ledger. As a result, inventory data from these inventory tracking systems are manually entered into the general ledger by journal entries only at year end. Information sent to the Accounting Services Division (ASD) is often late and not updated because the inventory systems of each bureau are not timely updated

for all items forfeited, transferred, sold or disposed. Consequently, ASD does not have updated seized currency and forfeited property data to timely record in the general ledger.

### ***EFFECT***

Complete financial statements cannot be produced from the general ledger at month-end or year end by using the general ledger balances; consequently, inventory data is identified and captured only annually from the inventory tracking systems in order to properly prepare year-end financial statements. Also, the inventory data obtained from these inventory tracking systems are often inaccurate and not updated which could result in preparation of misleading financial statements.

### ***RECOMMENDATION***

We recommend that seized currency, forfeited property and the related revenue be recorded in the Fund's general ledger at the time of seizure and forfeiture. As seized currency is now required to be presented in the balance sheet by SFFAS No. 3, we recommend that the asset and related liability be recorded in the general ledger at the time of seizure. We recommend that existing procedures be followed requiring bureaus' staff to forward the forfeiture instructions as authorized, to the appropriate personnel for updating the bureaus' inventory tracking systems and, if held by the contractor, to EG&G, to update SPMS to reflect changes in property status. Additionally, bureaus' staff should be required to specifically identify and report to the ASD, monthly, the status of all seized property items. We recommend that reconciliation procedures continue to be performed on a routine basis (e.g. quarterly). We have been informed that the implementation of the SEACATS inventory system will correct this condition. However, until SEACATS is operational, we recommend that ASD follow our recommendation above.

***EXHIBIT II***

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***INDEPENDENT AUDITOR'S EXHIBIT ON REPORTABLE CONDITIONS***

# INVENTORY PROPERTY TRACKING SYSTEMS

## CONDITION

The United States Customs Service (USCS), the Internal Revenue Service Criminal Investigation Division (IRS CID), the United States Secret Service (USSS) and the Bureau of Alcohol, Tobacco and Firearms (ATF) maintain seized and forfeited property, the value of which is included in the Fund's financial statements. In the prior year, 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 auditor's report on the financial statements. In fiscal year 1995, each of the agencies was able to prepare an auditable analysis of changes in forfeited and seized property, with respect to the dollar amounts of property. However, due to limitations of the inventory tracking systems, the appropriate unit of measurement for quantities (e.g., cases, pounds, etc.) was not presented in accordance with the requirements of SFFAS No. 3.

USCS, USSS and ATF's individual property tracking systems do not contain accurate and sufficient data required to prepare the analysis of changes in forfeited and seized property, without significant manual manipulation and reconciliation. Additionally, available data, such as liens and claim amounts or quantity (units of measurement) information, are not consistently available in separate bureaus inventory tracking systems. As a result, the analysis of changes in seized and forfeited property schedules was limited by data availability.

## CRITERIA

The Federal Accounting Standards Advisory Board (FASAB) approved and the Office of Management and Budget (OMB) issued Statement of Federal Financial Accounting Standards No. 3 (SFFAS No. 3), Accounting for Inventory and Related Property, which became effective beginning in fiscal year 1994. As such, the Fund is required to present certain disclosures. SFFAS 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. Therefore, each of the agencies' inventory property tracking systems should provide all data necessary to produce the analysis of changes in forfeited and seized property, with minimal manual intervention and reconciliation, and to provide management with meaningful information.

## CAUSE

*United States Customs Service*—The USCS tracking system, CPTS, maintains no historical data. The system overwrites data when changes are made and leaves no audit trail of when, how or why the changes were made. Specifically, any CPTS user can make changes to the system data to disguise a loss or theft of seized property, without a record of who made the change. Additionally, the system does not periodically generate a log of changes made, for supervisory review. Unauthorized changes would not likely be detected during seized property inventories since Custom's inventory instructions require only that quantity differences between CPTS and on-hand amounts be investigated.

For the most part, USCS' procedures for recording inventory activity in CPTS were adequate but the procedures were not always followed. For example, it was noted by a seized property supervisor, at one district, that seizures of certain firearms and small quantities of controlled substances from individuals at land border crossings are not recorded in TECS II and, therefore, not downloaded into CPTS for tracking purposes. According to the supervisor, USCS lacks written procedures to manually input these seizures in CPTS.

Seizures were not always recorded and approved in TECS II in a timely manner, resulting in delays in the seizures being downloaded to and tracked in CPTS. USCS' procedures require that information about new seizures be recorded and approved by supervisors in TECS II within 5 business days. This time frame was exceeded for approximately 4,000, or 10 percent, of fiscal year 1995 seizures, including about 400 seizures that were not approved until a month or more after the seizures.

Certain adjustments were required to be made to CPTS inventory balances in order to prepare a fair presentation of the SFFAS No. 3 exhibits. For example, adjustments resulting from the audit of the 1994 financial statements had not been recorded in CPTS. Other adjustments made to the beginning balance of inventory by USCS' staff were not adequately investigated to ensure propriety of presentation in the SFFAS No. 3 exhibits. As a result, the Fund performed reconciliations between the 1994 audited financial statements, CPTS and the outside contractor's system, SPMS, to prepare the SFFAS No. 3 exhibits.

CPTS could not be used to perform the required reconciliation between seized currency and deposits to the USCS suspense account, or the reconciliation between forfeited currency and deposits to the Fund. Consequently, manual reconciliations were performed to produce the SFFAS No. 3 exhibits.

*Bureau of Alcohol, Tobacco and Firearms*—In order to produce the SFFAS No. 3 exhibits, ATF printed a variety of standard reports and manually manipulated them to meet the reporting requirements. ATF's system Consolidated Asset Tracking System (CATS) could not be used to perform the required reconciliation between seized currency and deposits to the USCS suspense account, or the reconciliation between forfeited currency and deposits to the Fund. ATF manually reconciled this information based on printed reports.

The CATS system was unable to produce reports that listed the fiscal year 1995 ending balance of seized property or the fiscal year 1995 ending balance of forfeited property that had not been deposited into the Fund. These reports were produced manually by ATF. There were no reports available that would allow ATF to segregate assets being held as judicial evidence for a court exhibit. These items were determined by reviewing individual case files and reconciling them against the CATS reports.

It is a requirement of CATS that an appraised value be entered for all seized assets. Therefore, ATF entered appraised values for firearms, explosives and other prohibited items. However, the Treasury Department's Accounting Policy for Seized and Forfeited Property requires that these items be valued at zero for financial statement reporting purposes. As a result, adjustments and manual manipulation were required in preparing the SFFAS No. 3 exhibits.

Also, difficulties were encountered in obtaining accurate reports of forfeited items. ATF staff were often aware that an item had been forfeited because they were in possession of a Final Order of Forfeiture. However, the CATS system did not recognize this item as forfeited and ATF staff were not allowed to enter a forfeiture date into the CATS system if the asset had been forfeited judicially. Consequently, manual adjustments were required in order to prepare the SFFAS No. 3 exhibits.

*United States Secret Service*—The USSS' tracking system, ATS, does not provide historical data on cases which have had subsequent activity. For example, if the USSS staff were to produce a schedule on October 31 requesting information as of September 30, but an event occurred during the period of September 30 to October 31, the system would produce a schedule which would include all activities through October 31. Manual adjustments and reconciliations would have to be performed to reflect only activity as of September 30. In essence, ATS produces reports as of the request date. As a result, to produce the SFFAS No. 3 exhibits, the USSS staff compared two or more schedules and made significant manual adjustments to complete the analysis of changes in forfeited and seized property SFFAS No. 3 exhibits.

## **EFFECT**

The difficulties encountered in preparing the changes in forfeited and seized property analysis by the agencies referred to above indicate that the Fund lacks the ability to properly, fully and accurately account for seized and forfeited property.

The number of non-integrated systems makes reconciliation extremely difficult and seriously diminishes the quality of the data available for financial reporting.

The inventory systems of the Treasury law enforcement agencies do not contain the same data fields and the information may be defined differently in the four systems. As a result, the TFF was not able to present information such as lien or mortgage information, nor was the TFF able to use a quantity other than seizure line items in the analyses of changes in seized and forfeited property.

The current policies and procedures were developed piecemeal and independently of any one systems initiative, and, as a result, the systems do not effectively support the policies and procedures.

Because the current systems were developed prior to the recognized need for consistent, timely and accurate financial management data and strict financial management controls, little or no system functions (e.g., beginning and ending balances, audit trails, etc.) exist to support these areas.

## **RECOMMENDATION**

We understand that a major systems development effort which focuses on the design, development and implementation of the Seized Asset and Case Tracking System (SEACATS) has been approved and is underway for the USCS Service. This system as purported by the Fund's management, will provide a cradle-to-grave system for tracking all property from case initiation to final financial resolution and will meet all SFFAS No. 3 requirements for seized and forfeited property. Implementation of the system by the Fund's management will be used to help produce the audited financial statements starting in fiscal year 1997. This system will be made available to the other enforcement bureaus but they will not be required to use it. We recommend, and the Fund is hopeful, that SEACATS will become the system of record for the seized and forfeited property of all Treasury enforcement bureaus. Prior to final implementation during the development life cycle, we recommend that each bureau produce the SFFAS No. 3 analysis requirements for seized and forfeited property in order to evaluate and update any shortfalls in the SEACATS system. This will allow the agencies to recognize and correct any problems encountered in a more timely manner as well as alerting the staff to issues that might need to be considered in the development of SEACATS. The Fund's management plans to implement the SEACATS system beginning in fiscal year 1997.

## **RECONCILIATION BETWEEN THE SEIZED PROPERTY MANAGEMENT SYSTEM (SPMS) AND THE AGENCIES' PROPERTY SYSTEMS**

### **CONDITION**

USCS, the IRS CID, the USSS and the ATF manage and record seized and forfeited property in their respective inventory tracking systems. EG&G Dynatrend, an outside contractor, also manages and records seized and forfeited property transferred to and held by them for each of these bureaus in its inventory tracking system, SPMS. Currently, the inventory held by EG&G does not consistently agree to what is recorded in the bureaus' inventory tracking systems and inventory is not recorded in the general ledger until year-end. The year-end physical inventory value and count for all bureaus requires significant adjustments because seizures and forfeitures are not recorded in the various systems on a timely basis.

### **CRITERIA**

The Federal Manager's Financial Integrity Act (FMFIA) requires that financial management systems record and report financial data to provide for full financial disclosure and accountability in a useful, timely, reliable and complete manner.

### **CAUSE**

There are no procedures in place requiring the regular reconciliation of inventory systems' records maintained by each agency with inventory records maintained by EG&G.

The Fund records inventory in the general ledger based on the physical inventory count at year-end.

Seizing officers do not adhere to policy with respect to entering seizures and forfeitures in their bureaus' inventory tracking systems within the prescribed time period.



## ***EFFECT***

Due to non-integrated inventory and general ledger systems, the lack of inventory reconciliation and timely recordation in the general ledger results in the Fund's inability to provide accurate and timely financial information in a manner supportive of management's program and administrative responsibilities.

## ***RECOMMENDATION***

We recommend that reconciliations of the bureaus and EG&G's inventory be performed on a quarterly basis to ensure that the records maintained in all of the bureaus' inventory property tracking systems be compared with the contractor's (EG&G) system (SPMS) so that any differences will be determined and resolved timely, as appropriate. Accordingly, we recommend that inventory be recorded in the general ledger on a quarterly basis which will facilitate the implementation of accrual basis of accounting.

## **FORFEITED PROPERTY VALUATION**

### ***CONDITION***

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

Accordingly, when violations are discovered, the bureaus 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 seized property is 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 bureaus, destroyed, sold, or transferred to a state, local, or federal agency or foreign government.

The value of forfeited property is currently recorded in the bureaus' inventory tracking systems at appraised value (fair market value), determined at the seizure date, by the seizing agent, import specialist or independent appraiser.

To develop year-end value of forfeited property for inclusion in the Fund's 1994 and 1995 financial statements, management performed a historical analysis by category of property of sales values compared to the initial appraised amounts. These ratios were applied to the ending forfeited property value to determine the financial statement value of forfeited property.

### ***CRITERIA***

Statement of Federal Financial Accounting Standards (SFFAS) No. 3 requires forfeited property to be stated at fair market value at the time of forfeiture, in the bureaus' general ledger (inventory tracking systems).

### ***CAUSE***

The Fund does not perform an appraisal to determine fair market value of property at the date of forfeiture.

### ***EFFECT***

Carrying forfeited property at fair market value as of seizure date, in particular, for financial reporting purposes can be misleading because the value is often overstated and therefore does not present an accurate picture of the net realizable value to the Fund.

## ***RECOMMENDATION***

For inventory tracking and financial reporting purposes, we recommend that 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 that the Fund's management evaluate the accuracy of fair market values assigned to forfeited property. Accordingly, the fair market value should be determined by performing an appraisal at the date of forfeiture. We also recommend that the Fund's management continue reviewing the methodology used to arrive at fair market value to refine its accuracy and ease in preparation. As the process is refined, it will become easier to prepare the monthly analysis to properly value and record month-end forfeited property balances.

## **PERFORMANCE INDICATORS**

### ***CONDITION***

Performance indicators are assessments (both quantitative and qualitative) intended to help show how the Fund is accomplishing its mission through the delivery of services or processes. Performance indicators are derived from articulating the Fund's mission; developing and refining objectives, targets, goals, and benchmarks; and measuring actual performance against objectives, targets, goals, and benchmarks. The Fund's 1995 mission statement included in the Overview section does not specifically identify the Fund's objectives, targets, goals, and benchmarks. During fiscal year 1995, the Fund developed and reported on four performance indicators. However, these indicators are not all inclusive of the Fund's mission, goals, and objectives.

### ***CRITERIA***

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. These indicators should provide meaningful information with respect to the Fund's accomplishment of its mission, goals, and objectives.

### ***CAUSE***

The Fund has not fully identified, developed and implemented performance indicators that are all-inclusive and essential in measuring its performance in achieving its mission, goals, and objectives based on its enabling legislation.

### ***EFFECT***

The lack of feedback on the Fund's performance inhibits management's ability to assess its achievement of its mission, goals, and objectives.

## ***RECOMMENDATION***

We recommend that the Fund identify, develop and implement additional performance indicators that are specific to the goals and objectives of the Fund. In addition, policies and procedures should be implemented to accumulate, report and measure performance indicators on a routine (e.g. monthly) and consistent basis.

## ***SUPPLEMENTAL SCHEDULES***

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# DEPARTMENT OF THE TREASURY FORFEITURE FUND

## Asset Sharing Summarized by State and U.S. Territories

For the year ended September 30, 1995

(Dollars in thousands)

(Unaudited)

| State            | Currency Value    | Property Value   |
|------------------|-------------------|------------------|
| Alabama          | \$ 151            | 0                |
| Alaska           | 57                | 0                |
| Arizona          | 940               | 2,264            |
| Arkansas         | 52                | 0                |
| California       | 12,274            | 364              |
| Colorado         | 491               | 1                |
| Connecticut      | 58                | 0                |
| D.C., Washington | 149               | 0                |
| Delaware         | 30                | 0                |
| Florida          | 13,657            | 446              |
| Georgia          | 437               | 34               |
| Hawaii           | 25                | 41               |
| Idaho            | 30                | 4                |
| Illinois         | 2,535             | 15               |
| Indiana          | 35                | 20               |
| Iowa             | 367               | 18               |
| Kansas           | 16                | 0                |
| Kentucky         | 58                | 4                |
| Louisiana        | 70                | 13               |
| Maryland         | 17                | 9                |
| Massachusetts    | 164               | 40               |
| Michigan         | 1,161             | 7                |
| Minnesota        | 186               | 0                |
| Mississippi      | 743               | 35               |
| Missouri         | 116               | 3                |
| Montana          | 65                | 1                |
| Nebraska         | 63                | 0                |
| Nevada           | 18                | 0                |
| New Jersey       | 3,948             | 15               |
| New Hampshire    | 74                | 0                |
| New Mexico       | 4                 | 49               |
| New York         | 10,400            | 108              |
| North Carolina   | 537               | 53               |
| North Dakota     | 12                | 0                |
| Ohio             | 1,205             | 27               |
| Oklahoma         | 9                 | 0                |
| Oregon           | 117               | 0                |
| Pennsylvania     | 81                | 0                |
| Puerto Rico      | 0                 | 60               |
| Rhode Island     | 326               | 0                |
| South Carolina   | 20                | 0                |
| South Dakota     | 0                 | 0                |
| Tennessee        | 209               | 0                |
| Texas            | 11,402            | 325              |
| Utah             | 20                | 0                |
| Vermont          | 3                 | 0                |
| Virgin Islands   | 0                 | 2                |
| Virginia         | 451               | 46               |
| Washington       | 121               | 7                |
| West Virginia    | 50                | 0                |
| Wisconsin        | 18                | 20               |
| Wyoming          | 0                 | 0                |
| <b>Total</b>     | <b>*\$ 62,973</b> | <b>*\$ 4,027</b> |

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.

\* Detail may not add to total due to rounding.

# 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, 1995  
(Dollars in thousands)  
(Unaudited)

| Region/Districts                              | Total Number<br>of Cases | Forfeited<br>Being Held<br>as Evidence | Uncontested<br>Cash |
|---|--------------------------|--|---------------------|
| <b>United States Customs Service (USCS)</b>   |                          |  |                     |
| New York – JFK                                | 7                        | \$1,192                                | \$ 111              |
| New York – Seaport                            | 5                        | 1,752                                  |                     |
| Cleveland                                     | 1                        | 178                                    |                     |
| Puerto Rico                                   | 3                        | 907                                    |                     |
| Miami   | 8                        | 262                                    | 3,765               |
| San Diego                                     | 3                        | 482                                    |                     |
| Seattle                                       | 1                        | 246                                    |                     |
| Washington, DC                                | 1                        | 602                                    |                     |
| <b>Agency Total</b>                           | <b>29</b>                | <b>5,621</b>                           | <b>3,876</b>        |
| <b>Internal Revenue Service–CID (IRS CID)</b> |                          |  |                     |
| Pittsburgh                                    | 1                        |  | 150                 |
| Laguna Niguel                                 | 1                        |  | 675                 |
| Cleveland                                     | 2                        |  | 313                 |
| Greensboro                                    | 1                        |  | 158                 |
| Ft. Lauderdale                                | 2                        |  | 400                 |
| Austin  | 1                        |  | 112                 |
| Houston                                       | 3                        |  | 1,570               |
| <b>Agency Total</b>                           | <b>11</b>                | <b>0</b>                               | <b>3,378</b>        |
| <b>Grand Total</b>                            | <b>40</b>                | <b>\$5,621</b>                         | <b>\$7,254</b>      |

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 Revenues and Expenses and Distributions

For the year ended September 30, 1995

(Dollars in thousands)

(Unaudited)

| <b>Revenues and expenses and distributions by asset category:</b>          |  | <b>Revenues</b>  | <b>Expenses and Distributions</b> |
|--|--|------------------|-----------------------------------|
| Vehicles   |  | \$ 6,109         | \$ 21,346                         |
| Vessels  |  | 2,971            | 27,165                            |
| Aircraft   |  | 832              | 8,772                             |
| General Property   |  | 6,634            | 85,515                            |
| Real Property  |  | 82,471           | 3,406                             |
| Currency and monetary instruments  |  | 161,697          | 64,078                            |
|  |  | 260,714          | 210,282                           |
| Less:  |  |                  |                                   |
| Mortgages and claims   |  | (4,789)          | (4,789)                           |
| Refunds  |  | (4,423)          | (4,423)                           |
| Add:   |  |                  |                                   |
| Allocation of revenue to ONDCP Special Forfeiture Fund                     |  | 0                | 21,922                            |
| Excess of net revenues and financing sources over total operating expenses |  | 0                | 28,510                            |
|  |  | <b>\$251,502</b> | <b>\$251,502</b>                  |

| <b>Revenues and expenses and distributions by type of disposition:</b>     |  | <b>Revenues</b>  | <b>Expenses and Distributions</b> |
|--|--|------------------|-----------------------------------|
| Sales of property and forfeited currency and monetary instruments          |  | \$134,581        | \$ 11,065                         |
| Reimbursed storage costs   |  | 2,807            | 2,807                             |
| Placed into official use of other Customs funds                            |  | 38,441           | 38,441                            |
| Assets shared with state and local agencies                                |  | 58,100           | 61,328                            |
| Destructions   |  | 0                | 20,663                            |
| Cancellations (including payments in lieu of forfeiture)                   |  | 11,073           | 4,980                             |
| Assets shared with other federal agencies                                  |  | 8,393            | 9,764                             |
| Assets shared with other foreign countries                                 |  | 7,319            | 7,319                             |
| Pending disposition  |  | 0                | 53,915                            |
|  |  | 260,714          | 210,282                           |
| Less:  |  |                  |                                   |
| Mortgages and claims   |  | (4,789)          | (4,789)                           |
| Refunds  |  | (4,423)          | (4,423)                           |
| Add:   |  |                  |                                   |
| Allocation of revenue to ONDCP Special Forfeiture Fund                     |  | 0                | 21,922                            |
| Excess of net revenues and financing sources over total operating expenses |  | 0                | 28,510                            |
|  |  | <b>\$251,502</b> | <b>\$251,502</b>                  |

This supplemental schedule "Analysis of Revenues 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 revenues and expenses by each seizure for property held at the contractor. The percentages of revenues and expenses from this system were applied to revenues 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 revenues 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, 1995  
(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, 1995, the Fund had forfeited currency of \$ 12,635,267 held and not deposited in the Department of the Treasury Forfeiture Fund. 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, 1995, the Fund had forfeited property held for sale of \$ 30,187,000. 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, 1995, there was \$ 2,017,000 of forfeited currency and other monetary instruments that had not yet been transferred to the Fund. This is reported as a part of "receivables: federal" 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. Total currency transferred was \$62,973,000 and total property transferred was \$ 4,027,000 at appraised value.

(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, 1994, which became the beginning balance for the Fund on October 1, 1994, as reported in the audited financial statements is \$135,192,000.

**(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 \$4,789,000. 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, 1995  
(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 | \$58,100,000 |
| Foreign countries        | 7,319,000    |
| Other federal agencies   | 8,393,000    |

**(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 \$28,509,000.

The amount of seized currency not on deposit in the Fund's suspense account at September 30, 1995, was \$19,497,000. This amount includes some funds in process of being deposited at year end; cash seized in late August or September 1995, that is pending determination of its evidentiary value from the U.S. Attorney; and the currency seized for forfeiture being held as evidence.

On a budgetary basis, unobligated balances as originally reported on the Office of Management and Budget Reports, SF-133, "Report on Budget Execution," was \$93,844,000 for fiscal year 1995. As required by the Omnibus Crime Control Act of 1995, \$50 million and one half of the excess unobligated balances of \$ 21,922,000 in fiscal year 1995, 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 | \$67,360,916 | 36 seizures |
| IRS CID              | \$45,829,448 | 14 seizures |
| U.S. Secret Service  | \$2,144,000  | 1 seizure   |

**(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 \$12,875,000. A detailed schedule is provided on page 67.

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

The total net position of the Fund at September 30, 1995, as reported in the audited financial statements is \$ 157,917,000.

(Continued)



# DEPARTMENT OF THE TREASURY FORFEITURE FUND

Information Required by 31 U.S.C. 9703(f)  
For the year ended September 30, 1995  
(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 1995, \$ 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 \$ 21,922,000 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 Auditor's Report is found in Section II.

**(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 earlier in this Section.

Executive Office for Asset Forfeiture  
Office of the Under Secretary (Enforcement)  
Department of the Treasury  
Washington, DC 20220