FINANCIAL MANAGEMENT: Audit of the Treasury Forfeiture Fund Fiscal Years 2001 and 2000 Financial Statements

OIG-02-048

February 21, 2002

Office of Inspector General

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The Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

February 21, 2002

OFFICE OF
INSPECTOR GENERAL

MEMORANDUM FOR RAYMOND M. DINEEN, DIRECTOR
TREASURY FORFEITURE FUND

FROM: William H. Pugh *William H. Pugh*
Deputy Assistant Inspector General
for Financial Management and Information
Technology Audits

SUBJECT: Report on the Treasury Forfeiture Fund
Fiscal Years 2001 and 2000 Financial Statements

I am pleased to transmit the attached Report, Audit of the Treasury Forfeiture Fund (TFF) Fiscal Years (FY) 2001 and 2000 Financial Statements. TFF's financial statements were audited by the firm of Gardiner, Kamya & Associates, P.C., an Independent Public Accountant (IPA). The IPA issued the following reports:

- Independent Auditor's Report on Financial Statements;
- Independent Auditor's Report on Internal Control; and,
- Independent Auditor's Report on Compliance with Laws and Regulations.

The IPA rendered an unqualified opinion on the FY 2001 financial statements. However, the IPA's report on internal controls cited two reportable conditions, neither of which were considered material weaknesses. The first reportable condition, (The General Ledger Does Not Capture All Balances and Transactions that Comprise the Fund During the Year), was downgraded from a material weakness in FY 2000 to a reportable condition in FY 2001. The second reportable condition (Asset Specific Expenses are not Recorded and Accounted for by the Fund) was reported in prior years and is of continuing significance.

The IPA's report dated December 21, 2001 on compliance with laws and regulations reported one instance of noncompliance. Specifically, one of the reportable conditions in the IPA's Internal Control Report (Asset Specific Expenses are not

Recorded and Accounted for by the Fund) caused the Fund to be in non-compliance with *The Budget and Accounting Procedures Act of 1950*, Section 3512, *Executive Agency's Accounting System*, which states agencies need to ensure the safeguarding of assets and the proper recording of revenues and expenditures. There are no other instances of noncompliance with other laws and regulations. The IPA will issue a management letter discussing various issues that were identified during the audit, but were not required to be included in the audit report.

My staff monitored the conduct of the audit and performed a quality control review of the IPA's working papers. The audit work was performed in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

Should you have any questions, please contact me at (202) 927-5430, or a member of your staff may contact Thomas A. Moschetto, Director, Financial Management Audits at (202) 927-5074.

Attachment

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TREASURY FORFEITURE FUND

ANNUAL REPORT
FISCAL YEAR 2001

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

Gardiner, Kamya & Associates, P.C.

Management Consultants and Certified Public Accountants
Washington, D.C.

Message from the Director

I am pleased to present this Accountability Report for fiscal year (FY) 2001. While highlighting the Fund's financial and operational performance over the past year, this report also focuses on some of the significant achievements and accomplishments made by our Treasury law enforcement bureaus.

FY 2001 was an excellent year for the Treasury Forfeiture Fund. Revenue for the year was strong, reflective of an increase in high impact forfeitures and their effect upon criminal enterprises. During FY 2001, the Fund undertook the integration of the seized property and forfeited assets tracking system of Customs (SEACATS) with the general ledger system which led to the remediation of a material weakness previously reported by our external auditors.

The events of September 11, 2001 had a profound effect upon the United States and the world at large. The mission and major focus for many federal law enforcement organizations shifted with the events of that day, and now anti-terrorism and terrorist financing investigations are a national priority. With the passage of the USA PATRIOT ACT in 2001, law enforcement agencies now have greater ability to investigate potential money laundering and terrorist financing operations.

As we enter fiscal year 2002, the Fund is focused on supporting money laundering and terrorist financing investigations. The Fund will support the development and implementation of the High Intensity Financial Crimes Area Task Forces (HIFCAs) which are an integral part of *The 2001 National Money Laundering Strategy* and a priority of Treasury's Office of Enforcement. In addition, we plan to increase our investment in technologies and data collection; encourage our law enforcement bureaus to pursue truly major cases and establish financial plans that reflect such priorities; and further develop and modify forfeiture training and forfeiture awareness programs that are responsive to today's needs and are designed to foster the understanding and application of asset forfeiture.

Raymond M. Dineen

Raymond M. Dineen, Director
Executive Office for Asset Forfeiture
U.S. Department of the Treasury

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OVERVIEW

Profile of the Treasury Forfeiture Fund

The Treasury Forfeiture Fund (the Fund) is the receipt account for the deposit of non-tax forfeitures made pursuant to laws enforced or administered by Treasury law enforcement agencies and the United States Coast Guard. It was established in October of 1992 as the successor to the Forfeiture Fund of the United States Customs Service. When the enabling legislation for the Fund was enacted, it brought together all of Treasury law enforcement under a single forfeiture program. The member law enforcement bureaus of the Treasury Forfeiture Fund are the U.S. Customs Service (Customs), the U.S. Secret Service (Secret Service), the Bureau of Alcohol, Tobacco and Firearms (ATF), and the Internal Revenue Service's Criminal Investigation (IRS-CI). These Treasury bureaus are joined by the U.S. Coast Guard of the Department of Transportation, a member of the Fund as the result of a long-standing close law enforcement relationship with Customs.

The Fund's enabling legislation was first published in Public Law 102-393, enacted October 6, 1992, and is codified under Title 31 of the United States Code, Section 9703. The Fund is a "special receipt account." This means the Fund can provide money to other Federal entities toward the accomplishment of a specific objective for which the recipient bureaus are authorized to spend money.

The Executive Office for Asset Forfeiture (EOAF), which provides management oversight of the Fund, falls under the auspices of the Under Secretary for Enforcement, U.S. Department of the Treasury. EOAF's organizational structure includes the Director, Legal Counsel, Assistant Director/Policy and Operations, and Assistant Director/Financial Management and Chief Financial Officer. Functional responsibilities are delegated to various team leaders. EOAF is located in Washington, D.C. and currently has 20 full time equivalent positions.

U.S. Customs Service

Operation Skimflick

Operation Skimflick is a Customs initiated and directed financial task force dedicated to investigating money laundering violations related to the alleged skimming of millions of dollars from adult entertainment retail establishments. The unreported income is suspected of being smuggled to numerous foreign tax havens, and returned to the U.S. in the form of business loans.

Since its inception in June 1999, agents assigned to Operation Skimflick have identified 100 pieces of real property valued at nearly $14 million as being subject to seizure and forfeiture. A total of 33 search warrants have been executed, over 900 grand jury subpoenas have been served, and over $2.1 million in cash has been seized. In addition, an account located in the Channel Islands with a balance of $960,000 has been frozen. In FY 2001, 20 videotapes depicting child pornography were seized.

Project Colt

Project Colt is an international task force based in Montreal, Canada that targets telemarketing fraud. The task force is led by the Royal Canadian Mounted Police and Customs has assigned agents to this multi-national, multi-departmental task force. To date, Project Colt has identified over 1,200 U.S. and Canadian victims of telemarketing fraud. By gathering strategic intelligence information, Project Colt personnel have identified locations where the telemarketers instructed their victims to send money. As a result of the identification of these locations, Project Colt personnel have seized and returned $10 million to U.S. and Canadian victims.

There are currently 6 open cases in the U.S. involving a total of 19 persons accused of multiple charges, including the interstate transportation of stolen goods. There have been 5 U.S. indictments and 3 convictions. In FY 2001, $689,198 was seized and/or recovered under the auspices of Project Colt, 1 arrest was effected, and 23 separate seizures of fraudulent lottery material were made.

Software, Inc.

The Customs San Francisco field office received referrals from several software companies regarding an Internet website offering counterfeit software for sale. The website (http://www.software-inc.com) had advertised counterfeit Adobe, Macro-media, Auto-desk, and Microsoft software for sale. The investigation disclosed that the website was located in Spain and proceeds from the sales of the counterfeit software were being deposited in New York. Estimates indicated a potential loss of millions of dollars in revenue for at least three U.S. software manufacturers. Based on an extensive multi-jurisdictional and multi-national investigation, three suspects pled guilty in the Central District of California for violations of law pertaining to the distribution and sales of copyrighted computer software, criminal copyright infringement, and conspiracy to commit wire fraud. The defendants further agreed to the forfeiture of approximately $900,000, a late model luxury car, and a large quantity of computer and other electronic components.

Operation Monopoly

Operation Monopoly is a Customs initiated and led financial task force investigating money laundering and Bank Secrecy Act (BSA) violations involving financial institutions, money service businesses (wire remitters and check cashing businesses), and telephone calling card businesses in Puerto Rico. The task force currently has 27 open investigations targeting individuals and businesses that are suspected of laundering narcotic proceeds through the aforementioned entities. In FY 2001, personnel assigned to Operation Monopoly effected 15 seizures totaling more than $4.4 million, seized 3 firearms, made 18 arrests, and secured 8 money laundering indictments.

Outbound Currency Initiatives

In an effort to attack the illegal exportation of unreported currency derived from illicit activities, Customs periodically conducts "outbound initiatives" designed to detect such illegal enterprises. One such initiative, Operation Windfall, commenced on June 18, 2001. As with previous outbound initiatives, a critical component of Operation Windfall was the ability to gather investigative and intelligence information and forward it to the appropriate entity in an expedient manner.

Operation Windfall, which was in effect from June 2001 through August 2001, resulted in 199 currency seizures totaling $7,209,515 and 29 arrests for BSA violations. Overall in FY 2001, Customs personnel effected 1,110 currency seizures totaling $44,484,000, resulting in 229 arrests for BSA violations.

In connection with an investigation into outbound currency smuggling, the Outbound Currency Task Force (OCTF) conducted an examination on June 23, 2000 of an individual subsequently identified as Victor Anthony Lyn-Shue. Mr. Lyn-Shue attempted to depart from the United States via the Miami International Airport in route to Montego Bay, Jamaica.

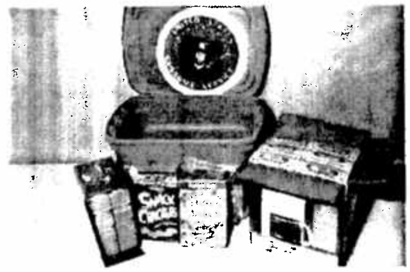
Customs Inspectors conducting x-ray examinations in the baggage handling area revealed numerous boxes with compact, dense objects inside corresponding with Mr. Lyn-Shue's baggage. A subsequent search of the bins revealed that they were filled with several grocery and small appliance boxes. The boxes had been resealed and taped with clear plastic tape. Inside the boxes were bundles of U.S. currency in various denominations totaling $2,155,270. A narcotics K-9 made a positive indication for the trace residue of narcotics on the currency.

A Customs Inspector located Mr. Lyn-Shue in the jet-way prior to boarding Air Jamaica flight. The Inspector identified himself and provided Mr. Lyn-Shue with a Currency Reporting Form (Customs Publication-503), which states the currency reporting laws in writing. On the Form 503, Mr. Lyn-Shue represented that he was carrying only $1,500 in currency or monetary instruments. Mr. Lyn-Shue further represented that he was carrying a total of five pieces of checked and carry-on luggage, he had packed his own luggage, and was not transporting packages for anyone else.

On July 3, 2000, the OCTF executed a federal search warrant at the residence of Mr. Lyn-Shue in Broward County, Florida. As a result of the execution of this search warrant, Customs agents determined the residence was utilized by Mr. Lyn-Shue to house and conceal large sums of U.S. currency. A computer and numerous financial documents were also seized.

Further investigation by the OCTF resulted in two seizures totaling over $1,600,000 on April 5, 2000. This investigation allegedly revealed and linked the Universal Cambios, Miami, the Miami Beach

Forex, and Mr. Lyn-Shue together as alleged money launders of narcotics proceeds to individuals and businesses in Jamaica. On May 8, 2001, $2,155,290 was forfeited to the United States.



Artificial Reef Program

Customs, the Miami-Dade County Department of Environmental Resources Management and the Atlantic Game-Fish Foundation have joined forces to create a new artificial reef off the Florida coastline. On July 13, 2001, the motor vessels Brandywine, Miguana, and Etoile de Mer were scuttled approximately four miles off the coast of Key Biscayne, Florida, becoming a part of Florida's extensive artificial reef system. The artificial reef will simulate nature and create habitats for fish and other marine life as well as provide a recreational area for scuba diving and other maritime activities.

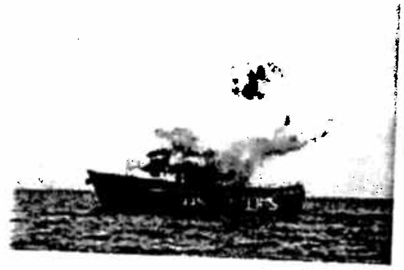
The three vessels were seized on the Miami River in January and February 2001 during "Operation Riverwalk." During the operation, Customs agents found 925 pounds of cocaine hidden onboard. The cocaine had an estimated wholesale value of approximately $7.7 million. Operation Riverwalk is a federal, state and local law enforcement effort aimed at cleaning up the Miami River area and combating drug smuggling.

On January 18, 2001, the M/V Etoile de Mer was seized after Customs Inspectors found 186 pounds of cocaine, worth $ 1.5 million wholesale. The cocaine was discovered on the main deck of the ship in two duffel bags and hidden in a false wall between the cargo hold and the engine room. The M/V Etoile de Mer was an 80-foot steel hulled fishing vessel converted to carry dry cargo.

On February 27, 2001, the M/V Miguana was seized as part of Operation Riverwalk after Customs Inspectors and Florida Highway Patrol officers found 125 pounds of cocaine, worth $ 1.1 million wholesale. The cocaine was initially discovered when "Bandit," a U.S. Customs drug detection dog, and "SPEC," a Florida Highway Patrol drug detection dog, alerted to the presence of cocaine near two propane tanks at the stern of the ship. While examining the tanks, Inspectors discovered they were not properly connected to the galley stove contained no propane gas and was unusually heavy. An examination of the bottom of those tanks revealed that the bottoms had been cut and patched with a Bondo type material in an apparent effort to hide the illegal cargo. The M/V Miguana is a 101 foot former garbage scow converted to carry dry cargo.

On February 12, 2001, the M/V Brandywine was seized after Customs Inspectors discovered a false compartment under a waste oil tank in the forward cargo hold. The false compartment was created with a false floor in the waste oil tank and accessed through a 4-inch by 12-inch steel plate that was put in place with a Bondo type material.

Internal Revenue Service



The Pegg Case

This investigation was initiated in December 1994 as a part of a joint investigation involving IRS-CI, the FBI, and Customs. Beginning in July 1997 and on subsequent occasions, William S. (Buck) Pegg was debriefed in the presence of defense counsel and federal attorneys. Pegg admitted that he and his brother, Joe H. Pegg, imported vast quantities of marijuana into the United States from South America during the 1970s and 1980s. This operation generated millions of dollars in proceeds.

In 1981, Joe Pegg and several others were convicted of federal narcotics charges. Pegg received an 18-year prison sentence. Joe Pegg served less than four years before qualifying for parole, and his probation ended in June 1993. Investigators subsequently learned that Joe Pegg had numerous assets that should have been surrendered when he pled guilty to the drug charges in 1981. These assets included a $600,000 house; 495 acres and two houses on a Colorado ranch; $931,000 in a Georgia bank; commercial properties; and vacant lots located in the Florida Keys.

In the early 1980's, Buck Pegg's father, who was also involved in the drug operation, gave Buck Pegg $4 to $5 million in U.S. currency that the father had received from the marijuana organization. Buck Pegg transferred the cash to foreign bank accounts that he had established in Liechtenstein. Buck Pegg instructed the managers of the foreign accounts to invest the funds in interest bearing accounts. Buck Pegg left the funds in the interest bearing accounts from 1984 through 1997.

In June 1997, Buck Pegg entered into a plea agreement with the U.S. District Court in the Middle District of Georgia, whereby he pled guilty to money laundering and conspiracy. In exchange for the guilty plea, Buck Pegg received three years probation on each count, and agreed to forfeit at least $20 million in monies and property to the United States of America.

In January of 1998, with the written consent of Pegg and his attorneys, the overseas bank accounts were transferred to Customs pending forfeiture. In the summer of 2001, the Final Order of Forfeiture was signed granting the forfeiture of approximately $46.5 million in assets to the United States. William Pegg's brother Joe is currently serving a 30-year sentence for his second marijuana smuggling conviction.

Entitlement Fraud

The Chicago Field Office participated in a joint investigation with the United States Department of Agriculture, Office of Inspector General (USDA OIG), in an entitlement fraud case. This investigation focused on Robert Greer and Floyd Moore, owners of two Chicago area retail food and liquor businesses. Greer Food and Liquor was authorized to accept and redeem USDA Food Coupons, which it did. Floyd Moore's business was not an authorized Food Coupon Retailer. However, Food Coupon redemption proceeds were deposited into Moore's business checking account through a scheme to purchase food coupons at a discount and then redeem them for face value using Greer's authorization number. This unauthorized redemption by Moore, along with a scheme to purchase food coupons at a discount and then redeem them for face value using Greer's authorization number, form the basis of the charged fraud scheme thus defrauding the government. The defendants were charged with money laundering (18 USC 1957), conspiracy (18 USC 371) and various tax charges.

USDA OIG submitted requests for equitable shares of the four specific assets named in the indictment of Greer and Moore. Those assets included a Lexus automobile and three multi-unit apartment buildings, which were purchased using proceeds of the food coupon scheme. The apartment buildings were owned jointly by Greer and Moore. In reaching their plea agreements, Greer and Moore agreed to plead guilty to the conspiracy count and that the money laundering count would be dropped, thus rendering the forfeiture action moot.

The defendants also agreed that they would not contest any forfeiture undertaken as a civil action. The contemplated civil forfeiture action would seek forfeiture of the original vehicle, the three real properties and three bank accounts valued at $232,652.90.

A Default Judgement and Decree of Forfeiture was entered in the case in December 2000 and an amended order was entered on January 3, 2001 forfeiting assets valued at $905,782.35 to the Federal Government.

Money Laundering - Three Generation Family Affair

In January 1998, IRS-CI began an investigation of individuals involved in narcotics trafficking in the Columbus, Ohio area. These individuals were looking for ways to conceal the proceeds they derived from the sale of narcotics. The ensuing investigation subsequently flushed out a drug organization, culminating with the conviction of five individuals, including a career criminal, his mother, and his son.

The ringleader of the organization was Thomas A. Henderson, who had been twice convicted for bank robbery and once for voluntary manslaughter during the 1970s and 1980s. He was imprisoned for these crimes from 1981 to 1995 until released on a ten-year parole. However, it did not take Henderson long to get himself back into trouble. With the help of his son, Henderson smuggled as much as 3.3 tons of marijuana from Houston, Texas into the Columbus, Ohio area during a three-year period. His mother then helped him launder the proceeds by transferring money among bank accounts and purchasing money orders that were used to buy and repair apartment buildings for him.

Based upon the information developed during the undercover operation, Henderson was arrested and search warrants were obtained for five residences, two vehicles, two safe deposit boxes, and a business. Henderson, his son, Thomas D. Henderson, and his mother, Nedra Angel, were indicted on February 9, 2001 and charged with a number of violations including making a false statement in the acquisition of a firearm, conspiracy to distribute marijuana, and money laundering. All three subsequently signed plea agreements. As part of his plea agreement, Henderson agreed to the forfeiture of $11,900 currency seized from his residence, and six pieces of rental property worth nearly $400,000. He also agreed to pay money judgments totaling $59,191 for assets he previously owned but for which he no longer held title.

The Henderson investigation was jointly worked with the Bureau of Alcohol, Tobacco, and Firearms (ATF) and the Narcotics Bureau of the Columbus Police Department. The investigation not only dismantled a criminal organization and forfeited almost a half-million dollars of assets, but also is an excellent example of the cooperation that exists between federal and local law enforcement agencies.

Brian Russell Stearns

On February 9, 2001, in Austin, Texas, Brian Russell Stearns, who purportedly ran a multimillion-dollar international finance business from his Lake Austin mansion, was found guilty of defrauding more than $50 million from investors located around the world. After a two-week trial, jurors found Stearns guilty on all 80 counts of the indictment, including money laundering, mail fraud and other violations. The jury also ruled that authorities could liquidate $35 million in proceeds from Stearns' money laundering operation and return it to the investors.

During this investigation IRS-CI seized Stearn's $2.5 million mansion, a Lear Jet, a Gulfstream aircraft, and a $2.0 million helicopter. The helicopter and Gulfstream aircraft were released to lien-holders. Also seized were a Lamborghini, a Mercedes, two BMWs, a Land Cruiser, a 4-Winds boat, oil investments, a Florida townhouse, $1.5 million in bank accounts and deposits, and jewelry, including a $350,000 watch. The District Judge ordered these assets forfeited to the government and then ordered that they be released to court appointed receivers for liquidation. The proceeds of these assets will be utilized as partial restitution for the victims.

Sterns was convicted in February 2001 and was sentenced to 30 years in prison on July 12, 2001.

U.S. Secret Service

The U. S. Secret Service Los Angeles West African Task Force (LAWATF), a multi-jurisdictional law enforcement task force formed to combat West African organized crime groups, arrested a foreign national from Nigeria in connection with an advance fee fraud scheme operating in the Los Angeles area. In excess of $600,000 and one automobile were seized by the task force after these funds were identified as the fruits of fraudulent activity.

The LAWATF initiated their investigation after developing information indicating the suspect was utilizing proprietary information in an attempt to swindle a Los Angeles based company that was owed $35 million by the Nigerian government. The suspect claimed to be a ranking official of the Central Bank of Nigeria, and that he was in the Los Angeles area to assist the Los Angeles based company with obtaining the $35 million. To perpetrate the fraud, the suspect claimed that he was authorized to release the funds, but in order to do so, the Los Angeles based company must first pay a one percent administrative fee, in this case $350,000. He also claimed that he had control of $166 million, and produced bogus bank documents to support this assertion.

Investigation by the LAWATF disclosed that during one three month period the suspect received $1,051,500, which was derived from fraud. During an ensuing ten-month period, he received another $609,865 in fraudulently derived proceeds. These funds were received at, and subsequently transferred from the bank accounts of his associates, who were located in the United States, England, and Germany. German law enforcement authorities suspect one of his associates, an attorney, of embezzling legitimate funds or laundering tainted funds. The amount attributed to the embezzling and laundering activity is reported to be $3 million. The attorney subsequently fled Germany.

LAWATF obtained and served federal seizure warrants on the suspect's bank account, amounting to $600,000, and on 1998 automobile, which was purchased with the proceeds of his fraudulent activities. The funds have since been forfeited to the Treasury Forfeiture Fund, which also funds, on behalf of the Secret Service, the LAWATF and 40 other nationwide financial or electronics crimes task forces.

Officials of the Secret Service reported that the suspect's attempted fraud on the Los Angeles based company was a minor deviation from the standard Nigerian/West African fraud. The perpetrators of this type of fraud solicit numerous intended victims (hoping to hook just a few), usually via fax or the internet, claiming that they have several million dollars available for wire transfer from Nigeria to the United States, and need the use of the intended victim's bank account in order to transfer the funds. The intended victim is promised upwards of ten percent of the proceeds, which can appear substantial when the perpetrators claim to have tens of millions of dollars ready for transfer. In support of the fraud, the perpetrators prepare bogus bank statements and other documents, which appear official and are faxed to the victim. The perpetrators, never intending to transfer funds, later request that the intended victim forward a processing fee of several thousand dollars to a bank account outside of the United States, usually in England or Nigeria. The process of "milking" the victim continues for as long as possible, with claims that the victim needs to payoff a corrupt Nigerian bank or customs official, or for the payment of taxes.

The Secret Service has taken an aggressively proactive approach to investigating Nigerian advance fee, or 4-1-9 fraud (named after the Nigerian criminal fraud statute). The Secret Service, with funding from the Fund, has established ten multi-agency task forces within the United States that exclusively investigate this type of fraud. Since January 1999, the Secret Service has had an investigative presence in Lagos, Nigeria. During June 2000, a Resident Office was officially established at the U.S. Consulate in Lagos, staffed full time by Secret Service special agents. These agents liaison with Nigerian police officials, frequently assisting Nigerian police with working leads developed by Secret Service task forces in the U.S., and other sources, and with executing arrest and search warrants, and interviewing suspects. The Secret Service Lagos agents also conduct liaison with other law enforcement members of the Lagos diplomatic community.

Efforts to suppress advance fee fraud operations in the country of Nigeria have resulted in the displacement of fraud rings to other nations. Since the inception of the Secret Service Lagos Resident Office, there has been a significant decline in the number of large-scale advance fee fraud operations being discovered. However, other host countries show a corresponding increase in the number of large-scale 4-1-9 fraud operations, particularly South Africa, England, Germany and some Far East countries. The countries that comprise central West Africa (e.g., Benin, Ghana, and Cameroon), continue to experience an explosive increase in Nigerian criminal activities operating within their borders.

The perpetration of Nigerian advance fee fraud, both in the U.S. and abroad, is a burgeoning business, victimizing practically every prosperous, industrialized nation. Although losses due to advance fee fraud are not tabulated, in the U.S. they easily amount to tens of millions of dollars a year. Worldwide, unwitting victims of these fraudulent schemes lose hundreds of millions of dollars annually. The apparent trends indicate that advance fee fraud will continue to be a significant law enforcement problem in the future.

Bureau of Alcohol, Tobacco and Firearms

Western Kentucky Flea Markets Investigation

An 18-month illegal firearms investigation by the Bureau of Alcohol, Tobacco and Firearms in Western Kentucky led to the execution of sixteen search warrants and sixteen arrest warrants on March 7, 2001. A total of 465 firearms were seized, including a machinegun and two firearms with obliterated serial numbers. As a result of this investigation, two Federal Firearms Licensee's surrendered their licenses voluntarily to ATF. In April and June of 2001, a total of eighteen defendants were indicted by a Federal Grand Jury for various firearms violations (two more are pending). From

May to August 2001, approximately 30 warning letters were served to individuals associated with this investigation that did not meet the threshold for prosecution.

In June 2001, the flea markets in Greenville and Lietchfield, Kentucky were visited. No firearms were found displayed and no vendors selling firearms could be found.

In August 2001, thirteen defendants plead guilty. The remaining defendants are scheduled to plead guilty in October with one exception going to trial.

Alcohol Diversion

This joint ATF and FBI investigation started when it was discovered that a distillery located in Connecticut was improperly identifying and preparing alcohol for export to several countries in eastern Europe, including Russia and the Ukraine. The alcohol was being labeled as industrial products in order to avoid taxes. The company cooperated and an offer in compromise was reached resulting in a total of $400,000 paid to the U.S. Government. Of this amount, $200,000 was forfeited to the Treasury Forfeiture Fund and the plant was closed for three days.

Tobacco Diversion

This investigation was initiated based on a call from the Umatilla Tribal Police Department located in Umatilla, Oregon. During this investigation, over 19,000 cartons of cigarettes were seized in violation of the Contraband Cigarette Trafficking Act. This case has resulted in four federal indictments. The forfeiture and sale of the cigarettes has resulted in $326,000 being deposited into the Treasury Forfeiture Fund.

The Treasury Forfeiture Fund is a "special receipt account." Such accounts represent federal fund collections earmarked by law for a specific purpose. The enabling legislation for the Treasury Forfeiture Fund (31 U.S.C. § 9703) defines those purposes for which Treasury forfeiture revenue may be used.

Once property or cash is seized, there is a forfeiture process. Upon forfeiture, seized currency, initially deposited into a suspense, or holding account, is transferred to the Fund as forfeited revenue. Once forfeited, physical properties are sold, and the proceeds are deposited into the Fund as forfeited revenue. It is this forfeiture revenue that comprises the budget authority for meeting expenses of running Treasury's forfeiture program.

Expenses of the Fund are prioritized so that unavoidable, or "mandatory" costs are met first. Expenses may not exceed revenue in the Fund. The Fund has several different spending authorities. Each of them is described below.

Mandatory Authority

The mandatory authority items are generally used to meet "business expenses" of the Fund, including expenses of storing and maintaining seized and forfeited assets; valid liens and mortgages; investigative expenses incurred in pursuing a seizure; information and inventory systems; and certain costs of local police agencies incurred in joint law enforcement operations. Following seizure, equitable shares are paid to state and local law enforcement agencies that contributed to the seizure activity at a level proportionate to their involvement.

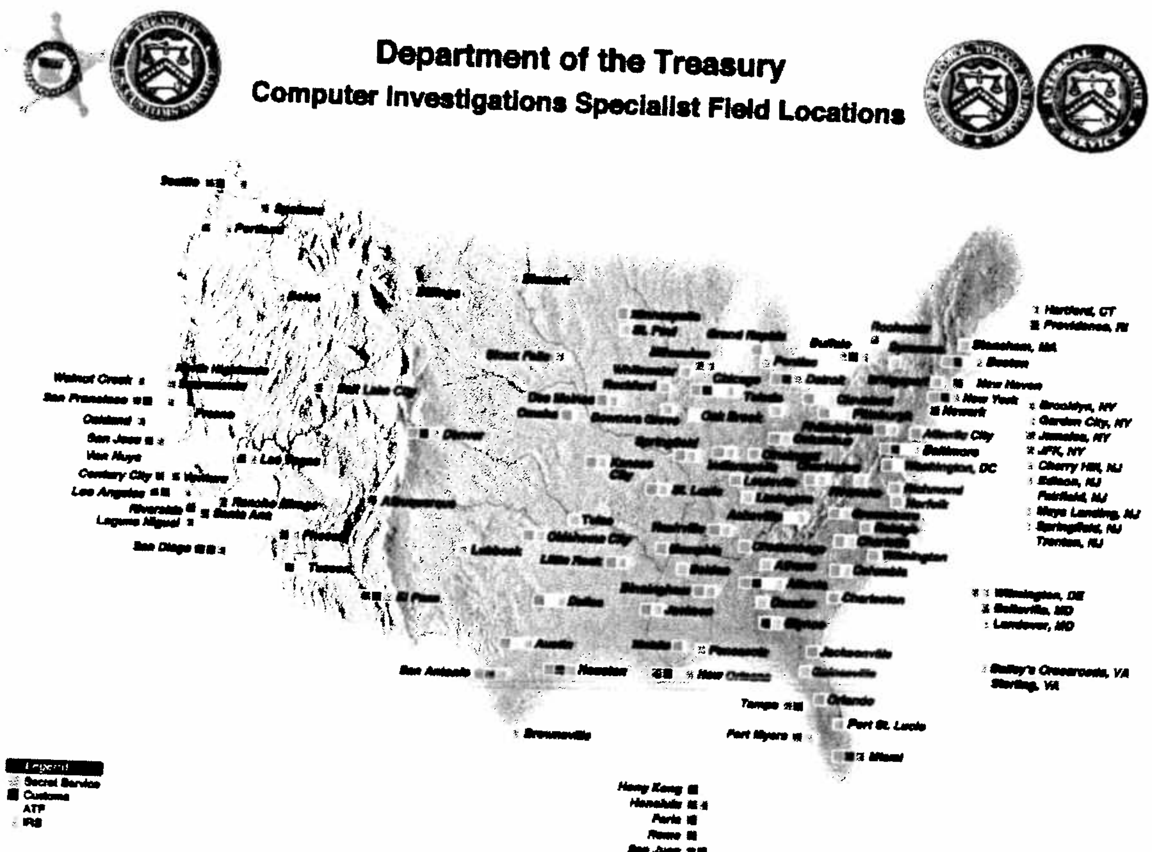
It is a strategic goal of the Fund to emphasize and monitor high impact forfeitures. To make significant forfeitures requires longer, more in-depth investigations. To this end, Fund management emphasizes the use of mandatory funding authorities that fuel large case initiatives including Purchase of Evidence and Information, expenses associated with Joint Operations, Investigative Expenses Leading to Seizure, and Asset Identification and Removal Groups.

Asset Identification and Removal Groups

Asset Identification and Removal Groups (AIRGs) help ensure that seizure operations are conducted in the right way, with a maximum of precision and efficiency. In FY 2001, the Fund contributed over $3.9 million in mandatory funding to the efforts of Customs AIRGs. The groups are comprised of special agents, auditors, accountants and contract data analysts who are specially trained to identify assets of criminal organizations. Today, there are 21 AIRGs located within Customs' field offices throughout the United States. The personnel assigned to the groups receive special training at Treasury's Federal Law Enforcement Training Center to prepare them in the areas of asset identification, removal and forfeiture. The AIRGs are particularly valuable in international investigations, where criminal proceeds can be moved rapidly around the world. Their expertise in identifying and tracking these assets is critical to an effective seizure and forfeiture program. These groups assist their agencies in meeting their mandates. The results that they attain can be used as a tool to assist managers in assessing the strength and depth of criminal organizations and gauge their success in disrupting crime.

Treasury Computer Investigative Specialist Program

An increasing number of investigations conducted by the Treasury's Law Enforcement Bureaus are in an electronic environment or contain electronic evidence. A key component of the bureaus' ability to perform their investigative mission in today's high-tech and rapidly changing environment is the Treasury Computer Investigative Specialist (CIS) Program. This joint initiative began in 1997 as a means of coordinating Treasury resources and leveraging assets. Since that time, it has developed into one of the premier computer forensics programs in the world, with over 400 Treasury special agents deployed throughout the United States and abroad.



Some of the primary features of the program are:

- All "special agent" personnel (as opposed to other programs that have technicians conducting exams);
- Combined coordinated training (basic and advanced) between the four bureaus in the area of electronic crimes;
- State of the art equipment; and
- Continuous in-service training and equipment upgrades for CIS agents in the field.

In FY 2001, EOAF provided just over $5.5 million to the CIS program. The majority of the funding went for basic and advanced training and specialized equipment. Three basic classes were held in which 72 Treasury agents were given instruction in computer forensics. In addition, for the first time, a fourth class was held that combined Treasury agents and state and local law enforcement officials from EOAF funded task forces. This class was another means of outreach by the Treasury bureaus to our partners in the local law enforcement community.

In addition to the basic training, 72 Treasury agents were given advance training in the area of computer networks and network intrusions. Other agents received specialized training in online investigations and other computer platforms (Macintosh, Linux, Unix, etc.). It should be noted that the majority of the training administered during FY 2001 was conducted by senior CIS agents from the four Treasury bureaus.

During FY 2001, agents of the CIS Program successfully conducted computer forensics exams and contributed to investigations involving identity theft and credit card fraud, bank fraud, money laundering, wire fraud, access device fraud, network intrusion as well as child pornography. The Secret Service conducted computer forensic examinations involving protective intelligence investigations cases. Agents also assisted state and local law enforcement with a wide variety of investigations including but not limited to cases involving murder and missing persons.

Secretary's Enforcement Fund

The Secretary's Enforcement Fund (SEF) is derived from equitable shares received from the Justice Department's forfeiture fund for work done by Treasury law enforcement bureaus leading to Justice forfeitures. SEF revenue is available for federal law enforcement purposes of any Treasury law enforcement organization. In FY 2001, the Fund allocated $31.8 million in SEF spending to the law enforcement agencies, the majority of which was spent on major case funding, database development, and computer forensic efforts. The remainder of the funding went to support several projects at Customs (vault construction and Seized Asset Case Tracking System enhancements) and to support the new ATF Fire Laboratory.

Major Case Funding

Major case funding provided by the SEF covers expenses related to highly focused and intensive large-scale investigations into organized criminal enterprises. This funding supports high risk, high return investigations that develop over a one to two year period. These types of cases typically involve undercover work. This funding covers expenses that cannot be covered under the Fund's mandatory authorities. Overall, the Treasury law enforcement bureaus received $2.5 million in SEF funds to support major case activities in FY 2001.

Database Development

Funding for database development allows the bureaus to design or enhance sophisticated intelligence-gathering systems for case development and case initiation. Information sources are becoming more accessible through the Internet and other computerized information sources. Law enforcement sources are expanding with additional cross-agency access being granted for enforcement purposes. Database development facilitates the sharing of important investigative information through multiple interfaces. It assists in the rapid search of information in various repositories, enhances investigative collaboration, and facilitates the process of link-analysis. These databases help detect patterns and trends, identify types of criminal behaviors, and assist in predicting future behavior. The Fund allocated $3.75 million to the law enforcement bureaus for database development efforts in FY 2001.

Computer Forensics

A growing percentage of the investigations that our agencies handle now center on computer evidence. It is critical for the law enforcement bureaus to protect the integrity of original computer evidence and be able to authenticate any evidence originating from an electronic source. The funding provided for these initiatives has allowed the agencies to maintain or build computer forensic programs and laboratories. These forensic programs involve a significant amount of research and development which cannot be funded through the mandatory authority. In FY 2001, $4.5 million was provided to the bureaus to support computer forensic initiatives.

Super Surplus

Super Surplus represents the remaining unobligated balance after an amount is reserved for Fund operations in the next fiscal year. Super Surplus can be used for any federal law enforcement purpose. No Super Surplus was declared for FY 2001. However, $11.3 million remaining in Super Surplus from the Customs Service Southwest Border Initiative which Congress approved in FY 2000 was carried over into FY 2001.

The Fund has declared a Super Surplus for FY 2002 in the amount of $35.198 million.

Strategic View

Over the next several years, the Fund will continue to focus on strategic cases and investigations which result in high-impact forfeitures. We believe this approach will effect the greatest damage to criminal organizations while accomplishing the ultimate objective – to disrupt and dismantle criminal activity. To make significant forfeitures requires longer, more in-depth investigations. To this end, Fund management emphasizes the use of mandatory funding authorities that fuel large case initiatives including Purchase of Evidence and Information, expenses associated with Joint Operations, Investigative Expenses Leading to Seizure, and Asset Identification and Removal teams. In addition, the Fund will support and carry out the goals of the National Money Laundering Strategy as well as the High Intensity Financial Crime Areas (HIFCAs); support Treasury's efforts to attack terrorist financial infrastructures; and continue to improve our ability to measure, assess and adapt our performance.

Strategic Mission and Goal

The mission of the Treasury Forfeiture Fund is to affirmatively influence the consistent and strategic use of asset forfeiture by Treasury law enforcement bureaus to disrupt and dismantle criminal enterprises. The goal of the Treasury Forfeiture Fund is to support the Department of the Treasury's national asset forfeiture program in a manner that results in Federal law enforcement's continued and effective use of asset forfeiture as a high-impact law enforcement sanction to disrupt and dismantle criminal activity. To achieve our mission and goal, the program must be administered in a fiscally responsible manner that seeks to minimize the administrative costs incurred, thereby maximizing the benefits for law enforcement and the society it protects.

Performance Measure

In FY 2001, the Fund measured performance through the use of the following performance measure: Percent of forfeited cash proceeds resulting from high-impact cases. This measures the percentage of forfeited cash proceeds resulting from high-impact cases (those with currency seizures in excess of $100,000). Focusing on strategic cases and investigations which result in high-impact seizures will effect the greatest damage to criminal organizations while accomplishing the ultimate objective – to disrupt and dismantle criminal activity.

Results

Fund performance measures and associated results for FY 2001 are as follows:

Performance Measure	FY 2000 Actual	FY 2001 Target	FY 2001 Actual
Percent of forfeited cash proceeds resulting from high-impact cases	N/A*	75%	79%

*This measure was not in use prior to FY 2001.

A target of 75 percent high-impact cases was set for FY 2001. The final percentage for FY 2001 was 79 percent, four percentage points over the target. This measure was not put into effect until FY 2001. This measure is calculated by dividing the total amount of forfeited cash proceeds from cases greater than $100,000 by the total amount of forfeited cash proceeds for all cases.

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, 2001.

These statements have been prepared to disclose the financial position, results of operations and changes in net position pursuant to the requirements of the *Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994 (GMRA)*. 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, it should be noted that direct comparisons are not possible between figures found in this report and similar financial figures found in the FY 2002 and FY 2001 *Appendix, Budget of the United States Government*. Further, the notes to the financial statements and the independent auditor's opinion and report on internal controls are also integral components to understanding fully the financial highlights of Fund operations described in this chapter.

Statement: Changes in Net Position

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

Treasury Forfeiture Fund
Statements of Changes in Net Position
For the Years Ended September 30, 2001 and 2000
(Dollars in millions)

	2001	2000
Net Position – Beginning of Year	$ 230	$325
Prior Period Adjustments	-	-
Adjusted Net Position – Beginning of Year	230	325
Financing Sources (Non-exchange revenues):		
Intragovernmental		
Investment Interest Income	15	24
Public		
Forfeited currency and monetary instruments	172	141
Sale of forfeited property (net of mortgages and claims)	25	31
Proceeds from participating with other Federal agencies	34	16
Value of property transferred in equitable sharing	7	7
Payments in lieu of forfeiture, net of refund	2	1
Reimbursed costs	2	2
Other	1	4
Total Gross Non-Exchange revenues	258	226

	2001	2000
Less:Equitable Sharing		
Intragovernmental		
Federal	(4)	(7)
Public		
State and local agencies	(56)	(85)
Foreign Countries	(1)	(7)
Victim Restitution	(4)	(10)
	(61)	(102)
Total Equitable Sharing	(65)	(109)
Total Non-Exchange Revenues, Net	193	117
Transfers-Out		
Intragovernmental		
Super Surplus	(66)	(71)
Secretary's Enforcement Fund	(12)	(8)
Property	-	(1)
Total Transfers-Out	(78)	(80)
Total Financing Sources	**115**	**37**
Net Cost of Operations	**108**	**132**
Net Results of Operations	**7**	**(95)**
Net Position – End of Year	**$ 237**	**$230**

Cost of Operations. For FY 2001, the Cost of Operations totaled $108 million, down from $132 million in FY 2000. The difference reflects lower costs in seizure investigative costs and asset management, as well as fewer data systems expenses.

Investment Interest Income. The Fund is authorized to invest cash balances in Treasury securities. On September 30, 2001, investments totaled $388 million. This compares to a total of $460 million invested on September 30, 2000. Interest income earned on investments during FY 2001 totaled $15 million, down from $24 million in FY 2000. The difference reflects lower interest rates on earnings during 2001.

Currency and Monetary Instruments. The Fund's primary source of revenue is forfeited currency and monetary instruments. For FY 2001, revenue from forfeited currency and monetary instruments totaled $172 million, or 71 percent of total revenues from *public* sources, versus $141 million, or 70 percent of *public* source revenue in FY 2000.
FY 2001 represents another successful year in high-impact cash forfeiture cases, with 79 percent of all cash forfeitures stemming from cases with a value of $100,000 or more.

Sale of Forfeited Property. The revenue from forfeited property, net of mortgages and claims, was $25 million in FY 2001 and $31 million in FY 2000, a pattern that also supports the slightly lower cost of the national seized property contract in FY 2001 versus FY 2000.

Proceeds from Participating with other Federal Agencies. Pursuant to Title 28 U.S.C. 524(c), the Department of Justice is authorized to share forfeited proceeds with the Department of the Treasury reflecting the degree of Treasury law enforcement in the effort leading to seizure of the forfeited asset. Funding from these sources is available to the Secretary of the Treasury, without fiscal year limitation, for any Treasury law enforcement purpose. For FY 2001, these proceeds from joint investigations with other Departments totaled $34 million, and for FY 2000 they totaled over $16 million.

Equitable Sharing and Victim Restitution. For FY 2001, the Fund shared a total of $57 million with state and local law enforcement agencies and foreign countries as compared to a total of $92 million in FY 2000. An additional $4 million was shared with other Federal agencies in FY 2001, as compared to $7 million in FY 2000. Victim restitution totaled $4 million in FY 2001 as compared to $10 million in FY 2000.

Transfers-Out. During FY 2001, $78 million in Super Surplus funding, and Secretary's Enforcement Funds were transferred out. This compares to a slightly higher total in FY 2000 of $80 million.

Net Results of Operations. The Statement of Changes in Net Position indicates a smaller cost of operations in FY 2001 versus FY 2000, accompanied by a positive Net Results from Operations in FY 2001 of over $7 million as compared to an apparent but not actual operating loss of $95 million in FY 2000. The FY 2000 figures reflect large expenses from prior year retained earnings (Super Surplus, Secretary's Enforcement Fund and Victim Restitution).

Changes in Net Position. The net position at the end of FY 2001 totals $237 million, compared to $230 million at the end of FY 2000, an increase of $7 million reflecting the additional retained earnings from the net results of operations.

Statement: Net Cost

Costs of the Forfeiture Program – Intragovernmental. After revenue is applied toward policy mandates such as equitable sharing, shown in the Statement of Changes in Net Position as negative revenue or applied non-exchange revenue, the remaining financing supports the law enforcement activities of the Fund and pays for the storage of seized and forfeited property and sales associated with the disposition of forfeited property.

On the Statement of Net Cost, the Net Cost of Operations, as mentioned previously under the Statement of Changes in Net Position, decreased to $108 million in FY 2001, from $132 million in FY 2000, largely attributable to reduced costs in the category of seizure investigative costs and asset management, and fewer costs in the category of data systems, training and others.

Treasury Forfeiture Fund
Statements of Net Cost
For the Years Ended September 30, 2001 and 2000
(Dollars in millions)

	2001	2000
Program:		
ENFORCEMENT		
Intra-governmental		
Seizure Investigative costs and asset management	$46	$55
Other asset-related contract services	1	2
Awards to informers	3	2
Data systems, training, and others	16	27
Super Surplus	*	1
Federal law enforcement conveyances	*	*
Secretary's Enforcement Fund	1	*
Total Intra-governmental	**67**	**87**
With the Public:		
National Contract Services Seized Property and other	32	35
Joint Operations	9	10
Total with the Public	**41**	**45**
Total Program Costs	**108**	**132**
Less: earned revenues	0	0
NET COST OF OPERATIONS	**$108**	**$132**

(*) Less than $500,000 in amount.

Intra-governmental Costs. These represent the amounts incurred by participating bureaus in running their respective forfeiture programs.

National Seized Property Contract. The largest single program cost of the Fund is the storage, maintenance and disposal of real and personal property. This function is performed by EG&G Dynatrend, a private firm under contract to the U.S. Customs Service. EG&G provides storage for Treasury's forfeiture program through a nationwide system of 17 warehouse facilities with a capacity in excess of 470,000 square feet, as well as supplemental facilities provided by over 200 active vendors under contract to EG&G. In FY 2001, EG&G expenses were approximately $32 million, down from a total of nearly $35 million in FY 2000.

Net Cost of Operations. As a result of the decline in overall expenses during FY 2001, the net cost of operations dropped to $108 million in FY 2001, from $132 million in FY 2000, a decrease of eighteen percent.

Statement: Balance Sheet

Assets, Liabilities and Net Position

Total assets of the Fund decreased in FY 2001 to $597 million, down from $642 million in FY 2000, a decrease in asset value of 7 percent. At the same time, during FY 2001, total liabilities of the Fund decreased to $360 million in FY 2001, down from $412 million in FY 2000, a reduction of thirteen percent in overall liabilities pending at the end of the fiscal year. As the result of a positive change in net position for FY 2001, the Cumulative Results of Operations, i.e., retained earnings, increased at the end of FY 2001 to a total of $237 million, up $7 million from $230 million at the end of FY 2000.

A summary of all assets and liabilities required for presentation on the Balance Sheet of the Fund as of September 30, 2001 and 2000 is presented in the following table.

Treasury Forfeiture Fund
Balance Sheets
September 30, 2001 and 2000
(Dollars in millions)

ASSETS	2001	2000
Intra-governmental Assets		
Fund Balance with Treasury	$105	$49
Investments and Related Interest	388	460
Accounts Receivable	0	*
Advances	*	1
Total Intragovernmental	**493**	**510**
Cash and Monetary Assets	75	104
Accounts Receivable	1	*
	76	104
Forfeited Property		
Held for sale, net of mortgages, liens and claims	26	28
To be shared with Federal, State or Local, or Foreign Governments	*	*
Total Forfeited Property, net of mortgages, liens and claims	26	28
Capitalized Software	2	*
Total Assets	**$597**	**$642**

	2001	2000
LIABILITIES		
Intra-governmental Liabilities		
Distributions payable:		
Other Federal Agencies	$ *	$ *
Accounts Payable	23	38
Total Intra-governmental Liabilities	**23**	**38**
Seized Currency	279	303
Distributions Payable	22	35
Accounts Payable	10	8
Deferred revenue from forfeited assets	26	28
TOTAL LIABILITIES	**360**	**412**
NET POSITION		
Cumulative results of operations	237	230
TOTAL LIABILITIES AND NET POSITION	**$597**	**$642**

(*) Less than $500,000 in amount

Summary of Financial Highlights

Net Position. To summarize, Fund management concluded FY 2001"in the black," with the necessary resources to commence the business of the asset forfeiture program for FY 2002. Fund management declared a significant Super Surplus from FY 2001 operations, which will be used for law enforcement needs of Department of Treasury bureaus. If use of prior year retained earnings, i.e., Super Surplus, is subtracted from current year costs, the Fund shows net results of operations of $73 million for FY 2001, a strong equity position.

FY 2001 Audit. The Fund's independent auditors have given the FY 2001 financial statements an Unqualified Opinion and determined that all material weaknesses of the Fund have been resolved. Not since the inception of the Fund in 1992 has the audit opinion been free of at least one material weakness until now. Fund management is pleased to report this status.

Financial and Program Performance -What is needed and planned. OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements,* requires that agencies include an explanation of what needs to be done and what is planned to be done to improve financial or program performance. In that regard, Fund management provides the following information with regard to reportable conditions identified by auditors during the FY 2001 financial statement audit.

In fiscal year 2000, the auditors of the Fund's financial statements reported that the Fund's general ledger did not capture all balances and transactions that comprise the Fund and they classified this condition as a material weakness.

During fiscal year 2001, U.S. Customs implemented an integration process to capture seized and forfeited currency and property transactions and balances originating from its inventory system through an integrated system (FGL). The FGL will eventually be extended to include transactions generated by all the participating agencies of the Fund. The auditors evaluated this integration process as a follow up to the material weakness reported in fiscal year 2000 and have reduced the level of this finding to a reportable condition in fiscal year 2001.

In fiscal year 2000, the auditors reported two reportable conditions. They were briefly, (1a) inadequate accounting and recording of liens and claims; (1b) asset expenses and revenue are not recorded and accounted for; and (2) unsubstantiated values for seized property.

During fiscal year 2001, Fund Management worked with Customs to modify the procedures to update appraised values in SEACATS and the auditors did not identify any material valuation problems. This condition is now considered to have been resolved.

The various bureaus improved their accounting and reporting of liens and claims and the liens payable listing had fewer discrepancies than in previous years. This condition is now considered to have been resolved.

In addition, the Fund is now capable of recording revenue at the asset level but not expenses. In fiscal year 2001, the auditors will repeat this finding but only as it pertains to expenses.

No new reportable conditions were identified during fiscal year 2001. However, the previous material weakness pertaining to the general ledger capturing of balances and transactions has been down-graded to a reportable condition for FY 2001.

Fund Management's Plan Regarding Reportable Conditions. In fiscal year 2002, Fund Management will continue to perfect the integration process and will extend FGL to include transactions generated by all participating agencies of the Fund to link its general ledger with their inventory systems. In addition, Fund Management has contracted with a private contractor to warehouse its seized and forfeited property and will work with this contractor to develop and implement an acceptable methodology for allocating expenses to specific line items.

Look Forward. Fund management is pleased with the resolution of all material weaknesses and the reduction in the number of reportable conditions identified against the FY 2001 financial statements. Efforts will continue for the enhancement of systems performance and the development of systems integration.

Limitations of the Financial Statements. As required by OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*, Fund management makes the following statements regarding the limitations of the financial statements:

- The financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 USC § 3515(b).

- While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

- The statement should be read with the realization that they are for a component of the U.S. government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

SECTION II
FINANCIAL STATEMENTS

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Management Consultants and Certified Public Accountants
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Independent Auditor's Report on Financial Statements

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

We have audited the Principal Statements (balance sheets and the related statements of net cost, changes in net position, budgetary resources and financing, hereinafter referred to as "financial statements") of the Department of the Treasury Forfeiture Fund (the Fund) as of and for the years ended September 30, 2001 and 2000. These financial statements are the responsibility of Fund Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audits 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 Fund Management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of September 30, 2001 and 2000, and its net costs, changes in net position, budgetary resources, and the reconciliation of net costs to budgetary obligations, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued a report dated December 21, 2001, on our consideration of the Fund's internal control structure and a report dated December 21, 2001, on its compliance with laws and regulations.

GKA

Our audits were conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph of this report as a whole. The information presented in Fund Management's Overview of the Fund and Other Accompanying Information sections is not a required part of the financial statements but is supplementary information required by OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements,* or the *Treasury Forfeiture Fund Act of 1992.* Although we have read the information presented, such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

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

December 21, 2001

Department of the Treasury Forfeiture Fund
BALANCE SHEETS
As of September 30, 2001 and 2000
(Dollars in Thousands)

	2001	2000
Assets:		
Intragovernmental :		
Fund balance with Treasury	$ 105,064	$ 49,262
Investments and related interest (Note 3)	388,451	460,356
Accounts receivable (Note 4)	-	8
Advances (Note 5)	10	704
Total Intragovernmental	493,525	510,330
Cash and other monetary assets (Note 6)	74,978	103,744
Accounts receivable (Note 4)	812	338
	75,790	104,082
Forfeited property (Note 7)		
Held for sale, net of mortgages, liens and claims	25,853	27,466
To be shared with Federal, state or local, or foreign governments	15	282
Total forfeited property, net of mortgages, liens and claims	25,868	27,748
Capitalized software (Note 10)	2,369	-
Total Assets	$ 597,552	$ 642,160
Liabilities:		
Intragovernmental:		
Distributions payable		
Other Federal agencies	$ 61	$ 94
Accounts payable	22,410	38,102
Total Intragovernmental	22,471	38,196
Seized currency (Note 9)	278,926	303,629
Distributions payable (Note 11)		
State and local agencies and foreign governments	22,385	34,656
Accounts payable	10,327	7,816
Deferred revenue from forfeited assets	26,103	28,121
Total Liabilities	360,212	412,418
Net Position:		
Cumulative results of operations (Note 12)	237,340	229,742
Total Liabilities and Net Position	$ 597,552	$ 642,160

The accompanying notes are an integral part of these financial statements

Department of Treasury Forfeiture Fund
STATEMENTS OF NET COST
For the years ended September 30, 2001 and 2000
(Dollars in Thousands)

	2001	2000
Program:		
ENFORCEMENT		
Intragovernmental:		
Seizure investigative costs and asset management	$ 45,482	$ 54,591
Other asset related contract services	1,490	1,872
Awards to informer	3,017	1,624
Data systems, training and others	15,722	27,176
Super surplus (Note 14)	284	1,243
Federal law enforcement conveyance	13	4
Secretary's enforcement fund (Note 15)	880	-
Total Intragovernmental	66,888	86,510
With the Public:		
National contract services seized property and other	31,777	34,883
Joint operations	8,898	10,337
Total with the Public	40,675	45,220
Net Cost of Operations	$ 107,563	$ 131,730

The accompanying notes are an integral part of these financial statements

Department of Treasury Forfeiture Fund
STATEMENTS OF CHANGES IN NET POSITION
For the years ended September 30, 2001 and 2000
(Dollars in Thousands)

	2001	**2000**
Net Position - Beginning of year	$ 229,742	$ 324,710
Financing Sources (Non-Exchange Revenues):		
Intragovernmental		
Investment interest income	15,453	23,895
Public		
Forfeited currency and monetary instruments	171,454	140,414
Sales of forfeited property net of mortgages and claims	25,271	30,896
Proceeds from participating with other Federal agencies	33,764	16,205
Value of property transferred in equitable sharing	7,297	7,112
Payments in lieu of forfeiture, net of refund	1,830	880
Reimbursed costs	2,336	2,299
Others	1,463	4,045
Total Gross Non-Exchange Revenues	258,868	225,746
Less: Equitable Sharing		
Intragovernmental		
Federal	(4,380)	(6,557)
Public		
State and local agencies	(56,422)	(85,104)
Foreign countries	(1,079)	(6,569)
Victim Restitution	(3,867)	(10,540)
	(61,368)	(102,213)
Total Equitable Sharing	(65,748)	(108,770)
Total Non-Exchange Revenues, Net	193,120	116,976
Transfers-Out		
Intragovernmental		
Super Surplus (Note 14)	(65,505)	(70,927)
Secretary's Enforcement (Note 15)	(12,454)	(8,244)
Property	-	(1,043)
Total Transfers-Out	(77,959)	(80,214)
Total Financing Sources- Net	115,161	36,762
Net Cost of Operations	(107,563)	(131,730)
Net Results of Operations	7,598	(94,968)
Net Position - End of Year	$ 237,340	$ 229,742

The accompanying notes are an integral part of these financial statements

Department of Treasury Forfeiture Fund
STATEMENTS OF BUDGETARY RESOURCES
For the years ended September 30, 2001 and 2000

(Dollars in Thousands)

	2001	2000
Budgetary Resources:		
Budget authority	$ 269,925	$ 226,196
Unobligated balance- beginning of year	62,895	190,947
Spending authority from offsetting collections	124	68
Recoveries from prior year obligations	9,198	29,856
Total Budgetary Resources	$ 342,142	$ 447,067
Status of Budgetary Resources:		
Obligations incurred	$ 251,943	$ 384,172
Unobligated balances - available	90,199	62,895
Total Status of Budgetary Resources	$ 342,142	$ 447,067
Relationship of Obligations to Outlays:		
Obligated balance, net - beginning of year	$ 229,153	$ 221,982
Obligated balance, net - end of year	(189,922)	(229,153)
Obligations incurred	251,943	384,172
Subtotal	291,174	377,001
Less: Offsetting receipts	(9,322)	(29,924)
Net Outlays	$ 281,852	$ 347,077

The accompanying notes are an integral part of these financial statements

Department of Treasury Forfeiture Fund
STATEMENTS OF FINANCING
For the years ended September 30, 2001 and 2000
(Dollars in Thousands)

	2001	2000
Resources Used to Finance Activities:		
Budgetary resources obligated		
Obligations incurred	$ 251,943	$ 384,172
Less: Spending authority from offsetting collections and adjustments	(9,322)	(29,924)
Net obligations	242,621	354,248
Other Resources		
Transfers - out	(77,959)	(80,214)
Total Resources Used to Finance Activities	164,662	274,034
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	21,936	(23,239)
Resources that finance the acquisition of assets	(2,369)	-
Other resources or adjustments to net obligated resources that do not affect net cost of operations		
Mortgages and Claims	(5,507)	(4,453)
Refunds	(5,411)	(5,842)
Equitable Sharing (Federal, state/local and foreign)	(61,881)	(98,230)
Victim restitution	(3,867)	(10,540)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(57,099)	(142,304)
Total Resources Used to Finance the Net Cost of Operations	107,563	131,730
Net Cost of Operations	$ 107,563	$ 131,730

The accompanying notes are an integral part of these financial statements

Note 1: Reporting Entity

The Department of the Treasury Forfeiture Fund (Treasury Forfeiture Fund or the Fund) was established by the Treasury Forfeiture Fund Act of 1992, Public Law 102-393 (the TFF Act), and is codified at 31 U.S.C. 9703. The Fund was created to consolidate all Treasury law enforcement bureaus under a single forfeiture fund program administered by the Department of the Treasury (Treasury). Treasury law enforcement bureaus fully participating in the Fund are the U.S. Customs Service (Customs); the Internal Revenue Service (IRS); the United States Secret Service (Secret Service); 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 few distributions from the Fund. The U.S. Coast Guard, part of the Department of Transportation, also participates in the Fund. However, all Coast Guard seizures are treated as Customs seizures because the Coast Guard lacks seizure authority.

Prior to the establishment of the Fund, ATF, IRS, and Secret Service participated in the Assets Forfeiture Fund of the Department of Justice. Customs had its own forfeiture fund into which deposits of all Customs and Coast Guard forfeitures were made. The Fund basically transformed the Customs Forfeiture Fund into a Departmental fund serving the needs of all Treasury law enforcement bureaus. FinCEN and FLETC did not previously participate in any forfeiture fund. Prior to Fiscal Year (FY) 1994, only Customs and Coast Guard participated in the Fund.

The Fund is a special fund that is accounted for under Treasury symbol number 20X5697. From this no-year account, expenses may be incurred consistent with 31 U.S.C. 9703, as amended. A portion of these expenses, referred to as discretionary expenses, are subject to annual appropriation limitations. Others, referred to as non-discretionary (mandatory) expenses, are limited only by the availability of resources in the Fund. Both expense categories are limited in total by the amount of revenue in the Fund. The Fund is managed by the Treasury's Executive Office for Asset Forfeiture (EOAF).

The principal goals of the Treasury forfeiture program are to: (i) punish and deter criminal activity by depriving criminals of property used in, or acquired through, illegal activities; (ii) be cognizant of the due process rights of affected persons; (iii) enhance cooperation among foreign, Federal, state, and local law enforcement agencies through the equitable sharing of assets forfeited; and (iv) produce revenues to enhance the forfeiture program and strengthen law enforcement.

Under a Memorandum of Understanding (MOU) with Treasury, Customs acts as the executive agent for certain operations of the Fund. Pursuant to that executive agency role, the Customs National Finance Center (NFC) is responsible for accounting and financial reporting for the Fund, including timely and accurate reporting and compliance with Treasury, the Comptroller General and the Office of Management and Budget (OMB) regulations and reporting requirements.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

The Fund began preparing audited financial statements in Fiscal Year 1993 as required by the Fund's enabling legislation 31 U.S.C. 9703(f)(2)(H), and the Chief Financial Officers Act of 1990. Beginning with the Fiscal Year 1996 report, the Government Management Reform Act of 1994 (GMRA) requires executive agencies, including the Treasury, to produce audited consolidated annual reports and related footnotes for all activities and funds.

The Fund's financial statements are presented in accordance with OMB Bulletin 01-09, *Form and Content of Agency Financial Statements.*

The Fund's financial statements with respect to the balance sheet, the statement of net cost, and the statement of changes in net position are reported using the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. The Fund's statement of budgetary resources is reported using the budgetary basis of accounting. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. The Fund's statement of financing is reported on both an accrual (authorization) and budgetary basis of accounting (obligations and unfilled customer orders) as a means to facilitate an understanding of the differences between these bases of accounting.

Financial Statements Presented

These financial statements are provided to meet the requirements of the Chief Financial Officers Act of 1990, and the Government Management Reform Act of 1994. They consist of the balance sheet, the statement of net cost, the statement of changes in net position, the statement of budgetary resources, and the statement of financing, all of which are prescribed by OMB Bulletin 01-09.

Comparative financial statements are presented in order to provide a better understanding of, and identifying trends in the financial position and results of operations of the Fund.

Allowable Fund Expenses

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, and foreign governments, in accordance with the various laws and regulations governing the operations and activities of the Fund. Under the TFF Act, the Fund is authorized to pay certain discretionary and non-discretionary expenses.

Discretionary expenses include purchases of evidence and information related to smuggling of controlled substances; purchases of equipment such as 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 revenue in the Fund.

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 with interest in forfeited property. Expenses incurred by state and local law enforcement agencies in joint law enforcement operations with Treasury law enforcement agencies are also recognized as non-discretionary expenses. Under the Act, non-discretionary expenses are subject to a permanent indefinite Congressional appropriation, and financed through the revenue generated from forfeiture activities without congressional limitation.

The Fund's expenses are either paid on a reimbursement basis or paid directly on behalf of a participating bureau. Reimbursable expenses are incurred by the respective bureaus participating in the Fund against their appropriation and then submitted to the Fund for reimbursement. The bureaus are reimbursed through Inter-Agency Transfers (SF-1081) or Online Payments and Collections (OPAC). Certain expenses such as equitable sharing, liens, claims and state and local joint operations costs are paid directly from the Fund.

Further, the Fund is a component unit of the Treasury and as such, employees of the Treasury perform certain operational and administrative tasks related to the Fund. Payroll costs of employees directly involved in the security and maintenance of forfeited property are also recorded as expenses in the financial statements of the Fund (included in the line item "seizure investigative costs and asset management" in the statement of net cost.)

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. Revenue is not recorded if the forfeited property is ultimately destroyed or cannot be legally sold.

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. Operating costs are recorded as expenses and related liabilities when goods are received or services are performed. Beginning Fiscal Year 1999 certain probable equitable sharing liabilities existing at yearend are accrued based on estimates.

As provided for in the TFF Act, the Fund invests seized and forfeited currency that is not needed for current operations. Treasury's Bureau of Public Debt invests the funds in obligations of, or guaranteed by, the United States Government. Interest is reported to the Fund and recorded monthly as revenue in the general ledger.

Equitable Sharing (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 provided 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. A new class of asset distribution was established for victim restitution in 1995. These distributions include property and cash returned to victims of fraud and other illegal activity. Upon approval by Fund management to share or transfer the assets, both revenue from distributed forfeited assets and distributions are recognized for the net realizable value of the asset to be shared or transferred, thereby resulting in no gain or loss recognized. Revenue and or expenses are recognized for property and currency, which are distributed to or shared with non-Federal agencies, per SFFAS No. 7, *Accounting for Revenue and Other Financing Sources.*

Entity Assets

Entity assets are used to conduct the operations and activities of the Fund. Entity assets comprise intragovernmental and non-intragovernmental assets. Intragovernmental balances arise from transactions among Federal agencies. These assets are claims of a Federal entity against another Federal entity. Entity assets consist of cash or other assets, which could be converted into cash to meet the Fund's current or future operational needs. Such other assets include investments of forfeited balances, accrued interest on seized balances, receivables, and forfeited property, which are held for sale or to be distributed.

- **Cash and Other Monetary Assets** – This represents amounts on deposit with Treasury, including forfeited cash on hand not yet deposited.

- **Investments and Related Interest Receivable** – This includes forfeited cash held by the Fund that had been invested in short term U.S. Government Securities.

- **Receivables** – Intragovernmental receivables principally represent monies due from the law enforcement agencies participating in the Fund. The values reported for other receivables are primarily funds due from the national seized property contractor for properties sold; the proceeds of which have not yet been deposited into the Fund.

- **Advances** – This primarily represents cash transfers to Treasury or law enforcement bureaus participating in the Fund for orders to be delivered.

- **Forfeited Property and Currency** – Forfeited property and currency is recorded in the respective seized property and forfeited asset tracking systems at the estimated fair value at the time of seizure. However, based on historical sales experiences for the year, properties are adjusted to reflect the market value at the end of the fiscal year for financial statement reporting purposes. Direct and indirect holding costs are not capitalized for individual forfeited assets. Forfeited currency not deposited into the Fund is included as part of Entity Assets - Cash and Other Monetary Assets, in the accompanying Balance Sheet.

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 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.

Additionally, SFFAS No. 3, *Accounting for Inventory and Related Property*, requires certain additional disclosures in the notes to the financial statements, including an analysis of changes in forfeited property and currency, 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 8 and 9.

Non-entity Assets

Non-entity assets held by the Fund are not available for use by the Fund. Non-entity assets comprise intragovernmental and other assets. Intragovernmental balances arise from transactions among Federal agencies. These assets are claims of a Federal entity against another Federal entity. Non-entity assets are not considered as financing sources (revenue) available to offset operating expenses, therefore, a corresponding liability is recorded and presented as governmental liabilities in the balance sheet to reflect the custodial/fiduciary nature of these activities.

- **Seized Currency and Property** – Seized Currency is defined as cash or monetary instruments that are readily convertible to cash on a dollar for dollar basis. OMB issued SFFAS No. 3 which requires that seized monetary instruments (cash and cash equivalents) be recognized as an asset in the financial statements and a liability be established in an amount equal to the seized asset value due to: (i) the fungible nature of monetary instruments, and (ii) the high level of control that is necessary over these assets; and (iii) the possibility that these monies may be returned to their owner in lieu of forfeiture.

  The prior year's seized currency balance has been restated from $296,392 to $303,629 and the forfeited property net of mortgages, liens and claims balance has been restated from $28,114 to $27,748. These restatements were made to capture other monetary instruments that were previously disclosed and presented as property. These restatements had no impact on the Fund's Net Position.

  Seized property is recorded at its appraised value at the time of seizure. The value is determined by the seizing entity and is usually based on a market analysis such as a third party appraisal, standard property value publications or bank statements. Seized property is not recognized as an asset in the financial statements, as transfer of ownership to the government has not occurred as of September 30. Accordingly, seized property other than monetary instruments are disclosed in the footnotes in accordance with SFFAS No. 3.

- **Investments** – This balance includes seized cash on deposit in the Fund's suspense account held by Treasury which has been invested in short term U.S. Government Securities.

- **Cash and Other Monetary Assets** – This balance represents the aggregate amount of the Fund's seized currency on deposit in the Fund's suspense account held by Treasury, seized cash on deposit held with other financial institutions, and, cash on hand in vaults held at field office locations.

The following schedule presents the intragovernmental and other non-entity assets as of September 30, 2001 and 2000, respectively, (dollars in thousands):

	2001	2000
Intragovernmental Assets:		
Seized currency:		
Investments (Note 3)	$ 213,181	$ 216,890
Seized currency:		
Cash and other monetary assets	65,745	86,518
Proceeds from interlocutory sales	—	221
Total Non-Entity Assets	278,926	303,629
Total Entity Assets	318,626	338,531
Total Assets	$ 597,552	$ 642,160

Liabilities Covered by Budgetary Resources

Liabilities covered by budgetary resources represent liabilities incurred, which are covered by available budgetary resources. The components of such liabilities for the Fund are as follows:

- **Distributions Payable** – Distributions payable to Federal and non-Federal agencies is primarily related to equitable sharing payments and payments to be made by the Fund to the victims of fraud.

- **Accounts Payable** – Amounts reported in this category include accrued expenses authorized by the TFF Act (See "Allowable Fund Expenses") for which payment was pending at year end.

- **Seized Currency** – Amounts reported in this category represent the value of seized currency that is held by the Fund which equals the amount of seized currency reported as an asset.

- **Deferred Revenue from Forfeited Assets** – At year end, the Fund held forfeited assets, which had not yet been converted into cash through a sale. The amount reported here represents the value of these assets, net of mortgages and claims.

Liabilities Not Covered by Budgetary Resources

The Fund does not currently have liabilities not covered by available budgetary resources.

Net Position

The components of net position are classified as follows:

- **Retained Capital** – There is no cap on amounts that the Fund can carry forward into Fiscal Year 2002. The cap was removed by the Fiscal Year 1997 Omnibus Appropriations Act (PL 104-208).

- **Unliquidated Obligations** – This category represents the amount of undelivered purchase orders, contracts and equitable sharing requests which have been obligated with current budget resources or delivered purchase orders and contracts that have not been invoiced. An expense and liability are recognized and the corresponding obligations are reduced as goods are received or services are performed. In Fiscal Year 1999, Fund management decided to recognize as liabilities, a portion of the equitable sharing requests that were in final stages of approval subsequent to yearend. Prior experience with the nature of this account indicated that a substantial portion of these requests were certain liabilities at yearend. Prior to Fiscal Year 1999, expenses and liabilities were recognized and the corresponding obligations reduced when final management approval for an equitable sharing request was given (See also Distributions Payable at Note 11).

- **Results of Operations** – This category represents the net difference, for the activity during the year, between: (i) financing sources including transfers, revenues, and gains; and (ii) expenses and losses.

Note 3: Investments and Related Interest

All investments are intragovernmental short-term (35 days or less) non-marketable par value Federal debt securities issued by, and purchased through, Treasury's Bureau of the Public Debt. Investments are always purchased at a discount and are reported at acquisition cost (market value), net of discount. The discount is amortized into interest income over the term of the investment. The investments are always held to maturity. They are made from cash in the Fund and from seized currency held in the Customs Suspense Account. The Customs Suspense Account became the depository for seized cash for the Fund following enactment of the TFF Act. The investment, net, represents the required market value.

The following schedule presents the investments on hand as of September 30, 2001 and 2000, respectively (dollars in thousands):

Entity Assets

Description	*Cost*	*Unamortized Discount*	*Investment, Net*
September 30, 2001:			
Treasury Forfeiture Fund - 10 days 1.970% U.S. Treasury Bills	$175,326	$(269)	$175,057
Interest Receivable –			
On entity investments			96
On non-entity Investments			117
Total Investment, Net, and Interest Receivable			$175,270
September 30, 2000:			
Treasury Forfeiture Fund - 28 days 5.875% U.S. Treasury Bills	$243,902	$(1,114)	$242,788
Interest Receivable –			
On entity investments			358
On non-entity investments			320
Total Investment, Net, and Interest Receivable			$243,466

Non-entity Assets

Description	*Cost*	*Unamortized Discount*	*Investment, Net*
September 30, 2001:			
Treasury Forfeiture Fund – Seized Currency Suspense Account 10 days 1.970% U.S. Treasury Bills	$213,508	$(327)	$213,181
September 30, 2000:			
U.S. Customs Suspense Account 28 days 5.875% U.S. Treasury Bills	$217,886	$(996)	$216,890

Note 4: Accounts Receivable

No allowance has been made for uncollectible amounts as the accounts recorded as a receivable at year end were considered to be fully collectible.

Note 5: Advances

In fiscal year 2001, approximately $0.7 million was utilized toward expenses leaving a balance of $0.01 million at year end. In fiscal year 2000, $0.8 million was utilized toward expenses leaving a balance of $0.7 million at yearend.

Note 6: Cash and Other Monetary Assets

Entity Assets

Cash and Other Monetary Assets held on hand included forfeited currency not yet deposited, as well as forfeited currency held as evidence, amounting to $9.1 million and $17.0 million in fiscal year 2001 and 2000, respectively.

Non-Entity Assets

Cash and Other Monetary Assets included seized currency not yet deposited, as well as deposited seized currency which is not invested in order to pay remissions, and proceeds from interlocutory sales for FY 2000 amounting to $65.8 million and $86.7 million in fiscal year 2001 and 2000, respectively.

Note 7: Forfeited Property

The following summarizes the components of forfeited property (net), as of September 30, 2001 and 2000, respectively, (dollars in thousands):

	2001	**2000**
Held for Sale	$27,128	$30,535
To be shared with Federal, state or local, or foreign government	15	282
Total forfeited property (Note 8)	27,143	30,817
Less: Allowance for mortgages and claims	(1,275)	(3,069)
Total forfeited property, net	$25,868	$27,748

Forfeited property held for sale, net of allowance for mortgages and claims as of September 30, 2001 and 2000 was $25.9 million and $27.7 million respectively, and is presented in the Balance Sheet.

Note 8: ***Analysis of Changes in Forfeited Property and Currency***

The following schedule presents the changes in the forfeited property and balances from October 1, 2000 to September 30, 2001. The detail of this schedule by bureau is presented in the notes to the financial statements of each bureau. (Dollar value is in thousands).

	10/1/00 Financial Statement Balance		Adjustments		10/1/00 Carrying Value		Forfeitures		Deposits/Sales		Disposals/Transfer	
	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number
Currency	$ 16,639	-	$ -	-	$ 16,639	-	$ 168,273	-	$ (178,916)	-	$ (2,628)	-
Other Monetary Instruments (2)	366	-	172	-	538	-	440	-	(324)	-	-	-
Subtotal	17,005	-	172	-	17,177	-	168,713	-	(179,240)	-	(2,628)	-
Real Property	21,464	120	(402)	-	21,062	120	15,566	85	(16,270)	(92)	(1,118)	(13)
General Property	3,828	4,033	9,799	-	13,627	4,033	16,958	11,143	(19,506)	(2,504)	(2,543)	(1,206)
Vessels	959	43	327	-	1,286	43	2,414	74	(2,644)	(71)	(455)	(10)
Aircraft	65	2	(7)	-	58	2	800	4	(623)	(4)	-	-
Vehicles	4,501	1,582	1,877	-	6,378	1,582	18,684	6,366	(14,476)	(6,064)	(3,213)	(162)
Subtotal	30,817	5,780	11,594	-	42,411	5,780	54,422	17,672	(53,519)	(8,735)	(7,329)	(1,391)
Grand Total	$ 47,822	5,780	$ 11,766	-	$ 59,588	5,780	$ 223,135	17,672	$ (232,759)	(8,735)	$ (9,957)	(1,391)

	Victim Restitution		Destroyed		Other Adjustments		Value Change		2001 Carrying Value		Fair Market Value Adjustment		9/30/01 Financial Statement Balance	
	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number
Currency	$ -	-	$ -	-	$ 5,209	-	$ 57	-	$ 8,634	-	$ -	-	$ 8,634	-
Other Monetary Instruments	-	-	-	-	(56)	-	-	-	598	-	(162)	-	436	-
Subtotal	-	-	-	-	5,153	-	57	-	9,232	-	(162)	-	9,070	-
Real Property	-	-	-	-	(618)	5	(72)	-	18,550	105	1,256	-	19,806	105
General Property	-	-	(283)	(7,998)	34	549	(570)	-	7,717	4,017	(5,417)	-	2,300	4,017
Vessels	-	-	-	(8)	1	(2)	(3)	-	599	26	(261)	-	338	26
Aircraft	-	-	-	-	-	-	-	-	235	2	(5)	-	230	2
Vehicles	-	-	(2)	(72)	(610)	66	(21)	-	6,740	1,716	(2,271)	-	4,469	1,716
Subtotal	-	-	(285)	(8,078)	(1,193)	618	(666)	-	33,841	5,866	(6,698)	-	27,143	5,866
Grand Total	$ -	-	$ (285)	(8,078)	$ 3,960	618	$ (609)	-	$ 43,073	5,866	$ (6,860)	-	$ 36,213	5,866

Note 9: ***Analysis of Changes in Seized Property and Currency***

Seized property and currency result primarily from enforcement activities. Seized 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 these assets and the possibility that these monies may be returned to their owners in lieu of forfeiture, seized currency is reported as a custodial asset upon seizure. Seized property other than currency is reported as a custodial asset upon forfeiture. The detail of this schedule by bureau is presented in the notes to the financial statements of each bureau. (Dollar value is in thousands).

	9/30/00 Financial Statement Balance		Seizures		Remissions		Forfeitures		Adjustments		Value Change		9/30/01 Financial Statement Balance	
	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number
Currency	$ 296,392	-	$ 185,413	-	$ (56,213)	-	$ (168,273)	-	$ 6,291	-	$ (383)	-	$ 263,227	-
Other Monetary Instruments	7,237	-	12,389	-	(704)	-	(440)	-	(2,773)	-	(10)	-	15,699	-
Subtotal	303,629	-	197,802	-	(56,917)	-	(168,713)	-	3,518	-	(393)	-	278,926	-
Real Property	59,349	306	57,970	251	(5,576)	(44)	(15,566)	(85)	(4,875)	(50)	(1,982)	-	89,320	378
General Property	103,882	9,195	165,529	18,598	(137,366)	(7,061)	(16,958)	(11,143)	(17,070)	(262)	(263)	-	97,754	9,327
Vessels	4,084	67	8,596	109	(5,747)	(37)	(2,414)	(74)	(1,982)	(11)	(196)	-	2,341	54
Aircraft	2,674	9	262	5	(535)	(2)	(800)	(4)	-	(1)	(325)	-	1,276	7
Vehicles	26,370	2,693	55,126	9,856	(33,348)	(3,417)	(18,684)	(6,366)	(1,328)	(616)	1,656	-	29,792	2,150
Subtotal	196,359	12,270	287,483	28,819	(182,572)	(10,561)	(54,422)	(17,672)	(25,255)	(940)	(1,110)	-	220,483	11,916
Grand Total	$ 499,988	12,270	$ 485,285	28,819	$ (239,489)	(10,561)	$ (223,135)	(17,672)	$ (21,737)	(940)	$ (1,503)	-	$ 499,409	11,916

Note 10: Capitalized software

During fiscal year 2001, the Fund spent $2.4 million developing the FASTRAK seized property and forfeited asset system to be used to record seized and forfeited property relating to the Secret Service and Alcohol, Tobacco, and Firearms. Prior to fiscal year 2001 both bureaus used a Department of Justice record keeping system.

Note 11: Distributions Payable (state and local agencies and foreign governments)

Distributions Payable (state and local agencies and foreign governments) amounted to $22.4 million and $34.7 million in fiscal year 2001 and 2000 respectively. Included in this amount for fiscal year 2001 and 2000, respectively, is $21.7 and $27.6 million arising from a decision made by Fund management to recognize as a liability a portion of the equitable sharing requests (based on the average of historical pay-out percentage), that were approved or in final stages of approval on September 30, 2001 and 2000, respectively. Prior experience with the nature of this account indicated that a substantial portion of these requests were certain to be paid out by the Fund during the following fiscal year.

Note 12: Net Position

Cumulative Results

The following summarizes components of cumulative results for the years ended September 30, 2001 and 2000, respectively, (dollars in thousands):

	2001	2000
Retained Capital	$ 19,072	$189,071
Unliquidated Obligations	210,670	135,639
Results of Operations	7,598	(94,968)
	$ 237,340	$229,742

Unliquidated Obligations

The following summarizes the components of unliquidated obligations as of September 30, 2001 and 2000, respectively, (dollars in thousands):

	2001	2000
Discretionary	$ --	$ 160
Equitable Sharing	61,618	604
Non-discretionary	149,052	134,875
	$210,670	$135,639

Note 13: Related Party Transactions

The Fund reimbursed agencies for the purchase of certain capital assets. These assets are reported by the participating agencies in their financial statements.

Note 14: Super Surplus

31 U.S.C. 9703 (g)(4)(B) allows for the expenditure, without fiscal year limitation, after the reservation of amounts needed to continue operations of the Fund. This "Super Surplus" balance may be used for law enforcement activities of any Federal agency.

Amounts distributed to other Federal agencies for law enforcement activities under "Super Surplus" requirements amounts to $65.8 million and $72.2 million in fiscal year 2001 and 2000, respectively.

Note 15: Secretary's Enforcement Fund

31 U.S.C. 9703 (b)(5) is another category of permanent indefinite authority. These funds are available to the Secretary, without further action by Congress and without fiscal year limitation, for Federal law enforcement purposes of Treasury law enforcement organizations. The Source of Section 9703(b)(5) funds is equitable sharing payments received from the Department of Justice and the U.S. Postal Service (USPS) representing Treasury's share of forfeiture proceeds from Justice and USPS cases.

Amounts distributed for Federal law enforcement purposes of Treasury law enforcement organizations amounted to $13.3 million and $8.2 million in fiscal year 2001 and 2000, respectively.

Note 16: Commitments and Contingencies

COMMITMENTS

Beginning in fiscal year 1999, Fund management decided to recognize the liability for equitable sharing requests that were approved or in final stages of approval subsequent to September 30 (See also Note 11, Distributions Payable).

In addition to the amounts estimated above, there are additional amounts, which may ultimately be shared, which are not identified at this time.

CONTINGENCIES

Possible claims of potential significance include the following:

1. In recent decisions, the United States Court of Appeals for the Ninth Circuit ruled that it is unconstitutional to forfeit currency based upon a violation of a Federal currency reporting statute. Accordingly, the court has ruled that in returning currency, the government must return

the benefit that is received from holding the currency.

The interest to be returned will be payable out of the income of the Fund, and, at present, represents a possible claim of potential significance.

2. In a recent decision, the Supreme Court has ruled that the government must return forfeited currency in those cases of individuals convicted for currency reporting violations who have had currency forfeited due to the violation. The amount of the currency that might be refunded will be payable from the Fund, and, at present, represents a possible claim of potential significance.

   At present, it is not possible to determine the likelihood that the above claims will arise. Similarly, it is not possible to determine the value of such potential claims against the Fund.

   Judgements and settlements of $2,500 or greater, resulting from litigation and claims against the Fund are satisfied from various claims and judgement funds maintained by Treasury.

Note 17: Disclosures Related to the Statements of Net Cost

Gross costs and earned revenue related to Law Enforcement Programs administered by the Fund are presented in Treasury's budget functional classification (in thousands) as set out below:

	2001	**2000**
Gross Costs	$107,563	$131,730
Earned Revenues	--	--
Net Costs	$107,563	$131,730

The Fund falls under the Treasury's budget functional classification related to Administration of Justice.

Note 18: Disclosures Related to the Statements of Budgetary Resources

The Fund's net amount of budgetary resources obligated for undelivered orders at the end of fiscal year 2001 and 2000 are $210.7 million and $135.6 million, respectively. This amount is fully covered by cash on hand in the Fund and Entity Investments. The Fund does not have borrowing or contract authority and, therefore, has no repayment requirements, financing sources for repayment, or other terms of borrowing authority. No adjustments were required during the reporting period to budgetary resources available at the beginning of the year. There are no legal arrangements, outside of normal government wide restrictions, specifically affecting the Fund's use of unobligated balances of budget authority.

Adjustments to budgetary resources available at the beginning of fiscal year 2001 and 2000 consist of the following (in thousands):

	2001	2000
Recoveries of Prior Year Obligations	$9,198	$29,856
Spending Authority from Offsetting Collections	124	68
Total	$9,322	$29,924

Note 19: Dedicated Collections

The Fund is classified as a special fund. All its activities are reported as dedicated collections held for later use.

SECTION III
OTHER REPORTS

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Independent Auditor's Report on Internal Control

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

We have audited the Principal Statements (balance sheets and the related statements of net cost, changes in net position, budgetary resources and financing, hereinafter referred to as "financial statements") of the Department of the Treasury Forfeiture Fund (the Fund) as of and for the years ended September 30, 2001 and 2000, and have issued our report thereon dated December 21, 2001. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements.*

In planning and performing our audits, we considered the Fund's internal control over financial reporting by obtaining an understanding of the Fund's internal control, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audits was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Fund's ability to record, process, summarize, and report financial data consistent with the assertions by Fund Management in the financial statements.

GKA

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. However, we noted certain matters discussed in the following paragraphs involving the internal control and its operation that we consider to be reportable conditions. However, none of the reportable conditions is believed to be a material weakness.

The identified reportable conditions, as defined above, are summarized below with further explanations and Fund Management's responses in **Exhibit I** of this report.

The reportable condition identified below was reported in prior years and is of continuing significance.

1. Asset Specific Expenses are not Recorded and Accounted for by the Fund

Asset specific expenses resulting from asset disposition activities are not recorded and accounted for by the Fund in the various seized property and forfeited assets tracking systems. The Fund's Property Custodian incurs costs on behalf of the Fund from the time of seizure until the asset is ultimately disposed. Currently, only holding costs and direct selling costs related to real property are captured in the Seized Assets and Case Tracking System (SEACATS) at the line item level.

The reportable condition identified below was reported as a material weakness in prior years.

2. The General Ledger Does not Capture All Balances and Transactions that Comprise the Fund during the Year.

The Asset Information Management System (AIMS), which is the general ledger system maintained by the U.S. Customs Service (Customs), processes, groups and summarizes transactions into account balances for the Fund. Currently, it is interfaced with the seized property and forfeited assets tracking system of Customs (SEACATS) only. The integration process achieved so far, although an enhancement over prior years, did not result in complete and accurate balances in AIMS for FY 2001. Additionally, AIMS is not interfaced with the asset tracking systems used by the other law enforcement agencies participating in the Fund. As a result, balances relating to accounts receivable, liens and mortgages payable, forfeited property and deferred revenue, and seized currency and its offsetting liability originating from those bureaus are not recorded in the general ledger during the year. The Fund has implemented compensating procedures to capture these balances for financial reporting purposes.

Because these conditions impact many functions and lines of authority between the Treasury agencies, we recommend the Fund Management develop a joint plan with the other Treasury agencies, to implement the recommendations included in **Exhibit I.**

We also noted other matters involving the internal control structure and its operation that we have reported to Fund Management in a separate letter dated December 21, 2001.

Finally, with respect to internal control related to performance measures reported in Section 1, "Program Performance and Financial Highlights," we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

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

December 21, 2001

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Independent Auditor's Report on Compliance with Laws and Regulations

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

We have audited the Principal Statements (balance sheets and the related statements of net cost, changes in net position, budgetary resources and financing, hereinafter referred to as "financial statements") of the Department of the Treasury Forfeiture Fund (the Fund) as of and for the years ended September 30, 2001 and 2000, and have issued our report thereon dated December 21, 2001. Our responsibility is to report on the Fund's compliance with laws and regulations based on our audits. Under the Federal Financial Management Improvement Act of 1996 (FFMIA), we are required to report whether the Fund's financial management systems substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the United States Standard General Ledger at the transaction level. The U.S. Customs Service (Customs) provides cross servicing of the accounting for the Fund. We are not the auditors of Customs and, consequently, we did not perform tests of Customs' compliance with Federal financial management systems requirements using the implementation guidance for FFMIA included in Appendix D of the Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those tests were performed by other auditors whose report has been furnished to us. Our report, insofar as it relates to compliance with Federal financial management systems requirements, is based solely on the report of the other auditors. We conducted our audits in accordance with: auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, OMB Bulletin No. 01-02.

The management of the Fund is responsible for complying with laws and regulations applicable to the Fund. As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in FFMIA. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Fund.

GKA

The results of our tests of compliance with the laws and regulations described in the preceding paragraph exclusive of FFMIA disclosed one instance of noncompliance with the following laws and regulations that is required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02, which is described below:

> The Budget and Accounting Procedures Act of 1950, as amended, 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 Control dated December 21, 2001, the Fund's internal control structure has a reportable condition, which results in noncompliance with this Act. This reportable condition requires significant computer system improvements to correct. Until the system enhancements can be implemented, Fund Management has developed year-end manual procedures to compensate for the system's weaknesses.

The results of our tests of compliance disclosed no instances of noncompliance with other laws and regulations discussed in the preceding paragraph exclusive of FFMIA, that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

The report of the other auditors on the substantial compliance of Customs, as it relates to the Fund, with the requirements of Federal Financial Management Systems Requirements (FFMSR) disclosed no instances where Customs' financial management systems, as they relate to the Fund, did not substantially comply with FFMSR. Our audit tests disclosed no instances in which the Fund did not substantially comply with Federal accounting standards and the U.S. Government Standard General Ledger requirements.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audits and, accordingly, we do not express such an opinion.

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

Urbach, Kahn & Werlin

December 21, 2001

EXHIBIT I

REPORTABLE CONDITIONS

1. ASSET SPECIFIC EXPENSES ARE NOT RECORDED AND ACCOUNTED FOR BY THE FUND (Partial Repeat Condition)

CONDITION

Asset specific expenses resulting from asset disposition activities are not recorded and accounted for by the Fund in the various seized property and forfeited assets tracking systems. The Fund's Property Custodian incurs costs on behalf of the Fund from the time of seizure until the asset is ultimately disposed. Currently, only holding costs and direct selling costs related to real property are captured in SEACATS at the line item level.

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 controls 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 relies on the Property Custodian for providing asset specific expenses information. Deficiencies in the system (SEACATS) that the Property Custodian uses preclude the capturing of certain expense information at the asset level. Currently, only holding costs and direct selling costs related to real property are captured in SEACATS at the line item level.

EFFECT

The Fund is unable to report asset specific expenses. The Fund's asset management function will deteriorate if the above conditions are allowed to continue, resulting ultimately in a lack of accountability over the assets of the Fund.

RECOMMENDATION

In view of the Fund's acknowledgement of this condition and SEACATS' inability to capture the required information we make the following recommendations:

a. For all direct costs and common support costs not directly traceable to individual seizures, an allocation process needs to be developed and implemented. Indirect costs will have to be applied to the individual seizures. Direct and indirect costs will have to be added together to provide total costs per seizure.

b. EOAF should vigorously pursue the enhancement of SEACATS system capabilities to record and report expenses at the asset level.

MANAGEMENT RESPONSE

Management Assessment on Progress:

During FY 2001, Fund management awarded a contract to an independent public accounting firm (IPA) for the review of the Property Contractor's accounting system and methodology for determining and distributing indirect costs at the asset level. This contract was for the review of costs associated with real property only. The IPA determined that the accounting system utilized by the Real Property Contractor is capable of capturing and reporting both direct and indirect costs, but a methodology for determining and distributing the indirect costs at the asset level had not been developed.

In regard to the inventory systems maintained by the bureaus participating in the Fund, two of the three inventory tracking systems currently captures cost data for seized and forfeited property. While indirect costs are not being recorded in the two systems that do capture cost data, SEACATS and FASTRAK, direct costs, such as advertising and liens, are being captured. The IRS' AFTRAK system does not currently record certain direct cost data; however, the IRS maintains the relevant cost data in the seizure case files.

Discussion/Background and Planned Action:

Fund management concurs with the auditor's recommendation regarding the development and implementation of an allocation process for indirect costs. EOAF relies on a national seized property contractor (the Contractor) to account for all costs related to the storage, maintenance and sale of seized and forfeited property. Currently, the Contractor does not consistently collect and record both direct and indirect costs. EOAF will direct the Contractor to propose and implement a methodology for determining indirect costs for all real property. EOAF will also begin reviewing proposed methodologies for determining indirect costs for general property. However, implementation will not be completed until after a new contract has been awarded for the storage and maintenance of general property.

Additionally, in regard to systems capabilities for recording and reporting expenses at the asset level, EOAF will require that each of the three inventory tracking systems record costs and revenue uniformly. This will include costs directly related to achieving a seizure, such as: investigative expenses; storage, maintenance and sales costs; POE/POI; liens; and advertising.

2. THE GENERAL LEDGER DOES NOT CAPTURE ALL BALANCES AND TRANSACTIONS THAT COMPRISE THE FUND DURING THE YEAR. (Reported as a Material Weakness in FY 2000)

CONDITION

The Asset Information Management System (AIMS), which is the general ledger system maintained by the U.S. Customs Service (Customs), processes, groups and summarizes transactions into account balances for the Fund. Currently, it is interfaced with the seized property and forfeited assets tracking system of Customs (SEACATS) only. The integration process achieved so far, although an enhancement over prior years, did not result in complete and accurate balances in AIMS for FY 2001. Additionally, AIMS is not interfaced with the asset tracking systems used by the other law enforcement agencies participating in the Fund. As a result, balances relating to accounts receivable, liens and mortgages payable, forfeited property and deferred revenue, and seized currency and its offsetting liability originating from those bureaus are not recorded in the general ledger during the year. The Fund has implemented compensating procedures to capture these balances for financial reporting purposes.

CRITERIA

Office of Management and Budget (OMB) Circular A-127, *Financial Management Systems,* and the Joint Financial Management Improvement Program (JFMIP) *Framework For Federal financial Management Systems* require that each agency establish and maintain a single integrated financial management system. An interface where one system feeds another is acceptable, but the interface linkages must be electronic unless the number of transactions is so small that it is not cost beneficial to automate the interface.

CAUSE

The output from AIMS did not agree with the compensating procedures used for reporting procedures because of minor inaccuracies and timing differences. Additionally, the Fund is comprised of different agencies with different asset tracking systems. The asset tracking systems maintained by IRS, USSS and ATF do not interface with the Fund's general ledger, which is owned by Customs. Accordingly, inventory-related transactions originating from these agencies that are non-cash generated are not recorded in the Fund's general ledger during the year.

EFFECT

Timing differences between SEACATS and AIMS and the lack of interface between the other relevant subsidiary systems and the general ledger precludes the capturing of all transactions related to the Fund on a regular basis in the general ledger. Therefore, complete financial statements or current financial information cannot be readily produced using the general ledger balances. The financial information produced from the general ledger during the year does not correctly present the results of operations and net position of the Fund. However, the Fund has implemented compensating procedures to capture these balances for financial reporting purposes.

RECOMMENDATION

We recommend the following:

1. Customs should ensure the capture of complete and accurate information originating from SEACATS to AIMS. Periodic balancing and reconciliation of data passed between the two systems should be performed and any disputed data should be resolved.

2. In the absence of an integrated system for IRS, USSS and ATF, manually record all balances originating from these bureaus that are subject to accrual, such as seized currency and its offsetting liability, and forfeited property and the related revenue and any applicable liability, on a regular basis in the Fund's general ledger.

3. Expedite the extension of the FGL system, an integrated financial system that is capable of capturing all transactions related to the Fund's activities in the general ledger, to AFTRAK (IRS) and ultimately to FASTRAK (USSS and ATF).

MANAGEMENT RESPONSE:

Management Assessment on Progress:
The integration of Customs' inventory data with the general ledger during FY 2001 represented achievement of a major milestone for the Fund toward the goal of fully automated financial statements. However, in order for the general ledger to automatically record all transactions associated with the Fund's financial reporting requirements, it will be necessary to integrate all the asset tracking systems used by the various law enforcement agencies participating in the Fund. Accordingly, Fund management continues to provide high priority to the integration of data from the inventory systems of the three non-Customs bureaus to the general ledger through FASTRAK. The first phase of FASTRAK went into production with the Secret Service and ATF beginning on October 1, 2002. However, until such time as the asset tracking systems can fully integrate with the Fund's financial system, manual adjustments to the standard general ledger will continue.

Discussion/Background and Planned Action:
Fund management concurs with the auditor's recommendations. Customs will continue to conduct reconciliations between SEACATS and AIMS to ensure the accuracy of information, as well as resolve any discrepancies identified during the reconciliation. Fund management will also continue to pursue the enhancement of FASTRAK to enable the automated integration of inventory data from the non-Customs bureaus with the general ledger. However, in the absence of this integrated system, Fund management will continue to require that the IRS, Secret Service and ATF provide quarterly financial data in order to manually post accrual data to the general ledger for these bureaus.

EXHIBIT II

STATUS OF PRIOR YEAR FINDINGS

1. THE GENERAL LEDGER DOES NOT CAPTURE ALL BALANCES AND TRANSACTIONS THAT COMPRISE THE FUND DURING THE YEAR. (Repeat Condition)

CONDITION

The Asset Information Management System (AIMS) which is the general ledger system maintained by the U.S. Customs Service (Customs), processes, groups and summarizes transactions into account balances for the Fund. Currently, it is not interfaced with the seized property and forfeited assets tracking systems (asset tracking systems) used by the various law enforcement agencies participating in the Fund. As a result, accounts such as accounts receivable, liens and mortgages payable, forfeited property and deferred revenue, and seized currency and its offsetting liability are not recorded in the general ledger during the year. Instead, the Fund has implemented procedures to capture these balances only at year end.

RECOMMENDATION

We reaffirm our recommendations from previous financial statement audits, specifically:

1. In the absence of an integrated system, manually record all accounts subject to accrual, such as seized currency and its offsetting liability, and forfeited property and the related revenue and any applicable liability, on a regular basis in the Fund's general ledger.

2. Expedite the implementation of the FGL system, an integrated financial system that is capable of capturing all transactions related to the Fund's activities, in the general ledger.

FY 2001 STATUS

Customs has implemented an integration process to capture seized and forfeited currency and property transactions and balances originating from its inventory system – the seized assets and case tracking system (SEACATS) into AIMS through an integrated system (FGL). The FGL will eventually be extended to transactions generated by all the participating agencies of the Fund. GKA evaluated this integration process as a follow-up to the material weakness.

Based on our analysis, we determined that the integration of SEACATS with AIMS(G/L) through the FGL satisfies the data integrity requirement and that only valid transactions are processed. It is however short on completeness and accuracy for FY 2001. The completeness and accuracy of the final numbers reported in the financial statements are achieved by relying on the compensating procedures embedded in the rollforward preparation process. The integration process achieved so far is a major enhancement in rectifying the material weakness as discussed above. Customs is aware of the completeness and accuracy issues and is currently working on rectifying them.

In FY 2001, Customs' seized currency and monetary instruments comprised about 51% of the Fund's total seized currency and monetary instruments. Forfeited property was about 49% of the

Fund's total forfeited property at fair market value. Since transactions and balances originating from Customs are material to the Fund, and these are currently being captured in AIMS except for some completeness and accuracy issues, this deficiency will be reported in the form of a reportable condition in FY 2001.

2. INADEQUATE PROPERTY MANAGEMENT FUNCTIONS (Partial Repeat Condition)

CONDITION

The Fund's property management functions require improvement to ensure that: (i) funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; and (ii) transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over the assets. The following issues/concerns were noted in this regard under the following functions:

2.1 Seizure Activities

Inadequate accounting and recording of liens and claims

The Fund's updated directive does not provide clear instructions as to when the liability is to be recorded. Therefore, implementation of the instructions contained therein, 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 are then to be forwarded to the Custom's Accounting Services Division (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.

Because ASD cannot record the liability unless EOAF's approval with the accompanying accounting strip is received, these requirements do not provide for a complete accrual of all liens and mortgages.

In addition, there are no controls in place to track and record liens and claims either by the individual law enforcement agencies or by the Property Custodian during the year. Manual procedures are developed at year-end to compensate for this weakness.

2.2 Asset Disposition Activities

Asset specific expenses and revenue are not recorded and accounted for by the Fund

Asset specific expenses and revenue generated from asset disposition activities are not recorded and accounted for by the Fund in the various seized property and forfeited assets tracking systems. The Fund's Property Custodian incurs costs on behalf of the Fund from the time of seizure until the asset is ultimately disposed. The Fund requests cost information from the Property Custodian and relies on the information it provides.

RECOMMENDATION

We recommend that the following actions be immediately implemented:

2.1 **Seizure Activities**

Inadequate accounting and recording of liens and claims

Implement procedures to have field offices track liens and claims manually on a monthly basis and request that a quarterly list of liens and claims be prepared and forwarded to the Fund's accounting staff for monitoring purposes. System enhancements/changes must be made where necessary to accommodate this information, as it is available.

2.2 **Asset Disposition Activities**

Asset specific expenses and revenue are not recorded and accounted for by the Fund

In view of the Fund's acknowledgement of this condition and SEACATS' inability to capture the required information, we make the following recommendations:

a. EOAF ensures that the new property management contract requires the awardee to record and distribute overhead costs at the asset level.

b. EOAF vigorously pursue the enhancement of SEACATS system capabilities to record and report revenue and expenses at the asset level.

FY 2001 STATUS:

Inadequate accounting and recording of liens and claims

The various bureaus have improved on the accounting and reporting of liens and claims both manually and in their respective systems. The Customs' lien payable listing for FY 2001produced from SEACATS had fewer discrepancies as compared to previous years, when compared to the manual listing. The differences were mainly due to timing in updating SEACATS. A successful reconciliation was performed between SEACATS generated information and the manual information. Lien data for the non-Customs bureaus were generated from the seizing agency's inventory tracking system.

The Fund has made significant improvements in this area and this deficiency has been substantially resolved. This condition will not be reported in FY 2001.

Asset specific expenses and revenue are not recorded and accounted for by the Fund

Asset level revenue is currently being recorded in the various inventory systems used by the Fund. The Fund continues to be incapable of tracking asset specific expenses related to individual seizures. Currently, only holding costs and direct selling costs related to real property are captured in SEACATS at the line item level. For all other direct costs not directly traceable to individual seizures, an allocation process needs to be developed and implemented. Indirect costs will have to be applied to individual seizures. Direct and indirect costs will have to be added together to provide total costs per seizure. These asset specific expenses related to individual seizures have to be tracked in the respective inventory tracking systems.

This condition will be modified and repeated as a reportable condition in FY 2001.

3. UNSUBSTANTIATED VALUES FOR SEIZED PROPERTY

CONDITION

A considerable number of seizures had $0 appraised value on the inventory reports although they were not of the contraband or prohibited categories. These seizures include real property, vehicles and jewelry, which should have an appraised value other than $0. Additionally, we found instances where the financial values assigned to property were significantly higher than the supporting appraisal worksheets.

RECOMMENDATION

We recommend that:

a. All seized property that are not of the contraband or prohibited categories be valued at its market value when seized or, if market value cannot be readily determined, as soon thereafter as reasonably possible. The inventory system should be immediately updated with such values.

b. In updating the inventory system with property values, the best market estimate should be used as required by SFFAS No. 3. In the absence of such an estimate, or in the event of receiving unreliable or questionable appraisals, the lowest available appraisal should be used in keeping with the conservative principle. Steps should then be taken to immediately obtain and update the inventory system with a reliable estimate.

FY 2001 STATUS

Fund Management worked with Customs to modify the procedures for updating appraised values in SEACATS. The national seized property contractor was able to enter appraised value data for the non-Customs agencies. Consequently, the number of seizures with $0 appraised value on the inventory reports for property that were not contraband or prohibited were insignificant in FY 2001. Our testwork did not reveal any material instances of valuation problems.

This deficiency is considered to have been resolved and will not be reported in FY 2001.

SECTION IV

REQUIRED SUPPLEMENTAL INFORMATION

TREASURY FORFEITURE FUND
Required Supplemental Information
(Required by OMB Bulletin 01-09)
For the Years Ended September 30, 2001 and 2000
(Dollars in Thousands)

Intragovernmental Amounts – Assets (Dollars in thousands)

	2001			2000		
Partner Agency	Fund Balance with Treasury	Accounts Receivable/ Advances	Investments	Fund Balance with Treasury	Accounts Receivable /Advances	Investments
Departmental Offices	$ --	$10	$ --	$ --	$712	$ --
Department of Justice	--	--	--	--		--
Bureau of Public Debt	--	--	388,451	--	--	460,536
Totals	$ --	$10	$388,451	$ --	$712	$460,536

Intragovernmental Amounts – Liabilities (Dollars in thousands)

Partner Agency	2001 Accounts Payable	2000 Accounts Payable
Department of Justice	$ 112	$ 3,048
Departmental Offices	1,240	1,884
Federal Law Enforcement Training Center	186	--
U.S. Customs Service	9,738	13,527
Internal Revenue Service	9,641	3,880
Alcohol, Tobacco and Firearms	1,359	12,805
U.S. Secret Service	195	2,760
Financial Crimes Enforcement Network	--	292
Totals	$22,471	$38,196

TREASURY FORFEITURE FUND
Required Supplemental Information
(Required by OMB Bulletin 01-09)
For the Years Ended September 30, 2001 and 2000
(Dollars in Thousands)

Intragovernmental Amounts – Revenues and Costs (Dollars in thousands)

	2001		2000	
Budget Functions	Cost to Generate Exchange Intragovernmental Revenue	Costs to Generate Non-Exchange Intragovernmental Revenue	Cost to Generate Exchange Intragovernmental Revenue	Costs to Generate Non-Exchange Intragovernmental Revenue
Administration of Justice	$ --	$ 66,888	$ --	$ 86,510

Intragovernmental Amounts – Non-exchange Revenue Transfers in/Transfers out (Dollars in thousands)

	2001		2000	
Partner Agency	In	Out	In	Out
Department of Agriculture	$ --	--	$ --	$ --
Department of Justice	--			2,057
Department of Health and Human Services	--	--	--	--
Department of Treasury	--	--	--	--
Internal Revenue Service	--	9,400	--	--
Alcohol, Tobacco and Firearms	--	1,856	--	13,536
U.S. Customs Service	--	36,430	--	28,649
Financial Crimes Enforcement Network	--	1,781	--	426
Federal Law Enforcement Training Center	--	472	--	6,716
Secret Service	--	28,020	--	28,830
Totals	$ --	$77,959	$ --	$80,214

SECTION V

OTHER ACCOMPANYING INFORMATION

(Unaudited)

TREASURY FORFEITURE FUND
Equitable Sharing Summarized by State and U.S. Territories
For the Year Ended September 30, 2001
(Dollars in Thousands)
(Unaudited)

State/U.S. Territories	Currency Value	Property Value
Alabama	$ 54	$ 69
Alaska	0	0
Arizona	1,080	80
Arkansas	3	1
California	6,220	598
Colorado	69	0
Connecticut	280	12
D.C. Washington	27	0
Delaware	0	9
Florida	7,855	910
Georgia	199	218
Guam	187	0
Hawaii	40	0
Idaho	15	10
Illinois	3,421	92
Indiana	210	0
Iowa	0	2
Kansas	0	0
Kentucky	94	0
Louisiana	41	131
Maryland	174	17
Massachusetts	602	1
Michigan	1,268	3
Minnesota	3	16
Mississippi	103	188
Missouri	126	338
Montana	19	18
Nebraska	22	0
Nevada	128	0
New Jersey	1,798	32
New Hampshire	0	0
New Mexico	38	3
New York	21,300	966
North Carolina	433	321
North Dakota	0	2
Ohio	980	29
Oklahoma	0	0
Oregon	46	0
Pennsylvania	699	87
Puerto Rico	77	0
Rhode Island	0	673
South Carolina	100	56
South Dakota	0	0
Tennessee	1,384	836
Texas	2,346	333
Utah	1	0
Vermont	0	0
Subtotal carried forward	$51,442	$6,051

TREASURY FORFEITURE FUND
Equitable Sharing Summarized by State and U.S. Territories
For the Year Ended September 30, 2001
(Dollars in Thousands)
(Unaudited)

State/U.S. Territories	Currency Value	Property Value
Subtotal brought forward	51,442	6,051
Virgin Islands	0	0
Virginia	1,137	594
Washington	804	0
West Virginia	206	4
Wisconsin	31	0
Wyoming	8	0
Totals	$53,628	$6,649

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 statement of the Department of the Treasury Forfeiture Fund. Information presented on 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.

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, 2001
(Dollars in Thousands)

31 U.S.C. 9703(f)(2)(E) requires the Secretary of the Treasury to report annually to Congress uncontested seizures of currency or proceeds of monetary instruments over $100,000, which were not deposited in the Department of the Treasury Forfeiture Fund within 120 days of the seizure date. There were no administrative seizures over $100,000 over 120 days old for all bureaus in FY 2001.

TREASURY FORFEITURE FUND
Analysis of Revenue and Expenses and Distributions
For the Year Ended September 30, 2001
(Dollars in Thousands)

Revenue, Expenses and Distributions by Asset Category:

	Revenue	Expenses and Distributions
Vehicles	$ 8,841	$29,654
Vessels	2,456	37,780
Aircraft	2,456	12,172
General Property	7,858	119,918
Real Property	27,504	4,697
Currency and monetary instruments	220,671	57,967
	269,786	262,188
Less:		
Mortgages and claims	(5,507)	(5,507)
Refunds	(5,411)	(5,411)
Add:		
Excess of net revenues and financing sources over total program expenses		7,598
Total	$ 258,868	$ 258,868

	Revenue	Expenses and Distributions
Revenues, Transfers, Expenses and Distributions by Type of Disposition:		
Sales of property and forfeited currency and monetary instruments	$ 201,277	$ 49,816
Reimbursed storage costs	2,336	26,219
Assets shared with state and local agencies	56,422	56,422
Assets shared with other Federal agencies	4,805	4,805
Assets shared with foreign countries	1,079	1,079
Victim Restitution	3,867	3,867
Destructions	--	31,462
Pending disposition	--	88,518
	$ 269,786	$ 262,188
Less:		
Mortgages and claims	(5,507)	(5,507)
Refunds	(5,411)	(5,411)
Add:		
Excess of net revenues and financing sources over total program expenses		7,598
Total	$258,868	$258,868

The revenue amount of $ 258,868 is from the Statement of Net Position. This supplemental schedule "Analysis of Revenues, Expenses and Distributions" is required under the Treasury Forfeiture Fund Act of 1992. Because the Fund does not have a cost accounting system, the method used does not provide reliable information in the analysis of revenue and expenses and distributions by type of disposition. The information is presented to comply with the requirements of the Treasury Forfeiture fund Act of 1992.

TREASURY FORFEITURE FUND
Information Required by 31 U.S.C. 9703(f)
For the Year Ended September 30, 2001
(Dollars in Thousands)

The Treasury Forfeiture Fund Act of 1992, 31 U.S.C. 9703(f), requires the Secretary of the Treasury to transmit to Congress, no 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 during the preceding fiscal year under any law enforced or administered by the Department of the Treasury law enforcement organizations of the United States Coast Guard, in the case of fiscal years beginning after 1993.

As reported in the audited financial statements, at September 30, 2001, the Fund had forfeited property held for sale of $ 25,868. The realized 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 Services (Customs) suspense account. Upon forfeiture, it is transferred to the Treasury Forfeiture Fund. At September 30, 2001, there was $ 9,070 of forfeited currency and other monetary instruments that had not yet been transferred to the Fund. This is reported as a part of "Cash and Other Monetary Assets" in the audited financial statements.

(B) The estimated total value of all such property transferred to any state or local law enforcement agency.

The estimated total value of all such property transferred to any state or local law enforcement bureau is summarized by state and U.S. territories. Total currency transferred was $ 53,628 and total property transferred was $6,649 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, 2000, which became the beginning balance for the Fund on October 1, 2000, as reported in the audited financial statements is $ 229,742.

(B) Liens and mortgages paid and the amount of money shared with Federal, state, local and foreign law enforcement bureaus during the preceding fiscal year.

Mortgages and claims expense, as reported in the audited financial statements, was $ 5,507. The amount actually paid on a cash basis was not materially different.

(Dollars in Thousands)

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

State and local	$56,422
Foreign countries	1,079
Other Federal agencies	4,380
Victim restitution	3,867

(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 cost of operations of the Fund as shown in the audited financial statements is $ 107,563.

The amount of seized currency not on deposit in the Fund's suspense account at September 30, 2001, was $ 65,745. This amount includes some funds in the process of being deposited at year end; cash seized in August or September 2001, 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 approximately $ 90,199 for Fiscal Year 2001.

(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 bureau and contractor's officials, and the number of seizures is as follows:

U.S. Customs Service	$39,594,604.69	18 seizures
IRS	102,111,915.98	37 seizures
U.S. Secret Service	6,396,534.83	2 seizures

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

The total dollar value of such seizures is $ 0. This is also documented on page 64.

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

The total net position of the Fund at September 30, 2001, as reported in the audited financial statements is $ 237,340.

(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.

There is no cap on amounts that can be carried forward into FY 2002 per Fiscal Year 1998 Omnibus Appropriations Act (PL 104-208).

(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 on page 65.