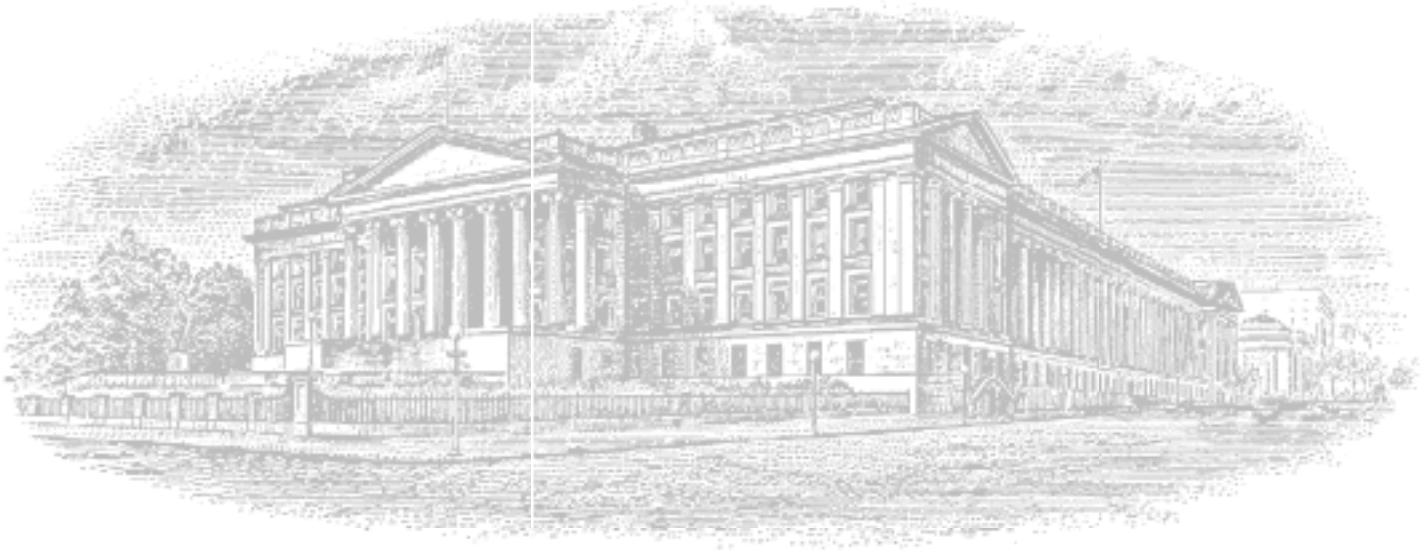
TREASURY FORFEITURE FUND



Accountability Report Fiscal Year 2000

DEPARTMENT OF THE TREASURY

Office of the Under Secretary for Enforcement

Message from the Director

I am pleased to present this accountability report for fiscal year 2000. While highlighting Fund performance over the past year, this report also focuses on some of the significant achievements and accomplishments made by our Treasury law enforcement bureaus.

The essence of the Treasury Forfeiture Program involves applying forfeiture to the infrastructure of criminal enterprises, limiting the ability of criminal organizations to continue their illegal activities. We believe that measurable damage can be inflicted upon drug cartels and criminal syndicates by removing their assets and minimizing the profit incentive. Seizure and forfeiture are the best tools law enforcement agencies have to accomplish this objective. Additionally, the reinvestment of forfeited assets generates revenue used to support the law enforcement community in its efforts to combat the escalating globalization and sophistication of criminal enterprises.

Fiscal year 2000 saw the passage of the Civil Asset Forfeiture Reform Act (CAFRA). Enacted on April 25, 2000, this legislation serves as a landmark event in the maturation of this program, and yet again emphasizes the importance of ensuring that the Treasury Forfeiture Program be administered in a manner that ensures public and congressional confidence. As we move into fiscal year 2001, it will be important to examine how CAFRA affects the complexities of the seizure and forfeiture process. We must make the necessary adjustments in response to the legislative intent of CAFRA while ensuring a continued impact upon the criminal community.

Over the next several years, the Fund will continue to focus on strategic cases and investigations which result in high-impact seizures. We believe this approach will affect the greatest damage to criminal organizations while accomplishing the ultimate objective - to punish and deter criminal activity. Through this clearly articulated focus, I believe that the Treasury Forfeiture program will continue to grow and carry out its mandate and obligation to disrupt and dismantle criminal enterprises.

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

TREASURY FORFEITURE FUND
ACCOUNTABILITY REPORT
FISCAL YEAR 2000

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Profile of the Treasury Forfeiture Fund

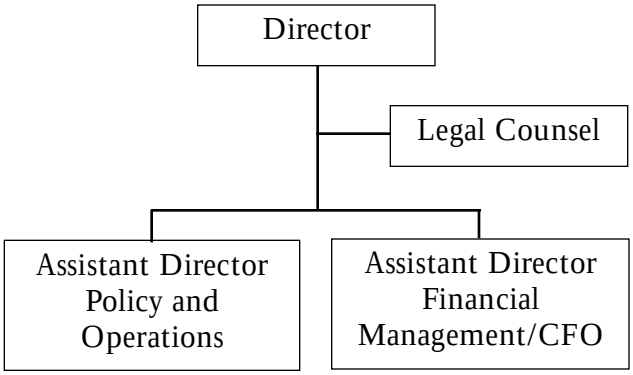
The Treasury Forfeiture Fund (the Fund or TFF) is the receipt account for the deposit of non-tax forfeitures made pursuant to laws enforced or administered by Treasury law enforcement agencies and the United States Coast Guard. It was established in October of 1992 as the successor to the Forfeiture 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 (IRS) Criminal Investigation Division. 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 U.S.C. § 9703.

The Fund is a "special receipt account," (i.e., a resource account which provides funding to other Federal entities toward accomplishment of a specific objective for which the recipient bureau is authorized to spend money, used to augment their effort in the specific regard.) Through the provision of leadership, guidance and stewardship, the Fund works to maximize forfeiture program impact as executed by Treasury law enforcement bureaus.

The Fund falls within the auspices of the Under Secretary for Enforcement, U.S. Department of the Treasury. The Fund's organizational structure includes the Fund 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. The Fund is located in Washington, D.C. and currently has 20 full time equivalent positions.

Executive Organizational Structure



Highlights of the Year

The following are some of the significant cases which occurred during FY 2000.

Case Highlights

'Operation Journey' Dismantles Colombian Drug Organization

The U.S. Customs Service, in coordination with the Drug Enforcement Administration and the Joint Interagency Task Force-East concluded "Operation Journey," a two-year, multi-national initiative against a Colombian drug transportation organization that used commercial vessels to haul multi-ton loads of cocaine to 12 countries, most of them in Europe and North America.

The investigation, which involved authorities from 12 nations and three continents, resulted in the arrest of 47 individuals, including the alleged leader of the maritime drug transportation organization and several of his subordinates. A Colombian citizen, he was arrested in Maracaibo, Venezuela on August 16, 2000 and turned over to U.S. custody, and faces Federal drug charges in Ft. Lauderdale, Florida.

Since its inception, Operation Journey has resulted in the seizure of over 22,000 kilograms of cocaine or nearly 25 tons of cocaine. On the streets of Europe,

this cocaine could generate roughly $1 billion at the retail level. The location of these seizures ranged from the Netherlands to Venezuela. The operation has also resulted in the seizure of commercial shipping vessels, high-speed boats, and communications equipment.

The organization targeted by Operation Journey served as a one-stop shipping service for Colombian cartels interested in moving cocaine via maritime vessels to U.S. and European markets. Based in Colombia and Venezuela, the organization used a fleet of 8-to-10 commercial freighters capable of hauling huge loads of cocaine anywhere in the world. Some of these ships were owned by shipping firms in Greece and other nations, while others were owned by this Colombian organization.

Typically, the cocaine was transported from Colombia via land or air to the Orinoco River Delta on Venezuela's northeast coast. Upon arrival, the cocaine was stashed by the organization in remote jungle hideouts. From these camps, high-speed boats hauled the cocaine to commercial ships stationed offshore. Once onboard, the cocaine was often concealed in secret compartments constructed for smuggling purposes. Upon reaching its intended destination, the cocaine was then offloaded to waiting high-speed boats or other vessels and ferried ashore to locations in Europe and the United States.

To guard against law enforcement, the organization used several techniques. Often, the organization conducted "dry runs" in which the ships only delivered legitimate cargo. On other occasions, the ships hauled legitimate cargo and cocaine. Members of the organization also used sophisticated equipment to communicate in code and frequently changed cell phones to prevent their conversations from being monitored.

Nevertheless, investigators from around the globe were able to penetrate the highest levels of the transportation organization. Working with foreign counterparts, the DEA developed information on the European connections, while Customs agents developed information on the South American connections. In the end, U.S. agents were able to document the movement of at least 68 tons of cocaine by this organization over a three-year period.

As part of the takedown, a U.S. Naval vessel stopped the Maltese-flagged ship, the Suerte I (pictured below), off the coast of Grenada on August 17, 2000. A U.S. boarding party searched the vessel, but found no cocaine. The vessel was believed to have been destined to carry tons of cocaine as part of the Colombian cocaine smuggling venture revealed by the investigation. The Suerte I was seized under a civil seizure warrant.

Five Flying Ladies Come up for Auction
A specialty sale was conducted to auction off 5 classic Rolls-Royces, ranging from a 1920 Silver Ghost convertible to a flashy 1959 Silver Cloud Drophead convertible. A phone bidder captured two of the cars, and the total sale grossed $625,000.

Multimillion Dollar Smuggling Ring Disbanded

Customs officials disbanded a multimillion dollar smuggling ring which illegally imported goods from China. A total of ten defendants were charged for their involvement in a plot that illegally imported large quantities of clothing and medicines that were falsely declared to Customs to be cheap, low-duty plastic bags and wooden furniture. The purpose of the scheme was to avoid high duties imposed on Chinese-made apparel, which can be as much as 30 percent of the declared value; to circumvent quota agreements that limit the amount of Chinese-made clothing that may be imported into the United States; and to import Asian medications regulated by the Food and Drug Administration.

On May 25, 1999, a stipulation was signed by a U.S. District Judge, Central District of California, to forfeit $1,400,000 by Stephen Juang on May 1, 2000 to the U.S. Customs Service. In the stipulation, Juang, the organizer of the scheme, agreed that the $1,400,000 belonged to him and that it constituted proceeds of the unlawful smuggling scheme to which he pled guilty.

The smuggling scheme operated from October 1995

through February 1997. The conspiracy to smuggle goods involved clothing manufactured in the People's Republic of China and in Hong Kong, as well as prohibited Chinese medicines. The scheme centered on a Customs-bonded container freight station operated by Juang, who owned several Compton-based firms.

According to Customs investigators, Juang and his partners arranged for wearing apparel or Asian medicines to be shipped to the Los Angeles Port of Entry. Once the goods arrived, Juang and others would file a Permit to Transfer with the Customs Service, which would allow him to move the containers laden with clothes or medicines from the docks to his container freight station. Instead of delivering the goods to his companies, Juang and others would in many instances deliver the good to various importers. Juang would then file entry documents that falsely described the imported goods as plastic bags or wooden furniture, which have no quota restrictions and very low duty rates.

In exchange for smuggling the goods, Juang received millions of dollars in smuggling fees. By submitting false entry documents, Juang and his partners, defrauded the U.S. government of more than $10 million in actual duties that should have been paid to the Customs Service. In addition to these losses, the scheme circumvented trade restrictions designed to protect the United States' textile and apparel industries.

Operation Clean Swipe

This case was initiated by the Secret Service New Orleans Field Office in March of 1999 in an effort to disrupt organized food stamp/Electronic Benefits Transfer (EBT) fraud in the greater New Orleans metropolitan area. This operation was conceived with the idea of using financial and link analysis, in addition to traditional investigative methods, in order to strengthen conspiracy and money laundering charges against the suspected ringleaders and to more thoroughly target assets derived from criminal proceeds for forfeiture.

The initial focus of this investigation was on analyzing the bank records of 22 small grocery and convenience stores located in New Orleans and Baton Rouge, Louisiana. For the period of August 1997 through May 1999, these stores had combined deposits of $153 million, including $17 million in EBT benefits. During this same period, there were also combined withdrawals of $153 million. Approximately 70 to 80 percent of the deposit base was comprised of cashed checks, and approximately $20 million was withdrawn from the accounts for money order sales. Subpoenaed records revealed that $14 to $16 million worth of the money orders were made payable to the various owners of the stores.

A review of total EBT/food stamp deposits versus reported sales tax revenue for the subject stores was conducted, and the ratio was determined to be roughly 80 percent, compared to the industry standard of 12 to 18 percent. Previous large scale food stamp/EBT investigations have established that it is accepted practice to use the difference between the industry standard and that of the subject stores to estimate the amount of fraud loss. Using this method, it is estimated that approximately $14 million of the $17 million in EBT deposits to the subject stores was fraudulent.

Once this review was completed, investigative techniques to corroborate this documentary information were initiated. Initial attempts to introduce a confidential informant failed, but in January 2000, a new informant was introduced with excellent results. Over the next six months, multiple EBT cards were used fraudulently in amounts exceeding $100 at almost all of the subject stores, with the full cooperation and knowledge of the merchants.

Using funds obtained from the Forfeiture Fund, a forensic accounting firm was hired to analyze subpoenaed bank and financial records to develop probable cause concerning the number and amount of fraudulent transactions, to establish that the proceeds from this fraud were being laundered, and to develop probable cause for the seizure of criminally derived assets. This analysis confirmed that the targeted businesses were engaged in EBT fraud, food stamp fraud, and money laundering on a large scale, and coupled with the information developed through the use of the confidential informant, there was ample probable cause to obtain search and arrest warrants.

"The Five Stars"
This 66' Italian made motor yacht was seized after U.S. Customs found nearly 4,351 pounds of cocaine on board. Fair market value for the boat was $224,000, but it sold at auction for $255,000 on June 16, 2000.

Because of logistical and operational concerns, a decision was made to target the most heavily involved businesses and individuals first, and to pursue the second tier at a later date.

On September 19, 2000, over three hundred law enforcement personnel from a total of 8 Federal and 7 local agencies simultaneously executed 14 search warrants on 11 of the targeted businesses and 3 residences owned by some of the store owners at locations throughout southeastern Louisiana. Four consent searches (two residences and two businesses) were also conducted.

Fifteen arrest warrants were obtained for violations of Title 18, United States Code, Sections 2 (Aiding and Abetting), 371 (Conspiracy), 1029 (Access Device Fraud), 1343 (Wire Fraud), and 1956 (Money Laundering), as well as Title 7, United States Code, Section 2024 (Food Stamp Fraud). Six seizure warrants were also served on bank accounts, resulting in the seizure of approximately $700,000 and a $100,000 certificate of deposit. An additional $200,000 in cash was seized from the various search warrant locations, as were 16 large diamonds. Documentary evidence seized pursuant to the search warrants indicates that additional funds are located in bank accounts in Switzerland and Venezuela.

Midwest Investment Scheme

This case originated in December 1999 when the Secret Service received information regarding an alleged scam which enticed victims to purchase fraudulent and fictitious Certificates of Deposits (CDs), supposedly insured by the FDIC. The Bank of America became suspicious when a large number of deposits started appearing in an account within one month of it being opened. Suspicion was further

A Black Beauty Goes to the Highest Bidder in Tampa
U.S. Customs happily hosted the sale of this fabulous 1999 Bentley Arnage. Agents seized the car because it was purchased with the drug proceeds.

aroused when one of the account signatories attempted to wire transfer $1 million from the account.

The investigation determined that the subjects operating this account were advertising CDs in local Oklahoma newspapers with a rate that was much higher than other CDs. Additionally, these advertisements stated that all the CDs were FDIC insured, that they were issued by FDIC insured banks, and that all money would be maintained in FDIC insured accounts. The investigation later determined that none of this was true, and that the subjects who organized this scheme intended to place the money into a high-risk, high-yield trading program which was not FDIC insured.

Based on information obtained through the bank, it was determined that almost all of the investors were elderly individuals who were investing large portions of their retirement.

Secret Service agents obtained a Federal seizure warrant for the contents of the account which totaled approximately $1.3 million. The funds were eventually forfeited and restitution was made to 25 elderly victims.

Mongols - Outlaw Motorcycle Gang

This investigation began in January 1998, investigating the illicit activities of the Mongols, one of Southern California's most violent and criminally active motorcycle gangs. As a result of ATF's investigative efforts, an undercover ATF agent infiltrated the organization and rose within its ranks to become an officer of one the chapters. The Mongols are a documented, self-proclaimed "one percenter" outlaw motorcycle gang. The term one percenter stems from a statement made many years ago by a defender of the rights of motorcyclists. That statement claimed that only one percent of those who ride motorcycles are involved in criminal activities. Those who belong to criminal gangs proudly adopted the term.

The Mongols established themselves in Southern California in the early 1970's with seventeen chapters in the Los Angeles County area. They have secured themselves as a national and international organization by establishing chapters in Oklahoma, Georgia, Colorado, and Mexico.

On May 19, 2000, ATF, in conjunction with the Los Angles County Sheriff's Department utilizing 760

ATF and Los Angeles County Sheriff's Deputies, executed 75 search warrants and arrested 40 members or associates of the Mongols for weapons, narcotics, and murder violations. The warrants were executed in California, Oklahoma, and Georgia. The investigation and subsequent searches resulted in the recovery of 101 firearms including two machineguns and a sawed off shotgun, in excess of $42,000 in cash, 10 pounds of narcotics, and 21 stolen motorcycles.

Three Federal fugitives remain at large. The investigation has also uncovered evidence supporting two murder investigations. The Department of Justice authorized a Racketeer-Influenced and Corrupt Organizations (RICO) prosecution. Evidence sought and recovered, as a result of the investigation will be utilized to perfect a Violent Crimes in Aid of Racketeering case.

The Huns

In 1993, the Brevard County Sheriff's Office initiated an investigation targeting an outlaw motorcycle gang called "The Huns." The Huns Motorcycle Gang investigation targeted a criminal enterprise that made over $15 million in illicit funds and was involved in arson, murder, money laundering, tax evasion, and firearms violations in Florida and Connecticut.

In November 1993, the Fairfield Police Department assisted the Brevard County Sheriff's Department by providing information concerning the activities of this criminal organization in Connecticut. In January 1994, the Brevard County Sheriff's Office presented this investigation to ATF and IRS. Based on the information presented, both agencies agreed to assist in the investigation.

In September 1994, 28 search warrants and 30 seizure warrants for locations in Florida and Connecticut were served, resulting in the identification and arrest of 27 defendants. The property taken for evidence from both states included over $2 million in cash assets, several vehicles, records relating to RICO violations and money laundering, and thirty-six firearms including two sawed-off shotguns. The criminal case solved seven arsons and two murders.

In FY 2000, $1.7 million seized during this investigation (including cash, financial instruments, vehicles and the proceeds from two property sales) was finally forfeited and deposited into the Fund's receipt account. The State of Florida purchased one of the properties seized during this investigation and plans to use it for a Highway improvement project.

Operation Smokescreen

This investigation began in 1996 when Iredell County authorities noticed people with out-of-state license plates making large cash purchases from JR Tobacco, a discount tobacco outlet in Statesville, North Carolina. The The joint investigation between ATF and the local police department later revealed that two individuals had been directing the smuggling of contraband cigarettes from Charlotte to the Detroit/ Dearborn, Michigan area.

On July 21, 2000, ATF, FBI, and INS executed 18 Federal search warrants and 18 Federal arrest warrants in and around the Charlotte, North Carolina, area. One of the defendants was taken into custody in California. Over 200 Federal, state, and local law enforcement personnel were involved in this operation. In addition, a seizure warrant was served for 6 vehicles and 22 bank accounts. A legal notice was also filed on four residences and one business. A preliminary review of the bank accounts revealed funds in excess of $100,000. On July 31, 2000, the eight coconspirators were indicted by a Federal grand jury in Charlotte, North Carolina on 34 counts to violate INS laws and 2 counts to violate ATF laws.

The FBI has been conducting a parallel investigation into alleged violations of Title 18 USC § 2339A and 2339B, - providing material support to terrorists and providing material support or resources to designated foreign terrorist organizations. It is alleged by the FBI that the smuggling organization has ties to the Hezbollah terrorist organization in Lebanon and has been acting in a fund raising capacity for this organization. As a result, this investigation has become a joint investigation with the State Department, the Immigration and Naturalization Service (INS), and the FBI's Joint Terrorism Task Force.

Methamphetamine/Money Laundering

In October 2000, a northern California man was sentenced to serve 15 years 8 months in Federal prison and ordered to forfeit $5.6 million after he was convicted by a jury in April 2000 of all counts in the Indictment charging him and five others, including his wife, with conspiracy to distribute precursor chemicals, money laundering, conspiracy, and structuring.

The husband and wife owned and operated a company in Redding, California through which they purchased huge quantities of pseudoephedrine, a common decongestant that can be used to make methamphetamine, through east coast suppliers. The husband and wife then shipped the product by the pallet-load to codefendants in southern California, who in turn supplied the pseudoephedrine to large-scale methamphetamine manufacturing operations. The methamphetamine produced by those clandestine labs was sold throughout the state and across the nation.

The assets forfeited included the husband and wife's personal residence, vacation property, vehicles, and more than $1.1 million seized from various financial accounts. This investigation was a joint effort by IRS-CI and the Drug Enforcement Administration.

Nearly 1,000 antiques were sold during this two-day auction in Atlanta, GA . The most popular items included bronze statues, and large assortments of L.C. Tiffany lamps, vases and glasswork. These items were seized after the Secret Service and IRS-CI arrested a married couple for credit card fraud.

Victims Recover Money from Fraudulent Investment Scheme

Seven defendants indicted in an $8.4 million investment fraud case pleaded guilty to Federal charges related to a scheme that caused financial losses to thousands of investors in Missouri, Arkansas, Texas and elsewhere. The defendants received varied sentences of up to 37 months imprisonment.

The investigation by the IRS -CI and the U.S. Postal Inspection Service proved that investors were promised unusually high returns on their funds through the purported use of various short-term financing transactions. In order to create the appearance that the investments were legitimate, and to induce other persons to invest, some of the invested funds were actually returned to investors, an illegal strategy sometimes referred to as a "Ponzi scheme." Potential investors were also fraudulently lulled into believing that the investment was guaranteed by a bank and the principal insured by a major insurance company. During the course of the investigation, nearly $5 million in investors' funds was seized from numerous bank accounts controlled by the codefendants and a trust account controlled by an attorney for one of the defendants.

In September 2000, the United States Attorney for the Western District of Missouri announced that refund checks totaling more than $5.8 million were mailed to almost 2,600 victims of this investment fraud scheme. In addition to personally thanking the agents of the IRS-CI, the U.S. Attorney emphasized that without Federal asset forfeiture laws, it is unlikely that any of the money lost by investors in this case could have been seized or forfeited, let alone returned to victims.

Eastern European Illegal Alien Smuggling

A joint investigation conducted by IRS-CI, the Immigration and Naturalization Service, the Department of State Office of Inspector General, and the Social Security Administration Office of Inspector General resulted in the money laundering conspiracy conviction, 84 month prison sentence, and forfeiture of assets of a defendant who is a citizen and national of the Czech Republic.

Shortly after his arrival in the United States in 1997, the defendant, who was not authorized for employment and only allowed to remain in the United States for six months, used various aliases and set up companies to operate an elaborate network for the purpose of smuggling hundreds of illegal aliens from Eastern Europe into the United States. The purpose of the companies was to provide a large labor force to fulfill lucrative cleaning contracts with hotels and large retail stores in eastern Virginia and other states. The defendant and his co-conspirators could effectively undercut any competition based on the lower wages, lack of overtime, lack of benefits, and failure to withhold taxes.

The defendant purchased sophisticated computer equipment, software and elaborate inks and paper which were used to manufacture false documents to enable the illegal aliens to enter and obtain employment in the United States. The defendant used the companies he set up to launder the illegal proceeds. The Czech Republic Police provided two undercover agents who contracted with the defendant, came to the United States, and worked for one of the defendant's companies.

A Final Order of Forfeiture filed on August 11, 2000, ordered assets of the defendant, including funds seized from the bank accounts of his companies that were laundered proceeds he obtained from the employment of alien workers who were not authorized to work in the United States and the computer equipment, forfeited to the United States.

International Cigarette Smuggling Operation

In June 1997, a Federal grand jury in Syracuse, New York returned a seven-count indictment charging 21 defendants with money laundering, conspiracy to defraud the United States, and racketeering based upon their participation in schemes to defraud the United States and Canada of tax revenue by smuggling millions of dollars' worth of contraband cigarettes and liquor from the United States into Canada through the St. Regis Mohawk Indian Reservation. These charges, which included RICO charges against a Mohawk Indian Tribal Chief, were based upon evidence developed during a five-year investigation by a task force that consisted of agents from the IRS-CI, the Customs Service, ATF, the FBI, the New York State Police, and the United States Border Patrol.

This case is not only the largest money laundering case in the history of the Northern District of New York, involving more than $687 million in criminal transactions, but by far the largest, most significant Federal law enforcement effort ever undertaken to attack border-related crime in northern New York. The indictment also included forfeiture allegations against assets of the defendants. On June 23, 2000, a Partial Order of Forfeiture was entered ordering over $5 million of the main defendant's currency, stock, personal property, real estate, vehicles, boats, jewelry, and coin and baseball card collections to be forfeited and disposed by the IRS Criminal Investigation.

One of the real estate parcels forfeited is a former restaurant and bar that will be transferred to the Immigration and Naturalization Service/United States Border Patrol through the Weed and Seed Initiative for official use as a substation for its agents in Massena, New York. In addition, fifty percent of the net proceeds from the forfeited assets will be shared with the Royal Canadian Mounted Police.

This case received very favorable, widespread national and international publicity, including an article in the publication "Money Laundering Alert."

Public Corruption/Bribery

A joint investigation between the IRS-CI and the FBI that began in 1993 resulted in the indictment and guilty pleas of a Florida county public utilities commissioner, a bond company, and a lobbyist. The scheme involved the solicitation of bribes by the commissioner for his vote in awarding contracts to the bond company.

Shortly after the award of contracts to the bond company, the commissioner, who had financial problems, began purchasing new cars and remodeling his home. An analysis of the commissioner's bank records showed that just prior to his vote awarding a $16 million bond issue to the bond company, the commissioner was several months delinquent on loans and had written numerous bad checks. Within days of voting for the award of the bond issue, the commissioner deposited several large checks to his bank account. Additional bank records obtained showed that the bond company was paying off the commissioner's loans through another company.

In May, the United States Attorney for the Northern Judicial District of Florida presented an equitable sharing check in the amount of $1,125,000 to the IRS-CI. These funds represented a 50 percent share of the funds forfeited in the bribery scheme.

Program and Funding Highlights

The Treasury Forfeiture Fund is a special fund. Special funds are Federal fund collections that are 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. The funds can be allocated and used without the enactment of an annual appropriation by Congress.

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 composes the budget authority for meeting expenses of running Treasury's forfeiture program.

Expenses of the Fund are set in a relative priority 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. The impact on a criminal enterprise is considered greater, the large the forfeiture. However, to make significant forfeitures requires longer, more in-depth investigations and investigative investment. 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.

Asset Identification and Removal Groups

Asset Identification and Removal Groups (AIRGs) help ensure that seizure operations are done in the right way, with a maximum of precision and efficiency. In FY 2000, the Fund contributed over $3.5 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. The personnel assigned to the groups receive special training at Treasury's Federal Law

Santa Barbara Drug Runner's Hilltop Hideaway
Stories of this auction and the 600-pound cocaine bust received widespread media coverage, including "CNN Headline News." U.S. Customs ended the smuggler's 25-year spending spree by seizing his 5 bedroom, 3.5 bathroom, 3-car garage house, which sold at auction for $870,000!

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.

Customs' Philadelphia AIRG has been investigating an extensive, international stock fraud and money laundering conspiracy. The scheme involved the fraudulent issuance, promotion, and sale of stock, the price of which was illegally manipulated. During FY 2000, approximately $1 million in unlawful proceeds was seized and forfeited. Included in the seizures was a piece of real property located in Pound Ridge, NY, appraised at $850,000. Indictments of five targets are anticipated for April 2001. Included in the indictments will be proceeds and assets of approximately $12 million, including four properties in New York and Florida.

Treasury Computer Investigative Specialist Program

Treasury's law enforcement bureaus continue to adapt to the rapidly changing technology and develop the capability to conduct investigations in an electronic environment. A key component of the agencies' efforts to maintain such proficiency has been the Treasury Computer Investigative Specialist Program, Formerly the Computer Investigative Specialist (CIS) 2000 Program. Established in 1997, the CIS Program is one of the Treasury Department's responses to the challenge of collecting, analyzing, preserving and presenting evidence extracted from electronic media.

CIS is a Treasury-wide training initiative to ensure that all Treasury law enforcement bureaus have a technically skilled and highly equipped cadre of computer investigative specialists to meet their investigative needs. There are four principal components to the CIS initiative:

- Training
- Equipment (hardware and software)
- Internet Web site with dedicated servers
- Classroom equipment improvements

This past year was again a successful one in terms of training new specialists, providing upgraded equipment for computer forensics, and adding value to the investigations conducted by the special agents of the Treasury law enforcement bureaus.

In FY 2000, the Forfeiture Fund gave approximately $7.5 million to the CIS program. In part, these funds went to train special agents in basic and advanced evidence recovery techniques and to provide them with the latest computer forensic equipment.

Overall, 96 special agents were trained in basic evidence recovery and 80 were trained in advanced evidence recovery during FY 2000. Thirty-seven special agents were trained in advanced network training which included classes in Microsoft MSCE, Novell CNE, and Linux LNE.

CIS Case Highlights

- A joint IRS-Customs High Intensity Drug Trafficking Area investigation resulted in the seizure of two notebook computers from a sailboat transporting cocaine. The individuals arrested during the seizure claimed that they were new acquaintances and were not responsible for the narcotics. Evidence obtained from the computers established that the individuals had known each other for a long period of time. The computers also documented other trips they had taken together to and from the Caribbean which corresponded to narcotics transactions. Email also connected these individuals with a Canadian smuggling financier and to other narcotics transported to England. The Canadian was located in Switzerland. Swiss authorities would not extradite the individual but when they were shown the evidence, they indicted him for violation of Switzerland's laws. The Canadian has agreed to cooperate and has identified additional defendants. U.K. Custom's agents have been provided the computer evidence to add to their investigation of the loads transported to England. The amount of narcotics involved in the U.K. investigation make it one of the largest currently under investigation there. The CIS may be required to testify in both England and Switzerland.

- The Missouri Water patrol requested Criminal Investigation Division assistance in their investigation of an alleged murder of a St. Louis area woman at the Lake of the Ozarks. This case was assigned to the Criminal Investigation Division because possible money laundering charges were involved. The subject, a U.S. government employee, had used his work computer, with an NT password protected system, in connection with the murder scheme. The CIS was able to defeat the password protection on the computer and reconstruct temporary Internet files that provided substantial evidence of intent. The trial is scheduled to begin in early 2001, and it is anticipated that the state will attempt to obtain a death sentence for the alleged murderer.

- On February 11, 2000, two suspects were arrested by Secret Service agents of the New York Electronic Crimes Task Force (NYECTF) for violation of Title 18 USC 1029 (Access Device Fraud). Investigative leads provided by Cell One and AT&T to the NYECTF indicated that three locations were suspected of being involved in an international call sell operation. As a result of the information provided and the initiation of an electronic surveillance, teams consisting of the NYECTF and industry representatives were able to determine where the fraudulent activity was emanating.

  Based upon the information provided and the identification of the addresses, search warrants were issued. Simultaneous executions of the search warrants by representatives of NYECTF, New York Police Department, New York State Police, Government Services Administration, and industry officials resulted in the suppression of this call sell operation and cell phone cloning operation. Substantial implements of fraudulent access device operations were seized (estimated at over 15,000 devices).

- In March 2000, Internet Trading Technologies (ITTI), located in New York, NY, received several Internet based attacks on its servers. ITTI is a business that provides inter broker trade execution services. ITTI directly connects these customers to Wall Street. Secret Service agents of the NYECTF were contacted by the CEO of ITTI. Agents assisted ITTI in determining that a former employee was responsible for the attacks that crashed their servers. The former employee and his brother then attempted to extort ITTI by demanding increased pay and benefits.

  The attackers were using passwords internal in nature and known only to a select few people to access the computer systems. In addition, the attacks preyed on vulnerabilities that would only be known to the former employee and his brother. These attacks continued through March 13, 2000, and as a result, ITTI and its customers lost access to ITTI's trading systems.

  On March 13, 2000, during one of the attacks, agents identified the Internet Protocol (IP) address of the attacking computer. Agents were able to determine that the IP address of the attacking computer was associated with a particular computer at the City University of New York (CUNY), located in Flushing, NY. Agents responded to CUNY and were directed to the individuals using the identified computer. In a post arrest statement, the former employee advised that he was responsible for the denial of service attacks on ITTI's systems. Approximately $3.5 million was identified in lost trading fees, commissions and liability for not allowing customers to trade.

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.

In FY 2000, Congress approved $142 million in Super Surplus funding for the following law enforcement projects:

Customs

- Southwest Border Initiative
- FTE/Equipment (from S&E)
- Other Base Equipment Funding
- Customs Integrity Assurance Program
- Training Initiative
- Vehicles

ATF

- Headquarters Construction
- Major Case Funding
- Laboratory Equipment Modernization
- National Integrated Ballistics Information Network
- Arson and Explosives Repository
- Canine Explosives Detection
- Building Security Annualization

Secret Service

- Candidate Nominee Protection
- Non-Personnel Anti-Terrorism Costs
- Countering Chemical/Biological Threats
- Treasury Communications System
- Local Area Network Replacement
- Protective Security - White House Complex
- Uniformed Division Move

FinCEN

- Money Service Business Regulations

Below are some highlights of these Super Surplus projects:

Southwest Border Initiative

In the FY 2000 Appropriations Bill, Congress directed that $25 million of Super Surplus funding be provided for a Customs Southwest Border Initiative. This initiative allowed for an increase in inspectors, agents and detection technology in order to reduce wait times and prevent trafficking in illegal drugs and other contraband on the Southwest Border.

Congress approved that the funding could be split between FY 2000 and FY 2001. In FY 2000, Customs began to hire canine officers, inspectors and agents, relocated agents, and purchased body scan equipment and density meters. The Fund has reserved the

remaining $11.3 million in Super Surplus for continuation of this project in FY 2001.

Arson and Explosives Repository

In 1996, Congress recognized ATF's expertise in the arson and explosives arena and passed legislation authorizing the Treasury Secretary to establish a National Repository of information on arson incidents and the criminal misuse of explosives throughout the United States. The Secretary of the Treasury directed ATF to carry out this Congressional mandate. The principal Federal partners in the data collection effort are ATF, the Federal Bureau of Investigation, and the United States Fire Administration. In FY 2000, ATF's National Repository Branch (NRB) received $1.6 million from the Forfeiture Fund.

With support from the Fund, the NRB developed the Arson Explosives Incident System (AEXIS) which provides a comprehensive database of records for arson/explosive incidents and serves as a repository for those incidents reported by local and state jurisdictions. The result is this country's most comprehensive set of data describing arson/explosives victimization, device components, and the theft and recovery of explosives. The NRB supports individuals at the policy making level as well as the investigators conducting investigations in the field.

The National Repository Branch's secure web-site was placed in operation to provide bomb technicians, explosives investigators, law enforcement and fire service with an intelligence database that could aid investigators by identifying trends and similarities

A Toledo man robbed Medicare of $41.8 million laundered most of the proceeds through 10 apartments buildings, 4 commercial buildings, farm land, and a wine store. These pieces of real property sold at auction for $25,532,000! Other items sold from this case included fur coats, a 6.1 carat diamond ring, and other fine jewelry.

between arson and explosives incidents. The National Repository helps authorized investigators identify case-specific similarities regarding explosive and incendiary device construction, methods of initiation, types of fuels/explosives used, and methods of operation. The system will link thefts of explosive material with the later criminal misuse of the explosives.

The NRB has a highly experienced staff equipped with some of ATF's most modern information system tools. The AEXIS database contains over 108,400 incident records containing 25 years of incident history. It describes the nation's arson and bombing occurrences with information on trends, patterns, and criminal methodologies. The records contain sufficient incident detail to identify similar device construction, target selection, device delivery techniques and provide the identity of previous offenders.

The NRB trained 19 ATF Law Enforcement Divisions on AEXIS. The training included giving special agents, inspectors, and investigative assistants access to AEXIS data from their office computer. In addition, other Federal, state, and local law enforcement agencies including the Department of Justice were given presentations on AEXIS. The repository provided international training on AEXIS to law enforcement officials in the United Kingdom, Australia, Germany, and France.

National Integrated Ballistics Information Network Program

In FY 2000, ATF received $3 million from the Fund to support the National Integrated Ballistics Information Network (NIBIN) program. ATF is committed to reducing gun violence while effectively regulating the legitimate firearms industry. One tool that ATF uses to target suspects who illegally use firearms and/or supply guns to criminals or children is the NIBIN program.

The NIBIN program provides and uses intelligence information regarding crime guns that are traced by the National Tracing Center. Additionally, the NIBIN program provides intelligence information, which assists investigators in identifying and addressing illegal firearms trafficking by criminals. The NIBIN program employs the Integrated Ballistics Identification System (IBIS) to compare images of ballistic evidence (projectiles and cartridge casings) obtained from crime scenes and recovered firearms. This allows investigators to link a shooting in one city to shootings involving the same weapon in other localities. The system automatically compares the crime scene bullet or cartridge casing with other bullet and cartridge casings that have been previously entered into the system and produces a list of likely matches. The NIBIN program and IBIS have proven to be invaluable tools for local, state and Federal law enforcement personnel and have led to the identification and apprehension of countless violent criminals.

Candidate Nominee Protection

In FY 2000, the Fund provided the Secret Service with over $25 million to support the physical protection of protectees and ongoing protective intelligence during the 2000 Presidential Campaign. This funding helped Secret Service achieve its performance goals by providing the maximum physical protection possible for Secret Service's protectees in their residences and while traveling, and maintaining an ongoing protective intelligence program to support risk assessment and the determination of the protective requirements. In the most basic terms, the result of this funding was the protection of the lives of our nation's leading political figures.

Countering the Chemical and Biological Protective Threat

The increased use of chemical and biological agents or other hazardous materials poses a tremendous threat to Secret Service protectees. The Fund provided Secret Service with $3.3 million in FY 2000 to purchase the latest, most sophisticated chemical/biological detection technologies as well as decontamination and personnel protective equipment, neutralizing materials and containment systems. This funding supported the purchase of replacement equipment due to expired shelf life, outdated technology and use of expendable material. This initiative enabled the Secret Service to significantly improve its ability to provide the best possible and most effective portable equipment to mitigate, neutralize, contain, test, identify and sample threats that use chemical/biological or hazardous materials.

Eight Condominiums in Puerto Rico
Eight ocean and beach-view condos in Puerto Rico were sold at public auction, after a joint investigation between the IRS-CI and FDA disbanded a drug ring that specialized in trafficking pharmaceuticals, currency structuring, wire fraud, and money laundering.

Program Performance

Strategic View

The Treasury Forfeiture Fund has long recognized the benefit of having a clearly articulated sense of direction that has been well communicated to all Fund participants. With policy direction from the Under Secretary of Enforcement and by attention to evolving Federal law enforcement priorities and strategies, the Fund provided a new Strategic Plan for 2000 - 2005 to Congress in September 2000. The Plan provides the Fund with the requisite road map toward achievement of our ultimate goal which is the disruption of criminal organizations through application of the forfeiture sanction.

The essence of this program involves applying forfeiture to the infrastructure of criminal enterprises, identifying and disrupting organizers and facilitators, versus an emphasis on criminals at the "bottom of the food chain." The only real damage that can be done to drug cartels and criminal syndicates is the removal of facilitating assets and the profit incentive on a significant scale. It would be imprudent to expect to have the law enforcement resources on any level, Federal, state or local, to afford to tackle the problem of illegal drugs one user at a time and expect to finally resolve the problem. Fund management believes that the Treasury forfeiture program can continue to grow and to faithfully carry out its Congressional mandate to punish and deter criminal activity through enhanced strategic use of asset forfeiture, and a return to an emphasis on high-impact cases that work to

destroy the root of insidious criminal behavior on an effective scale.

The Treasury Forfeiture Fund is an extremely critical law enforcement program, and we envision that in partnership with its member bureaus, as well as Departmental leadership, we can further our mission of dismantling criminal enterprises, while earnestly protecting the due process rights of affected persons.

Mission

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.

Goal

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 punish and deter criminal activity. There are four principal guidelines embraced by Fund management in order to effectively achieve the strategic mission and they are: (1) to affirmatively influence the use of asset forfeiture by Federal law enforcement to punish and deter criminal activity; (2) to manage Fund revenues to cover the costs of seizure and forfeiture; (3) to affirmatively influence Federal law enforcement to enforce the due process rights of affected persons; and (4) to urge and enhance cooperation among foreign, Federal, state and local law enforcement agencies on issues pertaining to asset forfeiture.

Performance Measures

In FY 2000, the Fund measured performance through the use of three performance measures: (1) Days elapsing between forfeiture and disposition of real property; (2) Timely processing of administrative forfeiture cases; and (3) Days required to process equitable sharing payments.

Program Performance

Fund performance measures and associated results for FY 2000 are as follows:

Performance Measure	FY 1999 Actual	FY 2000 Standard	FY 2000 Actual
Days elapsing between forfeiture and disposition of real property	394	365	337
Timely processing of administrative forfeiture cases.	70%	72%	74%
Days required to process equitable sharing payments.	219	200	297

The average time between forfeiture and disposal of real property. The processing of real property is the most complex function encountered by the Treasury law enforcement agencies, and as such, has required Fund Management to develop special procedures to dispose of this property. The real property performance measure tracks the average number of days from forfeiture to the sale of the forfeited real property. The program performance goal is 12 months or 365 days from forfeiture to sale. In FY 1999, the actual performance was an average of 12.95 months, which represented an improvement from FY 1998's performance of 13.84 months. For FY 2000, the performance continued to improve and the average has lowered to 337 days or 11.2 months.

To arrive at the performance measure, the Fund compiled data derived from contractor reports and stored in its internal database for sales of real property occurring during FY 2000. From the master list of real property sales, a list of properties that could be excluded from the performance measure was identified. Accepted legitimate reasons for exclusion identified previously included: (1) interlocutory sales - property is not forfeited; (2) properties offered for sale in previous fiscal years; and (3) appeals of forfeitures.

Age of administrative seizure inventory. Administrative forfeitures are those in which an asset is forfeited without judicial involvement. To ensure that due process rights of citizens are protected and that revenue is collected in a timely manner, a goal of the forfeiture program is to process administrative cases quickly.

The timely processing of administrative cases within the prescribed times improved by four percent over FY 1999 (70 percent), and six percent over FY 1998 (68 percent). Management is pleased that the law enforcement bureaus are showing steady progress in this area and will ensure that continued improvement is achieved in FY 2001.

Referenced figures exclude weapons cases for ATF because ATF does not administratively forfeit firearms and ammunition until all judicial activities are completed. This is consistent with the Gun Control Act. Additionally, calculations related to this performance measure were based on information provided in reports submitted by the respective law enforcement bureaus as required by the Fund's Directive 26, "*Timely Processing Administrative and Civil Judicial Forfeiture Cases.*"

Processing time for equitable sharing payments. Equitable sharing expenses represent a substantial amount of the expenses of the Fund every year. State and local law enforcement agencies derive a valuable benefit from equitable sharing proceeds that assist them in ongoing operations to combat drug trafficking and violent crime. Delayed payments can damage critical working relationships with state and local law enforcement agencies that work hard in partnership with the Federal sector in the fight against crime.

The equitable sharing performance measure tracks the average number of days to process equitable sharing payments to other law enforcement agencies. The program performance goal is 200 days to process equitable sharing payments. In FY 2000, the actual performance was an average of 297 days, which represented a decline from FY 1999's performance of 219 days.

Currently, no single explanation for this processing decline has been determined. The vast majority (82.5 percent) of equitable sharing payments are made by the U.S. Customs. In fiscal year 2001, an automated equitable sharing module will be incorporated into the Customs' Seized Asset and Case Tracking System (SEACATS) which will streamline and expedite the equitable sharing payment process. Additionally, documents associated with 125 equitable sharing payments were misplaced by a bureau adding to the overall delay. Without this problem, the bureau would have been very close to achieving the goal. Corrective actions were taken to prevent a repeat of this problem. Management will continue to review this shortfall for processing equitable sharing payments.

New Performance Measure for FY 2001. Beginning in FY 2001, Fund management will rely on a new performance measure with which to gauge progress against its Strategic Mission. This measure is more strategic in nature and consistent with the recently revised Strategic Plan of the Treasury Forfeiture Fund. Performance measures from FY 2000 related to the timing of real property sales, equitable share payments and administrative case processing will continue to be monitored as significant program measures. However, beginning in FY 2001, this new measure will be tracked as a strategic indicator of Fund mission progress.

Percent of forfeited cash proceeds resulting from high-impact cases. This will measure the percentage of cases with asset seizures in excess of $100,000. A target of 75% high-impact cases has been set for FY 2001.

Financial Highlights

The following provides a brief explanation for each major section of the audited financial statements accompanying this report for the fiscal year ended September 30, 2000.

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.

Total Financing Sources
End of Year
(Dollars in millions)

	2000	1999
Financing Sources		
Non-exchange Revenue from Public Sources		
Forfeited currency and monetary instruments	$140	$261
Sale of forfeited property, net of mortgages and claims	31	23
Value of property transferred in equitable sharing	7	6
Payments in lieu of forfeiture, net of refund	1	6
Reimbursed costs	2	2
Other	4	1
Subtotal, revenue from public sources	185	299
Non- exchange Revenue from Intra-governmental Sources		
Proceeds from participation with other Federal agencies	16	12

Total Financing Sources
End of Year (Continued)
(Dollars in millions)

	2000	1999
Investment interest income	24	23
Subtotal, financing from intra-governmental sources	40	35
Total, gross financing from non-exchange revenues	225	334
Non-Exchange Revenue Applied to Public Expenses		
Equitable Sharing - state and local law enforcement	(85)	(150)
Equitable Sharing - foreign countries	(6)	(2)
Victim restitution	(11)	(2)
Subtotal, financing applied to expenses incurred with the public	(102)	(154)
Non-Exchange Revenue Applied to Intra-governmental Expenses		
Equitable Sharing - other Federal agencies	(7)	(12)
Total, applied financing	(109)	(166)
Total, Net Financing before Transfers Out	116	168
Revenue Applied to Transfers-Out[1]		
Intra-governmental Super Surplus	(71)	(37)
Secretary's Enforcement Fund	(8)	(4)
Property	(1)	—
Total, Transfers-Out	(80)	(41)
Total Net Financing Sources	$37	$127

Total Financing Sources End of Year (Continued) (Dollars in millions)	2000	1999
Less: Cost of Operations (from Statement of Net Cost)	(132)	(146)
Equals: Net Results of Operations	$(95)	$(19)
Net Position, Beginning of the Year	$325	$344
Net Position, End of Year	$230	$325

1 A policy change for FY 2000 requires that revenue applied to Super Surplus and the Secretary's Enforcement Fund be shown as Transfers Out, an "application" of revenues on the Statement of Changes in Net Position. In FY 1999, such amounts were captured as Non-Discretionary, Intra-governmental costs on the Statement of Net Cost.

Currency and Monetary Instruments. The Fund's primary source of revenue is forfeited currency and monetary instruments. For FY 2000, revenue from forfeited currency and monetary instruments totaled $140 million, or 76 percent of total revenues from *public* sources, versus $261 million, or 87 percent of *public* source revenue in FY 1999. FY 1999 represents a banner year in high-impact cash forfeiture cases.

Sale of Forfeited Property. The revenue from forfeited property, net of mortgages and claims, was $31 million in FY 2000 and $23 million in FY 1999, a pattern that also supports the slightly higher cost of the national seized property contract in FY 2000 versus FY 1999.

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 2000, these proceeds from joint investigations with other Departments totaled $16 million, and for FY 1999 they totaled $12 million.

Investment Interest Income. The Fund is authorized to invest cash balances in Treasury securities. On September 30, 2000, investments totaled $460 million. This included $243 million invested from balances of the Fund and $217 million invested from seized balances not yet forfeited. Interest income earned on these investments during FY 2000 totaled $24 million, up from $23 million in FY 1999.

Transfers-Out. Beginning in FY 2000, financing applied to Super Surplus and Secretary's Enforcement Fund authorities is to be shown on the Statement of Changes in Net Position as "Transfers-Out," versus a Non-Discretionary Cost on the Statement of Net Cost. The Net Results of Operations is unchanged using either technique; however, the Cost of Operations is less for FY 2000 to the extent of any Super Surplus or Secretary's Enforcement Funding now shown as an applied revenue rather than as a program cost. The policy change is Department-wide (except for Departmental Office) and is intended to reflect greater consistency with provisions of Statement of Federal Financial Accounting Standard Number 7 (SFFAS 7), Accounting for Revenue et al.

Cost of Operations. For FY 2000, costs of operations total $132 million, which is down from $146 million in FY 1999.

Net Results of Operations. The Statement of Changes in Net Position indicates a greater cost of operations in FY 2000 versus FY 1999, with Net Results from Operations dropping from a negative figure of $19 million in FY 1999, to a greater negative figure of $95 million in FY 2000. A negative figure for this entry suggests costs in excess of revenue. However, if Super Surplus and Victim Restitution are subtracted from the cost of operations, the figures become a positive net results of operations of $24 million for FY 1999, and a negative net results of operations of $12 million for FY 2000.

Changes in Net Position. The net position at the end of FY 2000 totals $230 million, compared to $325 million at the end of FY 1999, a reduction of $95 million or 29 percent from FY 1999. This decrease is largely attributable to the difference in forfeiture revenue earned by the Fund in FY 2000 as compared to FY 1999. Total gross non-exchange revenues of

the Fund totaled $225 million for FY 2000, as compared to $334 million for FY 1999, a decrease of $109 million or 33 percent from the FY 1999 earned revenue level.

Statement: Net Cost

Costs of the Forfeiture Program - Intra-governmental. 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, non-discretionary costs appear to have decreased by $14 million to $132 million in FY 2000, down from $146 million in FY 1999, a decrease of 10 percent. However, this decrease is largely due to the accounting policy change (pursuant to a directive from Treasury's Departmental Office) which shifts Super Surplus Fund and Secretary Enforcement Fund expenses to the Statement of Changes in Net Position from the Statement of Changes in Net Cost.

This change is explained in the previous section under the subtitle, "Cost of Operations." Comparable figures indicate approximately $16 million less in costs in FY 2000 than FY 1999, largely due to decreased revenue in FY 2000 available for more discretionary investigative expenses.

Program Costs
End of Year
(Dollars in millions)

	2000	1999
Non-discretionary		
Costs Incurred with the Public		
National seized property Contract	$35	$33
State and local law enforcement joint operations	10	10
Subtotal, non-discretionary costs incurred with the public	45	43

Program Costs
End of Year
(Dollars in millions)

	2000	1999
Costs Incurred with Other Federal Government Entities		
Intra-Governmental		
Seizure investigative costs and asset management	$55	$78
Other asset related contract services	2	1
Awards to informer	2	(*)
Data systems, training and others	27	18
Super Surplus	1	4
Secretary's Enforcement Fund	—	2
Subtotal, costs incurred with other Federal Government entities	87	103
Discretionary[a]		
Costs Incurred with Other Federal Government Entities		
Intra-governmental		
Purchase of information or assistance	(*)	(*)
Federal law enforcement conveyance	(*)	(*)
Data systems, training and others	(*)	(*)
Subtotal, discretionary intra-governmental costs	(*)	(*)
Total Net Cost of the Treasury Forfeiture Program	$132	$146

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

[a] *These amounts represent the delivery of goods for which obligations were made in previous years.*

National Seized Property Contract. The single largest 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 2000, EG&G expenses were approximately $35 million, only very slightly higher than those of FY 1999.

Super Surplus and the Secretary's Enforcement Fund. Pursuant to a directive from Treasury's Departmental Office, Super Surplus and Secretary Enforcement Fund expenses are shown as Transfers-Out on the Statement of Changes in Net Position beginning with the FY 2000 financial statements. Super Surplus expenses totaled $72 million in FY 2000, as compared to $41 million in FY 1999. This difference depicts much higher beginning retained earnings, available as Super Surplus, for FY 2000 as compared to amounts for FY 1999. The Super Surplus is one of the Fund's permanent spending authorities, authorized under Title 31 U.S.C. § 9703(g)(4)(B). At the end of each fiscal year, after reserving the Fund's retained capital for start-up expenses, the remaining funds may be declared as Super Surplus authority available to the Secretary of the Treasury for any Federal law enforcement activity in the subsequent year and are available until expended.

Expenses of the Secretary's Enforcement Fund (SEF) totaled $8 million in FY 2000, up from $6 million in FY 1999. As with the Super Surplus, the SEF is another one of the Fund's permanent spending authorities. The SEF is authorized under Title 31 U.S.C. § 9703(b)(5) and is derived from asset sharing revenue received from the Justice Department or the U.S. Postal Service. Such revenue represents Treasury's share of forfeitures to the Justice asset forfeiture program that resulted from joint investigations. The SEF is available for any Treasury law enforcement purpose.

Net Cost of Operations. As explained previously, the restated Net Cost of Operations for FY 1999 was $146 million as compared to $132 million for FY 2000. The difference reflects reduced revenue earned from forfeitures in FY 2000 as compared to FY 1999, leaving less available to apply to more discretionary costs of the program such as investigative costs leading to seizure.

Statement: Balance Sheet

Assets of the Fund's balance sheet are composed of entity and non-entity assets. Entity assets are assets that have been forfeited to the Fund and are in custody pending disposition. Non-entity assets are seized assets, not yet forfeited to the Federal Government, but which are in the custody of the government.

A summary of all assets required for presentation on the Balance Sheet of the Fund as of September 30, 2000 is presented in the following table.[2] As shown on the Balance Sheet, the total of both entity and non-entity assets decreased from $757 million at the end of FY 1999, to a total of $635 million at the end of FY 2000, a decrease on the Balance Sheet of $122 million or sixteen percent. Also, as shown in the footnote 9 disclosure, physical property under seizure not shown on the Balance Sheet decreased from $273 million at the end of FY 1999 to $196 million at the end of FY 2000, a decrease of $77 million. Isolating physical property of the forfeiture program, both entity and non-entity physical property totaled $227 million at the end of FY 2000 as compared to $301 million at the end of FY 1999, a reduction of $74 million or twenty five percent of the FY 1999 value. This accounts for the stable cost of the national property contract between FY 1999 and FY 2000 of $32.8 million and $33.4 million, respectively.

Assets owned by the Fund (Entity Assets):

Cash and other monetary instruments totaled $66 million on September 30, 2000, as compared to a balance of $140 million on September 30, 1999. This balance fluctuates based on the timing of deposits of forfeited currency into the Fund and distributions of forfeited currency shared with local, state and foreign law enforcement agencies. On September 30, 2000, the Fund had **entity investments and related interest** in Treasury securities of $244 as compared to $288 million on September 30, 1999. The balance for total **accounts receivable**, intra-governmental and non-intra-governmental, totaled about $0.3 million on

2 Non-entity property assets, which are seized assets other than cash and monetary instruments, are not shown on the face of the Balance Sheet, consistent with the current Statement of Federal Financial Accounting Standards Number 3, but are disclosed in Note 9. Beginning with FY 2001 financial statements , these assets will be shown on the face of the Balance Sheet.

September 30, 2000, as compared to about $0.8 million on September 30, 1999. The value of **forfeited property, held for sale, net of mortgages, liens and claims** on September 30, 2000, was $28 million, up from $26 million reported on September 30, 1999. The value of **forfeited property, to be shared with Federal, state or local or foreign governments** on hand at the end of both fiscal years was less than $1 million.

Advances had diminished from about $1.4 million on September 30, 1999, to just over $0.7 thousand on September 30, 2000. Minimizing advances serves to increase balances available for investment for the Fund, improving investment earnings.

Assets not owned by the Fund (Non-Entity Assets):

Finally, the total for **seized currency and other monetary assets, invested and not invested**, on September 30, 2000 was $296 million, only a slight decrease from the $300 million reported on September 30, 1999.

Entity and Non-Entity Assets of the Fund
End of Year
(Dollars in millions)

	2000	1999
Entity Assets (Forfeited assets, owned by the Fund)		
Intra-Governmental (in the custody of the Federal Government)		
Cash and other monetary Assets	$49	$127
Investments and related Interest	244	288
Accounts receivable	(*)	(*)
Advances	1	1
Subtotal, intra-governmental entity assets	294	416

Entity and Non-Entity Assets of the Fund
End of Year (Continued)
(Dollars in millions)

	2000	1999
Non-Intra-Governmental (in the custody of the private sector)		
Cash and other monetary instruments	17	13
Accounts receivable	(*)	1
Forfeited property Held for sale, net of Mortgages, liens and claims	28	26
To be shared with Federal, state or local or foreign governments	(*)	1
Subtotal, Entity Assets	339	457
Non-Entity Assets (Seized assets, not owned by the Fund)		
Intragovernmental Assets		
Seized currency (investments*)	217	253
Non-Intragovernmental		
Seized currency - cash and other monetary assets	79	47
Accounts Receivable	(*)	(*)
Subtotal, Non-Entity Assets	296	300
Equals: Total Balance Sheet Assets	$635[a/]	$757[a/]

* *Under the Statement of Financial Accounting Standards (SFFAS) Number 3, effective September 30, 1994, and thereafter, seized currency is reported as a custodial asset upon seizure. The amount cited here represents currency held in the Fund's suspense account, invested, or on hand at field office locations. (*) Amount is less than $1 million.*

[a/] Column may not add due to rounding.

Liabilities and Net Position:

A summary of the liabilities and net position of the Fund as of September 30, 2000, as compared with September 30, 1999 is shown in the following table. **Accounts payable** remained fairly stable at $38 and $39 million for September 30, 2000 and September 30, 1999, respectively. **Seized Currency**, composing the single largest liability, totaled $296 million at the end of FY 2000, as compared to $300 million at the end of FY 1999, also fairly stable. **Net position** decreased from $325 million at the end of FY 1999 to $230 million at the end of FY 2000, a decrease of $95 million or 29 percent. The decrease largely reflects a reduction in forfeited cash on hand between the two years. FY 1999 was a banner year for forfeited cash revenue, a level not repeated in FY 2000.

Revenue from forfeited property held for sale is deferred until the property is sold. When compared to FY 1999, slightly more forfeited property was held for sale on September 30, 2000, with **deferred revenue from forfeited assets** of $28 million at the end of FY 2000 compared to $27 million at the end of FY 1999. **Accounts payable** to both intragovernmental accounts and non-intragovernmental accounts totaled $45 million and $44 million at the end of FY 2000 and FY 1999, respectively, fairly stable. **Distributions payable** to state and local agencies and foreign governments, representing estimated equitable sharing liabilities at the end of each fiscal year, remained stable at $35 million and $31 million for FY 2000 and FY 1999, respectively.

Liabilities and Net Position
End of Year
(Dollars in millions)

	2000	1999
Liabilities covered by Budgetary Resources		
Intra-governmental liabilities covered by budgetary resources		
Distributions payable		
Other Federal agencies	$(*)	$1
Accounts payable	38	38
Subtotal, intra-governmental liabilities	38	39
Liabilities covered by budgetary resources		
Non-intra-governmental liabilities		
Seized currency	296	300
Distributions payable		
State, local and foreign law enforcement agencies	35	31
Victim restitution	—	29
Accounts payable	8	6
Deferred revenue from forfeited Assets	28	27
Subtotal, non-intra-governmental Liabilities	367	393
Total liabilities covered by budgetary resources	$405	$432
Liabilities not covered by Budgetary resources		
Commitments and Contingencies	—	—
Total Liabilities	405	432
Net Position		
Retained Capital	189	230
Unliquidated obligation	136	114
Results of Operations	(95)	(19)
Total Net Position	$230	$325
Equals: Total Balance Sheet Liabilities and Net Position[a/]	$635	$757

[a/] Amounts may not add due to rounding.

Summary of Financial Highlights

Net Position. Although Fund management concluded FY 2000 with current year expenses, transfers and applied revenue exceeding current year revenue by $13 million, (from FY 2000 - see page 17) this reflects a reduction of backlogged equitable sharing expenses brought forward FY 1999.

Policy Issuance. During FY 2000, the Fund management continued to identify incremental improvements in operational processes and financial management operations. Recognizing the close connection between field operations and proper financial management, the Executive Office for Asset Forfeiture continued the process of reviewing and updating the policy guidelines disseminated by the office.

Adoptive Seizure Policies and Procedures.
In FY 2000, the Executive Office for Asset Forfeiture issued Directive No. 34 - *Adoptive Seizure Polices and Procedures*. The Department of the Treasury's approach to adoptions was established in 1992, at a time when the majority of states did not have statutory authority to seize and forfeit. The Federal adoption process was created to provide a mechanism to allow Treasury law enforcement bureaus to assist: (1) states not possessing the requisite authority to forfeit criminally obtained property, and (2) in cases where the scope of the investigation (multi-state violators or international violators) warranted Federal investigation.

Since that time, the majority of states have obtained statutory seizure/forfeiture authority, thereby significantly decreasing the need for adoptions. The purpose of the new directive was to clarify the circumstances under which adoptions are appropriate given the evolving state legislation.

Circumstances that may make Federal forfeiture appropriate include, but are not limited to:

1. The pertinent state or local prosecuting official has reviewed the case and has declined to initiate forfeiture proceedings.
2. State and local law enforcement officials request Federal assistance and state a belief that:

   - A forfeiture action could not be maintained under state law.
   - The seized asset poses unique management or disposition problems.
   - State laws or procedures will delay the forfeiture and adversely affect the rights of the parties that have an interest in the property, or cause significant diminution in the value of the asset.
   - Federal adoption will enhance the scope and objective of the overall criminal investigation.

Requirements for an Adoption:

The following requirements should be met before a Treasury agency agrees to adopt a state or local seizure:

1. The state or local agency must conduct all of the pre-seizure and underlying investigative activity before requesting a Treasury adoption of the seizure.
2. There must be a violation of state law and a basis for forfeiture under Federal law.
3. The state prosecutor must have declined to take the seizure to forfeiture.
4. A turnover order must be obtained if required by state law.

New Legislation and Related Policy Publications.
The Civil Asset Forfeiture Reform Act of 2000 (CAFRA), Public Law 106-185, 114 Stat. 202, became law on April 25, 2000. Provisions of CAFRA apply to forfeitures commenced on or after August 23, 2000, except for the fugitive disentitlement provision, which was effective on the date of enactment.

Based on provisions of CAFRA, management revised Directive No. 5, *Sixty Day Notice Period in All Administrative Forfeiture Cases*, and issued two new directives during FY 2000. *Directive No. 5* was revised to ensure that notice is sent within appropriate timeframes as mandated by CAFRA, and includes a

model notice letter for bureaus to send to persons affected by asset seizure to either contest the seizure or agree to it and petition for return of the property or an interest in the property. *Directive No. 35, Hardship Petitions*, gives guidance to bureaus on handling hardship petitions, and *Directive No. 36, Payment of Attorneys Fees*, provides the Executive Office for Asset Forfeiture's policy concerning the payment of attorneys' fees under CAFRA.

FY 2000 Audit. The Fund's independent auditors have given the FY 2000 financial statements an Unqualified Opinion.

Program Performance

Financial and Program Performance -What is needed and planned. OMB Bulletin No. 97-01, as amended, *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 material weaknesses and reportable conditions identified by auditors during the FY 2000 financial statement audit.

Material Weaknesses. For FY 1999, auditors of the Fund's financial statements identified three material weaknesses which, in brief, were: (1) Accounting records are primarily maintained on a cash basis; (2) All balances and transactions that comprise the Fund are not captured by the general ledger; and (3) the U.S. Customs Service's Seized Property and Forfeited Assets Tracking Systems is inadequate.

During FY 2000, the Fund's management worked to resolve two of the three long-term material weaknesses, specifically items (1) and (3) above, pertaining to accounting records maintained primarily on a cash basis and inventory system adequacy. Material weakness number 3 will be removed while material weaknesses number 1 and 2 will be combined and reported as one material weakness pending the integration of inventory systems with the general ledger.

FY 2000 Material Weakness. No new material weaknesses were identified during the FY 2000 audit. The following material weakness was identified in the FY 2000 audit report and is a repeat finding:

(1) General Ledger does not capture all balances and transactions that comprise the Fund.

Reportable Conditions. For FY 1999, auditors of the Fund's financial statements identified three reportable conditions which, in brief, were: (1) Improper timing for valuation of forfeited property; (2) Lack of control over assets; and (3) Inadequate property management functions.

During FY 2000, Fund management resolved two of the three prior-year reportable conditions, specifically items (1) pertaining to property valuation and (2) Lack of control over assets. A significant portion of the third condition was also resolved, but a portion remains as discussed below.

The following reportable conditions were identified by our auditors in the FY 2000 audit report:

Repeat Condition:

(1) 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) that transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets. The following issues/ concerns were noted in this regard under the following functions: (i) inadequate accounting and recording of liens and claims; and (ii) asset specific expenses and revenue are not recorded and accounted for by the Fund.

New Reportable Condition:

1. Unsubstantiated Values for Seized Property

   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.

Fund Management's Plan Regarding Material Weaknesses. For FY 2000, two of three material weaknesses brought forward from FY 1999 were resolved. The first, "Accounting records are maintained on a cash basis, rather than the accrual basis of accounting as required by title 31 of the U.S. Code" was a Section 2 violation, Management Controls, of the Federal Managers Financial Integrity Act (FMFIA).

The second material weakness resolved was a FMFIA Section 4 material weakness, "Customs Service's seized and forfeited property and currency tracking system, SEACATS, does not contain accurate and sufficient data that can be relied upon to prepare the analysis of changes in forfeited and seized currency and property without substantial manual manipulation and reconciliation." For FY 2000, the physical property processing capability of the SEACATS system had been corrected in a manner sufficient to support the financial statements.

The only remaining material weakness identified for FY 2000, which was brought forward from previous years, pertains to the General Ledger (i.e., "the Fund's general ledger does not record all balances and transactions that are reflected in the financial statements). Financial information needed from each bureau to accurately record the Fund's activities is not received throughout the year. Instead, procedures have been developed to identify and capture information manually from other bureaus' systems at the end of the year in order to compile the financial statements."

Eventual integration of the inventory system(s) with the Fund's general ledger will relieve this long-standing material weakness. Fund management intends to work with the agencies to ensure that seized and forfeited property inventory systems continue to generate accurate inventory data automatically, and to use this data to manually adjust the Fund's general ledger. For the future, Fund management is working toward an automated link between the inventory system(s) and the general ledger.

Longer Term Plans. Before the Fund's general ledger can auto-matically record all accrual transactions associated with the Fund's financial statements, it will be necessary to integrate all inventory systems supporting the Fund's financial statements with the US Customs Service' Asset Information Management System (AIMS).

Fund Management's Plan Regarding Reportable Conditions. Repeat Condition: Management continues to work on systems enhancements to ensure the proper tracking and reporting of liens and claims, as well as the tracking and reporting of revenue and expense on an asset-specific basis.

New Condition: Fund management will work with the participating agencies to ensure that seizures are appropriately valued in a timely manner and that, when appropriate, documentation is available to support the recorded value.

Look Forward. Fund management is pleased with the reduction in the number of material weaknesses and reportable conditions identified against the FY 2000 financial statements as compared to both FY 1998 and FY 1999. 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 97-01, as amended, 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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Independent Auditor's Report on Financial Statements

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

We have audited the Principal Statements (balance sheet 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, 2000 and 1999. 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 generally accepted auditing standards; 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, 2000 and 1999, 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 generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 8, 2001, on our consideration of the Fund's internal control structure and a report dated January 8, 2001, on its compliance with laws and regulations.

Our audits were conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph of this report 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. 97-01, *Form and Content of Agency Financial Statements*, as amended, or the *Treasury Forfeiture Fund Act of 1992*.

GKA

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, and the U.S. Congress. However, this report is a matter of public record and its distribution is not limited.

January 8, 2001

Gardner, Kanyar & Associates

Treasury Forfeiture Fund
Balance Sheet
As of September 30, 2000 and 1999
(Dollars in Thousands)

Assets

	2000	1999
Entity Assets:		
Intragovernmental Assets:		
Cash and other monetary assets	$ 49,262	$ 126,724
Investments and related interest (Note 3)	243,466	287,498
Accounts receivable (Note 4)	8	112
Advances (Note 5)	704	1,476
Total Intragovernmental Assets:	293,440	415,810
Cash and other monetary assets (Note 6)	16,639	13,266
Accounts receivable (Note 4)	338	690
	16,977	13,956
Forfeited property (Note 7)		
Held for sale, net of mortgages, liens and claims	27,832	26,101
To be shared with Federal, state or local, or foreign governments	282	767
Total forfeited property, net of mortgages, liens and claims	28,114	26,868
Total Entity Assets	338,531	456,634
Non-Entity Assets:		
Intragovernmental Assets:		
Seized currency:		
Investments (Note 3)	216,890	253,139
Total Intragovernmental Assets	216,890	253,139
Seized currency:		
Cash and other monetary assets	79,281	47,055
Proceeds from interlocutory sales	221	-
Total Non-Entity Assets	296,392	300,194
Total Assets	$ 634,923	$ 756,828

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

Treasury Forfeiture Fund
Balance Sheet
As of September 30, 2000 and 1999
(Dollars in Thousands)

Liabilities and Net Position

	2000	1999
Liabilities Covered by Budgetary Resources:		
Intragovernmental Liabilities:		
Distributions payable:		
Other Federal agencies	$ 94	$ 1,320
Accounts payable	38,102	37,465
Total Intragovernmental Liabilities	38,196	38,785
Seized currency (Note 9)	296,392	300,194
Distributions payable:		
State and local agencies and foreign governments (Note 10)	34,656	31,470
Victim restitution (Note 11)	-	28,675
Accounts payable	7,816	6,088
Deferred revenue from forfeited assets	28,121	26,906
	366,985	393,333
Total Liabilities Covered by Budgetary Resources	405,181	432,118
Liabilities not Covered by Budgetary Resources:		
Commitments and Contingencies (Note 16)	-	-
Total Liabilities not Covered by Budgetary Resources	-	-
Total Liabilities	405,181	432,118
Net Position (Note 12)		
Cumulative results of operations	229,742	324,710
Total Liabilities and Net Position	$ 634,923	$ 756,828

The accompanying notes are an integral part of these financial statements

Treasury Forfeiture Fund
Statement of Net Cost
For the Years Ended September 30, 2000 and 1999
(Dollars in Thousands)

	2000	Restated 1999
Non-Discretionary:		
Intragovernmental:		
Seizure investigative costs and asset management	$ 54,591	$ 78,059
Other asset related contract services	1,872	1,460
Awards to informer	1,624	305
Data systems, training and others	27,176	17,576
Super Surplus (Note 14)	1,243	3,585
Secretary's Enforcement Fund (Note 15)	-	1,673
Total Intragovernmental	86,506	102,658
With the Public:		
National contract services seized property and other	34,883	32,797
Joint operations	10,337	10,086
Total with the Public	45,220	42,883
Total Non-Discretionary	131,726	145,541
Discretionary:		
Intragovernmental:		
Awards for information or assistance	-	2
Federal law enforcement conveyance	4	13
Data systems, training and others	-	(17)
Total Intragovernmental	4	(2)
Total Program Costs	131,730	145,539
Less: earned revenues	-	-
Net Cost of Operations	$ 131,730	$ 145,539

The accompanying notes are an integral part of these financial statements

Treasury Forfeiture Fund
Statement of Changes in Net Position
For the Years Ended September 30, 2000 and 1999
(Dollars in Thousands)

	2000	Restated 1999
Net Cost of Operations	$ 131,730	$ 145,539
Financing Sources (Non-Exchange Revenues):		
Intragovernmental		
Investment interest income	23,895	22,789
Public		
Forfeited currency and monetary instruments	140,414	261,255
Sales of forfeited property net of mortgages and claims	30,896	23,192
Proceeds from participating with other Federal agencies	16,205	12,420
Value of property transferred in equitable sharing	7,112	6,385
Payments in lieu of forfeiture, net of refund	880	5,536
Reimbursed costs	2,299	2,006
Others	4,045	862
Total Gross Non-Exchange Revenues	225,746	334,445
Less: Equitable Sharing		
Intragovernmental		
Federal	(6,557)	(12,058)
Public		
State and local agencies	(85,104)	(150,480)
Foreign countries	(6,569)	(2,416)
Victim restitution	(10,540)	(1,465)
	(102,213)	(154,361)
Total Equitable Sharing	(108,770)	(166,419)
Total Non-Exchange Revenues, Net	116,976	168,026
Transfers-Out		
Intragovernmental		
Super Surplus (Note 14)	(70,927)	(37,430)
Secretary's Enforcement (Note 15)	(8,244)	(3,960)
Property	(1,043)	-
Total Transfers-Out	(80,214)	(41,390)
Total Financing Sources	36,762	126,636
Net Results of Operations	(94,968)	(18,903)
Net Position-Beginning of Year	324,710	343,613
Net Position-End of Year	$ 229,742	$ 324,710

The accompanying notes are an integral part of these financial statements

Treasury Forfeiture Fund
Statement of Budgetary Resources
For the Years Ended September 30, 2000 and 1999
(Dollars in Thousands)

	2000	1999
Budgetary Resources:		
Budget authority	$ 226,196	$ 346,738
Unobligated balance - beginning of year	190,947	165,588
Spending Authority from offsetting collections	68	-
Adjustments	29,856	27,574
Total Budgetary Resources	$ 447,067	$ 539,900
Status of Budgetary Resources:		
Obligations incurred	$ 384,172	$ 348,953
Unobligated balance - available	62,895	190,947
Total, Status of Budgetary Resources	$ 447,067	$ 539,900
Outlays:		
Obligations incurred	$ 384,172	$ 348,953
Less: Spending authority from offsetting collections and adjustments	(29,924)	(27,574)
Obligated balance, net - beginning of year	221,982	200,905
Less: obligated balance, net - end of year	(229,153)	(221,982)
Total Outlays	$ 347,077	$ 300,302

The accompanying notes are an integral part of these financial statements

Treasury Forfeiture Fund
Statement of Financing
For the Years Ended September 30, 2000 and 1999
(Dollars in Thousands)

	2000	Restated 1999
Obligations and Nonbudgetary Resources		
Obligations incurred	$ 384,172	$ 348,953
Less: Spending authority from offsetting collections and adjustments	(29,924)	(27,574)
Transfers-out	(80,214)	(41,390)
Total Obligations and Non-budgetary Resources	274,034	279,989
Resources That Do Not Fund Net Cost of Operations		
Changes in amount of goods, services, and benefits ordered but not yet received or provided	(23,239)	46,515
Financing sources that do not fund cost of operations Mortgages and claims	(4,453)	(9,703)
Refunds	(5,842)	(4,843)
Equitable sharing (Federal, state/local and foreign)	(98,230)	(164,954)
Victim restitution	(10,540)	(1,465)
Total Resources That do Not Fund Net Cost of Operations	(142,304)	(134,450)
Costs That Do Not Require Resources	-	-
Financing Sources Yet to be Provided	-	-
Net Cost of Operations	$ 131,730	$ 145,539

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. 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 Accounting Services Division (ASD) 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 97-01, *Form and Content of Agency Financial Statements*, as amended.

The Fund's entity and non-entity 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 97-01, as amended.

The form and content of the balance sheet, as suggested by OMB, has been adjusted to present non-entity assets (and offsetting liabilities) to reflect the custodial/fiduciary nature of certain activities of the Fund.

These financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

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.

Prior to fiscal year 2000, without regard of funding sources, the Fund's expenses were 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). However, in fiscal year 2000, pursuant to a directive from the Treasury Departmental Office, this accounting policy was changed. The Fund records the distribution of funds to the bureaus from the Super Surplus Fund or the Secretary's Enforcement fund as transfers-out. Treasury bureaus (except for Departmental Office) record the receipt of the funds as transfers-in. Treasury Departmental Office will still recognize the Fund's disbursements as revenue. The change in accounting policy has no cumulative effect on the net results of operations. However, prior year Super Surplus and Secretary's Enforcement expenses have been reclassified to reflect this change. 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 year end 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 are 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.

  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.

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 yearend.

- **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 2001. 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. 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 10).

- 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. Prior to FY 2000, investments were 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. During FY 2000, the Fund established its own Suspense Account, and it became the depository for seized cash for the Fund. The investment, net, represents the required market value.

The following schedule presents the investments on hand as of September 30, 2000 and 1999, respectively (dollars in thousands):

Entity Assets

Description	***Cost***	***Unamortized Discount***	***Investment, Net***
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
September 30, 1999:			
Treasury Forfeiture Fund - 35 days 4.40% U.S. Treasury Bills	$287,801	$(1,230)	$286,571
Interest Receivable -			
On entity investments			493
On non-entity investments			434
Total Investment, Net, and Interest Receivable			$287,498

Non-entity Assets

Description	***Cost***	***Unamortized Discount***	***Investment, Net***
September 30, 2000:			
Treasury Forfeiture Fund - Seized Currency Suspense Account 28 days 5.875% U.S. Treasury Bills	$217,886	$(996)	$216,890
September 30, 1999:			
U.S. Customs Suspense Account 35 days 4.40% U.S. Treasury Bills	$254,225	$(1,086)	$253,139

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 2000, $800,000 was utilized toward expenses leaving a balance of $700,000 at year end. In Fiscal Year 1999, Treasury refunded $21.8 million to the Fund and $4.8 million was utilized towards Y2K expenses leaving a balance of $1.5 million at year end.

Note 6: *Cash and Other Monetary 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 $16.6 million and $13.3 million in Fiscal Year 2000 and 1999, respectively.

Note 7: *Forfeited Property*

The following summarizes the components of forfeited property (net), as of September 30, 2000 and 1999, respectively, (dollars in thousands):

	2000	1999
Held for Sale	$30,901	$28,904
To be shared with Federal, state or local, or foreign government	282	767
Total forfeited property (Note 8)	31,183	29,671
Less: Allowance for mortgages and claims	(3,069)	(2,803)
Total forfeited property, net	$28,114	$26,868

Forfeited property held for sale, net of allowance for mortgages and claims as of September 30, 2000 and 1999 was $27.8 million and $26.1 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, 1999 to September 30, 2000. The detail of this schedule by bureau is presented in the notes to the financial statements of each bureau. (Dollar value is in thousands).

	10/1/99 Financial Statement Balance		Adjustments		10/1/99 Carrying Value		Forfeitures		Deposits/Sales		Deposits/Transfers	
	Value	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**
Currency	13,266	0	0	0	13,266	0	136,213	0	(134,858)	0	(4,637)	0
Other Monetary Instruments (2)	1,287	-	161	0	1,448	0	1,155	0	(1,080)	0	0	0
Real Property	19,312	167	2,822	0	22,134	167	40,248	87	(41,617)	(131)	(607)	(5)
General Property	2,811	4,254	10,023	0	12,834	4,254	26,598	14,194	(20,242)	(3,015)	(5,138)	(1,356)
Vessels	1,129	52	257	0	1,386	52	3,390	102	(2,793)	(84)	(538)	(18)
Aircraft	537	4	(70)	0	467	4	3,133	4	(217)	(3)	(3,325)	(3)
Vehicles	4,595	1,903	1,400	0	5,995	1,903	16,522	5,446	(13,001)	(5,672)	(3,167)	(188)
Subtotal	29,671	6,380	14,593	0	44,264	6,380	91,046	19,833	(78,950)	(8,905)	(12,775)	(1,570)
Grand Total	42,937	6,380	14,593	0	57,530	6,380	227,259	19,833	(213,808)	(8,905)	(17,412)	(1,570)

	Victim Restitution		Destroyed		Other Adjustments		Value Change		2000 Carrying Value		Fair Market Value Adjustment		9/30/00 Financial Statement Balance	
	Value	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**
Currency	0	0	0	0	6,567	0	88	0	16,639	0	0	0	16,639	0
Other Monetary Instruments	0	0	0	0	(964)	0	(21)	0	538	0	(172)	0	366	0
Real Property	0	0	0	0	1,721	2	(817)	0	21,062	120	402	0	21,464	120
General Property	0	0	(220)	(10,679)	194	635	(399)	0	13,627	4,033	(9,799)	0	3,828	4,033
Vessels	0	0	(1)	(16)	25	7	(183)	0	1,286	43	(327)	0	959	43
Aircraft	0	0	0	0	0	0	0	0	58	2	7	0	65	2
Vehicles	0	0	(2)	(51)	183	144	(152)	0	6,378	1,582	(1,877)	0	4,501	1,582
Subtotal	0	0	(223)	(10,746)	1,159	788	(1,572)	0	42,949	5,780	(11,766)	0	31,183	5,780
Grand Total	0	0	(223)	(10,746)	7,726	788	(1,484)	0	59,588	5,780	(11,766)	0	47,822	5,780

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 refunded 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).

	9/30/99 Financial Statement Balance		Seizures		Remissions		Forfeitures		Adjustments		Value Change		9/30/00 Financial Statement Balance	
	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number
Currency	300,194	0	202,852	0	(82,568)	0	(136,213)	0	10,906	0	1,221	0	296,392	0
Other Monetary Instruments	11,947	0	4,854	0	(371)	0	(1,155)	0	(7,686)	0	(352)	0	7,237	0
Real Property	72,882	266	28,331	148	(5,234)	(59)	(40,248)	(87)	6,487	38	(2,869)	0	59,349	306
General Property	169,447	11,954	163,695	21,086	(178,804)	(8,601)	(26,598)	(14,194)	(6,960)	(1,050)	(16,898)	0	103,882	9,195
Vessels	2,051	85	12,904	129	(7,455)	(37)	(3,390)	(102)	(11)	(8)	(15)	0	4,084	67
Aircraft	9,247	15	14,352	20	(16,537)	(20)	(3,133)	(4)	(1,255)	(2)	0	0	2,674	9
Vehicles	18,837	2,220	61,647	9,488	(35,805)	(3,448)	(16,522)	(5,446)	(244)	(121)	(1,543)	0	26,370	2,693
Subtotal	284,411	14,540	285,783	30,871	(244,206)	(12,165)	(91,046)	(19,833)	(9,669)	(1,143)	(21,677)	0	203,596	12,270
Grand Total	584,605	14,540	488,635	30,871	(326,774)	(12,165)	(227,259)	(19,833)	1,237	(1,143)	(20,456)	0	499,988	12,270

Note 10: *Distributions Payable (state and local agencies and foreign governments)*

Included in the amount for Distributions Payable (state and local agencies and foreign governments) for Fiscal Year 2000 and 1999, respectively, is $27.6 and $29.1 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, 2000 and 1999, 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 11: *Victim Restitution - U.S. vs. Bulldog Medical Case*

The "Bulldog Medical Case" was a culmination of a 3-year investigation that ultimately led to Federal charges of criminal mail fraud, interstate transportation, money laundering, witness tampering, conspiracy, aiding and abetting, and criminal forfeiture. Although over $32 million associated with this case was forfeited during Fiscal Year 1997; the majority of the forfeited proceeds remain undistributed to victims of the underlying crime of fraud. The reason for the delay in distributing payments is related to litigation associated with a *qui tam* relator, that is, an individual who provides information to the Government in a case can file for a portion of proceeds from the case. The *qui tam* relator in this case filed outside of the district in which the principal case was filed and came to the attention of Fund management only after forfeiture. The referenced *qui tam* relater's claim must be resolved before any distribution of the proceeds can be returned to victims or otherwise distributed. The claim was resolved in Fiscal Year 1999. Approximately $3.4 million was distributed during Fiscal Year 1999. The balance of $28.7 million was distributed in Fiscal Year 2000.

Note 12: *Net Position*

Cumulative Results

The following summarizes components of cumulative results for the years ended September 30, 2000 and 1999, respectively, (dollars in thousands):

	2000	1999
Retained Capital	$189,071	$229,809
Unliquidated Obligations	135,639	113,804
Results of Operations	(94,968)	(18,903)
	$229,742	$324,710

Unliquidated Obligations

The following summarizes the components of unliquidated obligations as of September 30, 2000 and 1999, respectively, (dollars in thousands):

	2000	1999
Discretionary	$ 160	$ 348
Equitable Sharing	604	9,489
Non-discretionary	134,875	103,967
	$135,639	$113,804

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. Pursuant to a directive from the Treasury Departmental Office, management changed its accounting policy regarding disbursements from the Super Surplus Fund (see Note 2 Summary of Significant Accounting Policies - Allowable Fund Expenses).

Amounts distributed to other Federal agencies for law enforcement activities under "Super Surplus" requirements amounted to $72.2 million and $41.0 million in Fiscal Year 2000 and 1999, 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. This "Surplus" balance may be used for law enforcement activities of any Federal agency. Pursuant to a directive from the Treasury Departmental Office, management changed its accounting policy regarding disbursements from the Secretary's Enforcement Fund (see Note 2 Summary of Significant Accounting Policies - Allowable Fund Expenses).

Amounts distributed for Federal law enforcement purposes of Treasury law enforcement organizations amounted to $8.2 million and $5.6 million in Fiscal Year 2000 and 1999, 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 10, 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 Statement 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:

	2000	Restated 1999
Gross Costs	$131,730	$145,539
Earned Revenues	—	—
Net Costs	$131,730	$145,539

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

Note 18: *Disclosures Related to the Statement of Budgetary Resources*

The Fund's net amount of budgetary resources obligated for undelivered orders at the end of Fiscal Year 2000 and 1999 are $135.6 million and $113.8 million, respectively. This amount is fully covered by cash on hand in the Fund. 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 2000 and 1999 consist of the following (in thousands):

	2000	1999
Recoveries of Prior Year Obligations	$29,856	$27,566
Spending Authority from Offsetting Collections	68	8
Total	$29,924	$27,574

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

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

We have audited the Principal Statements (balance sheet 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, 2000 and 1999, and have issued our report thereon dated January 8, 2001. We conducted our audits in accordance with generally accepted auditing standards; 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. Material weaknesses are reportable conditions in which the design or operation of one or more of

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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 a material weakness and reportable conditions.

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

Material Weakness

The material weakness identified below was reported in prior years and is of continuing significance:

General Ledger Does not Capture All Balances and Transactions that Comprise the Fund

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.

Reportable Conditions

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

1. Inadequate Property Management Functions

The Fund's property management functions require improvement to ensure that 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:

1.1 Seizure Activities

Inadequate accounting and recording of Liens and Claims

The Fund's updated Directive does not provide clear instructions as to when liabilities must 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.

1.2 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 provided.

The reportable condition identified below was observed during fiscal year 2000.

2. Unsubstantiated Values for Seized Property

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.

In preparing the financial statements, Fund Management uses year-end manual procedures to compensate for the above identified conditions and weakness. These conditions and weakness existed throughout the year. Therefore, information obtained from the accounting system during the year may not be reliable. Consequently, Fund Management cannot place reliance on this information as the sole basis on which to make decisions.

Because these conditions and weakness 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 **Exhibits I and II**.

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 January 8, 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, and the U.S. Congress. However, this report is a matter of public record and its distribution is not limited.

January 8, 2001

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Independent Auditor's Report on Compliance with Laws and Regulations

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

We have audited the Principal Statements (balance sheet 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, 2000 and 1999, and have issued our report thereon dated January 8, 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: generally accepted auditing standards; 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.

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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 January 8, 2001, the Fund's internal control structure has a material weakness which results in noncompliance with this Act. This material weakness 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 significant 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. 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, and the U.S. Congress. However, this report is a matter of public record and its distribution is not limited.

January 8, 2001

Gardner, Kanyar & Associates

EXHIBIT I
MATERIAL WEAKNESSES

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.

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. 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 Fund's general ledger is maintained on a cash basis. Accordingly, accounts are not maintained on an accrual basis during the year. In addition, the asset tracking systems maintained by each of the participating agencies do not interface with the Fund's general ledger. Accordingly, inventory-related transactions that are non-cash generated are not recorded in the Fund's general ledger at any time during the year.

EFFECT

The lack of interface among the relevant subsidiary systems and the general ledger precludes the capturing of all transactions related to the Fund on a regular basis. Therefore, complete financial statements or current financial information cannot be readily produced using the general ledger balances. Seized and forfeited property, related liabilities, and various other accounts subject to accrual, are not captured in the general ledger during the year. As a result, the financial information produced during the year does not correctly present the results of operations and net position of the Fund.

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.

MANAGEMENT RESPONSE

Management Assessment on Progress:

Fund Management has identified integration of the asset tracking system(s) with the Fund's financial system as a priority challenge. Fund Management continues to work on the development and deployment of a single inventory system to support the systems integration of the three non-Customs agencies participating in the Fund. Additionally, the U.S. Customs Service has made significant progress in implementing an integrated system to capture transactions from SEACATS for posting to the general ledger. However, until such time as the asset tracking system(s) can fully integrate with the Fund's financial system, manual adjustments to the standard general ledger will continue.

Discussion/Background and Planned Action (Short Term - Next 12 Months):

Fund Management anticipates that the integration of SEACATS to the general ledger will be fully implemented during FY 2001. Customs has made significant progress in resolving programming issues for this system integration. However, Fund Management will continue to work diligently with Customs to identify and resolve issues associated with the general ledger integration.

Discussion/Background and Planned Action (Long Term):

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. To address this issue, Fund Management has provided high priority to the development of a single inventory system, FASTRAK, to be used by the three non-Customs bureaus. The first installation of FASTRAK is scheduled for FY 2002.

In the absence of this integrated system, Fund Management concurs with the auditor's recommendation to manually adjust the general ledger for all accounts subject to accrual.

EXHIBIT II
REPORTABLE CONDITIONS

1. INADEQUATE PROPERTY MANAGEMENT FUNCTIONS (Partial Repeat 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:

1.1 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.

1.2 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.

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

1.1 Seizure Activities

Inadequate accounting and recording of liens and claims

The Fund instructed the various agencies to update their inventory systems with liens and claims information at the time of forfeiture. USCS and IRS attempted to record this information. However, SEACATS faced technical difficulties to capture payee and other related information, while AFTRAK's information on liens was inaccurate with respect to payment status. ATF and USSS, both of which use CATS, were unable to capture this information.

1.2 Asset Disposition Activities

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

The Fund relies on the Property Custodian for providing asset specific expenses and revenue information. Deficiencies in the system (SEACATS) that the Property Custodian uses preclude the capturing of expense and revenue information at the asset level.

EFFECT

1.1 Seizure Activities

Inadequate accounting and recording of liens and claims

The value of properties will be overstated by the amount of the liens or claims outstanding. Additionally the situation may ultimately result in non-compliance with Statement of Federal Financial Accounting Standard (SFFAS) No. 3, Accounting for Inventory and Related Property, which prescribes that a valuation allowance be established and recorded for liens and claims on forfeited property.

1.2 Asset Disposition Activities

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

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

RECOMMENDATION

We recommend that the following actions be immediately implemented:

1.1 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 is 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.

1.2 **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.

MANAGEMENT RESPONSE

Management Assessment on Progress:

1.1 *Inadequate accounting and recording of liens and claims*

Fund Management has procedures in place that require the law enforcement agencies to record in their inventory tracking systems all valid liens and claims at the time of forfeiture. Unforeseen systems issues complicated the reporting of this data for FY 2000. However, manual procedures were implemented to produce this data for the year-end reporting requirements.

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

Fund Management has identified this condition as an important financial information deficiency. While manual procedures are in place to determine revenue and expense data at the asset level when required for financial transactions, it is a priority of Fund Management to pursue SEACATS enhancements for the automated recording and reporting of the revenue and expense data.

Discussion/Background and Planned Action:

1.1 *Inadequate accounting and recording of liens and claims*

Fund Management concurs with the auditor's recommendation regarding system enhancements to accommodate the necessary lien and claim information to support the Fund's financial reporting requirements. We will work with the bureaus to implement systems enhancements for the recording and reporting of valid liens and claims data.

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

The majority of the expense data for seized and forfeited property is captured by SEACATS, as well as the inventory tracking systems for the non-Customs bureaus. However, for property held by the national seized property contractor, overhead costs for contractor operated facilities are not being

captured at the asset level. Fund Management concurs with the auditor's recommendation to ensure that the new property management contract requires the awardee to record and distribute costs at the asset level.

Additionally, while the national seized property contractor reports revenue from forfeited property at the asset level, this data is not being captured adequately in SEACATS. Fund Management concurs with the auditor's recommendation to pursue enhancements of SEACATS system capabilities to record and report revenue and expenses at the asset level.

2. 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.

CRITERIA

Statement of Federal Financial Accounting Standards (SFFAS) Number 3, Accounting for Inventory and Related Property, requires seized property to be valued at its market value when seized or, if market value cannot be readily determined, as soon thereafter as reasonably possible. Market value is defined as the estimated amount that can be realized by disposing of an item through arm's length transactions in the marketplace or the price (usually representative) at which bonafide sales have been consummated for products of like kind, quality, and quantity in a particular market at any moment of time. Market value is based on the value of the property assuming an active market exists for the property. If no active market exists for the property in the general area in which it was seized, a value in the principal market nearest the place of seizure should be used.

CAUSE

Delays in performing appraisals at the time of seizure and use of appraisers who do not fully understand the requirements of SFFAS No. 3.

EFFECT

Seizures with $0 appraised value on the inventory reports, although they are not of the contraband or prohibited categories lead to under-valuation and erroneous presentation and disclosure of property on the financial statements. Instances where the financial values assigned to property are significantly higher than the supporting appraisal worksheets cause over-valuation and over-statement of property values.

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.

MANAGEMENT RESPONSE

Management Assessment on Progress:
Fund Management concurs with the auditor's finding that a number of assets held by the national seized property contractor were improperly valued on the inventory reports. However, Fund Management identified this condition prior to the auditor's finding, and we immediately took action to resolve the valuation issue.

Discussion/Background and Planned Action:
Fund Management has worked with Customs regarding the modification of procedures for updating appraised values in SEACATS. As a result, the national seized property contractor is able to enter appraised value data for the non-Customs agencies. Fund Management believes that these changes will resolve this reportable condition in full. However, we will continue to work with Customs to monitor the valuation of assets in SEACATS.

EXHIBIT III
STATUS OF PRIOR YEAR FINDINGS

1. ACCOUNTING RECORDS ARE PRIMARILY MAINTAINED ON A CASH BASIS (REPEAT CONDITION)

CONDITION

The Treasury Forfeiture Fund's (the Fund) general ledger as well as the U.S. Customs Service (Customs), U.S. Secret Service (Secret Service), Internal Revenue Service (IRS) and the Bureau of Alcohol, Tobacco and Firearms (ATF) supporting seized property and forfeited assets tracking systems are maintained primarily on a cash basis. To produce accrual basis financial statements that can be substantiated through an audit, year end manual procedures for each law enforcement agency are developed. Fund Management provides each agency representative with year end close out procedures designed to identify the amounts which should be accrued in the financial statements at year end.

Accounts Payable and Accrued Liabilities - The Fund does not follow accrual accounting whereby a liability and an expense are recognized when the underlying goods have been received or the services have been performed. Furthermore, during the fiscal year, reimbursement requests were not submitted regularly or timely.

Mortgage and Claims Payable - The issue of how to determine a lien liability and when to reduce it has been addressed by Executive Office of Asset Forfeiture (EOAF or Fund Management) in the updated directive issued by the Department of the Treasury, titled Number 14, "Expeditious Payment of Liens, Mortgages and Taxes", effective October 1995. However, the updated directive does not provide clear instructions as to when the liability is to be recorded. Therefore, implementation of the instructions, while resolving other issues, will not ensure that a liability is recorded for claims and mortgages throughout the year. In fact, the Directive requires that upon EOAF's approval of payment, the appropriate accounting strip data be affixed to the paperwork authorizing the obligation and disbursement of funds which 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.

Forfeited Currency - Currently, a time lag exists between when the Field Offices are notified of a forfeiture and when ASD is notified and records revenue in the general ledger.

Distributions Payable - The Fund, under certain laws and regulations, has the authority to share forfeited property and currency with Federal, state, and local agencies or foreign countries that participate either directly or indirectly in a related seizure. In addition, the Fund may transfer forfeited property to other Federal agencies with appropriate approval. Currently the Fund does not record the transfer of property to other Federal agencies during the fiscal year. Instead, the Fund makes an adjustment to record this information on financial statements as part of the year end manual adjustments.

Accounts Receivable - Customs maintains a contract with a contractor (the Property Custodian), whereby the Property Custodian stores property seized by any agency participating in the Fund, conducts auction sales of forfeited property, and collects storage costs reimbursed by violators. Cash collections made by the Property Custodian on behalf of the Fund are deposited into various bank accounts in the name of the Property Custodian and, within one week, are accumulated and transferred to the U.S. Treasury account at the Federal Reserve Bank of New York.

The money collected by the Property Custodian represents a significant portion of the revenues earned by the Fund. However, the revenue is only recorded by the Fund upon receipt of a validated deposit slip, which is approximately one week later.

RECOMMENDATION

Although the necessary adjustments are made each September 30 to convert the cash basis financial data to the accrual basis, in order to comply with the requirements of SFFAS No. 1 and to improve financial information on which daily decisions are based, we reaffirm our recommendation from previous financial statement audits that the following procedures be implemented by the Fund to properly account for transactions on the accrual basis of accounting:

Accounts Payable and Accrued Liabilities - Customs, Secret Service, IRS and ATF should submit monthly requests for reimbursement to provide more timely results of operations for the Fund and thereby allow for a more timely analysis of the financial position of the Fund. The reimbursement requests submitted by each law enforcement agency, but not yet paid by the Fund should be accrued as liabilities at the end of each month. Also, any direct payment requests, which have been received but not paid at month end, should be accrued as liabilities.

Mortgages and Claims Payable - We recommend that the law enforcement agencies record lien and mortgage information in their seized property and forfeited assets tracking systems. We also recommend that the updated lien and mortgage information obtained from the national seized property contractor be used to record liens and mortgages information in the agencies' tracking systems.

Forfeited Currency - We recommend that the Fund emphasize the need to update cases in the respective law enforcement agencies supporting seized property and forfeited assets tracking systems and notify the Fund on the change of status as soon as possible.

While it may be less efficient, a method to manually monitor these forfeitures is to require each District Coordinator to submit a quarterly report to the appropriate individual at the ASD indicating all seizures forfeited during the current month. A journal entry could then record forfeited currency as revenue in the general ledger.

Distributions Payable - We recommend that the Fund establish and implement policies and procedures to ensure the recordation of property distributed to Federal, state, and local agencies or foreign countries during the fiscal year. These procedures may require that each law enforcement agency submit, on a monthly basis, a list of all property distributed to Federal, state, and local agencies or foreign countries for accrual in the general ledger.

Accounts Receivable - Due to the significance of the revenues collected by the Property Custodian and the average two week lapse between receipt of funds by the Property Custodian and the recordation of revenue by the ASD, we recommend that the Property Custodian provide the Fund with details of cash held as of month-end and indicate the composition of revenue (that is sales, reimbursed storage costs, etc.) which it represents. Based on this information, we recommend that the ASD record the revenue and related accounts receivable due from the Property Custodian.

Until the necessary system changes can be implemented, the manual year-end procedures will continue to be necessary to prepare the annual financial statements. Therefore, we recommend that the law enforcement agencies be reminded of the importance of properly following the year-end procedures. We also recommend that procedures be again reviewed with the law enforcement agencies to identify any possible misunderstandings or refinements to the procedures.

FY 2000 STATUS

System enhancements have been made to SEACATS during FY 2000 with respect to its capability to track and report seized and forfeited property and currency and to generate the property and currency rollforwards through out the year for USCS. Material accrual information not previously available is now available.

Customs is developing an integrated system (FGL) that will capture all Customs generated transactions in the general ledger and eventually, will be extended to transactions generated by all the participating agencies. It is expected that the system will be moved into production in FY 2001 for Custom's based transactions.

This deficiency is inter-related with the general ledger material weakness and neither will be resolved until the Fund has completed the implementation of an integrated financial system. In view of this relationship, this material weakness will not be reported in FY 2000. However, some elements of this deficiency have been included in the Material Weakness and Reportable Condition No. 1 in FY 2000.

2. ALL BALANCES AND TRANSACTIONS THAT COMPRISE THE FUND ARE NOT CAPTURED BY THE GENERAL LEDGER (REPEAT CONDITION FROM PRIOR YEARS)

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. The general ledger system is currently not used to track all balances and transactions that comprise the Fund, such as accounts receivable, liens and mortgages payable, forfeited property and deferred revenue, and seized currency and its offsetting liability. This is due to the lack of interface between AIMS the seized property and forfeited assets tracking systems (asset tracking systems) used by the various law enforcement agencies participating in the Fund. Procedures are not developed to identify and capture information manually on a regular basis from other agencies' systems during the year. Instead, procedures are in place to capture these balances only at year end. The reconciliation process currently in place between the various transactions in the asset tracking systems and general ledger is cumbersome and reconciling items are not posted timely.

RECOMMENDATION

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

a. In the absence of an integrated financial system, all accrual basis accounts, seized currency and its offsetting liability, and forfeited property and the related revenue should be recorded manually on a regular basis in the Fund's general ledger during the year.

b. Alternatively, the Fund must develop and implement an integrated financial system that will capture all transactions related to the Fund's activities in the general ledger.

The issuance of the Federal Financial Management Improvement Act of 1996 further emphasizes the need for compliance with financial management system requirements, which mandates integration.

FY 2000 STATUS

The Fund continues to manually identify transactions that apply to the Fund only at year-end and not on a monthly basis. Also, the necessary system changes have not been made in FY 2000 to the Fund's general ledger system to accommodate the capture of all balances and transactions that comprise the Fund.

Customs is developing an integrated system (FGL) that will capture all Customs generated transactions in the general ledger and eventually, will be extended to transactions generated by all the participating agencies. It is expected that the system will be moved into production in fiscal year 2001 for Customs based transactions. However, this condition will continue until the integration is completed.

This deficiency will be repeated in FY 2000 as a Material Weakness.

3. U.S. CUSTOMS SERVICES' SEIZED PROPERTY AND FORFEITED ASSETS TRACKING SYSTEM IS INADEQUATE (REPEAT CONDITION FROM PRIOR YEARS)

CONDITION

System controls deficiencies continue to exist in the U.S. Customs Services' seized property and forfeited assets tracking system, the Seized Asset and Case Tracking System (SEACATS). These deficiencies may result in SEACATS generating property and currency case data that is not complete, accurate or authorized.

Property

Significant enhancements were made to SEACATS during fiscal year 1999 with respect to its capabilities for tracking and reporting seized and forfeited property. However, the overall design and effectiveness of controls over the input, processing, and monitoring activities associated with the use of SEACATS are not adequate to ensure that all financial transactions associated with the system are complete, accurate and authorized.

Currency

SEACATS does not contain accurate and sufficient currency data that can be relied upon for financial reporting purposes without substantial manual manipulation and reconciliation. Consequently, exhaustive year-end procedures were developed to manually compile forfeited and seized currency as of September 30, 1999, to report information in the financial statements in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 3, Accounting for Inventory and Related Property.

RECOMMENDATION

The Fund's current intention is to develop SEACATS until it is fully functional so that Customs can process property and currency transactions as intended. The ultimate goal is to use SEACATS as the Customs system of record for its seizures. We strongly reaffirm the following recommendations offered during the previous financial statement audit:

a. The shortfalls identifiable to SEACATS must be immediately corrected to allow for cradle to grave tracking of all property and currency seizures from case initiation to final resolution;

b. System control deficiencies identified within SEACATS must be corrected to ensure that all financial transactions associated with seizures are complete, accurate and authorized, and complies with JFMIP Federal Financial Management Systems Requirements for Seized Property and Forfeited Assets, and OMB Circular A-127, Section 7;

c. Customs must continue to provide user training, and also provide comprehensive updated system documentation to conform to user requirements; and

d. As further systems changes are made, Customs must conduct post conversion audits to ensure that SEACATS works as purported.

FY 2000 STATUS

Significant enhancements were made to SEACATS during FY 2000 with respect to its capability to track and report seized and forfeited property. Additionally, for the first time, USCS used SEACATS to generate the currency rollforward. The results reveal the ability of SEACATS to generate reports that meets the financial statement reporting standards required by SFFAS # 3.

In FY 2000 SEACATS' general and application controls were reviewed by other auditors whose report indicates that the general and application controls reviewed were adequately designed and operating with sufficient effectiveness to provide reasonable assurance over the integrity, confidentially, and availability of financial reporting.

This deficiency is considered to have been resolved and will not be reported in FY 2000.

4. IMPROPER TIMING FOR VALUATION OF FORFEITED PROPERTY (REPEAT CONDITION FROM PRIOR YEARS)

CONDITION

Forfeited property is not recorded in the subsidiary system during the year at its fair market value at the time of forfeiture. Rather, the value of forfeited property is currently recorded in the law enforcement agencies seized property and forfeited assets tracking systems at appraised value, determined at the seizure date by the seizing agent, import specialist or independent appraiser.

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

RECOMMENDATION

We reaffirm our recommendations from previous financial statement audits that:

a. Fund Management evaluates the accuracy of fair market values assigned to forfeited property. Accordingly, the fair market value should be determined by performing an appraisal at the date of forfeiture;

b. Failing this, we recommend that Fund Management continue reviewing the methodology used to arrive at the fair market value to refine its accuracy and ease in preparation. As the process is refined, it will become easier to prepare a monthly analysis to properly value and record month-end forfeited property values;

c. Individual law enforcement agencies participating in the Fund must prepare the 'sales value' to 'appraised amounts' ratio in order that the fair market value for property disclosed in the financial statements is reported at the best estimate.

FY 2000 STATUS

An analysis by property category of sales values compared to the initial appraised amounts was prepared by Customs, IRS and ATF in FY 2000 to determine the value of forfeited property for year end financial reporting.

Although computation of the estimated value arrived at in this manner provides reasonable estimates, the Fund is still required to comply with Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property*, which requires forfeited property to be stated at fair market value at the time of forfeiture.

This deficiency will be reported in the form of a Management Letter Comment for FY 2000.

5. LACK OF CONTROL OVER ASSETS (REPEAT CONDITION FROM PRIOR YEARS)

CONDITION

The U.S. Customs Service (Customs) manages and records seized and forfeited property in its Seized Assets and Case Tracking System (SEACATS). The national seized property contractor (the Property Custodian), also manages and records the seized and forfeited property transferred to and held by them on behalf of all Treasury law enforcement agencies through a module within SEACATS. Currently, the inventory held and reported by the Property Custodian through the SEACATS module does not agree to what is recorded in SEACATS by Customs during the year. The year end physical inventory value and count per Customs' SEACATS inventory records require significant adjustments because seizures and forfeitures are either not recorded at all or not recorded in the modules within SEACATS by the Property Custodian on a timely basis. Additionally, inventory counts and reconciliations were not performed during the year to identify and resolve discrepancies in a timely manner.

Additionally, the Property Custodian, as part of their property management function provides services to dispose of the Fund's properties mainly through public auctions. The sale proceeds are transferred and reported by the Property Custodian to the Fund, however, the information provided does not itemize the sale proceeds by seizure. Consequently, Customs and the other law enforcement agencies are unable to reconcile on an asset by asset basis to what is recorded as sold in their respective systems. This situation further complicates the inventory reconciliation process between the records of the Property Custodian and that of Customs and the other law enforcement agencies.

RECOMMENDATION

We reaffirm our recommendations from previous financial statements' audits to have the following procedures implemented:

a. Regular (at least semi-annually) reconciliations between Customs and the Property Custodian's inventory reports must be conducted to ensure that the property held as reported by Customs is agreed with what has been included in the Property Custodian's system and any differences identified and resolved timely.

b. All law enforcement agencies participating in the Fund must conduct a physical inventory of properties at least on a semi-annual basis and compare the information compiled to their respective inventory records and the Property Custodian's inventory records.

c. IRS, Secret Service, and ATF must continue to manually reconcile on a regular basis to the Property Custodian's inventory records. If it continues to be impossible to record inventory properly in SEACATS for these agencies, then Fund Management must instruct the Property Custodian to conduct the year-end inventory using reports from the respective agencies records.

FY 2000 STATUS

Actions were taken by Fund Management to correct the deficiencies within SEACATS that precluded it from tracking seizure transactions applicable to non-Customs agencies. However, discrepancies continue to exist as a result of timing differences related to receiving and recording of the status of the property both by the Property Custodian and the individual law enforcement agencies. Property held by Customs and non-Customs agencies was not reconciled periodically to the inventory records of the Property Custodian. Additionally, any reconciliations performed during the year were not formally documented.

This deficiency will be reported in the form of a Management Letter Comment in FY 2000.

6. INADEQUATE PROPERTY MANAGEMENT FUNCTIONS (REPEAT CONDITION FROM PRIOR YEARS)

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:

6.1 **Seizure Activities**

(i) Differing property identification numbers

Differing property identification numbers are being used to track the seized and forfeited property (assets). The law enforcement agencies originating the seizure assign a case/seizure number that is supposed to facilitate asset tracking through seizure, forfeiture, holding and disposition. The national seized property contractor (the Property Custodian) for the Fund tracks the same property by assigning an identification number that is different and at times unknown to the law enforcement agencies responsible for originating the case. In certain instances, the case/seizure number is unidentifiable or erroneous resulting in properties that remain unidentifiable until extensive research is conducted.

(ii) Untimely recording of seized and forfeited property

Seized property is not recorded timely in the respective agencies' seized property and forfeited assets tracking systems. We noted several instances of assets that were seized in prior periods and recorded as current year seizures. Significant delays were noted between the time the transaction occurred and the time it was recorded.

Additionally, changes to the legal status of property (through correction, amendment, and cancellation) are not incorporated timely.

Significant delays were noted between the date the change in status occurred and the time of recordation in the various seized property and forfeited assets tracking systems. For example, property seized in September was recorded in the respective asset tracking system in November, a two month delay. In certain instances further delays were noted. Also, in certain instances the disposition instructions that change/correct the status of property are not followed when recording the transaction, resulting in the erroneous recordation of property transactions.

(iii) Inadequate accounting and recording of liens and claims

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. However, due to the lack of controls during the year, information accumulated at year end may be incomplete.

6.2 **Asset Disposition Activities**

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

Asset specific expenses and revenue generated from asset disposition activities are not recorded and accounted for accurately by the Fund in the various seized property and forfeited assets tracking systems. As a result, the Fund is unable to accurately assess the costs and revenue related to individual seizures.

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 from time to time for purposes of calculating the net dollar value realized for those assets that are subject to equitable sharing with other Federal, state and local agencies, and relies on the information provided by the Property Custodian. In some instances, the cost data provided by the Property Custodian is incomplete, not supported, or absent for various reasons. Consequently, the net amount arrived at for equitable sharing purposes may be overstated or understated. The Fund does not monitor costs for those assets not subject to equitable sharing.

The Property Custodian, as part of their property management services, disposes of the Fund's property mainly through public auctions. Revenue generated as a result of these sales is not reported to the Fund on an asset by asset basis. As a result, the Fund is unable to reconcile on an asset by asset basis to what is recorded as sales revenue in the Fund and to what is recorded as sold in the various seized property and forfeited assets tracking systems.

The Fund's asset management function will deteriorate if the above conditions are allowed to exist, resulting ultimately in a lack of accountability over the assets of the Fund.

RECOMMENDATION

We recommend that the following actions be implemented immediately:

6.1 **Seizure Activities**

(i) Differing property identification numbers

Issue uniform procedures to each of the law enforcement agencies that is participating in the Fund regarding the basic requirements for tracking an asset and specify the procedure to be followed by law enforcement agencies with non-SEACATS tracking numbers. If management requires that both tracking numbers be recorded, then the procedures should state this requirement and insist on compliance.

(ii) Untimely recording of seized and forfeited property

Issue uniform procedures regarding the lines of communication between agencies (Headquarters and Field Offices), management of the Fund, the Property Custodian and the Fund's accounting staff based in Indianapolis (the Accounting Services Division of the U.S. Customs Service). The procedures must identify the documents involved for transactions to be processed, as well as the timelines for ensuring that transactions are captured to satisfy the Fund's requirements.

(iii) 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 is prepared and forwarded to the Fund's accounting staff for monitoring purposes. Alternatively, system enhancements/changes must be made where necessary to accommodate this information, as it is available.

6.2 Asset Disposition Activities

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

Fund Management must consider meeting with the Property Custodian to determine the reason/ cause for the lack of information related to asset specific expenses and revenues. Fund management must take steps to correct the problem once the proper cause has been identified.

FY 2000 STATUS

6.1 Seizure Activities

(i) Different property identification numbers

The auditor's recommendations were not fully implemented. However, it was less difficult to track property items, sales of forfeited property and related issues in FY 2000.

This condition will be reported in the form of a Management Letter Comment in FY 2000.

(ii) Untimely recording of seized and forfeited property

The Fund has made significant improvements in this area and fewer discrepancies were noted in FY 2000 as compared to previous years.

This condition will be reported in the form of a Management Letter Comment in FY 2000.

(iii) Inadequate accounting and recording of liens and claims

The Fund instructed the various agencies to update their inventory systems with liens and claims information at the time of forfeiture and USCS and IRS attempted to record this information. However, SEACATS faced technical difficulties to capture payee and other related information, while AFTRAK's information on liens was inaccurate with respect to payment status. ATF and USSS, both of which use CATS, were unable to capture this information.

This condition will be repeated as a reportable condition in FY 2000.

6.2 Asset Disposition Activities

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

The auditor's recommendations have not been fully implemented and the problems continue to persist. The Fund continues to be incapable of tracking asset specific expenses related to individual seizures.

This condition will be repeated as a reportable condition in FY 2000.

SECTION IV
REQUIRED SUPPLEMENTAL INFORMATION

TREASURY FORFEITURE FUND
Required Supplemental Information
(Required by OMB Bulletin 01-02)
For the Year Ended September 30, 2000
(Dollars in Thousands)

Intragovernmental Amounts - Assets (Dollars in thousands)

	2000			1999		
Partner Agency	Fund Balance with Treasury	Accounts Receivable/ Advances	Investments	Fund Balance with Treasury	Accounts Receivable /Advances	Investments
Departmental Offices	$ —	$712	$ —	$ —	$1,536	$ —
Department of Justice	—	—	—	—	52	—
Bureau of Public Debt	—	—	460,356	—	—	540,637
Totals	$ —	$712	$460,356	$ —	$1,588	$540,637

Intragovernmental Amounts - Liabilities (Dollars in thousands)

	2000	1999
Partner Agency	Accounts Payable	Accounts Payable
Department of Justice	$ 3,048	$ 2,626
Departmental Offices	1,884	1,639
Federal Law Enforcement Training Center	—	3
U.S. Customs Service	13,527	8,813
Internal Revenue Service	3,880	10,883
Alcohol, Tobacco and Firearms	12,805	13,600
U.S. Secret Service	2,760	833
Financial Crimes Enforcement Network	292	388
Totals	$38,196	$38,785

TREASURY FORFEITURE FUND
Required Supplemental Information
(Required by OMB Bulletin 01-02)
For the Year Ended September 30, 2000
(Dollars in Thousands)

Intragovernmental Amounts - Revenues and Costs (Dollars in thousands)

	2000		1999	
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	$ —	$ 86,510	$ —	$ 102,656

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

	2000		1999	
Partner Agency	In	Out	In	Out
Department of Justice	$ —	2,057	$ —	$ —
Office of Personnel Management	—	—	—	1,000
Internal Revenue Service	—	—	—	4,471
Alcohol, Tobacco and Firearms	—	13,536	—	13,593
U.S. Customs Service	—	28,649	—	11,274
Financial Crimes Enforcement Network	—	426	—	790
Federal Law Enforcement Training Center	—	6,716	—	44
Secret Service	—	28,830	—	10,218
Totals	$ —	$80,214	$ —	$41,390

SECTION V
OTHER ACCOMPANYING INFORMATION
(Unaudited)

TREASURY FORFEITURE FUND
Equitable Sharing Summarized by State and U.S. Territories
For the Year Ended September 30, 2000
(Dollars in Thousands)
(Unaudited)

State/U.S. Territories	Currency Value	Property Value
Alabama	$ 239	$ 11
Alaska	—	26
Arizona	1,030	60
Arkansas	30	—
California	16,903	465
Colorado	—	17
Connecticut	69	25
D.C. Washington	223	5
Delaware	53	8
Florida	8,641	386
Georgia	509	14
Guam	172	—
Hawaii	—	—
Idaho	—	—
Illinois	4,697	27
Indiana	232	5
Iowa	9	2
Kansas	—	22
Kentucky	27	8
Louisiana	423	5
Maryland	1,741	6
Massachusetts	55	—
Michigan	512	6
Minnesota	20	69
Mississippi	2	39
Missouri	106	168
Montana	155	119
Nebraska	7	—
Nevada	37	—
New Jersey	5,717	—
New Hampshire	—	—
New Mexico	544	4
New York	27,445	8
North Carolina	972	46
North Dakota	—	2
Ohio	709	7
Oklahoma	—	—
Oregon	45	35
Pennsylvania	572	121
Puerto Rico	323	4
Rhode Island	4	4
South Carolina	182	—
South Dakota	—	—
Tennessee	388	88
Texas	8,339	605
Utah	—	—
Vermont	68	—
Virgin Islands	—	—
Subtotal carried forward	$81,200	$2,417

TREASURY FORFEITURE FUND
Equitable Sharing Summarized by State and U.S. Territories
For the Year Ended September 30, 2000
(Dollars in Thousands)
(Unaudited)

State/U.S. Territories	Currency Value	Property Value
Subtotal brought forward	$81,200	$2,417
Virginia	1,203	—
Washington	144	36
West Virginia	21	—
Wisconsin	63	45
Wyoming	—	—
Totals	$82,631	$2,498

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, 2000
(Dollars in Thousands)

State/U.S. Territory	Number of Seizures	Dollar Amount (In Thousands)
United States Customs Service (Customs)		
California	3	$1,042
Georgia	1	100
Puerto Rico	2	420
Total Customs	6	1,562
Internal Revenue Service (IRS)	4	764
GRAND TOTAL	10	$2,326

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.

TREASURY FORFEITURE FUND
Analysis of Revenue and Expenses and Distributions
For the Year Ended September 30, 2000
(Dollars in Thousands)

Revenue, Expenses and Distributions by Asset Category:

	Revenue	Expenses and Distributions
Vehicles	$ 9,997	$ 34,269
Vessels	2,776	43,662
Aircraft	2,776	14,066
General Property	8,884	138,587
Real Property	31,095	5,428
Currency and monetary instruments	180,513	94,997
	236,041	331,009
Less:		
Mortgages and claims	(4,453)	(4,453)
Refunds	(5,842)	(5,842)
Add:		
Excess of net revenues and financing sources over total program expenses	—	(94,968)
	225,746	225,746

Revenues, Transfers, Expenses and Distributions by Type of Disposition:

Sales of property and forfeited currency and monetary instruments	124,972	62,892
Reimbursed storage costs	2,299	33,101
Assets shared with state and local agencies	85,104	85,104
Assets shared with other Federal agencies	6,557	6,557
Assets shared with foreign countries	6,569	6,569
Victim Restitution	10,540	10,540
Destructions	—	39,721
Pending disposition	—	86,525
	236,041	331,009
Less:		
Mortgages and claims	(4,453)	(4,453)
Refunds	(5,842)	(5,842)
Add:		
Excess of net revenues and financing sources over total program expenses	—	(94,968)
	$225,746	$225,746

The revenue amount of $225,746 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, 2000
(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, 2000, the Fund had forfeited property held for sale, net of mortgages, liens and claims of $27,832. 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 the Fund's suspense account. Upon forfeiture, it is transferred to the Treasury Forfeiture Fund. At September 30, 2000, there was $16,639 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 $82,631 and total property transferred was $2,498 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, 1999, which became the beginning balance for the Fund on October 1, 1999, as reported in the audited financial statements is $324,710.

(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 $4,453. The amount actually paid on a cash basis was not materially different.

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	$85,104
Foreign countries	6,569
Other Federal agencies	6,557
Victim restitution	10,540

(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 $131,730.

The amount of seized currency not on deposit in the Fund's suspense account at September 30, 2000, was $48,074. This amount includes some funds in the process of being deposited at year end; cash seized in August or September 2000, 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 $62,895 for Fiscal Year 2000.

(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	$74,694	18 seizures
IRS	90,516	27 seizures
U.S. Secret Service	6,397	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 $2,326. A separate schedule is presented on page 83.

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

The total net position of the Fund at September 30, 2000, as reported in the audited financial statements is $229,742.

(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 2001 per Fiscal Year 1998 Omnibus Appropriations Act (PL 104-208). The amount carried over to FY 2001 is $94,103.

(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 84.