Assets Forfeiture Fund and Seized Asset Deposit Fund Annual Financial Statement Fiscal Year 2004

U.S. Department of Justice
Office of the Inspector General
Audit Division

Audit Report 05-12
March 2005

ASSETS FORFEITURE FUND
AND
SEIZED ASSET DEPOSIT FUND
ANNUAL FINANCIAL STATEMENT
FISCAL YEAR 2004

OFFICE OF THE INSPECTOR GENERAL COMMENTARY AND SUMMARY

The Assets Forfeiture Fund and Seized Asset Deposit Fund (AFF/SADF) is a reporting entity within the U.S. Department of Justice (DOJ). The AFF and SADF were created to serve as repositories for funds seized by participating agencies and the sale proceeds from forfeited property. The proceeds deposited in the AFF are used to cover certain operating costs of the DOJ Asset Forfeiture Program (AFP). These include equitable sharing payments to state, local, and foreign governments; joint law enforcement operations; contract services in support of the program; and satisfaction of innocent third party claims. Operational expenses do not include the salaries and administrative expenses of AFP participants incurred while conducting investigations leading to seizure and forfeiture, and these expenses are not reported in the AFF/SADF financial statements.

This audit report contains the financial statements of the AFF/SADF for the fiscal years (FY) ended September 30, 2004, and 2003. Under the direction of the Office of the Inspector General (OIG), the FY 2004 audit was performed by KPMG LLP (KPMG). The audit resulted in an unqualified opinion on the FY 2004 financial statements. An unqualified opinion means that the financial statements present fairly, in all material respects, the financial position and results of operations of the entity. The FY 2003 audit of the AFF/SADF was performed by PricewaterhouseCoopers LLP and also resulted in an unqualified opinion on its financial statements (OIG Report No. 04-32).

The Independent Auditors' Report on Internal Control over Financial Reporting identified one reportable condition relating to the information system controls environment. Specifically, weaknesses were noted regarding entity-wide security program planning, access controls, change controls, and segregation of duties monitoring in the Justice Management Division's (JMD) Financial Management Information System (FMIS2) accounting system. The AFF/SADF uses the FMIS2 as its core financial management system. As a result, the control improvements needed in the FMIS2 accounting system also affected the AFF/SADF. However, all related recommendations were addressed to JMD in the Offices, Boards and Divisions' FY 2004 Annual Financial Statement Report. Thus, no recommendations are included in this report. Furthermore, the Independent Auditors' Report on Compliance and Other Matters included no instances of noncompliance or other matters that are required to be reported for FY 2004.

The OIG reviewed KPMG's report and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the AFF/SADF's financial statements, conclusions about the effectiveness of internal control, conclusions on whether the AFF/SADF's financial management systems substantially complied with the Federal Financial Management Improvement Act, or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditors' report dated November 5, 2004, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

ASSETS FORFEITURE FUND
AND
SEIZED ASSET DEPOSIT FUND
ANNUAL FINANCIAL STATEMENT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
(unaudited)

MISSION AND ORGANIZATIONAL STRUCTURE

Mission

The primary mission of the Department of Justice (DOJ or the Department) Asset Forfeiture Program (AFP) is to maximize the effectiveness of forfeiture as a deterrent to crime. This is accomplished by means of depriving drug traffickers, racketeers, and other criminal syndicates of their ill-gotten proceeds and instrumentalities of their trade. Components responsible for administration and financial management of the AFP are charged with lawfully, effectively and efficiently supporting law enforcement authorities in the application of specified forfeiture statutes. The Assets Forfeiture Fund (AFF or Fund) and Seized Asset Deposit Fund (SADF) together comprise a single financial reporting entity of the DOJ, which includes the specified funds, property seized for forfeiture, and the transactions and program activities of DOJ forfeiture program components and other participating agencies as described more fully herein.

Organizational Structure of the Asset Forfeiture Program

Table 1 below displays the functional activities of the participating agencies in the AFP. These agencies investigate or prosecute criminal activity under statutes, such as the Comprehensive Drug Abuse Prevention and Control Act of 1970, the Racketeer Influenced and Corrupt Organizations statute, the Controlled Substances Act, and the Money Laundering Control Act, or provide administrative support services to the program.

Table 1. Asset Forfeiture Program Participants by Function [1]

Function	AFMLS	AFMS	ATF	DEA	EOUSA	FBI	FDA	USDA	USMS	USPS
Investigation			X	X		X	X	X		X
Litigation	X				X					
Custody of Assets									X	
Management	X	X								

Financial Structure

The AFP comprises two funds, which are under the management control of AFMS. The AFF is a special fund listed in the U.S. Treasury Federal Account Symbols and Titles as 15X5042. The SADF is listed as 15X6874.

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1 The participants include the Asset Forfeiture and Money Laundering Section, Criminal Division (AFMLS); Asset Forfeiture Management Staff, Justice Management Division (AFMS); Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF); Drug Enforcement Administration (DEA); Executive Office for United States Attorneys (EOUSA); Federal Bureau of Investigation (FBI); Food and Drug Administration (FDA), United States Department of Agriculture (USDA); United States Marshals Service (USMS); and United States Postal Service (USPS).

U.S. Department of Justice
Assets Forfeiture Fund and Seized Asset Deposit Fund

The AFF was created by the Comprehensive Crime Control Act of 1984 to be the repository of the proceeds of forfeitures under any law enforced and administered by the DOJ (28 U.S.C. 524(c)). All amounts earned on investment of AFF and SADF balances are deposited into the AFF. The interest earned on the AFF balances is the property of the Government. Interest earned on SADF balances is deposited into the AFF pursuant to the statute cited above. These earnings are either returned to the owner with the underlying principal or become the property of the Government upon forfeiture of the principal.

Monies deposited in the AFF are used to cover operating costs of the program. These include, for example, asset management and disposition expenses; equitable sharing payments to participating state, local, and foreign governments; funding of joint law enforcement operations; contract service payments; and payments of innocent third party claims. All employment related expenses, liabilities, and imputed financing costs of DOJ AFP participants are reported in the financial statements of the Department's other reporting components. Salaries and employment related costs of administrative personnel of the AFMS and USMS are allocated to the AFF as program operating costs. The AFP's operating costs do not include the costs of any participant salaries incurred while conducting investigations leading to seizure and forfeiture.

While the AFF is the repository for forfeited currency and proceeds arising from the sale of forfeited property and also serves as the operating fund for specified program expenditures, the SADF serves as a repository for seized currency and specified deposits.

The SADF was created administratively by the DOJ to ensure control over monies seized by agencies participating in the DOJ's AFP. Public Law (P.L.) 102-140, dated October 28, 1991, provided authority for the investment of SADF balances pending adjudication. Generally, monies in the SADF are not the property of the Government. The SADF holds seized cash, the proceeds of any pre-forfeiture sale of seized property, and forfeited cash not yet transferred to the AFF. Operating businesses under seizure also may be managed through the SADF. Because most funds held in the SADF are not Government property, monies in the SADF cannot be spent. SADF balances are transferred to the AFF upon the successful conclusion of a forfeiture action.

The Fund receives most of its revenue from the forfeiture of cash and other monetary assets and, secondly, from the sale of forfeited property. Fund participants receive annual allocations by suballotment advice or reimbursement agreement. The Fund's first priority is to cover the business or operational expenses of the AFP. After it is determined that there will be sufficient receipts, allocations may be made for investigative expenses, such as awards for information, purchase of evidence, and equipping of conveyances, and also discretionary expenses, such as storage, protection and destruction of controlled substances.

Limitations on the Use of the Assets Forfeiture Fund

The AFF is defined by statute. Authorities and limitations governing use of the AFF are specified in 28 U.S.C. 524(c). In addition, use of the AFF is controlled by laws and regulations governing the use of public monies and appropriations (e.g., 31 U.S.C. 1341-1353 and 1501-1558, Office of Management and Budget (OMB) Circulars, and provisions of annual appropriation acts). The AFF is further controlled by the *Attorney General's Guidelines on Seized and Forfeited Property* (July 1990), policy memoranda, and statutory interpretations issued by appropriate authorities. Unless otherwise provided by law, restrictions on the use of AFF monies retain those limitations after any monies are made available to a recipient agency. Moreover, monies are available for use only to the extent receipts are available in the AFF.

In Fiscal Year (FY) 2004, monies were available under a permanent indefinite appropriation to finance the following:

(1) The operational costs of the forfeiture program, including handling and disposal of seized and forfeited assets, and the execution of legal forfeiture proceedings to perfect the title of the United States in that property.

(2) The payment of innocent third party claims.

(3) The payment of equitable shares to participating foreign governments and state and local law enforcement agencies.

(4) The costs of ADP equipment and ADP support for the program.

(5) Contract services in support of the program.

(6) Training and printing associated with the program.

(7) Other management expenses of the program.

(8) Awards for information leading to forfeiture.

(9) Joint Federal, state, and local law enforcement operations.

Resources of the AFF are intended to cover the business expenses of the AFP, with any excess balances available for discretionary purposes, including investigative expenses covered by the appropriated, definite portion of the Fund. Excess unobligated balances identified at the end of a fiscal year may be declared a "Super Surplus" balance. Super Surplus balances may be allocated at the discretion of the Attorney General for " . . . any Federal law enforcement, litigative/prosecutive, and correctional activities or any other authorized purpose of the DOJ" pursuant to 28 U.S.C. 524(c)(8)(E).

Holding and Accounting for Seized and Forfeited Property

The USMS has primary responsibility for holding and maintaining real and tangible personal property seized by participating agencies for disposition. Seized property either can be returned to the owner or forfeited to the Government. Forfeited property is subsequently sold, placed into official use, destroyed, or transferred to another agency. Seized and forfeited property is not considered inventory held for resale in the normal course of business.

The estimated value of non-monetary seized assets (property), net of estimated liens, held by the USMS at the end of FY 2004 and FY 2003 is presented in Note 6 of the Principal Financial Statements rather than within the Principal Financial Statements because the Government does not have title to the property. The Statement of Federal Financial Accounting Standards Number 3, *Accounting for Inventory and Related Property*, mandates this method of presentation in order to avoid overstating the entity's assets and liabilities while providing needed accountability over seized assets.

PERFORMANCE INFORMATION

Table 2. Source of Assets Forfeiture Fund Resources
(Dollars in Thousands)

Source	FY 2004	FY 2003
Exchange Revenue:	$ 2,104	$ 3,473
Budgetary Financing Sources:		
Nonexchange Revenues	11,468	12,691
Donations and Forfeitures of Cash or Cash Equivalents	448,467	413,936
Other Financing Sources:		
Donations and Forfeitures of Property	94,601	72,184
Transfers In/Out Without Reimbursement	-99,905	-20,102
Total	**$ 456,735**	**$ 482,182**

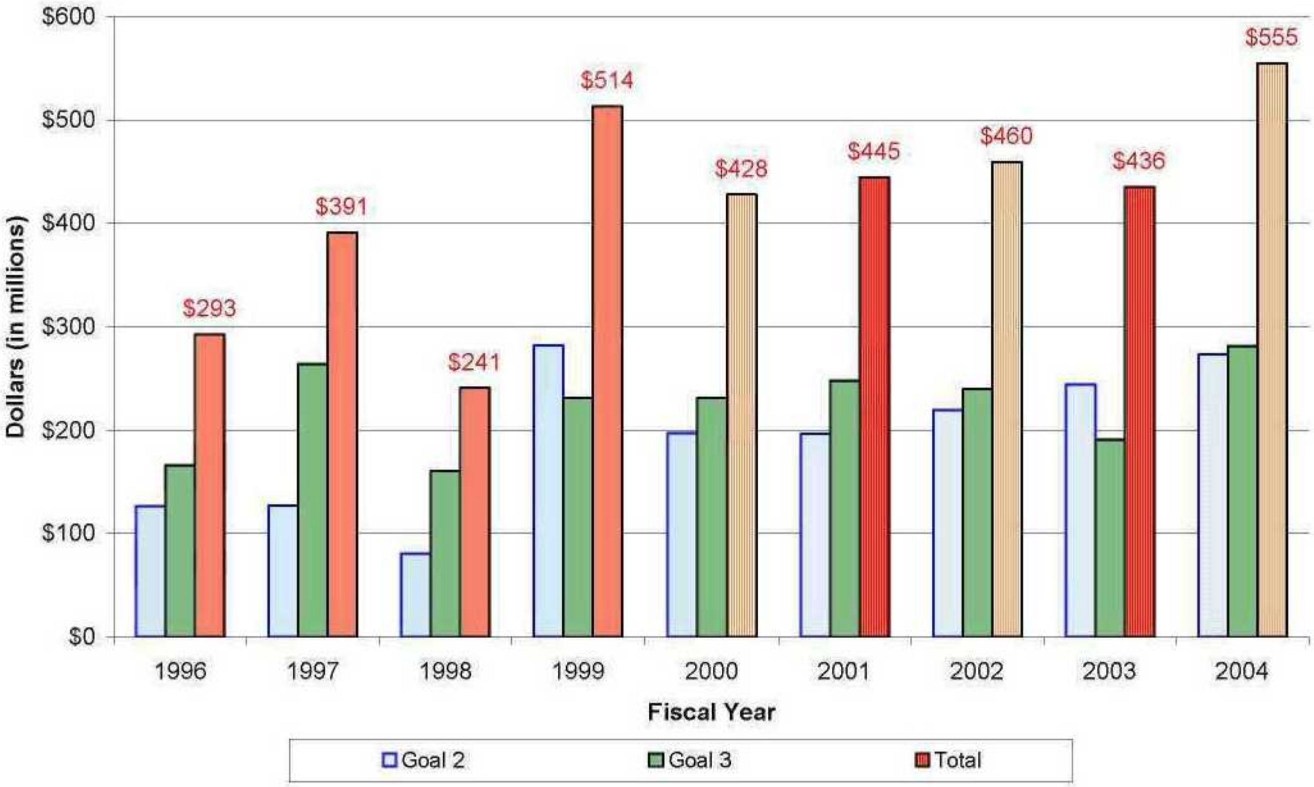
Table 3. How Assets Forfeiture Fund Resources are Spent (Net of Earned Revenue)
(Dollars in Thousands)

Strategic Goal (SG)	FY 2004	FY 2003	Change%
SG 2. Enforce Federal Laws and Represent the Rights and Interests of the American People	$ 273,265	$ 244,645	12%
SG 3. Assist State, Local and Tribal Efforts to Prevent or Reduce Crime and Violence	281,847	190,895	48%
Net Cost of Operations	**$ 555,112**	**$ 435,540**	**27%**

2004 Financial Highlights

As indicated in Table 3, the AFF supports Strategic Goals 2 and 3 of the Attorney General ' s Strategic Plan for Fiscal Years 2003 - 2008 The AFF has no costs associated with counter terrorism or homeland security

Figure 1. AFF Net Expenses

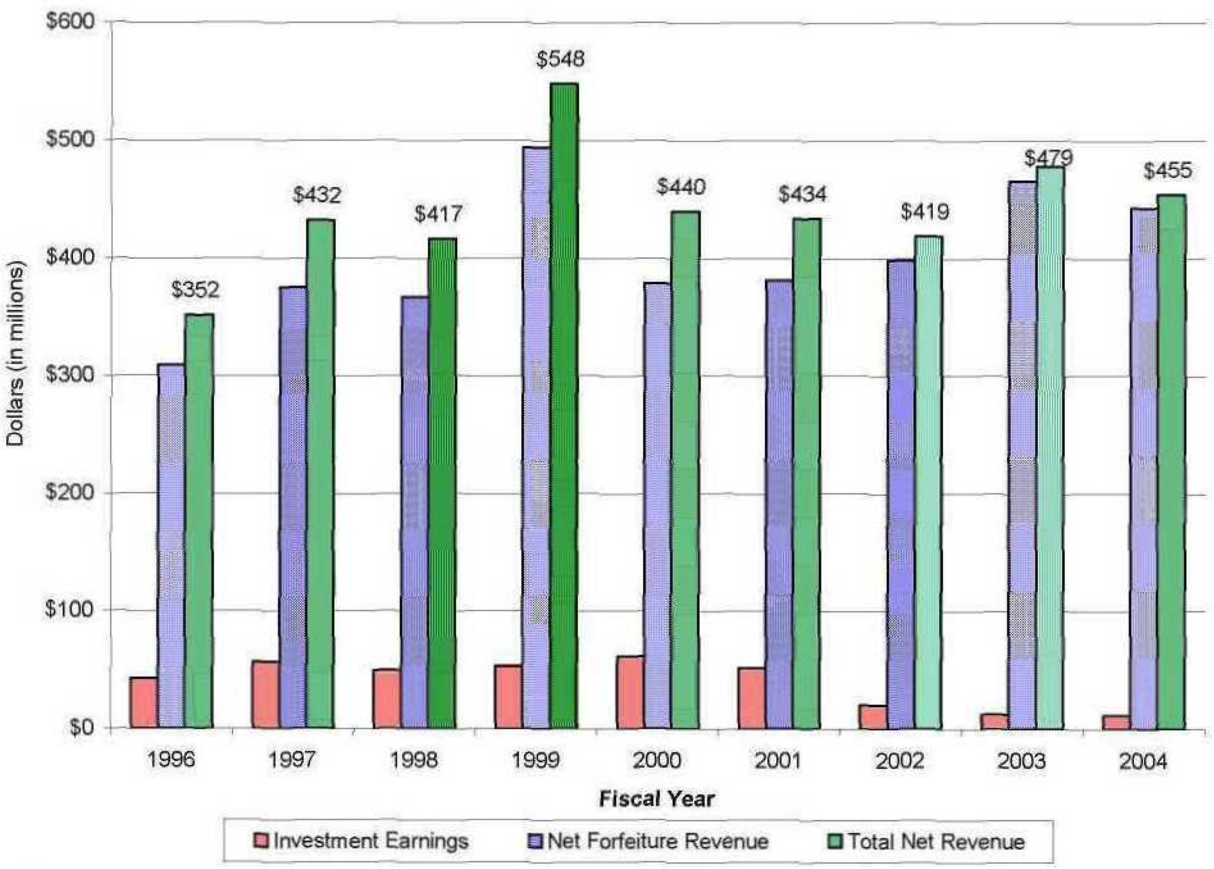


Strategic Goal 2, **Enforce Federal Laws and Represent the Rights and Interests of the American People.** Included are mandatory expenditures made for case and program support authorized costs incurred by AFP participants to operate the activities of the program. The Fund's resources cover the costs of seizing, evaluating, inventorying, maintaining, protecting, advertising, forfeiting, and disposing of property seized fo[r] forfeiture. These costs are necessary to support the Federal AFP and fluctuate in direct relation to the forfeiture activity levels of the investigative, prosecutive, litigative and administrative participants of the Fund. For the fiscal year ended September 34. 2004, $273.3 million was expended while $244.6 million was expended for the fiscal year ended September 30, 2003. Goal 2 net expenses are presented in Figure 1.

Strategic Goal 3, Assist State, Local and Tribal Efforts to Prevent or Reduce Crime and Violence. Included are expenditures made for equitable sharing and joint Federal/state and local law enforcement operations. Equitable sharing payments represent the transfer of portions of federally forfeited cash and proceeds from the sale of forfeited property to state and local law enforcement agencies that directly assisted in targeting or seizing the property. P.L. 102-393, the 1993 Treasury Department Appropriations Act, enacted new authority for the Fund to pay for -overtime salaries, travel, fuel, training, equipment, and other similar costs, of state or local law enforcement officers that are incurred in a joint law enforcement operation with a Federal law enforcement agency participating in the Fund:' For the fiscal year ended September 30, 2004, $281.8 million was expended for equitable sharing and joint taw enforcement operations while $190.9 million was expended for the fiscal year ended September 30, 2003. Goal 3 net expenses are presented in Figure 1.

AFF net revenues over a nine-year period are shown in Figure 2. Net forfeiture revenue is the sum of

Figure 2. AFF Revenues



forfeited cash and proceeds from the sale of forfeited property, adjusted for transactions such as transfers to and from other Federal agencies, refunds to other Federal agencies, and recoveries of asset management costs.

The program invests cash balances from both the AFF and SADF in Government securities. Earnings over a nine-year period are presented in Figure 2. Investment interest earnings realized for the fiscal year ended September 30, 2004 totaled $11.5 million, which is $1.2 million less than the $12.7 million in investment interest earnings for the fiscal year ended September 30, 2003. FY 2004 investment interest earned is $1.5 million less than the $13 million estimated for FY 2004 in the Budget of the United States Government, Fiscal Year 2005--Appendix. The reduced earnings are due primarily to the fall in short-term interest rates. In addition, the amounts available for investment are difficult to predict because many factors influence the balance. For example, one significant factor is the level of equitable sharing distributions, associated with uncertainties in the amount and timing of disbursements of payments, including the time needed for DOJ approval of equitable sharing requests for cases with asset values exceeding $1 million and appeals of forfeiture judgments.

For the fiscal year ended September 30, 2004, net position, which is the equity of the U.S. Government in the AFF, decreased 19% compared to FY 2003. The ratio of net position to total assets was 0.34 to 1 in FY 2004, a decrease of 0.07 from FY 2003. Due to the continual investment of cash in government securities, the AFF and SADF fund balances with the U.S. Treasury remain low.

Current assets exceeded current liabilities by a ratio of 3.18 to 1. This relationship reflects a decrease of 0.91 from FY 2003. The ratio continues to indicate that the AFF will be able to meet its obligations when due. In the ratio of current assets to current liabilities, current assets equal total entity assets while current liabilities equal the total of liabilities covered by budgetary resources except for (a) seized cash and monetary assets and (b) funds not on deposit.

In FY 2004, $555.1 million were provided for Goals 2 and 3 expenses while in FY 2003, $435.5 million were provided. This was made possible by $454.6 million and $478.7 million from financing sources in FY 2004 and 2003, respectively, generated in cash and proceeds from the sale of assets deposited into the AFF. To the extent that revenues do not cover expenses, AFF's carry forward balances are used to support program expenses. The carry forward balances consist primarily of special case funds and monies for operational requirements.

For the fiscal year ended September 30, 2004, approximately 36,000 items were seized valued at about $521.3 million compared to approximately 43,000 items seized with an estimated value of $649.4 million in FY 2003. These amounts differ from Note 6B of the financial statements because the amounts indicated above include cash while the seized property tables exclude cash.

The AFF's unobligated balance was $311.7 million as of September 30, 2004, a decrease of $126.2 million compared to $437.9 million as of September 30, 2003. The unobligated balance carried forward is retained in the AFF to ensure the availability of sufficient monies in the upcoming fiscal year for authorized purposes. These purposes include mandatory program operating expenses as well as pending extraordinary equitable sharing distributions, pending innocent third party payments, uncommitted Super Surplus authority, and other essential items. For example, as of September 30, 2004, pending extraordinary equitable sharing distributions totaled an estimated $81.5 million (comprises 58 assets with values in excess of $1 million for which the forfeiture process, including disposition, has concluded and asset proceeds have been deposited into the Fund).

Data Reliability And Validity

The AFP views data reliability and validity as critically important in the planning and assessment of its performance. In addition, each reporting component was requested to ensure that data reported met the OMB standards for data reliability that are presented in Circular A-11, Section 230.5 (f).

The financial management of the Fund is supported by the Justice Management Division's Financial Management Information System 2 (FMIS 2), the USMS' Financial Management System (FMS), the AFF/SADF's Consolidated Asset Tracking System (CATS), and ATF's Forfeited and Seized Assets Tracking System (FASTRAK). FMIS 2 is a computerized, general-purpose accounting and reporting system that supports the financial operations of the DOJ. FMS is the USMS field offices' financial management system. CATS is an integrated system that provides services to the asset forfeiture community and serves as a subsidiary system for the financial accounting and reporting of the seized and forfeited inventory. FASTRAK is an asset tracking and forfeiture status information system used by ATF. Enhancements and refinements are being made to some of these systems that will improve the usefulness of the data supporting the activities of the AFF and SADF.

FY 2004 REPORT ON SELECTED ACCOMPLISHMENTS

STRATEGIC/Annual GOAL 2: Enforce Federal Laws and Represent the Rights and Interests of the American People
49% of the AFF's Net Costs support this Goal.

PROGRAM: Asset Forfeiture
Background/Program Objectives: The primary purpose of the Fund is to provide a stable source of resources to cover the costs of an effective AFP. Prior to the creation of the Fund in 1984, costs of activities had to be diverted from agency operational funds. The more effective an agency was in seizing property, the greater the drain on its appropriated funds. A secondary benefit of an aggressive and well-managed forfeiture program is the production of surplus revenues to assist in financing important law enforcement programs. The Fund's authority to incur program operation expenses is limited only by the level of receipts deposited into the Fund.

Receipts to the Fund were $454.6 million for the fiscal year ended September 30, 2004. These receipts must cover program operation expenses, which include all costs incurred in support of the Federal AFP, such as case support costs, ADP equipment, training and printing, and other program management. The FY 2004 ratio of program operation expenses to deposits was 39% while in FY 2003 it was 42%. After program operation expenses (as presented in Note 14) are deducted from receipts, the remainder represents the results of the year's operations ($454.6 million - $176.8 million = $277.8 million in FY 2004 and $478.7 million – $201.6 million = $277.1 million in FY 2003). This net income is distributed in various ways. It is paid out for equitable sharing; state and local overtime; contracts to identify assets; and investigative expenses after the annual appropriation of funds.

Discussion of FY 2004 Accomplishments: For the period ended September 30, 2004, participating agencies spent a net total of $273.3 million for Goal 2 activities. This was made possible by $454.6 million in receipts from forfeiture activities and interest earnings on invested balances. In FY 2003, participating agencies spent a net total of $244.6 million for Goal 2 activities. This was made possible by $478.7 million received in financing sources from forfeiture activities and interest earnings on invested balances. The AFMS administers the Fund in a manner that will minimize the costs incurred by the United States while maximizing the impact on criminal enterprises. Funds are available to pay mandatory expenses of the AFF including case support expenses (asset management and disposal, third party payments, case related expenses, special contract services, contracts to identify assets, and awards for information leading to a forfeiture); program support expenses (automated data processing, training and printing, and other program management); and other authorized expenses (storage, protection and destruction of controlled substances). Because receipts exceeded the amounts necessary for program expenses, Fund monies were used for authorized investigative expenses, such as awards for information, purchase of evidence, and equipping of conveyances.

To facilitate the efficient execution of the national forfeiture program, the AFF is providing funds for a Browser Based CATS (BBC) project. The modernization initiative will replace outdated and proprietary software products; replace outdated, complex, and proprietary database query language; and move from a cooperative processing environment to a thin-client processing approach. CATS currently ties more than 700 locations together using a national telecommunications network and supports program functions such as seizure, custody, notification, claims, petitions, forfeiture, disposal, official use, financial tracking, status inquiry, advertising copy production, equitable sharing, reporting, and management analysis.

No performance measures are indicated because the Fund's operations are performed by the AFF participants. The Fund is considered to be an enabling/administrative activity where resources are spread across agencies in accordance with full program costing guidance.

STRATEGIC/Annual GOAL 3: Assist State, Local and Tribal Efforts to Prevent or Reduce Crime and Violence
51% of the AFF's Net Costs support this Goal.

PROGRAM: Asset Forfeiture
Background/Program Objectives: See Goal 2.

Discussion of FY 2004 Accomplishments: For the period ended September 30, 2004, participating agencies spent a net total of $281.8 million for Goal 3 activities. This was made possible by $454.6 million in receipts from forfeiture activities and interest earnings on invested balances. In FY 2003, participating agencies spent a net total of $190.9 million for Goal 3 activities. This was made possible by $478.7 million received in financing sources from forfeiture activities and interest earnings on invested balances. The AFMS administers the Fund in a manner that will minimize the costs incurred by the United States while maximizing the impact on criminal enterprises. Funds are available for payment of authorized expenses consisting of equitable sharing payments and joint law enforcement operations.

No performance measures are indicated because the Fund's operations are performed by the AFF participants. The Fund's budget authority is considered to be an enabling/administrative activity where resources are spread across agencies in accordance with full program costing guidance.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Management Controls Program in the AFF/SADF

AFMS is responsible for maintaining internal accounting and administrative controls that are adequate to ensure that (1) transactions are executed in accordance with applicable budgetary and financial laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with Federal accounting standards, (2) assets are properly safeguarded to deter fraud, waste, and abuse and (3) management information is adequately supported. AFMS, along with other Fund participants who use FMIS 2, monitor their financial transactions on an on-going basis. AFMS also requires participants who enter Fund transactions in their own financial system to report on their activity at least quarterly.

Integrity Act Section 2 – Material Weaknesses

For FY 2004, the independent auditors reported no material weaknesses.

For FY 2003, the independent auditors reported a material weakness related to improvements needed in controls over monitoring, accounting, and reporting of financial transactions in accordance with Federal accounting standards, as discussed in the Report of Independent Auditors on Internal Control, dated January 14, 2004.

In FY 2003, the DOJ provided qualified assurance that management controls and financial systems met the objectives of Section 2 of the Federal Managers' Financial Integrity Act.

Integrity Act Section 4 – Material Nonconformances

The Fund relies upon the Department's FMIS 2 managers for Section 4 compliance. In FY 2003, the DOJ provided qualified assurance that management controls and financial systems met the objectives of Section 4 of the Federal Managers' Financial Integrity Act.

Legal Compliance

For FY 2004, the AFF/SADF was in compliance with the requirements and responsibilities defined in applicable laws and administrative requirements including the Federal Managers' Financial Integrity Act of 1982, the Federal Financial Management Improvement Act of 1996, and relevant OMB Circulars.

For FY 2003, the independent auditors found that the AFF/SADF was noncompliant with OMB Circular No. A-11, *Preparation, Submission and Execution of the Budget*, which requires that an obligation (for customer agencies) or an unfilled customer order (for provider agencies) be recorded at the time an agreement/contract to commit the Federal government to incur expenses or receive reimbursable revenue is signed.

At the beginning of FY 2003, the AFF/SADF entered into reimbursable agreements and recorded the corresponding obligation amounts only as they were incurred and reported by the provider agency throughout the fiscal year, even though the agreement provides funding for the entire year without restriction as to when services can be provided. This condition understated the amounts recorded for obligations during the interim periods, and thus, misstated the interim financial statements.

The material weakness reported for FY 2003 further noted that improvements were needed in controls over monitoring, accounting, and reporting of financial transactions. The Report of Independent Auditors on Internal Control specifically identified four areas that needed improvement. They were (1) the valuation and status of seized and forfeited property, (2) the status of undelivered orders and accounts payable, (3) revenue recognition procedures related to forfeited property, and (4) the controls surrounding monitoring of the DOJ Justice Management Division's allocation of the Budget Clearing Account balance to the AFF/SADF.

In FY 2004, management undertook corrective action to implement the recommendations contained in the Report of Independent Auditors on Internal Control. New accounting procedures at the Department level include a detailed review of forfeiture accounting activity and timeframes established to permit cut-off accruals after the closing of field activity has occurred.

During FY 2005 further corrective action must be taken at the component level to ensure all field level transactions are accounted for in the proper period. AFMS will continue monitoring and evaluating participating agencies' efforts to improve transaction processing controls and adopt effective processes by which AFMS can enforce compliance with standards designed to ensure that the impact of errors are minimized throughout the fiscal year. This involves a reporting and monitoring process that communicates and emphasizes the importance of strong internal controls and accounting practices throughout the fiscal year, not just at fiscal year-end.

POSSIBLE EFFECTS OF EXISTING, CURRENTLY KNOWN DEMANDS, RISKS, UNCERTAINTIES, EVENTS, CONDITIONS, AND TRENDS

Financing sources in FY 2004 totaled $454.6 million, which are $24.1 million less than the $478.7 million reported in FY 2003. It is difficult to project future revenues since they are dependent upon many factors, including the development of new cases, uneven flow of cases through the forfeiture process, level of appropriations that Federal law enforcement agencies receive, level of personnel and monetary resources dedicated to the forfeiture program, international cooperation in forfeiture and repatriation matters, Federal court decisions, and evolving forfeiture law.

The DOJ is also planning to update its financial management systems through the replacement of the core financial management systems currently operating across the components of DOJ with one core commercial off-the-shelf financial management system certified by the Joint Financial Management Improvement Program. The AFP will be among the first group of components migrating to the Unified Financial Management System.

The Fund is continuing to reposition itself to align to the DOJ's new goals, some of which are to streamline, eliminate or consolidate duplicative functions; improve communications; improve financial performance; and utilize technology to improve operations. The Fund is already meeting some of these goals. The BBC development project received approval to begin through the

Automated Information System (AIS) process in FY 2002. Subsequent approval to proceed has been obtained through the Justice Management Division's Information Technology Investment Management process. The BBC project is scheduled for completion in August 2005.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations of the AFF/SADF, pursuant to the requirements of 31 U.S.C. 3515(b).

While the statements have been prepared from the books and records of the AFF/SADF in accordance with generally accepted accounting principles for Federal entities and 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 statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Reports of Independent Auditors

KPMG

2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Financial Statements

Inspector General
U. S. Department of Justice

Director
Asset Forfeiture Management Staff
U. S. Department of Justice

We have audited the accompanying consolidated balance sheet of the U.S. Department of Justice Assets Forfeiture Fund and Seized Asset Deposit Fund (AFF/SADF) as of September 30, 2004, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statement of budgetary resources (hereinafter referred to as financial statements), for the year then ended. These financial statements are the responsibility of the AFF/SADF's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of AFF/SADF as of September 30, 2003, were audited by other auditors whose report thereon dated January 14, 2004, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Justice Assets Forfeiture Fund and Seized Asset Deposit Fund, as of September 30, 2004, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the *Management's Discussion and Analysis* and *Required Supplementary Information* sections is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America, or by OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued reports dated November 5, 2004, on our consideration of the AFF/SADF's internal control over financial reporting and its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

November 5, 2004

KPMG

2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Control over Financial Reporting

Inspector General
U. S. Department of Justice

Director
Asset Forfeiture Management Staff
U. S. Department of Justice

We have audited the consolidated balance sheet of the U.S. Department of Justice Assets Forfeiture Fund and Seized Asset Deposit Fund (AFF/SADF) as of September 30, 2004, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statement of budgetary resources (hereinafter referred to as financial statements), for the year then ended, and have issued our report thereon dated November 5, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our fiscal year 2004 audit, we considered the AFF/SADF's internal control over financial reporting by obtaining an understanding of the AFF/SADF's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing 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 *Government Auditing Standards* and 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*. The objective of our audit was not to provide assurance on the AFF/SADF's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

Our consideration of 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 over financial reporting that, in our judgment, could adversely affect the AFF/SADF's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

In our fiscal year 2004 audit, we noted one matter relating to improvements needed in information system controls, which is discussed in Exhibit I, involving the internal control over financial reporting and its operation that we consider to be a reportable condition. However, this reportable condition is not believed to be a material weakness. Exhibit II presents the status of prior year audit findings.

Additional Required Procedures

As required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the *Management's Discussion and Analysis* section of the AFF/SADF's *Annual Financial Statement Fiscal Year 2004*, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion thereon.

We also noted other matters involving internal control and its operation that we have reported to the management of the AFF/SADF in a separate letter dated November 5, 2004.

This report is intended solely for the information and use of the management of the U.S. Department of Justice, the U.S. Department of Justice Asset Forfeiture Management Staff, the U.S. Department of Justice Office of the Inspector General, the OMB, the Government Accountability Office (GAO), and Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 5, 2004

Exhibit I

REPORTABLE CONDITION

WEAKNESSES EXIST IN THE INFORMATION SYSTEM CONTROLS ENVIRONMENT

We performed a general information technology (IT) and application controls review at the AFF/SADF by (1) documenting our understanding of the general controls environment; (2) evaluating the effectiveness of IT general and specific application controls at the AFF/SADF; and (3) updating the general controls tests related to the FY 2003 audit. Using guidance contained in the GAO's *Federal Information System Controls Audit Manual*, we evaluated the general controls as they apply to the financial management systems and the application controls associated with these systems. We also relied upon guidance issued by the Department of Justice (DOJ) Information Technology Security Staff, technical publications issued by the National Institute of Standards and Technology (NIST), and as established in OMB Circular No. A-130, *Management of Federal Information Resources*.

The AFF/SADF uses the Financial Management Information System (FMIS2) accounting system maintained by the Offices, Boards and Divisions (OBDs). As a result, the control improvements needed in the FMIS2 accounting system, also impact the AFF/SADF, as described below:

The OBDs' management must implement effective entity-wide security program planning for FMIS2.

The following weaknesses were identified in the management and implementation of the OBDs' Entity-wide Security Program planning:

- The designated Information Systems Security Officer (ISSO) does not have a documented and authorized position description that accurately reflects the responsibilities of an ISSO.
- The responsibilities of the ISSO and Information Systems Security Manager (ISSM) are not clearly assigned.
- The Financial and Administrative Systems Support Group (FASSG) grants new employees access to the FMIS2 prior to ensuring they are appropriately trained in how to fulfill their computer security responsibilities.
- All FMIS2 "privileged" users did not sign the FMIS2 Rules of Behavior form.
- The hiring policies that address employee references, background checks, background reinvestigations, terminations, transfers, and confidentiality agreements were not provided for audit review. Specifically, the auditors were unable to verify that all personnel sign non-disclosure/confidentiality agreements.
- The OBDs Finance Staff's leave policy is dated May 1999 and does not contain evidence that duties are reassigned in the absence of employees in sensitive positions.

National Institute of Standards and Technology (NIST) Special Publication (SP) 800-12, *An Introduction to Computer Security: The NIST Handbook*, states: "Knowledge of the duties and access levels that a particular position will require is necessary for determining the sensitivity of the position. The responsible management official should correctly identify position sensitivity levels so that appropriate, cost-effective screening can be completed. Background screening helps determine whether a particular individual is suitable for a given position."

OMB Circular No. A-130, *Security of Federal Automated Information Resources*, Appendix III, states: "Managers should ensure that appropriate authority, responsibility, and accountability are defined and delegated to accomplish the mission of the organization, and that an appropriate organizational structure is established to effectively carry out program responsibilities. To the extent possible, controls and related decision-making authority should be in the hands of line managers and staff."

OBDs Financial Management Policies and Procedure Bulletin No. 00-07 requires all users to be appropriately trained in how to fulfill their computer security responsibilities before gaining access to any Federal computer system, including FMIS2.

DOJ Information Technology Security (ITS) Standard 2.8, *Security Awareness, Education, and Training*, section 3.1.2, states: "Documentation and Monitoring of Employee Training and Professional Development" states: "Before allowing individuals to access systems, it shall be ensured that they are appropriately trained to fulfill their security responsibilities. Such training shall assure that employees are versed in the rules of the system and apprised of available assistance and technical security products and techniques. All training, including initial and refresher training, shall be documented in the employees personnel file and maintained via automated means to facilitate effective monitoring."

NIST SP 800-12 provides guidance on performing background screening of employees and states: "More sensitive positions typically require pre-employment background screening; screening after employment has commenced (post-entry-on-duty) may suffice for less sensitive positions…Background screening helps determine whether a particular individual is suitable for a given position."

The Control Objectives for Information and Related Technology (COBIT) framework states: "Policies should be adjusted regularly to accommodate changing conditions. Policies should be reevaluated, at least annually or upon significant changes to the operating or business environment, to assess their adequacy and appropriateness, and be amended as necessary."

According to DOJ ITS Standard 2.1, *Personnel IT Security*:

- Section 3.1.1, "All positions shall be reviewed for their sensitivity level."
- Section 3.1.7, "Security aspects of hiring, transfer, and termination procedures shall be established..."
- Section 3.1.10, "Confidentiality or security agreements shall be required for all employees and contractors assigned to work with sensitive information. Specific requirements regarding confidentiality and security agreements may be found in *Section 2-100 of the SPOM*."

NIST SP 800-18, *Guide for Developing Security Plans for Information Technology Systems*, states: "The rules of behavior should clearly delineate responsibilities and expected behavior of all individuals with access to the system. The rules should state the consequences of inconsistent behavior or noncompliance. The rules should be in writing and form the basis for security awareness and training. The rules of behavior should be made available to every user prior to receiving authorization for access to the system. It is recommended that the rules contain a signature page for each user to acknowledge receipt."

In the absence of a well designed security program, there is an increased risk that security controls may be inadequate; responsibilities may be unclear and improperly implemented; and controls may not be consistently applied. In addition, sensitive or critical resources may not be adequately protected.

The OBDs' management of logical access for FMIS2 lacks effective controls.

We identified the following FMIS2 access control weaknesses:

- Suspended FMIS2 user accounts are not deleted; instead, the accounts are reassigned to new users as needed. If the accounts are not reassigned, they remain on the Virtual Machine (VM)/FMIS2 database\Logical Partition (LPAR) in a suspended status indefinitely.
- The FMIS2 access control policy is dated January 2000 and contains outdated information and incorrect security contacts.
- Multiple and/or duplicate FMIS2 user accounts were identified without justification.
- FMIS2 user accounts do not undergo annual recertification.
- FASSG does not maintain all FMIS2 access forms.

DOJ OBDs *Financial Management Policies and Procedures Bulletin No. 00-07* requires that FASSG maintain the original FMIS2 identification (ID) change request form for each recertified FMIS2 ID.

DOJ ITS Standard 2.1, *Personnel IT Security*, section 3.1.8, "User Account Life Cycle" states: "A process shall exist for requesting, establishing, issuing, and closing user accounts… When user accounts are no longer required, the supervisor shall inform the system administrator and system management office so accounts can be removed in a timely manner… System access should be terminated as quickly as possible."

DOJ ITS Standard 3.1, *Identification and Authentication*, Section 3.1.8.2 "Inactive Accounts" states: "Departing personnel accounts shall be disabled immediately (and within 48 hours) and removed within 30 days of that person's departure. Accounts inactive for more than 30 days shall be disabled. Inactive accounts shall be deleted after 60 days of inactivity unless linked to personnel activity or the inactivity was initiated by the System Administrator due to a user's leave or duty status."

NIST SP 800-12, *An Introduction to Computer Security: The NIST Handbook*, Section 10.2.2, states: "From time to time, it is necessary to review user account management on a system. Within the area of user access issues, such reviews may examine the levels of access each individual has, conformity with the concept of least privilege, whether all accounts are still active, whether management authorizations are up-to-date, whether required training has been completed, and so forth."

Insufficient and inconsistent policies, procedures, and practices that address the maintenance and management of FMIS2 user accounts increase the risk that information resources could be compromised or disabled by malicious or unauthorized use.

The OBDs' management of change control for FMIS2 lacks effective controls.

The following FMIS2 change control weaknesses were identified:

- The OBDs do not follow standard procedures for submitting software change request forms.

- The Configuration Management Plan is dated September 1999 and does not contain updated information to reflect the current FMIS2 system.
- Emergency software change request procedures are not documented in the Configuration Management Plan.
- Test plans for all system changes, including Debt Management application changes, were not consistently documented. The test standards, methodology, and test results are not formally documented.

DOJ ITS Standard 2.5, *Hardware/Software Maintenance* requires the following:

- Section 3.1.8, requires the use of software change requests forms to document requests and related approvals by the proper personnel before implementation of the change in order to assure that changes do not intentionally or unknowingly diminish security.
- Section 3.1.9, "System specifications of all computer hardware and software shall be documented to ensure continuity and consistency of computer support. Formalizing operational practices and procedures with sufficient detail helps to eliminate security lapses and oversight, gives new personnel sufficiently detailed instructions and provides a quality assurance function to help ensure that operations will perform correctly and efficiently."
- Section 3.1.16, "Configuration management shall be implemented to document the process of keeping track of changes to the system and approving those changes… Emergency changes shall be documented and approved by management, either prior to the change or after the fact. Emergency change procedures should be documented as part of the configuration management of software/systems."

DOJ 2640.2E, *Information Technology Security*, Chapter 1, section 11, states: "Components shall document and test all changes before modifying the accredited system and/or application so that new vulnerabilities are not introduced into the operational environment."

NIST SP 800-18, *Guide for Developing Security Plans for Information Technology Systems*, section 4.4.3 states: "The results of the design reviews and system tests should be fully documented, updated as new reviews or tests are performed, and maintained in the official organization records."

OMB Circular No. A-130, *Security of Federal Automated Information Resources,* states: "Each stage of the information life cycle carries with it records of management responsibilities. Agencies need to record their plans, carefully document the content and procedures of information collection, ensure proper documentation as a feature of every information system, keep records of dissemination programs and, finally, ensure that records of permanent value are preserved."

Standard procedures for implementing all software changes reduce the risk that changes would be implemented in production without adequate documented development and testing.

Segregation of duties monitoring for FMIS2 needs to be strengthened.

The ISSO is not reviewing the FASSG's "Report of Vouchers Which Were Sub-certified by the Same ID Which Sub-certified the Authorization" as required. The report is used to monitor the known segregation of duties weakness within the FASSG.

DOJ 2640.2E, *Information Technology Security,* Chapter 2, includes the following:

- Section 23, states: "controls shall be in place to ensure that the user has access to only the resources required to accomplish their duties and no more."
- Section 16e requires access controls be in place to "Enforce separation of duties based on roles and responsibilities."

OMB Circular No. A-123, Part II – *Establishing Management Controls*, Standards: Separation of Duties and Supervision, states: "Key duties and responsibilities in authorizing, processing, recording, and reviewing official agency transactions should be separated among individuals. Managers should exercise appropriate oversight to ensure individuals do not exceed or abuse their assigned authorities."

Lack of properly designed controls to segregate conflicting duties increases the risk that fraudulent activity or errors may not be prevented, or detected and corrected.

This reportable condition is described in several DOJ financial reporting components' fiscal year 2004 audit reports because they rely on FMIS2 as their core financial management system. This reportable condition and related recommendations will be addressed to the Justice Management Division of the OBDs, which has primary responsibility over FMIS2, in their *Independent Auditors' Report on Internal Control over Financial Reporting*. Accordingly, no recommendations for this reportable condition are addressed to the AFF/SADF management.

Exhibit II

Assets Forfeiture Fund/Seized Asset Deposit Fund
Status of Prior Year Recommendations
September 30, 2004

Improvements are needed in controls over monitoring, accounting, and reporting of financial transactions (updated condition[1]). The following weaknesses were noted: • Errors in the valuation and status of seized and forfeited property. • Errors in the status of undelivered orders and accounts payable. • Improvements needed in revenue recognition procedures related to forfeited property. • Controls surrounding monitoring of the DOJ Justice Management Division's allocation of the Budget Clearing Account balance to the AFF/SADF need improvement. FY 2003 AFF/SADF Annual Financial Statement, Report No. 04-32 – *Material Weakness.* [1]This finding originally appeared in the FY 2002 AFF/SADF Annual Financial Statement (Report No. 03-20) as a reportable condition. It was updated to a material weakness in the FY 2003 audit. The FY 2002 recommendations were closed and tracked as part of the FY 2003 recommendations.	1. Continue monitoring and evaluating participating agencies' efforts to improve Consolidated Asset Tracking System (CATS) data quality and adopt effective processes by which Asset Forfeiture Management Staff (AFMS) can enforce compliance with standards designed to ensure that the impact of status, valuation, category and substitute *res* errors are minimized throughout the fiscal year. 2. Establish a reporting and monitoring process that communicates and emphasizes the importance of correctly classifying obligations as delivered and undelivered throughout the fiscal year, not just at fiscal year-end. 3. Develop and implement procedures within AFMS or the Justice Management Division (JMD) to perform frequent validation of obligation status recorded in the financial system and sampling of open obligations throughout the fiscal year. 4. Ensure reimbursable agreements are obligated for the appropriate amount for Program Operation Expenses or Investigative Expenses when they are initially entered into the system and ensure the appropriate amount of obligations are included in interim financial statements. 5. Implement procedures to ensure that the U.S. Marshals Service (USMS) is properly accounting for real estate dispositions in the financial system and CATS, including a review by AFMS of a monthly reconciliation of the real property disposition spreadsheet to CATS and the Financial Management System (FMS) to verify that all real property sale transactions are properly accounted for. 6. Perform a detailed review of all forfeiture revenue activity at each financial reporting date to ensure transactions are accounted for in the proper period. 7. Improve the ongoing communication and follow-through among participating agencies pertaining to transaction processing standards, errors, exceptions, missing documents, unresolved discrepancies, control matters and other items that impact the timely and accurate preparation of the AFF/SADF financial statements. 8. Establish procedures to monitor JMD's review of Budget Clearing Account (BCA) transactions to ensure timely and accurate identification of the allocation of BCA balances to the AFF/SADF.	Items 1 through 8 are reported as management letter comments this year.

As required by *Government Auditing Standards* and OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, we have reviewed the status of prior years' findings and recommendations. The above table summarizes the prior year finding and provides our assessment of the progress that the AFF/SADF has made in correcting the reportable condition. We have also provided the Office of the Inspector General report number by which the recommendations are monitored for audit follow-up.

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance and Other Matters

Inspector General
U. S. Department of Justice

Director
Asset Forfeiture Management Staff
U. S. Department of Justice

We have audited the consolidated balance sheet of the U.S. Department of Justice Assets Forfeiture Fund and Seized Asset Deposit Fund (AFF/SADF) as of September 30, 2004, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statement of budgetary resources (hereinafter referred to as financial statements), for the year then ended, and have issued our report thereon dated November 5, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the AFF/SADF is responsible for complying with laws, regulations, and contracts applicable to the AFF/SADF. As part of obtaining reasonable assurance about whether the AFF/SADF's fiscal year 2004 financial statements are free of material misstatement, we performed tests of the AFF/SADF's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain requirements referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA). We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the AFF/SADF. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit, and, accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02.

Under FFMIA, we are required to report whether the AFF/SADF's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

The results of our tests disclosed no instances in which the AFF/SADF's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

This report is intended solely for the information and use of the management of the U.S. Department of Justice, the U. S. Department of Justice Asset Forfeiture Management Staff, the U.S. Department of Justice Office of the Inspector General, the OMB, the Government Accountability Office, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 5, 2004

Principal Financial Statements
And Related Notes

U.S. Department of Justice
Assets Forfeiture Fund and Seized Asset Deposit Fund
Consolidated Balance Sheets
As of September 30, 2004 and 2003

Dollars in Thousands	2004	2003
ASSETS (Note 9)		
Intragovernmental		
Fund Balance with U.S. Treasury (Note 2)	$ 8,870	$ 50,640
Investments, Net (Note 4)	1,102,266	1,066,207
Accounts Receivable, Net (Note 5)	4,099	2,799
Other Assets (Note 8)	1,310	2,426
Total Intragovernmental	1,116,545	1,122,072
Cash and Other Monetary Assets (Note 3)	62,983	71,333
Forfeited Property, Net (Note 6)	65,632	80,783
General Property, Plant and Equipment, Net (Note 7)	3,600	2,409
Advances and Prepayments (Note 1.I)	4	9
Total Assets	**$ 1,248,764**	**$ 1,276,606**
LIABILITIES (Note 11)		
Intragovernmental		
Accounts Payable	$ 67,710	$ 63,972
Total Intragovernmental	67,710	63,972
Accounts Payable	32,542	34,617
Deferred Revenue (Note 1.D)	65,632	74,404
Seized Cash and Monetary Assets	593,417	548,605
Contingencies and Commitments (Note 12)	30,100	-
Other Liabilities (Note 10)	31,433	26,597
Total Liabilities	**$ 820,834**	**$ 748,195**
NET POSITION		
Cumulative Results of Operations	$ 427,930	$ 528,411
Total Net Position	**$ 427,930**	**$ 528,411**
Total Liabilities and Net Position	**$ 1,248,764**	**$ 1,276,606**

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

U.S. Department of Justice
Assets Forfeiture Fund and Seized Asset Deposit Fund
Consolidated Statements of Net Cost
For the Fiscal Years Ended September 30, 2004 and 2003

Dollars in Thousands

		Intragovernmental			With the Public			Net Cost
	FY	Gross Cost	Less Earned Revenues	Net Cost	Gross Cost	Less Earned Revenues	Net Cost	of Operations (Note 14)
Goal 2:	**2004**	$ 122,933	$ 2,104	$ 120,829	$ 152,436	$ -	$ 152,436	$ 273,265
	2003	$ 112,767	$ 3,473	$ 109,294	$ 135,351	$ -	$ 135,351	$ 244,645
Goal 3:	**2004**	-	-	-	281,847	-	281,847	281,847
	2003	-	-	-	190,895	-	190,895	190,895
Total:	**2004**	**$ 122,933**	**$ 2,104**	**$ 120,829**	**$ 434,283**	**$ -**	**$ 434,283**	**$ 555,112**
	2003	**$ 112,767**	**$ 3,473**	**$ 109,294**	**$ 326,246**	**$ -**	**$ 326,246**	**$ 435,540**

Goal 2: Enforce Federal Laws and Represent the Rights and Interests of the American People
Goal 3: Assist State, Local, and Tribal Efforts to Prevent or Reduce Crime and Violence

The accompanying notes are an integral part of these financial statements

U.S. Department of Justice
Assets Forfeiture Fund and Seized Asset Deposit Fund
Consolidated Statements of Changes in Net Position
For the Fiscal Years Ended September 30, 2004 and 2003

Dollars in Thousands

	Cumulative Results of Operations	
	2004	**2003**
Beginning Balances	$ 528,411	$ 485,242
Budgetary Financing Sources:		
Nonexchange Revenue (Note 19)	11,468	12,691
Donations and Forfeitures of Cash and Cash Equivalents (Note 20)	448,467	413,936
Other Financing Sources:		
Donations and Forfeitures of Property (Note 20)	94,601	72,184
Transfers-in/out Without Reimbursement (Note 18)	(99,905)	(20,102)
Total Financing Sources	**454,631**	**478,709**
Net Cost of Operations	**(555,112)**	**(435,540)**
Ending Balances	**$ 427,930**	**$ 528,411**

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

U.S. Department of Justice
Assets Forfeiture Fund and Seized Asset Deposit Fund
Combined Statements of Budgetary Resources
For the Fiscal Years Ended September 30, 2004 and 2003

Dollars in Thousands	2004	2003
Budgetary Resources:		
Budget Authority:		
Appropriations Received	$ 524,500	$ 500,416
Unobligated Balances:		
Beginning of Period, as Previously Presented	437,876	395,255
Change in Accounting Principle (Note 21)	40,712	-
Beginning of Period, as Adjusted	478,588	395,255
Spending Authority from Offsetting Collections:		
Earned		
Collected	3,084	1,225
Receivable from Federal Sources	1,300	2,248
Change in Unfilled Customer Orders		
Without Advance from Federal Sources	59	(2,407)
Subtotal Spending Authority from Offsetting Collections	4,443	1,066
Recoveries of Prior Year Obligations	23,770	34,457
Temporarily not Available Pursuant to Public Law	(61,201)	(11,703)
Total Budgetary Resources (Note 16)	**$ 970,100**	**$ 919,491**
Status of Budgetary Resources:		
Obligations Incurred		
Direct	$ 656,324	$ 478,142
Reimbursable	2,104	3,473
Total Obligations Incurred (Notes 16 & 17)	658,428	481,615
Unobligated Balance:		
Apportioned	276,499	324,215
Unobligated Balances Not Available	35,173	113,661
Total Status of Budgetary Resources	**$ 970,100**	**$ 919,491**
Relationship of Obligations to Outlays:		
Obligated Balance, Net - Beginning of Period	$ 162,034	$ 191,097
Obligated Balance, Net - End of Period:		
Accounts Receivable	(4,099)	(2,799)
Unfilled Customer Orders from Federal Sources	(74)	(15)
Undelivered Orders	79,686	66,259
Accounts Payable	100,252	98,589
Outlays:		
Disbursements	$ 619,568	$ 476,380
Collections	(3,084)	(1,225)
Outlays (Note 16)	616,484	475,155
Less: Offsetting Receipts	11,468	12,691
Net Outlays	**$ 605,016**	**$ 462,464**

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

U.S. Department of Justice
Assets Forfeiture Fund and Seized Asset Deposit Fund
Consolidated Statements of Financing
For the Fiscal Years Ended September 30, 2004 and 2003

Dollars in Thousands	2004	2003
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 658,428	$ 481,615
Less: Spending Authority from Offsetting Collections and Recoveries	28,213	35,523
Obligations Net of Offsetting Collections and Recoveries	630,215	446,092
Less: Offsetting Receipts	11,468	12,691
Net Obligations	618,747	433,401
Other Resources		
Donations and Forfeitures of Property	94,601	72,184
Transfers In/Out Without Reimbursement	(99,905)	(20,102)
Net Other Resources Used to Finance Activities	(5,304)	52,082
Total Resources Used to Finance Activities	**613,443**	**485,483**
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not Yet Provided	(12,242)	2,715
Budgetary Offsetting Collections and Receipts That do not Affect the Net Cost of Operations	(77,277)	(59,493)
Resources That Finance the Acquisition of Assets	(1,191)	(1,567)
Other Resources or Adjustments to Net Obligated Resources That do not Affect Net Cost of Operations	2,279	8,402
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(88,431)	(49,943)
Total Resources Used to Finance the Net Cost of Operations	**$ 525,012**	**$ 435,540**
Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Other - Contingent Liability	$ 30,100	$ -
Total Components of Net Cost of Operations Requiring or Generating Resources in Future Periods (Note 13)	30,100	-
Total Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period	**30,100**	**-**
Net Cost of Operations	**$ 555,112**	**$ 435,540**

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

U.S. Department of Justice
Notes to the Principal Financial Statements
(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Assets Forfeiture Fund (AFF or Fund) and Seized Asset Deposit Fund (SADF) together comprise a single financial reporting entity of the Department of Justice (DOJ) which includes the specified funds, property seized for forfeiture, and the transactions and program activities of DOJ forfeiture program components and other participating agencies as described more fully herein.

The primary mission of the DOJ Asset Forfeiture Program (AFP) is to maximize the effectiveness of forfeiture as a deterrent to crime. This is accomplished by means of depriving drug traffickers, racketeers, and other criminal syndicates of their ill-gotten proceeds and instrumentalities of their trade. Components responsible for administration and financial management of the asset forfeiture program are charged with lawfully, effectively and efficiently supporting law enforcement authorities in the application of specified forfeiture statutes.

The AFF was created by the Comprehensive Crime Control Act of 1984 to be a repository of proceeds from forfeitures under any law enforced and administered by the DOJ. AFF funds are managed by the Asset Forfeiture Management Staff (AFMS), Justice Management Division. The SADF was created administratively by the Department to ensure control over monies seized by agencies participating in the Department's AFP.

The Homeland Security Act (HSA) transferred the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) to the DOJ in FY 2003. The accompanying financial statements include the seizure and forfeiture activities of ATF as a departmental law enforcement participant in the AFP effective January 24, 2003. In addition, as a result of the HSA, the Immigration and Naturalization Service and accompanying financial statements including the seizure and forfeiture activities were transferred effective March 1, 2003, to the Department of Homeland Security.

The AFF and SADF financial reporting entity of the DOJ is not an employer entity under SFFAS No. 5, "Accounting for Liabilities of the Federal Government". All employment related expenses, liabilities and imputed financing costs of the DOJ AFP participants, including those pertaining to post-employment benefits, are reported in the financial statements of the DOJ's other components. Salaries and employment related costs of administrative personnel of the AFMS and USMS are allocated to the AFF and SADF financial reporting entity as program operating costs either through reimbursement agreement or an allocation from DOJ's Working Capital Fund. Such charges to the AFF and SADF do not include the costs of any participant salaries incurred while conducting investigations leading to seizure and forfeiture.

B. Basis of Presentation

Generally accepted accounting principles (GAAP) issued for Federal entities were followed in the preparation of these financial statements. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board, which is designated as the official accounting standards-setting body for the Federal Government by the American Institute of Certified Public Accountants. The statements were prepared from the books and records of the AFF and SADF and presented in accordance with Office of Management and Budget (OMB) Bulletin No. 01-09, Form and Content of Agency Financial Statements, and the AFF and SADF accounting policies which are summarized in these notes. These statements are, therefore, different from the financial reports, also prepared by the AFF and SADF pursuant to OMB directives, used to monitor and control the program's use of budgetary resources.

C. Basis of Accounting

Transactions are recorded on an accrual and a budgetary basis of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recorded when incurred, regardless of when cash is exchanged. Under the budgetary basis, however, funds availability is recorded based upon legal considerations and constraints. As a result, certain line items on the proprietary financial statements may not equal similar line items on the budgetary financial statements. Examples include, but are not limited to, the following:

- Total Accounts Receivable on the Balance Sheet may not equal Accounts Receivable on the Statement of Budgetary Resources;
- Total Accounts Payable on the Balance Sheet may not equal Accounts Payable on the Statement of Budgetary Resources; and
- Appropriations Received on the Statement of Changes in Net Position may not equal Appropriations Received on the Statement of Budgetary Resources.

D. Revenues and Other Financing Sources

The funds in the AFF are derived primarily from nonexchange revenue and are presented on the Statement of Changes in Net Position as both Budgetary and Other Financing Sources. Nonexchange revenue consists of (1) interest earned on investments and (2) donations and forfeitures, which includes forfeited cash, proceeds from the sale of forfeited property, receipt of payments in lieu of property forfeiture, and recovery of asset management expenses. This revenue is recognized when cash is forfeited, forfeited property is sold, or when forfeited property is placed into official use or transferred to another Federal agency. The revenue from judgments is not recognized until the judgment has been enforced. Revenue from judgments is recognized at the time it is collected. Other revenue is recognized when forfeited property is sold or put into official use.

Deferred revenue is recorded when the property is forfeited and is reversed when the property is sold or otherwise disposed and forfeiture revenue is recorded.

The AFF recognizes exchange revenue when services to other Federal agencies have been provided. This revenue is presented on the Statement of Net Cost as earned revenue.

The funds in the SADF are held in trust until a determination is made as to their disposition. These funds include seized cash, proceeds from preforfeiture sales of seized property, and

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income from property under seizure. No revenue recognition is given to cash deposited in the SADF.

E. Fund Balance with the U.S. Treasury and Cash

The funds in the AFF are an entity asset and are used to finance the operations of the AFP (See Note 2). Seized cash is deposited and accounted for in the SADF until a determination has been made as to its disposition. If title passes to the U.S. Government, the forfeited cash is then transferred from the SADF to the AFF. The cash balance in the SADF is a non-entity asset and is not available to finance the AFP activities.

F. Investments

Pursuant to 28 U.S.C. § 524(c), idle SADF and AFF cash is invested in U.S. Treasury securities. The earnings and principal on Bank of Credit and Commerce International (BCCI) funds held by the AFF are tracked separately due to special disposition requirements. Investments in U.S. Government Securities are recorded at their face value and associated premiums and/or discounts are amortized through the end of the reporting period. Amortization is based on the straight-line method. Investments are held to maturity; therefore, no provision is made for unrealized gains or losses on these securities.

G. Accounts Receivable

Accounts receivable consist of amounts due from other Federal agencies for goods or services provided by the AFP. Receivables from services provided to other Federal agencies are considered fully collectible. Therefore, no allowance for doubtful accounts is established.

H. Property, Plant and Equipment

Property, plant and equipment consists of enhancements to the Consolidated Asset Tracking System (CATS), which meet the SFFAS 10 definition of "internal use software." Internal use software is capitalized when developmental phase costs or enhancement costs are $500 or more and the asset has an estimated useful life of two or more years. Depreciation is calculated using the straight-line method over the useful life of the asset. Internal use software purchases with an acquisition cost of less than $500 are expensed when purchased.

I. Advances and Prepayments

Advances and prepayments classified as other assets on the balance sheet include advances to other Federal agencies for any law enforcement, litigative/prosecutive, and correctional activity, or any other authorized purpose of the DOJ and travel advances issued to Federal employees for official travel. Travel advances are limited to meals and incidental expenses expected to be incurred by the employees during official travel. Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of payment and are recognized as expenses when the goods and services are received.

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J. Seized and Forfeited Property

Property is seized in consequence of a violation of public law. Seized property can include monetary instruments, real property, and tangible personal property of others in the actual or constructive possession of the custodial agency. The value of seized property is its estimated fair market value at the time it was seized. Most seized property is held by the U.S. Marshals Service from the point of seizure until its disposition. In certain cases, the investigative agency will keep seized property in its custody if the intention is to place the property into official use after forfeiture or to use the property as evidence in a court proceeding. If title passes to the U.S. Government, the proceeds from the sale of forfeited property are deposited in the AFF.

Forfeited property is property for which title has passed to the U.S. Government. This property is recorded at the estimated fair market value at the time of forfeiture. The value of the property is reduced by estimated liens of record. The amount ultimately realized from the forfeiture and disposition of these assets could differ from the amounts reported.

Seized and forfeited property on hand with no legal market in the United States is disclosed in item number only with no value reported. In addition, the value of unenforced forfeiture judgments is not disclosed because there is no market value for this type of legal instrument. The judgments are collected either in total or by installments and are recognized as revenue at the time they are collected.

K. Non-Entity Assets

Non-entity assets consist of seized property and investments of seized cash and are not available to fund the operations of the AFP.

L. Liabilities

Except for contingent liabilities, budgetary resources cover all liabilities of the AFF, since the AFF has no imputed or unfunded costs. AFF accounts payable represent liabilities to both Federal and non-Federal entities. Deferred revenue represents value of forfeited property not yet sold or placed into official use. Seized cash and monetary assets represent liabilities for SADF amounts on deposit pending determination.

M. Interest on Late Payments

Pursuant to the Prompt Payment Act, 31 U.S.C. § 3901-3907, Federal agencies must pay interest on payments for goods or services made to concerns after the due date. The due date is generally 30 days after receipt of a proper invoice or acceptance of the goods or services, whichever is later.

N. Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts

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of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Fund Balance with U.S. Treasury

The Fund Balance with U.S. Treasury consists of funds in the AFF. The balances at September 30, 2004 and 2003 are presented below.

	FY 2004	FY 2003
Fund Balance:		
Other Fund Types	$ 8,870	$ 50,640
Total Fund Balance with U.S. Treasury	$ 8,870	$ 50,640
Status of Fund Balances:		
Unobligated Balance - Available	$ 276,499	$ 324,215
Unobligated Balance - Unavailable	35,173	113,661
Obligated Balance not yet Disbursed	175,765	162,034
Other Funds (With)/Without Budgetary Resources	(478,567)	(549,270)
Total Status of Fund Balances	$ 8,870	$ 50,640

Other Funds (With)/Without Budgetary Resources primarily represents the AFF investments in short-term securities and amounts Temporary not Available Pursuant to Public Law.

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Note 3. Cash and Other Monetary Assets

Other cash consists of seized cash deposited in the SADF. Other monetary assets include seized monetary instruments, seized cash in DOJ custody but not yet deposited in the SADF, and certain seized cash in the custody of the Treasury Forfeiture Fund (TFF) pending transfer to the DOJ SADF (in connection with the HSA provisions which established ATF as a DOJ law enforcement participant in the AFP). The balances on September 30, 2004 and 2003 are presented below.

	FY 2004	FY 2003
Cash:		
Seized Cash Deposited	$ 31,550	$ 51,115
Other Monetary Assets:		
Seized Monetary Instruments	31,433	20,218
Total Cash and Other Monetary Assets	$ 62,983	$ 71,333

Note 4. Investments - Net

Investments are short-term non-marketable Federal debt securities issued by the Bureau of the Public Debt and purchased exclusively through Treasury's Financial Management Service. When securities are purchased, the investment is recorded at par value (the value at maturity). Premiums and/or discounts are amortized by the straight-line method through the end of the reporting period.

As of September 30, 2004:	Face Value	Unamortized Premium	Unamortized Discount	Investments Net	Market Value
Intragovernmental					
Non-Marketable Federal Securities:					
Market Based					
AFF	$ 540,980	$ -	$ (581)	$ 540,399	$ 540,416
SADF	562,500	-	(633)	$ 561,867	561,885
Subtotal	1,103,480	$ -	$ (1,214)	$1,102,266	1,102,301
Accrued Interest	-				-
Total	$1,103,480				$1,102,301

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Note 4. Investments – Net (continued)

As of September 30, 2003:	Face Value	Unamortized Premium	Unamortized Discount	Investments Net	Market Value
Intragovernmental					
Non-Marketable Federal Securities:					
Market Based					
AFF	$ 569,170	$ -	$ (453)	$ 568,717	$ 568,756
SADF	497,924	-	(434)	497,490	497,591
Subtotal	1,067,094	$ -	$ (887)	$ 1,066,207	1,066,347
Accrued Interest	-				-
Total	$ 1,067,094				$ 1,066,347

Note 5. Accounts Receivable, Net

Accounts receivable consist of amounts owed to the AFF for services provided to the U.S. Treasury. There is no allowance for uncollectible accounts since accounts receivable from business with other Federal entities is considered fully collectible.

	FY 2004	FY 2003
Intragovernmental		
Accounts Receivable	$ 4,099	$ 2,799
Total Intragovernmental	4,099	2,799
Total Accounts Receivable, Net	$ 4,099	$ 2,799

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Note 6. Forfeited and Seized Property

Property seized for any purpose other than forfeiture and held by the seizing agency or a custodial agency is disclosed by the seizing or custodial agency. All property seized for forfeiture, including property with evidentiary value, is reported in the statements of the AFF/SADF. Federal Financial Accounting and Auditing Technical Release 4, "Reporting Non-Valued Seized and Forfeited Property," requires disclosure of property that does not have a legal market in the United States or does not have a value to the Federal government. The Non-Valued property category includes: alcohol, chemicals, drug paraphernalia, gambling devices, pornography, and weapons.

A. Forfeited Property

The following tables show the analysis of change in and methods of disposition of forfeited property, excluding cash, during the fiscal years ended September 30, 2004 and 2003, respectively.

(Dollars in Thousands)

Analysis of Change in Forfeited Property -- Year Ended September 30, 2004

Forfeited Property Category		Beginning Balance	Adjustments (1)	Forfeited	Disposed (2)	Ending Balance	Liens and Claims	Ending Balance Net of Liens
Financial & Other	Number	98	(23)	119	(155)	39	-	39
Monetary Instruments	Value	$2,695	$537	$24,200	($25,449)	$1,983	($7)	$1,976
Real Property	Number	338	31	313	(394)	288	-	288
	Value	$51,207	$5,383	$51,221	($66,818)	$40,993	($345)	$40,648
Personal Property	Number	3,824	(82)	8,001	(9,602)	2,141	-	2,141
	Value	$26,881	($2,512)	$54,683	($55,112)	$23,940	($932)	$23,008
Non-Valued	Number	19,652	(4,265)	16,199	(14,797)	16,789	-	16,789
Total	Number	23,912	(4,339)	24,632	(24,948)	19,257	-	19,257
	Value	$80,783	$3,408	$130,104	($147,379)	$66,916	($1,284)	$65,632

(1) Adjustments represent changes in the valuation or status of property as a result of fair market appraisals and court orders received during the period.

(2) Disposals in the Analysis of Change table may not agree with disposals on the Method of Disposition table as a result of partial dispositions.

(Dollars in Thousands)

Methods of Disposition of Forfeited Property -- Year Ended September 30, 2004

Forfeited Property Category		Converted Financial Instrument/Property and Deposit/Transfers	Destroyed/Donated/ Tranferred to GSA/ Other	Sold/ Liquidated (1)	Official Use/ Transfer for Equitable Sharing	Returned Asset	Variance (2)	Total (3)
Financial & Other	Number	132	8	2	-	19	-	161
Monetary Instruments	Value	$20,125	$78	$316	$0	$4,930	$0	$25,449
Real Property	Number	3	6	372	3	10	-	394
	Value	$126	$454	$63,704	$33	$2,501	$0	$66,818
Personal Property	Number	4	705	6,777	1,072	1,143	-	9,701
	Value	$16	$1,498	$31,227	$10,944	$11,430	($3)	$55,112
Non-Valued	Number	31	13,664	2	786	371	-	14,854
Total	Number	170	14,383	7,153	1,861	1,543	-	25,110
	Value	$20,267	$2,030	$95,247	$10,977	$18,861	($3)	$147,379

(1) The sold/liquidated total dollar value does not agree to Donations and Forfeitures of Property on the Statement of Changes in Net Position and the Statement of Financing because the sold/liquidated amount above represents the assets at their appraised values at forfeiture, and the Donations and Forfeitures of Property on the Statement of Changes in Net Position and the Statement of Financing represents the proceeds realized upon disposition.

(2) Variances can result from differences between the value of the property when seized and the value of the property when disposed.

(3) Disposals on the Analysis of Change may not agree with disposals on the Method of Disposition table as a result of partial dispositions.

(Dollars in Thousands)

Analysis of Change in Forfeited Property -- Year Ended September 30, 2003

Forfeited Property Category		Beginning Balance	Adjustments (1)	Forfeited	Disposed (2)	Ending Balance	Liens and Claims	Ending Balance Net of Liens
Financial & Other	Number	66	(9)	146	(105)	98	-	98
Monetary Instruments	Value	$3,801	$306	$3,626	($5,038)	$2,695	$0	$2,695
Real Property	Number	283	49	364	(358)	338	-	338
	Value	$37,299	$7,615	$62,541	($56,161)	$51,294	($87)	$51,207
Personal Property	Number	3,595	20	16,192	(15,983)	3,824	-	3,824
	Value	$26,068	($540)	$76,795	($74,162)	$28,161	($1,280)	$26,881
Non-Valued	Number	791	8,803	17,875	(7,817)	19,652	-	19,652
Total	Number	4,735	8,863	34,577	(24,263)	23,912	-	23,912
	Value	$67,168	$7,381	$142,962	($135,361)	$82,150	($1,367)	$80,783

(1) Adjustments represent changes in the valuation or status of property as a result of fair market appraisals and court orders received during the period as well as the addition of ATF as a DOJ law enforcement component, effective January 24, 2003.

(2) Disposals in the Analysis of Change table may not agree with disposals on the Method of Disposition table as a result of partial dispositions.

(Dollars in Thousands)

Methods of Disposition of Forfeited Property -- Year Ended September 30, 2003

Forfeited Property Category		Converted Financial Instrument/Property and Deposit/Transfers	Destroyed/Donated/ Tranferred to GSA/ Other	Sold/ Liquidated (1)	Official Use/ Transfer for Equitable Sharing	Returned Asset	Variance (2)	Total (3)
Financial & Other	Number	90	7	5	-	11	-	113
Monetary Instruments	Value	$4,738	$74	$120	$0	$106	$0	$5,038
Real Property	Number	5	5	319	-	29	-	358
	Value	$329	$274	$40,540	$0	$15,018	$0	$56,161
Personal Property	Number	-	745	11,314	1,118	2,928	-	16,105
	Value	$0	$3,699	$32,902	$13,497	$24,350	($286)	$74,162
Non-Valued	Number	-	7,518	-	239	88	-	7,845
Total	Number	95	8,275	11,638	1,357	3,056	-	24,421
	Value	$5,067	$4,047	$73,562	$13,497	$39,474	($286)	$135,361

(1) The sold/liquidated total dollar value does not agree to Donations and Forfeitures of Property on the Statement of Changes in Net Position and the Statement of Financing because the sold/liquidated amount above represents the assets at their appraised values at forfeiture, and the Donations and Forfeitures of Property on the Statement of Changes in Net Position and the Statement of Financing represents the proceeds realized upon disposition.

(2) Variances can result from differences between the value of the property when seized and the value of the property when disposed.

(3) Disposals on the Analysis of Change may not agree with disposals on the Method of Disposition table as a result of partial dispositions.

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B. Seized Property

The following tables show the analysis of change in and methods of disposition of property seized for forfeiture, excluding cash, during the fiscal years ended September 30, 2004 and 2003, respectively.

(Dollars in Thousands)

Analysis of Change in Seized Property -- Year Ended September 30, 2004

Seized Property Category		Beginning Balance	Adjustments (1)	Seized	Disposed (2)	Ending Balance	Liens and Claims	Ending Balance Net of Liens
Financial & Other	Number	379	500	396	(1,009)	266	-	266
Monetary Instruments	Value	$41,836	($13,844)	$31,703	($37,027)	$22,668	($270)	$22,398
Real Property	Number	323	4	358	(272)	413	-	413
	Value	$41,633	$13,723	$53,819	($45,898)	$63,277	($12,360)	$50,917
Personal Property	Number	8,991	656	6,188	(10,196)	5,639	-	5,639
	Value	$82,037	$1,608	$93,117	($82,235)	$94,527	($9,721)	$84,806
Non-Valued	Number	39,946	1,286	19,997	(18,004)	43,225	-	43,225
Total	Number	49,639	2,446	26,939	(29,481)	49,543	-	49,543
	Value	$165,506	$1,487	$178,639	($165,160)	$180,472	($22,351)	$158,121

(1) Adjustments represent changes in the valuation or status of property as a result of fair market appraisals and court orders received during the period.

(2) Disposals in the Analysis of Change table may not agree with disposals on the Method of Disposition table as a result of partial dispositions.

(Dollars in Thousands)

Methods of Disposition of Seized Property -- Year Ended September 30, 2004

Seized Property Category		Converted Financial Instrument/Property and Deposit/Transfers	Destroyed/Donated/ Tranferred to GSA/ Other	Sold/ Liquidated	Returned Asset	Forfeited (1)	Variance (2)	Total (3)
Financial & Other	Number	831	6	-	49	123	-	1,009
Monetary Instruments	Value	$12,372	$23	$0	$13,304	$11,328	$0	$37,027
Real Property	Number	-	3	-	15	254	-	272
	Value	$0	$565	$0	$2,137	$43,196	$0	$45,898
Personal Property	Number	-	33	514	1,707	7,951	-	10,205
	Value	$0	$1,669	$2,152	$24,040	$54,374	$0	$82,235
Non-Valued	Number	-	24	-	1,806	16,176	-	18,006
			-				-	
Total	Number	831	66	514	3,577	24,504	-	29,492
	Value	$12,372	$2,257	$2,152	$39,481	$108,898	$0	$165,160

(1) Forfeitures reported on the Analysis of Change in Forfeited Property may be greater because some assets are not seized until after they are declared forfeited.

(2) Variances can result from differences between the value of the property when seized and the value of the property when disposed.

(3) Disposals on the Analysis of Change may not agree with disposals on the Method of Disposition table as a result of partial dispositions.

(Dollars in Thousands)

Analysis of Change in Seized Property -- Year Ended September 30, 2003

Seized Property Category		Beginning Balance	Adjustments (1)	Seized	Disposed (2)	Ending Balance	Liens and Claims	Ending Balance Net of Liens
Financial & Other	Number	432	(218)	323	(158)	379	-	379
Monetary Instruments	Value	$38,433	($21,186)	$27,959	($3,162)	$42,044	($208)	$41,836
Real Property	Number	301	15	312	(305)	323	-	323
	Value	$47,385	$2,132	$57,338	($57,230)	$49,625	($7,992)	$41,633
Personal Property	Number	8,123	781	19,027	(18,940)	8,991	-	8,991
	Value	$83,977	($3,182)	$129,249	($113,551)	$96,493	($14,456)	$82,037
Non-Valued	Number	625	44,007	13,508	(18,194)	39,946	-	39,946
Total	Number	9,481	44,585	33,170	(37,597)	49,639	-	49,639
	Value	$169,795	($22,236)	$214,546	($173,943)	$188,162	($22,656)	$165,506

(1) Adjustments represent changes in the valuation or status of property as a result of fair market appraisals and court orders received during the period as well as the addition of ATF as a DOJ law enforcement component, effective January 24, 2003.

(2) Disposals in the Analysis of Change table may not agree with disposals on the Method of Disposition table as a result of partial dispositions.

(Dollars in Thousands)

Methods of Disposition of Seized Property -- Year Ended September 30, 2003

Seized Property Category		Converted Financial Instrument/Property and Deposit/Transfers	Destroyed/Donated/ Tranferred to GSA/ Other	Sold/ Liquidated	Returned Asset	Forfeited (1)	Variance (2)	Total (3)
Financial & Other	Number	-	8	-	47	103	-	158
Monetary Instruments	Value	$0	$17	$0	$1,423	$1,722	$0	$3,162
Real Property	Number	2	10	5	29	261	-	307
	Value	$120	$500	$1,089	$4,785	$50,736	$0	$57,230
Personal Property	Number	-	129	8	2,638	16,173	-	18,948
	Value	$0	$3,689	$173	$33,076	$76,613	$0	$113,551
Non-Valued	Number	-	52	-	295	17,847	-	18,194
Total	Number	2	199	13	3,009	34,384	-	37,607
	Value	$120	$4,206	$1,262	$39,284	$129,071	$0	$173,943

(1) Forfeitures reported on the Analysis of Change in Forfeited Property may be greater because some assets are not seized until after they are declared forfeited.

(2) Variances can result from differences between the value of the property when seized and the value of the property when disposed.

(3) Disposals on the Analysis of Change may not agree with disposals on the Method of Disposition table as a result of partial dispositions.

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C. Anticipated Equitable Sharing in Future Periods

The statute governing the use of the AFF (28 U.S.C. §524(c)) permits the payment of equitable shares of forfeiture proceeds to participating foreign governments and state and local law enforcement agencies. The statute does not require such sharing and permits the Attorney General wide discretion in determining those transfers. Actual sharing is difficult to predict because many factors influence both the amount and time of disbursement of equitable sharing payments, such as the length of time required to move an asset through the forfeiture process to disposition, the amount of net proceeds available for sharing, the lapse of time for Departmental approval of equitable sharing requests for cases with asset values exceeding $1 million, and appeal of forfeiture judgments. Because of uncertainties surrounding the timing and amount of any equitable sharing payment, an obligation and expense are recorded only when the actual disbursement of the equitable sharing payment is imminent. From 1999 through September 30, 2004, equitable sharing allocation levels averaged $232,017 per year. The anticipated equitable sharing allocation level for FY 2005 is $270,000.

Note 7. General Property, Plant and Equipment (PP&E), Net

As of September 30, 2004:	Acquisition Cost	Accumulated Depreciation	Net Book Value	Service Life
Internal Use Software Development	$ 3,600	$ -	$ 3,600	7 yrs
Total	$ 3,600	$ -	$ 3,600	
As of September 30, 2003:				
Internal Use Software Development	$ 2,409	$ -	$ 2,409	7 yrs
Total	$ 2,409	$ -	$ 2,409	

Note 8. Other Assets

	FY 2004	FY 2003
Intragovernmental		
Advances to Others	$ 1,310	$ 2,426
Other Intragovernmental Assets	-	-
Total Intragovenmental Assets	$ 1,310	$ 2,426

These notes are an integral part of the financial statements.

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Note 9. Non-Entity Assets

	FY 2004	FY 2003
Intragovernmental		
Investments, Net	$ 561,867	$ 497,490
Total Intragovernmental	561,867	497,490
Cash and Other Monetary Assets	62,983	71,333
Total Non-Entity Assets	624,850	568,823
Total Entity Assets	623,914	707,783
Total Assets	$ 1,248,764	$ 1,276,606

Note 10. Other Liabilities

Other Liabilities consist of seized cash not on deposit with the U.S. Treasury. In FY 2003, the AFF was expected to pay third party claimants proceeds from the BCCI case. In FY 2004, the remaining liability for the BCCI cases are included in accounts payable.

	FY 2004	FY 2003
With the Public		
Liability for Deposit Fund, Clearing and Undepositied Collections	$ 31,433	$ 20,218
Other Liabilities		
Pending BCCI Distributions	-	6,379
Total Public	31,433	26,597
Total Other Liabilities	$ 31,433	$ 26,597

Note 11. Liabilities Not Covered by Budgetary Resources

	FY 2004	FY 2003
Contingent Liabilities (Note 12)	$ 30,100	$ -
Total With the Public	30,100	-
Total Liabilities Not Covered by Budgerary Resources	30,100	-
Total Liabilities Covered by Budgerary Resources	790,734	748,195
Total Liabilities	$ 820,834	$ 748,195

U.S. Department of Justice
Notes to the Principal Financial Statements
(Dollars in Thousands)

Note 12. Contingencies and Commitments

The AFF and SADF are defendants in various pending legal actions. The balance sheet includes an estimated liability for those legal actions where the Legal Counsel considers adverse decisions "probable." Management has determined that it is probable that some of these proceedings and actions will result in the incurrence of liabilities, and the amounts are reasonably estimable. The estimated liabilities for these cases at September 30, 2004 and 2003 were $30,100 and $0, respectively, and recorded in the financial statements.

There are also legal actions pending where adverse decisions are considered to be reasonably possible. As of September 30, 2004, three legal actions were reported as reasonably possible. Of the three legal actions, two reported a potential loss of $632. For the remaining legal action an estimate of potential loss could not be determined. As of September 30, 2003, there was one legal action pending but an estimate of potential loss could not be determined.

Note 13. Relationship Between Liabilities Not Covered by Budgetary Resources and Components Requiring or Generating Resources in Future Periods

Liabilities that are not covered by realized budgetary resources and for which there is not certainty that budgetary authority will be realized, such as the enactment of an appropriation, are considered liabilities not covered by budgetary resources.

	FY 2004	FY 2003
Increases in Liabilities Not Covered by Budgetary Resources		
Increase in Contingent Liabilities	$ 30,100	$ -
Total Components of Net Cost of Operations Requiring or Generating Resources in Future Periods	$ 30,100	$ -

U.S. Department of Justice
Notes to the Principal Financial Statements
(Dollars in Thousands)

Note 14. Consolidated Gross Cost and Earned Revenue by Budget Functional Classification

Consolidated Cost and Earned Revenue by Budget Functional Classification

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Fiscal Year Ended September 30, 2004:			
750 - Administration of Justice			
AFP Expenses			
Payment to Third Parties	$ 54,271	$ -	$ 54,271
Asset Management Expenses	19,602	-	19,602
Special Contract Services	48,161	(2,104)	46,057
ADP Equipment	16,683	-	16,683
Forfeiture Case Prosecution	17,679	-	17,679
Forfeiture Training and Printing	5,854	-	5,854
Other Program Management	16,650	-	16,650
Distribution of Revenue			
Equitable Sharing	313,428	-	313,428
Awards for Information	19,389	-	19,389
Purchase of Evidence	7,243	-	7,243
Equipping Conveyances	559	-	559
Joint Law Enforcement Operations	34,335	-	34,335
Contracts to Identify Assets	3,362	-	3,362
Net Cost of Operations	**$ 557,216**	**$ (2,104)**	**$ 555,112**

U.S. Department of Justice
Notes to the Principal Financial Statements
(Dollars in Thousands)

Note 14. Consolidated Gross Cost and Earned Revenue by Budget Functional Classification (continued)

Consolidated Cost and Earned Revenue by Budget Functional Classification

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Fiscal Year Ended September 30, 2003:			
750 - Administration of Justice			
AFP Expenses			
Payment to Third Parties	$ 78,612	$ -	$ 78,612
Asset Management Expenses	24,329	-	24,329
Special Contract Services	55,269	(3,473)	51,796
ADP Equipment	14,802	-	14,802
Forfeiture Case Prosecution	14,094	-	14,094
Forfeiture Training and Printing	3,453	-	3,453
Other Program Management	14,562	-	14,562
Distribution of Revenue			
Equitable Sharing	178,257	-	178,257
Awards for Information	14,641	-	14,641
Purchase of Evidence	4,378	-	4,378
Equipping Conveyances	443	-	443
Joint Law Enforcement Operations	33,773	-	33,773
Contracts to Identify Assets	2,400	-	2,400
Net Cost of Operations	**$ 439,013**	**$ (3,473)**	**$ 435,540**

U.S. Department of Justice
Notes to the Principal Financial Statements
(Dollars in Thousands)

Note 14. Consolidated Gross Cost and Earned Revenue by Budget Functional Classification (continued)

Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Fiscal Year Ended September 30, 2004:			
750 - Administration of Justice			
AFP Expenses			
Payment to Third Parties	$ 263	$ -	$ 263
Asset Management Expenses	4,223	-	4,223
Special Contract Services	26,490	(2,104)	24,386
ADP Equipment	6,610	-	6,610
Forfeiture Case Prosecution	7,952	-	7,952
Forfeiture Training and Printing	4,682	-	4,682
Other Program Management	13,946	-	13,946
Distribution of Revenue			
Awards for Information	19,803	-	19,803
Purchase of Evidence	7,397	-	7,397
Joint Law Enforcement Operations	28,134	-	28,134
Contracts to Identify Assets	3,433	-	3,433
Net Cost of Operations	**$ 122,933**	**$ (2,104)**	**$ 120,829**

U.S. Department of Justice
Notes to the Principal Financial Statements
(Dollars in Thousands)

Note 14. Consolidated Gross Cost and Earned Revenue by Budget Functional Classification (continued)

Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Fiscal Year Ended September 30, 2003:			
750 - Administration of Justice			
AFP Expenses			
Payment to Third Parties	$ 229	-	$ 229
Asset Management Expenses	13,931	-	13,931
Special Contract Services	27,638	(3,473)	24,165
ADP Equipment	6,028	-	6,028
Forfeiture Case Prosecution	7,362	-	7,362
Forfeiture Training and Printing	2,880	-	2,880
Other Program Management	13,338	-	13,338
Distribution of Revenue			
Awards for Information	15,235	-	15,235
Purchase of Evidence	4,556	-	4,556
Joint Law Enforcement Operations	19,073	-	19,073
Contracts to Identify Assets	2,497	-	2,497
Net Cost of Operations	**$ 112,767**	**$ (3,473)**	**$ 109,294**

On the Consolidated Statements of Net Cost, costs classified as "Intragovernmental" represent the cost of goods or services obtained from Federal entities. Costs classified as "With the Public" represent the cost of goods or services obtained from non-Federal entities.

Note 15. Permanent Indefinite Appropriations

28 U.S.C. § 524(c)(4) authorized the Attorney General to retain AFF receipts to pay program operations expenses, equitable sharing to state and local law enforcement agencies who assist in forfeiture cases, and lien holders. This permanent indefinite authority is open-ended in its period of availability and amount.

U.S. Department of Justice
Notes to the Principal Financial Statements
(Dollars in Thousands)

Note 16. Statement of Budgetary Resources vs. Budget of the United States Government

The reconciliation as of September 30, 2003 is presented below, rounded to the nearest million for comparison purposes. The reconciliation as of September 30, 2004 is not presented, because the submission of the Budget of the United States occurs after publication of these financial statements. The Department of Justice Budget Appendix can be found on the OMB website (http://www.whitehouse.gov/omb/budget) and will be available in early February 2005.

As of September 30, 2003:	Budgetary Resources	Obligations Incurred	Outlays
Statement of Budgetary Resources (SBR)	$ 919,000	$ 482,000	$ 475,000
Funds not Reported in Budget of the U.S.:			
Forfeiture Activity	(63,000)	-	12,000
Other	2,000	-	-
Budget of the United States	$ 858,000	$ 482,000	$ 487,000

In addition to the reconciliation above, another reconciliation with the SF-133, Report on Budget Execution and Budgetary Resources, was also performed and confirmed that differences between the Statement of Budgetary Resources and the SF-133 are also the result of the adjustments identified above.

U.S. Department of Justice
Notes to the Principal Financial Statements
(Dollars in Thousands)

Note 17. Apportionment Categories of Obligations Incurred

Apportionment categories are determined in accordance with the guidance provided in OMB Circular A-11, "Preparation, Submission, and Execution of the Budget". Category A represents resources apportioned for calendar quarters. Category B represents resources apportioned for program operations expenses, equitable sharing payments, and prior year surplus allocations.

	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
Fiscal Year Ended September 30, 2004:			
Obligations Apportioned Under:			
Category A	$ 19,870	$ -	$ 19,870
Category B	636,454	2,104	638,558
Total	$ 656,324	$ 2,104	$ 658,428

	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
Fiscal Year Ended September 30, 2003:			
Obligations Apportioned Under:			
Category A	$ 16,314	$ -	$ 16,314
Category B	461,828	3,473	465,301
Total	$ 478,142	$ 3,473	$ 481,615

U.S. Department of Justice
Notes to the Principal Financial Statements
(Dollars in Thousands)

Note 18. Transfers

Allocation transfers by the AFF include transfers of Super Surplus Allocations and transfers of forfeited property to participating agencies for official use:

	Cumulative Results of Operations FY 2004	Cumulative Results of Operations FY 2003
Other Financing Sources:		
Department of Justice Components:		
Bureau of Alcohol, Tobaco, Firearms and Explosives	$ (99)	$ (38)
Drug Enforcement Administration	(3,362)	(3,124)
Federal Bureau of Investigation	(1,354)	(4,076)
Immigration and Naturalization Service	-	(228)
Offices, Boards and Divisions	(77,755)	487
Office of Justice Programs	(15,247)	(11,946)
U.S. Marshals Service	(1,713)	(833)
Total OFS Transfers to Department of Justice Components	(99,530)	(19,758)
Other Federal Agencies:		
Department of Interior	(8)	(27)
U.S. Postal Service	(24)	(6)
Department of the Treasury	(37)	(26)
Federal Communication Commission	-	(27)
Department of Homeland Security	(299)	(258)
Department of Agriculture	(7)	-
Total OFS Transfers to Other Federal Agencies	$ (375)	$ (344)
Total OFS Transfers	$ (99,905)	$ (20,102)

U.S. Department of Justice
Notes to the Principal Financial Statements
(Dollars in Thousands)

Note 18. Transfers (continued)

A. Transfers-out of Super Surplus Allocations. 28 U.S.C. § 524(c)(9)(E), provides authority for the Attorney General to use excess end-of-year monies, without fiscal year limitation, in the AFF for any Federal law enforcement, litigative, prosecutorial, and correctional activities, or any other authorized purpose of the DOJ. The Attorney General approved the following allocations during FYs 2004 and 2003 for distribution in subsequent years.

	FY 2004	FY 2003
Office of Justice Programs	$ 1,103	$ 9,452
Office of Federal Detention Trustee	77,700	-
Total Allocations	$ 78,803	$ 9,452
1992 Super Surplus	$ -	$ 3,390
1993 Super Surplus	-	1,483
1996 Super Surplus	-	64
1999 Super Surplus	1,103	4,515
2003 Super Surplus	77,700	-
Total Allocations	$ 78,803	$ 9,452

As of September 30, 2004, $94,050 in prior years' surpluses were transferred out to participating agencies, $3,153 was owed and $1,310 was advanced to these agencies for super surplus allocations in the current and prior years. As of September 30, 2003, $11,699 was transferred out, $8,329 was owed, and $2,426 was advanced.

B. Transfers-out of Forfeited Property for Official Use. Property was distributed pursuant to the Attorney General's authority to share forfeiture revenues with agencies that participated in the forfeiture that generated the property, and pursuant to the DOJ's authority to place forfeited property into official use by the Government. In FY 2004 and 2003, transfers out of forfeited property for official use totaled $5,855 and $8,403, respectively.

U.S. Department of Justice
Notes to the Principal Financial Statements
(Dollars in Thousands)

Note 19. Nonexchange Revenue

Nonexchange revenue consists of income from the investment of the AFF and SADF in U.S. Treasury securities. The earnings of BCCI funds held by the AFF and SADF are tracked separately due to special disposition requirements. The earnings of the Treasury Forfeiture Fund (TFF) funds are pending transfer from TFF to the DOJ SADF.

	FY 2004	FY 2003
Income from AFF investments	$ 5,665	$ 5,986
Income from SADF investments	5,663	6,631
Income from BCCI investments	40	74
Income from TFF investments	100	-
Total Investment Income	$ 11,468	$ 12,691

U.S. Department of Justice
Notes to the Principal Financial Statements
(Dollars in Thousands)

Note 20. Donations and Forfeitures

Forfeiture income includes forfeited cash, sales of forfeited property, penalties in lieu of forfeiture, recovery of returned asset management costs, judgment collections, and other miscellaneous income. Through September 30 net forfeiture income totaled $543,068 and $486,120 in FY 2004 and 2003, respectively.

Forfeiture income is returned to certain individuals or agencies that participated in seizures that led to forfeiture and is a component of net forfeiture income, above.

	FY 2004	FY 2003
Payments to individuals or organizations for proceeds from assets forfeited and deposited into the AFF and subsequently returned to them through a settlement agreement or by court order.	$ 4,242	$ 12,786
Return of forfeiture income to the Treasury Forfeiture Fund for its participation in seizures that led to forfeiture.	22,534	16,871
Return of the Federal Deposit Insurance Corporation (FDIC) or other Federal financial institutions or regulatory agency for monies recovered under Federal Institutions Reform, Recovery and Enforcement Act.	660	4
Return of forfeiture income to the U.S. Postal Service for its participation in seizure that led to forfeiture.	2,467	2,230
Return of forfeiture income to other Federal agencies for their participation in seizures that led to forfeiture.	16	880
BCCI distributions of victims and other permanent court-ordered distributions.	3,144	-
Refunds for Food Stamp Fraud.	131	-
Return to the FDIC and other regulatory agencies for reasonable costs of investigation, and civil and administrative proceedings.	750	-
Total Return of Forfeiture Income	$ 33,944	$ 32,771

These notes are an integral part of the financial statements.

U.S. Department of Justice
Notes to the Principal Financial Statements
(Dollars in Thousands)

Note 21. Change In Accounting Principle

In accordance with Statement of Federal Financial Accounting Standard No. 21, Reporting Corrections of Errors and Changes in Accounting Principles, a change in accounting principle is not shown as a restatement to the prior-period financial statements. In FY 2004, the AFF changed to a preferred method of budgetary accounting for the recording of the proceeds from the sale of forfeited real property activity and the Bank of Credit and Commerce International (BCCI) funds maintained by the AFF.

Required Supplementary Information

Unaudited

U.S. Department of Justice
Assets Forfeiture Fund and Seized Asset Deposit Fund
Required Supplementary Information
Consolidated Intragovernmental Assets
As of September 30, 2004
Unaudited

Dollars in Thousands					
	Trading Partner	Fund Balance w/ Treasury	Investments	Accounts Receivable	Advances and Other Assets
15	Department of Justice	$ -	$ -	$ -	$ 1,310
20	Department of the Treasury	8,870	1,102,266	4,099	-
	Total Intragovernmental Assets	**$ 8,870**	**$ 1,102,266**	**$ 4,099**	**$ 1,310**

As of September 30, 2003

Dollars in Thousands					
	Trading Partner	Fund Balance w/ Treasury	Investments	Accounts Receivable	Advances and Other Assets
15	Department of Justice	$ -	$ -	$ -	$ 2,426
20	Department of the Treasury	50,640	1,066,207	2,799	-
	Total Intragovernmental Assets	**$ 50,640**	**$ 1,066,207**	**$ 2,799**	**$ 2,426**

U.S. Department of Justice
Assets Forfeiture Fund and Seized Asset Deposit Fund
Required Supplementary Information
Consolidated Intragovernmental Liabilities
As of September 30, 2004
Unaudited

Dollars in Thousands			
Trading Partner			Accounts Payable
15	Department of Justice	$	64,143
12	Department of Agriculture		170
14	Department of the Interior		43
18	U.S. Postal Service		1,571
20	Department of the Treasury		50
70	Department of Homeland Security		1,288
75	Department of Health and Human Services		445
	Total Intragovernmental Liabilities	**$**	**67,710**

As of September 30, 2003

Dollars in Thousands			
Trading Partner			Accounts Payable
15	Department of Justice	$	57,303
12	Department of Agriculture		858
18	U.S. Postal Service		699
70	Department of Homeland Security		4,857
75	Department of Health and Human Services		255
	Total Intragovernmental Liabilities	**$**	**63,972**

U.S. Department of Justice
Assets Forfeiture Fund and Seized Asset Deposit Fund
Required Supplementary Information
Consolidated Intragovernmental Earned Revenue
For the Fiscal Years Ended September 30, 2004 and 2003
Unaudited

Dollars in Thousands		FY 2004	FY 2003
Trading Partner			
20	Department of the Treasury	2,104	3,473
	Total Intragovernmental Earned Revenue	**$ 2,104**	**$ 3,473**

Gross Cost to Generate Earned Revenue:		
Budget Functional Classification		
Administration of Justice - 750	$ 2,104	$ 3,473
Total Gross Cost to Generate Earned Revenue	**$ 2,104**	**$ 3,473**

U.S. Department of Justice
Assets Forfeiture Fund and Seized Asset Deposit Fund
Required Supplementary Information
Consolidated Intragovernmental Nonexchange Revenue
For the Fiscal Year Ended September 30, 2004
Unaudited

Dollars in Thousands	Nonexchange Activity	
Trading Partner	Cumulative Results of Operations Transfers-Out	Nonexchange Revenue and Other Financing Sources
15 Department of Justice	$ (99,530)	$ -
12 Department of Agriculture	$ (7)	$ -
14 Department of the Interior	(8)	-
18 U.S. Postal Service	(24)	-
20 Department of the Treasury	(37)	11,468
70 Department of Homeland Security	(299)	-
Total Intragovernmental Nonexchange Revenue	**$ (99,905)**	**$ 11,468**

For the Fiscal Year Ended September 30, 2003

Dollars in Thousands	Nonexchange Activity	
Trading Partner	Cumulative Results of Operations Transfers-Out	Nonexchange Revenue and Other Financing Sources
15 Department of Justice	$ (19,758)	$ -
14 Department of the Interior	(27)	-
18 U.S. Postal Service	(6)	-
20 Department of the Treasury	(26)	12,691
27 Federal Communications Commission	(27)	-
70 Department of Homeland Security	(258)	-
Total Intragovernmental Nonexchange Revenue	**$ (20,102)**	**$ 12,691**

U.S. Department of Justice
Assets Forfeiture Fund and Seized Asset Deposit Fund
Required Supplementary Information
Consolidated Intragovernmental Gross Cost
For the Fiscal Years Ended September 30, 2004 and 2003
Unaudited

Dollars in Thousands		FY 2004	FY 2003
Trading Partner			
15	Department of Justice	$ 120,208	$ 108,445
12	Department of Agriculture	194	1,039
14	Department of the Interior	43	18
18	U.S. Postal Service	871	(96)
20	Department of the Treasury	50	-
70	Department of Homeland Security	1,267	2,631
75	Department of Health and Human Services	300	730
	Total Intragovernmental Cost	**$ 122,933**	**$ 112,767**