ASSETS FORFEITURE FUND AND SEIZED ASSET DEPOSIT FUND ANNUAL FINANCIAL STATEMENT FISCAL YEAR 2006

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

Audit Report 07-15
January 2007

ASSETS FORFEITURE FUND
AND
SEIZED ASSET DEPOSIT FUND
ANNUAL FINANCIAL STATEMENT
FISCAL YEAR 2006

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, 2006, and 2005. Under the direction of the Office of the Inspector General (OIG), the FY 2006 audit was performed by KPMG LLP (KPMG). The audit resulted in an unqualified opinion on the FY 2006 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 in conformity with accounting principles generally accepted in the United States. For FY 2005, the AFF/SADF also received an unqualified opinion on its financial statements (OIG Report No. 06-07).

The Independent Auditors' Report on Internal Control identified two reportable conditions in FY 2006. The first reportable condition concerns weaknesses in the seized and forfeited property management environment and was previously reported as a management letter comment but was elevated to a reportable condition this year. The second reportable condition concerns weaknesses in the information system controls environment and is a repeat condition that was first reported in FY 2004. While this is a repeat condition, the previous underlying issues have been adequately addressed, but new issues were identified. The auditors reported no compliance issues for the AFF/SADF in FY 2006.

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 October 27, 2006, 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.

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SEIZED ASSET DEPOSIT FUND
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FISCAL YEAR 2006

TABLE OF CONTENTS

Management's Discussion and Analysis

Unaudited

See Independent Auditors' Report on Financial Statements

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U.S. Department of Justice
Assets Forfeiture Fund and Seized Asset Deposit Fund
Management's Discussion and Analysis
(unaudited)

MISSION

The primary mission of the Department of Justice (DOJ or the Department) Asset Forfeiture Program (AFP or the program) is to prevent and reduce crime by disrupting, damaging, and dismantling criminal organizations through the use of the forfeiture sanction. 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 the 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.

ORGANIZATION STRUCTURE

Table 1 below displays the primary 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	DS	EOUSA	FBI	FDA	USDA	USMS	USPS
Investigation			X	X	X		X	X	X		X
Litigation	X					X					
Custody of Assets			X	X			X			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 a deposit fund listed as 15X6874.

[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); Bureau of Diplomatic Security, Department of State (DS); 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). In 2006, ATF, DEA and FBI had custody of assets in addition to the USMS.

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. SADF 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; ADP equipment; contract service payments; and payments of innocent third party claims. All salaries and employment related expenses, liabilities, and imputed financing costs of DOJ AFP participants are reported in the financial statements of the participants' reporting entities. Salaries and employment related costs of administrative personnel of the AFMS and USMS are charged to the AFP 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. AFP participants may 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) 2006, 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.

(10) Investigative expenses leading to seizure.

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 subject to appropriations limitation (definite authority). 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.

ANALYSIS OF FINANCIAL STATEMENTS

Following are brief explanations for the AFF/SADF financial results, position, and condition conveyed in the principal financial statements. Comparisons are impacted by a single case occurring near the end of FY 2006 where the AFF/SADF recognized forfeiture income in the amount of $337.5 million pertaining to a major fraud case. The AFF/SADF concurrently recognized a liability in the amount of $337.5 million as the AFF will restore the forfeited proceeds to the victims. The following AFF/SADF financial results reflect the impact of this forfeiture income and accrued expense in fund balance with treasury, accounts payable, forfeiture revenue, and budgetary resources.

<u>Balance Sheets</u>

Total assets, which presents as of a specific time, the amounts of future economic benefits owned or managed by the AFF/SADF increased in FY 2006 to $2,053.4 million, from $1,370.4 million in FY 2005, an increase of 49.8 percent. If seized assets, which are not yet owned by the government, are backed out, the adjusted assets of the Fund increased to $1,256.2 million in FY 2006 from $659.2 million in FY 2005, an increase of 90.6 percent. This is attributable to an increase in both forfeited assets and seized assets in FY 2006 from FY 2005, indicating a strong current and future potential stream of assets flowing into the AFF. Due to the continual investment of cash in government securities, the AFF/SADF fund balances with the U.S. Treasury are usually low; however, forfeiture revenue deposited in the AFF toward the end of the fiscal year from the major fraud case discussed above resulted in an unusually high AFF fund balance with the U.S. Treasury on September 30, 2006.

Total liabilities of the fund increased to $1,402.3 million in FY 2006 from $922.3 million in FY 2005, an increase of 52.0 percent. The majority of the change, $480.0 million, in liabilities is due to the increase in accounts payable, most of which is attributable to a major fraud case as explained in the above introductory paragraph to this section. Current assets exceeded current liabilities by a ratio of 2.08 to 1. This relationship reflects a decrease of 1.05 from FY 2005. The ratio continues to indicate that the AFF will be able to meet its obligations when due. In the calculation of the ratio of current assets to current liabilities, current assets consist of total assets less SADF net investments, seized cash deposited, and seized monetary instruments (see Note 13) while current liabilities include the total of liabilities covered by budgetary resources except for total seized cash and monetary instruments.

For the fiscal year ended September 30, 2006, net position, which is the equity of the U.S. Government in the AFF, increased 45.3 percent compared to FY 2005. The ratio of net position to total assets was 0.32 to 1 in FY 2006, a decrease of 0.01 from FY 2005.

<u>Statements of Net Cost</u>

Net cost of operations, shown separately by strategic goal, of $974.2 million in FY 2006 increased from $594.4 million in FY 2005 by $379.8 million or 63.9 percent. Typically, the largest single Fund expense consists of equitable sharing payments, which are included under Goal 3; however, the largest category of expense in FY 2006 was payments to third parties, included under Goal 2, as a result of a major fraud case and explained in the introductory paragraph to this section. Each year millions of dollars are paid to state and local law enforcement agencies and foreign governments for their participation in seizures that lead to forfeitures. An explanation of the uses of these resources by state and local law enforcement agencies may be found under Strategic Goal 3. The increase in net costs was due to an increase in mandatory program activities. This was made possible by $1,177.2 million and $614.5 million from financing sources in FY 2006 and 2005, respectively, generated in cash and proceeds from the sale of assets deposited into the AFF. To the extent that financing sources do not cover net costs, 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.

Statements of Changes in Net Position

Net position, an indicator of the Fund's future capability to support ongoing operations, increased to $651.1 million in FY 2006 from $448.0 million in FY 2005, an increase of $203.1 million or 45.3 percent. The Fund's financing sources consist primarily of forfeited cash and other monetary assets and, secondly, from the sale of forfeited property. In addition, other factors that influence the AFF net position to a lesser extent include the short-term interest rates that affect nonexchange revenue from investment in Government securities; the nature of seized non-cash properties that must be converted into cash, affecting their rates of disposition; and Super Surplus allocations and transfers of properties placed into official use that consume resources.

The program invests cash balances from both the AFF and SADF in Government securities. Earnings over a five-year period are presented in Figure 2. Investment interest earnings (i.e., nonexchange revenue) realized for the fiscal year ended September 30, 2006 totaled $60.4 million, which is $31.3 million more than the $29.1 million in investment interest earnings for the fiscal year ended September 30, 2005. FY 2006 investment interest earned is $17.4 million more than the $43 million estimated for FY 2006 in the Budget of the United States Government, Fiscal Year 2007--Appendix. The increased earnings are due primarily to the rise in short-term interest rates and to the accumulation of a full year's results from a change in investment strategy implemented in FY 2005 that increased amounts invested and staggered investments over different periods of time. 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 such disbursements, including the time needed for DOJ approval of equitable sharing requests for cases with asset values exceeding $1 million (i.e., extraordinary equitable sharing) and appeals of forfeiture judgments.

Statements of Budgetary Resources

Total budgetary resources increased to $1,484.7 million in FY 2006 from $907.2 million in FY 2005, a 63.7 percent increase. The net increase may be attributed primarily to significant increases in appropriations received, the majority of which was attributable to nonrecurring activities. Approximately $337.5 million or 56 percent of the increase in appropriations will be disbursed to the victims of a major fraud case. The net outlays decreased to $560.7 million in FY 2006 from $580.2 million in FY 2005, a decrease of 3.4 percent. While the decrease in outlays was small, the increase in accounts payable was significant.

The total obligations incurred in FY 2006 were $1,059.4, an increase of $431.2 million compared to $628.2 incurred in FY 2005. The FY 2006 obligations increased relative to FY 2005 due to expenses associated with nonrecurring case activity in FY 2006.

The AFF's unobligated balance was $425.3 million as of September 30, 2006, an increase of $146.3 million or 52.4 percent as compared to $279.0 million as of September 30, 2005. 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 program operating expenses as well as pending extraordinary distributions, pending innocent third party payments, uncommitted Super Surplus authority, and other essential items. For example, as of September 30, 2006, pending extraordinary equitable sharing distributions totaled an estimated $134.0 million (comprises 90 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).

PERFORMANCE INFORMATION

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

Source	FY 2006	FY 2005	Change%
Earned Revenue	1,481	2,281	(35.1%)
Budgetary Financing Sources			
Nonexchange Revenues	60,350	29,078	107.5%
Donations and Forfeitures of Cash and Cash Equivalents	1,009,217	514,876	96.0%
Other Financing Sources			
Donations and Forfeitures of Property	115,687	80,564	43.6%
Transfers-In/Out Without Reimbursement	(8,020)	(10,054)	20.2%
Total	**1,178,715**	**616,745**	**91.1%**

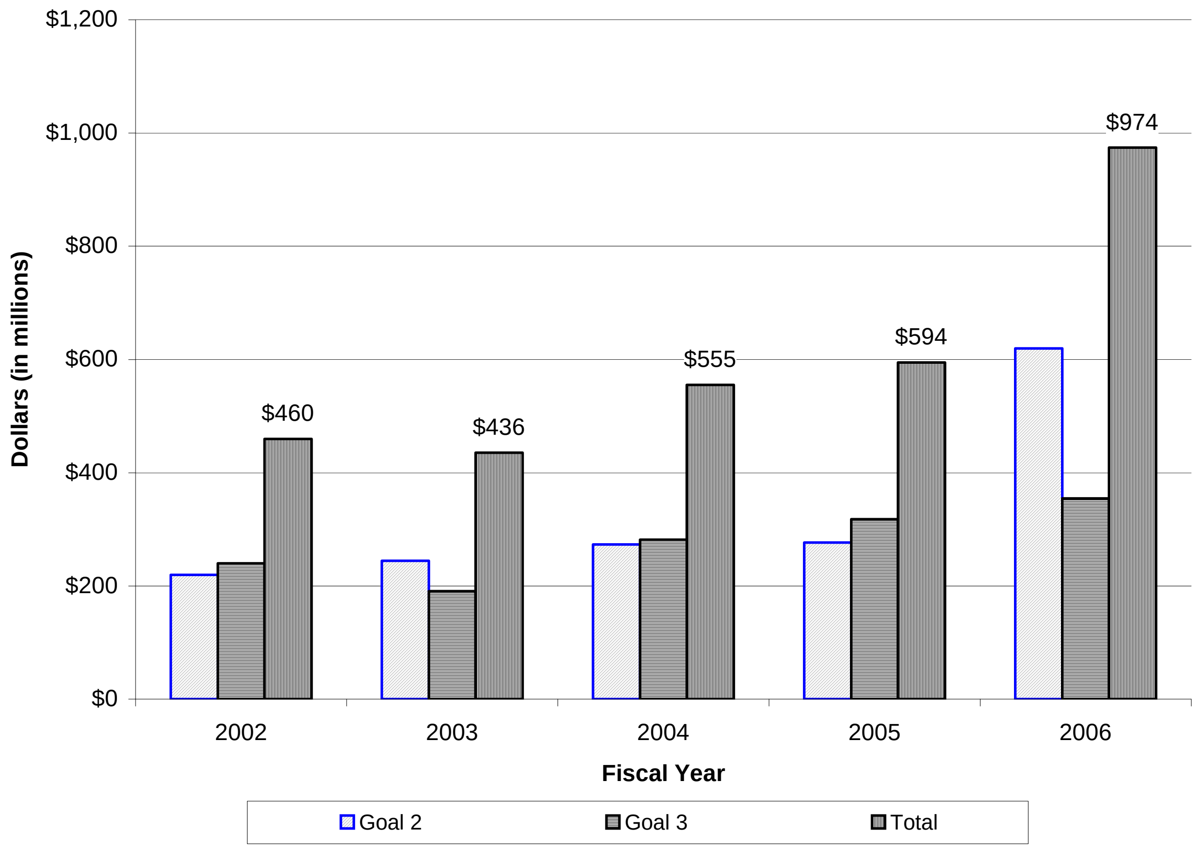
Table 3. How Assets Forfeiture Fund Resources are Spent (Net of Earned Revenue)
(Dollars in Thousands)

Strategic Goal (SG)	FY 2006	FY 2005	Change%
SG 2. Enforce Federal Laws and Represent the Rights and Interests of the American People	606,496	276,599	119.3%
SG 3. Assist State, Local, and Tribal Efforts to Prevent or Reduce Crime and Violence	367,659	317,752	15.7%
Total	**974,155**	**594,351**	**63.9%**

2006 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 counterterrorism, homeland security, or hurricanes Katrina and Rita.

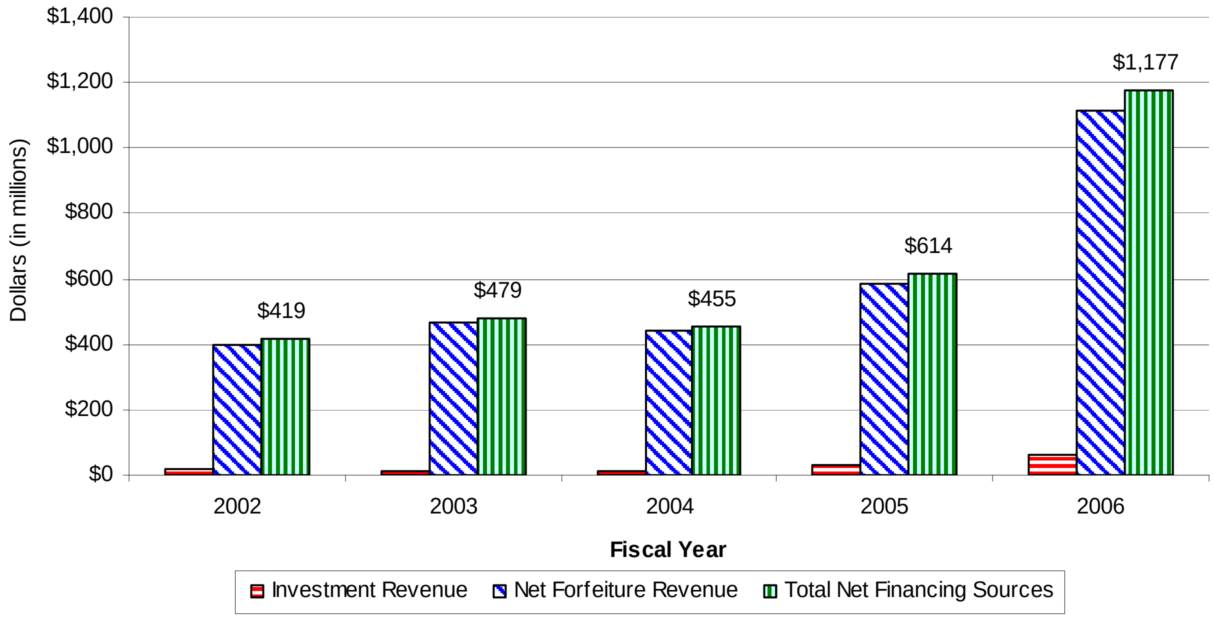
Figure 1. AFF Net Costs



Strategic Goal 2, Enforce Federal Laws and Represent the Rights and Interests of the American People. Included are 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 for forfeiture. These costs are necessary to support the 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 30, 2006, $606.5 million was expended (net of earned revenue) while $276.6 million was expended (net of earned revenue) for the fiscal year ended September 30, 2005. Goal 2 net costs are presented in Figure 1.

Strategic Goal 3, Assist State, Local and Tribal Efforts to Prevent or Reduce Crime and Violence. Included are payments that 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 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."

Figure 2. AFF Financing Sources



For the fiscal year ended September 30, 2006, $367.7 million was expended (net of earned revenue) for equitable sharing and joint law enforcement operations while $317.8 million was expended (net of earned revenue) for the fiscal year ended September 30, 2005. Goal 3 net costs are presented in Figure 1.

AFF levels of financing over a five-year period are shown in Figure 2. Net forfeiture revenue is the sum of 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. For the fiscal year ended September 30, 2006, approximately 48,300 items were seized and valued at about $942.1 million compared to approximately 47,500 items seized with an estimated value of $833 million in FY 2005.

Data Reliability and Validity

The AFP views data reliability and validity as critically important in the planning and assessment of its performance. The Justice Management Division (JMD) maintains standards and practices to ensure that data reported meets the OMB standards for data reliability that are presented in Circular A-11, Section 230.2 (f).

The financial management of the Fund is supported by the JMD's Financial Management Information System 2 (FMIS2), the USMS' Financial Management System (FMS), the AFP's Consolidated Asset Tracking System (CATS), and ATF's Forfeited and Seized Assets Tracking System (FASTRAK). FMIS2 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 2006 REPORT ON SELECTED ACCOMPLISHMENTS

STRATEGIC GOAL 2: Enforce Federal Laws and Represent the Rights and Interests of the American People

62% of the AFF's Net Costs supports this Goal.

PROGRAM:

Background/Program Objectives: The primary purpose of the Fund is to deter crime by providing 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.

Discussion of FY 2006 Accomplishments:

Net forfeiture revenues realized by the Fund were $1,177.2 million for the fiscal year ended September 30, 2006. This is the first year since inception of the Fund that it has exceeded $1 billion in deposits. If we remove the effect of a major fraud case producing $337.5 million, for the first time, the deposits still exceeded $800 million in a year. These revenues must cover program operation expenses, which include all costs incurred in support of the AFP. The FY 2006 percentage of program operation expenses to revenues was 49% while in FY 2005 it was 37%. After program operation expenses (as presented in Note 15) are deducted from revenues and financing sources, the remainder represents the results of the year's operations ($1,177.2 million - $573.8 million = $603.4 million in FY 2006 and $614.5 million – $229.7 million = $384.8 million in FY 2005). This net income is distributed in various ways. It is paid out for equitable sharing; state and local overtime; contracts to identify assets; investigative costs leading to seizures; and investigative expenses after the annual appropriation of funds.

To facilitate the efficient execution of the national forfeiture program, the AFF funded the Browser Based Consolidated Asset Tracking System (BBC) project. This modernization effort, completed in FY 2005, replaced outdated, unsupportable software products with industry mainstream products and moved CATS from a mainframe/client-processing environment to web-based, object-oriented technology architecture. BBC ties more than 700 locations together using web-based technology and support 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.

To improve financial performance, the AFF funded a 2006 CATS project that contributes to a 2007 ATF deployment of a new version of the Nforce case management system that will include an interface to the CATS application. This application will enable a single point of data entry for ATF agents and asset forfeiture administrators, thus centralizing tracking for ATF forfeiture activity.

No performance measures are indicated because the Fund's program operations are performed by its 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 GOAL 3: Assist State, Local, and Tribal Efforts to Prevent or Reduce Crime and Violence

38% of the AFF's Net Costs supports this Goal.

PROGRAM:

Background/Program Objectives: An ancillary purpose of the AFP is to enhance cooperation among federal, state, and local law enforcement agencies through the equitable sharing of federal forfeiture proceeds. Pursuant to 21 U.S.C. Sec. 881(e)(1) and 19 U.S.C. Sec. 1616a, as made applicable by 21 U.S.C. Sec. 881(d) and other statutes, the Attorney General has the authority to equitably transfer forfeited property and cash to state and local agencies that directly participate in the law enforcement effort leading to the seizure and forfeiture of property.

All property and cash transferred to state and local agencies and any income generated by this property and cash is to be used for law enforcement purposes. As a result, state and local law enforcement programs and capabilities have benefited significantly from their cooperative efforts with Federal law enforcement agencies. Among the following uses of equitable shares, priority is given to supporting community policing activities, training, and law enforcement operations calculated to result in further seizures and forfeitures:

- Activities intended to enhance future investigations (e.g., payment of overtime for officers and investigators; payment of the first year's salaries for new law enforcement positions that supplement the workforce; payments for temporary or not-to-exceed-one-year appointments; payments to informants; "buy," "flash," or reward money; and the purchase of evidence).
- Law enforcement training (e.g., asset forfeiture in general (statutory requirements, policies, procedures, and case law); the Fourth Amendment (search and seizure, probable cause, drafting affidavits, and confidential informant reliability); ethics and the National Code of Professional Conduct for Asset Forfeiture; due process rights; protecting the rights of innocent third-parties (individuals and lienholders); and *A Guide to Equitable Sharing of Federally Forfeited Property for State and Local Law Enforcement Agencies, March 1994*).
- Law enforcement equipment and operations (e.g., purchase of body armor, firearms, radios, cellular telephones, computer equipment, software to be used in support of law enforcement purposes, vehicles (e.g., patrol and surveillance vehicles), electronic surveillance equipment, uniforms, travel, transportation, supplies, leasing of office or other space for task force and undercover operations, and leasing of other types of equipment that support law enforcement activities).
- Detention facilities (e.g., construction, expansion, improvement, or operation of detention facilities managed by recipient agency).
- Law enforcement facilities and equipment (e.g., basic and necessary facilities, government furniture, safes, file cabinets, and telecommunications equipment necessary to perform official law enforcement duties).
- Drug education and awareness programs (e.g., conducting drug education and awareness programs by law enforcement agencies).
- Pro rata funding (e.g., costs associated with supporting multi-agency items or facilities).

- Asset accounting and tracking (e.g., accounting, auditing, and tracking of expenditures for shared cash, proceeds, and tangible property).

Discussion of FY 2006 Accomplishments: For the period ended September 30, 2006, participating agencies spent a net total of $367.7 million for Goal 3 activities. This was made possible by $1,177.2 million in financing sources from forfeiture activities and interest earnings on invested balances. In FY 2005, participating agencies spent a net total of $317.8 million for Goal 3 activities. This was made possible by $614.5 million in financing sources from forfeiture activities and interest earnings on invested balances. The DOJ 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 program operations are performed by its 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 INTERNAL CONTROLS, FINANCIAL MANAGEMENT SYSTEMS, AND LEGAL COMPLIANCE

Internal Controls Program

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 FMIS2, monitor their financial transactions on an on-going basis. AFMS also requires participants, who enter Fund transactions into their own financial system, to provide reports of their financial transactions at least quarterly to update the AFF obligation status.

FMFIA Section 2 – Material Weaknesses

For FY 2006 and FY 2005, the independent auditors reported no material weaknesses. Management's self assessment of the AFF/SADF internal controls over financial reporting, conducted in FY 2006 and 2005, as required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and OMB Circular No. A-123, *Management Accountability and Control*, identified fragmented financial systems and processes as an operational deficiency that is not currently material but warrants acknowledging as a deficiency that, if not addressed, managed, or corrected, could develop into a program material weakness. To correct this deficiency, forfeiture program components will work with the Unified Financial Management System Project team to implement a Department-wide and program-wide core financial system. The financial system will be integrated with the AFP's seized and forfeited property system (CATS) and ATF seizures and forfeitures will be brought into CATS to provide access across the appropriate components to ensure timely reporting in the audited financial statements. As these systems are implemented, changes in participating agencies' financial accounting procedures will be made to promote uniform procedures for AFF/SADF seized and forfeited property and financial transactions.

Based on the results of the assessment for the period ending September 30, 2006, the OBD management did not identify any Section 2 material weaknesses to report. In FY 2005, the DOJ provided qualified assurance that management controls and financial systems met the objectives of Section 2 of FMFIA due to significant weaknesses in internal controls related to information technology security. None of the recommendations for material weaknesses or reportable conditions were addressed to the AFF/SADF management. The FY 2006 AFF/SADF financial statement audit revealed deficiencies in the seized and forfeited property controls, access controls, and application software development and change controls. AFP management is undertaking steps to further strengthen forfeiture program controls during FY 2007. To address the Department financial systems weaknesses in the long term, the DOJ will adopt a single unified financial management system. Further information may be obtained from the *FY 2006 and 2005 U.S. Department of Justice Performance & Accountability Reports.*

FMFIA Section 4 – Material Nonconformances

For FY 2006 and FY 2005, the Fund reported no material nonconformances of its financial-mixed IT system CATS. See FMFIA Section 2 – Material Weaknesses for discussion of management's self-assessment relative to potential program financial systems and processes deficiencies.

For FY 2006 the OBD management participated in the Departmental assessment of Internal Controls Over Financial Reporting required by Appendix A of OMB Circular No. A-123. Results of the testing of the controls over financial reporting in the OBD's will be consolidated with other Departmental components and reported in the overall Departmental assurance statement. For 2005, DOJ provided qualified assurance that management controls and financial systems met the objectives of Section 4 of FMFIA. The Fund relies upon the Department's OBD/FMIS2 managers for Section 4 compliance on the Department's financial system of record.

Legal Compliance

For FY 2006 and FY 2005 the AFF/SADF was in compliance with the requirements and responsibilities defined in applicable laws and administrative requirements including FMFIA, the Federal Financial Management Improvement Act of 1996 (FFMIA), and relevant OMB Circulars.

IMPROPER PAYMENTS

The Improper Payment Information Act (IPIA) requires a risk assessment in all programs to identify those that are susceptible to significant erroneous payments. Significant erroneous payments are defined by the OMB as annual erroneous payments in a program exceeding both 2.5% of program payments and $10 million. For FY 2006 and 2005, the AFF has identified no program that was susceptible to significant erroneous payments that exceed both 2.5% of program payments and $10 million.

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

Financing sources in FY 2006 totaled $1,177.2 million, which are $562.8 million more than the $614.5 million reported in FY 2005. It is difficult to project future levels of financing 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 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 Financial Systems Integration Office, formerly known as 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 support the DOJ's 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 in FY 2002, and was completed in late 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 accounting principles generally accepted in the United States of America 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.

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Independent Auditors' Reports

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Inspector General
U. S. Department of Justice

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

We have audited the accompanying consolidated balance sheets of the U.S. Department of Justice Assets Forfeiture Fund and Seized Asset Deposit Fund (AFF/SADF) as of September 30, 2006 and 2005, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements"), for the years then ended. These consolidated financial statements are the responsibility of the AFF/SADF's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, Audit Requirements for Federal Financial Statements. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the AFF/SADF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated 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, 2006 and 2005, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 1Q and 14 to the consolidated financial statements, the AFF/SADF changed its method of reporting earmarked funds to adopt the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 27, Identifying and Reporting Earmarked Funds, effective October 1, 2005.

The information in the Management's Discussion and Analysis section is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136, Financial Reporting Requirements. 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 our reports dated October 27, 2006, on our consideration of the AFF/SADF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and 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 assessing the results of our audits.

KPMG LLP

October 27, 2006

KPMG

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Control

Inspector General
U. S. Department of Justice

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

We have audited the consolidated balance sheets of the U.S. Department of Justice Assets Forfeiture Fund and Seized Asset Deposit Fund (AFF/SADF) as of September 30, 2006 and 2005 and the related statements of net cost, changes in net position, and financing and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated October 27, 2006. As discussed in Notes 1Q and 14 to the consolidated financial statements, the AFF/SADF changed its method of reporting earmarked funds to adopt the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 27, *Identifying and Reporting Earmarked Funds*, effective October 1, 2005.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, Audit Requirements for Federal Financial Statements. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

Internal Control Over Financial Reporting

The management of the AFF/SADF is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2006 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 consolidated 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. 06-03. 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 an opinion on the AFF/SADF's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control 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 consolidated 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 caused by error or fraud, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

In our fiscal year 2006 audit, we noted certain matters, discussed in Exhibit I, involving the internal control over financial reporting and its operation that we consider to be reportable conditions. However, none of the reportable conditions are believed to be material weaknesses.

We noted certain additional matters that we have reported to management of the AFF/SADF in a separate letter dated October 27, 2006.

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, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 27, 2006

Exhibit I

REPORTABLE CONDITIONS

WEAKNESSES EXIST IN THE SEIZED AND FORFEITED PROPERTY MANAGEMENT ENVIRONMENT

Internal controls over status and valuation of seized and forfeited property need reinforcement

During internal control and substantive test work procedures over seized and forfeited property transactions from the Consolidated Asset Tracking System (CATS) and the Forfeited and Seized Asset Tracking System (FASTRAK) as of September 30, 2006, we noted the following exceptions:

- 2 items valued at $3,503,806, out of 259 seized property sample items, should have been classified as returned to owner or otherwise disposed.
- 2 out of 259 seized property sample items were overvalued by $183,070.
- 2 items valued at $653,588, out of 17 aged seized property sample items, should have been designated as forfeited.
- 3 out of 240 forfeited property sample items were overvalued by $546,568.
- 2 items valued at $241,720, out of 240 forfeited property sample items, should have been designated as seized items.

Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property,* states that seized property should be classified as seized and forfeited property should be classified as forfeited at each financial reporting date. Furthermore, seized property other than monetary instruments shall be disclosed in the footnotes and the value of the seized property shall be accounted for in an agency's property management records until the property is forfeited, returned, or otherwise liquidated.

OMB Circular No. A-123, *Management Accountability and Control*, states that: Recording and Documentation - Transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls and other significant events must be clear and readily available for examination.

<u>Recommendation No. 1:</u>

We recommend that participants establish and Asset Forfeiture Management Staff (AFMS) enforce procedures to ensure the current property and/or financial data in the property and/or financial management systems are updated based on accurate information in a timely manner and within the timeframes established for issuing the Assets Forfeiture Fund (AFF)/Seized Asset Deposit Fund (SADF) financial statements.

Management's Response

Management concurs with the findings and recommendation. The Asset Forfeiture Management Staff will work with the Asset Forfeiture Program (AFP) components to tighten up data entry and period end closing procedures to ensure both the property and accounting systems reflect accurate information within the timeframes established for issuing the financial statements.

Internal controls over completeness of seized and forfeited property need reinforcement

We conducted field site floor-to-book procedures over the completeness of AFF/SADF seized and forfeited property in FASTRAK, the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) property management system used for the AFF/SADF's financial reporting as of June 30, 2006. During th<eese procedures, we noted 9 out of 137 seized property sample items designated as "seized for forfeiture" in NForce, the ATF's case management system, were not designated as seized for forfeiture in FASTRAK, and were no longer in the Nforce's "pending file" used to update FASTRAK. ATF headquarters (HQ) had declined to pursue forfeiture and had subsequently notified the appropriate field office. However, the field office did not make the necessary updates in NForce to change the classification from seized for forfeiture to seized-for-evidence, because ATF does not have sufficient controls in place to assure that all property seized for forfeiture is classified consistently and contemporaneously across NForce, FASTRAK and the property storage inventory locations at each quarterly and annual financial reporting date.

The failure to record, reconcile and adjust NFORCE, FASTRAK and underlying physical property inventory logs promptly, contemporaneously and consistent with the seized property in ATF's actual possession or control can (1) preclude forfeiture of seizures where timely notice requirements apply, (2) misstate the custody control records as well as mandatory externally reported data which designate whether property is seized for forfeiture, seized for evidence or both, and (3) result in the failure to dispose of property consistent with Department of Justice seized property disposition policies.

Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property,* states that seized property should be classified as seized and forfeited property should be classified as forfeited at each financial reporting date. Furthermore, seized property other than monetary instruments shall be disclosed in the footnotes and the value of the seized property shall be accounted for in an agency's property management records until the property is forfeited, returned, or otherwise liquidated.

OMB Circular No. A-123, *Management Accountability and Control*, states that: Recording and Documentation **-** Transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls and other significant events must be clear and readily available for examination.

Recommendation No. 2:

We recommend AFMS work with ATF to develop an adequate methodology that documents the follow-up on items that are rejected from the NForce forfeiture "pending file" to ensure the appropriate corrective action is taken by field personnel in a timely manner.

Management's Response

Management concurs with the findings and recommendation. The Asset Forfeiture Management Staff will work with ATF Program management to implement proper controls to ensure that seized for forfeiture property is classified consistently and contemporaneously across NForce, FASTRAK and the property storage inventory locations at each quarterly and annual financial reporting date.

WEAKNESSES EXIST IN THE INFORMATION SYSTEM CONTROLS ENVIRONMENT

We performed a general information systems (IS) and application controls review at the AFF/SADF by (1) documenting our understanding of the IS general controls environment; (2) evaluating the effectiveness of IS general and specific application controls at the AFF/SADF; and (3) updating the IS general controls tests related to the FY 2005 audit. Using guidance contained in the U.S. Government Accountability Office's (GAO), *Federal Information System Controls Audit Manual*, we evaluated the general controls as they apply to the key financial management systems and the application controls associated with these systems. We evaluated the IS controls environment against guidance issued by the 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*.

Control improvements are needed in the DOJ consolidated IS general controls environment

We performed a review of the DOJ consolidated IS general controls environment that provides general control support for several DOJ components' financial applications and identified one overall reportable condition in the areas of security program, access controls, and system software. We concluded that the IS controls in place for the consolidated IS general controls environment as of September 30, 2006, were adequate to safeguard the programs and data files from unauthorized access and modification, except as noted in the overall reportable condition.

This reportable condition and related recommendations will be addressed to the Justice Management Division (JMD) in a separate report. JMD has primary responsibility over the consolidated IS general controls environment. Accordingly, no recommendations for this reportable condition are addressed to AFF/SADF's management in this report.

Control improvements are needed in the FMIS2 accounting system

The AFF/SADF uses the FMIS2 accounting system maintained by the Offices, Boards and Divisions (OBDs). OBDs' management has not implemented effective controls in the following areas:

- FMIS2 system administration lacks effective controls;
- Technical security controls for FMIS2 have not been assessed;
- Simple Network Management Protocol (SNMP) lacks the proper controls; and
- The X-Server service was improperly configured.

Recommendations for this reportable condition will be addressed to JMD of the OBDs, which has primary responsibility over FMIS2, as further described in their *Independent Auditors' Report on Internal Control*. Accordingly, no recommendations for this reportable condition are addressed to AFF/SADF's management.

Access controls to Consolidated Asset Tracking System (CATS) security needs improvement

Access to administer the CATS security is not appropriately limited. There are only two main security administrators and one backup person who should be authorized to administer CATS security at security level "0". This level of access allows the user to create, delete, suspend, and activate accounts as well as perform session monitoring and password resets. We identified fifteen staff members with access to administer CATS security at security level "0". We verified that AFF/SADF management implemented corrective action prior to the end of the fiscal year. Therefore, no further action is necessary.

DOJ Order 2640.2E, *Information Technology Security*, Section 16: "Access Control" states, "Access controls shall be in place and operational for all Department IT systems to enable the use of resources such as data and programs necessary to fulfill job responsibilities and no more."
DOJ Information Technology Security (ITS) Standard 3.2: *Logical Access Control*, Section 3.1.3: "Restriction of Security Software" states, "Access to security software used to perform functions of system security administrators shall be restricted to authorized system security administrators."

Excessive security administrator access provides additional opportunities for individuals to gain access to username and password combinations with administrative privileges. In addition, individuals other than the security administrators may intentionally or unintentionally create, delete, or modify CATS user accounts.

CATS' change control process needs strengthening

We identified the following weaknesses in the CATS' change control process:

- Documented evidence of testing was not available for two out of eleven selected changes.
- Test result checklists were not available for three out of eleven selected changes.

We verified that AFF/SADF management implemented corrective action prior to the end of the fiscal year. Therefore, no further action is necessary.

DOJ Configuration Management Plan, Section 1.1, "Scope" states: "The Configuration Management Plan (CMP) describes CM organization and practices applied consistently and uniformly throughout the life cycle for Configuration Items (CIs) that are developed, maintained, or controlled by a project. CM is the process used to identify and control artifacts. Artifacts can include source code, executable code, databases, data, test plans, test results, documentation, processes, and procedures."

In addition, Section 5.2.1 "Example Problem Reporting and Resolution Process" states: "The responsible system team will follow its normal Systems Development Life Cycle (SDLC) processes to develop, test and implement the configuration change and report its status to the Project Manager (PM) and Change Control Board (CCB). After testing and security review phases are complete, the CCB formally approves the change and signs the CCB Change Report."

Failure to complete and document the appropriate change control procedures increases the risk of an unauthorized and inaccurate program change being implemented into production.

Access to the CATS database, servers, and operating system is not properly restricted

The AFMS is not appropriately restricting access to the CATS database, production server, and operating system (OS) accounts. Specifically, we noted the following weaknesses:

- A Database 2 (DB2) account ("DBINST1") is shared by four individuals.
- A File Transfer Protocol (FTP) account used to deploy changes to the production servers is shared by three individuals.
- An individual with privileged access to the Microsoft OS environment is not part of the engineering group and should not have access.

DOJ, ITS Standard 3.1: *Identification and Authentication*, Section 3.1.3: "Generic Accounts" states, "System defined guest, anonymous and other optional generic accounts (that allow non-unique account names) are prohibited and shall be removed and disabled."

DOJ Order 2640.2E, Information Technology Security, Section 16: "Access Control" states, "access controls shall be in place and operational for all Department IT systems to enable the use of resources such as data and programs necessary to fulfill job responsibilities and no more."

The use of shared user accounts removes individual accountability as user actions can only be traced to a shared user account rather than an individual. In addition, restricting users' access to the minimum necessary to perform their job function reduces the risk of unauthorized access, inappropriate modifications, or other types of potential abuse to critical programs and datasets.

Recommendation No. 3:

We recommend that AFMS implement the appropriate security measures to properly restrict access to the CATS production database, server, and operating systems accounts.

Management's Response

Management concurs with the findings and recommendation. The Asset Forfeiture Management Staff will take action to implement the necessary safeguards and settings to ensure unique accounts are in place to support monitoring and activity logging.

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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 sheets of the U.S. Department of Justice Assets Forfeiture Fund and Seized Asset Deposit Fund (AFF/SADF) as of September 30, 2006 and 2005, and the related consolidated statements of net cost, changes in net position, and financing and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated October 27, 2006. As discussed in Notes 1Q and 14 to the consolidated financial statements, the AFF/SADF changed its method of reporting earmarked funds to adopt the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 27, *Identifying and Reporting Earmarked Funds*, effective October 1, 2005.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, Audit Requirements for Federal Financial Statements. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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 consolidated 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 consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 06-03, including certain provisions 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 those provisions 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 and OMB Bulletin No. 06-03.

Under OMB Bulletin No. 06-03 and 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 of FFMIA 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.

We noted certain additional matters that we have reported to management of the AFF/SADF in a separate letter dated October 27, 2006.

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, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 27, 2006

Principal Financial Statements And Related Notes

See Independent Auditors' Report on Financial Statements

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U.S. Department of Justice
Assets Forfeiture Fund and Seized Asset Deposit Fund
Consolidated Balance Sheets
As of September 30, 2006 and 2005

Dollars in Thousands	2006	2005
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with U.S. Treasury (Note 3)	$ 411,871	$ 49,299
Investments, Net (Note 5)	1,436,744	1,127,388
Accounts Receivable, Net (Note 6)	8,071	10,864
Other Assets (Note 9)	1,445	693
Total Intragovernmental	1,858,131	1,188,244
Cash and Monetary Assets (Note 4)	58,777	87,956
Forfeited Property, Net (Note 7)	132,409	89,598
General Property, Plant and Equipment, Net (Note 8)	4,118	4,577
Advances and Prepayments	1	4
Total Assets	**$ 2,053,436**	**$ 1,370,379**
LIABILITIES (Note 10)		
Intragovernmental		
Accounts Payable	$ 64,754	$ 58,308
Total Intragovernmental	64,754	58,308
Accounts Payable	372,950	28,238
Deferred Revenue	132,409	89,598
Seized Cash and Monetary Instruments (Note 13)	797,201	711,192
Contingent Liabilities (Note 12)	35,000	35,000
Total Liabilities	**$ 1,402,314**	**$ 922,336**
NET POSITION		
Cumulative Results of Operations - Earmarked Funds (Note 14)	$ 651,122	
Cumulative Results of Operations - Other Funds	-	$ 448,043
Total Net Position	**$ 651,122**	**$ 448,043**
Total Liabilities and Net Position	**$ 2,053,436**	**$ 1,370,379**

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

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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, 2006 and 2005

Dollars in Thousands

		Gross Costs			Less: Earned Revenues			Net Cost of Operations (Note 15)
	FY	Intra-governmental	With the Public	Total	Intra-governmental	With the Public	Total	
Goal 2	2006	$ 153,393	$ 454,584	$ 607,977	$ 1,481	$ -	$ 1,481	$ 606,496
	2005	$ 146,973	$ 131,907	$ 278,880	$ 2,281	$ -	$ 2,281	$ 276,599
Goal 3	2006	-	367,659	367,659	-	-	-	367,659
	2005	-	317,752	317,752	-	-	-	317,752
Total	**2006**	**$ 153,393**	**$ 822,243**	**$ 975,636**	**$ 1,481**	**$ -**	**$ 1,481**	**$ 974,155**
	2005	**$ 146,973**	**$ 449,659**	**$ 596,632**	**$ 2,281**	**$ -**	**$ 2,281**	**$ 594,351**

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

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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, 2006 and 2005

Dollars in Thousands

	2006			2005
	Earmarked Funds	All Other Funds	Total	Total
Cumulative Results of Operations				
Beginning Balances	$ 444,912	$ 3,131	$ 448,043	427,930
Budgetary Financing Sources				
Nonexchange Revenues (Note 19)	63,481	(3,131)	60,350	29,078
Donations and Forfeitures of Cash and Cash Equivalents (Note 20)	1,009,217	-	1,009,217	514,876
Other Financing Sources				
Donations and Forfeitures of Property (Note 20)	115,687	-	115,687	80,564
Transfers-In/Out Without Reimbursement (Note 18)	(8,020)	-	(8,020)	(10,054)
Total Financing Sources	**1,180,365**	**(3,131)**	**1,177,234**	**614,464**
Net Cost of Operations	(974,155)	-	(974,155)	(594,351)
Net Change	206,210	(3,131)	203,079	20,113
Cumulative Results of Operations	$ 651,122	$ -	$ 651,122	$ 448,043
Net Position	**$ 651,122**	**$ -**	**$ 651,122**	**$ 448,043**

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

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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, 2006 and 2005

Dollars in Thousands	2006	2005
Budgetary Resources		
Unobligated Balance, Brought Forward, October 1	$ 278,978	$ 311,672
Recoveries of Prior Year Unpaid Obligations	24,808	23,940
Budget Authority		
Appropriations Received	1,273,744	669,834
Spending Authority from Offsetting Collections		
Earned		
Collected	8,134	247
Change in Receivable from Federal Sources	338	3,634
Change in Unfilled Customer Orders		
Without Advance from Federal Sources	930	(74)
Subtotal Budget Authority	**1,283,146**	673,641
Temporarily not Available Pursuant to Public Law	(102,274)	(102,092)
Total Budgetary Resources (Note 16)	**$ 1,484,658**	**$ 907,161**
Status of Budgetary Resources		
Obligations Incurred		
Direct	$ 1,057,924	$ 625,902
Reimbursable	1,481	2,281
Total Obligations Incurred (Note 16)	1,059,405	628,183
Unobligated Balance - Available		
Apportioned	28,152	170,953
Total Unobligated Balance - Available	28,152	170,953
Unobligated Balances Not Available	397,101	108,025
Total Status of Budgetary Resources	**$ 1,484,658**	**$ 907,161**
Change in Obligated Balance		
Obligated Balance, Net - Brought Forward, October 1		
Unpaid Obligations	$ 174,645	$ 179,938
Less: Uncollected Customer Payments from Federal Sources	7,733	4,173
Total Unpaid Obligated Balance, Net - Brought Forward, October 1	166,912	175,765
Obligations Incurred, Net	1,059,405	628,183
Less: Gross Outlays	629,213	609,535
Less: Recoveries of Prior Year Unpaid Obligations, Actual	24,808	23,940
Change in Uncollected Customer Payments from Federal Sources	(1,268)	(3,560)
Obligated Balance, Net - End of Period		
Unpaid Obligations	580,029	174,645
Less: Uncollected Customer Payments from Federal Sources	9,001	7,733
Total Unpaid Obligated Balance, Net - End of Period	**$ 571,028**	**$ 166,912**
Net Outlays		
Gross Outlays	$ 629,213	$ 609,535
Less: Offsetting Collections	8,134	247
Less: Distributed Offsetting Receipts	60,350	29,078
Net Outlays (Note 16)	**$ 560,729**	**$ 580,210**

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

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U.S. Department of Justice
Assets Forfeiture Fund and Seized Asset Deposit Fund
Consolidated Statements of Financing
For the Fiscal Years Ended September 30, 2006 and 2005

Dollars in Thousands	2006	2005
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$ 1,059,405	$ 628,183
Less: Spending Authority from Offsetting Collections and Recoveries	34,210	27,747
Obligations Net of Offsetting Collections and Recoveries	1,025,195	600,436
Less: Offsetting Receipts	60,350	29,078
Net Obligations	964,845	571,358
Other Resources		
Donations and Forfeitures of Property	115,687	80,564
Transfers-In/Out Without Reimbursement	(8,020)	(10,054)
Net Other Resources Used to Finance Activities	107,667	70,510
Total Resources Used to Finance Activities	**1,072,512**	**641,868**
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	(54,048)	(7,870)
Budgetary Offsetting Collections and Receipts That do not Affect the Net Cost of Operations	(51,450)	(45,170)
Resources That Finance the Acquisition of Assets	(470)	(977)
Other Resources or Adjustments to Net Obligated Resources That do not Affect Net Cost of Operations	6,683	1,600
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(99,285)	(52,417)
Total Resources Used to Finance the Net Cost of Operations	**$ 973,227**	**$ 589,451**
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	$ -	$ 4,900
Total Components of Net Cost of Operations Requiring or Generating Resources in Future Periods (Note 17)	-	4,900
Components not Requiring or Generating Resources		
Depreciation and Amortization	$ 928	$ -
Total Components of Net Cost of Operations that will not Require or Generate Resources	928	-
Total Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period	**928**	**4,900**
Net Cost of Operations	**$ 974,155**	**$ 594,351**

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

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

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 or Department) 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 AFP 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 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 salaries and 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 United States Marshals Service (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

These financial statements have been prepared from the books and records of the AFF/SADF in accordance with accounting principles generally accepted in the United States of America issued by the Federal Accounting Standards Advisory Board (FASAB) and presentation guidelines in the Office of Management and Budget (OMB) Circular No. A-136, "Financial Reporting Requirements". These financial statements are different from the financial reports prepared pursuant to OMB directives which are used to monitor and control the use of the AFF/SADF budgetary resources.

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

As provided for in OMB Circular No. A-136, to ensure that the AFF/SADF financial statements are meaningful at the entity level and to enhance reporting consistency within the Department, Other Assets and Other Liabilities as defined by OMB Circular A-136 have been disaggregated on the balance sheet. These include Forfeited Property, Net; Advances and Prepayments; Deferred Revenue; Seized Cash and Monetary Instruments; and Contingent Liabilities.

C. Basis of Consolidation

The consolidated/combined financial statements include the accounts of the AFF/SADF. All significant proprietary intra-entity transactions and balances have been eliminated in consolidation. The Statement of Budgetary Resources is a combined statement for FYs 2006 and 2005, and as such, intra-entity transactions have not been eliminated.

D. Basis of Accounting

Transactions are recorded on the accrual and budgetary bases 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.

E. 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.

F. Fund Balance with U.S. Treasury and Cash

Generally, the U.S. Treasury processes cash receipts and disbursements for AFF and SADF. The funds in the AFF, a special fund receipt account, are entity assets and are used to finance the operations of the AFP. Seized cash is deposited and accounted for in the SADF, a deposit fund, 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, but AFP does have statutory authority for the investment of idle cash.

G. Investments

The AFF and SADF are authorized by 28 U.S.C. § 524(c) to invest idle funds in excess of its immediate needs in U.S. Treasury Securities. Investments are short-term non-marketable market-based Federal Debt securities issued by the Bureau of Public Debt (BPD) and purchased exclusively through the BPD's Division of Federal Investments. Investments are reported on the Consolidated

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

Balance Sheet at their net value, the face value plus or minus any unamortized premium or discount. Premiums and discounts are amortized over the life of the Treasury security. Amortization is based on the straight-line method over the term of the securities. AFF and SADF intend to hold investments to maturity. Accordingly, no provision is made for unrealized gains or losses on these 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.

H. Accounts Receivable

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

I. General Property, Plant and Equipment

The General Services Administration (GSA), which charges rent equivalent to the commercial rates for similar properties, provides a building in which the AFMS operate. The Department does not recognize depreciation on buildings provided by the GSA.

Property, plant and equipment consist of leasehold improvements and enhancements to the Consolidated Asset Tracking System (CATS), which meet the SFFAS No. 10 definition of "internal use software". Leasehold improvements are capitalized when the initial cost of acquiring the asset is $100 or more, and the asset has an estimated useful life of two or more years. 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. Internal use software purchases with an acquisition cost of less than $500 are expensed when purchased. Depreciation is calculated using the straight-line method over the useful lives of the assets.

J. Advances and Prepayments

Advances and prepayments 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 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. Advances and prepayments involving other Federal agencies are classified as Other Assets on the balance sheet.

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

K. 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 USMS 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.

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 initially 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.

L. Liabilities

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

M. Contingencies and Commitments

The AFF is involved in various administrative proceedings, legal actions, and claims that arise in the ordinary course of business. The SFFAS No. 5, "Accounting for Liabilities of the Federal Government", states that a contingent liability should be recognized when a past event or exchange transaction has occurred; a future outflow or other sacrifice of resources is probable; and the future outflow or sacrifice of resources is reasonably measurable. The AFF's management must determine whether it is probable that a legal claim or other contingency will result in a loss for the AFF, and whether the loss is reasonably measurable. If the loss is probable and estimable, the AFF recognizes an expense and unfunded liability for the estimated amount of the expected loss.

N. 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.

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

O. Intragovernmental Activity

These transactions and/or balances result from business activities conducted between two different Federal government entities.

P. Revenues and Other Financing Sources

The funds in the AFF are derived primarily from financing sources and are presented on the Statement of Changes in Net Position as both Budgetary and Other Financing Sources. Financing sources consist of (1) interest earned on investments (i.e., nonexchange revenues) and (2) donations and forfeitures, which include forfeited cash, proceeds from the sale of forfeited property (or conversion of deferred revenue to realized revenue through sale), receipt of payments in lieu of property forfeiture, recovery of asset management expenses, and financing sources from judgments. These financing sources are recognized when cash is forfeited, forfeited property is sold, or forfeited property is placed into official use or transferred to another federal agency. The financing sources from legal judgments are not recognized until the judgment has been enforced.

Deferred revenue is recorded when the property is forfeited. When the property is sold or otherwise disposed, the deferred revenue becomes earned and a financing source is recognized.
The AFF recognizes exchange revenue when the United States Attorneys Offices provide services in judicial forfeiture cases brought by agencies participating in the U.S. Department of the Treasury (Treasury), Treasury Forfeiture Fund (TFF). The AFF recognizes exchange revenue on a reimbursement basis and the revenue is presented on the Statement of Net Cost as earned revenue. In accordance with 28 USC 524 and AFMS Memorandums of Understanding, donations and forfeitures available for use by certain Federal agencies are treated as returns of financing sources when disbursed.

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

Q. Earmarked Funds

Statement of Federal Financial Accounting Standards (SFFAS) No. 27, “Identifying and Reporting Earmarked Funds” defines ‘Earmarked Funds’ as being financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the Government’s general revenues. The three required criteria for an earmarked fund are:

1. A statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits or purposes;

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

Q. Earmarked Funds (continued)

2. Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits or purposes; and
3. A requirement to account for and report on the receipt, use and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Government's general revenues.

The AFF meets the definition of an Earmarked Fund, but the SADF does not meet the definition of an Earmarked Fund.

Effective October 1, 2005, reporting entities are required to show earmarked nonexchange revenue and other financing sources and net cost of operations separately on the Statement of Changes in Net Position. Reporting entities are also required to show the portion of cumulative results of operations attributable to earmarked funds separately on the Statement of Changes in Net Position and on the Balance Sheet. In accordance with SFFAS 27, the FY 2005 information was not restated.

R. Tax Exempt Status

As an agency of the Federal Government, AFF is exempt from all income taxes imposed by any governing body whether it be a Federal, state, commonwealth, local, or foreign government.

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

T. Reclassifications

The FY 2005 financial statements were reclassified to conform to the FY 2006 Departmental financial statement presentation requirements, including the new format of the Combined Statement of Budgetary Resources prescribed by OMB Circular No. A-136. The reclassifications had no material effect on total assets, liabilities, net position, change in net position or budgetary resources as previously reported.

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

Note 2. Non-Entity Assets

Non-entity assets are assets held by the AFP that are not available for use by the AFP.

As of September 30, 2006 and 2005

	2006	2005
Intragovernmental		
Investments, Net (Note 5)	$ 738,424	$ 623,236
Total Intragovernmental	738,424	623,236
With the Public		
Cash and Monetary Assets	58,777	87,956
Total With the Public	58,777	87,956
Total Non-Entity Assets	797,201	711,192
Total Entity Assets	1,256,235	659,187
Total Assets	$ 2,053,436	$ 1,370,379

Note 3. Fund Balance with U.S. Treasury

Fund Balance with U.S. Treasury at September 30, 2006 and 2005 is presented below.

As of September 30, 2006 and 2005

	2006	2005
Fund Balances		
Other Fund Types	$ 411,871	$ 49,299
Total Fund Balances with U.S. Treasury	$ 411,871	$ 49,299
Status of Fund Balances		
Unobligated Balance - Available	$ 28,152	$ 170,953
Unobligated Balance - Unavailable	397,101	108,025
Obligated Balance not yet Disbursed	571,028	166,912
Other Funds (With)/Without Budgetary Resources	(584,410)	(396,591)
Total Status of Fund Balances	$ 411,871	$ 49,299

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

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

Note 4. Cash and Monetary Assets

Cash consists of seized cash deposited in the SADF. Monetary assets include seized monetary instruments deposited in the SADF, 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 Homeland Security Act provisions which established Alcohol, Tobacco, Firearms, and Explosives (ATF) as a DOJ law enforcement participant in the AFP).

As of September 30, 2006 and 2005	2006	2005
Cash		
Seized Cash Deposited	$ 51,177	$ 47,381
Total Cash	$ 51,177	$ 47,381
Monetary Assets		
Seized Monetary Instruments	7,600	40,575
Total Monetary Assets	7,600	40,575
Total Cash and Monetary Assets	$ 58,777	$ 87,956

Note 5. Investments, Net

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with AFF. The cash receipts collected from the public for the AFF, an earmarked fund, are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the AFF as evidence of its receipts. Treasury securities are an asset to the AFF and a liability to the U.S. Treasury. Because the AFF and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

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

Note 5. Investments, Net (continued)

Treasury securities provide the AFF with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the AFF requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

	Face Value	Unamortized Premium (Discount)	Investments, Net	Market Value
As of September 30, 2006				
Intragovernmental				
Non-Marketable Securities				
Market-Based				
AFF	$ 700,474	$ (2,154)	$ 698,320	$ 693,993
SADF	749,681	(11,257)	738,424	742,944
Subtotal	1,450,155	$ (13,411)	$ 1,436,744	1,436,937
Interest Receivable	-			-
Total	$1,450,155			$ 1,436,937
As of September 30, 2005				
Intragovernmental				
Non-Marketable Securities				
Market-Based				
AFF	$ 508,137	$ (3,985)	$ 504,152	$ 493,512
SADF	630,759	(7,523)	623,236	654,175
Subtotal	1,138,896	$ (11,508)	$ 1,127,388	1,147,687
Interest Receivable	-			-
Total	$1,138,896			$ 1,147,687

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

Note 6. Accounts Receivable, Net

Accounts receivable consist of amounts owed to the AFF by the Executive Office of the United States Attorneys for services provided to the U.S. Treasury. There is no allowance for uncollectible accounts since accounts receivable from business with Federal entities are considered fully collectible.

As of September 30, 2006 and 2005

	2006	2005
Intragovernmental		
Accounts Receivable	$ 8,071	$ 10,864
Total Intragovernmental	8,071	10,864
Total Accounts Receivable, Net	$ 8,071	$ 10,864

Note 7. Forfeited and Seized Property

Property seized for any purpose other than forfeiture and held by the seizing agency or a custodial agency is reported in the financial statements of 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 No. 4, "Reporting on 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 changes in and methods of disposition of forfeited property, excluding cash, during the fiscal years ended September 30, 2006 and 2005, respectively.

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

Analysis of Changes in Forfeited Property -- Fiscal Year Ended September 30, 2006

Forfeited Property Category		Beginning Balance	Adjustments (1)	Forfeited	Disposed (2)	Ending Balance	Liens and Claims	Ending Balance Net of Liens
Financial Instruments	Number	211	22	576	(300)	509	-	509
	Value	$2,395	$387	$45,966	($37,402)	$11,346	($12)	$11,334
Real Property	Number	329	5	399	(393)	340	-	340
	Value	$58,615	$42	$110,538	($82,668)	$86,527	($1,662)	$84,865
Personal Property	Number	2,902	(491)	5,017	(4,415)	3,013	-	3,013
	Value	$31,962	($2,280)	$65,459	($57,181)	$37,960	($1,750)	$36,210
Non-Valued	Number	26,288	(3,028)	31,778	(15,261)	39,777	-	39,777
Total	Number	29,730	(3,492)	37,770	(20,369)	43,639	-	43,639
	Value	$92,972	($1,851)	$221,963	($177,251)	$135,833	($3,424)	$132,409

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

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

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U.S. Department of Justice
Notes to the Principal Financial Statements
(Dollars in Thousands, Except as Noted)
Analysis of Changes in Forfeited Property -- Fiscal Year Ended September 30, 2005

Forfeited Property Category		Beginning Balance	Adjustments (1)	Forfeited	Disposed (2)	Ending Balance	Liens and Claims	Ending Balance Net of Liens
Financial Instruments	Number	39	46	373	(247)	211	-	211
	Value	$1,983	($291)	$10,009	($9,306)	$2,395	($41)	$2,354
Real Property	Number	288	136	321	(416)	329	-	329
	Value	$40,993	$15,057	$67,928	($65,363)	$58,615	($2,450)	$56,165
Personal Property	Number	2,141	36	4,752	(4,027)	2,902	-	2,902
	Value	$23,940	($1,735)	$180,627	($170,870)	$31,962	($883)	$31,079
Non-Valued	Number	16,789	(1,165)	23,823	(13,159)	26,288	-	26,288
Total	Number	19,257	(947)	29,269	(17,849)	29,730	-	29,730
	Value	$66,916	$13,031	$258,564	($245,539)	$92,972	($3,374)	$89,598

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

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

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U.S. Department of Justice
Notes to the Principal Financial Statements
(Dollars in Thousands, Except as Noted)
Methods of Disposition of Forfeited Property -- Fiscal Year Ended September 30, 2006

Forfeited Property Category		Converted Financial Instruments/Property	Destroyed/Donated/ Transferred	Sold/ Liquidated (1)	Official Use/ Transfer for Equitable Sharing	Returned Asset	Variance (2)	Total
Financial Instruments	Number	275	-	1	-	24	-	300
	Value	$9,506	-	$112	-	$27,784	-	$37,402
Real Property	Number	-	3	364	11	15	-	393
	Value	-	$147	$79,573	$542	$2,406	-	$82,668
Personal Property	Number	-	478	2,606	1,122	209	-	4,415
	Value	-	$1,083	$27,229	$25,628	$3,241	-	$57,181
Non-Valued	Number	-	13,764	-	422	1,075	-	15,261
Total	Number	275	14,245	2,971	1,555	1,323	-	20,369
	Value	$9,506	$1,230	$106,914	$26,170	$33,431	-	$177,251

(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 Changes table may not agree with disposals on the Methods of Disposition table as a result of partial dispositions.

U.S. Department of Justice
Notes to the Principal Financial Statements
(Dollars in Thousands, Except as Noted)
Methods of Disposition of Forfeited Property -- Fiscal Year Ended September 30, 2005

Forfeited Property Category		Converted Financial Instruments/Property	Destroyed/Donated/ Transferred	Sold/ Liquidated (1)	Official Use/ Transfer for Equitable Sharing	Returned Asset	Variance (2)	Total
Financial Instruments	Number	235	6	-	-	6	-	247
	Value	$8,994	$278	-	-	$34	-	$9,306
Real Property	Number	9	5	389	-	13	-	416
	Value	$158	$447	$63,259	-	$1,499	-	$65,363
Personal Property	Number	1	478	2,361	973	214	-	4,027
	Value	$1	$130,020	$24,031	$11,971	$4,847	-	$170,870
Non-Valued	Number	4	12,192	1	635	327	-	13,159
Total	Number	249	12,681	2,751	1,608	560	-	17,849
	Value	$9,153	$130,745	$87,290	$11,971	$6,380	-	$245,539

(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 Changes table may not agree with disposals on the Methods of Disposition table as a result of partial dispositions.

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

Note 7. Forfeited and Seized Property (continued)

B. Seized Property

The following tables show the analysis of changes in and methods of disposition of property seized for forfeiture during the fiscal years ended September 30, 2006 and 2005, respectively. In the following tables, Seized Cash and Monetary Instruments includes seized cash in transit as well as pre-forfeiture deposits into the SADF of monetary instruments and depository account balances, proceeds from pre-forfeiture sales, and cash received in lieu of seized property. Financial Instruments include negotiable instruments and restricted depository accounts.

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

Analysis of Changes in Seized Property -- Fiscal Year Ended September 30, 2006

Seized Property Category		Beginning Balance	Adjustments (1)	Seized	Disposed (2)	Ending Balance	Liens and Claims	Ending Balance Net of Liens
Seized Cash and Monetary Instruments	Number	8,956	91	11,029	(10,715)	9,361	-	9,361
	Value	$711,192	$1,336	$726,866	($642,193)	$797,201	($48,890)	$748,311
Financial Instruments	Number	234	(43)	170	(103)	258	-	258
	Value	$24,459	($2,977)	$22,285	($2,886)	$40,881	($2,007)	$38,874
Real Property	Number	294	4	347	(343)	302	-	302
	Value	$81,211	$225	$107,623	($98,730)	$90,329	($21,382)	$68,947
Personal Property	Number	6,144	(314)	6,300	(6,255)	5,875	-	5,875
	Value	$123,419	($5,532)	$86,804	($99,414)	$105,277	($12,751)	$92,526
Non-Valued	Number	48,702	1,690	30,458	(33,462)	47,388	-	47,388
Total	Number	64,330	1,428	48,304	(50,878)	63,184	-	63,184
	Value	$940,281	($6,948)	$943,578	($843,223)	$1,033,688	($85,030)	$948,658

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

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

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

Analysis of Changes in Seized Property -- Fiscal Year Ended September 30, 2005

Seized Property Category		Beginning Balance	Adjustments (1)	Seized	Disposed (2)	Ending Balance	Liens and Claims	Ending Balance Net of Liens
Seized Cash and Monetary Instruments	Number	9,140	734	10,024	(10,942)	8,956	-	8,956
	Value	$624,850	$6,018	$627,494	($547,170)	$711,192	($38,862)	$672,330
Financial Instruments	Number	266	(81)	165	(116)	234	-	234
	Value	$22,668	($2,425)	$11,419	($7,203)	$24,459	($296)	$24,163
Real Property	Number	413	(61)	229	(287)	294	-	294
	Value	$63,277	$9,455	$66,771	($58,292)	$81,211	($20,969)	$60,242
Personal Property	Number	5,639	169	6,557	(6,221)	6,144	-	6,144
	Value	$94,527	($9,186)	$126,709	($88,631)	$123,419	($13,673)	$109,746
Non-Valued	Number	43,225	52	30,475	(25,050)	48,702	-	48,702
Total	Number	58,683	813	47,450	(42,616)	64,330	-	64,330
	Value	$805,322	$3,862	$832,393	($701,296)	$940,281	($73,800)	$866,481

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

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

U.S. Department of Justice
Notes to the Principal Financial Statements
(Dollars in Thousands, Except as Noted)
Methods of Disposition of Seized Property -- Fiscal Year Ended September 30, 2006

Seized Property Category		Converted Financial Instruments/Property	Destroyed/Donated/ Transferred	Sold/ Liquidated	Returned Asset	Forfeited (1)	Variance (2)	Total
Seized Cash and Monetary Instruments	Number	20	2	-	547	10,146	-	10,715
	Value	$1,105	$17	-	$25,108	$615,963	-	$642,193
Financial Instruments	Number	-	-	-	15	88	-	103
		-	-	-	$545	$2,341	-	$2,886
Real Property	Number	-	-	3	34	306	-	343
	Value	-	-	$1,598	$7,432	$89,700	-	$98,730
Personal Property	Number	-	1	1	1,501	4,752	-	6,255
	Value	-	$2	$24	$42,866	$56,522	-	$99,414
Non-Valued Value	Number	-	15	-	1,669	31,778	-	33,462
Total	Number	20	18	4	3,766	47,070	-	50,878
	Value	$1,105	$19	$1,622	$75,951	$764,526	-	$843,223

(1) Forfeitures reported on the Analysis of Changes 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.

U.S. Department of Justice
Notes to the Principal Financial Statements
(Dollars in Thousands, Except as Noted)
Methods of Disposition of Seized Property -- Fiscal Year Ended September 30, 2005

Seized Property Category		Converted Financial Instruments/Property	Destroyed/Donated/ Transferred	Sold/ Liquidated	Returned Asset	Forfeited (1)	Variance (2)	Total
Seized Cash and Monetary Instruments	Number	29	90	-	668	10,155	-	10,942
	Value	$2,100	$5,023	-	$69,759	$470,288	-	$547,170
Financial Instruments	Number	-	1	-	15	100	-	116
	Value	-	-	-	$696	$6,507	-	$7,203
Real Property	Number	-	-	1	28	258	-	287
	Value	-	-	$140	$2,337	$55,815	-	$58,292
Personal Property	Number	-	41	1	1,454	4,725	-	6,221
	Value	-	$5,097	$8	$32,535	$50,991	-	$88,631
Non-Valued	Number	-	30	-	1,197	23,823	-	25,050
			-				-	
Total	Number	29	162	2	3,362	39,061	-	42,616
	Value	$2,100	$10,120	$148	$105,327	$583,601	-	$701,296

(1) Forfeitures reported on the Analysis of Changes 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.

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

Note 7. Forfeited and Seized Property (continued)

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. The anticipated equitable sharing allocation level for FY 2007 is $325 million.

Note 8. General Property, Plant and Equipment (PP&E), Net

As of September 30, 2006	Acquisition Cost	Accumulated Depreciation	Net Book Value	Service Life
Leasehold Improvements	$ 470	$ (384)	$ 86	5 years
Internal Use Software	4,577	(545)	4,032	7 years
Total	$ 5,047	$ (929)	$ 4,118	
As of September 30, 2005				
Internal Use Software in Development	$ 4,577	$ -	$ 4,577	N/A
Total	$ 4,577	$ -	$ 4,577	

Intragovernmental purchases of PP&E during FYs 2006 and 2005 were $470 and $101, respectively. Public purchases during FYs 2006 and 2005 were $0 and $876, respectively.

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

Note 9. Other Assets

As of September 30, 2006 and 2005

	2006	2005
Intragovernmental		
Advances to Others	$ 1,445	$ 693
Total Intragovernmental	$ 1,445	$ 693

Note 10. Liabilities not Covered by Budgetary Resources

As of September 30, 2006 and 2005

	2006	2005
With the Public		
Contingent Liabilities (Note 12)	$ 35,000	$ 35,000
Total With the Public	35,000	35,000
Total Liabilities not Covered by Budgetary Resources	35,000	35,000
Total Liabilities Covered by Budgetary Resources	1,367,314	887,336
Total Liabilities	$ 1,402,314	$ 922,336

Note 11. Leases

The AFF has no capital leases or significant cancelable operating leases.

Current Year Operating Lease Expense

Lease Type	2006	2005
Cancelable Operating Leases	$ 942	$ 859
Total Operating Lease Expenses	$ 942	$ 859

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, 2006 and 2005 were $35,000 and $35,000, respectively, and are reported in the financial statements.

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

There are also legal actions pending where adverse decisions are considered to be "reasonably possible". As of September 30, 2006 and 2005, there were no legal actions reported as reasonably possible.

Note 13. Seized Cash and Monetary Instruments

The Seized Cash and Monetary Instruments represent liabilities for seized assets held by the AFF/SADF pending disposition.

As of September 30, 2006 and 2005

	2006	2005
Investments, Net (Note 5)	$ 738,424	$ 623,236
Seized Cash Deposited (Note 4)	51,177	47,381
Seized Monetary Instruments (Note 4)	7,600	40,575
Total Seized Cash and Monetary Instruments	$ 797,201	$ 711,192

Note 14. Earmarked Funds

The AFF, an earmarked fund, exists to eliminate economic disincentives to operation of an extensive national asset forfeiture program by providing a stable source of funds to pay costs, not otherwise funded under agency appropriations, to execute forfeiture functions. This is made possible by depositing the proceeds of all forfeitures under any laws enforced or administered by the Department into the Fund, and using those receipts to finance expenses associated with asset forfeiture functions.

The funds in the AFF are derived primarily from financing sources and are presented on the Statement of Changes in Net Position as both Budgetary and Other Financing Sources. Financing sources consist of (1) interest earned on Treasury investments (i.e., nonexchange revenues) and (2) non-governmental donations and forfeitures, which include forfeited cash, proceeds from the sale of forfeited property (or conversion of deferred revenue to realized revenue through sale), receipt of payments in lieu of property forfeiture, recovery of asset management expenses, and financing sources from judgments.

The AFF recognizes exchange revenue, on a reimbursement basis, when the United States Attorneys Offices provide services in judicial forfeiture cases brought by agencies participating in the TFF. This revenue is presented on the Statement of Net Cost as earned revenue. In accordance with 28 U.S.C. 524 and AFMS Memorandums of Understanding, donations and forfeitures available for use by certain Federal agencies are treated as returns of financing sources when disbursed.

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

Note 14. Earmarked Funds (continued)

All funds deposited to the AFF are considered "public" monies, i.e., funds belonging to the U.S. government. The monies deposited into the AFF are available to cover all expenditures in support of the AFP that are allowable under the Fund statute created by the Comprehensive Crime Control Act of 1984 (P.L. 98-473, dated October 12, 1984) at 28, U.S.C. 524(c).

As of and For the Fiscal Year Ended September 30, 2006

		Earmarked Fund 15X5042
Balance Sheet		
Assets		
Fund Balance with U.S. Treasury	$	411,871
Investments, Net		698,320
Other Assets		146,044
Total Assets	$	1,256,235
Liabilities		
Accounts Payable	$	437,704
Other Liabilities		167,409
Total Liabilities	$	605,113
Net Position		
Cumulative Results of Operations	$	651,122
Total Net Position	$	651,122
Total Liabilities and Net Position	$	1,256,235
Statements of Net Cost and Changes in Net Position		
Gross Cost of Operations	$	(975,636)
Exchange Revenues		1,481
Net Cost of Operations		(974,155)
Nonexchange Revenues		63,481
Donations and Forfeiture of Cash		1,009,217
Other Financing Sources		107,667
Changes in Net Position	$	206,210

d

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

Note 15. Net Cost of Operations by Program

Programs		Gross Cost	Less: Earned Revenue	Net Cost (Revenue) of Operations
For the Fiscal Year Ended September 30, 2006				
Goal 2:	Payments to Third Parties	$ 419,973	$ -	$ 419,973
	Asset Management Expenses	43,149	-	43,149
	Special Contract Services	58,484	(1,481)	57,003
	ADP Equipment	9,564	-	9,564
	Forfeiture Case Prosecution	23,310	-	23,310
	Forfeiture Training and Printing	8,177	-	8,177
	Other Program Management	12,664	-	12,664
	Awards for Information	13,402	-	13,402
	Purchase of Evidence	7,159	-	7,159
	Equipping Conveyances	1,688	-	1,688
	Contracts to Identify Assets	5,942	-	5,942
	Investigative Cost Leading to Seizure	4,465	-	4,465
	Subtotal Goal 2	$ 607,977	$ (1,481)	$ 606,496
Goal 3:	Equitable Sharing	322,306	-	322,306
	Joint Law Enforcement Operations	45,353	-	45,353
	Subtotal Goal 3	$ 367,659	$ -	$ 367,659
	Total	$ 975,636	$ (1,481)	$ 974,155

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

d

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

Note 15. Net Cost of Operations by Program (continued)

Programs		Gross Cost	Less: Earned Revenue	Net Cost (Revenue) of Operations
For the Fiscal Year Ended September 30, 2005				
Goal 2:	Payments to Third Parties	$ 85,326	$ -	$ 85,326
	Asset Management Expenses	34,194	-	34,194
	Special Contract Services	46,788	(2,281)	44,507
	ADP Equipment	17,142	-	17,142
	Forfeiture Case Prosecution	23,603	-	23,603
	Forfeiture Training and Printing	7,480	-	7,480
	Other Program Management	17,411	-	17,411
	Awards for Information	19,051	-	19,051
	Purchase of Evidence	6,836	-	6,836
	Equipping Conveyances	575	-	575
	Joint Law Enforcement Operations	11,286	-	11,286
	Contracts to Identify Assets	4,965	-	4,965
	Investigative Cost Leading to Seizure	4,223	-	4,223
	Subtotal Goal 2	$ 278,880	$ (2,281)	$ 276,599
Goal 3:	Equitable Sharing	281,036	-	281,036
	Joint Law Enforcement Operations	36,716	-	36,716
	Subtotal Goal 3	$ 317,752	$ -	$ 317,752
	Total	$ 596,632	$ (2,281)	$ 594,351

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

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.

d

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

Note 16. Information Related to the Statement of Budgetary Resources

Apportionment Categories of Obligations Incurred:

	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
For the Fiscal Year Ended September 30, 2006			
Obligations Apportioned Under			
Category A	$ 21,663	$ -	$ 21,663
Category B	1,036,261	1,481	1,037,742
Total	$ 1,057,924	$ 1,481	$ 1,059,405
For the Fiscal Year Ended September 30, 2005			
Obligations Apportioned Under			
Category A	$ 21,371	$ -	$ 21,371
Category B	604,531	2,281	606,812
Total	$ 625,902	$ 2,281	$ 628,183

Apportionment categories are determined in accordance with the guidance provided in Part 4 of OMB Circular No. A-11, “Preparation, Submission, and Execution of the Budget”. Category A represents resources apportioned for calendar quarters. Category B represents resources apportioned for other periods; for activities, projects, and objectives or for combination therefore.

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

Note 16. Information Related to the Statement of Budgetary Resources (continued)

Status of Undelivered Orders:

Undelivered Orders (UDOs) represent the amount of goods and/or services ordered, which have not been actually or constructively received. This amount includes any orders which may have been prepaid or advanced but for which delivery or performance has not yet occurred.

As of September 30, 2006 and 2005

	2006	2005
UDO Obligations Unpaid	$ 142,326	$ 88,099
UDO Obligations Prepaid/Advanced	1,445	693
Total UDOs	$ 143,771	$ 88,792

Permanent Indefinite Appropriations:

28 U.S.C. 524(c)(1) authorized the Attorney General to use 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.

Legal Arrangements Affecting Use of Unobligated Balances:

Unobligated balances represent the cumulative amount of budget authority that is not obligated and that remains available for obligation under law, unless otherwise restricted. 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).

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

Note 16. Information Related to the Statement of Budgetary Resources (continued)

Statement of Budgetary Resources vs. Budget of the United States Government:

The reconciliation as of September 30, 2006 is not presented, because the submission of the Budget of the United States (Budget) for FY 2008, which presents the execution of the FY 2006 Budget, 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 2007.

For the Fiscal Year Ended September 30, 2005 (Dollars in millions)	Budgetary Resources	Obligations Incurred	Net Outlays
Statement of Budgetary Resources (SBR)	$ 907	$ 628	$ 580
Funds not Reported in the Budget			
Forfeiture Activity	(39)	(24)	-
Other	(2)	1	1
Budget of the United States Government	$ 866	$ 605	$ 581

Differences for Funds not Reported in Budget of the U.S. - Forfeiture Activity, primarily represents forfeiture activities which are unavailable until the authority is granted in the subsequent year. These activities represent real estate sales; the sale of forfeited property maintained by the Treasury Executive Office for Asset Forfeiture for the Bureau of Alcohol, Tobacco, Firearms, and Explosives pending transfer to AFF; BCCI; and accrued revenue. Other differences represent financial statement adjustments, timing differences and other immaterial differences between amounts reported in the AFF's SBR and the Budget of the United States.

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

Note 17. Explanation of Differences 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 no certainty that budgetary authority will be realized, such as the enactment of an appropriation, are considered liabilities not covered by budgetary resources. These liabilities totaling $35,000 and $35,000 on September 30, 2006 and 2005, respectively, are discussed in Note 10, Liabilities Not Covered by Budgetary Resources. Decreases in these liabilities result from current year budgetary resources that were used to fund expenses recognized in prior periods. Increases in these liabilities represent unfunded expenses that were recognized in the current period. The changes in liabilities not covered by budgetary resources in future periods are comprised of the following:

For the Fiscal Year Ended September 30, 2006 and 2005

Components of Net Cost of Operations Requiring or Generating Resources in Future Periods

	2006	2005
Other		
Increase in Contingent Liabilities	$ -	$ 4,900
Total Components of Net Cost of Operations Requiring or Generating Resources in Future Periods	$ -	$ 4,900

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

Note 18. Allocation Transfers of Appropriations

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

Transfers-out of Super Surplus Allocations. 28 U.S.C. § 524(c)(8)(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 2006 and 2005 for distribution in subsequent years.

For the Fiscal Year Ended September 30, 2006 and 2005

	2006	2005
ATF	$ 1,367	$ -
Civil Division	750	-
Criminal Division - OCDETF	2,000	-
DEA	5,000	-
EOUSA	4,000	-
NSD	9,062	-
Office of Justice Programs	54	54
USMS	2,750	-
Total Allocations	$ 24,983	$ 54
1997 Super Surplus	9	-
1998 Super Surplus	216	-
1999 Super Surplus	1,110	54
2004 Super Surplus	485	-
2005 Super Surplus	23,163	-
Total Allocations	$ 24,983	$ 54

For the fiscal year ended September 30, 2006, $1,337 in prior years' surpluses were transferred out to participating agencies, $7,332 was owed and $1,444 was advanced to these agencies for super surplus allocations in the current and prior years. For the fiscal year ended September 30, 2005, $3,738 was transferred out, $6,262 was owed, and $693 was advanced.

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

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. For the fiscal years ended September 30, 2006 and 2005, respectively, transfers-out of forfeited property for official use totaled $6,683 and $6,317, respectively.

Note 19. Nonexchange Revenue

Nonexchange revenue consists of income from the investment of the AFF and SADF in U.S. Treasury securities. The investment accrual revenue represents the amortization of the discount on marketable bills using the straight-line basis. The earnings of BCCI funds held by the AFF and SADF are tracked separately due to special disposition requirements. The earnings of TFF funds are pending transfer from TFF to the DOJ SADF.

For the Fiscal Years Ended September 30, 2006 and 2005

	2006	2005
Income from AFF investments	$ 25,232	$ 9,055
Income from SADF investments	32,092	13,672
Income from BCCI investments	-	38
Income from AFF/SADF investments accrual	3,026	5,811
Income from TFF investments	-	502
Total Investment Income	$ 60,350	$ 29,078

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

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. For the fiscal years ended September 30, 2006 and 2005, net forfeiture income attributable to the AFF totaled $1,124,904 and $595,440, respectively, after the following payments and returns to agencies participating in seizures that led to forfeiture.

	2006	2005
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.	$ 43,302	$ 135,992
Return of forfeiture income to the TFF for its participation in seizures that led to forfeiture.	12,697	21,595
Return to 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.	906	-
Return of forfeiture income to the U.S. Postal Service for its participation in seizure that led to forfeiture.	4,363	4,131
Return of forfeiture income to other Federal agencies for their participation in seizures that led to forfeiture.	232	1,182
BCCI distributions to victims and other permanent court-ordered distributions.	1,862	2,120
Total Return of Forfeiture Income	$ 63,362	$ 165,020

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Appendix

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OFFICE OF THE INSPECTOR GENERAL AUDIT DIVISION ANALYSIS AND SUMMARY OF ACTIONS NECESSARY TO CLOSE THE REPORT

AFF/SADF's management was provided a draft of the Independent Auditors' Report on Internal Control over Financial Reporting and their comments on the findings and recommendations were considered in preparing this Analysis and Summary of Actions Necessary to Close the Report. Since management concurred with all of the recommendations, this report is being issued resolved. We will continue to review the actions taken during future financial statement audits in order to assess whether the findings have been adequately addressed and recommendations implemented. Depending on the recommendation, it will be closed either when the action requested is completed or subsequent audit testing verifies the adequacy of corrective actions. In the case of a repeat recommendation, the report recommendation will be immediately closed upon report issuance, but will continue to be followed up in the prior report where the recommendation was initially made.

Recommendation Number

1. **Resolved.** This recommendation can be closed when subsequent financial statement audit testing verifies that the AFP participants have established and AFMS enforces procedures to ensure the current property and/or financial data in the property and/or financial management systems are updated in a timely manner and within the timeframes established for issuing the financial statements.

2. **Resolved.** This recommendation can be closed when subsequent financial statement audit testing verifies that the AFMS, in conjunction with the ATF, has developed adequate procedures to document the follow up on items that are rejected from the NForce forfeiture "pending file" and ensure that field personnel take appropriate corrective action in a timely manner.

3. **Resolved.** This recommendation can be closed when subsequent financial statement audit testing verifies that the AFMS has implemented appropriate security measures to properly restrict access to the CATS production database, server, and operating system accounts.