Treasury Forfeiture Fund
ACCOUNTABILITY REPORT
Fiscal Year 2004

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

Message from the Director

I am pleased to present the fiscal year (FY) 2004 Accountability Report for the Treasury Forfeiture Fund. While highlighting the Treasury Forfeiture Fund's (the Fund's) financial and operational performance over the past year, this report also focuses on some of the significant achievements and accomplishments made by our participating bureaus this year. FY 2004 was a robust and unprecedented revenue year for the law enforcement bureaus participating in the Treasury Forfeiture Fund, with revenue of over $335 million from all sources.

This stellar performance of the Fund reflects the hard work of our law enforcement bureaus as well as Treasury Forfeiture Fund Management's continued emphasis on major case initiatives, asset forfeiture program training and a focused approach regarding our performance measure which gauges revenue from high impact cases. The mission of the Treasury Forfeiture Fund is to affirmatively influence the consistent and strategic use of asset forfeiture by our law enforcement bureaus to disrupt and dismantle criminal enterprise. It is our view that the greatest damage to criminal enterprise can be affected through large forfeitures, hence we have set a target level of 75 percent of our currency forfeitures to be high impact forfeitures. Fund Management works through budgetary and policy means to emphasize high-impact cases, i.e., those cash forfeiture cases equal to or greater than $100,000 in value. For FY 2004, we exceeded our target significantly with 84 percent of our cash forfeiture revenue stemming from high-impact cases. This is a credit to our law enforcement bureaus and their dedication to the fight against crime.

During FY 2004, the Executive Office for Asset Forfeiture formulated two new training curricula for use nationwide and held six training seminars for participating bureau personnel with which to introduce valuable new investigative resources and techniques that can be applied to forfeiture initiatives. Our training strategy is aimed at fostering the cooperation between our participating agencies, as well as identifying and promoting their best investigative and forfeiture practices.

The Treasury Forfeiture Fund continued in its capacity as a multi-Departmental Fund in FY 2004, representing the interests of law enforcement components of the Departments of Treasury and Homeland Security. With enactment of the Homeland Security Act, Treasury's Federal Law Enforcement Training Center (FLETC) and Secret Service were moved to the Department of Homeland Security, and the Immigration and Naturalization Service (INS) was reorganized with Customs into two agencies: Customs and Border Protection (CBP) and Immigration and Customs Enforcement (ICE). The U.S. Coast Guard was also reorganized into the Department of Homeland Security and continues its close working relationship with legacy Customs.

As we enter FY 2005, the Fund remains focused on support for strategic investigative initiatives that will have the greatest impact on national and international criminal enterprise including continued emphasis on training and investigative or operational initiatives that emphasize high impact cases.

Eric E. Hampl, Acting Director
Executive Office for Asset Forfeiture
U.S. Department of the Treasury

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OVERVIEW

Profile of the Treasury Forfeiture Fund

The Treasury Forfeiture Fund (the Fund) is the receipt account for the deposit of non-tax forfeitures made pursuant to laws enforced or administered by law enforcement bureaus that participate in the Treasury Forfeiture Fund. The Fund was established in October of 1992 as the successor to the Forfeiture Fund of the United States Customs Service. When the enabling legislation for the Fund was enacted, 31 USC § 9703, it brought together all of Treasury law enforcement under a single forfeiture program. The Fund is a "special receipt account." This means the Fund can provide money to other Federal entities toward the accomplishment of a specific objective for which the recipient bureaus are authorized to spend money and toward other authorized expenses. Use of Fund resources is governed by law, policy and precedent as interpreted and implemented by the Department of the Treasury which manages the Fund. A key precept for Fund management is long-term viability of the Fund in order to ensure that the Fund can support member-bureau seizure and forfeiture activities well into the future. The emphasis of Fund management is on high-impact cases that can do the most damage to criminal infrastructure.

The original member law enforcement bureaus of the Treasury Forfeiture Fund were the U.S. Customs Service (Customs), the U.S. Secret Service (Secret Service), the Bureau of Alcohol, Tobacco and Firearms (ATF), and the Internal Revenue Service's Criminal Investigation (IRS-CI). These Treasury bureaus were joined by the U.S. Coast Guard of the Department of Transportation, a member of the Fund as the result of a long-standing close law enforcement relationship with Customs.

During FY 2003, with enactment of the Homeland Security Act legislation early that fiscal year, the Treasury Forfeiture Fund became a multi-Departmental Fund representing the interests of law enforcement components of the Departments of Treasury and Homeland Security. With enactment of this legislation, Treasury's U.S. Customs Service and Secret Service were reorganized into new components of the Department of Homeland Security; Treasury's Bureau of Alcohol, Tobacco and Firearms was reorganized into two new components, the revenue segment remaining at Treasury and the investigative segment assigned to the Department of Justice; and the Bureau of Immigration and Naturalization (INS), formerly of the Department of Justice, was reorganized into the former legacy U.S. Customs Service at the Department of Homeland Security joining their Treasury Forfeiture Fund colleagues. The U.S. Coast Guard was reorganized from the Department of Transportation to the Department of Homeland Security to continue that bureau's close working relationship with legacy Customs.

As the result of these numerous and complex changes, Fund management was heavily involved in efforts to ensure that transition of our participating law enforcement bureaus to their new Departmental homes was seamless in terms of impact on their ability to continue to conduct seizures and forfeitures and to properly account for the assets of the program. The robust revenue year for FY 2003, which continued into FY 2004, suggests that these management initiatives were successful.

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

Strategic Mission

The mission of the Treasury Forfeiture Fund is to affirmatively influence the consistent and strategic use of asset forfeiture by law enforcement bureaus that participate in the Treasury Forfeiture Fund to disrupt and dismantle criminal enterprises.

Strategic Vision

Fund management works to focus the asset forfeiture program on strategic cases and investigations that result in high-impact seizures. Management believes this approach affects the greatest damage to criminal organizations while accomplishing the ultimate objective – to disrupt and dismantle criminal enterprises.

The following case highlights are intended to give the reader an idea of the types of investigative cases worked by the Fund's law enforcement bureaus during FY 2004 that led to the seizure and forfeiture of assets. Such cases as those profiled below are consistent with the Strategic Mission and Vision of the Treasury Forfeiture Program, and that is to use asset forfeiture in high-impact cases to disrupt and dismantle criminal enterprise.

Internal Revenue Service, Department of the Treasury

Racketeering – Pong Keun Rhee and Joon Chol Rhee

More than $14.6 million was generated from the auction of four commercial properties in Tacoma, Washington, forfeited by Pong Keun Rhee and Joon Chol Rhee who each pled guilty to engaging in racketeering charges. Pon K. Rhee's charges related to conspiracy to distribute pseudoephedrine with the knowledge and reasonable cause to believe it would be used to manufacture methamphetamine and conspiracy to engage in money laundering. Joon C. Rhee's charges related to conspiracy to manufacture methamphetamine and conspiracy to engage in money laundering.

IRS Criminal Investigation seized the properties based on money laundering violations and operated the properties for more than two years through the Treasury Forfeiture Fund's property contractor, EG&G Technical Services. Operation of the properties generated a positive cash flow of over $600,000 for the Treasury Forfeiture Fund. The businesses included a 13-acre commercial parcel operated as the Star-Lite Swap Meet; a 24-unit strip mall known as South Tacoma Village, containing restaurants and retail shops; a 2-unit retail/office building; and a 6-unit retail strip mall and detached automotive repair facility.

The auction of these properties marked the end of an investigation of a multi-agency task force comprised of federal and local law enforcement agencies, including IRS Criminal Investigation, the Federal Bureau of Investigation (FBI), the Pierce County Sheriff's Department, the Lakewood Police Department, and the Drug Enforcement Administration (DEA.) Active bidding by more than 100 registered bidders, in a standing room-only crowd of approximately 300 people, drove the total sale revenue from the auction of these properties to 178 percent of the independent third party appraisal.

"We all know how damaging narcotics trafficking is to our society," said Timothy Marsh, Acting Special Agent in Charge of IRS Criminal Investigation in Washington. "But what most people don't realize is that money laundering activities, such as the ones used in this investigation, assist narcotics traffickers in the continuation of their illegal actions and allow them to enjoy the fruits of their crimes."

Rhee was sentenced to eight years in prison and he forfeited the real estate identified above to the U.S. Government.

27-Month Sentence for Conducting Financial Transactions for Criminal Racketeering Organization – Chun Hyong Lee, CPA

In a related case, a Lakewood, Washington, accountant, Chun Hyong Lee (Lee), was sentenced for structuring currency transactions with and on behalf of members of the Rhee Racketeering Organization. The Rhee Racketeering Organization was spearheaded by Pong Keun Rhee and his son, Joon Chol Rhee, whose crimes are described in the previous overview section. Lee was sentenced to 27 months' imprisonment, following which he will be required: to participate in a substance abuse treatment program as instructed by his United States Probation Officer; to submit to a search of his person, residence, office, property, storage unit or vehicle by a probation officer; to provide his probation officer with access to financial information, including credit checks and Federal Income Tax Returns; to allow his probation officer to inspect computers owned or operated by Lee; and to notify his probation officer of all computer software used, purchased, or acquired. In addition, Lee was ordered to pay a fine of $7,500 and other fees.

According to court documents, Lee was a Certified Public Accountant, and owned and operated Chun H. Lee Accounting Services in Lakewood, Washington. For some four years, Lee knowingly and intentionally structured and assisted in structuring currency transactions for the purpose of evading a financial institution's statutory requirement to report currency transactions of more than $10,000. Lee also assisted co-defendant Pong Keun Rhee (Rhee) and his sons, Joon Chol Rhee and Joon Sur Rhee, in preparing false financial and income tax documents which were filed with the Internal Revenue Service (IRS). These false documents and records were intended to conceal the extent and source of the Rhee Family's criminal proceeds. Lee was aware that the income tax documents he prepared on behalf of Rhee and Rhee's sons, as well as their businesses, substantially understated the Rhee Family's income. Rather than deposit all of the cash proceeds from pseudoephedrine sales in bank accounts, Rhee stored large quantities of cash in a safe at Joon's Variety Store, in an effort to hide the funds from the IRS and to conceal the nature, source and existence of those funds.

Lee assisted and/or counseled Rhee with respect to Rhee's purchase of several properties, including three properties in Lakewood, a commercial warehouse building located at 9602 South Tacoma Way, the Korean Town Plaza also known as South Tacoma Village, and the Star Lite Theater also known as the Star-Lite Swap and Shop, as well as a piece of real estate located at Lake Geneva. Lee was aware that the funds used by Rhee to purchase these properties included funds that were not reported as income to the IRS.

Rhee purchased the Korean Town Plaza with the proceeds of the Rhee Family's pseudoephedrine trafficking. The actual purchase price paid by Rhee to the seller was $3,150,000. Lee arranged the transaction so that Rhee paid approximately $300,000 under the table cash to the seller. The purchase price reflected on the real estate contract was then falsely reported as $2,850,000. This enabled Rhee both to conceal the $300,000 cash and to reduce the annual taxes he would pay as the owner of the Korean Town Plaza. Lee further assisted Rhee in concealing approximately $150,000 cash that was used as earnest money and the down payment for the purchase of the Korean Town Plaza. Rhee provided Lee with the cash, who, in turn, provided small quantities of this cash to several of his employees, relatives, and associates. At Lee's direction, these employees, relatives, and associates deposited the cash in their bank accounts and issued personal checks and/or purchased cashier's checks for the corresponding amounts. Subsequently, Rhee purchased the Star-Lite Theater with the proceeds of the Rhee Family's Korean Town Plaza. Lee assisted Rhee in concealing approximately $450,000 cash that was used as the down payment for the purchase of the Star Lite. Rhee provided Lee with the cash, who, in turn, provided small quantities of this cash to several of his employees, relatives, and associates. At Lee's direction, these employees, relatives and associates deposited the cash in their bank accounts, and issued personal checks and/or purchase cashier's checks for the corresponding amounts. These checks were provided to Lee and were ultimately deposited by Rhee into the Sun Trading account at Twin County Credit Union. A check in the amount of $469,900 was then issued out of the Sun Trading account and was used as the down payment for the Star-Lite. In this manner, Lee assisted and counseled Rhee with structuring currency transactions involving Rhee's purchase of the Korean Town Plaza and the Star Lite Theater.

Insurance Fraud – Lester J. Simmons

The appellate court ruled in favor of the United States regarding the forfeiture of $1.2 million in a case involving a northern California chiropractor, Lester J. Simmons, who committed insurance fraud through the billing for services not rendered, "up-coding," billings related to services performed, and billing for unnecessary services. Simmons owned and operated seven chiropractic clinics in the northern California area. Simmons created a management corporation over which he had total control but paid a doctor for the use of his name as the majority shareholder of the medical corporation so the transactions between the two corporations would appear as arms-length transactions and appear to be legitimate.

Simmons also committed tax fraud as his tax returns reflected millions of dollars in deductions for consulting fees and bogus loan repayments allegedly paid to his common law wife's deceased mother. Simmons amassed a fortune in excess of $8 million that included luxury vehicles, boats, bank accounts and real properties in Mexico and California. Simmons attempted to flee the country and when he was arrested at the Canadian border he had in excess of $3 million in negotiable instruments in his possession. The case netted a total of $2.2 million in forfeitures and in excess of $3 million in funds applied to Simmon's tax liabilities. Simmons served 33 months in prison as a result of his fraud. This case was worked by IRS CI Agents.

Bentley forfeited pursuant to the Simmons Case

Mansion forfeited pursuant to the Simmons Case

Money Laundering – Americable International

Americable International, Incorporated, Miami, Florida; Americable International, Incorporated, New York, and Americable International Moffett, Incorporated, pled guilty to conspiring to defraud the United States. In addition, Americable International, Incorporated, the parent company, pled guilty to a money laundering conspiracy to launder proceeds of mail fraud. A final order of forfeiture was subsequently issued in favor of the United States for fraud proceeds totaling $8,075,445.

This firm and other Americable companies provided cable service to customers in the United States and Japan. Proceeds due to networks for providing programming to Americable customers were diverted into the personal bank account of the company head, Charles Hermanowski. The scheme resulted in over $8 million of fraud proceeds being siphoned from the Americable companies into Hermanowski's personal bank account.

During the course of the investigation, Hermanowski fled the jurisdiction of south Florida and was later arrested in Australia.

Illegal Proceeds - Prostitution

In September 2003, the L.A. County Sheriff's Department executed a search warrant at the home of two individuals in Rancho Palos Verdes, California. During the search, detectives found $2,434 in cash. Various bank accounts were also served with seizure warrants by the L.A. Sheriff's Department, bringing the total amount of funds seized to $2,789,862. The couple operated a business known as Oriental Acupressure in Inglewood, California. Oriental Acupressure is a known house of prostitution and has engaged in acts promoting prostitution, which had ostensibly enabled the couple to attain large amounts of cash income. These alleged illicit proceeds were laundered and not reported as income on their personal income tax returns.

The investigation started with an inquiry into JHJ Education College, following numerous complaints that the school had misrepresented student enrollments and completion of certified classes. An undercover agent enrolled in the college and attempted to obtain a diploma without attending classes. During the undercover operation, the owner of the school explained that they would give the agent a degree for a sum of money and also explained the agent should attend a class at the college because it was important that the agent at least know a little about massage/acupressure techniques so that she would not get in trouble with the police. The owner also told the agent that she would refer her to a location where she could make $20,000 per month performing acts of prostitution. The owner referred her to Oriental Acupressure. IRS CI agents were able to determine through analysis of financial records that Oriental Acupressure generated at least $1.2 million in illegal income during a calendar year. Based upon the analysis, IRS CI agents were able to determine that the couple had laundered the proceeds of their illegal activities through what appeared to be a legal business in order to conceal the source and nature of the funds. In June 2004, a seizure warrant was served on the $2,789,881 in U.S. currency seized from the couple.

Cocaine Trafficking/Money Laundering – Cruz and Connie Castro

IRS Criminal Investigation, San Antonio, is a member of a multi-agency, federal, state and local investigative bulk currency task force. On June 25, 2003, one of the local police departments of the task force developed an informant that led detectives to Cruz and Connie Castro, a husband and wife from Austin, Texas, who were involved in cocaine trafficking. State search warrants were executed at two commercial storage units in Del Valle, Texas. The storage units were in the names of Mr. Castro's family members, however, it was established that Mr. Castro rented the units and maintained control of them. Searches yielded in excess of $1,300,000 in U.S. currency from one of the units and approximately eleven pounds of cocaine, numerous empty cocaine wrappers, product used to cut or dilute cocaine, and several cocaine presses from the other unit.

Additional documentary and other evidence obtained from subsequent federal search warrants indicated that Mr. Castro was importing multi-kilogram quantities of cocaine from Phoenix, Arizona via chartered jet service. Previously gathered intelligence revealed Mr. Castro and others had been identified as potential smugglers of illegally controlled substances and that Mr. Castro utilized chartered jet services to transport extremely large amounts of currency.

On July 18, 2003, Mr. Castro was interviewed and stated that he was a member of a cocaine importation/distribution and money laundering organization. He stated he had been traveling between Austin, Texas and Phoenix, Arizona, since approximately January 2000 and smuggling multi-kilogram quantities of cocaine and bulk currency from narcotics sales via chartered jet service. Since that time, Mr. Castro stated he transported in excess of 1000 kilograms of fronted cocaine and $14 million in U.S. currency derived from the sale of that cocaine.

Mr. and Mrs. Castro, two of Mr. Castro's brothers and Mr. Castro's mother have cooperated with investigators and pled guilty to charges of narcotics distribution and money laundering. The investigation resulted in the forfeiture of several vehicles and in excess of $1,368,000 in U.S. currency.

Illegal Prostitution – Ronald Grab

IRS Criminal Investigation, New York, in conjunction with the Suffolk County District Attorneys' Office conducted an investigation of an illegal prostitution business, Exotic Escort Agency, co-owned and operated by Ronald Grab and his wife Melissa Grab. The Suffolk County District Attorneys' Office initiated the investigation that led to the arrest of Ronald and Melissa Grab. As a result of consensual and court authorized search warrants, $1,020,824 was seized. These funds were turned over to the custody of the United States pursuant to an ex-parte order dated August 7, 2003. A Final Order of Forfeiture for these funds was entered with the United States District Court in the Eastern District of New York on March 4, 2004, pursuant to Title 18 USC § 981(a)(1)(C).

The investigation into the Grab's operation of the Exotic Escort Agency revealed that they were operating and soliciting an illegal and illegitimate prostitution business. In various conversations with the undercover detective, Ronald Grab revealed that the Exotic Escort Agency's gross monthly income was $50,000. Mr. Grab stated he did not take the money to the bank but hid it. Mr. Grab also said he used the money to purchase money orders to pay bills associated with the Exotic Escort Agency so that the money could not be traced to him.

"Cooperative Contractors" Forfeit $5 million for Role in Kickback Scheme – New York

As part of a $5 million forfeiture judgment, $547,027 was forfeited to the U.S. Government in October 2003. The subjects of this forfeiture ran three construction firms in the Freeport, New York area. The subjects pled guilty in November 2001 to participating in a tax fraud where nearly $1,000,000 in corporate checks were issued to their subcontractors to pay fraudulent invoices generated at their direction. In January 2002, these companies which had performed work for a number of U.S. Department of Transportation projects, were ordered by a U.S. District Court Judge in Central Islip, New York, to forfeit $5,000,000 for their part in the kickback scheme.

Money Laundering Yields Forfeiture of Ranches, Bull Semen and Other Property

As a result of an investigation carried out by IRS and Immigration and Customs Enforcement in Sneads, Florida, the following property was forfeited in November 2003: a 912 acre ranch in Jackson County, Florida; a 776-acre ranch in Gadsden County, Florida; more than 630 head of cattle; 5,000 units of bull semen and farm equipment. The owner and his two sons were involved with "The Company," a Cuban-American-led cocaine operation that flourished in Miami in the 1980's and 1990's. The father was a close associate of two notorious kingpins of The Company, which cleared more than $2 billion in profits from its cocaine-smuggling business.

Not Groceries in the Brown Paper Shopping Bag – Narcotics Proceeds

IRS CI agents and detectives assigned to the Miami Task Force observed a suspect receive a package during a meeting in a supermarket parking lot. While the suspect was stopped in the parking lot, the agents asked the suspect if she was willing to speak to them. The suspect consented and when asked what was in the bag she received from the male, with whom she had met, she denied knowledge of what was in the bag. She stated she met with the man because another man in Medellin asked her to meet this person and receive a package from him. She consented to a search of her vehicle and the use of a narcotics dog. The narcotics dog, "Marco," alerted positively to the presence of narcotics odor from a brown paper shopping bag containing two shoe boxes. The bag was open at the top and there was a round hole in the top of the shoe box revealing a stack of currency. The shoe boxes were opened and found to contain a large amount of U.S. currency wrapped in bundles with rubber bands. Subsequent to the vehicle search, consent was given to search the suspect's residence with a drug dog. The dog alerted positively to an open box of U.S. currency wrapped in rubber bands. The currency from the vehicle and residence totaled $373,415. The currency was administratively forfeited by IRS CI in January 2004.

Operation "Lobster Pot" – Narcotics Proceeds

Operation "Lobster Pot," was worked by IRS CI with assistance from the Maine Drug Enforcement Agency, Rockland Police Department (who originated the case) and Waldo County Sheriffs Department. IRS CI agents documented a significant accumulation of assets by the suspect including the purchase of antique automobiles and motorcycles as well as the building and renovation of his personal residence and a rental property. The investigation also revealed the suspect had made substantial cash loans to third parties, which he used as a method of legitimizing his narcotics income by reporting interest income earned on his loan payments. The suspect started a construction company, purchasing expensive construction equipment that he then transferred to his solely owned corporation. The investigation traced hundreds of financial transactions in order to show that the suspect laundered over $1,400,000 in an effort to make his narcotics income appear legitimate. The suspect was charged in a 170-count indictment with 4 counts of tax evasion, 163 counts of money laundering, 1 count of drug conspiracy, 1 count of money laundering forfeiture and 1 count of narcotics forfeiture. The criminal forfeiture counts resulted in the forfeiture of assets valued at approximately $700,000 including antique automobiles, motorcycles, construction equipment, mortgages, stocks and three real properties. One of the forfeited assets, an E-Trade account held by the suspect, was liquidated and $130,007 was deposited to the Treasury Forfeiture Fund in January 2004.

Illegal Sports Betting – New York

Beginning in February 2000, IRS CI initiated an investigation into a multi-million dollar illegal sports betting operation operating in the metro New York area. During the course of the investigation, evidence was obtained regarding the identity of one of the organizers of this operation. Following a search warrant of the subject's residence, currency, financial records and safe deposit box keys were seized as evidence. Analysis of the financial records revealed the subject had no legitimate source of income; no income other than that obtained from illegal sports betting. The subject used the proceeds of his illegal sports betting operation to purchase a house in East Hampton, New York; a condominium in Aventura, Florida; and a luxury pleasure boat. He also used proceeds to make extensive improvements to his East Hampton residence. The subject laundered the proceeds of the illegal sports betting operation through the use of bank accounts at J.P. Morgan Chase and Wachovia Bank as well as in the safe deposit box located at Wachovia Bank in Florida. Based upon the investigation, it was determined that the subject had engaged in an illegal gambling business and monetary transactions derived from specific unlawful activities. A Consent Order of Forfeiture dated June 18, 2003, awarded the United States Government a judgment in the amount of $150,000.

Accountant Embezzles – Loses…

An accountant, hired in 1996 as the Chief Financial Officer of a successful firearms manufacturer, contracted with the company to pay him $125,000 per year plus a $3 million bonus for his assistance in acquiring an additional company. The accountant set up an account in the name of M&D Consulting and arranged to have his earnings deposited there as a way to avoid the detection of the IRS to whom he owed over $300,000. Shortly after being hired, the subject started using the accounts of the firearms manufacturer to pay for personal items for himself. He gradually increased the amounts he was embezzling from the company until he was transferring approximately $250,000 per month into accounts he controlled. The subject frequently tried to make these transactions appear to be legitimate transfers by sending false bills to the company. Eventually, he purchased a $2 million home in the exclusive San Diego community of Rancho Santa Fe, California using funds he transferred from the company to pay for the down payment. He wire transferred these funds from one account to another to conceal the true source and nature of the funds, which constituted money-laundering violations. Following the exposure of the scheme, he was fired from the company and put his California home up for sale. IRS agents were able to establish probable cause that he had engaged in money laundering violations and obtained a seizure warrant for the proceeds of the escrow account established during the sale of the home in the San Diego area. The amount of $183,323 represents proceeds from the sale of the residence.

Money Laundering and Bulk Currency Smuggling

The Treasury Forfeiture Fund places significant emphasis on investigative funding that spawns cooperation between Federal and State and local law enforcement agencies, and accordingly, provides significant funding to Joint Operations of its participating bureaus. Among the significantly productive joint operations funded through this initiative was the South Texas Asset Forfeiture and Money Laundering Task Force. IRS CI agents work closely with other law enforcement agencies of the South Texas Asset Forfeiture and Money Laundering Task Force to concentrate investigative efforts for the successful prosecution and dismantling of large-scale narcotics and money laundering organizations and the forfeiture of illegal assets. The following cases are examples of the South Texas Asset Forfeiture and Money Laundering Task Force activity:

$992,632 seized for forfeiture

This seizure resulted from an investigation by IRS CI called to the scene by the Texas Department of Public Safety. A Texas Trooper pulled over a vehicle and observed that both occupants were visibly nervous and gave conflicting accounts of their activities and destination. The Trooper also noticed that when he tapped on the side of the vehicle to get the attention of the passenger, he heard a solid sound rather than a hollow sound customary when the quarter panel of this type of vehicle is tapped. The Trooper requested consent from the subject to search the vehicle and consent was granted. A canine called to the scene alerted to the quarter panel section and the driver’s door panel. The Trooper also noted that the screws attaching the quarter panel cover in place had been removed recently indicated by the fact that the screws had shiny tool marks on the sides. When the cover was removed, 42 bundles of shrink-wrapped cash were discovered in the cavities of the driver’s side and passenger doors. The cash totaled $992,632. The cash emitted a strong odor of marijuana. During an interview with the passenger, he admitted that he knew the money was in the vehicle and they were going to deliver the money to someone in Mexico. Based upon the investigation as summarized above, IRS CI agents were able to establish probable cause that the subject was engaged in money laundering violations, as well as committing the offense of Bulk Currency Smuggling. The currency was seized for forfeiture.

$369,980 seized for forfeiture

On December 22, 2003, the Texas Department of Public Safety stopped a subject for speeding in a construction zone. The Trooper observed that the subject was extremely nervous and made conflicting statements regarding his activities. The Trooper became suspicious that the subject might be involved in criminal activity and asked for consent to search the vehicle and the consent was given. During the search, the Trooper noticed, similar to the previous case, that there were shiny marks on the bolts of the rear seat indicating that they seat may have been recently moved, unusual for a new vehicle. When the Trooper looked under the rear seat, he found a duct-taped bundle in a false compartment. The Trooper removed the bundle and observed U.S. currency in the bundle. The subject and the vehicle were moved to the Kleberg County Sheriffs Department for further investigation. A canine was brought in to search the vehicle and alerted to the rear passenger doors and rear seat area. When the rear seat cover was removed, five additional bundles of U.S. currency were discovered. The subject was arrested on state money laundering charges. IRS CI agents interviewed the subject's wife who provided information that conflicted with the subject's account of his activities. Based upon the investigation as summarized above, IRS CI agents were able to establish probable cause that the subject was engaged in money laundering violations as well as committing the offense of Bulk Currency Smuggling. The cash was seized for forfeiture.

$5,301,920 seized for forfeiture

In November 2003, the Texas Department of Public Safety conducted a traffic stop of a semi-trailer pursuant to a routine safety inspection. The driver waived his Miranda Rights and told the officer he was carrying a lot of money but he was unsure of how much. During a search, officers found $5,301,920 in currency. Both the currency and the semi-trailer were seized. The driver admitted that he had met two individuals who had offered him money to pick up and deliver a truck to Texas. After the delivery, he flew back to Chicago where he met with the two individuals again and they discussed the delivery of 2,000 pounds of marijuana. The suspect was charged with conspiracy to commit money laundering and both the currency and truck were forfeited.

Company Owner and Founder Applies for Loans Using Job Applicants Information Indicted on Bank Fraud, Wire Fraud and Money Laundering Charges

In a joint investigation by the IRS and the FBI, the owner and founder of Amerifunding Inc., a Mortgage Brokerage in Westminister, Colorado, was indicted for fraudulently applying for loans using the identities of people who applied for employment at his company. He also allegedly submitted false W-2s to mortgage lenders, paid an individual $1,000 to falsely verify employment of loan applicants and made misrepresentations to acquire loans, among other offenses.

Flagstar Bank, which advanced over $19 million to Amerifunding to fund 42 loans, confirmed that Amerifunding applied for and received loans in the names of six people without their authorization. At least two of those people had applied for jobs at Amerifunding, including one man who was contacted by Flagstar about a $529,000 home loan he knew nothing about.

It is anticipated the funds seized will be returned to the victim lenders.

U.S. Reservation Bank & Trust (USRBT) Prime Bank Scam

On April 3, 2002, Judge Earl H. Carroll of the United States District Court for the District of Arizona granted a request for various emergency orders to halt a nationwide, $88 million investment scam, and to recover and conserve assets for the benefit of victims of the scam. The SEC filed complaint alleged that the USRBT, a non-incorporated entity granted business charters by the Rosebud Sioux based in Scottsdale, Arizona, and Global-Link Capital Markets, Ltd. ("Global Link"), a limited liability company headquartered in Houston, Texas, raised $78 million through sales of an investment combining a "Leveraged Profit Sharing Agreement" ("LPSA") with an uninsured Certificate of Deposit (CD) issued by USRBT. According to the complaint, USRBT and Global-Link officials promised investors that their funds, while held in "safekeeping," would be "leveraged" to fund participation in "trading programs" involving United States Treasury notes and "bank debentures." The complaint further alleged that USRBT and Global-Link officials promised the investors that they would receive the greater of 20 percent of the profits from the trading programs or the interest on the USRBT-issued CD.

The complaint indicated that in reality the USRBT never leveraged investor funds for investment in trading programs; rather, USRBT used most of the investor funds to make "Ponzi" payments of interest and principal to the investors. In addition, USRBT officials misused investor funds by spending over $4 million on salaries, commissions and personal and business expenses, including a horse racing stable and purported casino development company.

The complaint alleged that in a USRBT spin-off scheme, Higher Investments Technologies, Inc. ("HIT"), a Nevada corporation headquartered in Mundelein, Illinois, fraudulently raised over $10.6 million from at least six investors or investment groups. HIT offered investors an opportunity to participate in its "Capital Management Agreements" ("CMAs") in which HIT, according to its representations to investors, would use their funds to trade in Treasury bond futures and then share the profits with the investors. In reality, HIT used only about 10 percent of the investors' funds for such trading, and HIT misused most of the remaining investors' funds by spending them on its office expenses, including rent, supplies, computers, office repairs, payroll, and travel, according to the complaint.

The U.S. Attorneys Offices in Phoenix and Cincinnati filed civil forfeiture actions against USRBT and HIT, and seized $20 million and $10.2 million, respectively, against the two entities. The $20 million forfeiture was recorded during FY 2004 and restitution will be made to victims.

Adult Video Store Seized for Racketeering

The following case information is extracted from an article in The Brownsville Herald, entitled "Dollar Adult Video brings in last dollar," dated October 1, 2004.

The ***Dollar Adult Video Store*** in San Benito, Texas, is no longer bringing in the dollars. The video store and 27 other adult-oriented businesses in Texas, Arizona and New Mexico owned by John Kenneth Coil were seized during the week pursuant to an ICE investigation called "Operation Skimflick." The seizures stem from a case against Mr. Coil who pleaded guilty on June 21, 2004, to federal charges of racketeering, obscenity, fraud and income tax evasion. As part of his plea agreement, the District Court ordered that Mr. Coil spend 63 months in prison, pay a $5,000 fine and forfeit $8.1 million in property which includes more than two dozen adult video stores. Mr. Coil was also ordered to spend an additional 42 months of supervised probation.

Counterfeit Cigarette Traffickers Arrested in Los Angeles

Two San Gabriel Valley men were charged with conspiracy and trafficking in counterfeit cigarettes following their arrest by agents with U.S. Immigration and Customs Enforcement (ICE) agents. Geoffrey Liu of Rowland Heights and Xing Wu of San Gabriel were taken into custody on July 9, 2004 in Los Angeles after delivering more than 8,000 cartons of counterfeit Marlboro Light cigarettes to a storage facility in El Monte. The arrests capped a year-long ICE undercover investigation.

"These men were major local players in the trafficking of counterfeit cigarettes," said Kevin Kozak, Los Angeles ICE associate special-agent-in-charge, after the arrest. "This type of trafficking is a multi-billion dollar international industry that pumps incredible profits into criminal organizations. This illegal enterprise exposes a vulnerability to the American economy and a vulnerability to U.S. borders. The number of ICE investigations into tobacco smuggling has increased by roughly 300 percent in the last three years."

During the investigation, an undercover ICE agent met Liu, and purchased 900 cartons of counterfeit cigarettes from him. The agent told Liu that he could broker the purchase of another $100,000 worth of counterfeit cigarettes. Not long before the arrest, Liu told the agent that the delivery of that load would require three trips, and left to conduct the first delivery himself. Liu returned and told the agent that two drivers would deliver the remainder of the cigarettes. Under surveillance, Wu was observed in a Mercedes SUV following the delivery truck as it made two trips to the storage facility and emptied a storage locker there. After the final delivery, the ICE agent turned the $100,000 over to Liu, who was then arrested. Wu was taken into custody nearby at the same time. As a result of the operation, ICE agents seized more than 8,000 cartons of counterfeit cigarettes along with the delivery truck and Wu's Mercedes SUV.

The potential illegal profits from cigarette smuggling are staggering. A carton of counterfeit cigarettes can cost as little as $2 to produce in Asia. That same carton can be sold on the streets of Los Angeles for $70 dollars or more. The smuggling of cigarettes into the United States evades customs duties, Federal excise taxes, state taxes, possibly local taxes, and reduces monies collected by 46 states pursuant to a Master Settlement Agreement between the states and cigarette manufacturers.

ICE Dismantles Major Counterfeit Motion Picture Network

As reported on July 30, 2004 in Washington, D.C., ICE and Chinese authorities dismantled a major counterfeiting network. The first joint investigation resulted in six arrests; seizure of 210,000 pirated movie DVDs; and three motion picture counterfeiting warehouses destroyed in China.

The Department of Homeland Security's U.S. Immigration and Customs Enforcement (ICE), the Chinese Ministry of Public Security (MPS) and the Motion Picture Association of America (MPAA) announced the results of the first-ever joint law enforcement investigation by ICE and Chinese authorities targeting a network that distributed counterfeit motion pictures worldwide.

This landmark case illustrates the effectiveness of ICE's "***Cornerstone***" initiative, which targets the alternative financing mechanisms that terrorist and other criminal organizations could use to earn, move and store assets. Intellectual property rights violations provide a lucrative source of funding increasingly exploited by organized criminal groups. In recent years, intellectual property crime has grown exponentially due to the spread of enabling technology that allows for simple and low-cost duplication. High demand for consumer goods such as DVDs, CDs and computer software also feeds the problem.

"The lure of high profit and a perceived lack of enforcement consequences has increasingly emboldened counterfeiters," said Michael J. Garcia, Assistant Secretary for ICE, Department of Homeland Security. "Through ***Cornerstone***, ICE is working aggressively to change that perception. This joint enforcement action shows a major advance in fighting intellectual property crime around the world - from where it originates to where it flourishes."

On July 1, 2004, officers from the Economic Crime Investigation Department of the Chinese MPS and the Shanghai Public Security Bureau carried out enforcement actions in China that resulted in the arrest of six individuals, including at least one American citizen. The arrested U.S. citizen is Randolph Hobson Guthrie III, a.k.a. Randy Guthrie, age 37, who has lived in Shanghai for nearly ten years and also lists addresses in New York, Miami Beach and Palm Beach.

In addition, the enforcement actions in China led to the seizure of more than 210,000 counterfeit motion picture DVDs and approximately $67,000 in U.S. currency as well as 222,000 Chinese Renminibi (RNB). Chinese authorities also located and destroyed three warehouses that were being used to store counterfeit motion picture DVDs for distribution around the globe including the United States.

The arrests and seizures are the product of a joint effort between ICE agents and Chinese law enforcement called "***Operation Spring***." Launched in September 2003 by the ICE Resident Agent-in-Charge office in Gulfport, Mississippi, and investigated jointly with the Special Agent-in-Charge in Houston, Texas, the investigation grew to include the ICE Attaché in Beijing, China, the ICE Special Agent-in-Charge office in Houston and the ICE Intellectual Property Rights (IPR) Center in Washington, D.C. The U.S. Attorney's Office for the Southern District of Mississippi also played a key role in the investigation.

In April 2004, agents assigned to the ICE Attaché in Beijing reached out to Chinese authorities and began sharing information on the investigation. The Economic Crime Investigation Department of the Chinese MPS assigned the Shanghai Public Security bureau to work with ICE on the case. After months of joint investigation with ICE, Chinese authorities were able to develop sufficient evidence against the suspects and their global counterfeit sales network to make arrests. The Shanghai Public Security Bureau launched its enforcement actions on July 1 and continued to investigate the case in conjunction with ICE.

The MPAA provided crucial assistance and background information to U.S. and Chinese law enforcement agencies in this case. The MPAA has closely tracked the negative economic effects on member studios caused by this particular counterfeiting network and other accused intellectual property rights violators worldwide. In total, the MPAA estimates that the U.S. motion picture industry loses more than $3.5 billion annually in potential worldwide revenue due to piracy.

At a press conference in Shanghai, the Chinese Ministry of Public Security noted, "Over the past few years, in the field of combating the piracy of intellectual property, China's Ministry of Public Security and U.S. Immigration and Customs Enforcement have enjoyed close cooperation. This case is a good example for future investigations on such criminal cases. It demonstrates the attention that both agencies give to intellectual property rights crimes and also shows that both sides can work together under the principle of understanding, trust, equality and cooperation. It also shows mutual respect for each other's national laws and regulations."

"I applaud U.S. Immigration and Customs Enforcement for their strong leadership in engaging the Chinese Government in a successful joint effort to disrupt an international organized criminal network involved in optical disc piracy in China," said Jack Valenti, President and CEO of the Motion Picture Association of America, Inc. "When such raids are routinely followed by criminal prosecutions that result in deterrent jail sentences, then China will succeed in its fight against piracy. Vice Premier Wu Yi had pledged last April that China would significantly reduce its piracy levels by year's end. This raid is one important step toward redeeming those pledges. Piracy in China is at a crisis level with losses to our companies estimated at $178 million. Only the will of the Chinese Government at the highest level can turn the tide of piracy."

Dunn Lampton, the U.S. Attorney for the Southern District of Mississippi, added: "The protection of intellectual property rights is of vital concern to our nation. Success in this arena will not be achieved without further coordinated investigations of this kind."

Moluccan Church Fraud Scheme

A church that was supposed to invest funds in providing assistance to refugees invested more than $25 million in a fraud scheme instead. The investigation began with the seizure of approximately $25 million from a bank account in London in 1998. In January of 2002, the Federal Court in New York forfeited the funds to the United States, which balance was held on deposit pending the conclusion of all appeals. There were several victims in this case and in March 2004, final determinations were made as to the amounts that victims would receive in restitution and restitution was made which totaled approximately $30 million including interest earned prior to September 2002.

Customs and Border Protection

Marijuana in Border-Crossing Tractor Trailer

On November 11, 2003, U.S. Customs and Border Protection (CBP) officers at the World Trade Bridge in Laredo, Texas, seized more than a ton and a half of marijuana hidden in a tractor-trailer. The driver was arrested. A CBP officer examining a tractor-trailer hauling a load of welded utility fence noted some discrepancies in the manifest, but the driver left the scene before the officer could refer him to secondary inspection. CBP officers stopped the driver at the exit gate and referred the tractor-trailer for a non-intrusive imaging system scan. The scan indicated anomalies within the merchandise. CBP canine “Miaka” also alerted to the odor of marijuana in the trailer. Upon further examination, CBP officers discovered 67 bundles containing a total of 3,164 pounds of marijuana with an estimated street value of $3.1 million.

The driver, Jose Alberto Perez-Aranda, 34, a Mexican national from Nuevo Laredo, Tamaulipas, Mexico, was arrested on federal charges of importation and possession with intent to distribute a controlled substance.

Agriculture Inspector finds 3 Kilos of Cocaine in Luggage of “Nervous” Passenger

On November 4, 2003, Agriculture inspectors discovered three kilos of cocaine in a wooden box. A CBP agriculture inspection (AI) technician was questioning a courier from TACA Airlines at the port of Los Angeles. The AI technician referred the passenger to agricultural secondary inspection, as he seemed very nervous responding to questions. In secondary inspections, an AI inspector x-rayed the luggage and spotted an unusual image inside a wooden box. Inside the box were three kilos of cocaine.

Heroin and Cocaine in Frozen Fish from Panama

On November 7, 2003, a CBP antiterrorism-contraband enforcement team (AT-CET) found cocaine and heroin hidden in frozen fish. In Charleston, South Carolina, an AT-CET targeted a vessel arriving from Panama. The targeting team identified 51 containers that had landed in Panama from Costa Rica for several days before being laden aboard the vessel. Physical examination revealed a blue suitcase among frozen fish. The suitcase contained six packages shaped like the soles of shoes. Inspection of the packages produced a substance that field-tested positive for heroin. A further inspection of 43 additional "bricks" and "tubes" found in the suitcase produced a substance that field-tested positive for cocaine. In total, 8 pounds of heroin and 82.5 pounds of cocaine were seized.

Tunnel Swallows Border Patrol Vehicle

In November 2003, the second time in two months, law enforcement officials with the Department of Homeland Security, uncovered a cross-border tunnel that apparently ran from Mexicali, Mexico to a flood basin in Calexico, California. The tunnel was just 200 yards east of another tunnel unearthed in September 2003. Authorities' suspicions were aroused after a vehicle driven by a CBP Border Patrol Officer plunged into a sinkhole while the officer was patrolling along the border fence. CBP officials returned to the scene to investigate and discovered what appeared to be a tunnel about 15 feet underground. ICE Agents dispatched to initiate a formal investigation found the tunnel largely flooded, hampering efforts to locate its terminus on the United States side. South of the border, Mexican authorities have traced the tunnel's origin to a large brick building occupied by a ceramic tile business. The city of Calexico furnished heavy machinery and equipment operators and excavated the tunnel. Authorities determined that this tunnel, like the previous one, had a sophisticated lighting and ventilation system.

Sport Utility Vehicles Comes with Homemade Compartment and $995,500.00

Customs and Border Protection officers in Champlain, New York, conducted an enforcement operation at the Rouses Point, New York, Port of Entry. A female subject attempted to enter the United States form Canada in a sport utility vehicle. Further examination of the trunk area of the vehicle resulted in the discovery of several duct-taped packages hidden in a homemade compartment in the rear cargo area. In total, ICE agents seized $995,500.00.

Nogales Inspectors Find $464,436 in lieu of $100 Declaration

Customs and Border Protection Inspectors assigned to the Port of Nogales, Arizona, selected a vehicle for inspection at the Nogales Port of Entry. Inspectors explained the currency reporting requirements to the sole occupant of the vehicle. The occupant stated that he was carrying only $100.00 in U.S. currency, however a canine alerted to the presence of currency in the vehicle. The "rocker panels," of the vehicle were then inspected revealing hidden U.S. currency. Upon further inspection, additional hidden compartments containing numerous packages of U.S. currency wrapped in cellophane were discovered. ICE agents were called and the occupant admitted knowledge of the currency totaling $464,436. The $464,436 was subsequently forfeited to the U.S. Government.

$700 Declared, $991,400 Found

On March 14, 2004, Customs and Border Protection Inspectors assigned to the Rouses Point, New York Port of Entry (POE) selected a vehicle for inspection. An examination of the vehicle led to the discovery of taped packages concealed inside a homemade hidden compartment. The occupant of the vehicle stated that she was transporting $700 U.S. dollars. In total, CBP Inspectors seized $991,400. ICE agents were contacted and conducted an investigation. On July 29, 2004, the $991,400 in U.S. currency was administratively forfeited to the U.S. Government.

$518,461 In U.S. Currency Inbound

In February 2004, CBP Inspectors at the Eagle Pass, Texas Port of Entry examined a vehicle being driven from Mexico into the United States. Upon examination of the vehicle, a CBP canine alerted positive to the floor of the vehicle. Further examination led to the discovery of $518,461 in U.S. currency. On July 29, 2004, the $518,461 In U.S. currency was forfeited to the U.S. Government for money laundering violations.

U. S. Secret Service

Nigerian Advance Fee Fraud Scheme

This case originated with the Miami Field Office when Bank of America (BOA) investigators in Tampa became suspicious of a $98,000 check that was deposited into the account of one BOA customer, who then wire-transferred the $98,000 to another BOA account belonging to a financial services company in Miami. Upon examining the account, BOA investigators noticed a large amount of wire transfers in and out of the account. BOA investigators called the South Florida Organized Fraud Task Force and provided them with the suspicious activity from the company's accounts. Investigation by Task Force agents, with the assistance of BOA investigators revealed that from late August 2003 to early October 2003, forty days, $1,239,957 was received in two accounts. Prior to August, the normal balance of the two accounts together rarely exceeded $10,000.

Investigation into the two suspect bank accounts identified wire transfers and cash deposits from victims who identified the deposits as related to contracts and assistance they were providing to Nigerians. Each victim when interviewed described a variation of a Nigerian Advance Fee Fraud Scheme, including: over-invoiced contracts, counterfeit checks sent to purchase goods and services, Spanish lottery winnings, or requests from friends or business associates to transfer money for an "internet deal." All expected to receive millions of dollars in return for the payments they sent. Victims were mainly from the United States, Canada and South America.

A Federal Seizure Warrant was obtained and served on Bank of America for the two accounts and $798,657 was seized. Prior to the investigation, $385,878 was wire-transferred out of the accounts to various banks in Hong Kong, Tokyo and Canada.

Food Stamp Scam Nets Grocer 41 Months in Prison and Forfeiture of Home and other Assets

In November 2003, a 3,200 square foot colonial house on a half-acre was auctioned off for $296,000. The home belonged to an East Side grocer who was convicted in a $15 million food-stamp scam at his stores in poor Cleveland neighborhoods. In addition, three of the grocer's stores were sold for approximately $774,000. Other assets forfeited included luxury cars and more than $1.4 million in cash from an investigation that netted the grocer 41 months in prison. The IRS, FBI and Cleveland

Police said the grocery stores, like many others, bought food-stamp benefits from welfare recipients at a discount, often paying about 50 cents on the dollar in cash. The stores then redeemed them to the government for their full value. Subsequently, the grocer and others laundered millions of dollars in proceeds from food-stamp trafficking through banks in Ohio and the country of Jordan.

U. S. Coast Guard

The United States Coast Guard (USCG) is a valuable partner of Federal law enforcement with its long and intriguing history of assistance on the high seas. The USCG is this nation's oldest and its premier maritime agency.

Treasury Forfeiture Fund management would like to take this opportunity to recognize one of the many achievements of the Coast Guard in its support of Federal law enforcement during FY 2004.

U.S. Coast Guard Assists Other Federal Law Enforcement – Overtake Drug Smuggling Speedboat and Recover 5,000 pounds of Cocaine, Estimated Street Value $100 million

In early September 2004, the Coast Guard Cutter DECISIVE with the assistance of a sniper-equipped MH68-A helicopter and crew from the Coast Guard Helicopter Intercept Squadron (HITRON) in Jacksonville, Florida, took down a 40-foot "go fast" boat loaded with more than 2.5 tons of pure cocaine. DECISIVE got word that another law enforcement resource was actively tracking a "go fast," as it sped its load north. DECISIVE swung into action. The ship immediately came to near full speed and changed course to intercept the smugglers. The next order of business was to get the helicopter airborne so that it could locate and stop the "go fast," and launch the "Over the Horizon (OTH)," small boat to finally take custody of the smugglers. The biggest issue was the distance—both the OTH and the helicopter had to cover more than 70 miles from the cutter to make the stop. Fortunately, the weather was calm and this allowed the OTH to travel at speeds nearing 40+ knots (not fast for the interstate, but on the ocean, that's zooming!) The helicopter arrived on the scene and had to use their 50 caliber sniper rifle to shoot out the engines and stop the vessel. Shortly thereafter the OTH and boarding team arrived and detained the crew. The "go fast" boat swamped and turned over.

Over the Horizon (OTH)" Fast Boat – Aboard the U.S. Coast Guard Cutter DECISIVE – en route to apprehend a "go fast" boat carrying 2.5 tons of pure cocaine with a street value of $100 million. Additional OTH boats such as this one have been funded for the U.S. Coast Guard with resources from the Treasury Forfeiture Fund Super Surplus.

When the HITRON helicopter opened fire, the crew of the "go fast," started throwing bales of cocaine over the side in an effort to evade law enforcement actions. However, the DECISIVE arrived on the scene and the combined Coast Guard contingent scooped nearly ninety 50-to-70-pound bales of cocaine out of the water, making the total haul about 5,000 pounds. The estimated street value of the recovered cocaine is $100 million.

Fund management notes the value and service of the OTH Cutter Boat to the Coast Guard law enforcement fleet, some of which have been funded by the Super Surplus of the Treasury Forfeiture Fund.

The USCG reports a "record year" in counter drug operations for FY 2004. In FY 2004, the USCG seized 240,518 pounds of cocaine, shattering the previous record of 139,000 pounds interdicted in 2001. Interestingly, the total "street value," of contraband drugs seized by the USCG exceeds their total appropriated funding by hundreds of millions of dollars, establishing a superb "return on investment" for the USCG and the American taxpayer.

In addition, the efforts of the USCG to interdict contraband drugs prevents those seized drugs from getting to the streets of America thereby thwarting economic damage and loss of quality of life, or even the loss of life itself, that can be wrought by illegal drugs in society.

CDR Steve Baynes, Commanding Officer of the USCGC DECISIVE

CDR Baynes is standing beside approximately 2.5 tons of pure cocaine retrieved from the water when thrown overboard by smugglers apprehended by DECISIVE and a Jacksonville-based HITRON helicopter team.

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

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

Expenses of the Fund are set in a relative priority so that unavoidable, or “mandatory” costs are met first as a matter of policy. Expenses may not exceed revenue in the Fund. The Fund has several different spending authorities. Each of them is described below.

Mandatory Authority

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

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

Asset Identification and Removal Groups

Asset Identification and Removal Groups (AIRGs) help ensure that seizure operations are conducted in the right way, with maximum precision and efficiency. Again, in FY 2004, the Fund contributed $5.2 million in mandatory funding, including necessary travel, to the efforts of Immigration and Customs Enforcement, Department of Homeland Security (the investigative arm of legacy Customs) AIRGs. The AIRG groups are comprised of special agents, auditors, accountants and contract data analysts who are specially trained to identify assets of criminal organizations. Today, there are 21 AIRGs located within ICE field offices throughout the United States. The personnel assigned to the groups receive special training at Treasury’s Federal Law Enforcement Training Center to prepare them in the areas of asset identification, removal and forfeiture. The AIRGs are particularly valuable in international investigations, where criminal proceeds can be moved rapidly around the world. Their expertise in identifying and tracking these assets is critical to an effective seizure and forfeiture program. These groups assist their agencies in meeting their mandates. The results that they attain can be used as a tool to assist managers in assessing the strength and depth of criminal organizations and gauge their success in disrupting crime.

Treasury Computer Investigative Specialist Program, multi-bureau

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

- All computer forensic examiners are experienced criminal investigators (as opposed to other programs that have technicians conducting exams);
- Uniform basic and advanced computer forensic training (planned and delivered jointly by the three bureaus) that allows the bureaus to share CISs and technical resources on large cases;
- Each bureau's CISs are provided the same state-of-the-art equipment; and
- Continuous in-service training and equipment upgrades for CIS agents in the field maintains high skill-levels for all Treasury Department CISs.

In FY 2004, EOAF provided over $5.7 million to the CIS program, up from $4.4 million provided to the program in FY 2003. The majority of the funding went for basic and advanced training and specialized equipment. Since the inception of the program in 1997, the participating bureaus of the Treasury Forfeiture Fund have combined talents and resources to produce highly trained computer forensic agents capable of recovering digital evidence from stand alone and networked computer systems. Highly successful casework stemming from electronic evidence indicates that this is a sound investment for the Fund.

Payments for Remission and Mitigation and Innocent Owner/Victims

A long-standing policy of the Treasury Forfeiture Fund is to ensure that any innocent owners of property forfeited by the Fund receive restitution to the extent that policy and law provide for such restitution. A number of the law enforcement bureaus participating in the Fund become involved in cases in which there are victims of fraud which victims may range from private citizens to Trust Funds of the Federal Government. While the "net proceeds" to the Fund after restitution is paid may be quite small, it is imperative that the forfeiture sanction be applied to such cases to deter their occurrence in the future and to recover as much of the property on behalf of victims as possible. In this manner, our law enforcement bureaus work not only to protect the citizenry but also the public welfare in terms of protecting Federal resources from waste, fraud and abuse. In addition, Customs and Border Protection mitigates forfeitures in a number of instances and the Fund provides resources for those important law enforcement decisions. There were some unusually large restitution cases this year and the Fund allocated over $65.9 million toward these expenses, up from $41.5 million allocated for remissions and mitigations at the end of FY 2003. The Maluccan Church Fraud Scheme is an example of a large restitution case this year.

National Seized Property Contract

As noted in the Profile section of our Accountability Report, the Treasury Forfeiture Fund continued in its capacity as a multi-Departmental Fund in FY 2004, representing the interests of law enforcement components of the Departments of Treasury and Homeland Security. With enactment of the Homeland Security Act, Treasury's Federal Law Enforcement Training Center (FLETC) and

Secret Service were moved to the Department of Homeland Security, and the Immigration and Naturalization Service (INS) was reorganized with Customs into two agencies: Customs and Border Protection (CBP) and Immigration and Customs Enforcement (ICE). The U.S. Coast Guard was also reorganized into the Department of Homeland Security and continues it close working relationship with legacy Customs.

These changes were attended by an Administration emphasis on border security which then resulted in a large, rapidly escalating caseload including a car inventory which grew from an inventory at the beginning of the year of about 3,000 seized cars to an inventory of about 19,000 seized cars at the end of the year. As the result of this issue, and related matters, the national general property contract required resources in the amount of $51.3 million as compared to $27.14 million allocated to the contract for FY 2003, nearly doubling the cost of the contract.

Equitable Sharing

Federal law enforcement bureaus participating in the Treasury Forfeiture Fund enjoy a continuing high level of support from state and local law enforcement agencies in the fight against crime. As evident in the investigative case narratives earlier in our Overview, Federal and state and local law enforcement work side-by-side daily to stop criminals. Pursuant to a long-standing goal of the Treasury Forfeiture Fund to encourage state and local law enforcement to assist Federal law enforcement; by policy, the Fund pays equitable shares to state and local law enforcement agencies that participated in a forfeiture of the Fund. The Fund also pay equitable shares to the Justice forfeiture fund and the Postal forfeiture fund for any role their Federal law enforcement bureaus play in a forfeiture of our program.

In recognition of this ongoing high level of support, and consistent with revenue projections for FY 2004, Fund management allocated over $93 million for equitable sharing obligations for FY 2004, as compared to $75.7 million allocated for FY 2003, an increase of nearly 23 percent. The difference bears a relationship to the difference in revenue between the two years. State and local governments are required to use equitable shares law enforcement purposes with certain limited exceptions and, as a result, their law enforcement programs and capability have benefited significantly from their cooperative efforts with Federal law enforcement.

Training

Fund Management places significant emphasis on training as a mechanism for reinforcing the Fund's Mission, which is to affirmatively influence the consistent and strategic use of asset forfeiture by our law enforcement bureaus to disrupt and dismantle criminal enterprises. During FY 2004, the Executive Office for Asset Forfeiture developed two new training curricula on cutting edge subjects related to investigation and forfeiture, and conducted six seminars nationwide for over 600 participants. Our training strategy is aimed at fostering the cooperation between our participating agencies, as well as identifying and promoting their best investigative and forfeiture practices.

One of our new seminar series, titled "Obtaining and Analyzing Information from Investigative and Forfeiture Purposes," focused on such issues as Bank Secrecy Act (BSA) requirements, developing cases from Suspicious Activities Reports (SARs), enhancing the work of SAR Review Teams, utilizing information from the wire remitter industry, and TEOAF-funded investigative data mining systems. The second seminar series, titled "Technology Issues Involved in Investigation and Forfeiture," addressed new types of crimes exploiting computer and Internet technology, as well as technology tools available to the law enforcement agencies to fight these crimes.

Both series received excellent and enthusiastic reviews from the audience that consisted of agents from all of our participating bureaus. The seminar locations included San Antonio, Miami, Cleveland, and Baltimore.

Secretary's Enforcement Fund

The Secretary's Enforcement Fund (SEF) is derived from equitable shares received from the Justice Department's forfeiture fund for work done by Treasury law enforcement bureaus leading to Justice forfeitures. SEF revenue is available for Federal law enforcement purposes of any Treasury law enforcement organization or law enforcement bureau that participates in the Treasury Forfeiture Fund. In FY 2004, the Fund allocated $11.7 million in SEF spending to the law enforcement agencies.

Major Case Initiatives, Immigration and Customs Enforcement, IRS-CI and U.S. Secret Service

Consistent with the Treasury Forfeiture Fund's goal of supporting major case initiatives, during FY 2004, substantial funding was allocated from the SEF to support bureaus' major case initiatives. This funding was used to continue to support undercover operations, and a variety of tasks including document analysis and translation for investigative and evidentiary purposes, Title III wiretaps, agent travel and specialized software equipment.

International and Terrorism Investigations, IRS-CI

Consistent with the President's initiative on international terrorism, funds were provided from the SEF to IRS Criminal Investigations (CI) to support the continuation of IRS' overseas investigations of terrorist related money laundering and other financial crime cases. Funding was used primarily for travel to support these cases.

Computer Forensics, IRS-CI

Additional funding was provided to IRS-CI to provide continuing support to the IRS-CI E-Crimes technology center. The facility supports, and is operated by CI's computer forensic program, which is funded in its entirety by the Treasury Forfeiture Fund as part of the Treasury Computer Forensics Program.

Enforcement Replacement Vehicles, IRS-CI

SEF funding was provided to IRC-CI toward the costs of replacing 800 law enforcement vehicles that have exceeded their useful time expectancy. Approximately 600 law enforcement vehicles must be purchased annually to maintain fleet quality. Over the past few years, IRS-CI has averaged the replacement of less than 400 vehicles per year due to funding constraints. At present, half of the IRS-CI fleet exceeds replacement criteria as set by the Federal Property Management Regulations. The SEF funding will provide for the purchase of approximately 50 vehicles to assist IRS-CI with their need for a quality law enforcement vehicle fleet.

Counter Terrorism Training, FLETC

SEF funding in the amount of $.5 million was provided to the Federal Law Enforcement Training Center (FLETC) to support the funding needed for the construction of a counter terrorism operation/urban training facility in Glynco, Georgia.

Title III and Internet Intercept Program, ICE

SEF funding was provided to Immigration and Customs Enforcement (ICE) to support the funding for the infrastructure, equipment and technical program support to continue operations and case related use of telecommunications intercepts. The use of the Wiretap as an investigative tool has repeatedly resulted in a greater number of seizures of value and a significantly increased number of arrests.

Super Surplus

Super Surplus represents the remaining unobligated balance after an amount is reserved for Fund operations in the next fiscal year. Super Surplus can be used for any Federal law enforcement purpose. The Fund declared a Super Surplus for FY 2004 in the amount of $25 million, similar to the $24.1 million declared for FY 2003.

A growing percentage of the investigations that our agencies handle now center on computer evidence. It is critical for the law enforcement bureaus to protect the integrity of original computer evidence and be able to authenticate any evidence originating from an electronic source. Each of the law enforcement bureaus has a computer laboratory devoted to assessing the impact of technological change on methods for obtaining digital evidence, developing forensics procedures and standards, and providing technical assistance to the computer forensics examiners in the field. The funding provided for these initiatives has allowed the agencies to maintain or build laboratories and sustain their computer forensics programs. These forensic programs involve a significant amount of research and development that cannot be funded through the mandatory authority.

National Forensic Laboratory, IRS –CI

Super Surplus funds in the amount of $800,000 were provided to the IRS-CI National Forensics Laboratory. These resources are provided in order that the lab maintain state of the art equipment necessary to maintain high-level quality forensic service to the field agents of CI. A variety of services provided by the laboratory simplify complex relationships between individuals and/or businesses and visually demonstrate the flow of moneys through a myriad of individuals, businesses, and financial institutions.

Enforcement Equipment , IRS-CI

Super Surplus funds totaling $1.5 million was provided to IRS-CI for investigative equipment required by IRS-CI for carrying out its investigative and enforcement functions. This includes equipment utilized by agents in carrying out their duties on a daily basis in addition to specialized equipment used during surveillance, undercover operations, during the execution of search warrants and for other investigative purposes.

ADP Initiatives, IRS-CI

Super Surplus funding totaling $7.0 million was provided to IRS-CI for a variety of ADP initiatives database development including but not limited to web-based tools. One system for which funding support was provided will provide capability to access various databases and systems to identify trends and other pertinent data that will help to target potentially illegal activity. Another initiative will streamline IRS-CI's asset forfeiture productivity by facilitating the processing and approval of documents across all levels of the organization.

Operation Predator , Immigration and Customs Enforcement

Super Surplus funding in the amount of $720,000 was provided to Immigration and Customs Enforcement of the Department of Homeland Security (ICE, DHS) to provide office space, cabling and air conditioning (HVAC) toward "Operation Predator." Predator will combine the investigative efforts of the ICE Cyber Crimes Center's Child Exploitation Unit, a newly staffed Predator group, other Federal, state, and local law enforcement agencies and the National Center for Missing and Exploited Children to identify and target individuals or organizations preying upon America's children.

Technical Surveillance Equipment, Immigration and Customs Enforcement

Super Surplus funding in the amount of $2.5 million was provided to ICE to support the purchase of surveillance equipment to keep pace with investigative technology developments including the placement of upgraded ground sensors and the deployment of video over Internet Protocol Systems. This equipment will be utilized to obtain evidence of criminal activity and to expand the scope of investigations being conducted by ICE. The majority of the equipment will be used to enhance covert audio and video recording of criminal conspirators, to assist agents in tracking subjects and contraband, and to enhance thermal imaging capability.

Computer Forensics, Training, Investigative Support, U.S. Secret Service

Super Surplus funding in the amount of $4.144 million was provided to the U.S. Secret Service, Department of Homeland Security, to support: computer forensics initiatives, computer forensic training and other investigative support initiatives of the bureau during FY 2004.

Aircrew Survival Vests, U.S. Coast Guard (USCG)

Super Surplus funding in the amount of $626,000 was provided to the USCG to equip all aircrew personnel with new vests that are both ballistics and chemical mask compatible.

Portable Flight Planning Stations, USCG

Super Surplus funding in the amount of $560,000 was provided to the USCG to fund the purchase of 28 Portable Flight Planning Stations that will be used to download law enforcement tasking into formats that can be loaded into awaiting aircraft.

High Frequency Voice Privacy, USCG

Super Surplus funding in the amount of $284,000 was provided to the USCG for the purpose of equipping aircraft with specific communication gear to enhance interoperability with other law enforcement agencies.

Portable Satellite Tracking Device, USCG

Super Surplus funding in the amount of $35,000 was provided to deploy portable satellite tracking devices to monitor vessels ordered to return to port for fisheries violations. This capability will enhance Coast Guard operations by allowing patrolling vessels to remain on patrol in high threat areas in lieu of escorting vessels to port. This technology could save 1 to 14 vessel patrol days per enforcement action of this nature, depending upon the distance of the fishing vessel from port.

Strategic View

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

Strategic Mission and Goal

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

Multi-Departmental Fund During FY 2004

The Treasury Forfeiture Fund continued in its capacity as a multi-Departmental Fund in FY 2004, representing the interests of law enforcement components of the Departments of Treasury and Homeland Security. As the result of these numerous and complex changes, FY 2004 brought some management challenges and the need to assess new policies of the reorganized bureaus against the broad management interests of the Treasury Forfeiture Fund which now encompass the concerns of more than one Department. In the midst of this period of growth and change, the Fund's family of law enforcement bureaus continued their hard work of Federal law enforcement and the application of asset forfeiture as a sanction to bring criminals to justice.

FY 2004 was a robust revenue year for the Fund with regular revenue exceeding $335 million. As we closed FY 2004, Fund Management was pleased with our prior year efforts in FY 2003 to support the Homeland Security Act through intensive and consuming transition endeavors and pleased with the evidence that we were successful in meeting our goals of a smooth transition.

As we enter fiscal year 2005, the Fund remains focused on support for strategic investigative initiatives that will have the greatest impact on national and international criminal enterprise including valuable training and investigative expense funding which emphasizes high impact cases.

Performance Measure

In FY 2004, the Fund measured performance through the use of the following performance measure: Percent of forfeited cash proceeds resulting from high-impact cases. This measures the percentage of forfeited cash proceeds resulting from high-impact cases (those with currency seizures in excess of $100,000). Focusing on strategic cases and investigations which result in high-impact seizures will affect the greatest damage to criminal organizations while accomplishing the ultimate objective – to disrupt and dismantle criminal activity.

Results

Fund performance measures and associated results for FY 2004 are as follows:

Performance Measure	FY 2003 Actual	FY 2004 Target	FY 2004 Actual
Percent of forfeited cash proceeds resulting from high-impact cases	80.6%	75%	84.0%

A target of 75 percent high-impact cases was set for FY 2004. The final percentage for FY 2004 was 84.0 percent, fully 9 percentage points above the target. This compares favorably with our FY 2003 achievement of 80.6 percent, also well beyond our target. This achievement remains excellent given the significant diversion of Treasury law enforcement personnel to other than routine law enforcement involved with anti-terrorism efforts. FY 2004 was a robust revenue year and the results of our performance indicator point to the successful year of our dedicated law enforcement bureaus. This measure was put into effect in FY 2001.

This measure is calculated by dividing the total amount of forfeited cash proceeds from cases greater than $100,000 by the total amount of forfeited cash proceeds for all cases.

A Look Forward

With the divestiture of the legacy U.S. Customs Service to the new Department of Homeland Security, legacy Customs was subsequently divided into two principal law enforcement components: Customs and Border Protection (CBP), and Immigration and Customs Enforcement (ICE). With the division into two separate components, there is a requirement that accounting, case management and other command and control structures be divided so that the resources and accounts for the separate components can be identified discretely. The Customs and Border Protection (CBP) component which inherited the legacy systems for the two bureaus has been working since late FY 2003 to accomplish these significant tasks. CBP Management has been working as closely as possible with ICE Management to coordinate changes in a manner that results in as little disruption to ongoing services as possible.

Fund Management will continue to work with Customs and Border Protection to resolve issues related to the national general property contract, the costs for which escalated and accelerated at an alarming rate during FY 2004. An enduring and primary goal of Fund Management is to manage the Treasury Forfeiture Fund in a manner that ensures its ongoing viability and ability to support all of our participating law enforcement bureaus into the future. We are confident that a satisfactory resolution of these issues will be accomplished on behalf of all bureaus.

In the meanwhile, Fund Management continues to emphasize high impact case cases through training and investigative funding initiatives. The Executive Office for Asset Forfeiture will conduct six high-level training seminars during FY 2004, using two new training curricula on cutting edge subjects related to investigation and forfeiture. Our training strategy is aimed at fostering the continued cooperation between our participating agencies, as well as identifying and promoting their best investigative and forfeiture practices so that these practices can be implemented as widely as possible.

We look forward to another successful year in FY 2005.

The following provides a brief explanation for each major section of the audited financial statements accompanying this report for the fiscal year ended September 30, 2004.

These statements have been prepared to disclose the financial position, results of operations and changes in net position pursuant to the requirements of the *Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994 (GMRA).* While the financial statements have been prepared from the books and records of the Fund in accordance with the formats prescribed by the Office of Management and Budget, the statements are different from the financial reports used to monitor and control budgetary resources that are prepared from the same books and records and are subsequently presented in Federal budget documents. Therefore, it should be noted that direct comparisons are not possible between figures found in this report and similar financial figures found in the FY 2004 and FY 2003 *Appendix, Budget of the United States Government*. Further, the notes to the financial statements and the independent auditor's opinion and report on internal controls are also integral components to understanding fully the financial highlights of Fund operations described in this chapter.

Statements: Changes in Net Position

Follows are brief highlights from the Statement of Changes in Net Position for FY 2004 and 2003.

Net Position – End of Year. For FY 2004, the Net Position for the Fund at the end of the year, an indicator of the future capability to support ongoing operations of the Fund, totaled $194.1 million versus $177.2 million at the end of FY 2003. Both years closed with a strong and viable net position given that annual revenue totaled between $250 million and over $335 million each year.

Total Gross Non-Exchange Revenues. This line item on the *Statements of Changes in Net Position* is the best indicator of regular "business-type" income of the account on an annual basis. Fund Management generally forecasts between $200 million and $250 million for the Fund from regular seizure and forfeiture activities of our participating bureaus. For FY 2004, the Fund closed with $289.2 million in Gross Non-Exchange Revenues versus a total for the FY 2003 closing of $266.3 million, an increase of 8.6 percent over FY 2003.

Proceeds from Participating with other Federal Agencies. This line item on the *Statements of Changes in Net Position* indicates revenue earned from the participation of Treasury Forfeiture Fund law enforcement bureaus in the seizures leading to forfeiture of bureaus that participate in the Department of Justice Assets Forfeiture Fund or with the forfeiture fund of the U.S. Postal Service (Postal Service). It is noted that this category of revenue is recognized when received on deposit by the Treasury Forfeiture Fund. Therefore, there is no accrual recorded on the Fund's financial statements for this category of revenue.

As of the close of FY 2004, Treasury Forfeiture Fund bureaus earned a total of $22.7 million in revenue from participation in the seizures leading to forfeiture of the Justice and Postal Service forfeiture funds as compared to a total of $16.1 million during FY 2003. Fund Management continues to work with the Department of Justice to identify the basis for delays associated with Reverse Asset Sharing payments to the Treasury Forfeiture Fund. This revenue affords Treasury Management significant funding flexibilities for our participating agencies as the authority is broad and not confined to funding program costs but can be used for any law enforcement purpose of our participating bureaus. Significant projects may be funded in FY 2005 if long-anticipated revenue is received early enough in the fiscal year.

Cost of Operations. For FY 2004, the Cost of Operations totaled $122.1 million, up from $108.1 million in FY 2003.

Investment Interest Income. The Fund is authorized to invest cash balances in Treasury securities. On September 30, 2004, investments totaled $455.1 million, down from $527.0 million invested on September 30, 2003. Given the slightly reduced balances, investment income totaled $4.6 million in FY 2004 as compared to $5.0 million in FY 2003, as the result of stable interest rates earned on invested balances.

Equitable Sharing with State and Local Governments, and Foreign countries. Each year, the Fund pays tens of millions of dollars to state and local law enforcement agencies, and foreign governments, for their participation in seizures that lead to forfeitures of the Treasury Forfeiture Fund. State and local law enforcement agencies can use these resources to augment their law enforcement budgets to fight crime in their jurisdictions. Without these funds, budgets of the local municipalities would be taxed to provide these important resources or the need would go unmet. During FY 2004, the Fund shared a total of $98.7 million with state and local law enforcement agencies, and another $2.7 million with foreign countries. This compares with $78.5 million shared with state and local law enforcement agencies during FY 2003, and another $1.3 million with foreign countries in FY 2003.

Victim Restitution. During FY 2004, the Fund paid restitution to victims the amount of $0.4 million as compared with $7.3 million in FY 2003.

Summary of Statements of Changes in Net Position. FY 2004 represents a very successful year in high-impact cash forfeiture cases, with 84.0 percent of all cash forfeitures stemming from cases with a value of $100,000 or more, as compared with 80.6 percent in FY 2003. Along with a high water mark in forfeiture revenue for the year, the performance against this measure exceeded our target performance of 75 percent. The FY 2004 performance in forfeiture revenue earnings and high-impact cases is truly a credit to the dedicated law enforcement personnel of the Treasury Forfeiture Fund participating bureaus.

Statements: Net Cost

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

On the Statements of Net Cost, the Net Cost of Operations increased to $122.1 million in FY 2004, up from $108.1 million in FY 2003, attributable to increased asset management costs.

Intragovernmental Costs less Secretary's Enforcement Fund and Super Surplus Expenses. This net figure represents the amounts incurred by participating bureaus in running their respective forfeiture programs. Secretary Enforcement Fund Expenses generally represent expenses that while key to the law enforcement bureau are not costs of running the forfeiture program itself.

National Seized Property Contract. The largest single program cost of the Fund is the storage, maintenance and disposal of real and personal property. This function is performed by EG&G Technical Services, a private firm under multiple contracts to the Customs and Border Protection (CBP) component of the U.S. Department of Homeland Security (DHS). There is one contract for the custody and maintenance of real properties and a separate contract for general property of the program. Both of these contracts, at this time, are awarded to EG&G Technical Services. In FY 2004, storage and maintenance expenses totaled just over $61.5 million, significantly up from $34.4 million in FY 2003. This significant increase is attributable substantially to additional car seizures on the southwest border and associated polices that prevent efficient disposition of these cars to destruction in lieu of storage.

Statements: Balance Sheet

Assets, Liabilities and Net Position

Total assets of the Fund increased in FY 2004 to $697.7 million, up from $687.8 million in FY 2003, an increase in asset value of nearly 1.4 percent. If seized currency, which is an asset in the custody of the government but not yet owned by the government, is backed out of both figures, the adjusted total assets of the Fund increased to $324.3 million in FY 2004, up from $291.2 million in FY 2003, an increase of 11.4 percent.

During FY 2004, total liabilities of the Fund increased to $503.6 million, up from 510.5 million in FY 2003, a decrease of only 1.4 percent in overall liabilities pending at the end of the fiscal year. Likewise, if seized currency is backed out of both figures, the adjusted liability totals of the Fund increased to $130.2 million in FY 2004 from $114.0 million in FY 2003, an increase of 14.2 percent.

The Cumulative Results of Operations, i.e., retained earnings, increased at the end of FY 2004 to a total of $194.1 million, up from $177.2 million at the end of FY 2003.

Summary of Financial Highlights

Net Position. To summarize, Fund management concluded FY 2004“in the black,” with the necessary resources to commence the business of the asset forfeiture program for FY 2005. Fund management may declare some level of Super Surplus from FY 2004 operations although the estimate for this spending has not been finalized.

FY 2004 Audit. The Fund’s independent auditors have given the FY 2004 financial statements an Unqualified Opinion and again determined that there are no material weaknesses for the Fund’s financial statements. In addition, only one Reportable Condition remains regarding the recording of indirect overhead expenses of property to the line item level. This is a long-standing condition that Fund Management has worked to resolve for the real property contract though the remedy has not been implemented by Customs and Border Protection as of the close of FY 2004. Corrective action for general property cannot be taken pending award of a new general property contract which has been in the process of re-award for over 4 years now. Given complexities associated with the contract process, Fund Management anticipates that it may be FY 2006 before this second tier condition can be fully resolved.

Program Performance

Financial and Program Performance -What is needed and planned. OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements,* requires that agencies include an explanation of what needs to be done and what is being planned to improve financial or program performance. In that regard, Fund management provides the following information with regard to the remaining reportable condition identified by auditors during the FY 2004 financial statement audit.

Reportable Condition: In fiscal year 2004, the auditors of the Fund's financial statements reported one Reportable Conditions associated with the Fund's internal controls: indirect asset specific expenses are not recorded and accounted for to the line item level by the Fund.

Asset Specific Expenses: Fund Management will continue to work toward the capture of indirect asset specific expenses. The accounting system of the Real Property Contractor is capable of capturing and reporting both direct and indirect costs. However, to capture this data for the Fund's financial statements, Customs and Border Protection's SEACATS system requires additional programming. To date, this programming has not been completed though the contractor-proposed remedy has been identified for over three years. The award of the new general property contract has been delayed and until such time as the new contract provisions can be implemented, efforts to develop a methodology to distribute indirect overhead costs to general property will also be delayed. Management will continue to work with participating bureaus to improve the capture of all expense data to the asset level.

Look Forward. Efforts will continue to ensure that progress is made toward resolving the remaining second tier finding. Fund Management looks forward to another successful year in FY 2005.

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

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

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

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

SECTION II

FINANCIAL STATEMENTS

GARDINER KAMYA
& ASSOCIATES, PC

CERTIFIED PUBLIC ACCOUNTANTS | MANAGEMENT CONSULTANTS

Independent Auditor's Report on Financial Statements

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

We have audited the Principal Statements (balance sheets and the related statements of net cost, changes in net position, budgetary resources and financing, hereinafter referred to as "financial statements") of the Department of the Treasury Forfeiture Fund (the Fund) as of and for the years ended September 30, 2004 and 2003. These financial statements are the responsibility of Fund Management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of September 30, 2004 and 2003, and its net costs, changes in net position, budgetary resources, and the reconciliation of net costs to budgetary obligations, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued a report dated October 25, 2004, on our consideration of the Fund's internal control and a report dated October 25, 2004, on its compliance with laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards,* and these reports should be read in conjunction with this report in considering the results of our audits.

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Our audits were conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph of this report as a whole. The information presented in Fund Management's Overview of the Fund, the Required Supplemental Information, and Other Accompanying Information sections is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America, OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements,* or the *Treasury Forfeiture Fund Act of 1992.* We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

Gardiner, Kamya & Associates, P.C.

October 25, 2004

Department of the Treasury Forfeiture Fund
BALANCE SHEETS
As of September 30, 2004 and 2003
(Dollars in Thousands)

	2004	2003
Assets:		
Intragovernmental :		
Fund balance with Treasury	$ 146,527	$ 64,841
Investments and related interest (Note 3)	455,142	527,034
Advances (Note 5)	12	13
Total Intragovernmental	601,681	591,888
Cash and other monetary assets (Note 6)	52,626	60,746
Accounts receivable (Note 4)	850	1,196
	53,476	61,942
Forfeited property (Note 7)		
Held for sale, net of mortgages, liens and claims	41,743	33,881
To be shared with Federal, state or local, or foreign governments	820	50
Total forfeited property, net of mortgages, liens and claims	42,563	33,931
Total Assets	$ 697,720	$ 687,761
Liabilities:		
Intragovernmental:		
Distributions payable		
Other Federal agencies	$ 748	$ 380
Accounts payable	30,040	41,035
Total Intragovernmental	30,788	41,415
Seized currency (Note 9)	373,445	396,556
Distributions payable (Note 10)		
State and local agencies and foreign governments	50,385	34,853
Accounts payable	6,970	2,719
Deferred revenue from forfeited assets	42,029	34,987
Total Liabilities	503,617	510,530
Net Position:		
Cumulative results of operations (Note 11)	194,103	177,231
Total Liabilities and Net Position	$ 697,720	$ 687,761

The accompanying notes are an integral part of these financial statements

Department of the Treasury Forfeiture Fund
STATEMENTS OF NET COST
For the years ended September 30, 2004 and 2003
(Dollars in Thousands)

	2004	2003
Program:		
ENFORCEMENT		
Intragovernmental:		
Seizure investigative costs and asset management	$ 34,170	$ 28,833
Other asset related contract services	331	-
Awards to informer	141	840
Data systems, training and others	16,756	21,024
Super surplus (Note 13)	-	8,601
Secretary's enforcement fund (Note 14)	40	5,527
Total Intragovernmental	51,438	64,825
With the Public:		
National contract services seized property and other	61,524	34,382
Joint operations	9,172	8,846
Total with the Public	70,696	43,228
Net Cost of Operations	$ 122,134	$ 108,053

The accompanying notes are an integral part of these financial statements

Department of theTreasury Forfeiture Fund
STATEMENTS OF CHANGES IN NET POSITION
For the years ended September 30, 2004 and 2003
(Dollars in Thousands)

	2004	2003
Net Position - Beginning of year	$ 177,231	$ 173,029
Financing Sources (Non-Exchange Revenues):		
Intragovernmental		
Investment interest income	4,612	5,016
Public		
Forfeited currency and monetary instruments	228,905	163,842
Sales of forfeited property net of mortgages and claims	42,660	31,012
Proceeds from participating with other Federal agencies	22,740	16,078
Value of property transferred in equitable sharing	6,237	12,317
Payments in lieu of forfeiture, net of refund (Note 19)	(51,756)	19,192
Reimbursed costs	4,220	2,044
Others	31,604	16,795
Total Gross Non-Exchange Revenues	289,222	266,296
Less: Equitable Sharing		
Intragovernmental		
Federal	(9,758)	(11,555)
Public		
State and local agencies	(98,667)	(78,503)
Foreign countries	(2,708)	(1,320)
Victim Restitution	(437)	(7,336)
	(101,812)	(87,159)
Total Equitable Sharing	(111,570)	(98,714)
Total Non-Exchange Revenues, Net	177,652	167,582
Transfers-Out		
Intragovernmental		
Super Surplus (Note 13)	(25,207)	(37,732)
Secretary's Enforcement (Note 14)	(13,439)	(17,595)
Total Transfers-Out	(38,646)	(55,327)
Total Financing Sources- Net	139,006	112,255
Net Cost of Operations	(122,134)	(108,053)
Net Results of Operations	16,872	4,202
Net Position - End of Year	$ 194,103	$ 177,231

The accompanying notes are an integral part of these financial statements

Department of theTreasury Forfeiture Fund
STATEMENTS OF BUDGETARY RESOURCES
For the years ended September 30, 2004 and 2003
(Dollars in Thousands)

	2004	2003
Budgetary Resources:		
Budget authority	$ 313,130	$ 252,680
Unobligated balance- beginning of year	74,826	60,093
Spending authority from offsetting collections	154	27
Recoveries from prior year obligations	23,265	15,924
Total Budgetary Resources	$ 411,375	$ 328,724
Status of Budgetary Resources:		
Obligations incurred	$ 315,596	$ 253,898
Unobligated balances - available	95,779	74,826
Total Status of Budgetary Resources	411,375	328,724
Relationship of Obligations to Outlays:		
Obligated balance, net - beginning of year	172,651	156,798
Obligated balance, net - end of year		
Undelivered orders	89,450	167,949
Accounts payable	86,932	4,702
Outlays		
Disbursements	$ 288,600	$ 222,121
Less: Spending authority from offsetting collections	(154)	(27)
Net Outlays	$ 288,446	$ 222,094

The accompanying notes are an integral part of these financial statements

Department of theTreasury Forfeiture Fund
STATEMENTS OF FINANCING
For the years ended September 30, 2004 and 2003
(Dollars in Thousands)

	2004	2003
Resources Used to Finance Activities:		
Budgetary resources obligated		
Obligations incurred	$ 315,596	$ 253,898
Less: Spending authority from offsetting collections and recoveries	(23,419)	(15,951)
Net obligations	292,177	237,947
Other Resources		
Transfers - out	(38,646)	(55,327)
Total Resources Used to Finance Activities	253,531	182,620
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	47,910	41,636
Other resources or adjustments to net obligated resources that do not affect net cost of operations		
Mortgages and Claims	(7,331)	(9,913)
Refunds	(60,406)	(7,576)
Equitable Sharing (Federal, state/local and foreign)	(111,133)	(91,378)
Victim restitution	(437)	(7,336)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(131,397)	(74,567)
Total Resources Used to Finance the Net Cost of Operations	122,134	108,053
Net Cost of Operations	$ 122,134	$ 108,053

The accompanying notes are an integral part of these financial statements

Note 1: Reporting Entity

The Department of the Treasury Forfeiture Fund (Treasury Forfeiture Fund or the Fund) was established by the Treasury Forfeiture Fund Act of 1992, Public Law 102-393 (the TFF Act), and is codified at 31 U.S.C. 9703. The Fund was created to consolidate all Treasury law enforcement bureaus under a single forfeiture fund program administered by the Department of the Treasury (Treasury). Treasury law enforcement bureaus fully participating in the Fund upon enactment of this legislation were the U.S. Customs Service (Customs); the Internal Revenue Service (IRS); the United States Secret Service (Secret Service); the Bureau of Alcohol, Tobacco and Firearms (ATF); the Financial Crimes Enforcement Network (FinCEN); and the Federal Law Enforcement Training Center (FLETC). FinCEN and FLETC contribute no revenue to the Fund and receive relatively few distributions from the Fund. The U.S. Coast Guard, formerly part of the Department of Transportation, now part of the Department of Homeland Security, also participates in the Fund. However, all Coast Guard seizures are treated as Customs seizures because the Coast Guard lacks seizure authority.

With enactment of the Homeland Security Act of 2002 (Homeland Security Act), law enforcement bureaus participating in the Fund in fiscal year 2004 are: Internal Revenue Service - Criminal Investigation Division (IRS - CID) from Treasury, Bureau of Customs and Border Protection (CBP), Bureau of Immigration and Customs Enforcement (ICE) and the U.S. Secret Service (USSS) from the Department of Homeland Security (DHS). The Bureau of Alcohol, Tobacco, Firearms and Explosives (ATFE) from the Department of Justice - pursuant to an agreement, and the U.S. Coast Guard of DHS, join these bureaus. During fiscal year 2004, the Treasury Forfeiture Fund continued in its capacity as a multi-Departmental Fund, representing the interests of law enforcement components of the Departments of Treasury, Homeland Security and Justice.

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

The mission of the Treasury Forfeiture Fund is to affirmatively influence the consistent and strategic use of asset forfeiture by Treasury law enforcement bureaus to disrupt and dismantle criminal enterprises. The goal of the Treasury Forfeiture Fund is to support the Department of the Treasury's national asset forfeiture program in a manner that results in Federal law enforcement's continued and effective use of asset forfeiture as a high-impact law enforcement sanction to disrupt and dismantle criminal activity. Under a Memorandum of Understanding (MOU) with Treasury, CBP acts as the executive agent for certain operations of the Fund. Pursuant to that executive agency role, CBP's National Finance Center (NFC) is responsible for accounting and financial reporting for the Fund, including timely and accurate reporting and compliance with Treasury, the Comptroller General and the Office of Management and Budget (OMB) regulations and reporting requirements.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The Fund began preparing audited financial statements in fiscal year 1993 as required by the Fund's enabling legislation 31 U.S.C. 9703(f)(2)(H), and the Chief Financial Officers Act of 1990. Beginning with the fiscal year 1996 report, the Government Management Reform Act of 1994

(GMRA) requires executive agencies, including the Treasury, to produce audited consolidated accountability reports and related footnotes for all activities and funds.

The financial statements have been prepared from the accounting records of the Fund in conformity with accounting principles generally accepted in the United States of America (GAAP) and the Form and Content of Agency Financial Statements specified by OMB in OMB Bulletin No. 01-09. GAAP for federal entities is prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is designated the official accounting standards setting body of the Federal Government by the American Institute of Certified Public Accountants.

Financial Statements Presented

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

Comparative financial statements are presented in order to provide a better understanding of, and identifying trends in the financial position and results of operations of the Fund. The statement of Budgetary Resources for fiscal year 2003 has been reclassified to make it comparable to the fiscal year 2004 presentation.

Allowable Fund Expenses

The majority of the revenue recorded by the Fund is utilized for operating expenses or distributed to state and local law enforcement agencies, other Federal agencies, and foreign governments, in accordance with the various laws and regulations governing the operations and activities of the Fund. Under the TFF Act, the Fund is authorized to pay certain discretionary and non-discretionary expenses.

Discretionary expenses include purchases of evidence and information related to smuggling of controlled substances; purchases of equipment such as vessels, vehicles, or aircraft to assist in law enforcement activities; reimbursement of private persons for expenses incurred while cooperating with a Treasury law enforcement organization in investigations; and publication of the availability of awards. Discretionary expenses are subject to an annual, definite Congressional appropriation from revenue in the Fund.

Non-discretionary expenses include all proper expenses of the seizure (including investigative costs and purchases of evidence and information leading to seizure, holding cost, security costs, etc.), awards of compensation to informers, satisfaction of liens against the forfeited property, and claims of parties with interest in forfeited property. Expenses incurred by state and local law enforcement agencies in joint law enforcement operations with Treasury law enforcement agencies are also recognized as non-discretionary expenses. Under the Act, non-discretionary expenses are subject to a permanent indefinite Congressional appropriation, and financed through the revenue generated from forfeiture activities without congressional limitation.

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

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

Revenue and Expense Recognition

Revenue from the forfeiture of property is deferred until the property is sold or transferred to a state, local or federal agency. Revenue is not recorded if the forfeited property is ultimately destroyed or cannot be legally sold.

Revenue from currency is recognized upon forfeiture. Payments in lieu of forfeiture (mitigated seizures) are recognized as revenue when the payment is received. Revenue received from participating with certain other Federal agencies is recognized when the payment is received. Operating costs are recorded as expenses and related liabilities when goods are received or services are performed. Beginning fiscal year 1999 certain probable equitable sharing liabilities existing at yearend are accrued based on estimates.

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

Equitable Sharing (Assets Distributed)

Forfeited property, currency, or proceeds from the sales of forfeited property may be shared with Federal, state and local law enforcement agencies or foreign governments, which provided direct or indirect assistance in the related seizure. In addition, the Fund may transfer forfeited property to other Federal agencies, which would benefit from the use of the item. A new class of asset distribution was established for victim restitution in fiscal year 1995. These distributions include property and cash returned to victims of fraud and other illegal activity. Upon approval by Fund management to share or transfer the assets, both revenue from distributed forfeited assets and distributions are recognized for the net realizable value of the asset to be shared or transferred, thereby resulting in no gain or loss recognized. Revenue and /or expenses are recognized for property and currency, which are distributed to or shared with non-Federal agencies, per SFFAS No. 7, *Accounting for Revenue and Other Financing Sources*.

Entity Assets

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

- **Fund Balance with Treasury** – This represents amounts on deposit with Treasury.

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

- **Receivables** – The values reported for other receivables are primarily funds due from the national seized property contractor for properties sold; the proceeds of which have not yet been deposited into the Fund.

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

- **Cash and Other Monetary Assets** – This includes forfeited currency on hand not yet deposited, and forfeited currency held as evidence.

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

Further, mortgages and claims on forfeited assets are recognized as a valuation allowance and a reduction of deferred revenue from forfeited assets when the asset is forfeited. The allowance includes mortgages and claims on forfeited property held for sale and a minimal amount of claims on forfeited property previously sold. Mortgages and claims expenses are recognized when the related asset is sold and is reflected as a reduction of sales of forfeited property.

Additionally, SFFAS No. 3, *Accounting for Inventory and Related Property*, requires certain additional disclosures in the notes to the financial statements, including an analysis of changes in forfeited property and currency, for both carrying value and quantities, from that on hand at the beginning of the year to that on hand at the end of the year. These analyses are disclosed in Notes 8 and 9.

Non-entity Assets

Non-entity assets held by the Fund are not available for use by the Fund. Non-entity assets are intragovernmental. Non-entity assets are not considered as financing sources (revenue) available to offset operating expenses, therefore, a corresponding liability is recorded and presented as governmental liabilities in the balance sheet to reflect the custodial/fiduciary nature of these activities.

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

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

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

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

The following schedule presents the intragovernmental and other non-entity assets as of September 30, 2004 and 2003, respectively, (dollars in thousands):

	2004	2003
Intragovernmental Assets:		
Seized currency:		
Investments (Note 3)	$ 329,239	$ 344,244
Seized currency:		
Cash and other monetary assets	44,206	52,312
Total Non-Entity Assets	373,445	396,556
Total Entity Assets	324,275	291,205
Total Assets	$ 697,720	$ 687,761

Liabilities Covered by Budgetary Resources

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

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

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

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

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

Liabilities Not Covered by Budgetary Resources

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

Net Position

The components of net position are classified as follows:

- **Retained Capital** – There is no cap on amounts that the Fund can carry forward into fiscal year 2005. The cap was removed by the fiscal year 1997 Omnibus Appropriations Act (PL 104-208).

- **Unliquidated Obligations** – This category represents the amount of undelivered purchase orders, contracts and equitable sharing requests which have been obligated with current budget resources or delivered purchase orders and contracts that have not been invoiced. An expense and liability are recognized and the corresponding obligations are reduced as goods are received or services are performed. In fiscal year 1999, Fund management decided to recognize as liabilities, a portion of the equitable sharing requests that were in final stages of approval subsequent to year-end. Prior experience with the nature of this account indicated that a substantial portion of these requests were certain liabilities at year-end. Prior to fiscal year 1999, expenses and liabilities were recognized and the corresponding obligations reduced when final management approval for an equitable sharing request was given (See also Distributions Payable at Note 10).

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

Note 3: Investments and Related Interest

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

The following schedule presents the investments on hand as of September 30, 2004 and 2003, respectively (dollars in thousands):

Entity Assets

Description	Cost	Unamortized Discount	Investment, Net
September 30, 2004:	$ 125,820	$ (186)	$ 125,634
Treasury Forfeiture Fund - 28 days 1.520% U.S. Treasury Bills			
Interest Receivable –			
On entity investments			74
On non-entity investments			195
Total Investment, Net, and Interest Receivable			$ 125,903
September 30, 2003:			
Treasury Forfeiture Fund - 28 days 1.605% U.S. Treasury Bills	$ 182,761	$ (124)	$ 182,637
Interest Receivable –			
On entity investments			53
On non-entity investments			100
Total Investment, Net, and Interest Receivable			$ 182,790

Non-entity Assets

Description	Cost	Unamortized Discount	Investment, Net
September 30, 2004:			
Treasury Forfeiture Fund – Seized Currency Suspense Account 28 days 1.520% U.S. Treasury Bills	$ 329,726	$ (487)	$ 329,239
September 30, 2003:			
Treasury Forfeiture Fund – Seized Currency Suspense Account 28 days 1.605% U.S. Treasury Bills	$ 344,478	$ (234)	$ 344,244

Note 4: Accounts Receivable

No allowance has been made for uncollectible amounts as the accounts recorded as a receivable at year end were considered to be fully collectible in fiscal years 2004 and 2003.

Note 5: Advances

Advances amounted to $0.01 million in both fiscal years 2004 and 2003.

Note 6: Cash and Other Monetary Assets

Entity Assets

Cash and Other Monetary Assets held on hand included forfeited currency not yet deposited, as well as forfeited currency held as evidence, amounting to $8.4 million and $8.4 million in fiscal years 2004 and 2003, respectively.

Non-Entity Assets

Cash and Other Monetary Assets included seized currency not yet deposited, as well as deposited seized currency which is not invested in order to pay remissions, amounting to $44.2 million and $52.3 million in fiscal years 2004 and 2003, respectively.

Note 7: Forfeited Property

The following summarizes the components of forfeited property (net), as of September 30, 2004 and 2003, respectively, (dollars in thousands):

	2004	2003
Held for Sale	$ 42,943	$ 35,139
To be shared with Federal, state or local, or foreign government	820	50
Total forfeited property (Note 8)	43,763	35,189
Less: Allowance for mortgages and claims	(1,200)	(1,258)
Total forfeited property, net	$ 42,563	$ 33,931

Note 8: ***FY 2004 Analysis of Changes in Forfeited Property and Currency***

The following schedule presents the changes in the forfeited property and balances from October 1, 2003 to September 30, 2004.
(Dollar value is in thousasnds.)

	10/1/03 Financial Statement Balance		Adjustments		10/1/03 Carrying Value		Forfeitures		Deposits/Sales		Disposals/Transfers	
	Value	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**
Currency	$ 6,853	-	$ -	-	$ 6,853	-	$ 159,420	-	$ (164,845)	-	$ (1,833)	-
Other Monetary												
Instruments	1,581	-	-	-	1,581	-	136	-	(23)	-	-	-
Subtotal	8,434	-	-	-	8,434	-	159,556	-	(164,868)	-	(1,833)	-
Real Property	23,025	99	(2,052)	-	20,973	99	18,783	96	(21,512)	(85)	(202)	(4)
General Property	7,043	4,080	27,254	-	34,297	4,080	21,469	10,862	(20,455)	(2,421)	(3,887)	(630)
Vessels	374	33	292	-	666	33	2,089	95	(2,062)	(78)	(183)	(8)
Aircraft	20	2	-	-	20	2	384	6	(133)	(4)	(96)	(2)
Vehicles	4,727	1,559	3,470	-	8,197	1,559	29,034	19,364	(15,324)	(2,270)	(6,471)	(642)
Subtotal	35,189	5,773	28,964	-	64,153	5,773	71,759	30,423	(59,486)	(4,858)	(10,839)	(1,286)
Grand Total	$ 43,623	5,773	$ 28,964	-	$ 72,587	5,773	$ 231,315	30,423	$ (224,354)	(4,858)	$ (12,672)	(1,286)

	Victim Restitution		Destroyed		Other Adjustments		Value Change		2004 Carrying Value		Fair Market Value Adjustment		9/30/04 Financial Statement Balance	
	Value	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**
Currency	$ -		$ -		$ 7,130	-	$ -	-	$ 6,725		$ -		$ 6,725	
Other Monetary	-	-	-	-	-	-	-	-		-	-	-	-	-
Instruments	-	-	-	-	1	-	-	-	1,695	-	-	-	1,695	-
Subtotal	-	-	-	-	7,131	-	-	-	8,420	-	-	-	8,420	-
Real Property	-	-	-	-	1,442	8	(126)	-	19,358	114	12,245	-	31,603	114
General Property	-	-	(80)	(8,012)	(7,532)	1,456	(4,985)	-	18,827	5,335	(15,972)	-	2,855	5,335
Vessels	-	-	-	(11)	352	1	(14)	-	848	32	(282)	-	566	32
Aircraft	-	-	-	-	-	-	-	-	175	2	(72)	-	103	2
Vehicles	-	-	(67)	(9,316)	(346)	(9)	(1,009)	-	14,014	8,686	(5,378)	-	8,636	8,686
Subtotal	-	-	(147)	(17,339)	(6,084)	1,456	(6,134)	-	53,222	14,169	(9,459)	-	43,763	14,169
Grand Total	$ -	-	$ (147)	(17,339)	$ 1,047	1,456	$ (6,134)	-	$ 61,642	14,169	$ (9,459)	-	$ 52,183	14,169

Note 8 (Contd.): ***FY 2003 Analysis of Changes in Forfeited Property and Currency***

The following schedule presents the changes in the forfeited property and balances from October 1, 2002 to September 30, 2003. (Dollar value is in thousands).

	10/1/02 Financial Statement Balance		Adjustments		10/1/02 Carrying Value		Forfeitures		Deposits/Sales		Disposals/Transfers	
	Value	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**
Currency	$ 9,550		$ -		$ 9,550		$ 182,190		$ (158,361)		$ (29,386)	
Other Monetary Instruments (2)	357		-		357		64		(73)		(15)	
Subtotal	9,907	-	-	-	9,907	-	182,254	-	(158,434)	-	(29,401)	-
Real Property	24,157	114	(1,550)	-	22,607	114	20,660	78	(18,999)	(91)	(3,466)	(11)
General Property	5,782	3,923	15,309	-	21,091	3,923	74,985	9,999	(61,611)	(2,625)	(1,454)	(629)
Vessels	489	19	358	-	847	19	2,185	81	(1,967)	(59)	(294)	(9)
Aircraft	35	1	-	-	35	1	327	5	(127)	(3)	(285)	(2)
Vehicles	4,343	1,128	2,918	-	7,261	1,128	19,574	4,750	(14,943)	(3,911)	(4,567)	(285)
Subtotal	34,806	5,185	17,035	-	51,841	5,185	117,731	14,913	(97,647)	(6,689)	(10,066)	(936)
Grand Total	$ 44,713	5,185	$ 17,035	-	$ 61,748	5,185	$ 299,985	14,913	$ (256,081)	(6,689)	$ (39,467)	(936)

	Victim Restitution		Destroyed		Other Adjustments		Value Change		2003 Carrying Value		Fair Market Value Adjustment		9/30/03 Financial Statement Balance	
	Value	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**
Currency	$ -		$ -		$ 2,860		$ -		$ 6,853		$ -		$ 6,853	
Other Monetary Instruments	-		-		1,248		-		1,581		-		1,581	
Subtotal	-	-	-	-	4,108	-	-	-	8,434	-	-	-	8,434	-
Real Property	-	-	-	-	468	9	(297)	-	20,973	99	2,052	-	23,025	99
General Property	-	-	(125)	(7,579)	1,879	991	(468)	-	34,297	4,080	(27,254)	-	7,043	4,080
Vessels	-	-	-	-	(80)	1	(25)	-	666	33	(292)	-	374	33
Aircraft	-	-	-	-	70	1	-	-	20	2	-	-	20	2
Vehicles	-	-	(64)	(111)	974	(12)	(38)	-	8,197	1,559	(3,470)	-	4,727	1,559
Subtotal	-	-	(189)	(7,690)	3,311	990	(828)	-	64,153	5,773	(28,964)	-	35,189	5,773
Grand Total	$ -	-	$ (189)	(7,690)	$ 7,419	990	$ (828)	-	$ 72,587	5,773	$ (28,964)	-	$ 43,623	5,773

Note 9: ***FY 2004 Analysis of Changes in Seized Property and Currency***

Seized property and currency result primarily from enforcement activities. Seized property is not legally owned by the Fund until judicially or administratively forfeited. Because of the fungible nature of currency and the high level of control necessary over these assets and the possibility that these monies may be returned to their owners in lieu of forfeiture, seized currency is reported as a custodial asset upon seizure. Seized property other than currency is reported as a custodial asset upon forfeiture. (Dollar value is in thousands.)

	9/30/03 Financial Statement Balance		Seizures		Remissions		Forfeitures		Adjustments		Value Changes		9/30/04 Financial Statement Balance	
	Value	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**
Currency	$ 395,706	-	$ 254,451	-	$ (123,051)	-	$ (159,420)	-	$ 4,283	-	$ -	-	$ 371,969	-
Other Monetary Instruments	850	-	268	-	(362)	-	(136)	-	856	-	-	-	1,476	-
Subtotal	396,556	-	254,719	-	(123,413)	-	(159,556)	-	5,139	-	-	-	373,445	-
Real Property	96,331	293	143,081	292	(7,258)	(60)	(18,783)	(96)	21,353	152	1	-	234,725	581
General Property	151,771	9,992	296,201	18,861	(234,946)	(5,463)	(21,469)	(10,862)	(18,660)	(2,096)	14,465	-	187,362	10,432
Vessels	2,626	70	5,156	148	(1,900)	(31)	(2,089)	(95)	(432)	3	(213)	-	3,148	95
Aircraft	5,393	14	33,209	22	(31,248)	(16)	(384)	(6)	(981)	-	-	-	5,989	14
Vehicles	22,988	1,866	125,080	35,594	(54,949)	(4,421)	(29,034)	(19,364)	(736)	(120)	(1,421)	-	61,928	13,555
Subtotal	279,109	12,235	602,727	54,917	(330,301)	(9,991)	(71,759)	(30,423)	544	(2,061)	12,832	-	493,152	24,677
Grand Total	$ 675,665	12,235	$ 857,446	54,917	$ (453,714)	(9,991)	$ (231,315)	(30,423)	$ 5,683	(2,061)	$ 12,832	-	866,597	24,677

Note 9 (Contd.): ***FY 2003 Analysis of Changes in Seized Property and Currency***

Seized property and currency result primarily from enforcement activities. Seized property is not legally owned by the Fund until judicially or administratively forfeited. Because of the fungible nature of currency and the high level of control necessary over these assets and the possibility that these monies may be returned to their owners in lieu of forfeiture, seized currency is reported as a custodial asset upon seizure. Seized property other than currency is reported as a custodial asset upon forfeiture. (Dollar value is in thousands).

	9/30/02 Financial Statement Balance		Seizures		Remissions		Forfeitures		Adjustments		Value Change		9/30/03 Financial Statement Balance	
	Value	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**
Currency	$ 363,014	-	$ 299,612	-	$ (88,304)	-	$ (182,190)	-	$ 3,574	-	$ -	-	$ 395,706	-
Other Monetary Instruments	15,951	-	352	-	(4,073)	-	(64)	-	(11,316)	-	-	-	850	-
Subtotal	378,965	-	299,964	-	(92,377)	-	(182,254)	-	(7,742)	-	-	-	396,556	-
Real Property	97,214	290	38,135	135	(14,482)	(53)	(20,660)	(78)	(3,886)	(1)	10	-	96,331	293
General Property	105,347	9,465	366,427	16,988	(113,835)	(4,887)	(74,985)	(9,999)	(21,561)	(1,575)	(109,622)	-	151,771	9,992
Vessels	5,591	66	3,962	124	(1,394)	(31)	(2,185)	(81)	(3,259)	(8)	(89)	-	2,626	70
Aircraft	7,060	15	8,184	18	(7,797)	(13)	(327)	(5)	(70)	(1)	(1,657)	-	5,393	14
Vehicles	22,647	1,728	42,152	6,712	(19,407)	(1,642)	(19,574)	(4,750)	(2,331)	(182)	(499)	-	22,988	1,866
Subtotal	237,859	11,564	458,860	23,977	(156,915)	(6,626)	(117,731)	(14,913)	(31,107)	(1,767)	(111,857)	-	279,109	12,235
Grand Total	$ 616,824	11,564	$ 758,824	23,977	$ (249,292)	(6,626)	$ (299,985)	(14,913)	$ (38,849)	(1,767)	$ (111,857)	-	$ 675,665	12,235

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

Distributions Payable (state and local agencies and foreign governments) amounted to $50.4 million and $34.9 million in fiscal years 2004 and 2003, respectively. Fund management recognizes as a liability a portion (based on the average of historical pay-out percentage) of the equitable sharing requests, that were approved or in final stages of approval on September 30, 2004 and 2003, respectively. Prior experience with the nature of this account indicated that a substantial portion of these requests were certain to be paid out by the Fund during the following fiscal year.

Note 11: Net Position

Cumulative Results

The following summarizes components of cumulative results for the years ended September 30, 2004 and 2003, respectively, (dollars in thousands):

	2004	2003
Retained Capital	$ 111,691	$ 117,883
Unliquidated Obligations	65,540	55,146
Results of Operations	16,872	4,202
	$ 194,103	$ 177,231

Unliquidated Obligations

The following summarizes the components of unliquidated obligations as of September 30, 2004 and 2003, respectively, (dollars in thousands):

	2004	2003
Discretionary	$ --	$ --
Equitable Sharing	50,386	34,763
Non-discretionary	15,154	20,383
	$ 65,540	$ 55,146

Note 12: Related Party Transactions

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

Note 13: Super Surplus

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

Amounts distributed to other Federal agencies for law enforcement activities under "Super Surplus" requirements amounts to $25.2 million and $46.3 million in fiscal years 2004 and 2003, respectively.

Note 14: Secretary's Enforcement Fund

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

Amounts distributed for Federal law enforcement purposes of Treasury law enforcement organizations amounted to $13.5 million and $23.1 million in fiscal years 2004 and 2003, respectively.

Note 15: Commitments and Contingencies

Beginning in fiscal year 1999, Fund management decided to recognize the liability for equitable sharing requests that were approved or in final stages of approval subsequent to September 30 (See also Note 10, Distributions Payable).

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

Possible claims of potential significance include the following:

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

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

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

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

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

Note 16: Disclosures Related to the Statements of Net Cost

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

	2004	2003
Gross Costs	$ 122,134	$ 108,053
Earned Revenues	--	--
Net Costs	$ 122,134	$ 108,053

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

Note 17: Disclosures Related to the Statements of Budgetary Resources

The Fund's net amount of budgetary resources obligated for undelivered orders at the end of fiscal years 2004 and 2003 are $89.5 million and $167.9 million, respectively. This amount is fully covered by cash on hand in the Fund and Entity Investments. The Fund does not have borrowing or contract authority and, therefore, has no repayment requirements, financing sources for repayment, or other terms of borrowing authority. No adjustments were required during the reporting period to budgetary resources available at the beginning of the year. There are no legal arrangements, outside of normal government wide restrictions, specifically affecting the Fund's use of unobligated balances of budget authority.

Adjustments to budgetary resources available at the beginning of fiscal years 2004 and 2003 consist of the following (in thousands):

	2004	2003
Recoveries of Prior Year Obligations	$ 23,265	$ 15,924
Spending Authority from Offsetting Collections	154	27
Total	$ 23,419	$ 15,951

Recoveries of prior year obligations are the difference between amounts that Fund management obligated (including equitable sharing) and amounts subsequently approved for payment against those obligations.

Note 18: Dedicated Collections

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

Note 19: Payments in Lieu of Forfeiture, Net of Refund

During fiscal year 2004, the Fund had 4 exceptional large refunds for a total amount of $57.2 million. One case was from US Secret Service for an amount of $4.4 million and the other 3 cases were from CBP for a total of $52.8. This contributed in creating a negative balance.

The following summarizes Payments in Lieu of Forfeiture, Net of Refund as of September 30, 2004 and 2003, respectively, (dollars in thousands):

	2004	2003
Payments in Lieu of Forfeiture	$ 8,650	$26,768
Refunds	(60,406)	(7,576)
Total	($51,756)	$19,192

SECTION III

OTHER REPORTS

Independent Auditor's Report on Internal Control

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

We have audited the Principal Statements (balance sheets and the related statements of net cost, changes in net position, budgetary resources and financing, hereinafter referred to as "financial statements") of the Department of the Treasury Forfeiture Fund (the Fund) as of and for the year ended September 30, 2004, and have issued our report thereon dated October 25, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements.*

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

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

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements due to error or fraud, may occur and not be detected. However, we noted a certain matter discussed in the following paragraphs involving the internal control over financial reporting and its operation that we consider to be a reportable condition. However, this reportable condition is not believed to be a material weakness.

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

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

Indirect Overhead Expenses of the National Seized Property Contractor are not Recorded and Accounted for by the Fund to the Line Item Level.

Indirect overhead expenses of the national seized property contractor are not recorded and accounted for by the Fund to the line item level. The Fund's Property Custodian incurs costs on behalf of the Fund from the time of seizure until the asset is ultimately disposed. Currently, only holding costs and direct selling costs related to general property are captured in the Seized Assets and Case Tracking System (SEACATS) at the line item level, but not the indirect costs.

Because this condition can impact equitable sharing expenses of the Fund, this condition should be remedied.

We also noted other matters involving the internal control structure and its operation that we have reported to Fund Management in a separate letter dated October 25, 2004.

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

This report is intended solely for the information and use of the Management of the Fund, the U.S. Department of the Treasury, OMB, the U.S. Congress, the Office of Inspector General and the Government Accountability Office and is not intended to be, and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

October 25, 2004

Independent Auditor's Report on Compliance with Laws and Regulations

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

We have audited the Principal Statements (balance sheets and the related statements of net cost, changes in net position, budgetary resources and financing, hereinafter referred to as “financial statements”) of the Department of the Treasury Forfeiture Fund (the Fund) as of and for the year ended September 30, 2004, and have issued our report thereon dated October 25, 2004. We conducted our audit in accordance with: auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, “Audit Requirements for Federal Financial Statements.”

The management of the Fund is responsible for complying with laws and regulations applicable to the Fund. As part of obtaining reasonable assurance about whether the Fund’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Fund.

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

Under FFMIA, we are required to report whether the Fund’s financial management systems substantially comply with the Federal financial management systems requirement, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. The Bureau of Customs and Border Protection (CBP) provides cross-servicing of the accounting for the Fund. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

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

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

This report is intended solely for the information and use of the Management of the Fund, the U.S. Department of the Treasury, OMB, the U.S. Congress, the Office of Inspector General, and the Government Accountability Office and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

October 25, 2004

EXHIBIT I

REPORTABLE CONDITION

INDIRECT OVERHEAD EXPENSES OF THE NATIONAL SEIZED PROPERTY CONTRACTOR ARE NOT RECORDED AND ACCOUNTED FOR BY THE FUND TO THE LINE ITEM LEVEL. (Repeat Condition)

CONDITION

Indirect overhead expenses of the national seized property contractor are not recorded and accounted for by the Fund to the line item level. The Fund's Property Custodian incurs costs on behalf of the Fund from the time of seizure until the asset is ultimately disposed. Currently, only holding costs and direct selling costs related to general property are captured in the Seized Assets and Case Tracking System (SEACATS) at the line item level, but not the indirect costs.

CRITERIA

The Budget and Accounting Procedures Act of 1950, Section 3512, *Executive Agency's Accounting System* requires Federal agencies to establish an internal control which ensures the safeguarding of assets and the proper recording of revenues and expenditures. It is further reinforced by the Federal Manager's Financial Integrity Act of 1982 (FMFIA) which requires that internal accounting and administrative controls be established to provide reasonable assurances that revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets. Additionally, the Joint Financial Management Improvement Program's (JFMIP) Seized Property and Forfeited Assets Systems Requirements require seized property and forfeited assets systems to record costs incurred while the asset is in custody, and costs incurred in disposition activities.

CAUSE

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

EFFECT

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

RECOMMENDATION

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

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

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

MANAGEMENT RESPONSE

Management Assessment on Progress:

(1) Real Property Contract: Although the Real Property Contract has been in place for nearly three years, and resolution of this reportable condition is a specifically stated requirement for the contract, the condition remains open and unresolved. TFF Management has taken action to move the Real Property Contract from the auspices of Customs and Border Protection, Department of Homeland Security to direct management by the Executive Office for Asset Forfeiture.

(2) General Property Contract: The requirement to distribute contract overhead costs to the line item level is included in the Statement of Work for the general property contract now pending re-award for nearly 4 years. Notwithstanding this lengthy lapse in the contract process, during which the Fund has funded bridge contracts with the incumbent contractor, competition for re-award of the general property contract is suspended by Customs and Border Protection, Department of Homeland Security. TFF Management has not been provided a schedule by Customs and Border Protection for re-award of the contract and Fund Management also understands from information provided by CBP that no further bridge contracts are eligible for purposes of maintaining and preserving the Fund's seized and forfeited property once the current bridge contract expires. The current bridge contract expires on March 31, 2005. Until a new contract can be awarded, this portion of the Reportable Condition will remain open.

Discussion/Background and Planned Action:

Fund management concurs with the auditor's recommendation regarding the development and implementation of an allocation process for indirect costs. EOAF relies on a national seized property contractor (the contractor) to account for all costs related to the storage, maintenance and sale of seized and forfeited property. Currently, the real property contractor has proposed a methodology for identifying indirect costs to the line item level. Customs and Border Protection has not yet implemented the methodology through SEACATS. Implementation of an indirect cost methodology for general property will have to await the re-competition of the successor contract for general property, which is suspended at this time. The requirement is not a part of the current general property contractor's statement of work.

SECTION IV

REQUIRED SUPPLEMENTAL INFORMATION

TREASURY FORFEITURE FUND
Required Supplemental Information
(Required by OMB Bulletin 01-09)
For the Years Ended September 30, 2004 and 2003
(Dollars in Thousands)

Intragovernmental Amounts – Assets (Dollars in thousands)

Partner Agency	2004 Fund Balance with Treasury	2004 Accounts Receivable/ Advances	2004 Investments	2003 Fund Balance With Treasury	2003 Accounts Receivable/ Advances	2003 Investments
Departmental Offices	$--	$12	$ --	$--	$13	$ --
Department of Justice	--	--	--	--	--	--
Bureau of Public Debt	--	--	$455,142	--	--	$527,034
Totals	$--	$12	$455,142	$--	$13	$527,034

Intragovernmental Amounts – Liabilities (Dollars in thousands)

Partner Agency	2004 Accounts Payable	2003 Accounts Payable
Department of Justice	$ 2,280	$11,618
US Postal Service	--	15
Departmental Offices	1,584	880
Department of Homeland Security	8,336	10,126
Internal Revenue Service	18,588	18,291
Financial Crimes Enforcement Network	--	485
Totals	$30,788	$41,415

Intra-Governmental Amounts – Revenues and Costs (Dollars in thousands)

Budget Functions	2004 Cost to Generate Exchange Intragovernmental Revenue	2004 Costs to Generate Non-Exchange Intragovernmental Revenue	2003 Cost to Generate Exchange Intragovernmental Revenue	2003 Costs to Generate Non-Exchange Intragovernmental Revenue
Administration of Justice	$ --	$ 51,438	$ --	$ 64,825

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

	2004		2003	
Partner Agency	In	Out	In	Out
Department of Justice	$ --	$ 2,091	$ --	$ 10,481
Department of Homeland Security	--	21,671	--	30,825
Engraving and Printing	--	200	--	--
Internal Revenue Service	--	14,506	--	11,881
Financial Crimes Enforcement Network	--	178	--	2,140
Totals	$ --	$38,646	$ --	$55,327

SECTION V

OTHER ACCOMPANYING INFORMATION

(Unaudited)

TREASURY FORFEITURE FUND
Equitable Sharing Summarized by State and U.S. Territories
For the Year Ended September 30, 2004
(Dollars in Thousands)
(Unaudited)

State/U.S. Territories	Currency Value	Property Value
Alabama	$ 79	$ 12
Alaska	-	-
Arizona	2,423	198
Arkansas	-	-
California	1,938	309
Colorado	28	-
Connecticut	66	-
D.C. Washington	203	1
Delaware	-	-
Florida	3,410	1,238
Georgia	155	-14
Guam	-	-
Hawaii	-	4
Idaho	-	-
Illinois	2,606	14
Indiana	311	-28
Iowa	2	3
Kansas	-	-
Kentucky	156	55
Louisiana	-	-
Maryland	496	17
Massachusetts	1,145	78
Michigan	953	51
Minnesota	3	4
Mississippi	134	17
Missouri	32	137
Montana	-	-
Nebraska	4	337
Nevada	11	39
New Jersey	2,615	142
New Hampshire	-	-
New Mexico	19	-
New York	9,620	234
North Carolina	720	200
North Dakota	-	-
Ohio	1,212	296
Oklahoma	13	-
Oregon	437	166
Pennsylvania	78	12
Puerto Rico	3,453	34
Rhode Island	-	-539
South Carolina	1,286	5
South Dakota	1	-
Tennessee	116	38
Texas	10,239	152
Utah	-	-
Vermont	90	-
Subtotal carried forward	$44,054	$3,212

TREASURY FORFEITURE FUND

Equitable Sharing Summarized by State and U.S. Territories
For the Year Ended September 30, 2004
(Dollars in Thousands)
(Unaudited)

State/U.S. Territories	Currency Value	Property Value
Subtotal brought forward	44,054	3,212
Virgin Islands	50	-
Virginia	305	129
Washington	292	-
West Virginia	-	-
Wisconsin	37	1
Wyoming	43	-
Totals	$44,781	$3,342

Summarized above are the currency and property values of assets forfeited and shared with state and local agencies and U.S. Territories participating in the seizure. This supplemental schedule is not a required part of the financial statement of the Department of the Treasury Forfeiture Fund. Information presented on this schedule represents assets physically transferred during the year and, therefore, does not agree with total assets shared with state and local agencies in the financial statements. In addition, the above numbers do not include the adjustment to present property distributed at net realizable value.

Uncontested Seizures of Currency and Monetary Instruments Valued Over $100,000, Taking More Than 120 Days from Seizure to Deposit in Fund
For the Year Ended September 30, 2004
(Dollars in Thousands)

31 U.S.C. 9703(f)(2)(E) requires the Secretary of the Treasury to report annually to Congress uncontested seizures of currency or proceeds of monetary instruments over $100,000, which were not deposited in the Department of the Treasury Forfeiture Fund within 120 days of the seizure date. There were no administrative seizures over $100,000 over 120 days old for all bureaus in FY 2004.

For the Year Ended September 30, 2004
(Dollars in Thousands)

Revenue, Expenses and Distributions by Asset Category:

	Revenue	Expenses and Distributions
Vehicles	$18,886	$35,631
Vessels	5,246	45,397
Aircraft	5,246	14,625
General Property	16,787	144,092
Real Property	58,756	5,644
Currency and monetary instruments	252,038	111,570
	356,959	356,959
Less:		
Mortgages and claims	(7,331)	(7,331)
Refunds	(60,406)	(60,406)
Add:		
Excess of net revenues and financing sources over total program expenses	--	--
Total	$289,222	$289,222
Revenues, Transfers, Expenses and Distributions by Type of Disposition:		
Sales of property and forfeited currency and monetary instruments	241,169	67,822
Reimbursed storage costs	4,220	35,696
Assets shared with state and local agencies	98,667	98,667
Assets shared with other federal agencies	9,758	9,758
Assets shared with foreign countries	2,708	2,708
Victim Restitution	437	437
Destructions	--	42,835
Pending disposition	--	99,036
	356,959	356,959
Less:		
Mortgages and claims	(7,331)	(7,331)
Refunds	(60,406)	(60,406)
Add:		
Excess of net revenues and financing sources over total program expenses	--	--
Total	$289,222	$289,222

The revenue amount of $289,222 is from the Statement of Net Position. This supplemental schedule "Analysis of Revenues, Expenses and Distributions" is required under the Treasury Forfeiture Fund Act of 1992. Because the Fund does not have a cost accounting system, the method used does not provide reliable information in the analysis of revenue and expenses and distributions by type of disposition. The information is presented to comply with the requirements of the Treasury Forfeiture fund Act of 1992.

TREASURY FORFEITURE FUND
Information Required by 31 U.S.C. 9703(f)
For the Year Ended September 30, 2004

The Treasury Forfeiture Fund Act of 1992, 31 U.S.C. 9703(f), requires the Secretary of the Treasury to transmit to Congress, no later than February 1, of each year, certain information. The following summarizes the required information.

(1) A report on:

(A) The estimated total value of property forfeited with respect to which funds were not deposited in the Department of the Treasury Forfeiture Fund during the preceding fiscal year under any law enforced or administered by the Department of the Treasury law enforcement organizations of the United States Coast Guard, in the case of fiscal years beginning after 1993.

As reported in the audited financial statements, at September 30, 2004, the Fund had forfeited property held for sale of $42,563. The realized proceeds will be deposited in the Fund when the property is sold.

Upon seizure, currency and other monetary instruments not needed for evidence in judicial proceedings are deposited in a U.S. Customs Service (Customs) suspense account. Upon forfeiture, it is transferred to the Treasury Forfeiture Fund. At September 30, 2004, there was $8,420 of forfeited currency and other monetary instruments that had not yet been transferred to the Fund. This is reported as a part of "Cash and Other Monetary Assets" in the audited financial statements.

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

The estimated total value of all such property transferred to any state or local law enforcement bureau is summarized by state and U.S. territories. Total currency transferred was $1,833 and total property transferred was $10,839 at appraised value.

(2) A report on:

(A) The balance of the Fund at the beginning of the preceding fiscal year.

The total net position of the Treasury Forfeiture Fund on September 30, 2003 which became the beginning balance for the Fund on October 1, 2003, as reported in the audited financial statements is $177,231.

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

Mortgages and claims expense, as reported in the audited financial statements, was $7,331. The amount actually paid on a cash basis was not materially different.

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

State and local	$98,667
Foreign countries	2,708
Other federal agencies	9,758
Victim restitution	437

(C) The net amount realized from the operations of the Fund during the preceding fiscal year, the amount of seized cash being held as evidence, and the amount of money that has been carried over into the current fiscal year.

The net cost of operations of the Fund as shown in the audited financial statements is $122,134.

The amount of seized currency not on deposit in the Fund's suspense account at September 30, 2004, was $44,206. This amount includes some funds in the process of being deposited at yearend; cash seized in August or September 2004 that is pending determination of its evidentiary value from the U.S. Attorney; and the currency seized for forfeiture being held as evidence.

On a budgetary basis, unobligated balances as originally reported on the Office of Management and Budget Reports, SF-133, "Report on Budget Execution" was approximately $95,779 for fiscal year 2004.

(D) Any defendant's property not forfeited at the end of the preceding fiscal year, if the equity in such property is valued at $1 million or more.

The total approximate value of such property for the Treasury Forfeiture Fund, at estimated values determined by bureau and contractor's officials, and the number of seizures is as follows:

CBP	$ 64,207,747	25 seizures
IRS	230,277,125.18	70 seizures

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

The total dollar value of such seizures is $0. This is also documented on page 67.

(Dollars in Thousands)

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

The total net position of the Fund at September 30, 2004, as reported in the audited financial statements is $194,103.

(G) The net amount, if any, of the excess unobligated amounts remaining in the Fund at the end of the preceding fiscal year and available to the Secretary for Federal law enforcement related purposes.

There is no cap on amounts that can be carried forward into fiscal year 2005 per the fiscal year 1997 Omnibus Appropriations Act (PL 104-208).

(H) A complete set of audited financial statements prepared in a manner consistent with the requirements of the Chief Financial Officers Act of 1990.

The audited financial statements, including the Independent Auditor's Report, is found in Section II.

(I) An analysis of income and expense showing revenue received or lost: (i) by property category (such as general property, vehicles, vessels, aircraft, cash, and real property); and (ii) by type of disposition (such as sale, remission, cancellation, placement into official use, sharing with state and local agencies, and destruction).

A separate schedule is presented on page 68.