



Certified Public Accountants | Management Consultants

**Treasury Forfeiture Fund
ACCOUNTABILITY REPORT
Fiscal Year 2007**

**DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.**

Member of the American Institute of Certified Public Accountants

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Message from the Director

I am pleased to present the fiscal year (FY) 2007 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 investigative achievements of our participating law enforcement agencies this year. FY 2007 was a milestone revenue year for the law enforcement bureaus participating in the Treasury Forfeiture Fund, with earned revenue of \$366 million from all sources as compared to \$257 million in FY 2006.

The continued high-impact performance of the Fund reflects the ongoing hard work of our law enforcement bureaus as well as Fund management's 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 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 achieved through large forfeitures; hence we have set a target level of 75 percent of our forfeitures to be high impact, i.e., cash forfeitures equal to or greater than \$100,000. For FY 2007, our member bureaus exceeded the target with performance of 84.18 percent high-impact cash forfeitures.

For FY 2007, the Executive Office for Asset Forfeiture continued its priority emphasis on training with conferences addressing the cutting edge of investigative and forfeiture practices of our member bureaus. During FY 2007, we continued two training curricula initiated in 2006, "Post-Interdiction Currency Investigation and Forfeiture," and "Investigation and Forfeiture in Cases of Illegal Alien Employment, Smuggling and Trafficking." We also conducted the fourth seminar of the series, "International Issues Involved in Investigation and Forfeiture." Each seminar of this series focused on a specific geographic region of the world with the 2007 seminar focused on Europe. The international series topics included trade-based money laundering, the black market peso exchange, money services businesses, new payment methods, and tracing money hidden off-shore. We continue to emphasize training pertinent to the *National Money Laundering Strategy* as well.

The Treasury Forfeiture Fund continues in its capacity as a successful multi-Departmental Fund representing the interests of law enforcement components of the Departments of Treasury and Homeland Security. Member bureaus include the Internal Revenue Service's Criminal Investigation (IRS-CI), the U.S. Secret Service, Immigration and Customs Enforcement (ICE), and Customs and Border Protection (CBP). The U.S. Coast Guard continues its close working relationship with the legacy Customs bureaus.

We look forward to another successful year in FY 2008.

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

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Treasury Forfeiture Fund FY 2007 Management 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. 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. The 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 objective for management is the long-term viability of the Fund to ensure that there are ongoing resources to 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 Treasury Forfeiture Fund continues in its capacity as a multi-Departmental Fund, representing the interests of law enforcement components of the Departments of Treasury and Homeland Security. Our member bureaus include the Internal Revenue Service’s Criminal Investigation (IRS-CI), the U.S. Secret Service, Immigration and Customs Enforcement (ICE), and Customs and Border Protection (CBP). The U.S. Coast Guard continues its close working relationship with the legacy Customs bureaus and functions in a member-bureau capacity.

The Executive Office for Asset Forfeiture (EOAF), which provides management oversight of the Fund, falls under the auspices of the Under Secretary for Terrorism and Financial Intelligence. 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 forfeitures. Management believes this approach incurs the greatest damage to criminal organizations while accomplishing the ultimate objective – to disrupt and dismantle criminal enterprises.

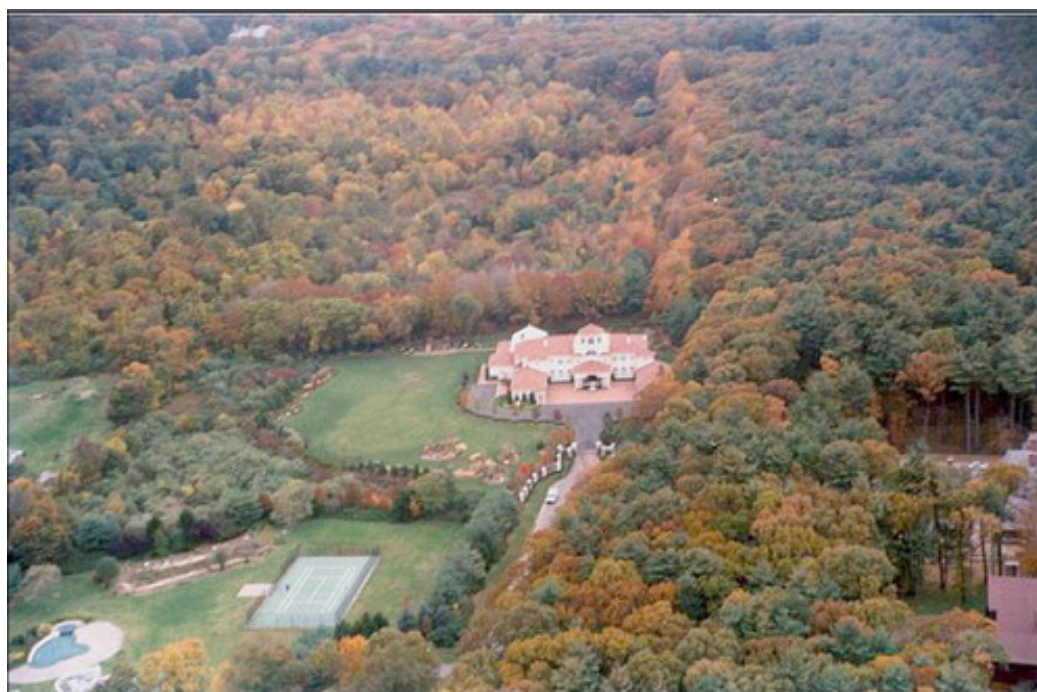
Case Highlights

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 2007 that resulted in 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, which is to use high-impact asset forfeiture in investigative cases to disrupt and dismantle criminal enterprises.

Internal Revenue Service, Criminal Investigations (IRS-CI) Department of the Treasury

Convicted in March 2007 of operating the largest automobile chop-shop on the East Coast, Michael Pescatore sentenced to 11 years in prison and a forfeiture judgment of \$12.5 million

Michael Pescatore, 42, was convicted in March 2007 of extortion and operating the largest automobile chop-shop on the East Coast. As part of a plea bargain in March 2007, Pescatore agreed to an 11-year jail sentence and a forfeiture judgment of \$12.5 million. Reducing this forfeiture debt, the Treasury Forfeiture Fund auctioned off the Pescatore family mansion, shown below, for \$8.3 million.



The 14,000 square foot mansion sits on five acres of Long Island's Gold Coast. It includes two four-car garages, an indoor pool and spa, five bedrooms each with a bathroom, a living room with a fireplace, a dining room with a fireplace and two family rooms with fireplaces. Two of the bedrooms also have fireplaces.



“The house can gulp down 100 to 150 gallons of fuel oil in a single day and with annual property taxes close to \$70,000, between mortgage, utilities, taxes landscaping and upkeep, the house easily costs about \$250,000 a year to run.”

Special Agent John Ricupero,
IRS Asset Forfeiture Coordinator, New York



Michael Pescatore could have been a legitimate businessman, a first-generation American who went to well-regarded St. Francis Prep and the first in his family to graduate from college. Instead, he turned to a life of crime and lost it all. In one of the varied schemes used in the criminal chop-shop enterprise, local detectives involved in the case discovered that thieves had stolen a Chevrolet Avalanche luxury truck, a Cadillac DeVille DTS and a Mercedes Benz S500 from the valet parking lot of an upscale Italian restaurant. The thieves carefully stripped the cars and dumped the frames along a highway. The men then called 911 themselves to report the abandoned hulks. In the case of the Avalanche, the men even followed the tow truck that hauled it away and paid a few bucks to the guys in the garage to shrink-wrap the hulk in plastic to protect it. Following the trail, the detectives found that all three of the frames were bought at auction by the same salvage company, Astra Motor Cars, owned by Michael Pescatore. Astra sold the frames back to the thieves who then reassembled the vehicles using the original parts they had removed earlier. Detectives later found out why one of the thieves had taken such special care of the Avalanche truck, he was using it as his personal vehicle. Astra's paperwork showed that the cars were sold to fictitious people *versus* the thieves.

Astra did a bustling business in stolen airbags, taking in \$10,000 to \$15,000 a week in the mid 1990's, paying thieves \$200 for a set of airbags, reselling them for \$1,200. But it was the arrogance of Pescatore that struck the investigating detectives, later federally deputized in order to map the multi-state criminal activities, offering the following examples of Pescatore's personality: 1) If a competitor outbid him at a car auction, Pescatore was known to pry the vehicle identification number (VIN) off of the dashboard, reducing the car's value considerably; and, once, Pescatore was overseeing the redecoration of a store he owned when someone walked in and asked what happened to the man who ran the store (previously). Lying, Pescatore said, "Didn't you hear? The man has cancer." Then Pescatore asked the man if he'd like to make a donation to a fund set up for the supposedly stricken man. After the visitor contributed \$100 and left, a smiling Pescatore turned to his workers and boasted that he 'just made lunch money.' It is not known whether they laughed or not, but according to one detective Pescatore's workers in the chop-shop ring complained that he did not pay or treat them particularly well, and nearly every one of them cooperated in the investigation against him.

Reference material used for this article: Case information for this article is provided by the article: "From *His* House to *the* Big House," dated April 3, 2007, by Sean Gardiner of the Village Voice.

Philip H. Bloom, a U.S. Citizen who owned and operated several companies in Iraq and Romania, sentenced to 46 months in prison and ordered to forfeit \$3.6 million for role in bribery, fraud and money laundering related to reconstruction contracts in Iraq

On February 16, 2007, Philip H. Bloom, a U.S. citizen who owned and operated several companies in Iraq and Romania, was sentenced to 46 months in prison and ordered to forfeit \$3.6 million for charges of conspiracy, bribery and money laundering related to reconstruction contracts in Iraq. The case also involved: a former Lieutenant Colonel in the United States Army Reserves, Bruce Hopfengardner, of Fredericksburg, Virginia, who was sentenced to 21 months in prison and ordered to forfeit \$144,500 for his role; Robert Stein, a former soldier with the U.S. Army assigned to the CPA-SC as a Department of Defense contract employee; and numerous public officials including several high-ranking U.S. Army officers.

From December 2003 through December 2005, Philip H. Bloom and others conspired to rig the bids on contracts being awarded by the CPA-SC so that all of the contracts were awarded to Bloom. In return, Bloom provided the public officials with over \$1 million in cash, Sport Utility Vehicles

(SUVs), sports cars, a motorcycle, jewelry, computers, business class airline tickets, liquor, offers of future employment with Bloom, and other items of value. In addition, Bloom laundered over \$2 million in currency that Stein and his co-conspirators stole from the CPA-SC that had been slated to be used for the reconstruction of Iraq. Bloom then used his foreign bank accounts in Iraq, Romania and Switzerland to send the stolen money to Hopfengardner and other public officials in return for the awarded contracts. In total, Bloom received over \$8.6 million in rigged contracts.

On January 29, 2007, co-conspirator Robert Stein was sentenced to nine years in prison for related charges of conspiracy, bribery and money laundering, as well as weapons possession charges, for his role in the scheme. Stein also was ordered to forfeit \$3.6 million.

These cases are being investigated by IRS Criminal Investigations, the Special Inspector General for Iraq Reconstruction, U.S. Immigration and Customs Enforcement at the Department of Homeland Security, Army Criminal Investigations Division, the U.S. Department of State Office of Inspector General, and the FBI's Washington Field Office in support of the Justice Department's National Procurement Fraud Task Force.

Societe Generale Haitienne deBanque, S.A., “SogeBank” forfeiture of \$2.9 million related to drug trafficking

The IRS CI and the Drug Enforcement Administration (DEA) conducted an investigation into the activities of drug traffickers using the Republic of Haiti as a transshipment point for drugs, particularly cocaine, intended for distribution and sale in the United States. Evidence secured during the investigation identified a Haitian national and one-time resident of the New York City area as one of the drug traffickers. On numerous occasions from 1999 through 2003, the subject paid Haitian officials to safeguard the arrival and unloading of cocaine in Haiti. After the cocaine safely arrived in Haiti, the subject conspired with others to smuggle the cocaine into Miami and New York by way of commercial aircraft. Proceeds from the sale of the cocaine were subsequently consolidated in Florida and elsewhere and then smuggled back to Haiti where the subject used the proceeds to pay for additional shipments of cocaine into Haiti destined for the United States and to make corruption payments to Haitian National Police officials. The subject deposited the proceeds from the sales of cocaine into numerous bank accounts located in Haiti. He maintained control over these accounts, which were held in his own name and the names of close friends, family members and a family-controlled business. Approximately \$2,897,550 was seized from a Bank of America account, held in the name Societe Generale Haitiene de Banque, S.A., commonly referred to as SogeBank. These funds were forfeited to the Treasury Forfeiture Fund on October 10, 2006.

Asha Ventures, LLC and Narayan, LLC agree to pay \$1.5 million in lieu of forfeiture related to conspiracy to harbor illegal aliens and conspiracy to launder money

Asha Ventures, LLC and Narayan, LLC were limited liability companies involved in the business of owning and operating hotels. Through their agents, the two companies employed numerous illegal aliens at hotels in London, Kentucky, and encouraged the aliens to remain in the United States. The aliens were sometimes paid by checks made payable to fictitious cleaning companies. The checks were then negotiated at the hotel upon which the checks were drawn and the aliens were then paid in cash.

Asha Ventures, LLC and Narayan, LLC each pled guilty to conspiracy to harbor illegal aliens and conspiracy to launder money. On November 1, 2006, a judge signed the Final Decree and Order of Forfeiture for \$1,500,000 against Asha Ventures and Narayan, LLC.

Subject conspires to hide approximately \$24.5 million in company income, structuring cash transactions to convert corporate receipts into untraceable cash, forfeits \$570,000

The subject of this case was involved in the operation of medical management companies in Brooklyn and the Bronx. He was also one of eight defendants charged with conspiracy to hide approximately \$24.5 million in company income by using a series of shell companies, Long Island bank accounts and structured cash transactions to convert corporate receipts into virtually untraceable cash. The defendants carried out their scheme beginning in 1993 by transferring approximately \$24.5 million in purported management fees received by various managed companies to a series of shell company bank accounts set up solely to convert traceable funds to untraceable cash.

The shell companies were established by associates of the defendants. The associates deposited the checks received from the defendants into Long Island bank accounts and then either structured the cash withdrawals from the accounts in a manner designed to evade the filing of currency transaction reports (CTRs) or falsified CTRs to disguise the true ownership and source of the funds. In exchange, the associates received transaction fees between 8 and 12 percent of the total amount of the converted funds. In a plea agreement, one of the defendants pled guilty to a violation of Title 18 USC 371 (Conspiracy). He acknowledged that he owned property that was subject to forfeiture as a result of his conspiracy to violate Title 31 USC 5324 (Structuring.) The defendant consented to the entry of a judgment forfeiting to the government the sum of \$570,000. This amount was forfeited and the funds deposited into the Treasury Forfeiture Fund.

President and Sole Owner of Brown Investment Services (BIS), Chesterfield, Virginia, forfeits \$700,336.55 related to Ponzi Scheme

In September 2006, an individual was indicted for violation of Title 18 USC 1343 (mail fraud) in connection with a multi-million dollar Ponzi investment scheme, and possession of a firearm by a convicted felon. The subject was the president and sole owner of Brown Investment Services ("BIS"), a Virginia-based company in Chesterfield County. According to the indictment, beginning around April 2006, the subject held seminars in the Richmond area to attract investors to BIS. During the seminars, the subject and his employees told potential investors that BIS could guarantee to double their investments every thirty business days. The subject claimed that he was an expert in foreign currency trading on the Foreign Currency Exchange Market (FOREX) and told potential investors that he would personally invest their money in the FOREX. Potential customers were told that after the initial thirty business days of an investment, they could roll their investments over and BIS would once again guarantee to double their investments. BIS and the subject would be compensated for investment services with investment proceeds in excess of the investor's guaranteed returns.

As a result of the seminars, it was alleged that over 350 investors, including individuals, small businesses, and churches, invested money through BIS. Based on guarantees and representations made by the subject and his employees, customers invested approximately \$8 million in BIS with the understanding that these funds would be invested in the FOREX market. These funds were deposited into a BIS bank account over which the subject exercised sole control and was the only authorized signatory. The indictment alleged that the vast majority of the approximately \$8 million in investor

funds was never invested in the FOREX market. Instead, the subject transferred \$445,000 of the money from the BIS bank account into his personal bank account, and then wired that money into a personal FOREX trading account. Using approximately \$2.9 million obtained from the investors, the subject purchased approximately 28 luxury vehicles for himself and his employees. The indictment alleged that he made approximately \$469,000 in cash withdrawals and approximately \$159,000 in debit card transactions from investor funds. It was further alleged that he used investors' money to purchase more than \$154,000 in jewelry and to pay BIS employees approximately \$640,000 in salaries. A total of \$700,336.55 was seized and forfeited to the Treasury Forfeiture Fund.

Individual engages in money laundering while in prison after forfeiting over \$2 million for drug trafficking, forfeits another \$1,074,850

In late December 1999, an individual was arrested and indicted in Florida on charges of conspiracy to distribute 1,000 kilograms of marijuana in violation of Title 21 USC 846. The subject entered into a plea agreement with the United States in which he agreed to plead guilty to conspiracy to distribute 1,000 kilograms of marijuana. As part of a plea agreement, the subject forfeited over \$2 million related to the case. While the subject was serving his prison sentence, an unrelated investigation revealed evidence that he was involved in money laundering activity. Investigators followed leads and determined that the subject, through other individuals, was laundering proceeds of his prior trafficking operation. It was learned that drug proceeds were being held by others for safe keeping and that one individual held more than \$1 million for the subject and had received \$100,000 from the subject for doing so. After his release from prison, the subject admitted possessing approximately \$1,000,100 in drug proceeds that he subsequently turned over to investigators. The currency seized from the subject totaled \$1,074,850 and was subject to forfeiture pursuant to 18 USC 981. In April 2007, a Final Order of Forfeiture was signed forfeiting this sum to the Treasury Forfeiture Fund.

IRS CI Receives National and State Awards for Historic Preservation Efforts Associated with Redstone Castle, Colorado



On November 9, 2006, IRS CI was the recipient of the “Chairman’s Award for Federal Achievement in Historic Preservation” by the Advisory Council on Historic Preservation (Advisory Council), Washington, D.C. The Advisory Council recognizes examples of exceptional federal preservation leadership, programs, and projects. Previously, on May 9, 2006, IRS CI, accepted the prestigious

“State Honor Award” given by Colorado Preservation Inc. at the annual Dana Crawford Awards for Excellence in Historic Preservation. This award was accepted on behalf of the many professionals who worked side by side in the successful seizure, preservation, and eventual forfeiture of one of Colorado’s most treasured historic sites, Redstone Castle.

Historical Background: Built in 1897, Redstone Castle was formally known as Cleveholm Manor, home to John Cleveland Osgood, a coal baron and one of the nation’s richest men at the turn of the 20th century. Located in the Colorado Rockies along the Crystal River in the quaint town of Redstone, Colorado, the historic property had since had a number of different owners prior to it being seized by IRS CI in March 2003.

Background to Federal Forfeiture of Redstone Castle: A fifty-seven count indictment charged seven people with committing federal crimes in connection with a fraudulent “high yield investment scheme.” During the course of the investigation, authorities seized the Redstone Castle, a number of racing vehicles, and over \$17 million in cash from numerous bank accounts. The assets seized from the defendants were purchased from moneys obtained from the illegal scheme or represented proceeds from the scheme. In total, over 1,000 people were defrauded of approximately \$56 million. Some of the investors’ money was used to purchase the Redstone Castle properties.

As a result of the properties being forfeited to the United States, a federal judge authorized the sale of the Redstone Castle, Carriage House, and Barn, along with an accompanying home at 410 Redstone Boulevard, in Redstone, Colorado. On March 19, 2005, the historic Redstone Castle properties were sold for \$4.4 million.

Proceeds of the auction were used to compensate victim losses resulting from the multi-million dollar investment fraud scheme.

Immigration and Customs Enforcement (ICE)
Department of Homeland Security

ITT Corporation pleads guilty to illegally exporting secret military data overseas, pays \$100 million fine which includes a \$28 million forfeiture

ITT Corporation, the leading manufacturer of military night vision equipment for the U.S. Armed Forces, admitted sending classified materials overseas and will pay a \$100 million penalty, which includes \$28 million forfeiture to the Treasury Forfeiture Fund. The \$100 million penalty is one of the largest ever paid in a criminal case. ITT Corporation is also the first major defense contractor convicted of a criminal violation of the Arms Export Control Act.

Pursuant to a plea agreement, ITT pled guilty to one count each of export of defense articles without a license and one count of omission of statements of material facts in arms exports reports. According to the first count, ITT Corporation exported or caused to be exported defense-related technical data to the People’s Republic of China, Singapore and the United Kingdom without having first obtained a license or written authorization from the U.S. Department of State. Count two charged that between April 2000 and October 2004, ITT Corporation left out material facts from Arms Exports Required Reports. The omission of these material facts made the reports misleading. ITT Corporation was aware that it was violating its export licenses for the pertinent equipment but failed to take significant corrective action to stop the ongoing violations until shortly before it informed the Department of State about the violations.

Golden State Fence Company executives sentenced for hiring unauthorized workers, company forfeits \$4.7 million

Golden State Fence Company, which builds fences for residential, commercial and military projects throughout California, was first notified in writing in 1999 that at least 15 of its employees were unauthorized alien workers. At that time, Golden State stated that they would terminate the employees. However, in September 2004, it was determined that at least 49 Golden State employees were unauthorized aliens. Three of the employees were among those listed in the 1999 notice as unauthorized alien workers. In December 2006, the corporation pled guilty to hiring unauthorized alien workers between January 1999 and November 2005. In March 2007, the Golden State Fence Company's president, Melvin Kay, and vice president, Michael McLaughlin, were sentenced for these violations and the corporation was ordered to forfeit \$4.7 million of proceeds generated by the illegal hiring practices.

Mohammad Anvari-Hamedani, a Toledo doctor, 72, pleads guilty to 36 to 38 counts of money laundering, illegally transferring funds to Iran, and tax evasion; forfeits \$650,000

On November 20, 2006, a Toledo, Ohio doctor, Mohammad Anvari-Hamedani, 72, was sentenced to 60 days confinement and \$1.15 million in fines and forfeiture for money laundering, illegally transferring funds to Iran, and tax evasion. The investigation began in April 2002 when a search warrant was executed at Anvari-Hamedani's residence. The warrant was based on probable cause involving the violation of the U.S. embargo on Iran. The investigation traced a total of \$4 million that was invested in Iran in violation of the embargo. The methods used to transfer the money to Iran were worldwide in scope, using bank accounts located in the United States, Great Britain, the United Arab Emirates (UAE) and Singapore.

Also uncovered during the investigation was the use of a "Hawala" scheme to transfer \$169,000 to Iran. "Hawalas" are a form of money-transmitting business, common in many Middle Eastern and African countries, through which funds can be transferred between parties based on ties of kinship and individual trust. There is not an immediate physical or electronic transfer of funds. The Hawala scheme was employed after financial institutions became suspicious of large international money transfers to the UAE.

Anvari-Hamedani was sentenced to a \$500,000 fine, a \$650,000 forfeiture, 60 days community confinement, three years probation, and 500 hours of community service. The sentencing guidelines for the offenses are normally 37 to 46 months incarceration. In this case, the sentencing judge departed from the sentencing guidelines due to Anvari-Hamedani's advanced age and medical condition.

This investigation was conducted by ICE and IRS CI.

Operation Gilded Cage - Bay area brothel owner pleads guilty to one count of money laundering for role in large-scale human smuggling and prostitution scheme, forfeits \$1 million

In November 2006, Anthony Gar Lau, 46, of San Bruno, California, entered a guilty plea and agreed to forfeit \$1 million to the government, the amount he acknowledged earning from his alien harboring activities as the owner of a brothel called the Golden Flower Steam and Sauna Spa.

Lau and his partners in the Golden Flower Spa employed illegal alien women as prostitutes and used the funds generated to pay the brothel's operating expenses.

Lau is among more than two dozen defendants charged in connection with Operation Gilded Cage, a massive investigation involving U.S. Immigration and Customs Enforcement (ICE), the Department of Justice Civil Rights Division, the FBI, the San Francisco Police Department, the IRS CI and the State Department's Diplomatic Security Office.

Dominic Adu-Gyamfi guilty of operating an illegal money transmitting business, forfeits \$241,452

Pursuant to a plea agreement, Dominic Adu-Gyamfi, of Potomac Falls, Virginia, was sentenced to 12 months and one day in federal prison and two years supervised release and agreed to forfeit \$241,452 seized by Immigration and Customs Enforcement (ICE) agents during raids conducted on his business and residence late in calendar year 2005. Adu-Gyamfi pled guilty to a one-count information charging him with 18 USC 1960, operating an illegal money transmitting business.

From December 2002 through the end of 2005, Adu-Gyamfi and others under his direction wire transferred over \$28 million from two business locations, one in Falls Church and another in Woodbridge, to recipients in Thailand, Saudi Arabia, Ghana, England, Hong Kong, China, Cyprus and India. Despite being directed by the Virginia State Corporation Commission (VCC) Bureau of Financial Institutions to cease the transmission business, he continued his illegal business.

Christopher Bouchard, 34, guilty in conspiracy to commit money laundering, forfeits personal residence, other real estate, several personal vehicles and agrees to a forfeiture judgment of \$1.3 million

In 2006, Christopher Bouchard, 34, of Manchester, New Hampshire, was convicted on federal money laundering charges. The guilty plea followed Bouchard's guilty pleas to charges of being a drug enterprise leader, conspiracy to distribute cocaine, and conspiracy to distribute marijuana. The crimes occurred between January 2000 and June 2005. During that time period, Bouchard directed the transportation and shipment of cocaine and marijuana from Arizona to New Hampshire. The federal money laundering charges are associated with the ill-gotten proceeds of his drug trafficking operation.

As part of the plea agreement between Bouchard and the Federal Government, Bouchard agreed to forfeit all of his interest in his personal residence, other real estate, and several vehicles including a Mercedes Benz E 55. Bouchard further consented to the entry of a forfeiture judgment against him in the amount of \$1.3 million.

Donald Davis, 41, of Norwalk, Connecticut, is sentenced to a year in prison, three years of supervised release, and forfeits \$80,000 in lieu of forfeiture of his residence

Donald Davis pled guilty to one count of conspiring to distribute gamma butyrolactone (“GBL”), which is commonly known as the “date rape” drug. According to documents filed with the Court in May 2005, officers executed a search and arrest warrant at Davis’ Norwalk residence. Officers seized several firearms, firearm ammunition, narcotics paraphernalia and significant quantities of GBL stored at the residence. Officers also seized Davis’ personal computer of which a subsequent search revealed that Davis had used the internet, including a bulletin board called “The Global Connection,” to facilitate sales of the “date rape” drug. Davis admitted that he used his residence to commit and facilitate the commission of the distribution of GBL thus subjecting his residence to forfeiture under federal law. However, in lieu of forfeiture of his residence, Davis will pay \$80,000 to the Treasury Forfeiture Fund.

ICE Returns Ancient Artifacts to Peru

ICE Returns more than 400 Pre-Columbian Artifacts to Peruvian Government

In June 2007, ICE officials returned 412 pre-Columbian artifacts to the Peruvian government that were seized in 2005 following a joint investigation between ICE and the Broward, Florida Sheriff’s Office. The pre-Columbian era refers to a period preceding the exploration of the Americas by Christopher Columbus. The artifacts date as far back as 1500 B.C.



3,500 year-old clay vessel among the pre-Columbian artifacts returned to the Peruvian government.

Law enforcement officials discovered the artifacts during the execution of federal search warrants at various South Florida locations. The artifacts were stolen from Peru and illegally smuggled into the

United States. The seizure is believed to be one of the largest seizures of pre-Columbian artifacts smuggled from Peru into the United States. The seized items included a clay vessel estimated to be 3,500 years old, a clay statue estimated to be 1,800 years old and a burial shroud linked to ancient Peruvian royalty. All of the artifacts were examined and authenticated by Florida International University professor Dr. Carol Damian and Dr. Ramiro Matos, Peruvian archaeologist from the Smithsonian Museum in Washington, D.C.

“The Peruvian government views with high regard the two years of diligent work invested in recovering these important pieces of the Peruvian people’s history.....”

- Jorge E. Roman, Consul General of Peru in Miami

ICE Returns \$66,000 to Octogenarian Victim of Canadian Lottery Fraud and Warns Public Not to Fall for Telemarketing “Get Rich Quick” Schemes

Project COLT

Formed in the 1990s to combat telemarketing fraud in both countries, Project COLT includes the Royal Canadian Mounted Police, ICE, the FBI and the U.S. Postal Inspection Service, among other law enforcement and government agencies. The Project returns monies to victims of fraud.

Project Colt – Victim Bilked by Canadian Lottery Fraud – Gets Some Money Back

In July 2007, ICE Agents returned \$66,000 to an 85-year-old Los Angeles woman victimized by telemarketing con artists in Canada who promised her a \$1.8 million lottery windfall. The money returned to the retired school administrator was recovered by investigators as part of Project COLT (Center of Operations Linked to Telemarketing). The ploy used on the Los Angeles senior citizen is a common one employed by telemarketing fraudsters. She was advised that to obtain her lottery prize she would have to forward money to pay the taxes on her winnings.

After sending multiple payments totaling more than \$200,000, the victim told relatives about her expected windfall and they alerted the local FBI. A Victim Assistance Representative for the FBI passed the lead onto Project COLT investigators, who were eventually able to recover most of the woman’s money. One of the victim’s payments was in the form of a \$100,000 cashier’s check. Officers with the Canada Border Services Agency intercepted that payment and Project COLT investigators subsequently arranged for the issuing U.S. bank to cancel the check.

The money returned to the victim was what remained of a \$100,000 wire transfer the victim made at the direction of the scammers to a Canadian bank account. Project COLT investigators notified security officials at the Canadian bank who froze the account.

“This woman was very fortunate that investigators were able to get most of her money back. Unfortunately, that’s often not the case. While ICE and its enforcement partners are doing everything possible to stop this kind of fraud, the first line of defense is for people to be suspicious of anyone who calls and asks them to send money.”

- Robert Schoch, SAIC, Los Angeles, ICE

According to ICE, the fraudulent telemarketers pose as lawyers, government officials, police officers, accountants, or lottery company officials. The victims are typically told they will receive a sum of money varying from thousands to millions of dollars in lottery winnings. Investigators emphasize the con artists are very believable and will persist until they bilk as much money as possible from their victims. According to the victim's nephew, the scam artists called his aunt virtually every day and asked how she was doing. They acted like they were her best friends, exploiting her trust and playing upon her desire to help her family out financially.

Before sending any money to telemarketers, ICE urges the public to contact PHONEBUSTERS, Canada's Anti-fraud Call Center at 1-888-495-8501. Additional information is available at www.phonebusters.com.

*Customs and Border Protection (CBP)
Department of Homeland Security*

CBP Officers Discover \$78,000 in Vehicle Search, Forfeited

In April 2007, CBP officers obtained consent to search a vehicle in which \$78,000 in US currency was discovered. The sum was forfeited to the Treasury Forfeiture Fund in July 2007.

CBP Officers Discover \$443,697 in Currency, Forfeited

In September 2006, CBP officers obtained consent to search a vehicle and discovered \$443,697 in US currency. The vehicle was seized along with the currency and the \$443,697 was forfeited to the Treasury Forfeiture Fund in 2007.

CBP Officers Discover \$300,000 Hidden Compartments, Forfeited

In March 2007, CBP officers selected an individual for an outbound enforcement exam at the Detroit Ambassador Border crossing. A vehicle inspection resulted in the discovery of concealed bags of US currency hidden in vehicle compartments. The total amount of currency seized was \$300,000 which was forfeited to the Treasury Forfeiture Fund in June 2007.

CBP Fights Drug Traffic

CBP Officers Seize 77 Pounds of Cocaine during an Outbound Vehicle Exam on Labor Day, Arrest 29 Year Old Female

On Labor Day 2007, CBP officers at the Peace Arch Port of Entry seized 77 pounds of cocaine during an outbound vehicle examination.

Officers working in the northbound traffic lanes discovered the cocaine concealed in a compartment under the rear cargo section of a Ford Explorer destined for Canada. Examination of the vehicle revealed numerous vacuum-packed cocaine-filled packages. The vehicle was also seized.



77 pounds of cocaine discovered in an outbound vehicle, 29 year old Canadian female arrested.

Robbyn Blankinship, 29, a Canadian citizen who resides in Vancouver, British Columbia, was arrested at the port. The cocaine has an estimated street value of over \$1 million.

CBP Seize Marijuana-Embedded Bricks at El Paso Port

In late June 2007, CBP officers working in El Paso, Texas, seized 365 pounds of marijuana concealed within molded concrete patio stones. The unusual seizure happened when a freightliner tractor towing a flatbed trailer entered the cargo lot from Mexico. CBP officers performed an intensive inspection on the load of concrete outdoor patio bricks and determined that they contained packages of marijuana.



Patio bricks broken open to reveal 312 bundles of marijuana concealed inside.

CBP Air and Marine Interdicts Semi-Sub Smuggling Vessel with an estimated \$352 million in Cocaine Onboard

In August 2007, a Jacksonville, Florida CBP aircraft participated in an operation that resulted in the interdiction of approximately 5 metric tons of cocaine. CBP's surveillance aircraft tracked a semi-submerged smuggling vessel designed to avoid detection. Working with the U.S. Navy and US Coast Guard, CBP's Air and Marine crew located, tracked and coordinated the interdiction of a self-propelled, semi-submersible vessel loaded with an estimated \$352 million of cocaine.



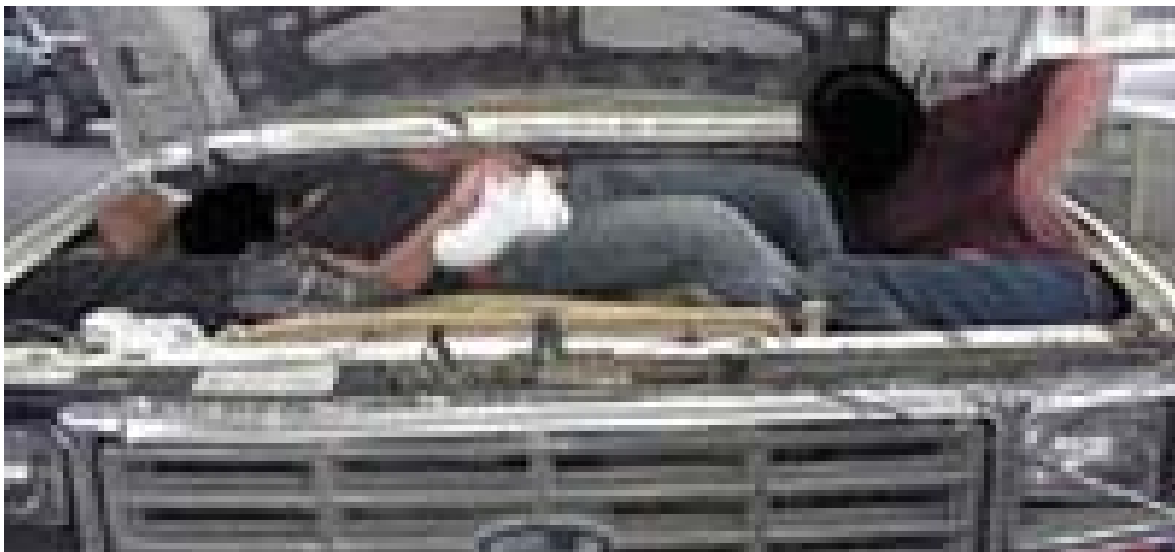
Self-propelled semi-submersible tracked and seized with 5 metric tons of cocaine onboard; street value: \$352 million.

***CBP Fights Human Smuggling
Dangerous, Often Deadly to Desperate Aliens***

CBP Officers Find Three Smuggled Persons in Hot Truck Engine Compartment

In June 2007, CBP officers at the Otay Mesa, California passenger port of entry arrested a 44-year-old Mexican man after discovering three undocumented Mexican citizens hidden inside the engine compartment of his Ford pickup truck.

The driver entered the port driving a white Ford F 250 truck at about 6:30 a.m. Inconsistencies in the driver's answers to questions resulted in his referral to a secondary lot for further inspection. At the secondary lot, a human/narcotics dog alerted to the hood of the vehicle. Officers used a crowbar to open the hood because it appeared to be wired shut. Once the hood was pried open, officers discovered 2 females and a male within the engine compartment. The vehicle was seized by CBP.



Three smuggled Mexican nationals discovered in the hot engine compartment of a Ford pick-up truck, attempting to enter the U.S. from Mexico. One of them, an adult female, sustained burns to her right arm, abdominal area and left leg during the attempt.

*U. S. Secret Service
Department of Homeland Security*

United Bank for Africa PLC agrees to \$5.3 million Forfeiture Related to Obstruction of Criminal and Civil Investigations into Money Laundering

In September 2007, the Treasury Forfeiture Fund received a forfeiture deposit in the amount of \$5,334,331 from the United Bank for Africa PLC (UBA) relating to UBA's obstruction, between 2000 and 2004, of the U.S. Government's criminal and civil investigations into money laundering of fraud proceeds through accounts held at UBA in the name of Zamora Nigeria Limited (Zamora). The Agreement signed by the United States Attorney for the Southern District of New York in July 2007 provides that UBA will not be prosecuted for any crimes (except possibly criminal tax violations) related to its participation in obstructing the criminal investigations. In a statement of facts that is part of the Agreement, UBA acknowledged that it took the position, in response to inquiries made by the U.S. Government in both civil and criminal investigations, that UBA and Zamora were unrelated, independent entities. In support of that position, UBA intentionally created and then supplied to the U.S. Government certain fake, backdated documents, which had the effect of substantially obstructing the U.S. Government's investigation. Additionally, the Agreement provides that UBA would forfeit \$5,334,331, representing proceeds of fraud laundered through the Zamora account at UBA and that UBA will continue to cooperate with the U.S. Government.

*U. S. Coast Guard
Department of Homeland Security*

The U.S. Coast Guard continues its close working relationship with the legacy Customs bureaus and functions in a member-bureau capacity. Fund management is working to gain reimbursement of Coast Guard expenses incurred in regard to Department of Justice forfeitures as well. The Coast Guard maintains a close working relationship with the Drug Enforcement Administration (DEA) of the Department of Justice, assisting with drug boat interceptions on the high seas which are then turned over to the Department of Justice for prosecution.

Bolivian-flagged Osiris II, a 130-foot Cargo Vessel, Intercepted: 800 Pounds of Cocaine, 55 Pounds of Brown Heroine and one MAX 10 Submachine Gun Seized

The crew of the United States Coast Guard Cutter Tahoma (USCGC Tahoma), working as part of the Caribbean Corridor Initiative, an organized crime drug enforcement strike force, seized nearly 800 pounds of cocaine, 55 pounds of brown heroin and one MAX-10 submachine gun with a silencer onboard the Bolivian-flagged vessel Osiris II on February 2007.

After successful coordination and cooperation between the Caribbean Corridor participating agencies and the government of Bolivia, Coast Guard personnel boarded the vessel.



USCGC Tahoma intercepts Bolivian Vessel Osiris II, seizes 800 pounds of cocaine, 55 pounds of heroin and a MAX-10 submachine gun.

Information for this article was provided by the U.S. Coast Guard article, dated February 13, 2007.

“Snow on the High Seas” – U. S. Coast Guard Cutter Sherman Seizes 21 Tons of Cocaine with a Street Value of \$300 Million

As reported in the *Newsweek* Web Exclusive article by Andrew Murr, on May 8, 2007, “it was like something out of ‘Miami Vice.’” Under the cover of darkness, the U.S. Coast Guard Cutter Sherman approached the Panamanian freighter Gatún as it made its way through the waters off the Pacific coast of Panama. Pulling alongside, Coast Guard Captain Charley Diaz turned on the Sherman’s blue law enforcement lights and sent 20 of his crew aboard the 300-foot freighter. The ship’s alleged master, Francisco Valdez-Gonzalez, appeared unusually hazy about the contents of the 12 cargo containers on deck, so the search party decided to open them first. Stacked amid ceramic tiles inside was 21 tons of cocaine, with a street value of \$300 million, bound for Mexico and eventual distribution in the United States.



The U. S. Coast Guard Cutter Sherman seizes 21 tons of cocaine from the Panamanian freighter Gatún with a street value of \$300 million.

Program and Fund Highlights

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. These authorities include the Purchase of Evidence and Information, expenses associated with Joint Operations, Investigative Expenses Leading to Seizure, and Asset Identification and Removal Groups. In recent years, funding provided to computer forensic investigative tools has yielded high impact results.

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 2007, the Fund allocated \$18.3 million in SEF spending to the law enforcement agencies. The actual expense for FY 2007 was \$12.4 million.

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 in the amount of \$21.7 million for FY 2007. The actual expense for FY 2007 was \$ \$27.5 million.

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 record levels of sharing of federal forfeitures with the state and local and foreign governments that contributed to the successful seizure and forfeiture activity of the Fund. The Fund provided over \$140 million toward equitable sharing expenses in FY 2007, up from \$85 million in FY 2006, representing nearly 40 percent of the regular mandatory expense budget. The actual expense for FY 2007 was \$47.9 million. The higher allocation level for FY 2007 also reflects the higher forfeiture revenue earnings for the year. These are critical resources afforded by policy of the Treasury Forfeiture Fund to protect and preserve the valuable working relationships between our federal law enforcement bureaus and the critically important state, local and foreign law enforcement agencies that work with them in an investigative capacity day-in and day-out.

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

The Treasury Forfeiture Fund continued in its capacity as a multi-Departmental Fund in FY 2007, representing the interests of law enforcement components of the Departments of Treasury and Homeland Security. FY 2007 posed some management challenges including continued oversight of the new general property contract and increasing expense categories associated with higher revenue levels. In addition, commensurate with the high revenue year, there were additional expenses incurred by the bureaus. 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 2007 continued a pattern of robust revenue years with regular revenue of \$386.8 million from all sources, a 36 percent increase over FY 2006. As we enter fiscal year 2008, 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 2007, 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

The Fund performance measure and result for FY 2007 is as follows:

| Performance Measure | FY 2006 Actual | FY 2007 Target | FY 2007 Actual |
|---|---------------------------|---------------------------|---------------------------|
| Percent of forfeited cash proceeds resulting from high-impact cases | 72.90% | 75% | 84.18% |

A target of 75 percent high-impact cases was set for FY 2007. This is a fixed target for the Fund, designed to afford our law enforcement bureaus the opportunity to undertake smaller seizure activity that is important to the overall federal law enforcement mission. The final percentage for FY 2007 was 84.18 percent, well above target. This compares with our FY 2006 and FY 2005 performance of 73 percent and 81 percent, respectively. This achievement is excellent and reflects Fund management's longstanding emphasis on high-impact forfeiture strategies as well as the use of Fund authorities to assist member bureaus with larger cases that may take longer or require additional resources not otherwise available. 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.

Financial Statement Highlights

The following provides a brief explanation for each major section of the audited financial statements accompanying this report for the fiscal year ended September 30, 2007.

These statements have been prepared to disclose the financial position of the Fund, and its net costs, changes in net position, and budgetary resources, 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. 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 Statements of Changes in Net Position for FY 2007 and 2006.

Net Position – End of Year. For FY 2007, 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 \$361.4 million versus \$236.8 million at the end of FY 2006. Both years closed with a strong and viable net position with annual revenue reaching well past the forecasted \$250.0 million program level 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 \$200.0 million and \$250.0 million for the Fund from regular seizure and forfeiture activities of our participating bureaus. For FY 2007, the Fund closed with \$366.0 million in Gross Non-Exchange Revenues versus a total for the FY 2006 closing of \$257.2 million, an increase of 42 percent over FY 2006.

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 2007, Treasury Forfeiture Fund bureaus earned a total of \$58.0 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 \$14.1 million during FY 2006. A portion of this increase reflects Fund management's continued work with the Department of Justice to identify delays and/or downward adjustments to percentages 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 will continue to be funded in FY 2008 if anticipated revenue is received early enough in the fiscal year.

Cost of Operations. For FY 2007, the Cost of Operations totaled \$153.5 million, up from \$141.3 million in FY 2006. The cost of operations has increased with the higher revenue level as expected.

Investment Interest Income. The Fund is authorized to invest cash balances in Treasury securities. As of September 30, 2007, investments totaled \$928.1 million, up from \$672.2 million invested as of September 30, 2006. Given the higher investment balance and somewhat higher interest rates on Treasury securities over prior years, investment income totaled \$37.5 million in FY 2007 as compared to \$26.8 million in FY 2006.

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 2007, the Fund shared a total of \$32.7 million with state and local law enforcement agencies, and another \$0.5 million with foreign countries. This compares with \$81.3 million shared with state and local law enforcement agencies during FY 2006, and another \$0.7 million with foreign countries in FY 2006.

Victim Restitution. During FY 2007, the Fund paid restitution to victims the amount of \$4.9 million as compared with \$1.3 million in FY 2006.

Summary of Statements of Changes in Net Position. The Fund closed with a strong net position in FY 2007. Management will continue to emphasize high-impact case by participating law enforcement bureaus. The FY 2007 performance with forfeiture revenue earnings of over \$386.8 million from all sources and a high rate of high-impact cases is truly a credit to the dedicated law enforcement personnel of our participating law enforcement bureaus.

Statements: Net Cost

Costs of the Forfeiture Program – Intra-governmental. After revenue is applied toward policy mandates such as equitable sharing, shown in the Statements 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 \$153.5 million in FY 2007, up from \$141.3 million in FY 2006.

Intra-governmental 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. One of the largest program costs of the Fund is the storage, maintenance and disposal of real and personal property. During FY 2007, general property was

maintained by VSE Corporation and real property was maintained by EG&G Technical Services, both contracts of the Department of the Treasury. In FY 2007, expenses of these two contracts totaled \$46.6 million as compared to expenses of the two contracts in FY 2006 of \$52.7 million.

Statements: Balance Sheet

Assets, Liabilities and Net Position

Total assets of the Fund increased in FY 2007 to \$1.1 billion, up from \$863.7 million in FY 2006, an increase in asset value of 31 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 \$584.0 million in FY 2007, up from \$399.0 million in FY 2006. During FY 2007, total liabilities of the Fund increased to \$770.4 million, up from \$626.9 million in FY 2006.

The Cumulative Results of Operations, i.e., retained earnings, increased at the end of FY 2007 to a total of \$361.4 million, up from \$236.8 million at the end of FY 2006.

Financial and Program Performance -What is needed and planned. OMB Circular A-136, *Financial Reporting Requirements*, requires that agencies include an explanation of what needs to be done and what is being planned to improve financial or program performance.

Auditor's Findings

FY 2007 Audit. The Fund's independent auditors have given the FY 2007 financial statements an Unqualified Opinion with no material weaknesses in the accounting for the Fund's financial statements. One long-standing Significant Deficiency is carried forward regarding the recording of indirect overhead expenses of property to the line item level, and one new Significant Deficiency is identified regarding the timeliness of post-inventory updates to SEACATS, the Fund's seized and forfeited property inventory system.

Repeated Significant Deficiency: One Significant Deficiency 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 diligently to resolve for all categories of property.

New Significant Deficiency: In fiscal year 2007, one new Significant Deficiency was identified by the auditors of the Fund's financial statements, associated with the Fund's inventory tracking system, SEACATS which is owned and maintained by CBP. Following the physical inventory exercise conducted in July 2007, SEACATS was not updated in a timely manner to reflect reconciling issues identified during the inventory exercise.

Management's Plan to Resolve Significant Deficiencies

Repeat Condition: The new General Property Contract was awarded late in FY 2006 and accounting for direct and indirect costs to the line item level is stipulated in the contract document. As of early November 2007, the new General Property Contractor is in the process of testing the accounting methodology that will capture indirect costs of the General Property Contract to the line item level. Management anticipates that this condition will be materially resolved for FY 2008.

New Condition: The new General Property Contractor has assured Management that SEACATS has been updated and that all issues from the 100% physical inventory reconciliation have been resolved. Subsequent changes to SEACATS are made daily, each evening Monday through Friday, in accordance with applicable disposition orders.

Management anticipates that all significant deficiencies of the Fund's financial statements will be resolved in FY 2008.

Summary of Financial Statement Highlights

Net Position. To summarize, Fund management concluded a highly productive FY 2007 "in the black," with the necessary resources to commence the business of the asset forfeiture program for FY 2008. Fund management expects to declare a Super Surplus from FY 2007 operations and will work to recognize the hard work of our participating bureaus in the allocation of these resources.

A Look Forward

Fund management will continue to work with our large and diverse array of federal law enforcement bureaus as they undertake increasingly sophisticated methods and global effort to secure the financial and commercial markets of the nation and the world given the interdependence of financial systems. In addition, our bureaus support immigration enforcement that is designed to identify illegal smuggling to deter its impact on the nation's financial infrastructure and terrorism initiatives and to ensure that human smugglers do not harm unsuspecting victims keen on seeking a new if illegal start in the United States. Emphasis will continue to be placed on ever-evolving state-of-the-art investigative techniques, high-impact major case initiatives and training to support these areas of emphasis. This has and will continue to be the key to the growing success and law enforcement reach of the Treasury Forfeiture Fund.

Limitations of the Financial Statements. As required by OMB Circular A-136, Fund management makes the following statements regarding the limitations of the financial statements:

- The financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 USC § 3515(b).
- While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

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

SECTION II
FINANCIAL STATEMENTS

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Independent Auditor's Report on Financial Statements

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

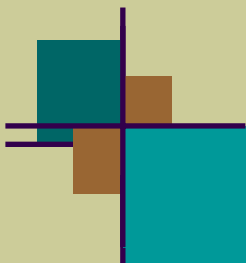
We have audited the Principal Statements (balance sheets and the related statements of net cost, changes in net position, and budgetary resources, hereinafter referred to as "financial statements") of the Department of the Treasury Forfeiture Fund (the Fund) as of and for the years ended September 30, 2007 and 2006. 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, applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *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, 2007 and 2006, and its net costs, changes in net position, and budgetary resources, 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 November 6, 2007, on our consideration of the Fund's internal control over financial reporting and a report dated November 6, 2007, on our tests of 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.

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 Section I: Overview, Section IV: Required Supplemental Information, and Section V: 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 Circular A-136, *Financial Reporting Requirements*, 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.

GKA, P.C.

November 6, 2007

Department of the Treasury Forfeiture Fund
BALANCE SHEETS
As of September 30, 2007 and 2006
(Dollars in Thousands)

| | <u>2007</u> | <u>2006</u> |
|---|---------------------|-------------------|
| Assets: | | |
| Intragovernmental : | | |
| Fund balance with Treasury | \$ 48,678 | \$ 53,390 |
| Investments and related interest (Note 3) | 928,069 | 672,180 |
| Advances (Note 5) | <u>240</u> | <u>166</u> |
| Total Intragovernmental | <u>976,987</u> | <u>725,736</u> |
| Cash and other monetary assets (Note 6) | 76,553 | 86,558 |
| Accounts receivable | <u>1,470</u> | <u>2,643</u> |
| | <u>78,023</u> | <u>89,201</u> |
| Forfeited property (Note 7) | | |
| Held for sale, net of mortgages, liens and claims | 74,146 | 46,665 |
| To be shared with federal, state or local, or foreign governments | <u>2,588</u> | <u>2,060</u> |
| Total forfeited property, net of mortgages, liens and claims | <u>76,734</u> | <u>48,725</u> |
| Total Assets | <u>\$ 1,131,744</u> | <u>\$ 863,662</u> |
| Liabilities: | | |
| Intragovernmental: | | |
| Distributions payable | | |
| Other federal agencies | \$ 20,287 | \$ 1,969 |
| Accounts payable | <u>13,195</u> | <u>28,489</u> |
| Total Intragovernmental | <u>33,482</u> | <u>30,458</u> |
| Seized currency and other monetary instruments (Note 9) | 547,772 | 464,615 |
| Distributions payable (Note 10) | | |
| State and local agencies and foreign governments | 85,601 | 54,663 |
| Accounts payable | 26,768 | 26,328 |
| Deferred revenue from forfeited assets | <u>76,734</u> | <u>50,841</u> |
| Total Liabilities | <u>770,357</u> | <u>626,905</u> |
| Net Position: | | |
| Cumulative results of operations (Note 11) | <u>361,387</u> | <u>236,757</u> |
| Total Liabilities and Net Position | <u>\$ 1,131,744</u> | <u>\$ 863,662</u> |

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, 2007 and 2006
(Dollars in Thousands)

| | <u>2007</u> | <u>2006</u> |
|--|-------------------|-------------------|
| Program: | | |
| ENFORCEMENT | | |
| | | |
| Intragovernmental: | | |
| Seizure investigative costs and asset management | \$ 62,915 | \$ 54,939 |
| Other asset related contract services | 4,401 | 2,066 |
| Awards to informer | 319 | 44 |
| Data systems, training and others | <u>30,125</u> | <u>22,960</u> |
| | | |
| Total Intragovernmental | <u>97,760</u> | <u>80,009</u> |
| | | |
| With the Public: | | |
| National contract services seized property and other | 46,635 | 52,716 |
| Joint operations | <u>9,111</u> | <u>8,531</u> |
| | | |
| Total with the Public | <u>55,746</u> | <u>61,247</u> |
| | | |
| Net Cost of Operations (Note 16) | <u>\$ 153,506</u> | <u>\$ 141,256</u> |

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

Department of the Treasury Forfeiture Fund
STATEMENTS OF CHANGES IN NET POSITION
For the years ended September 30, 2007 and 2006
(Dollars in Thousands)

| | <u>2007</u> | <u>2006</u> |
|---|--------------------------|--------------------------|
| Net Position - Beginning of year | \$ <u>236,757</u> | \$ <u>255,307</u> |
| Financing Sources (Non-Exchange Revenues): | | |
| Intragovernmental | | |
| Investment interest income | 37,544 | 26,750 |
| Public | | |
| Forfeited currency and monetary instruments | 207,956 | 167,919 |
| Sales of forfeited property net of mortgages and claims | 44,236 | 46,732 |
| Proceeds from participating with other federal agencies | 57,952 | 14,099 |
| Value of property transferred in equitable sharing | 9,840 | 1,696 |
| Payments in lieu of forfeiture, net of refund (Note 19) | (3,184) | (9,045) |
| Reimbursed costs | 4,789 | 7,324 |
| Others | <u>6,860</u> | <u>1,721</u> |
| Total Gross Non-Exchange Revenues | <u>365,993</u> | <u>257,196</u> |
| Less: Equitable Sharing | | |
| Intragovernmental | | |
| Federal | <u>(9,806)</u> | <u>(6,401)</u> |
| Public | | |
| State and local agencies | (32,743) | (81,311) |
| Foreign countries | (514) | (707) |
| Victim restitution | <u>(4,871)</u> | <u>(1,346)</u> |
| | <u>(38,128)</u> | <u>(83,364)</u> |
| Total Equitable Sharing | <u>(47,934)</u> | <u>(89,765)</u> |
| Total Non-Exchange Revenues, Net | <u>318,059</u> | <u>167,431</u> |
| Transfers-Out | | |
| Intragovernmental | | |
| Super surplus (Note 13) | (27,474) | (19,127) |
| Secretary's enforcement fund (Note 14) | <u>(12,449)</u> | <u>(25,598)</u> |
| Total Transfers-Out | <u>(39,923)</u> | <u>(44,725)</u> |
| Total Financing Sources- Net | 278,136 | 122,706 |
| Net Cost of Operations | <u>(153,506)</u> | <u>(141,256)</u> |
| Net Results of Operations | <u>124,630</u> | <u>(18,550)</u> |
| Net Position - End of Year | \$ <u><u>361,387</u></u> | \$ <u><u>236,757</u></u> |

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

Department of the Treasury Forfeiture Fund
STATEMENTS OF BUDGETARY RESOURCES
For the years ended September 30, 2007 and 2006
(Dollars in Thousands)

| | <u>2007</u> | <u>2006</u> |
|---|-------------------|-------------------|
| Budgetary Resources: | | |
| Unobligated balance - beginning of year | \$ 82,935 | \$ 86,760 |
| Recoveries of prior year unpaid obligations | 17,231 | 34,612 |
| Budget authority | <u>451,463</u> | <u>271,187</u> |
| Total Budgetary Resources | <u>\$ 551,629</u> | <u>\$ 392,559</u> |
| Status of Budgetary Resources: | | |
| Obligations incurred | \$ 391,512 | \$ 309,624 |
| Unobligated balances - available | <u>160,117</u> | <u>82,935</u> |
| Total Status of Budgetary Resources | <u>\$ 551,629</u> | <u>\$ 392,559</u> |
| Change in Obligated Balance: | | |
| Obligated balance, net - beginning of year | \$ 244,515 | \$ 256,255 |
| Obligations incurred | 391,512 | 309,624 |
| Less: Gross outlays | (302,711) | (286,752) |
| Less: Recoveries of prior year unpaid obligations, actual | <u>(17,231)</u> | <u>(34,612)</u> |
| Obligated balance, net - end of year | <u>\$ 316,085</u> | <u>\$ 244,515</u> |
| Net Outlays | <u>\$ 302,711</u> | <u>\$ 286,752</u> |

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 USC 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 (DHS), 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 currently participating in the Fund are: the Internal Revenue Service - Criminal Investigation (IRS - CI) of Treasury, Customs and Border Protection (CBP), Immigration and Customs Enforcement (ICE) and the U.S. Secret Service (USSS) of DHS. The U.S. Coast Guard of DHS join these bureaus. The Fund continues in its capacity as a multi-Departmental Fund, representing the interests of law enforcement components of the Departments of Treasury and Homeland Security.

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 USC 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 law enforcement bureaus to disrupt and dismantle criminal enterprises. The goal of the Treasury Forfeiture Fund is to support 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 USC 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 specified by OMB in OMB Circular A-136, *Financial Reporting Requirements (OMB Circular A-136)*. 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, and the statement of budgetary resources, all of which are prescribed by OMB.

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

Allowable Fund Expenses

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

Discretionary authorities include but may not be limited to: the payment of expenses for the purchase of awards for information or assistance leading to a civil or criminal forfeiture involving any law enforcement bureau participating in the Fund; purchase of evidence or information that meet the criteria set out in 31 USC 9703(a)(2)(B); payment for equipment for vessels, vehicles, or aircraft available for official use as described by 31 USC 9703(a)(2)(D) and (F); reimbursement of private persons for expenses incurred while cooperating with a Treasury law enforcement organization in investigations; publication of the availability of certain awards; and payment for training foreign law enforcement personnel with respect to seizure or forfeiture activities of the Fund. Discretionary expenses are subject to an annual, definite Congressional appropriation from revenue in the Fund.

Expenses from the mandatory authorities of the Fund include but are not limited to: 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 under section 619 of the Tariff Act

(19 USC 1619); 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 law enforcement agencies participating in the Fund; and equitable sharing payments made to state and local law enforcement agencies in recognition of their efforts in a Fund seizure leading to forfeiture. These mandatory expenses are paid pursuant to the permanent indefinite authorities of the Fund; are only limited by revenue in the Fund each year and do not require additional Congressional action for expenditure.

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 Intra-governmental Payments and Collection (IPAC) System. 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 with participating bureaus in the DHS. As such, employees of both Departments may 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. Certain probable equitable sharing liabilities existing at year end are accrued based on estimates.

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

Earmarked Funds

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the Government's general revenues. In accordance with SFFAS 27, *Earmarked Funds*, all of the TFF's revenue meets this criteria and constitutes an earmarked fund.

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash collected from earmarked funds are deposited in the U.S. Treasury, which uses the cash for general government purposes. Treasury securities are issued to the TFF as

evidence of its receipts. Treasury securities are an asset to the TFF and a liability to the U.S. Treasury. Because the TFF and U.S. Treasury are both parts of the government, these assets and liabilities offset each other from the standpoint of the government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

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

Equitable Sharing (Assets Distributed)

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

Entity Assets

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

- **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** – Intragovernmental receivables principally represent monies due from the law enforcement agencies participating in the Fund. The values reported for other receivables are primarily funds due from the national seized property contractor for properties sold; the proceeds of which have not yet been deposited into the Fund. No allowance has been made for uncollectible amounts as the accounts recorded as a receivable at year end were considered to be fully collectible as of September 30, 2007 and 2006.
- **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. Mortgage 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 seized and forfeited property and currency, for both carrying value and quantities, from that on hand at the beginning of the year to that on hand at the end of the year. These analyses are disclosed in Notes 8 and 9.

Non-entity Assets

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

- **Seized Currency and Property** – Seized Currency is defined as cash or monetary instruments that are readily convertible to cash on a dollar for dollar basis. SFFAS No. 3 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.

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 2007. 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. A portion of the equitable sharing requests that were in final stages of approval are recognized as liabilities at 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, and revenues; and (ii) expenses.

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, net of discount. The discount is amortized into interest income over the term of the investment. The investments are always held to maturity. They are made from cash in the Fund and from seized currency held in the Customs Suspense Account. The Customs Suspense Account became the depository for seized cash for the Fund following enactment of the TFF Act.

The following schedule presents the investments on hand as of September 30, 2007 and 2006, respectively (dollars in thousands):

Entity Assets

| Description | Cost | Unamortized Discount | Investment, Net |
|---|-------------|---------------------------------|----------------------------|
| <u>September 30, 2007:</u> | | | |
| Treasury Forfeiture Fund - 28 days 3.315% | | | |
| U.S. Treasury Bills | \$ 428,629 | \$ (1,105) | \$ 427,524 |
| Interest Receivable | | | 855 |
| Total Investment, Net, and Interest Receivable | | | <u>\$ 428,379</u> |
| Fair Market Value | | | <u>\$ 427,973</u> |
| | | | |
| Description | Cost | Unamortized Discount | Investment, Net |
| <u>September 30, 2006:</u> | | | |
| Treasury Forfeiture Fund - 28 days 4.65% | | | |
| U.S. Treasury Bills | \$ 275,054 | \$ (994) | \$ 274,060 |
| Interest Receivable | | | 783 |
| Total Investment, Net, and Interest Receivable | | | <u>\$ 274,843</u> |
| Fair Market Value | | | <u>\$ 274,468</u> |

Non-entity Assets

| <u>Description</u> | <u>Cost</u> | <u>Unamortized Discount</u> | <u>Investment, Net</u> |
|--|-------------|---------------------------------|----------------------------|
| <u>September 30, 2007:</u> | | | |
| Treasury Forfeiture Fund – Seized Currency Suspense Account 28 days 3.315% | | | |
| U.S. Treasury Bills | \$ 500,981 | \$ (1,291) | <u>\$ 499,690</u> |
| Fair Market Value | | | <u>\$ 500,214</u> |
| <u>September 30, 2006:</u> | | | |
| Treasury Forfeiture Fund – Seized Currency Suspense Account 28 days 4.65% | | | |
| U.S. Treasury Bills | \$ 398,778 | \$ (1,441) | <u>\$ 397,337</u> |
| Fair Market Value | | | <u>\$ 397,929</u> |

Note 4: Non-Entity Assets

The following schedule presents the non-entity assets as of September 30, 2007 and 2006, respectively, (dollars in thousands):

| | <u>2007</u> | <u>2006</u> |
|---|---------------------|-------------------|
| Seized currency: | | |
| Intragovernmental Investments (Note 3) | \$ 499,690 | \$ 397,337 |
| Cash and other monetary assets (Note 6) | <u>48,082</u> | <u>67,278</u> |
| Total Non-Entity Assets | 547,772 | 464,615 |
| Total Entity Assets | <u>583,972</u> | <u>399,047</u> |
| Total Assets | <u>\$ 1,131,744</u> | <u>\$ 863,662</u> |

Note 5: Advances

Advances amounted to \$240 thousand and \$166 thousand as of September 30, 2007 and 2006, respectively.

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 \$28.5 million and \$19.3 million as of September 30, 2007 and 2006, 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 \$48.1 million and \$67.3 million as of September 30, 2007 and 2006, respectively.

Note 7: Forfeited Property

The following summarizes the components of forfeited property (net), as of September 30, 2007 and 2006, respectively, (dollars in thousands):

| | <u>2007</u> | <u>2006</u> |
|--|------------------|------------------|
| Held for Sale | \$ 79,882 | \$ 52,645 |
| To be shared with federal, state or local, or foreign government | <u>2,588</u> | <u>2,060</u> |
| Total forfeited property (Note 8) | 82,470 | 54,705 |
| Less: Allowance for mortgages and claims | <u>(5,736)</u> | <u>(5,980)</u> |
| Total forfeited property, net | <u>\$ 76,734</u> | <u>\$ 48,725</u> |

Note 8: FY 2007 Analysis of Changes in Forfeited Property and Currency

The following schedule presents the changes in the forfeited property and currency balances from October 1, 2006 to September 30, 2007. (Dollar value is in thousands.)

| | 10/1/06 Financial Statement Balance | | Adjustments | | 10/1/06 Carrying Value | | Forfeitures | | Deposits/Sales | | Disposals/Transfers | |
|----------------------------|-------------------------------------|--------|-------------|--------|------------------------|--------|-------------|--------|----------------|----------|---------------------|---------|
| | Value | Number | Value | Number | Value | Number | Value | Number | Value | Number | Value | Number |
| Currency | \$18,997 | - | \$ - | - | \$ 18,997 | - | \$ 263,943 | - | \$ (269,656) | - | \$ (4) | - |
| Other Monetary Instruments | 283 | - | - | - | 283 | - | 190 | - | (9) | - | (5) | - |
| Subtotal | 19,280 | - | - | - | 19,280 | - | 264,133 | - | (269,665) | - | (9) | - |
| Real Property | 40,312 | 141 | (8,304) | - | 32,008 | 141 | 40,172 | 105 | (30,022) | (119) | (4,214) | (11) |
| General Property | 3,423 | 6,117 | 5,583 | - | 9,006 | 6,117 | 21,954 | 15,208 | (3,541) | (544) | (1,076) | (932) |
| Vessels | 712 | 39 | 372 | - | 1,084 | 39 | 1,202 | 77 | (1,481) | (65) | (15) | (2) |
| Aircraft | 241 | 2 | 132 | - | 373 | 2 | 284 | 4 | - | - | - | - |
| Vehicles | 10,017 | 3,608 | 9,169 | - | 19,186 | 3,608 | 60,590 | 17,023 | (40,970) | (13,364) | (9,828) | (929) |
| Subtotal | 54,705 | 9,907 | 6,952 | - | 61,657 | 9,907 | 124,202 | 32,417 | (76,014) | (14,092) | (15,133) | (1,874) |
| Grand Total | \$73,985 | 9,907 | \$ 6,952 | - | \$ 80,937 | 9,907 | \$ 388,335 | 32,417 | \$ (345,679) | (14,092) | \$ (15,142) | (1,874) |

| | Victim Restitution | | Destroyed | | Other Adjustments | | Value Change | | 2007 Carrying Value | | Fair Market Value Adjustment | | 9/30/07 Financial Statement Balance | |
|----------------------------|--------------------|--------|-----------|----------|-------------------|--------|--------------|--------|---------------------|--------|------------------------------|--------|-------------------------------------|--------|
| | Value | Number | Value | Number | Value | Number | Value | Number | Value | Number | Value | Number | Value | Number |
| Currency | \$ - | - | \$ - | - | 14,743 | - | \$ - | - | \$ 28,023 | - | \$ - | - | \$ 28,023 | - |
| Other Monetary Instruments | - | - | - | - | (11) | - | - | - | 448 | - | - | - | 448 | - |
| Subtotal | - | - | - | - | 14,732 | - | - | - | 28,471 | - | - | - | 28,471 | - |
| Real Property | - | - | - | - | 10,228 | 20 | 170 | - | 48,342 | 136 | 14,799 | - | 63,141 | 136 |
| General Property | - | - | (129) | (11,353) | 1,173 | 451 | (1,613) | - | 25,774 | 8,947 | (18,017) | - | 7,757 | 8,947 |
| Vessels | - | - | - | (10) | 83 | 13 | (6) | - | 867 | 52 | (512) | - | 355 | 52 |
| Aircraft | - | - | - | - | 19 | 1 | - | - | 676 | 7 | (239) | - | 437 | 7 |
| Vehicles | - | - | - | (182) | (1,455) | (500) | (74) | - | 27,449 | 5,656 | (16,669) | - | 10,780 | 5,656 |
| Subtotal | - | - | (129) | (11,545) | 10,048 | (15) | (1,523) | - | 103,108 | 14,798 | (20,638) | - | 82,470 | 14,798 |
| Grand Total | \$ - | - | \$ (129) | (11,545) | \$ 24,780 | (15) | \$ (1,523) | - | \$ 131,579 | 14,798 | \$ (20,638) | - | \$ 110,941 | 14,798 |

Note 8 (Cont'd): FY 2006 Analysis of Changes in Forfeited Property and Currency

The following schedule presents the changes in the forfeited property and currency balances from October 1, 2005 to September 30, 2006. (Dollar value is in thousands.)

| | <u>10/1/05 Financial Statement Balance</u> | | <u>Adjustments</u> | | <u>10/1/05 Carrying Value</u> | | <u>Forfeitures</u> | | <u>Deposits/Sales</u> | | <u>Disposals/Transfers</u> | |
|----------------------------|--|---------------|--------------------|---------------|-------------------------------|---------------|--------------------|---------------|-----------------------|-----------------|----------------------------|----------------|
| | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> |
| Currency | \$ 4,729 | - | \$ - | - | \$ 4,729 | - | \$ 160,549 | - | \$ (149,162) | - | \$ (2,440) | - |
| Other Monetary Instruments | 204 | - | - | - | 204 | - | 111 | - | (25) | - | - | - |
| Subtotal | <u>4,933</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>4,933</u> | <u>-</u> | <u>160,660</u> | <u>-</u> | <u>(149,187)</u> | <u>-</u> | <u>(2,440)</u> | <u>-</u> |
| Real Property | 39,369 | 138 | (7,243) | - | 32,126 | 138 | 22,297 | 94 | (25,460) | (108) | (672) | (4) |
| General Property | 5,287 | 6,079 | 9,640 | - | 14,927 | 6,079 | 9,639 | 11,311 | (9,003) | (2,116) | (1,760) | (687) |
| Vessels | 746 | 29 | 706 | - | 1,452 | 29 | 1,594 | 93 | (1,132) | (43) | (997) | (6) |
| Aircraft | 147 | 2 | 56 | - | 203 | 2 | 382 | 3 | (212) | (3) | - | - |
| Vehicles | 9,114 | 4,138 | 5,474 | - | 14,588 | 4,138 | 56,040 | 22,353 | (39,300) | (10,283) | (12,294) | (1,414) |
| Subtotal | <u>54,663</u> | <u>10,386</u> | <u>8,633</u> | <u>-</u> | <u>63,296</u> | <u>10,386</u> | <u>89,952</u> | <u>33,854</u> | <u>(75,107)</u> | <u>(12,553)</u> | <u>(15,723)</u> | <u>(2,111)</u> |
| Grand Total | <u>\$59,596</u> | <u>10,386</u> | <u>\$ 8,633</u> | <u>-</u> | <u>\$ 68,229</u> | <u>10,386</u> | <u>\$ 250,612</u> | <u>33,854</u> | <u>\$ (224,294)</u> | <u>(12,553)</u> | <u>\$ (18,163)</u> | <u>(2,111)</u> |

| | <u>Victim Restitution</u> | | <u>Destroyed</u> | | <u>Other Adjustments</u> | | <u>Value Change</u> | | <u>2006 Carrying Value</u> | | <u>Fair Market Value Adjustment</u> | | <u>9/30/06 Financial Statement Balance</u> | |
|----------------------------|---------------------------|---------------|------------------|-----------------|--------------------------|---------------|---------------------|---------------|----------------------------|---------------|-------------------------------------|---------------|--|---------------|
| | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> |
| Currency | \$ - | - | \$ - | - | 5,321 | - | \$ - | - | \$ 18,997 | - | \$ - | - | \$ 18,997 | - |
| Other Monetary Instruments | - | - | - | - | (7) | - | - | - | 283 | - | - | - | 283 | - |
| Subtotal | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>5,314</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>19,280</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>19,280</u> | <u>-</u> |
| Real Property | - | - | - | - | 3,775 | 21 | (58) | - | 32,008 | 141 | 8,304 | - | 40,312 | 141 |
| General Property | - | - | (401) | (9,450) | 557 | 980 | (4,953) | - | 9,006 | 6,117 | (5,583) | - | 3,423 | 6,117 |
| Vessels | - | - | - | (37) | 177 | 3 | (10) | - | 1,084 | 39 | (372) | - | 712 | 39 |
| Aircraft | - | - | - | - | - | - | - | - | 373 | 2 | (132) | - | 241 | 2 |
| Vehicles | - | - | (12) | (11,568) | 1,463 | 382 | (1,299) | - | 19,186 | 3,608 | (9,169) | - | 10,017 | 3,608 |
| Subtotal | <u>-</u> | <u>-</u> | <u>(413)</u> | <u>(21,055)</u> | <u>5,972</u> | <u>1,386</u> | <u>(6,320)</u> | <u>-</u> | <u>61,657</u> | <u>9,907</u> | <u>(6,952)</u> | <u>-</u> | <u>54,705</u> | <u>9,907</u> |
| Grand Total | <u>\$ -</u> | <u>-</u> | <u>\$ (413)</u> | <u>(21,055)</u> | <u>\$ 11,286</u> | <u>1,386</u> | <u>\$ (6,320)</u> | <u>-</u> | <u>\$ 80,937</u> | <u>9,907</u> | <u>\$ (6,952)</u> | <u>-</u> | <u>\$ 73,985</u> | <u>9,907</u> |

Note 9: FY 2007 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.)

| | 9/30/06 Financial Statement Balance | | Seizures | | Remissions | | Forfeitures | | Adjustments | | Value Changes | | 9/30/07 Financial Statement Balance | |
|------------------|--|--------|------------|--------|--------------|---------|--------------|----------|-------------|---------|---------------|--------|--|--------|
| | Value | Number | Value | Number | Value | Number | Value | Number | Value | Number | Value | Number | Value | Number |
| Currency | \$ 452,065 | - | \$ 406,059 | - | \$ (65,402) | - | \$ (263,943) | - | \$ 6,441 | - | \$ 318 | - | \$ 535,538 | - |
| Other Monetary | | | | | | | | | | | | | | |
| Instruments | 12,550 | - | 219 | - | (116) | - | (190) | - | (229) | - | - | - | 12,234 | - |
| Subtotal | 464,615 | - | 406,278 | - | (65,518) | - | (264,133) | - | 6,212 | - | 318 | - | 547,772 | - |
| Real Property | 278,470 | 701 | 116,070 | 269 | (22,529) | (170) | (40,172) | (105) | (53,754) | 57 | 1,465 | - | 279,550 | 752 |
| General Property | 237,133 | 14,676 | 318,012 | 24,598 | (139,959) | (3,845) | (21,954) | (15,208) | (2,285) | (3,238) | (51,143) | - | 339,804 | 16,983 |
| Vessels | 4,272 | 92 | 8,649 | 147 | (2,650) | (38) | (1,202) | (77) | (1,241) | (12) | 61 | - | 7,889 | 112 |
| Aircraft | 3,761 | 10 | 15,504 | 10 | (13,266) | (3) | (284) | (4) | (3,233) | - | 225 | - | 2,707 | 13 |
| Vehicles | 51,731 | 7,610 | 126,987 | 23,274 | (49,739) | (4,609) | (60,590) | (17,023) | (3,671) | (597) | (377) | - | 64,341 | 8,655 |
| Subtotal | 575,367 | 23,089 | 585,222 | 48,298 | (228,143) | (8,665) | (124,202) | (32,417) | (64,184) | (3,790) | (49,769) | - | 694,291 | 26,515 |
| Grand Total | \$1,039,982 | 23,089 | \$ 991,500 | 48,298 | \$ (293,661) | (8,665) | \$ (388,335) | (32,417) | \$ (57,972) | (3,790) | \$ (49,451) | - | \$1,242,063 | 26,515 |

Note 9 (Cont'd): FY 2006 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.)

| | 9/30/05 Financial | | Seizures | | Remissions | | Forfeitures | | Adjustments | | Value Changes | | 9/30/06 Financial | |
|------------------|-------------------|--------|------------|--------|--------------|----------|--------------|----------|-------------|---------|---------------|--------|-------------------|--------|
| | Statement Balance | | | | | | | | | | | | Statement Balance | |
| | Value | Number | Value | Number | Value | Number | Value | Number | Value | Number | Value | Number | Value | Number |
| Currency | \$ 379,265 | - | \$ 281,034 | - | \$ (73,584) | - | \$ (160,549) | - | \$ 25,899 | - | \$ - | - | \$ 452,065 | - |
| Other Monetary | | | | | | | | | | | | | | |
| Instruments | 1,747 | - | 362 | - | (155) | - | (111) | - | 10,707 | - | - | - | 12,550 | - |
| Subtotal | 381,012 | - | 281,396 | - | (73,739) | - | (160,660) | - | 36,606 | - | - | - | 464,615 | - |
| Real Property | 261,173 | 627 | 128,051 | 331 | (24,696) | (112) | (22,297) | (94) | (62,885) | (51) | (876) | - | 278,470 | 701 |
| General Property | 146,559 | 10,333 | 256,276 | 24,848 | (126,788) | (4,615) | (9,639) | (11,311) | (3,557) | (4,579) | (25,718) | - | 237,133 | 14,676 |
| Vessels | 4,350 | 97 | 6,071 | 151 | (3,304) | (54) | (1,594) | (93) | (1,076) | (9) | (175) | - | 4,272 | 92 |
| Aircraft | 4,154 | 8 | 4,538 | 15 | (942) | (8) | (382) | (3) | (4,982) | (2) | 1,375 | - | 3,761 | 10 |
| Vehicles | 61,021 | 10,291 | 126,171 | 27,271 | (65,868) | (6,665) | (56,040) | (22,353) | (4,073) | (934) | (9,480) | - | 51,731 | 7,610 |
| Subtotal | 477,257 | 21,356 | 521,107 | 52,616 | (221,598) | (11,454) | (89,952) | (33,854) | (76,573) | (5,575) | (34,874) | - | 575,367 | 23,089 |
| Grand Total | \$ 858,269 | 21,356 | \$ 802,503 | 52,616 | \$ (295,337) | (11,454) | \$ (250,612) | (33,854) | \$ (39,967) | (5,575) | \$ (34,874) | - | \$ 1,039,982 | 23,089 |

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

Distributions Payable (state and local agencies and foreign governments) amounted to \$85.6 million and \$54.7 million as of September 30, 2007 and 2006, 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, 2007 and 2006, 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 as of and for the years ended September 30, 2007 and 2006, respectively, (dollars in thousands):

| | <u>2007</u> | <u>2006</u> |
|--------------------------|-------------------|-------------------|
| Retained Capital | \$ 64,045 | \$ 119,551 |
| Unliquidated Obligations | 172,712 | 135,756 |
| Results of Operations | <u>124,630</u> | <u>(18,550)</u> |
| | <u>\$ 361,387</u> | <u>\$ 236,757</u> |

Unliquidated Obligations

The following summarizes the components of unliquidated obligations as of September 30, 2007 and 2006, respectively, (dollars in thousands):

| | <u>2007</u> | <u>2006</u> |
|-------------------|-------------------|-------------------|
| Equitable Sharing | \$ 4,090 | \$ 76,796 |
| Mandatory | <u>168,622</u> | <u>58,960</u> |
| | <u>\$ 172,712</u> | <u>\$ 135,756</u> |

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 USC 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 \$27.5 million and \$19.1 million in fiscal years 2007 and 2006, respectively.

Note 14: Secretary's Enforcement Fund

31 USC 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 \$12.4 million and \$25.6 million in fiscal years 2007 and 2006, respectively.

Note 15: Commitments and Contingencies

A portion of the equitable sharing requests that were in final stages of approval are recognized as liabilities as of September 30 (See also Note 10, Distributions Payable).

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

CONTINGENCIES

Possible claims of potential significance include the following:

1. The United States Court of Appeals for the Ninth Circuit, in a case styled Julie Sueoka, et al. v. United States, et al., Case No. 98-6313-AAH (RCx), (C.D. Ca. 1998), 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. 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:

| | <u>2007</u> | <u>2006</u> |
|-----------------|-------------------|-------------------|
| Gross Costs | \$ 153,506 | \$ 141,256 |
| Earned Revenues | - | - |
| Net Costs | <u>\$ 153,506</u> | <u>\$ 141,256</u> |

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 at the end of fiscal years 2007 and 2006 are \$316.1 million and \$244.5 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 2007 and 2006 consist of the following (in thousands):

| | <u>2007</u> | <u>2006</u> |
|--------------------------------------|------------------|------------------|
| Recoveries of Prior Year Obligations | <u>\$ 17,231</u> | <u>\$ 34,612</u> |

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

The following summarizes Payments in Lieu of Forfeiture, Net of Refunds as of September 30, 2007 and 2006, respectively, (dollars in thousands):

| | <u>2007</u> | <u>2006</u> |
|--------------------------------|-------------------|-------------------|
| Payments in Lieu of Forfeiture | \$ 7,547 | \$ 7,580 |
| Refunds | <u>(10,731)</u> | <u>(16,625)</u> |
| Total | <u>(\$ 3,184)</u> | <u>(\$ 9,045)</u> |

Note 20: Reconciliation of Net Cost of Operations (Proprietary) to Budget

The reconciliation of Net Cost of Operations to Budget demonstrates the relationship between the Fund's proprietary (net cost of operations) and budgetary accounting (net obligations) information.

| | <u>2007</u> | <u>2006</u> |
|---|-------------------|-------------------|
| Resources Used to Finance Activities: | | |
| Budgetary resources obligated | | |
| Obligations incurred | \$ 391,512 | \$ 309,624 |
| Less: Spending authority from offsetting | | |
| Collections and recoveries | <u>(17,231)</u> | <u>(34,612)</u> |
| Net Obligations | 374,281 | 275,012 |
| Other resources | | |
| Transfers – out | <u>(39,923)</u> | <u>(44,725)</u> |
| Total Resources Used to Finance Activities | <u>334,358</u> | <u>230,287</u> |
| 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 | (112,141) | 28,869 |
| Other resources or adjustments to net obligated resources that do not affect net cost of operations | | |
| Mortgages and claims | (10,046) | (11,510) |
| Refunds | (10,731) | (16,625) |
| Equitable Sharing (federal, state/local and foreign) | (43,063) | (88,419) |
| Victim restitution | <u>(4,871)</u> | <u>(1,346)</u> |
| Total Resources Used to Finance Items not Part of the Net Cost of Operations | <u>(180,852)</u> | <u>(89,031)</u> |
| Total Resources Used to Finance the Net Cost of Operations | <u>153,506</u> | <u>141,256</u> |
| Net Cost of Operations | <u>\$ 153,506</u> | <u>\$ 141,256</u> |

SECTION III
OTHER REPORTS

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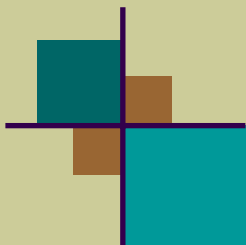
Independent Auditor's Report on Internal Control over Financial Reporting

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

We have audited the Principal Statements (balance sheet and the related statements of net cost, changes in net position, and budgetary resources, 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, 2007, and have issued our report thereon dated November 6, 2007. 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, applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *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 design effectiveness of the Fund’s internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing 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. 07-04 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 audit was not to express an opinion on the effectiveness of the Fund’s 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 was for the limited purpose described in the preceding paragraph and would not necessarily disclose all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Under standards issued by the American Institute of Certified Public Accountants, a control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Fund’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Fund’s financial statements that is more than inconsequential will not be prevented or detected by the Fund’s internal control. A material weakness is a



significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Fund's internal control. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected. We noted the following matters involving the internal control and its operation that we consider to be significant deficiencies. However, we do not believe these significant deficiencies are material weaknesses.

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

Significant Deficiencies

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)

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 the weakness impacts the control environment of the Fund and related lines of authority, and the condition can impact equitable sharing expenses of the Fund, this should be remedied.

Post Inventory Updates To SEACATS Not Performed Timely

The inventory tracking system (SEACATS) was not updated timely with certain reconciling items resulting from the physical inventory exercise conducted in July 2007. Certain inventory items that were on the floor and not on the count sheets (add-ons) were not added, and some on the count sheets but not on the floor (discrepancies) were not removed from SEACATS in a timely manner. Furthermore, timely actions were not taken on some disposition orders. Certain items that were deemed destroyed, remitted or sold on the disposition orders, were not confirmed to be destroyed, remitted or sold in accordance with the instructions given on the disposition orders.

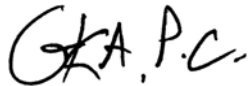
The status of seized and forfeited property in SEACATS may not be accurate. This may impair the integrity of information for decision-making, management reporting and financial reporting.

We also noted other matters involving the internal control and its operation that we have reported to Fund Management in a separate letter dated November 6, 2007.

Finally, with respect to internal control related to performance measures reported in Section I: Overview, we obtained an understanding of the design of significant internal controls relating to the existence and

completeness assertions and determined whether they have been placed in operation, as required by OMB Bulletin No. 07-04. Our procedures were not designed to provide an opinion 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 Department of the Treasury 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.

A handwritten signature in black ink that reads "G.A.P.C." with a stylized flourish at the end.

November 6, 2007

EXHIBIT I
SIGNIFICANT DEFICIENCIES

1. 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)

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.

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.

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.

The Fund is unable to report total asset specific expenses in the inventory systems. Overhead costs of the general property contract are not distributed to the line item level. 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. This is because revenue associated with the asset may be overhead for purposes of equitable sharing, victim restitution and possibly other uses of the funds where the calculation will result in a distribution of all resources after expenses. If expenses are understated, the resulting distribution will be over-stated. This can damage the long-term viability of the Fund if uncorrected and chronic in nature.

RECOMMENDATIONS

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

MANAGEMENT RESPONSE

In FY 2007 the General Property Contract was transferred from EG&G to VSE. VSE is responsible for ensuring their accounting systems meet all government requirements and is able to identify all revenue and expenses and record all revenue and expenses properly. Management has met with VSE representatives regarding their cost accounting methodology for identifying indirect costs to the line item level. VSE is converting detailed billing data from the subcontractors and vendors into a quality controlled electronic format. VSE will validate all incoming invoices and supporting/backup materials to verify that all charges are accurate and allowable. All supporting material is put through VSE's Line Item Cost Accounting Database. We believe VSE has made significant progress in this area and do not believe this significant deficiency will be repeated in FY 2008.

Real Property indirect costs will be based on the percentage of effort required by the property and the time property is held. The best method to record these indirect real property costs will be addressed as soon as the personal property indirect costs allocation has been accomplished.

The Fund's response has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

2. POST INVENTORY UPDATES TO SEACATS NOT PERFORMED TIMELY

The inventory tracking system (SEACATS) was not updated timely with certain reconciling items resulting from the physical inventory exercise conducted in July 2007. Certain inventory items that were on the floor and not on the count sheets (add-ons) were not added, and some on the count sheets but not on the floor (discrepancies) were not removed from SEACATS in a timely manner. Furthermore, timely actions were not taken on some disposition orders. Certain items that were deemed destroyed, remitted or sold on the disposition orders, were not confirmed to be destroyed, remitted or sold in accordance with the instructions given on the disposition orders.

The Statement of Federal Financial Accounting Standards Number 3 (SFFAS No. 3), Accounting for Inventory and Related Property, requires seized and forfeited property to be accounted for in property management records so that reliable financial and statistical reports may be prepared. Furthermore, the Seized Property and Forfeited Asset Systems Requirements published by the Joint Financial Management Improvement Program emphasizes that the collection of accurate, timely, complete, reliable and consistent information is necessary for the integrity of information for decision making.

The inventory tracking system was not updated to reflect that items were added on, destroyed, remitted or sold in a number of cases, and no follow up to reflect that these changes occurred were performed on a timely basis to ensure consistent, accurate and complete reporting.

The status of seized and forfeited property in SEACATS may not be accurate. This may impair the integrity of information for decision-making, management reporting and financial reporting.

RECOMMENDATIONS

We recommend that:

- (1) SEACATS be updated promptly to reflect the results of physical inventories and other reviews and subsequent changes made in accordance with applicable disposition orders.
- (2) The seizing bureau representative should ensure that those items recommended for destruction, remittance or for sale, are actually carried out with updated information and documentation suggesting so.

MANAGEMENT RESPONSE

The seized general property contractor (VSE) represented to the Fund that SEACATS has already been updated and all issues on the list submitted by TEOAF originating from the 100% physical inventory have been resolved. Subsequent changes to SEACATS are made daily (each evening Monday through Friday) in accordance with applicable disposition orders.

The Fund's response has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

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Independent Auditor's Report on Compliance with Laws and Regulations

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

We have audited the Principal Statements (balance sheet and the related statements of net cost, changes in net position, and budgetary resources, 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, 2007, and have issued our report thereon dated November 6, 2007. 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, applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

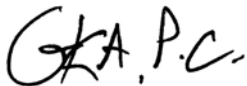
The management of the Fund is responsible for complying with laws and regulations applicable to the Fund. As part of obtaining reasonable assurance about whether the Fund’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04, 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. 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.

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. 07-04.

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

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

This report is intended solely for the information and use of the Management of the Fund, the U.S. Department of the Treasury, OMB, the U.S. Congress, the Department of the Treasury 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.

A handwritten signature in black ink, appearing to read "G.A.P.C.", with a stylized flourish at the end.

November 6, 2007

SECTION IV

REQUIRED SUPPLEMENTAL INFORMATION

Intragovernmental Amounts – Assets (Dollars in thousands)

| Partner Agency | 2007 | | | 2006 | | |
|-----------------------|----------------------------|------------------------------|-------------------|----------------------------|------------------------------|-------------------|
| | Fund Balance with Treasury | Accounts Receivable/Advances | Investments | Fund Balance with Treasury | Accounts Receivable/Advances | Investments |
| Departmental Offices | \$ - | \$ 240 | \$ - | \$ - | \$ 166 | \$ - |
| Bureau of Public Debt | - | - | 928,069 | - | - | 672,180 |
| Totals | \$ - | \$ 240 | \$ 928,069 | \$ - | \$ 166 | \$ 672,180 |

Intragovernmental Amounts – Liabilities (Dollars in thousands)

| Partner Agency | 2007 Accounts Payable | 2006 Accounts Payable |
|---------------------------------|-----------------------|-----------------------|
| Department of Justice | \$ 11,955 | \$ 12,582 |
| Departmental Offices | 178 | 513 |
| Department of Homeland Security | 8,331 | 2,790 |
| Fincen | 4 | - |
| Internal Revenue Service | 13,014 | 14,573 |
| Totals | \$ 33,482 | \$ 30,458 |

Intragovernmental Amounts – Revenues and Costs (Dollars in thousands)

| Budget Functions | 2007 | | 2006 | |
|---------------------------|---|--|---|--|
| | Cost to Generate Exchange Intragovernmental Revenue | Costs to Generate Non-Exchange Intragovernmental Revenue | Cost to Generate Exchange Intragovernmental Revenue | Costs to Generate Non-Exchange Intragovernmental Revenue |
| Administration of Justice | \$ - | \$ 97,760 | \$ - | \$ 80,009 |

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

| Partner Agency | 2007 | | 2006 | |
|--------------------------------------|-------------|------------------|-------------|------------------|
| | In | Out | In | Out |
| Department of Justice | \$ - | \$ - | \$ - | \$ 32 |
| Department of Homeland Security | - | 24,322 | - | 22,528 |
| Department of Treasury | - | 2,190 | - | 1,622 |
| Internal Revenue Service | - | 13,250 | - | 17,235 |
| Financial Crimes Enforcement Network | - | - | - | 2,300 |
| Department of State | - | 36 | - | 81 |
| Department of Labor | - | 125 | - | 97 |
| Central Intelligence Agency | - | - | - | 830 |
| Totals | \$ - | \$ 39,923 | \$ - | \$ 44,725 |

SECTION V

OTHER ACCOMPANYING INFORMATION

(Unaudited)

TREASURY FORFEITURE FUND
Equitable Sharing Summarized by State and U.S. Territories
For the Year Ended September 30, 2007
(Dollars in Thousands)
(Unaudited)

| State/U. S. Territories | Currency Value | Property Value |
|---------------------------------|-------------------|-------------------|
| Alabama | \$ 185 | \$ - |
| Alaska | 24 | 377 |
| Arizona | 519 | 94 |
| Arkansas | 182 | - |
| California | 5430 | 387 |
| Colorado | 336 | - |
| Connecticut | 203 | - |
| D.C. Washington | 187 | - |
| Delaware | 55 | - |
| Florida | 5,659 | 219 |
| Georgia | 662 | - |
| Guam | - | - |
| Hawaii | 181 | 3 |
| Idaho | 132 | - |
| Illinois | 856 | 17 |
| Indiana | 291 | - |
| Iowa | - | - |
| Kansas | 17 | - |
| Kentucky | 308 | 3 |
| Louisiana | 158 | 2 |
| Maine | 573 | 85 |
| Maryland | 1,564 | 6 |
| Massachusetts | 616 | 198 |
| Michigan | 878 | 21 |
| Minnesota | 3 | 43 |
| Mississippi | 40 | - |
| Missouri | 118 | - |
| Montana | - | 10 |
| Nebraska | 55 | - |
| Nevada | 150 | 5 |
| New Jersey | 997 | - |
| New Hampshire | 14 | - |
| New Mexico | 8 | - |
| New York | 8,377 | 687 |
| North Carolina | 2,419 | 315 |
| North Dakota | - | - |
| Ohio | 2,470 | 63 |
| Oklahoma | 4 | 1 |
| Oregon | 705 | 22 |
| Pennsylvania | 578 | - |
| Puerto Rico | 466 | - |
| Rhode Island | 6 | - |
| South Carolina | 369 | 122 |
| South Dakota | - | - |
| Tennessee | 53 | 2 |
| Texas | 13,883 | 551 |
| Utah | 202 | - |
| <i>Subtotal carried forward</i> | \$ 49,933 | \$ 3,233 |

TREASURY FORFEITURE FUND
Equitable Sharing Summarized by State and U.S. Territories
For the Year Ended September 30, 2007
(Dollars in Thousands)
(Unaudited)

| <u>State/U. S. Territories</u> | <u>Currency Value</u> | <u>Property Value</u> |
|---------------------------------|-----------------------|-----------------------|
| <i>Subtotal brought forward</i> | \$ 49,933 | \$ 3,233 |
| Vermont | 36 | - |
| Virgin Islands | - | - |
| Virginia | 1,798 | 82 |
| Washington | 896 | 3,353 |
| West Virginia | 24 | - |
| Wisconsin | 835 | 2 |
| Wyoming | - | - |
| Totals | <u>\$ 53,522</u> | <u>\$ 6,670</u> |

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

TREASURY FORFEITURE FUND
Uncontested Seizures of Currency and Monetary Instruments Valued Over
\$100,000, Taking More Than 120 Days from Seizure to Deposit in Fund
For the Year Ended September 30, 2007
(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 2007.

TREASURY FORFEITURE FUND
Analysis of Revenue and Expenses and Distributions
For the Year Ended September 30, 2007
(Dollars in Thousands)

Revenue, Expenses and Distributions by Asset Category:

| | Revenue | Expenses and Distributions |
|--|-------------------|-----------------------------------|
| Vehicles | \$ 15,860 | \$ 35,384 |
| Vessels | 4,405 | 45,082 |
| Aircraft | 4,405 | 14,524 |
| General Property | 14,097 | 143,094 |
| Real Property | 49,341 | 5,604 |
| Currency and monetary instruments | 298,662 | 143,082 |
| | 386,770 | 386,770 |
| Less: | | |
| Mortgages and claims | (10,046) | (10,046) |
| Refunds | (10,731) | (10,731) |
| Add: | | |
| Excess of net revenues and financing sources over total program expenses | -- | -- |
| Total | \$ 365,993 | \$ 365,993 |

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

| | | |
|--|-------------------|-------------------|
| Sales of property and forfeited currency and monetary instruments | 334,048 | 73,487 |
| Reimbursed storage costs | 4,788 | 38,677 |
| Assets shared with state and local agencies | 32,743 | 32,743 |
| Assets shared with other federal agencies | 9,806 | 9,806 |
| Assets shared with foreign countries | 514 | 514 |
| Victim Restitution | 4,871 | 4,871 |
| Destructions | -- | 46,412 |
| Pending disposition | -- | 180,260 |
| | 386,770 | 386,770 |
| Less: | | |
| Mortgages and claims | (10,046) | (10,046) |
| Refunds | (10,731) | (10,731) |
| Add: | | |
| Excess of net revenues and financing sources over total program expenses | -- | -- |
| Total | \$ 365,993 | \$ 365,993 |

The revenue amount of \$365,993 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, 2007
(Dollars in Thousands)

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

(1) A report on:

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

As reported in the audited financial statements, at September 30, 2007, the Fund had forfeited property held for sale of \$74,146. 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, 2007, there was \$28,471 of forfeited currency and other monetary instruments that had not yet been transferred to the Fund. This is reported as a part of "Cash and Other Monetary Assets" in the audited financial statements.

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

The estimated total value of all such property transferred to any state or local law enforcement bureau is summarized by state and U.S. territories. Total currency transferred was \$53,522 and total property transferred was \$6,670 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, 2006 which became the beginning balance for the Fund on October 1, 2006, as reported in the audited financial statements is \$236,757.

- (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 \$10,046. The amount actually paid on a cash basis was not materially different.

TREASURY FORFEITURE FUND
Information Required by 31 U.S.C. 9703(f)
For the Year Ended September 30, 2007
(Dollars in Thousands)

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

| | |
|------------------------|----------|
| State and local | \$32,743 |
| Foreign countries | 514 |
| Other federal agencies | 9,806 |
| Victim restitution | 4,871 |

(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 \$153,506.

The amount of seized currency not on deposit in the Fund's suspense account at September 30, 2007, was \$48,082. This amount includes some funds in the process of being deposited at yearend; cash seized in August or September 2007 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 \$160,117 for fiscal year 2007.

(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 | \$180,248 | 31 seizures |
| IRS | 280,175 | 111 seizures |
| U.S. Secret Service | 7,552 | 5 seizures |
| ATF | 14,291 | 6 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 60.

TREASURY FORFEITURE FUND
Information Required by 31 U.S.C. 9703(f)
For the Year Ended September 30, 2007
(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, 2007, as reported in the audited financial statements is \$361,387.

(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 2008 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 61.