



# **ASSETS FORFEITURE FUND AND SEIZED ASSET DEPOSIT FUND ANNUAL FINANCIAL STATEMENT FISCAL YEAR 2008**

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

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**ASSETS FORFEITURE FUND  
AND  
SEIZED ASSET DEPOSIT FUND  
ANNUAL FINANCIAL STATEMENT  
FISCAL YEAR 2008**

**OFFICE OF THE INSPECTOR GENERAL  
COMMENTARY AND SUMMARY**

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

This audit report contains the Annual Financial Statements of the AFF/SADF for the fiscal years (FY) ended September 30, 2008, and September 30, 2007. Under the direction of the Office of the Inspector General (OIG), KPMG LLP performed the AFF/SADF's audit. The audit resulted in an unqualified opinion on the FY 2008 financial statements. An unqualified opinion means that the financial statements present fairly, in all material respects, the financial position and results of the entity's operations in conformity with U.S. generally accepted accounting principles. For FY 2007, the AFF/SADF also received an unqualified opinion on its financial statements (OIG Report No. 08-14).

KPMG LLP also issued reports on internal control over financial reporting and on compliance and other matters. For FY 2008, the Independent Auditors' Report on Internal Control over Financial Reporting identified four significant deficiencies. The first significant deficiency concerns weaknesses in the seized and forfeited property management environment, which has been reported annually since FY 2006. The second significant deficiency is a repeat condition related to weaknesses in the procurement management environment. The third significant deficiency

concerns weaknesses in the financial reporting environment. The fourth significant deficiency concerns the information system controls environment, which is a longstanding and previously reported weakness. No instances of noncompliance with laws and regulations or other matters were identified during the audit.

The OIG reviewed KPMG LLP's reports and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the AFF/SADF's financial statements, conclusions about the effectiveness of internal control, conclusions on whether the AFF/SADF's financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996, or conclusions on compliance with laws and regulations. KPMG LLP is responsible for the attached auditors' reports dated November 5, 2008, and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with U.S. generally accepted government auditing standards.

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**Management's Discussion and Analysis**

**Unaudited**

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

**MISSION**

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

**ORGANIZATION STRUCTURE**

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

**Table 1. Asset Forfeiture Program Participants by Function <sup>1</sup>**

<b>Function</b>	<b>AFMLS</b>	<b>AFMS</b>	<b>ATF</b>	<b>DCIS</b>	<b>DEA</b>	<b>DS</b>	<b>EOUSA</b>	<b>FBI</b>	<b>FDA</b>	<b>USDA</b>	<b>USMS</b>	<b>USPS</b>
Investigation			X	X	X	X		X	X	X		X
Litigation	X						X					
Custody of Assets			X		X			X			X	
Management	X	X										

**FINANCIAL STRUCTURE**

The AFP is comprised of two funds, which are under the management control of the Asset Forfeiture Management Staff (AFMS). The AFF is a special fund listed in the U.S. Treasury Federal Account Symbols and Titles Book as 15X5042. The SADF is a deposit fund listed as 15X6874.

The AFF was created by the Comprehensive Crime Control Act of 1984 to be the repository of the proceeds of forfeitures under any law enforced and administered by the DOJ (28 U.S.C. 524(c)). All

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

amounts earned from the investment of AFF and SADF balances are deposited into the AFF. The interest earned on the AFF balances is the property of the United States (Government).

Monies deposited in the AFF are used to cover operating costs of the Program. These include, for example, asset management and disposition expenses; equitable sharing payments to participating state, local, and foreign governments; Automatic Data Processing (ADP) equipment expenses; contract service payments; and payments of innocent third party claims. All salaries and employment related expenses, liabilities, and imputed financing costs of DOJ AFP participants are reported in the financial statements of the participants' reporting entities. Salaries and employment related costs of administrative personnel of the AFMS and USMS are charged to the AFP as program operating costs. The AFP's operating costs do not include the costs of any participant salaries incurred while conducting investigations leading to seizure and forfeiture.

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

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

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

## **Limitations on the Use of the Assets Forfeiture Fund**

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

In Fiscal Year (FY) 2008, monies were available under a permanent indefinite appropriation to finance the following:

- (1) The operational costs of the forfeiture program, including handling and disposal of seized and forfeited assets, and the execution of legal forfeiture proceedings to perfect the title of the United States in that property.
- (2) The payment of innocent third party claims.
- (3) The payment of equitable shares to participating foreign governments and state and local law enforcement agencies.
- (4) The costs of ADP equipment and ADP support for the Program.
- (5) Contract services in support of the Program.
- (6) Training and printing associated with the Program.
- (7) Other management expenses of the Program.
- (8) Awards for information leading to forfeiture.
- (9) Joint Federal, state, and local law enforcement operations.
- (10) Investigative expenses leading to seizure.

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

### **Holding and Accounting for Seized and Forfeited Property**

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

## ANALYSIS OF FINANCIAL STATEMENTS

The following are brief explanations for the AFF/SADF financial results, position, and condition conveyed in the principal financial statements. In FY 2008, five major fraud cases resulted in extraordinary forfeiture income of \$443.6 million. In FY 2007, three major cases resulted in extraordinary forfeiture income of \$842.3 million. The AFF/SADF financial results reflect the impact of the large cases on forfeiture income and accrued liabilities in the fund balance with Treasury, accounts payable, forfeiture revenue, and budgetary resources.

### Balance Sheets

Total assets, which present as of a specific time the amounts of future economic benefits owned or managed by the AFF/SADF, increased in FY 2008 to \$3,120.7 million from \$3,056.5 million in FY 2007, an increase of 2.1 percent. If seized assets, which are not yet owned by the government, are backed out, the adjusted assets of the Fund increased to \$1,892.2 million in FY 2008 from \$1,790.6 million in FY 2007, an increase of 5.7 percent. This is attributable to an increase in forfeited assets in FY 2008 from FY 2007, indicating a strong current and future potential stream of assets flowing into the AFF. The AFF/SADF fund balances with the U.S. Treasury were lower in FY 2008 than FY 2007.

Total liabilities of the funds decreased to \$2,112.9 million in FY 2008 from \$2,322.3 million in FY 2007, a decrease of 9.0 percent. The majority of the change, \$180.7 million, in liabilities is due to decrease in accounts payable with the public, most of which is attributable to payments to innocent victims of the multiple large cases explained in the introductory paragraph to this section. There were fewer large case deposits in FY 2008 than FY 2007 resulting in the decrease in accounts payable. Liabilities were created at the same time notifications of the deposits were received. Current assets were more than current liabilities by a ratio of 2.14 to 1, which reflects an increase of .39 from FY 2007. This ratio continues to indicate that the AFF will be able to meet its obligations when due. In the calculation of the ratio of current assets to current liabilities, current assets consist of total assets less SADF net investments, seized cash deposited, seized monetary instruments (see Note 12), and property, plant and equipment while current liabilities include the total of liabilities covered by budgetary resources, except for total seized cash and monetary instruments.

For the fiscal year ended September 30, 2008, net position, which is the equity of the U.S. Government in the AFF, increased 37.3 percent compared to FY 2007. The ratio of net position to total assets was 0.32 to 1 in FY 2008, an increase of 0.08 from FY 2007.

### Statements of Net Cost

Net cost of operations, shown by strategic goal 2 of the DOJ, decreased to \$1,030.7 million in FY 2008 from \$1,530.3 million in FY 2007, a decrease of 32.6 percent. Typically, the largest single Fund expense consists of equitable sharing payments; however, the largest category of expense in FY 2007 and FY 2008 was payments to third parties as a result of the multiple fraud cases explained in the introductory paragraph to this section. Each year, millions of dollars are paid to innocent victims and lien holders that are financially affected as a result of a crime. The decrease in net cost is due to a decrease in budgetary resources provided for mandatory program activities of \$309.1 million in FY 2008 compared to FY 2007. To the extent that financing sources do not cover net costs, AFF's carry forward balances are used to support program expenses. The carry forward balances consist primarily of special case funds and monies for operational requirements.

## Statements of Changes in Net Position

Net position, an indicator of the Fund's future capability to support ongoing operations, increased to \$1,007.8 million in FY 2008 from \$734.2 million in FY 2007, an increase of \$273.6 million or 37.3 percent. The Fund's financing sources consist primarily of forfeited cash and other monetary assets and, secondly, from the sale of forfeited property. In addition, other factors that influence the AFF net position to a lesser extent include the short-term interest rates that affect nonexchange revenue from investment in Government securities; the nature of seized non-cash properties that must be converted into cash, affecting their rates of disposition; and Super Surplus allocations and transfers of properties placed into official use that consume resources.

The Program invests cash balances from both the AFF and SADF in Government securities. Earnings over a five-year period are presented in Figure 2. Investment interest earnings (i.e., nonexchange revenue) realized for the fiscal year ended September 30, 2008, totaled \$83.7 million, which is \$27.7 million less than the \$111.4 million in investment interest earnings for the fiscal year ended September 30, 2007. FY 2008 investment interest earned is \$16.3 million less than the \$100 million estimated for FY 2008 in the Budget of the United States Government, Fiscal Year 2009--Appendix. The decreased earnings are due primarily to the decrease in interest rates for one-month, three-month, and six-month Treasury bills. Amounts available for investment are difficult to predict because many factors influence the balance. For example, one significant factor is the level of third party payments and equitable sharing distributions, associated with uncertainties in the amount and timing of such disbursements, including the time needed for DOJ approval of equitable sharing requests for cases with asset values exceeding \$1 million (i.e., extraordinary equitable sharing) and appeals of forfeiture judgments.

## Statements of Budgetary Resources

Total budgetary resources decreased to \$1,750.1 million in FY 2008 from \$1,982.7 million in FY 2007, a 11.7 percent decrease. The net decrease is attributed primarily to significant decreases in forfeiture income received, the majority of which was attributable to nonrecurring activities. Nonrecurring forfeiture income decreased to \$443.6 million in FY 2008 from \$842.3 million in FY 2007. From FY 2008 activity, approximately \$366.0 million of forfeiture income will be disbursed to the victims of the fraud cases. As a result of the cases, the net outlays increased to \$1,170.1 million in FY 2008 from \$940.5 million in FY 2007, an increase of 24.4 percent.

The total obligations incurred in FY 2008 were \$1,154.9 million, a decrease of \$399.0 million compared to \$1,553.9 million incurred in FY 2007. The FY 2008 obligations decreased relative to FY 2007 due to nonrecurring case activity in FY 2007.

The AFF's unobligated balance was \$595.2 million as of September 30, 2008, an increase of \$166.3 million or 38.8 percent as compared to \$428.9 million as of September 30, 2007. The unobligated balance carried forward is retained in the AFF to ensure the availability of sufficient monies in the upcoming fiscal year for authorized purposes. These purposes include program operating expenses as well as pending extraordinary distributions, pending innocent third party payments, uncommitted Super Surplus authority, and other essential items. For example, as of September 30, 2008, pending extraordinary equitable sharing distributions totaled an estimated \$532.4 million (comprises 121 assets with values in excess of \$1 million for which the forfeiture process, including disposition, has concluded and asset proceeds have been deposited into the Fund).

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

Source	FY 2008	FY 2007	Change%
<b>Earned Revenue</b>	\$ 3,178	\$ 3,722	(14.6%)
<b>Budgetary Financing Sources</b>			
Nonexchange Revenues	83,690	111,426	(24.9%)
Donations and Forfeitures of Cash and Cash Equivalents	1,222,643	1,409,015	(13.2%)
<b>Other Financing Sources</b>			
Donations and Forfeitures of Property	63,430	106,746	(40.6%)
Transfers-In/Out Without Reimbursement	(65,451)	(13,777)	(375.1%)
<b>Total</b>	<b>\$ 1,307,490</b>	<b>\$ 1,617,132</b>	<b>(19.1%)</b>

**Table 3. How Assets Forfeiture Fund Resources are Spent  
(Dollars in Thousands)**

Strategic Goal (SG)	FY 2008	FY 2007	Change %
<b>SG 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People</b>			
Total Gross Cost	\$ 1,033,894	\$ 1,534,041	
Less: Total Earned Revenue	3,178	3,722	
<i>Total Net Cost of Operations</i>	<b>\$ 1,030,716</b>	<b>\$ 1,530,319</b>	<b>(32.6%)</b>

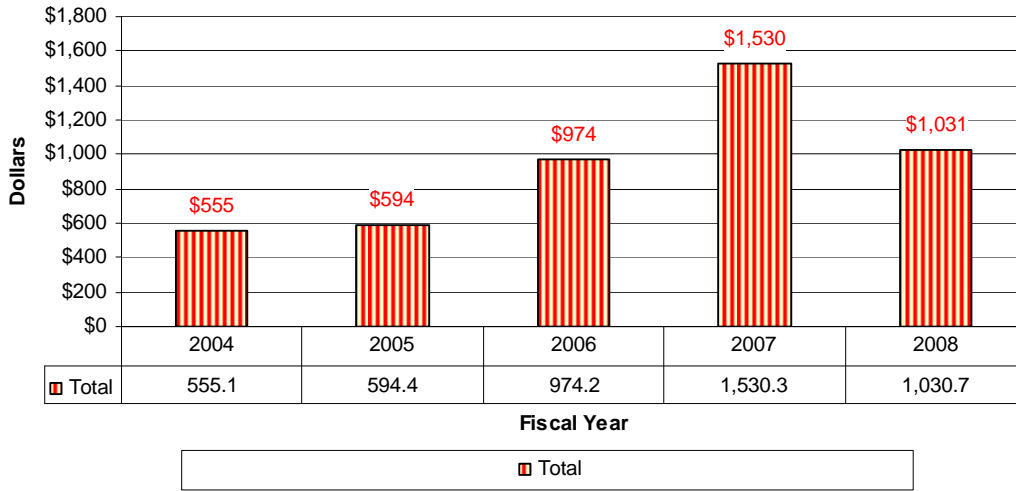
**2008 Financial Highlights**

As indicated in Table 3, in FY 2008 the AFF supported Strategic Goal 2 of the Attorney General’s Strategic Plan for Fiscal Years 2007 – 2012, which includes strategic objective 2.2 - *Reduce the threat, incidence, and prevalence of violent crime.*

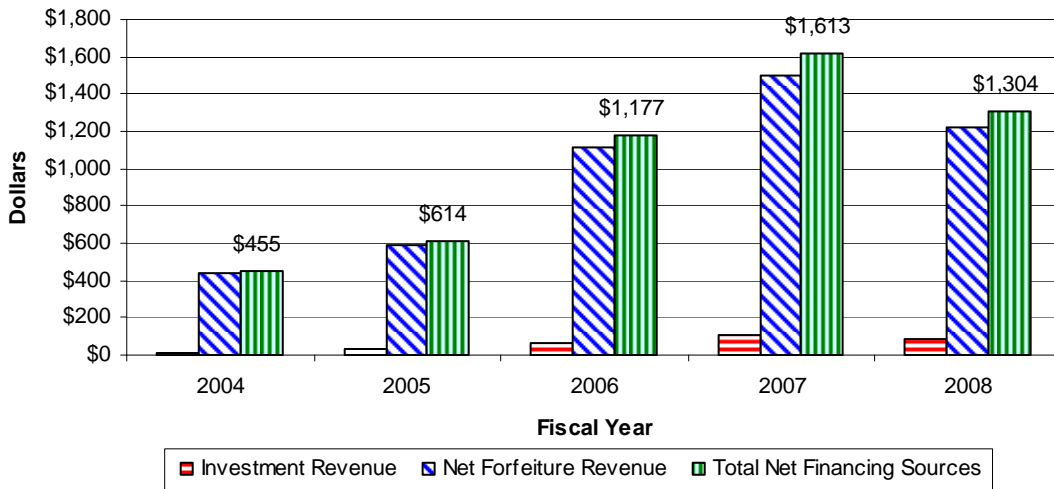
The AFF has no costs associated with counterterrorism or homeland security.

**Strategic Goal 2, Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People.** Included are expenditures made for case, program, investigative, and other authorized support costs incurred by AFP participants to operate the activities of the Program. The Fund’s resources cover the costs of seizing, evaluating, inventorying, maintaining, protecting, advertising, forfeiting, and disposing of property seized for forfeiture. These costs are necessary to support the AFP and fluctuate in direct relation to the forfeiture activity levels of the investigative, prosecutive, litigative, and administrative participants of the Fund. For the fiscal year ended September 30, 2008, \$1,030.7 million was expended (net of earned revenue) while \$1,530.3 million was expended (net of earned revenue) for the fiscal year ended September 30, 2007. Goal 2 net costs are presented in Figure 1, Financing sources are presented in Figure 2.

**Figure 1. AFF Net Costs  
(Dollars in Millions)**



**Figure 2. AFF Financing Sources  
(Dollars in Millions)**



## **PERFORMANCE INFORMATION**

### **Data Reliability and Validity**

The AFP views data reliability and validity as critically important in the planning and assessment of its performance. The Justice Management Division (JMD) maintains standards and practices to ensure that data reported meets the OMB standards for data reliability that are presented in OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, Section 230.5.

The financial management of the Fund is supported by two JMD financial systems: Financial Management Information System 2 (FMIS2) and Unified Financial Management System (UFMS); the USMS' Standardized Tracking and Reporting System (STARS) and Financial Management System (FMS); and the AFP's Consolidated Asset Tracking System (CATS). During FY 2008, all active and archived data from the ATF's Forfeited and Seized Assets Tracking System was converted to CATS. This effort was completed in June 2008. ATF now enters new information and administers migrated data in the CATS application. FMIS2 is a computerized, general-purpose accounting and reporting system that supports the financial operations of the DOJ. UFMS is a financial system to standardize business processes across all DOJ components, except for Federal Prison Industries, providing secure, accurate, and timely financial data. STARS is the USMS Headquarters financial system. FMS is the USMS field offices' financial management system. CATS is an integrated system that provides services to the asset forfeiture community and serves as a subsidiary system for the financial accounting and reporting of the seized and forfeited property. Enhancements and refinements are being made to some of these systems that will improve the usefulness of the data supporting the activities of the AFF and SADF.

## **FY 2008 REPORT ON SELECTED RESULTS**

### **STRATEGIC GOAL 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People**

100% of the AFF's Net Costs support this Goal.

#### **PROGRAM:**

**Background/Program Objectives:** The primary purpose of the AFP is to deter crime by disrupting, damaging, and dismantling criminal organizations through the use of forfeiture sanction. Depriving white collar criminals, drug traffickers, racketeers, and other criminal syndicates of their ill-gotten proceeds and instrumentalities of their trade not only achieves important law enforcement objectives but also provides an effective means of recovering funds for victim restitution.

Among other important benefits of an aggressive and well-managed forfeiture program is the application of surplus revenues to law enforcement objectives such as enhancing cooperation among Federal, state, and local law enforcement agencies through the equitable sharing of Federal forfeiture proceeds. Pursuant to 21 U.S.C. Sec. 881(e)(1) and 19 U.S.C. Sec. 1616a, as made applicable by 21 U.S.C. Sec. 881(d) and other statutes, the Attorney General has the authority to equitably transfer forfeited property and cash to state and local agencies that directly participate in the law enforcement effort leading to the seizure and forfeiture of property. All property and cash transferred to state and local agencies and any income generated by this property and cash is to be used for law enforcement



purposes. As a result, state and local law enforcement programs and capabilities benefit significantly from their cooperative efforts with Federal law enforcement agencies. Among the uses of equitable shares, priority is given to supporting community policing activities, training, and law enforcement operations calculated to result in further seizures and forfeitures.

### **Performance Measures:**

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

### **Discussion of FY 2008 Results:**

Total Net Financing Sources realized by the Fund were \$1,304.3 million for the fiscal year ended September 30, 2008. This is the third year since inception of the Fund that it has exceeded \$1 billion in deposits. If we remove the effect of the five major large cases producing \$443.6 million, the deposits still exceeded \$700 million in FY 2008. These revenues must cover program operation expenses, which include all costs incurred in support of the AFP. The FY 2008 percentage of program operation expenses to revenues was 51%, while in FY 2007 it was 69%. After program operation expenses (as presented in Note 15) are deducted from revenues and financing sources, the remainder represents the results of the year's operations (\$1,307.5 million - \$670.8 million = \$636.7 million in FY 2008 and \$1,617.1 million - \$1,120.5 million = \$496.6 million in FY 2007). This net income is distributed in various ways. It is paid out for equitable sharing; state and local overtime; contracts to identify assets; investigative costs leading to seizures; and investigative expenses after the annual appropriation of funds.

The AFF began implementation of UFMS to facilitate effective management of financial and acquisition resources in support of the AFP and DOJ missions, objectives, and strategic goals in December 2007. In future years, UFMS will be a component-wide financial management system that will replace FMIS2. In 2006, the AFF funded a CATS project that contributed to a 2008 ATF deployment of a new version of the Nforce case management system that included an interface to the CATS application. This application will enable a single point of data entry for ATF agents and asset forfeiture administrators, thus centralizing tracking for ATF forfeiture activity.

## **ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE**

### **FMFIA Section 2 – Material Weaknesses**

For FY 2008 and FY 2007, the independent auditors reported no material weaknesses. Management's self assessment of the AFF/SADF internal controls over financial reporting, conducted in FY 2008 and FY 2007, as required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and OMB Circular No. A-123, *Management Accountability and Control*, identified fragmented financial systems and processes as an operational deficiency that is not currently material but warrants acknowledging as a deficiency that, if not addressed, managed, or corrected, could develop into a program material weakness. To correct this deficiency, the AFP is working with the UFMS Project Management Office and Finance Staff to implement a Department-wide and program-wide, excluding Federal Prison Industries, core financial system. The first phase of the implementation occurred during FY 2008. In the future, the financial system will be integrated with the AFP's seized and forfeited property system, CATS. The AFP also converted ATF seizures and forfeitures to CATS

during FY 2008. The implementation of CATS at ATF provides access across the appropriate components to ensure timely reporting in the audited financial statements. Changes in participating agencies' financial accounting procedures for seized and forfeited property and financial transactions are made more uniform as new systems are implemented.

Based on the results of the assessment for the year ended September 30, 2008, the JMD management did not identify any Section 2 material weaknesses to report that impact the AFP. The FY 2007 AFF/SADF FMFIA report revealed deficiencies in the seized and forfeited property controls, access controls, and application software development and change controls. AFP management took steps to further strengthen forfeiture program controls during FY 2008. To address the Department financial systems weaknesses in the long term, the DOJ began implementation of UFMS for some AFMS transactions. This was the first UFMS implementation in the Department. Implementations at other Departmental components are scheduled for the future. Further information may be obtained from the FYs 2008 and 2007 U.S. Department of Justice Performance & Accountability Reports.

### **Internal Control Program**

The Attorney General will provide the overall assurance statement on internal controls for the Department. Component responsibilities will be determined by the Department's Senior Assessment Team.

AFMS is responsible for maintaining internal accounting and administrative controls that are adequate to ensure that: (1) transactions are executed in accordance with applicable budgetary and financial laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with Federal accounting standards; (2) assets are properly safeguarded to deter fraud, waste, and abuse; and (3) management information is adequately supported. AFMS, along with other Fund participants who use FMIS2 and UFMS, monitor their financial transactions on an on-going basis. AFMS also requires participants who enter Fund transactions into their own financial system to provide reports of their financial transactions at least quarterly to update the AFF obligation status.

### **FMFIA Section 4 – Material Nonconformances**

For FY 2008 and FY 2007, the Fund reported no material nonconformances of its financial-mixed IT system CATS. See FMFIA Section 2 – Material Weaknesses for discussion of management's self-assessment relative to potential program financial systems and processes deficiencies.

For FY 2008 the Offices, Boards and Divisions (OBD) management participated in the Departmental assessment of internal controls over financial reporting required by Appendix A of OMB Circular No. A-123. Results of the testing of the controls over financial reporting in the OBD's will be consolidated with other Departmental components and reported in the overall Departmental assurance statement. In FY 2007 and FY 2008 DOJ provided qualified assurance that management controls and financial systems met the objectives of Section 4 of FMFIA. The Fund relies upon the Department's JMD/FMIS2 and UFMS managers for Section 4 compliance on the Department's financial system of record.

## **Legal Compliance**

For FY 2008 and FY 2007, the AFF/SADF was in compliance with the requirements and responsibilities defined in applicable laws and administrative requirements, including FMFIA, the Federal Financial Management Improvement Act of 1996 (FFMIA), and relevant OMB Circulars.

## **Improper Payments**

The Improper Payments Information Act (IPIA) requires a risk assessment in all programs to identify those that are susceptible to significant erroneous payments. Significant erroneous payments are defined by OMB as annual erroneous payments in a program exceeding both 2.5% of program payments and \$10 million. For FYs 2008 and 2007, the AFF has not identified any program that was susceptible to significant erroneous payments that exceed both 2.5% of program payments and \$10 million.

## **POSSIBLE FUTURE EFFECTS OF EXISTING EVENTS AND CONDITIONS**

Financing sources in FY 2008 totaled \$1,304.3 million, which are \$309.1 million less than the \$1,613.4 million reported in FY 2007. It is difficult to project future levels of financing since they are dependent upon many factors, including the development of new cases, uneven flow of cases through the forfeiture process, level of appropriations that Federal law enforcement agencies receive, level of personnel and monetary resources dedicated to the forfeiture program, international cooperation in forfeiture and repatriation matters, Federal court decisions, and evolving forfeiture law.

In 2008, the DOJ began to replace the core financial management systems currently operating across the components of DOJ, except for Federal Prison Industries, with one core commercial off-the-shelf financial management system certified by the Financial Systems Integration Office, formerly known as the Joint Financial Management Improvement Program. The first pilot implementation of the UFMS occurred with AFMS. The pilot included a portion of AFMS's obligation and payment transactions, including both intragovernmental and nongovernmental transactions. The Fund is continuing to support the DOJ's goals, some of which are to streamline, eliminate or consolidate duplicative functions; improve communications; improve financial performance; and utilize technology to improve operations. The Fund is already meeting some of these goals with the completion of the Browser-Based CATS (BBC) development project in late 2005 and the development of an interface between the ATF Nforce and the CATS applications, with subsequent implementation in early FY 2008.

## **LIMITATIONS OF THE FINANCIAL STATEMENTS**

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

While the statements have been prepared from the books and records of the AFF/SADF in accordance with U.S. generally accepted accounting principles for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

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**Reports of Independent Auditors**

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KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report on Financial Statements

Inspector General  
U.S. Department of Justice

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

We have audited the accompanying consolidated balance sheets of the U.S. Department of Justice Assets Forfeiture Fund (AFF) and Seized Asset Deposit Fund (SADF) as of September 30, 2008 and 2007, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. These consolidated financial statements are the responsibility of the AFF/SADF's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the AFF/SADF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Justice Assets Forfeiture Fund and Seized Asset Deposit Fund as of September 30, 2008 and 2007, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with U.S. generally accepted accounting principles.

The information in the *Management's Discussion and Analysis* section is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.



In accordance with *Government Auditing Standards*, we have also issued our reports dated November 5, 2008, on our consideration of the AFF/SADF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

November 5, 2008





KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report on Internal Control Over Financial Reporting

Inspector General  
U.S. Department of Justice

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

We have audited the consolidated balance sheets of the U.S. Department of Justice Assets Forfeiture Fund (AFF) and Seized Asset Deposit Fund (SADF) as of September 30, 2008 and 2007, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated November 5, 2008.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The management of the AFF/SADF is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2008 audit, we considered the AFF/SADF's internal control over financial reporting by obtaining an understanding of the AFF/SADF's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. To achieve this purpose, we did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of the AFF/SADF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the AFF/SADF's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

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 AFF/SADF's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a



remote likelihood that a misstatement of the AFF/SADF's consolidated financial statements that is more than inconsequential will not be prevented or detected by the AFF/SADF'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 AFF/SADF's internal control.

In our fiscal year 2008 audit, we consider the deficiencies described in Exhibit I to be significant deficiencies in internal control over financial reporting. However, we believe that none of the significant deficiencies described in Exhibit I are material weaknesses. Exhibit II presents the status of prior years' recommendations.

The AFF/SADF's responses to the findings identified in our audit are also presented in Exhibit I. We did not audit the AFF/SADF's responses and, accordingly, we express no opinion on them.

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

KPMG LLP

November 5, 2008

SIGNIFICANT DEFICIENCIES

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IMPROVEMENTS ARE NEEDED IN THE SEIZED AND FORFEITED PROPERTY MANAGEMENT ENVIRONMENT

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**Internal controls over seized and forfeited property need reinforcement**

During internal control and substantive test work procedures over seized and forfeited property transactions from the Consolidated Asset Tracking System (CATS), we noted the following exceptions:

**September 30, 2008 Final Test Results:**

- One out of 32 forfeited property sample items was undervalued by \$2,500,000.
- One out of 42 seized property sample items was undervalued by \$600,000.

**August 31, 2008 Interim Test Results:**

- Two out of 47 seized property sample items were overvalued by \$491,311.
- One out of 47 seized property sample items, valued at \$140,000, should have been classified as disposed in CATS.

**June 30, 2008 Interim Test Results:**

- Four out of 226 forfeited property sample items were overvalued by \$474,855.
- One out of 226 forfeited property sample items was undervalued by \$10,685.
- One out of 246 seized property sample items was overvalued by \$475,599.
- Two out of 246 seized property sample items were undervalued by \$74,249.
- One out of 43 aged forfeited property sample items, valued at \$16,085, should have been classified as disposed in CATS.

During our field site procedures over existence and completeness of seized and forfeited property in CATS, we noted the following:

- Four out of 179 non-valued existence sample items should have been classified as disposed in CATS.
- One out of 179 existence sample items, valued at \$10,238, should have been classified as disposed in CATS.
- Five out of 166 non-valued completeness sample items should have been classified as disposed in CATS.
- One out of 166 non-valued completeness sample items was not recorded in CATS.

These problems occurred because field personnel did not make appropriate entries based on available supporting documentation. Inaccurate designation of the status of seized and forfeited property, as well as inaccurate recording of related amounts, misstates the applicable line items in the financial statements and/or the notes to the financial statements.

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

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, requires that transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports.

**We recommend the Asset Forfeiture Management Staff (AFMS):**

1. Enforce procedures to ensure the current property and financial data in the property and financial management systems are updated based on accurate information in a timely manner and within the timeframes established for issuing the Assets Forfeiture Fund (AFF) and Seized Asset Deposit Fund (SADF) financial statements. *(Repeat)*

**Management Response:**

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

**Internal controls over deletion of property records from CATS need reinforcement**

During our internal control test work over the deletion of 45 property records from CATS, we noted four Drug Enforcement Administration (DEA) deletion sample items were not properly authorized prior to their removal from CATS.

Inadequate internal controls over the deletion of property records in CATS may result in unauthorized deletions and misstatements to seized and forfeited property related financial statement disclosures.

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, requires that management implement control activities to include policies, procedures and mechanisms in place to help ensure that agency objectives are met. Several examples of control activities include: proper segregation of duties (separate personnel with authority to authorize a transaction, process the transaction, and review the transaction); physical controls over assets (limited access to inventories or equipment); proper authorization; and appropriate documentation and access to that documentation.

**We recommend the AFMS:**

2. Work with the DEA to strengthen procedures over the deletion of property records in CATS by developing and implementing a formal authorization process for deleting CATS property records and maintaining proper documentation of the authorization. *(New)*

## **Management Response:**

Management concurs with the findings and recommendation. As of October 30, 2008, DEA has in place revised policies and procedures over the review and approvals for deleting CATS records and for maintaining proper documentation of each authorization.

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## **IMPROVEMENTS ARE NEEDED IN THE PROCUREMENT MANAGEMENT ENVIRONMENT**

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### ***Internal controls over obligations and related disbursements need improvement***

During our internal control and substantive test work procedures over obligations and related disbursement balances, we noted the following:

#### ***September 30, 2008 Final Test Results:***

- One out of 37 obligation sample items, valued at \$197,935, was not de-obligated after receipt of the final invoice.

#### ***August 31, 2008 Interim Test Results:***

- One out of 47 obligation sample items was erroneously recorded as undelivered after delivery and payment for services, resulting in a \$328,604 variance.
- One out of 47 obligation sample items was erroneously recorded as undelivered after delivery of services, resulting in a \$1,178,973 variance.

#### ***June 30, 2008 Interim Test Results:***

- Three out of 129 obligation sample items, valued at \$39,420, were not de-obligated after receipt of final invoices.
- One out of 129 obligation sample items was erroneously recorded as delivered prior to delivery of services, resulting in a \$34,000 variance.
- One out of 129 obligation sample items was erroneously recorded as undelivered after delivery of services, resulting in a \$430,563 variance.
- One out of 129 obligation sample items was erroneously recorded as undelivered after delivery and payment for services, resulting in a \$515,624 variance.
- Two out of 12 accrued obligation sample items were erroneously recorded as undelivered after delivery of services, resulting in a \$334,108 variance.
- One out of 12 accrued obligation sample items, valued at \$50,010, was not de-obligated after receipt of final invoices.

#### ***March 31, 2008 Interim Test Results:***

- Thirteen out of 30 aged obligation sample items, valued at \$278,541, were not de-obligated after receipt of final invoices.
- Five out of 134 obligation sample items, valued at \$1,285,793, were not de-obligated after receipt of final invoices.
- Three out of 134 obligation sample items that were not de-obligated, valued at \$187,644, were caused by duplicate recording of obligations.

- Two out of 134 obligation sample items were erroneously recorded as undelivered after delivery of services, resulting in a \$1,098,411 variance.
- One out of 134 obligation sample items was erroneously recorded as delivered-unpaid after payment for services, resulting in a \$20,137 variance.
- One out of 45 disbursement sample items, valued at \$26,750, was erroneously recorded as a disbursement refund instead of a revenue receipt.

This problem occurred because Asset Forfeiture Program (AFP) participants are not ensuring timely transfer of previously created undelivered orders (UDO) balances to delivered-unpaid before initiating the disbursement of related funds through the Intra-Governmental Payment and Collection (IPAC) system, thereby resulting in the failure to decrease existing UDO balances upon receipt and subsequent payment for services. Additionally, AFP participants are not performing adequate periodic reviews of open obligations to ensure they are valid and properly stated.

Ineffective internal controls over the recording of obligations and subsequent de-obligations may result in misstatements to related financial statement balances.

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, states that monitoring the effectiveness of internal control should occur in the normal course of business. In addition, periodic reviews, reconciliations or comparisons of data should be included as part of the regular assigned duties of personnel. Periodic assessments should be integrated as part of management's continuous monitoring of internal control, which should be ingrained in the agency's operations. If an effective continuous monitoring program is in place, it can level the resources needed to maintain effective internal controls throughout the year. Furthermore, transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports.

Department of Justice (DOJ) Financial Management Policies and Procedures Bulletin No. 00-15, *Accounting for Financial Obligations Within the Offices, Boards and Divisions (OBDs)*, states that: Obligating organizations are responsible for reviewing all outstanding obligations. These reviews should be performed on a monthly basis, but must be performed at least quarterly. Open obligation reviews must be performed to determine: (1) if obligation accruals in the Financial Management Information System 2 (FMIS2) are valid, (2) that valid accruals are being classified accurately as either undelivered or delivered, and (3) whether obligation amounts represent a reasonable estimate. When conducting open obligation reviews, obligating organizations will have to communicate with requisitioners, procurement officials, and vendors, to ascertain the status of the obligation. Any modification made to an FMIS2 obligation record must be supported by sufficient documentation.

**We recommend the AFMS:**

3. Work with participants to improve review procedures over obligation documents and vouchers, recorded amounts, and outstanding obligations to ensure amounts are adjusted or de-obligated in a timely manner and within the timeframes established for issuing the AFF/SADF financial statements. *(Updated)*

Improvements should include:

- Performing a more effective, complete, and regular review of open obligations and delivered-unpaid (accounts payable) balances.
- Giving special attention to inactive outstanding obligations in excess of 1-year old.
- Controls that prevent the creation of duplicate obligations.

**Management Response:**

Management concurs with the findings and recommendation. The Asset Forfeiture Management Staff will work with the AFP components to promote more effective, complete, and regular reviews over obligation documents and vouchers, recorded amounts, and outstanding obligations to ensure amounts are adjusted or de-obligated in a timely manner and within the timeframes established for issuing the AFF/SADF financial statements.

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**IMPROVEMENTS ARE NEEDED IN THE FINANCIAL REPORTING ENVIRONMENT**

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***Internal controls over data uploads into the Financial Management Information System 2 (FMIS2) and related reconciliation to the general ledger need improvement***

During our audit procedures we noted the following differences between the subsidiary ledger detail files from the United States Marshals Service (USMS) and the balances recorded in the AFF/SADF general ledger, FMIS2, used for financial statement reporting.

***September 30, 2008 Final Variances:***

- The UDO subsidiary balance was approximately \$303 thousand more than the balance recorded in FMIS2.
- The Delivered-Unpaid subsidiary balance was approximately \$713 thousand more than the balance recorded in FMIS2.
- The Delivered-Paid subsidiary balance was approximately \$164 thousand less than the balance recorded in FMIS2.
- The Non-exchange Revenue subsidiary balance was approximately \$4.4 million more than the balance recorded in FMIS2.

August 31, 2008 Variances:

- The UDO subsidiary balance was approximately \$576 thousand less than the balance recorded in FMIS2.
- The Delivered-Unpaid subsidiary balance was approximately \$629 thousand more than the balance recorded in FMIS2.
- The Delivered-Paid subsidiary balance was approximately \$208 thousand more than the balance recorded in FMIS2.
- The Non-exchange Revenue subsidiary balance was approximately \$84 thousand more than the balance recorded in FMIS2.

June 30, 2008 Variances:

- The UDO subsidiary balance was approximately \$1 million more than the balance recorded in FMIS2.
- The Delivered-Unpaid subsidiary balance was approximately \$321 thousand more than the balance recorded in FMIS2.
- The Delivered-Paid subsidiary balance was approximately \$757 thousand more than the balance recorded in FMIS2.
- The Non-exchange Revenue subsidiary balance was approximately \$1.6 million less than the balance recorded in FMIS2.

March 31, 2008 Variances:

- The UDO subsidiary balance was approximately \$2 million more than the balance recorded in FMIS2.
- The Delivered-Unpaid subsidiary balance was approximately \$166 thousand less than the balance recorded in FMIS2.
- The Delivered-Paid subsidiary balance was approximately \$634 thousand more than the balance recorded in FMIS2.
- The Non-exchange Revenue subsidiary balance was approximately \$7.7 million more than the balance recorded in FMIS2.

These problems occurred because of inadequate internal control procedures over the timely upload and subsequent reconciliation of financial data from the USMS's financial systems into FMIS2, AFF/SADF's general ledger system.

The failure to identify and correct differences timely arising from the upload reconciliation process and related adjustments to affected general ledger balances may result in misstatements to related financial statements balances.

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, states that monitoring the effectiveness of internal control should occur in the normal course of business. In addition, periodic reviews, reconciliations or comparisons of data should be included as part of the regular assigned duties of personnel. Periodic assessments should be integrated as part of management's continuous monitoring of internal control, which should be ingrained in the agency's operations. If an effective continuous monitoring program is in place, it can level the resources needed to maintain effective internal controls throughout the year.



**We recommend the AFMS:**

4. Work with the Justice Management Division Finance Staff to perform periodic (i.e., monthly or quarterly) reconciliations between the various uploads into the FMIS2 and the resultant general ledger accounts and take immediate and resolute action to eliminate the sources of differences. *(Repeat)*

**Management Response:**

Management concurs with the findings and recommendation. AFMS and the Finance Staff will work collaboratively to review the reconciliation process to determine where improvements can be made to ensure the integrity of the data. In addition, the Finance Staff intends to work with the USMS to develop/document improvements to the current interface between the FMIS2 and the USMS financial management systems. Lastly, the Finance Staff is also working with the UFMS PMO to refine the audit extract report available in the UFMS to ensure timely and accurate information for audit purposes.

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**IMPROVEMENTS ARE NEEDED IN THE INFORMATION SYSTEM CONTROLS ENVIRONMENT**

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During the fiscal year 2008 financial statement audit, we evaluated the general control environment and selected application controls. General controls are the structure, policies, and procedures that apply to the AFF/SADF's overall computer operations. Application controls are the structure, policies, and procedures that apply to the AFF/SADF's separate application systems. The evaluation was performed using the U.S. Government Accountability Office's (GAO) *Federal Information System Controls Audit Manual (FISCAM)* and National Institute of Standards and Technology (NIST), Special Publication (SP) 800-53, *Recommended Security Controls for Federal Information Systems*, and as established by OMB Circular A-130, *Management of Federal Information Resources*. We also performed a review of the DOJ consolidated IS general controls environment that provides general control support for several DOJ components' financial applications, one of which is the AFF/SADF.

We noted the following weaknesses in the FISCAM general control area related to system software.

**Network devices were installed with default configuration settings and protocols that were not compliant with DOJ Information Technology Security (ITS) Standards**

The AFMS has not implemented policies and procedures to periodically check for devices installed with default configuration settings and unnecessary services running on their servers. During our vulnerability assessment, we identified unsecured protocols, such as File Transfer Protocol (FTP), on the Remedy Helpdesk application server.

DOJ ITS Standard, *Configuration Management (CM) Control Family*, version 1.1 dated June 2008. Result reference number CM-07.01-01 states: "Prohibited or restricted functions, ports, protocols, and/or service not specifically required in the system security plan are disabled or deactivated."

DOJ Order No. 2640.2E, *Information Technology Security*, Chapter 2, Section 16, states: “Access controls shall be in place and operational for all Department IT systems to ensure that only authorized personnel can add, change, or remove component devices, dial-up connections, network addresses and protocols, or remove or alter programs.”

NIST, Special Publication (SP) 800-53, Revision 1: *Recommended Security Controls for Federal Information Systems*, Appendix F, CM-6 “Configuration Settings”, states: “The organization: (i) establishes mandatory configuration settings for information technology products employed within the information system; (ii) configures the security settings of information technology products to the most restrictive mode consistent with operational requirements; (iii) documents the configuration settings; and (iv) enforces the configuration settings in all components of the information system.”

Periodic reviews of the configuration settings, services, and passwords running on the CATS devices reduce the risk of default configuration installations and unnecessary services operating that can compromise the availability, integrity, and confidentiality of financial data on the network.

**We recommend the AFMS:**

5. Analyze and revise procedures to require periodic reviews to identify and mitigate vulnerabilities. The procedures should address weaknesses related to communications protocols. (*Repeat*)

**Management Response:**

Management concurs with the findings and recommendation. The AFMS engineering and security staff will update the vulnerability assessment procedures to include weaknesses related to communications protocols. The update to the procedures will be accomplished in the first quarter of FY 2009. The AFMS security staff will continue to scan the General Support Systems environment for prohibited or restricted functions, ports, protocols, and services and mitigate with appropriate measures as needed.

**Patch management needs improvement**

The AFMS has not isolated resources (devices) to ensure that its systems are appropriately patched prior to network implementation. Current critical vendor security patches were not installed on the following systems and network devices:

- ◆ Database Servers
- ◆ Web Servers
- ◆ Windows Desktops

DOJ ITS Standard, *System & Information Integrity (SI) Control Family*, version 2.0, dated December 2006. Result reference number SI-02.01-01 states: “The organization identifies information systems affected by recently announced software flaws and potential vulnerabilities resulting from those flaws; installs newly released security relevant patches, service packs, and hot fixes on the information system in a reasonable timeframe in accordance with organizational policy and procedures; and tests information system patches, service packs, and hot fixes for effectiveness and potential side effects before installation.”

Additionally, result reference number SI-02.04-01 states: “The organization i) conducts continuous security assessments to identify vulnerabilities in the information system within its operating environment; ii) tests information system patches, service packs, and hot fixes for effectiveness and potential side effects before installation; and iii) captures all appropriate information pertaining to the discovered flaws, including the cause of the information system flaws, mitigation activities, and lessons learned to identify necessary improvements in the flaw remediation process.”

Finally, result reference number SI-02.07-01 states: “The organization centrally manages the flaw remediation process for information systems and employs a centralized patch management program to assist system administrators in identifying, acquiring, testing, and deploying patches.”

Failure to apply critical vendor security patches exposes system and network devices to new and existing vulnerabilities. This can expose the information system controls environment to security breaches, unauthorized access, service interruptions, and denial of service attacks.

**We recommend the AFMS:**

6. Analyze and update procedures for implementing new or test systems to ensure appropriate patches are installed timely. *(Updated)*

**Management Response:**

Management concurs with the findings and recommendation. AFMS will implement the LDAP and DB2 upgrade initiatives into all environments by the second quarter FY 2009. The details of the plan will be entered into the C&AWeb tool as POAMS. The desktop McAfee patch was deployed to the General Support Systems environment as of July 24, 2008. As a result of the FY 2007 audit finding, AFMS implemented procedures and an isolated ‘build’ network to enable patching to new hardware prior to activation on the General Support Systems or production networks.

## STATUS OF PRIOR YEARS' FINDINGS AND RECOMMENDATIONS

As required by *Government Auditing Standards* issued by the Comptroller General of the United States, and by OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, we have reviewed the status of prior years' findings and recommendations. The following table provides our assessment of the progress the AFF/SADF has made in correcting the significant deficiencies identified during these audits. We also provide the Office of the Inspector General report number where the deficiency remains open, the fiscal year it was identified, our recommendation for improvement, and the status of the deficiency as of the end of fiscal year 2008:

<b>Report</b>	<b>Significant Deficiency</b>	<b>Recommendation</b>	<b>Status</b>
Annual Financial Statement Fiscal Year 2006 Report No. 07-15	Weaknesses exist in the seized and forfeited property management environment	<b>Recommendation No. 1:</b> Enforce procedures to ensure the current property and/or financial data in the property and/or financial management systems are updated based on accurate information in a timely manner and within the timeframes established for issuing the AFF/SADF financial statements.	In Process (FY 2008 Recommendation No. 1)
		<b>Recommendation No. 2:</b> Develop an adequate methodology that documents the follow-up on items that are rejected from the NForce forfeiture "pending file" to ensure the appropriate corrective action is taken by field personnel in a timely manner.	Completed
Annual Financial Statement Fiscal Year 2007 Report No. 08-14	Weaknesses exist in the procurement management environment	<b>Recommendation No. 3:</b> Improve review procedures with participants, over obligation documents and vouchers, posted amounts, and outstanding obligations to ensure amounts are adjusted or de-obligated in a timely manner and within the timeframes established for issuing the AFF/SADF financial statements.	In Process (Updated by FY 2008 Recommendation No. 3)
		<b>Recommendation No. 4:</b> Work with the USMS to strengthen procedures requiring that field districts perform and document periodic reviews over open obligations to ensure amounts are adjusted or de-obligated in a timely manner and within the timeframes established for issuing the AFF/SADF financial statements.	In Process (Updated by FY 2008 Recommendation No. 3)
		<b>Recommendation No. 5:</b> Perform periodic reconciliations between the various extracts/downloads into the FMIS2 and the resultant general ledger accounts and take immediate and resolute action to eliminate the sources of the differences.	In Process (FY 2008 Recommendation No. 4)

**EXHIBIT II**

<b>Report</b>	<b>Significant Deficiency</b>	<b>Recommendation</b>	<b>Status</b>
	Weaknesses exist in the information system controls environment	<b>Recommendation No. 6:</b> Implement software to ensure that administrative accounts on production servers are effectively monitored and establish procedures to review production server logs for unusual activity on a bi-weekly or monthly basis.	Completed
<b>Recommendation No. 7:</b> Analyze and revise procedures to require periodic reviews to identify and mitigate vulnerabilities including weaknesses related to configuration settings and communications protocols.		In Process (FY 2008 Recommendation No. 5)	
<b>Recommendation No. 8:</b> Ensure that non-production systems or test systems are tested on enclaves that do not interface with production or General Support System data, and analyze and update procedures for implementing new or test systems to ensure appropriate patches are installed timely.		In Process (Updated by FY 2008 Recommendation No. 6)	

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KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report on Compliance and Other Matters

Inspector General  
U.S. Department of Justice

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

We have audited the consolidated balance sheets of the U.S. Department of Justice Assets Forfeiture Fund (AFF) and Seized Asset Deposit Fund (SADF) as of September 30, 2008 and 2007, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated November 5, 2008.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The management of the AFF/SADF is responsible for complying with laws, regulations, and contracts applicable to the AFF/SADF. As part of obtaining reasonable assurance about whether the AFF/SADF's fiscal year 2008 consolidated financial statements are free of material misstatement, we performed tests of the AFF/SADF's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the AFF/SADF. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed no instances in which the AFF/SADF's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.



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

KPMG LLP

November 5, 2008



**Principal Financial Statements  
And Related Notes**

**See Independent Auditors' Report on Financial Statements**

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**U.S. Department of Justice**  
**Assets Forfeiture Fund and Seized Asset Deposit Fund**  
**Consolidated Balance Sheets**  
**As of September 30, 2008 and 2007**

<b>Dollars in Thousands</b>	<b>2008</b>	<b>2007</b>
<b>ASSETS (Note 2)</b>		
Intragovernmental		
Fund Balance with U.S. Treasury (Note 3)	\$ 111,756	\$ 300,136
Investments, Net (Note 5)	2,757,584	2,548,567
Accounts Receivable, Net (Note 6)	1,646	13,608
Other Assets (Note 9)	848	2,228
Total Intragovernmental	<u>2,871,834</u>	<u>2,864,539</u>
Cash and Monetary Assets (Note 4)	106,200	64,206
Accounts Receivable, Net (Note 6)	6	1
Forfeited Property, Net (Note 7)	139,897	124,379
General Property, Plant and Equipment, Net (Note 8)	2,724	3,378
<b>Total Assets</b>	<b><u>\$ 3,120,661</u></b>	<b><u>\$ 3,056,503</u></b>
<b>LIABILITIES (Note 10)</b>		
Intragovernmental		
Accounts Payable	\$ 95,235	\$ 67,016
Total Intragovernmental	<u>95,235</u>	<u>67,016</u>
Accounts Payable	649,280	829,987
Deferred Revenue	139,897	124,379
Seized Cash and Monetary Instruments (Note 12)	1,228,440	1,265,908
Contingent Liabilities (Note 13)	-	35,000
<b>Total Liabilities</b>	<b><u>\$ 2,112,852</u></b>	<b><u>\$ 2,322,290</u></b>
<b>NET POSITION</b>		
Cumulative Results of Operations - Earmarked Funds (Note 14)	\$ 1,007,809	\$ 734,213
<b>Total Net Position</b>	<b><u>\$ 1,007,809</u></b>	<b><u>\$ 734,213</u></b>
<b>Total Liabilities and Net Position</b>	<b><u>\$ 3,120,661</u></b>	<b><u>\$ 3,056,503</u></b>

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

**U.S. Department of Justice**  
**Assets Forfeiture Fund and Seized Asset Deposit Fund**  
**Consolidated Statements of Net Cost**  
**For the Fiscal Years Ended September 30, 2008 and 2007**

**Dollars in Thousands**

	FY	Gross Costs			Less: Earned Revenues			Net Cost of Operations (Note 15)
		Intra-governmental	With the Public	Total	Intra-governmental	With the Public	Total	
<b>Goal 2</b>	<b>2008</b>	\$ 225,965	\$ 807,929	\$ 1,033,894	\$ 3,178	\$ -	\$ 3,178	\$ 1,030,716
	<b>2007</b>	\$ 195,990	\$ 1,338,051	\$ 1,534,041	\$ 3,722	\$ -	\$ 3,722	\$ 1,530,319
<b>Total</b>	<b>2008</b>	<u>\$ 225,965</u>	<u>\$ 807,929</u>	<u>\$ 1,033,894</u>	<u>\$ 3,178</u>	<u>\$ -</u>	<u>\$ 3,178</u>	<u>\$ 1,030,716</u>
	<b>2007</b>	<u>\$ 195,990</u>	<u>\$ 1,338,051</u>	<u>\$ 1,534,041</u>	<u>\$ 3,722</u>	<u>\$ -</u>	<u>\$ 3,722</u>	<u>\$ 1,530,319</u>

Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People

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The accompanying notes are an integral part of these financial statements

**U.S. Department of Justice**  
**Assets Forfeiture Fund and Seized Asset Deposit Fund**  
**Consolidated Statements of Changes in Net Position**  
**For the Fiscal Years Ended September 30, 2008 and 2007**

<b>Dollars in Thousands</b>	<b>2008</b>	<b>2007</b>
	<b>Earmarked Funds</b>	<b>Earmarked Funds</b>
<b>Cumulative Results of Operations</b>		
<b>Beginning Balances</b>	\$ 734,213	\$ 651,122
<b>Budgetary Financing Sources</b>		
Nonexchange Revenues (Note 19)	83,690	111,426
Donations and Forfeitures of Cash and Cash Equivalents (Note 20)	1,222,643	1,409,015
<b>Other Financing Sources</b>		
Donations and Forfeitures of Property (Note 20)	63,430	106,746
Transfers-In/Out Without Reimbursement (Note 18)	(65,451)	(13,777)
<b>Total Financing Sources</b>	<b>1,304,312</b>	<b>1,613,410</b>
<b>Net Cost of Operations</b>	<b>(1,030,716)</b>	<b>(1,530,319)</b>
<b>Net Change</b>	<b>273,596</b>	<b>83,091</b>
<b>Cumulative Results of Operations</b>	<b>\$ 1,007,809</b>	<b>\$ 734,213</b>
<b>Net Position</b>	<b><u>\$ 1,007,809</u></b>	<b><u>\$ 734,213</u></b>

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

U.S. Department of Justice  
 Assets Forfeiture Fund and Seized Asset Deposit Fund  
 Combined Statements of Budgetary Resources  
 For the Fiscal Years Ended September 30, 2008 and 2007

Dollars in Thousands	2008	2007
<b>Budgetary Resources</b>		
Unobligated Balance, Brought Forward, October 1	\$ 428,878	\$ 425,253
Recoveries of Prior Year Unpaid Obligations	40,051	25,543
Budget Authority		
Appropriations Received	1,530,423	1,691,056
Spending Authority from Offsetting Collections		
Earned		
Collected	3,219	5,072
Change in Receivable from Federal Sources	(11,963)	5,538
Change in Unfilled Customer Orders		
Without Advance from Federal Sources	(535)	286
Subtotal Budget Authority	1,521,144	1,701,952
Temporarily not Available Pursuant to Public Law	(240,000)	(170,000)
<b>Total Budgetary Resources (Note 16)</b>	<b>\$ 1,750,073</b>	<b>\$ 1,982,748</b>
<b>Status of Budgetary Resources</b>		
Obligations Incurred		
Direct	\$ 1,151,682	\$ 1,550,148
Reimbursable	3,178	3,722
Total Obligations Incurred (Note 16)	1,154,860	1,553,870
Unobligated Balance - Available		
Apportioned	400,865	396,962
Total Unobligated Balance - Available	400,865	396,962
Unobligated Balances not Available	194,348	31,916
<b>Total Status of Budgetary Resources</b>	<b>\$ 1,750,073</b>	<b>\$ 1,982,748</b>
<b>Change in Obligated Balance</b>		
Obligated Balance, Net - Brought Forward, October 1		
Unpaid Obligations	\$ 1,051,329	\$ 580,029
Less: Uncollected Customer Payments from Federal Sources	14,824	9,001
Total Unpaid Obligated Balance, Net - Brought Forward, October 1	1,036,505	571,028
Obligations Incurred	1,154,860	1,553,870
Less: Gross Outlays	1,257,030	1,057,026
Less: Recoveries of Prior Year Unpaid Obligations, Actual	40,051	25,543
Change in Uncollected Customer Payments from Federal Sources	12,498	(5,824)
Obligated Balance, Net - End of Period		
Unpaid Obligations	909,109	1,051,329
Less: Uncollected Customer Payments from Federal Sources	2,327	14,824
<b>Total Unpaid Obligated Balance, Net - End of Period</b>	<b>\$ 906,782</b>	<b>\$ 1,036,505</b>
<b>Net Outlays</b>		
Gross Outlays	\$ 1,257,030	\$ 1,057,026
Less: Offsetting Collections	3,219	5,072
Less: Distributed Offsetting Receipts (Note 16)	83,690	111,426
<b>Net Outlays (Note 16)</b>	<b>\$ 1,170,121</b>	<b>\$ 940,528</b>

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

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

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**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

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

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

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

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

**B. Basis of Presentation**

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

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**These notes are an integral part of the financial statements.**

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

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B. Basis of Presentation (continued)

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

C. Basis of Consolidation

The consolidated/combined financial statements include the accounts of the AFF/SADF. All significant proprietary intra-entity transactions and balances have been eliminated in consolidation. The Statement of Budgetary Resources is a combined statement for FYs 2008 and 2007, and as such, intra-entity transactions have not been eliminated.

D. Basis of Accounting

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

E. Non-Entity Assets

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

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

Generally, the U.S. Treasury processes cash receipts and disbursements for the AFF and SADF. The funds in the AFF, a special fund receipt account, are entity assets and are used to finance the operations of the AFP. Seized cash is deposited and accounted for in the SADF, a deposit fund, until a determination has been made as to its disposition. If title passes to the U.S. Government, the forfeited cash is then transferred from the SADF to the AFF. The cash balance in the SADF is a non-entity asset and is not available to finance the AFP activities, but AFP does have statutory authority for the investment of idle cash.



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

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G. Investments

The AFF and SADF are authorized by 28 U.S.C. § 524(c) to invest idle funds in excess of its immediate needs in U.S. Treasury Securities. Investments are short-term non-marketable market-based Federal Debt securities issued by the Bureau of Public Debt (BPD) and purchased exclusively through the BPD's Division of Federal Investments. Investments are reported on the Consolidated Balance Sheet at their net value, the face value plus or minus any unamortized premium or discount. Premiums and discounts are amortized over the life of the Treasury security. Amortization is based on the straight-line method over the term of the securities. AFF and SADF intend to hold investments to maturity. Accordingly, no provision is made for unrealized gains or losses on these securities.

H. Accounts Receivable

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

I. General Property, Plant and Equipment

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

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

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

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J. Advances and Prepayments

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

K. Forfeited and Seized Property

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

Forfeited property is property for which title has passed to the U.S. Government. This property is recorded at the estimated fair market value at the time of forfeiture and is not adjusted for any subsequent increases and decreases in estimated fair market value. The value of the property is reduced by estimated liens of record. The amount ultimately realized from the forfeiture and disposition of these assets could differ from the amounts initially reported. The proceeds from the sale of forfeited property are deposited in the AFF.

L. Liabilities

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

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

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M. Contingencies and Commitments

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

N. Interest on Late Payments

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

O. Intragovernmental Activity

Intragovernmental costs and exchange revenue represent transactions made between two reporting entities within the Federal government. Costs and earned revenues with the public represent exchange transactions made between the reporting entity and a non-Federal entity. The classification of revenue or cost as "intragovernmental" or "with the public" is defined on a transaction-by-transaction basis. The purpose of this classification is to enable the Federal government to prepare consolidated financial statements, not to match public and intragovernmental revenue with costs incurred to produce public and intragovernmental revenue.

P. Revenues and Other Financing Sources

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

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

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P. Revenues and Other Financing Sources (continued)

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

The funds in the SADF are held in trust until a determination is made as to their disposition. These funds include seized cash, proceeds from preforfeiture sales of seized property, and income from property under seizure. No revenue recognition is given to cash deposited in the SADF.

Q. Earmarked Funds

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

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

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

R. Tax Exempt Status

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

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**These notes are an integral part of the financial statements.**

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

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**S. Use of Estimates**

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**T. Reclassifications**

The FY 2007 financial statements were reclassified to conform to the FY 2008 Departmental financial statement presentation requirements. The reclassifications had no material effect on total assets, liabilities, net position, change in net position or budgetary resources as previously reported.

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

**Note 2. Non-Entity Assets**

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

As of September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Intragovernmental		
Investments, Net (Note 5)	\$ 1,122,240	\$ 1,201,702
With the Public		
Cash and Monetary Assets	<u>106,200</u>	<u>64,206</u>
Total Non-Entity Assets	1,228,440	1,265,908
Total Entity Assets	<u>1,892,221</u>	<u>1,790,595</u>
Total Assets	<u>\$ 3,120,661</u>	<u>\$ 3,056,503</u>

**Note 3. Fund Balance with U.S. Treasury**

As of September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Fund Balances		
Special Funds	<u>\$ 111,756</u>	<u>\$ 300,136</u>
Status of Fund Balances		
Unobligated Balance - Available	\$ 400,865	\$ 396,962
Unobligated Balance - Unavailable	194,348	31,916
Obligated Balance not yet Disbursed	906,782	1,036,505
Other Funds (With)/Without Budgetary Resources	<u>(1,390,239)</u>	<u>(1,165,247)</u>
Total Status of Fund Balances	<u>\$ 111,756</u>	<u>\$ 300,136</u>

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

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

**Note 4. Cash and Monetary Assets**

Cash consists of seized cash deposited in the SADF. Monetary assets include seized monetary instruments deposited in the SADF and seized cash in DOJ custody but not yet deposited in the SADF.

As of September 30, 2008 and 2007

	2008	2007
Cash		
Seized Cash Deposited	\$ 91,144	\$ 42,791
Monetary Assets		
Seized Monetary Instruments	15,056	21,415
Total Cash and Monetary Assets	\$ 106,200	\$ 64,206

**Note 5. Investments, Net**

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

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

**Note 5. Investments, Net (continued)**

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

	<u>Face Value</u>	<u>Unamortized Premium (Discount)</u>	<u>Investments, Net</u>	<u>Market Value</u>
As of September 30, 2008				
Intragovernmental				
Non-Marketable Securities				
Market-Based				
AFF	\$ 1,636,072	\$ (728)	\$ 1,635,344	\$ 1,633,949
SADF	1,127,169	(4,929)	1,122,240	1,125,352
Total	<u>\$ 2,763,241</u>	<u>\$ (5,657)</u>	<u>\$ 2,757,584</u>	<u>\$ 2,759,301</u>
As of September 30, 2007				
Intragovernmental				
Non-Marketable Securities				
Market-Based				
AFF	\$ 1,349,545	\$ (2,680)	\$ 1,346,865	\$ 1,343,094
SADF	1,212,961	(11,259)	1,201,702	1,206,730
Total	<u>\$ 2,562,506</u>	<u>\$ (13,939)</u>	<u>\$ 2,548,567</u>	<u>\$ 2,549,824</u>

These notes are an integral part of the financial statements.



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

**Note 6. Accounts Receivable, Net**

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

As of September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Intragovernmental		
Accounts Receivable	\$ 1,646	\$ 13,608
With the Public		
Accounts Receivable	6	1
Total Accounts Receivable, Net	<u>\$ 1,652</u>	<u>\$ 13,609</u>

**Note 7. Forfeited and Seized Property**

Property seized for any purpose other than forfeiture and held by the seizing agency or a custodial agency is reported in the financial statements of the seizing or custodial agency. All property seized for forfeiture, including property with evidentiary value, is reported in the financial statements of the AFF/SADF. Federal Financial Accounting and Auditing Technical Release No. 4, "Reporting on Non-Valued Seized and Forfeited Property," requires disclosure of property that does not have a legal market in the United States or does not have a value to the Federal government. The non-valued property category includes firearms.

**A. Forfeited Property**

The following tables show the analysis of changes in and methods of disposition of forfeited property, excluding cash, during the fiscal years ended September 30, 2008 and 2007, respectively.

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**Analysis of Changes in Forfeited Property -- Fiscal Year Ended September 30, 2008**

Forfeited Property Category		Beginning Balance	Adjustments (1)	Forfeited	Disposed	Ending Balance	Liens and Claims	Ending Balance, Net of Liens
Financial Instruments	Number	61	3	254	(238)	80	-	80
	Value	\$2,123	(\$660)	\$39,869	(\$39,485)	\$1,847	-	\$1,847
Real Property	Number	411	1	391	(325)	478	-	478
	Value	\$90,709	\$2,500	\$73,585	(\$63,631)	\$103,163	(\$4,640)	\$98,523
Personal Property	Number	2,970	378	4,436	(4,885)	2,899	-	2,899
	Value	\$35,601	\$488	\$94,075	(\$88,632)	\$41,532	(\$2,005)	\$39,527
Firearms, Non-Valued	Number	19,650	-	8,939	(5,982)	22,607	-	22,607
Total	Number	23,092	382	14,020	(11,430)	26,064	-	26,064
	Value	\$128,433	\$2,328	\$207,529	(\$191,748)	\$146,542	(\$6,645)	\$139,897

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

These notes are an integral part of the financial statements

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**Methods of Disposition of Forfeited Property -- Fiscal Year Ended September 30, 2008**

Forfeited Property Category		Converted Financial Instruments/Property	Destroyed/Donated/ Transferred	Sold/ Liquidated (1)	Official Use/ Transfer for Equitable Sharing	Returned Asset	Variance (2)	Total
Financial Instruments	Number	238	-	-	-	-	-	238
	Value	\$39,485	-	-	-	-	-	\$39,485
Real Property	Number	-	-	286	-	39	-	325
	Value	-	-	\$55,213	-	\$8,016	\$402	\$63,631
Personal Property	Number	-	576	2,992	1,135	182	-	4,885
	Value	-	\$32,652	\$38,703	\$12,755	\$3,172	\$1,350	\$88,632
Firearms, Non-Valued	Number	-	5,982	-	-	-	-	5,982
Total	Number	238	6,558	3,278	1,135	221	-	11,430
	Value	\$39,485	\$32,652	\$93,916	\$12,755	\$11,188	\$1,752	\$191,748

(1) The sold/liquidated total dollar value does not agree to Donations and Forfeitures of Property on the Statement of Changes in Net Position and Note 21 because the sold/liquidated amount above represents the assets at their appraised values at forfeiture, and the Donations and Forfeitures of Property on the Statement of Changes in Net Position and Note 21 represents the proceeds realized upon disposition.

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

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**Analysis of Changes in Forfeited Property -- Fiscal Year Ended September 30, 2007**

Forfeited Property Category		Beginning Balance	Adjustments (1)	Forfeited	Disposed	Ending Balance	Liens and Claims	Ending Balance, Net of Liens
Financial Instruments	Number	509	24	285	(757)	61	-	61
	Value	\$11,346	(\$241)	\$360,436	(\$369,418)	\$2,123	(\$14)	\$2,109
Real Property	Number	340	2	405	(336)	411	-	411
	Value	\$86,527	(\$212)	\$85,988	(\$81,594)	\$90,709	(\$3,327)	\$87,382
Personal Property	Number	3,013	27	5,027	(5,097)	2,970	-	2,970
	Value	\$37,960	\$312	\$58,235	(\$60,906)	\$35,601	(\$713)	\$34,888
Firearms, Non-Valued	Number	19,875	-	13,191	(13,416)	19,650	-	19,650
Total	Number	23,737	53	18,908	(19,606)	23,092	-	23,092
	Value	\$135,833	(\$141)	\$504,659	(\$511,918)	\$128,433	(\$4,054)	\$124,379

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

**These notes are an integral part of the financial statements**

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**Methods of Disposition of Forfeited Property -- Fiscal Year Ended September 30, 2007**

Forfeited Property Category		Converted Financial Instruments/Property	Destroyed/Donated/ Transferred	Sold/ Liquidated (1)	Official Use/ Transfer for Equitable Sharing	Returned Asset	Variance (2)	Total
Financial Instruments	Number	633	-	123	-	1	-	757
	Value	\$14,811	-	\$354,582	-	\$25	-	\$369,418
Real Property	Number	-	-	309	-	27	-	336
	Value	-	-	\$74,881	-	\$6,713	-	\$81,594
Personal Property	Number	-	46	4,127	706	218	-	5,097
	Value	-	\$22	\$52,695	\$1,261	\$6,928	-	\$60,906
Firearms, Non-Valued	Number	-	13,416	-	-	-	-	13,416
Total	Number	633	13,462	4,559	706	246	-	19,606
	Value	\$14,811	\$22	\$482,158	\$1,261	\$13,666	-	\$511,918

(1) The sold/liquidated total dollar value does not agree to Donations and Forfeitures of Property on the Statement of Changes in Net Position and Note 21 because the sold/liquidated amount above represents the assets at their appraised values at forfeiture, and the Donations and Forfeitures of Property on the Statement of Changes in Net Position and Note 21 represents the proceeds realized upon disposition.

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

**These notes are an integral part of the financial statements**

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**Note 7. Forfeited and Seized Property (continued)**

**B. Seized Property**

The following tables show the analysis of changes in and methods of disposition of property seized for forfeiture during the fiscal years ended September 30, 2008 and 2007, respectively. In the following tables, Seized Cash and Monetary Instruments includes seized cash in transit as well as pre-forfeiture deposits into the SADF of monetary instruments and depository account balances, proceeds from pre-forfeiture sales, and cash received in lieu of seized property. Financial Instruments include negotiable instruments and restricted depository accounts.

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**Analysis of Changes in Seized Property -- Fiscal Year Ended September 30, 2008**

Seized Property Category		Beginning Balance	Adjustments (1)	Seized	Disposed	Ending Balance	Liens and Claims	Ending Balance, Net of Liens
Seized Cash and Monetary Instruments	Number	10,281	9	11,686	(11,829)	10,147	-	10,147
	Value	\$1,265,908	\$3,284	\$1,032,772	(\$1,073,524)	\$1,228,440	(\$73,740)	\$1,154,700
Financial Instruments	Number	304	36	190	(146)	384	-	384
	Value	\$115,246	(\$239)	\$24,528	(\$37,326)	\$102,209	(\$6,455)	\$95,754
Real Property	Number	203	-	254	(258)	199	-	199
	Value	\$77,042	\$600	\$47,031	(\$59,010)	\$65,663	(\$10,582)	\$55,081
Personal Property	Number	6,574	5	7,188	(6,402)	7,365	-	7,365
	Value	\$163,624	\$118	\$108,469	(\$127,907)	\$144,304	(\$16,596)	\$127,708
Firearms, Non-Valued	Number	35,120	-	16,903	(9,315)	42,708	-	42,708
Total	Number	52,482	50	36,221	(27,950)	60,803	-	60,803
	Value	\$1,621,820	\$3,763	\$1,212,800	(\$1,297,767)	\$1,540,616	(\$107,373)	\$1,433,243

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

**These notes are an integral part of the financial statements**

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**Methods of Disposition of Seized Property -- Fiscal Year Ended September 30, 2008**

Seized Property Category		Converted Financial Instruments/Property	Destroyed/Donated/ Transferred	Sold/ Liquidated	Returned Asset	Forfeited (1)	Variance (2)	Total
Seized Cash and Monetary Instruments	Number	65	-	-	861	10,903	-	11,829
	Value	\$16,816	-	-	\$35,575	\$1,021,133	-	\$1,073,524
Financial Instruments	Number	-	-	-	31	115	-	146
	Value	-	-	-	\$1,333	\$35,993	-	\$37,326
Real Property	Number	-	-	-	41	217	-	258
	Value	-	-	-	\$11,235	\$47,062	\$713	\$59,010
Personal Property	Number	-	12	1	1,484	4,941	(36)	6,402
	Value	-	\$1,289	\$61	\$34,100	\$93,214	(\$757)	\$127,907
Firearms, Non-Valued	Number	-	9,315	-	-	-	-	9,315
Total	Number	65	9,327	1	2,417	16,176	(36)	27,950
	Value	\$16,816	\$1,289	\$61	\$82,243	\$1,197,402	(\$44)	\$1,297,767

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

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

**These notes are an integral part of the financial statements**



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**Analysis of Changes in Seized Property -- Fiscal Year Ended September 30, 2007**

Seized Property Category		Beginning Balance	Adjustments (1)	Seized	Disposed	Ending Balance	Liens and Claims	Ending Balance, Net of Liens
Seized Cash and Monetary Instruments	Number	9,361	97	11,943	(11,120)	10,281	-	10,281
	Value	\$797,201	\$1,305	\$1,474,190	(\$1,006,788)	\$1,265,908	(\$73,882)	\$1,192,026
Financial Instruments	Number	258	-	150	(104)	304	-	304
	Value	\$40,881	-	\$430,791	(\$356,426)	\$115,246	(\$3)	\$115,243
Real Property	Number	302	3	145	(247)	203	-	203
	Value	\$90,329	(\$7,218)	\$59,602	(\$65,671)	\$77,042	(\$17,387)	\$59,655
Personal Property	Number	5,875	(91)	7,445	(6,655)	6,574	-	6,574
	Value	\$105,277	\$100	\$149,790	(\$91,543)	\$163,624	(\$16,285)	\$147,339
Firearms, Non-Valued	Number	28,123	380	16,919	(10,302)	35,120	-	35,120
Total	Number	43,919	389	36,602	(28,428)	52,482	-	52,482
	Value	\$1,033,688	(\$5,813)	\$2,114,373	(\$1,520,428)	\$1,621,820	(\$107,557)	\$1,514,263

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

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**Methods of Disposition of Seized Property -- Fiscal Year Ended September 30, 2007**

Seized Property Category		Converted Financial Instruments/Property	Destroyed/Donated/ Transferred	Sold/ Liquidated	Returned Asset	Forfeited (1)	Variance (2)	Total
Seized Cash and Monetary Instruments	Number	43	-	-	696	10,381		11,120
	Value	\$2,074	-	-	\$53,217	\$951,497		\$1,006,788
Financial Instruments	Number	-	-	-	21	83		104
	Value	-	-	-	\$782	\$355,644		\$356,426
Real Property	Number	-	-	-	34	213		247
	Value	-	-	-	\$10,418	\$55,253		\$65,671
Personal Property	Number	-	-	-	1,626	5,029		6,655
	Value	-	-	-	\$29,840	\$61,703		\$91,543
Firearms, Non-Valued	Number	-	-	-	36	10,266		10,302
Total	Number	43	-	-	2,413	25,972		28,428
	Value	\$2,074	-	-	\$94,257	\$1,424,097		\$1,520,428

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

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

**These notes are an integral part of the financial statements**

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**Note 7. Forfeited and Seized Property (continued)**

C. Anticipated Equitable Sharing in Future Periods

The statute governing the use of the AFF (28 U.S.C. §524(c)) permits the payment of equitable shares of forfeiture proceeds to participating foreign governments and state and local law enforcement agencies. The statute does not require such sharing and permits the Attorney General wide discretion in determining those transfers. Actual sharing is difficult to predict because many factors influence both the amount and time of disbursement of equitable sharing payments, such as the length of time required to move an asset through the forfeiture process to disposition, the amount of net proceeds available for sharing, the lapse of time for Departmental approval of equitable sharing requests for cases with asset values exceeding \$1 million, and appeal of forfeiture judgments. Because of uncertainties surrounding the timing and amount of any equitable sharing payment, an obligation and expense are recorded only when the actual disbursement of the equitable sharing payment is imminent. The anticipated equitable sharing allocation level for FY 2009 is \$332 million.

**Note 8. General Property, Plant and Equipment, Net**

	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Service Life</u>
As of September 30, 2008				
Leasehold Improvements	\$ 470	\$ (470)	\$ -	5 years
Internal Use Software	4,577	(1,853)	2,724	7 years
Total	<u>\$ 5,047</u>	<u>\$ (2,323)</u>	<u>\$ 2,724</u>	
As of September 30, 2007				
Leasehold Improvements	\$ 470	\$ (470)	\$ -	5 years
Internal Use Software	4,577	(1,199)	3,378	7 years
Total	<u>\$ 5,047</u>	<u>\$ (1,669)</u>	<u>\$ 3,378</u>	

These notes are an integral part of the financial statements.

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**Note 9. Other Assets**

As of September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Intragovernmental		
Advances and Prepayments	\$ 848	\$ 2,228

**Note 10. Liabilities not Covered by Budgetary Resources**

As of September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Contingent Liabilities (Note 13)	\$ -	\$ 35,000
Total Liabilities not Covered by Budgetary Resources	-	35,000
Total Liabilities Covered by Budgetary Resources	2,112,852	2,287,290
Total Liabilities	<u>\$ 2,112,852</u>	<u>\$ 2,322,290</u>

**Note 11. Leases**

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

Operating Lease Expense

<u>Lease Type</u>	<u>2008</u>	<u>2007</u>
Cancelable Operating Leases	\$ 871	\$ 859

These notes are an integral part of the financial statements.

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**Note 12. Seized Cash and Monetary Instruments**

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

As of September 30, 2008 and 2007

	2008	2007
Investments, Net (Note 5)	\$ 1,122,240	\$ 1,201,702
Seized Cash Deposited (Note 4)	91,144	42,791
Seized Monetary Instruments (Note 4)	15,056	21,415
Total Seized Cash and Monetary Instruments	\$ 1,228,440	\$ 1,265,908

**Note 13. Contingencies and Commitments**

The AFF and SADF are party to various administrative proceedings, legal actions, and claims. The balance sheet includes an estimated liability for those legal actions where management and the Chief Counsel consider adverse decisions “probable” and amounts are reasonably estimable. For those legal actions where management and the Chief Counsel consider adverse decisions “reasonably possible” and amounts are reasonably estimable, the information would be disclosed below. However, there are cases where amounts have not been accrued or disclosed below because the amounts of the potential loss cannot be estimated or the likelihood of an unfavorable outcome is less than reasonably possible.

	Accrued Liabilities	Estimated Range of Loss	
		Lower	Upper
As of September 30, 2008			
Reasonably Possible	\$ -	\$ 4,000	\$ 4,000
As of September 30, 2007			
Probable	\$ 35,000	\$ 35,000	\$ 35,000

These notes are an integral part of the financial statements.

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**Note 14. Earmarked Funds**

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

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

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

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

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**Note 14. Earmarked Funds (continued)**

As of and for the Fiscal Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Balance Sheets</b>		
Assets		
Fund Balance with U.S. Treasury	\$ 111,756	\$ 300,135
Investments, Net	1,635,344	1,346,865
Other Assets	145,121	143,595
Total Assets	<u>\$ 1,892,221</u>	<u>\$ 1,790,595</u>
Liabilities		
Accounts Payable	\$ 744,515	\$ 897,003
Other Liabilities	139,897	159,379
Total Liabilities	<u>\$ 884,412</u>	<u>\$ 1,056,382</u>
Net Position		
Cumulative Results of Operations	\$ 1,007,809	\$ 734,213
Total Net Position	<u>1,007,809</u>	<u>734,213</u>
Total Liabilities and Net Position	<u>\$ 1,892,221</u>	<u>\$ 1,790,595</u>
Statements of Net Cost		
Gross Cost of Operations	\$ 1,033,894	\$ 1,534,041
Less: Exchange Revenue	3,178	3,722
Net Cost of Operations	<u>\$ 1,030,716</u>	<u>\$ 1,530,319</u>
Statements of Changes in Net Position		
Net Position Beginning of Period	\$ 734,213	\$ 651,122
Budgetary Financing Sources	1,306,333	1,520,441
Other Financing Sources	(2,021)	92,969
Total Financing Sources	<u>1,304,312</u>	<u>1,613,410</u>
Net Cost of Operations	<u>(1,030,716)</u>	<u>(1,530,319)</u>
Net Change	<u>273,596</u>	<u>83,091</u>
Net Position End of Period	<u>\$ 1,007,809</u>	<u>\$ 734,213</u>

These notes are an integral part of the financial statements.

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**Note 15. Net Cost of Operations by Suborganization**

	<u>Gross Cost</u>	<u>Less: Earned Revenue</u>	<u>Net Cost of Operations</u>
For the Fiscal Year Ended September 30, 2008			
<b>Goal 2:</b> Payments to Third Parties	\$ 484,533	\$ -	\$ 484,533
Asset Management Expenses	45,195	-	45,195
Special Contract Services	68,986	3,178	65,808
ADP Equipment	4,162	-	4,162
Forfeiture Case Prosecution	36,644	-	36,644
Forfeiture Training and Printing	11,202	-	11,202
Other Program Management	20,041	-	20,041
Awards for Information	29,158	-	29,158
Purchase of Evidence	6,548	-	6,548
Equipping Conveyances	852	-	852
Contracts to Identify Assets	3,917	-	3,917
Investigative Cost Leading to Seizure	25,886	-	25,886
Equitable Sharing	229,137	-	229,137
Joint Law Enforcement Operations	67,633	-	67,633
Total	<u>\$ 1,033,894</u>	<u>\$ 3,178</u>	<u>\$ 1,030,716</u>

Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People



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**Note 15. Net Cost of Operations by Suborganization (continued)**

	Gross Cost	Less: Earned Revenue	Net Cost of Operations
For the Fiscal Year Ended September 30, 2007			
Goal 2: Payments to Third Parties	\$ 947,895	\$ -	\$ 947,895
Asset Management Expenses	39,396	-	39,396
Special Contract Services	58,994	3,722	55,272
ADP Equipment	16,552	-	16,552
Forfeiture Case Prosecution	30,341	-	30,341
Forfeiture Training and Printing	8,526	-	8,526
Other Program Management	18,791	-	18,791
Awards for Information	18,434	-	18,434
Purchase of Evidence	6,121	-	6,121
Equipping Conveyances	1,326	-	1,326
Contracts to Identify Assets	10,484	-	10,484
Investigative Cost Leading to Seizure	21,693	-	21,693
Equitable Sharing	295,809	-	295,809
Joint Law Enforcement Operations	59,679	-	59,679
Total	<u>\$ 1,534,041</u>	<u>\$ 3,722</u>	<u>\$ 1,530,319</u>

Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People

These notes are an integral part of the financial statements.

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**Note 16. Information Related to the Statement of Budgetary Resources**

**Apportionment Categories of Obligations Incurred:**

**Apportionment Categories of Obligations Incurred**

	<u>Direct Obligations</u>	<u>Reimbursable Obligations</u>	<u>Total Obligations Incurred</u>
For the Fiscal Year Ended September 30, 2008			
Obligations Apportioned Under			
Category A	\$ 20,217	\$ -	\$ 20,217
Category B	1,131,465	3,178	1,134,643
Total	<u>\$ 1,151,682</u>	<u>\$ 3,178</u>	<u>\$ 1,154,860</u>
For the Fiscal Year Ended September 30, 2007			
Obligations Apportioned Under			
Category A	\$ 21,206	\$ -	\$ 21,206
Category B	1,528,942	3,722	1,532,664
Total	<u>\$ 1,550,148</u>	<u>\$ 3,722</u>	<u>\$ 1,553,870</u>

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

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

**Status of Undelivered Orders:**

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

As of September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
UDO Obligations Unpaid	\$ 164,594	\$ 154,326
UDO Obligations Prepaid/Advanced	849	2,228
Total UDOs	<u>\$ 165,443</u>	<u>\$ 156,554</u>

**Permanent Indefinite Appropriations:**

28 U.S.C. § 524(c)(1) authorizes the Attorney General to use AFF receipts to pay program operations expenses, equitable sharing to state and local law enforcement agencies who assist in forfeiture cases, and lien holders. This permanent indefinite authority is open-ended as to both its period of availability (amount of time the agency has to spend the funds) and its amount.

**Legal Arrangements Affecting Use of Unobligated Balances:**

Unobligated balances represent the cumulative amount of budget authority that is not obligated and that remains available for obligation, unless otherwise restricted. Excess unobligated balances identified at the end of a fiscal year may be declared a "Super Surplus" balance. Super Surplus balances may be allocated at the discretion of the Attorney General for any Federal law enforcement, litigative/prosecutive, and correctional activities or any other authorized purpose of the DOJ pursuant to 28 U.S.C. § 524(c)(8)(E).

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

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

The reconciliation as of September 30, 2008 is not presented, because the submission of the Budget of the United States (Budget) for FY 2010, which presents the execution of the FY 2008 Budget, occurs after publication of these financial statements. The Department of Justice Budget Appendix can be found on the OMB website (<http://www.whitehouse.gov/omb/budget>) and will be available in early February 2009.

For the Fiscal Year Ended September 30, 2007 (Dollars in millions)	<u>Budgetary Resources</u>	<u>Obligations Incurred</u>	<u>Distributed Offsetting Receipts</u>	<u>Net Outlays</u>
Statement of Budgetary Resources (SBR)	\$ 1,983	\$ 1,554	\$ 111	\$ 941
Funds not Reported in the Budget				
Forfeiture Activity	(24)	-	-	-
Other	(6)	2	-	-
Budget of the United States Government	<u>\$ 1,953</u>	<u>\$ 1,556</u>	<u>\$ 111</u>	<u>\$ 941</u>

Funds not Reported in Budget of the U.S. - Forfeiture Activity, primarily represent forfeiture activities that are unavailable until the authority is granted in the subsequent year. These activities represent real estate sales and accrued revenue. Other differences represent financial statement adjustments, timing differences, and other immaterial differences between amounts reported in the AFF's SBR and the Budget of the United States.

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**Note 17. Explanation of Differences Between Liabilities not Covered by Budgetary Resources and Components of Net Cost of Operations Requiring or Generating Resources in Future Periods**

Liabilities that are not covered by realized budgetary resources and for which there is not certainty that budgetary authority will be realized, such as the enactment of an appropriation, are considered liabilities not covered by budgetary resources. These liabilities totaling \$0 and \$35,000 on September 30, 2008 and 2007, respectively, are discussed in Note 10, Liabilities not Covered by Budgetary Resources. Decreases in these liabilities result from current year budgetary resources that were used to fund expenses recognized in prior periods. Increases in these liabilities represent unfunded expenses that were recognized in the current period.

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**Note 18. Super Surplus Transfers**

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

**Transfers-out of Super Surplus Allocations.** The 28 U.S.C. § 524(c)(8)(E) provides authority for the Attorney General to use excess end-of-year monies, without fiscal year limitation, in the AFF for any Federal law enforcement, litigative, prosecutorial, and correctional activities, or any other authorized purpose of the DOJ. The Attorney General approved the following allocations during FYs 2008 and 2007 for distribution in subsequent years.

For the Fiscal Years Ended September 30, 2008 and 2007

	2008	2007
ATF	\$ 105	\$ 399
Civil Division	338	750
Criminal Division - Organized Crime Drug Enforcement Task Force	138	200
Drug Enforcement Administration	118	2,450
Executive Office for U.S. Attorneys	330	4,000
National Security Division	6,120	8,153
Bureau of Prisons	30,000	-
Office of the Federal Detention Trustee	20,000	-
Total DOJ Allocations	\$ 57,149	\$ 15,952
1995 Super Surplus	\$ 7,149	\$ -
1997 Super Surplus	-	9
2005 Super Surplus	-	15,943
2007 Super Surplus	50,000	-
Total Allocations	\$ 57,149	\$ 15,952

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**Note 18. Super Surplus Transfers (continued)**

As of September 30, 2008, \$58,957 in prior years' surpluses were transferred out to participating agencies, \$21,608 was owed, and \$848 was advanced to these agencies for super surplus allocations in the current and prior years. As of September 30, 2007, \$6,530 was transferred out, \$1,108 was owed, and \$2,228 was advanced.

**Transfers-out of Forfeited Property for Official Use.** Property was distributed pursuant to the Attorney General's authority to share forfeiture revenues with agencies that participated in the forfeiture that generated the property, and pursuant to the DOJ's authority to place forfeited property into official use by the Government. As of September 30, 2008 and 2007, respectively, transfers-out of forfeited property for official use totaled \$6,495 and \$7,246, respectively.

**Note 19. Nonexchange Revenues**

Nonexchange revenue consists of income from the investment of the AFF and SADF in U.S. Treasury securities. The investment accrual revenue represents the amortization of the discount on marketable bills using the straight-line basis.

For the Fiscal Years Ended September 30, 2008 and 2007

	2008	2007
Income from AFF investments	\$ 41,200	\$ 51,312
Income from SADF investments	38,571	51,290
Income from AFF/SADF investments accrual	3,919	8,824
Total Investment Income	\$ 83,690	\$ 111,426

These notes are an integral part of the financial statements.

**U.S. Department of Justice  
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**Note 20. Donations and Forfeitures**

Forfeiture income includes forfeited cash, sales of forfeited property, penalties in lieu of forfeiture, recovery of returned asset management costs, judgment collections, and other miscellaneous income. For the fiscal years ended September 30, 2008 and 2007, net forfeiture income attributable to the AFF totaled \$1,286,073 and \$1,515,761, respectively, after the following payments and returns to agencies participating in seizures that led to forfeiture.

	<u>2008</u>	<u>2007</u>
Payments to individuals or organizations for proceeds from assets forfeited and deposited into the AFF and subsequently returned to them through a settlement agreement or by court order.	\$ 39,461	\$ 4,895
Return of forfeiture income to the TFF for its participation in seizures that led to forfeiture.	43,631	31,105
Return to the Federal Deposit Insurance Corporation (FDIC) or other Federal financial institutions or regulatory agencies for monies recovered under the Federal Institutions Reform, Recovery and Enforcement Act.	9	-
Return of forfeiture income to the U.S. Postal Service for its participation in seizures that led to forfeiture.	5,168	250
Return of forfeiture income to other Federal agencies for their participation in seizures that led to forfeiture.	138	154
<b>Total Return of Forfeiture Income</b>	<b><u><u>\$ 88,407</u></u></b>	<b><u><u>\$ 36,404</u></u></b>

**These notes are an integral part of the financial statements.**



**U.S. Department of Justice  
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**Note 21. Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing)**

For the Fiscal Years Ended September 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	\$ 1,154,860	\$ 1,553,870
Less: Spending Authority from Offsetting Collections and Recoveries	<u>30,772</u>	<u>36,439</u>
Obligations Net of Offsetting Collections and Recoveries	1,124,088	1,517,431
Less: Offsetting Receipts	<u>83,690</u>	<u>111,426</u>
Net Obligations	1,040,398	1,406,005
Other Resources		
Donations and Forfeitures of Property	63,430	106,746
Transfers-In/Out Without Reimbursement	<u>(65,451)</u>	<u>(13,777)</u>
Net Other Resources Used to Finance Activities	<u>(2,021)</u>	<u>92,969</u>
Total Resources Used to Finance Activities	1,038,377	1,498,974
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	(9,423)	(12,497)
Resources That Fund Expenses Recognized in Prior Periods (Note 17)	(35,000)	-
Budgetary Offsetting Collections and Receipts That do not Affect Net Cost of Operations	8,337	9,438
Other Resources or Adjustments to Net Obligated Resources That do not Affect Net Cost of Operations	<u>6,495</u>	<u>7,246</u>
Total Resources Used to Finance Items not Part of the Net Cost of Operations	<u>(29,591)</u>	<u>4,187</u>
Total Resources Used to Finance the Net Cost of Operations	<u>1,008,786</u>	<u>1,503,161</u>
Components not Requiring or Generating Resources		
Depreciation and Amortization	654	740
Other	<u>21,276</u>	<u>26,418</u>
Total Components of Net Cost of Operations That Will not Require or Generate Resources	21,930	27,158
Total Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period	<u>21,930</u>	<u>27,158</u>
Net Cost of Operations	<u>\$ 1,030,716</u>	<u>\$ 1,530,319</u>

**These notes are an integral part of the financial statements.**

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## **Appendix**

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

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

**Recommendation Number:**

- 1. Closed.** The status of corrective action related to this recommendation will be tracked through Recommendation No. 1 of the FY 2007 Annual Financial Statement Audit Report (OIG Report No. 08-14).
- 2. Resolved.** This recommendation can be closed when subsequent annual financial statement audit testing verifies that the Asset Forfeiture Management Staff, in conjunction with the Drug Enforcement Administration, has strengthened procedures over the deletion of property records in the Consolidated Asset Tracking System (CATS) by developing and implementing a formal authorization process for deleting CATS property records and maintaining proper documentation of the authorization.
- 3. Resolved.** This recommendation can be closed when subsequent annual financial statement audit testing verifies that the Asset Forfeiture Management Staff has improved review procedures over obligation documents and vouchers, recorded amounts, and outstanding obligations to ensure amounts are adjusted or de-obligated in a timely manner and within the timeframes established for

issuing the AFF/SADF financial statements. This includes performing a more effective, complete, and regular review of open obligations and delivered-unpaid (accounts payable) balances, giving special attention to inactive outstanding obligations in excess of 1-year old, and implementing controls that prevent the creation of duplicate obligations.

4. **Closed.** The status of corrective action related to this recommendation will be tracked through Recommendation No. 5 of the FY 2007 Annual Financial Statement Audit Report (OIG Report No. 08-14).
5. **Closed.** The status of corrective action related to this recommendation will be tracked through Recommendation No. 7 of the FY 2007 Annual Financial Statement Audit Report (OIG Report No. 08-14).
6. **Resolved.** This recommendation can be closed when subsequent annual financial statement audit testing verifies that the Asset Forfeiture Management Staff has analyzed and updated procedures for implementing new or test systems to ensure appropriate patches are installed timely.