



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



**Audit of the
Assets Forfeiture Fund and
Seized Asset Deposit Fund
Annual Financial Statements
Fiscal Year 2014**

**ASSETS FORFEITURE FUND AND SEIZED ASSET DEPOSIT FUND
ANNUAL FINANCIAL STATEMENTS
FISCAL YEAR 2014**

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

This audit report contains the Annual Financial Statements of the Assets Forfeiture Fund and Seized Asset Deposit Fund (AFF/SADF) for the fiscal years (FY) ended September 30, 2014, and September 30, 2013. Under the direction of the Office of the Inspector General (OIG), KPMG LLP performed the AFF/SADF's audit in accordance with auditing standards generally accepted in the United States of America. The FY 2014 audit resulted in an unmodified opinion on the financial statements. An unmodified opinion means that the financial statements are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles. For FY 2013, the AFF/SADF also received an unmodified opinion on its financial statements (OIG Audit Report No. 14-08).

KPMG LLP also issued reports on internal control over financial reporting and on compliance and other matters. The auditors identified one material weakness in the FY 2014 *Independent Auditors' Report on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. The material weakness related to inadequate internal controls over financial reporting. Improvements are needed in the AFF/SADF financial reporting process, specifically, in the analysis of accounting data, review of the financial statements, and the analysis of obligation and accrued liability estimates. The AFF/SADF management agreed with the report's four recommendations to improve controls over financial reporting.

Additionally, in the FY 2014 *Independent Auditors' Report on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, the auditors noted that, due to the material weakness discussed above, the AFF/SADF's financial management systems did not substantially comply with applicable Federal accounting standards.

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 *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 and other matters. KPMG LLP is responsible for the attached auditors' reports dated November 4, 2014, and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with auditing standards generally accepted in the United States of America.

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**AUDIT OF THE
ASSETS FOREITURE FUND
AND SEIZED ASSET DEPOSIT FUND
ANNUAL FINANCIAL STATEMENTS
FISCAL YEAR 2014**

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Department of Justice

Assets Forfeiture Fund and Seized Asset Deposit Fund FY 2014 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 ¹

Function	AFMLS	OCDETF	AFMS	ATF	DCIS	DEA	DS	EOUSA	FBI	FDA	INTERPOL-W	USDA	USMS	USPS
Investigation		X		X	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.

¹ The participants include the Asset Forfeiture and Money Laundering Section, Criminal Division (AFMLS); Organized Crime Drug Enforcement Task Force (OCDETF); 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); INTERPOL-Washington (INTERPOL-W); United States Department of Agriculture (USDA); United States Marshals Service (USMS); and United States Postal Service (USPS).

The AFF was created by the Comprehensive Crime Control Act of 1984 to be the repository of the proceeds of forfeitures under any law enforced and administered by the DOJ (28 U.S.C. § 524(c)). All amounts earned 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 costs 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, AFMLS, EOUSA, 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 the 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 Years (FY) 2014 and 2013, 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).

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. § 881(e)(1) and 19 U.S.C. § 1616(a), as made applicable by 21 U.S.C. § 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 intended to result in further seizures and forfeitures.

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 2014, eight major fraud cases resulted in large case forfeiture income of \$3,502.9 million compared to the ten FY 2013 fraud cases that resulted in large case forfeiture income of \$1,131.5 million. Of particular note in FY 2014 were the additional \$1,700 million related to the Bernard Madoff case and \$1,200 million related to the Toyota fraud case. The term large case is considered nonrecurring forfeiture income greater than \$20 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.

Consolidated 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 2014 to \$8,708.4 million from \$6,388.0 million in FY 2013, an increase of 36.3 percent. If seized assets, which are not yet owned by the Government, are not included, the adjusted assets of the AFF increased to \$7,335.1 million in FY 2014 from \$4,952.7 million in FY 2013, an increase of 48.1 percent. This is attributable to realizing a stable level of recurring forfeited assets in FY 2014 from FY 2013, thus indicating a strong current and future potential stream of assets flowing into the AFF.

Total liabilities of the funds increased to \$6,147.6 million in FY 2014 from \$4,532.2 million in FY 2013, an increase of 35.6 percent. The majority of the change, \$1,700 million, is due to the increase in accounts payable with the public for payment to Bernard Madoff case victims. This represents money that has been received, obligated and accrued, but not paid out of the AFF. Current assets were more than current liabilities by a ratio of 1.6 to 1, which remains consistent with FY 2013. 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, plus seized cash deposited, seized monetary instruments (see Note 11), and less property, plant and equipment while current liabilities include the total of liabilities covered by budgetary resources, except for total seized cash and monetary instruments.

Consolidated Statements of Net Cost

Net cost of operations is related to DOJ's Strategic Goal 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law. Net cost of operations increased to \$3,072.2 million in FY 2014 from \$1,775.4 million in FY 2013, an increase of 73.0 percent. The increase is primarily attributable to the liability for payments to victims associated with the \$1,700 million Bernard Madoff

forfeiture that was recognized in FY 2014. 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.

Consolidated Statements of Changes in Net Position

Net position, an indicator of the AFF's future capability to support ongoing operations, increased to \$2,560.8 million in FY 2014 from \$1,855.8 million in FY 2013, an increase of 38.0 percent. The Fund's financing sources consist primarily of forfeited cash and other monetary assets and, secondly, sale proceeds of forfeited property. Additional factors that consume resources and influence the AFF net position to a lesser extent include the short-term interest rates that affect revenue from investments in Government securities; the nature of seized non-cash properties that must be converted into cash and the transfers of properties placed into official use.

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, 2014, totaled \$6.3 million, which is \$1.2 million more than the \$5.1 million in investment interest earnings for the fiscal year ended September 30, 2013. FY 2014 investment interest earned is \$1.3 million more than the \$5 million estimated for FY 2015 in the Budget of the United States Government, Fiscal Year 2014--Appendix. The increased earnings are due primarily to the increased net position of the AFF and SADF. 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. Uncertainties in the dollar amount and timing of these disbursements are difficult to predict. Additional factors include the time to process equitable sharing requests and appeals of forfeiture judgments.

Total financing sources realized by the Fund in FY 2014 were \$3,777.3 million, an increase of \$1,766.0 million compared to \$2,011.3 million realized in FY 2013. This is the ninth year since inception of the Fund that it has exceeded \$1 billion in deposits. In FY 2014 there were eight large fraud cases which yielded \$3,502.9 million in forfeitures. Specifically, the Toyota and Bernard Madoff cases resulted in \$2,900 million. If we remove the effect of the two largest cases above, the deposits still exceeded \$877.3 million in FY 2014.

Combined Statements of Budgetary Resources

Total budgetary resources increased to \$5,051.5 million in FY 2014 from \$2,708.4 million in FY 2013, an 86.5 percent increase. The net increase is attributed to an increase in deposits into the AFF from the cases mentioned above. From FY 2014 activity, approximately \$1,367.1 million of forfeiture income will be disbursed of which the majority will go to the victims of the fraud cases. The net outlays decreased to \$1,367.1 million in FY 2014 from \$1,435.1 million in FY 2013, a decrease of 4.7 percent.

The total obligations incurred in FY 2014 were \$3,135.9 million, an increase of \$1,314.3 million compared to \$1,821.6 million incurred in FY 2013. The FY 2014 obligations incurred increased relative to FY 2013 nonrecurring case activity in FY 2014.

The AFF's unobligated balance was \$1,915.6 million as of September 30, 2014, an increase of 116.0 percent as compared to \$886.7 million as of September 30, 2013. The sharp increase is due to forfeitures related to the Toyota and Bernard Madoff cases mentioned above. 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 items.

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

Source	FY 2014	FY 2013	Change %
Exchange Revenue	\$ 14,065	\$ 12,201	15.3%
Budgetary Financing Sources			
Nonexchange Revenues	6,280	5,106	23.0%
Donations and Forfeitures of Cash or Cash Equivalents	4,158,820	1,826,480	127.7%
Transfers-In/Out Without Reimbursement	(693,000)	-	(693.0%)
Other Financing Sources			
Donations and Forfeitures of Property	308,307	185,769	66.0%
Transfers-In/Out Without Reimbursement	(4,930)	(7,273)	32.2%
Imputed Financing from Costs Absorbed by Others	1,837	1,179	55.8%
Total	\$ 3,791,379	\$ 2,023,462	87.4%

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

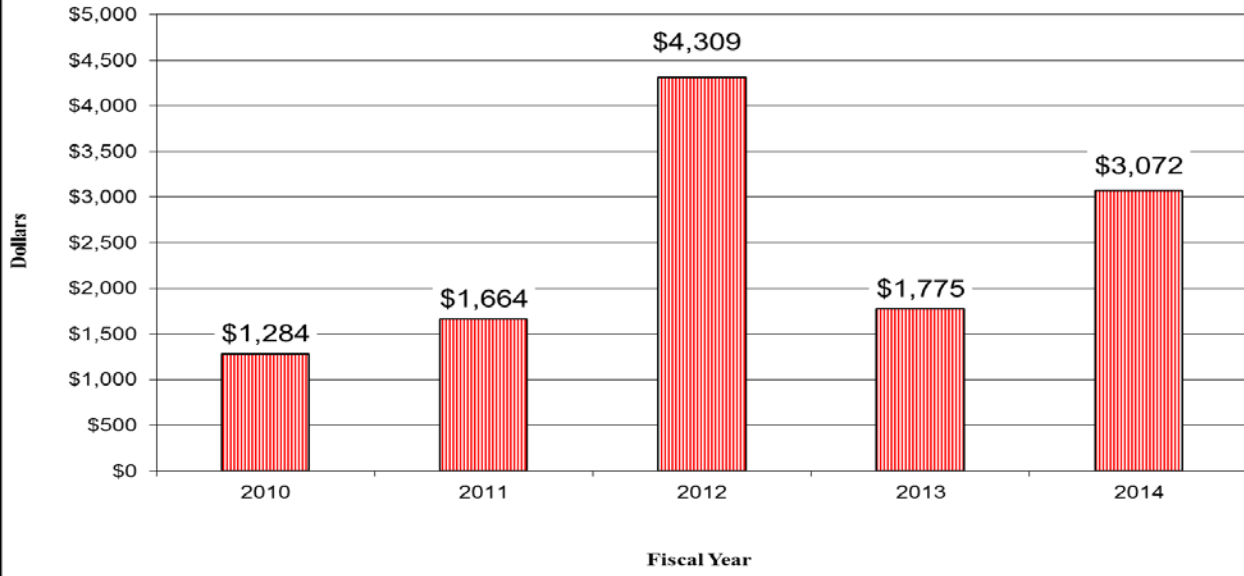
Strategic Goal (SG)	FY 2014	FY 2013	Change %
SG 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law			
Total Gross Cost	\$3,086,298	\$1,787,551	
Less: Total Earned Revenue	(14,065)	(12,201)	
<i>Total Net Cost of Operations</i>	\$3,072,233	\$1,775,350	73.0%

2014 Financial Highlights

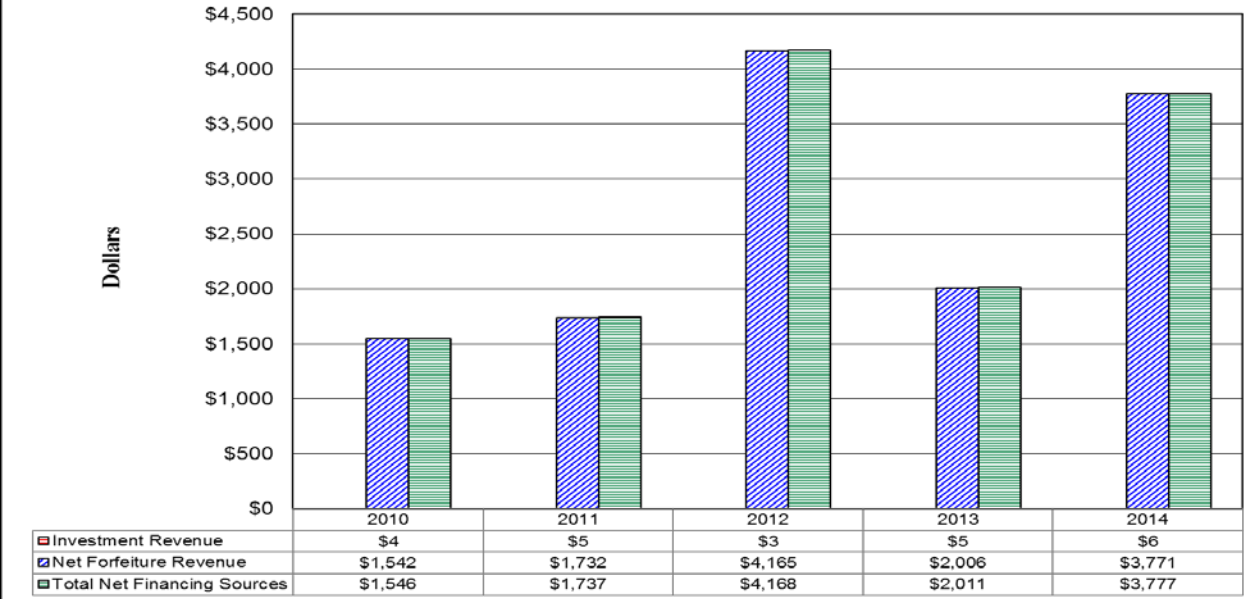
As indicated in Table 3, in FY 2014 the AFF supported Strategic Goal 2 of the Attorney General’s Strategic Plan for Fiscal Years 2012 – 2016, which includes Strategic Objective 2.2 - *Prevent and Intervene in Crimes Against Vulnerable Populations; Uphold the Rights of, and Improve Services to, America’s Crime Victims.*

Strategic Goal 2, Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law. 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. The AFF has no costs associated with counterterrorism or homeland security. For the fiscal year ended September 30, 2014, \$3,072.2 million was expended (net of earned revenue) while \$1,775.4 million was expended (net of earned revenue) for the fiscal year ended September 30, 2013. 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)**



FY 2014 REPORT ON SELECTED RESULTS

PERFORMANCE INFORMATION

STRATEGIC GOAL 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law.

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

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.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

FMFIA Section 2 – Material Weaknesses

For fiscal year 2014, the independent auditors reported one material internal control weakness. For the period ended June 30, 2014, \$284 million in revenue was incorrectly classified on the Statement of Changes in Net Position as Donations and Forfeitures of Property instead of Donations and Forfeitures of Cash and Cash Equivalents. AFMS Management's self-assessments of the AFF/SADF internal controls over financial reporting, conducted in FYs 2014 and 2013, as required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and OMB Circular No. A-123, *Management's Responsibility for Internal Control*, identified no additional internal control weaknesses. Based on the results of the assessment for the year ended September 30, 2014, the JMD management did report the Section 2 material weakness identified above that impacts the AFP.

Internal Control Program

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

For FY 2014, the Offices, Boards and Divisions' (OBD) and AFP's 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 AFP will be consolidated with other Departmental components and reported in the overall Departmental assurance statement.

FMFIA Section 4 – Material Nonconformances

For FY 2014, the Fund reported no material nonconformances of its financial-mixed IT system Consolidated Asset Tracking System (CATS). In FY 2014 the DOJ did not identify any systems non-conformance required to be reported under FMFIA Section 4. The Fund relies upon the Department's UFMS managers in JMD for Section 4 compliance on the Department's financial system of record.

Legal Compliance

For FY 2014, the AFF/SADF was in compliance with the requirements and responsibilities defined in applicable laws and administrative requirements, including FMFIA and relevant OMB Circulars. The AFF/SADF's financial management systems complied substantially with the Federal Financial Management Improvement Act of 1996's (FFMIA) Federal financial management systems requirements, applicable Federal accounting standards, and application of the USSGL at the transaction level as of September 30, 2014, except for the matter noted above under FMFIA Section 2 – Material Weakness, in which the AFF/SADF's financial management systems did not substantially comply with applicable Federal accounting standards.

POSSIBLE FUTURE EFFECTS OF EXISTING EVENTS AND CONDITIONS

Financing sources in FY 2014 totaled \$3,777.3 million, which are \$1,766.0 million more than the \$2,011.3 million reported in FY 2013. This is attributed to the \$1,700 million Bernard Madoff and \$1,200 Toyota assets that were deposited into the AFF in FY 2014. 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.

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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U.S. DEPARTMENT OF JUSTICE

Assets Forfeiture Fund and Seized Asset Deposit Fund

Independent Auditors' Reports



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KPMG LLP
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Independent Auditors' Report on the Financial Statements

Inspector General
U.S. Department of Justice

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

We have audited the accompanying consolidated financial statements of the U.S. Department of Justice Assets Forfeiture Fund (AFF) and Seized Asset Deposit Fund (SADF) which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02, require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



Independent Auditors' Report on the Financial Statements
Page 2

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

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, 2014 and 2013, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis section be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The Combined Schedule of Spending is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2014 on our consideration of the AFF/SADF's internal control over financial reporting, and our report dated November 4, 2014 on 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



Independent Auditors' Report on the Financial Statements
Page 3

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* in considering the AFF/SADF's internal control over financial reporting and compliance.

KPMG LLP

Washington, D.C.

November 4, 2014

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**Independent Auditors' Report on Internal Control over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance with *Government Auditing Standards***

Inspector General
U.S. Department of Justice

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

We have audited, 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. 14-02, *Audit Requirements for Federal Financial Statements*, the consolidated financial statements of the U.S. Department of Justice Assets Forfeiture Fund (AFF) and Seized Asset Deposit Fund (SADF), which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 4, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2014, we considered the AFF/SADF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the AFF/SADF's internal control. Accordingly, we do not express an opinion on the effectiveness of the AFF/SADF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in Exhibit I, we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A



Independent Auditors' Report on Internal Control over Financial Reporting
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*
Page 2

significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Exhibit I to be a material weakness.

AFF/SADF's Responses to Findings

The AFF/SADF's responses to the material weakness identified in our audit and presented in Exhibit I were not subjected to the auditing procedures applied in the audit of the AFF/SADF's consolidated financial statements and, accordingly, we express no opinion on the responses.

Exhibit II presents the status of the prior year's finding and recommendations.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the AFF/SADF's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the AFF/SADF's internal control. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.

November 4, 2014



MATERIAL WEAKNESS

This section contains our discussion of the material weakness that we identified in internal control over financial reporting.

Improvements Needed in Analysis of Accounting Data, Review of Financial Statements, and Analysis of Obligation and Accrued Liability Estimates

Deficiencies in the Asset Forfeiture Management Staff's (AFMS) internal control over financial reporting persist. Collectively, these deficiencies are indicative of a need for AFMS to improve the quality of its overall financial management. Specifically, improvements are needed in the financial reporting process, for example, the need to perform a more thorough review of the quarterly financial statements, ensure the completeness and accuracy of the reports used to prepare the financial statements' footnote disclosures, and incorporate analytical review procedures into the financial statement preparation and review process. In addition, AFMS could have benefited from a more thorough vetting and review of the accounting aspects of a prospective change in operational policy in regards to the estimation of certain programmatic obligations and accrued liabilities.

The following condition related to data analysis and analytical review of relationships between the financial statements and related disclosures was also reported in our fiscal year 2013 *Independent Auditors' Report on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. Additionally, throughout this fiscal year, we noted incidents of inadequate review of draft financial statements prior to presentation to the auditors and a need for improvement in the policy documentation and methodology used as a basis for estimating obligations and accrued liabilities related to equitable sharing.

Data Analysis

AFMS continues to demonstrate weaknesses in classifying certain forfeiture revenue transactions. During our analysis of relationships between financial statement disclosures, we noted a \$284 million misclassification error in the June 30, 2014 balances between the amounts disclosed in the Consolidated Statement of Changes in Net Position (SCNP) for Donations and Forfeitures of Property, and Donations and Forfeitures of Cash and Cash Equivalents.

AFMS became aware in FY 2013 of an issue related to the coding in its Unified Financial Management System (UFMS) of certain types of cash transactions that caused cash forfeitures to be reported in a forfeiture of property United States Standard General Ledger (USSGL) account. During FY 2014, AFMS implemented a quarterly reconciliation control that by design was unable to identify the misclassification error. However, AFMS could have, but did not, perform analytical review and analysis procedures (e.g., comparison of current year to prior year financial statement account balances and interrelated disclosures, and the investigation of significant fluctuations) that would be expected to detect an error of this magnitude.



EXHIBIT I

OMB Circular No. A-136, *Financial Reporting Requirements*, requires that donations and forfeitures of cash and cash equivalents be presented as a budgetary resource in the Statement of Changes in Net Position. The presentation for non-exchange revenue from donations and forfeitures of cash and cash equivalents is different from the presentation for non-exchange revenue from donations and forfeitures of property, which is presented as an Other Financing Source in the Statement of Changes in Net Position.

The **U.S. Government Accountability Office's** (GAO) *Standards for Internal Control in the Federal Government* includes among the objectives of its internal control standards the reliability of financial reporting, including reports on budget execution, financial statement, and other reports for internal and external use.

Financial Statement Preparation and Review

We noted various errors in the June 30, 2014 quarterly financial statements submitted for audit. Among the errors noted were: (1) Donations and Forfeitures of Cash and Cash Equivalents, and Donations and Forfeitures of Property in the Statement of Changes in Net Position were understated and overstated, respectively, by \$284 million; (2) inaccurate presentation of the amount of adjustments included in Footnote 7, *Forfeited and Seized Property*, related to the previously noted error; (3) exclusion of a \$140 million budgetary reclassification affecting Appropriations in the *Combined Statement of Budgetary Resources*; and (4) a \$118 million understatement of the Payments to Third Parties amount included in Footnote 15, *Net Cost of Operations by Suborganization*.

The reviews by AFMS and the Justice Management Division (JMD) on the June 30, 2014 financial statements were not performed at a level of precision sufficient to ensure consistency and accuracy within the statements.

OMB Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*, section 2.12 states that internal control as it relates to the basic statements is a process, effected by the agency's management and other personnel, designed to provide reasonable assurance that transactions are properly recorded, processed, and summarized to permit the preparation of basic statements in accordance with U.S. generally accepted accounting principles.

The **U.S. Department of Justice** *Financial Statement Requirements and Preparation Guide* requires each component to submit an electronic certified unaudited quarterly comparative financial statement package to Justice Management Division Finance Staff (JMDFS) for which the certification is intended to ensure that component management has reviewed the package and that it conforms to Departmental requirements.

Documentation and Analysis of Obligation and Accrued Liability Estimates

During FY 2014, AFMS considered implementing a policy to accelerate its documentation and approval of obligations related to forfeitures for which an eventual payment is probable and measurable. To determine the measurability of the future outlay, AFMS developed a process to estimate the future claims that would be filed and approved based on reports from the Consolidated Asset Tracking System (CATS). During our test work procedures, we noted that improvements were needed in the areas of policy development, the methodology used as a basis for the estimate, and the related control processes.



EXHIBIT I

For example, the policy would have benefited from consideration of the Federal accounting standard criteria for the recognition of liabilities associated with non-exchange, government-acknowledged transactions and events, and recognition of the fact that the matching principle is not applicable to accounting for such events. The methodology used as the basis for the estimates would have benefited from an aging of the obligations and accrued liabilities, consideration of whether claims had already been filed, and the use of historical data. Lastly, the control process underlying the methodology lacked guidance for the participating agencies to follow when entering and updating CATS data, while the methodology lacked procedures to assess the completeness and accuracy of the underlying data files used as the basis for the estimate.

Upon consideration of the above factors, AFMS and JMD concluded that further analysis was needed before the policy was ready for implementation. Consequently, AFMS reversed the journal entry that had been made to record the estimated obligations and related accrued liabilities included in the June 30, 2014 financial statements. As a result of the decision to delay implementation, the September 30, 2014 financial statements included only those transactions that were determined to have met the obligation and liability recognition criteria without regard to implementation of the policy.

OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, Section 20.5(a) states that obligations must conform to applicable provisions of law and be supported by the documentary evidence required by 31 U.S.C. § 1501. In the case of the subject AFF/SADF obligations, the statute provides that an amount be recorded as an obligation only when supported by documentary evidence of an “other” legal liability of the Government against an available appropriation or fund.

Statement of Federal Financial Accounting Standard (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, states that a liability is a probable future outflow or other sacrifice of resources as a result of past transactions or events that recognize probable and measurable future outflows or other sacrifices of resources arising from, among other things, government-acknowledged events or nonexchange transactions that, according to current law and applicable policy, are unpaid amounts due as of the reporting date.

SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Information*, states that nonexchange revenue and other financing sources are not matched with costs because they are not earned in the operations process and should be recognized only in determining the overall financial results of operations for the period.



EXHIBIT I

RECOMMENDATIONS:

We recommend that the Asset Forfeiture Management Staff and Justice Management Division:

1. Implement analytical review and analysis procedures, including the comparison of current year to prior year financial statement account balances, interrelated disclosures, and the investigation of significant fluctuations, as part of the financial statement preparation and review process, in addition to the quarterly reconciliation of UFMS and CATS data at the individual-asset level. (*Updated*)

Management Response:

The Justice Management Division (JMD) Asset Forfeiture Management Staff (AFMS) and Finance Staff concur with this finding and recommendation. The AFMS will work concurrently with Finance Staff to continue to develop, refine and implement analytical review procedures over the quarterly financial statements to ensure that anomalies are investigated and any corrections needed are implemented timely.

2. Use complete and accurate underlying reports to prepare financial statement footnote disclosures. (*New*)

Management Response:

The JMD AFMS and Finance Staff concur with this finding and recommendation. The AFMS and Finance Staff will review all underlying reports used to support the financial statement footnote disclosure to ensure completeness and accuracy in the reports. The AFMS and Finance Staff will also reinforce revenue recognition procedures and provide training to UFMS users, including the U.S. Marshals Service (USMS), to clarify the procedures and rules for proper revenue recognition.

3. Perform a more thorough review of the interim and annual financial statement packages. (*New*)

Management Response:

The JMD AFMS and Finance Staff concur with this finding and recommendation. The AFMS and Finance Staff will develop a detailed process for reviewing the journal vouchers, trial balances and financial statements and will document those procedures for easy reference and review support.

4. Make revisions to the pending Obligation and Accrued Liability Estimation policy that include:
 - a. Updating the policy to include only the relevant authoritative literature.
 - b. Developing and implementing an analysis that: (1) includes at least 3 years of prior CATS data supporting the estimated obligations and accrued liabilities, and (2) compares subsequently known data to the estimated accruals to determine the precision of the estimates over time.
 - c. Maintaining a quarterly analysis, including an aging of obligations and related accrued liabilities.



EXHIBIT I

- d. Developing and implementing written policy guidance to the participating agencies that describes how each data element in CATS is used as an assumption in the estimated obligation and related accrued liability.
- e. Performing sufficient testing of underlying data to validate that the CATS outputs produce relevant and reliable information that should be used as the basis to estimate future outlays. (*New*)

Management Response:

The JMD AFMS and Finance Staff concur with this finding and recommendation and plan to implement revised policies and procedures for obligating Victim and Other Third Party Payments (VTPP) and Equitable Sharing (ES) cases by March 31, 2015. The new procedures for determining the monthly obligation amounts will include:

- Multiple years of historical data;
- An aging of the open VTPP and ES cases;
- Validation of supporting data from CATS; and
- An analysis to compare subsequent data to validate prior month or quarter obligations.



EXHIBIT II

STATUS OF PRIOR YEAR'S FINDING AND RECOMMENDATIONS

As required by *Government Auditing Standards* issued by the Comptroller General of the United States, we have evaluated whether AFF/SADF has taken appropriate corrective action to address the finding and recommendations from the prior year's financial statements audits that could have a material effect on the financial statements or other financial data significant to the audit objectives. The following table provides the Office of the Inspector General report number where the deficiency was reported, our recommendation for improvement, and the status of the previously identified significant deficiency and recommendation as of the end of fiscal year 2014.

Report	Significant Deficiency	Recommendations	Status
Annual Financial Statements Fiscal Year 2013 Report No. 14-08	Improvements Needed in Analysis of Accounting Data, Revenue Recognition, and Review of Journal Vouchers	Recommendation No. 1: Review the posting logic for forfeiture revenue document types and the business process instructions regarding the use of each document type to ensure that the transactions result in accurate presentation in the financial statements.	Completed
		Recommendation No. 2: Implement analytical review and analysis procedures, including the comparison of current year to prior year financial statement account balances, interrelated disclosures, and the investigation of significant fluctuations, as part of the financial statement preparation and review process.	In Process (Updated by Fiscal Year 2014 Recommendation No. 1)
		Recommendation No. 3: Reinforce procedures and provide additional training to entity personnel for accurately recording cash receipts in UFMS.	Completed ¹
		Recommendation No. 4: Implement more effective procedures over review of the Annual Financial Statement journal entries to supplement existing higher level management reviews over the Trial Balance and financial statements.	Completed

¹ Sufficient progress has been made in addressing this finding and the related recommendations such that the remaining risk of misstatement no longer merits the attention by those charged with governance. Therefore, the condition has been downgraded to a deficiency in internal control.



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Washington, DC 20006

Independent Auditors' Report on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Inspector General
U.S. Department of Justice

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

We have audited, 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. 14-02, *Audit Requirements for Federal Financial Statements*, the consolidated financial statements of the U.S. Department of Justice Assets Forfeiture Fund (AFF) and Seized Asset Deposit Fund (SADF), which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended and the related notes to the consolidated financial statements, and have issued our report thereon dated November 4, 2014.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the AFF/SADF's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. 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 disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 14-02.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed an instance, described in Exhibit I of our *Independent Auditors' Report on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, where the AFF/SADF's financial management systems did not substantially comply with applicable Federal accounting standards. The AFF/SADF's Chief Financial Officer is responsible for the AFF/SADF's financial management systems.



Independent Auditors' Report on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*
Page 2

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 and (2) United States Government Standard General Ledger at the transaction level.

AFF/SADF's Responses to Finding

The AFF/SADF's responses to the instance of noncompliance identified in our audit and described in Exhibit I of our *Independent Auditors' Report on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* were not subjected to the auditing procedures applied in the audit of the AFF/SADF's consolidated financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the AFF/SADF's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the AFF/SADF's compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.

November 4, 2014

U.S. DEPARTMENT OF JUSTICE

Assets Forfeiture Fund and Seized Asset Deposit Fund

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, 2014 and 2013

Dollars in Thousands	2014	2013
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with U.S. Treasury (Note 3)	\$ 124,255	\$ 110,344
Investments, Net (Note 5)	8,334,306	6,068,165
Accounts Receivable (Note 6)	9,242	3,322
Other Assets (Note 9)	40	-
Total Intragovernmental	<u>8,467,843</u>	<u>6,181,831</u>
Cash and Monetary Assets (Note 4)	101,690	64,219
Forfeited Property, Net (Note 7)	138,265	141,354
General Property, Plant and Equipment, Net (Note 8)	628	603
Total Assets	<u>\$ 8,708,426</u>	<u>\$ 6,388,007</u>
LIABILITIES (Note 10)		
Intragovernmental		
Accounts Payable	\$ 108,261	\$ 105,395
Other Liabilities (Note 12)	198	146
Total Intragovernmental	<u>108,459</u>	<u>105,541</u>
Accounts Payable	4,524,908	2,847,058
Accrued Payroll and Benefits	864	1,278
Accrued Annual and Compensatory Leave Liabilities	1,766	1,726
Deferred Revenue	138,265	141,354
Seized Cash and Monetary Instruments (Note 11)	1,373,316	1,435,283
Total Liabilities	<u>\$ 6,147,578</u>	<u>\$ 4,532,240</u>
Contingent Liabilities (Note 13)		
NET POSITION		
Cumulative Results of Operations - Funds from Dedicated Collections (Note 14)	\$ 2,560,848	\$ 1,855,767
Total Net Position	<u>\$ 2,560,848</u>	<u>\$ 1,855,767</u>
Total Liabilities and Net Position	<u>\$ 8,708,426</u>	<u>\$ 6,388,007</u>

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, 2014 and 2013

Dollars in Thousands

FY	Gross Costs			Less: Earned Revenues			Net Costs of Operations (Note 15)
	Intra-governmental	With the Public	Total	Intra-governmental	With the Public	Total	
Goal 2							
2014	\$ 508,771	\$ 2,577,527	\$ 3,086,298	\$ 14,065	\$ -	\$ 14,065	\$ 3,072,233
2013	\$ 501,418	\$ 1,286,133	\$ 1,787,551	\$ 12,201	\$ -	\$ 12,201	\$ 1,775,350
Total							
2014	<u>\$ 508,771</u>	<u>\$ 2,577,527</u>	<u>\$ 3,086,298</u>	<u>\$ 14,065</u>	<u>\$ -</u>	<u>\$ 14,065</u>	<u>\$ 3,072,233</u>
2013	<u>\$ 501,418</u>	<u>\$ 1,286,133</u>	<u>\$ 1,787,551</u>	<u>\$ 12,201</u>	<u>\$ -</u>	<u>\$ 12,201</u>	<u>\$ 1,775,350</u>

Goal 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law

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, 2014 and 2013

Dollars in Thousands	2014	2013
	Funds from Dedicated Collections	Funds from Dedicated Collections
Cumulative Results of Operations		
Beginning Balances	\$ 1,855,767	\$ 1,619,856
Budgetary Financing Sources		
Nonexchange Revenues (Note 19)	6,280	5,106
Donations and Forfeitures of Cash and Cash Equivalents (Note 20)	4,158,820	1,826,480
Transfers-In/Out Without Reimbursement	(693,000)	-
Other Financing Sources		
Donations and Forfeitures of Property (Note 20)	308,307	185,769
Transfers-In/Out Without Reimbursement (Note 18)	(4,930)	(7,273)
Imputed Financing from Costs Absorbed by Others (Note 16)	1,837	1,179
Total Financing Sources	<u>3,777,314</u>	<u>2,011,261</u>
Net Cost of Operations	<u>(3,072,233)</u>	<u>(1,775,350)</u>
Net Change	<u>705,081</u>	<u>235,911</u>
Cumulative Results of Operations	<u>\$ 2,560,848</u>	<u>\$ 1,855,767</u>
Net Position	<u>\$ 2,560,848</u>	<u>\$ 1,855,767</u>

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, 2014 and 2013

Dollars in Thousands	2014	2013
Budgetary Resources:		
Unobligated Balance, Brought Forward, October 1	\$ 886,738	\$ 762,009
Recoveries of Prior Year Unpaid Obligations	71,239	76,720
Unobligated Balance from Prior Year Budget Authority, Net	957,977	838,729
Appropriations (discretionary and mandatory)	4,079,273	1,849,037
Spending Authority from Offsetting Collections (discretionary and mandatory)	14,242	20,595
Total Budgetary Resources	\$ 5,051,492	\$ 2,708,361
Status of Budgetary Resources:		
Obligations Incurred (Note 17)	\$ 3,135,920	\$ 1,821,623
Unobligated Balance, End of Year:		
Apportioned	1,836,188	639,271
Unapportioned	79,384	247,467
Total Unobligated Balance - End of Year	1,915,572	886,738
Total Status of Budgetary Resources:	\$ 5,051,492	\$ 2,708,361
Change in Obligated Balance:		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward October 1	\$ 3,131,775	\$ 2,849,380
Obligations Incurred	3,135,920	1,821,623
Outlays, Gross (-)	(1,383,256)	(1,462,508)
Recoveries of Prior Year Unpaid Obligations (-)	(71,239)	(76,720)
Unpaid Obligations, End of Year	4,813,200	3,131,775
Uncollected Payments:		
Uncollected Payments from Federal Sources, Brought Forward, October 1 (-)	(7,177)	(8,889)
Change in Uncollected Customer Payments from Federal Sources	(4,326)	1,712
Uncollected Customer Payments from Federal Sources, End of Year (-)	(11,503)	(7,177)
Memorandum (non-add) Entries:		
Obligated Balance, Start of Year	\$ 3,124,598	\$ 2,840,491
Obligated Balance, End of Year	\$ 4,801,697	\$ 3,124,598
Budgetary Authority and Outlays, Net:		
Budgetary Authority, Gross (discretionary and mandatory)	\$ 4,093,515	\$ 1,869,632
Less: Actual Offsetting Collections (discretionary and mandatory)	9,916	22,306
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	(4,326)	1,712
Budget Authority, Net (discretionary and mandatory)	\$ 4,079,273	\$ 1,849,038
Outlays, Gross (discretionary and mandatory)	\$ 1,383,256	\$ 1,462,508
Less: Actual Offsetting Collections (discretionary and mandatory)	9,916	22,306
Outlays, Net (discretionary and mandatory)	1,373,340	1,440,202
Less: Distributed Offsetting Receipts	6,280	5,106
Agency Outlays, Net (discretionary and mandatory)	\$ 1,367,060	\$ 1,435,096

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)**

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.

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, which are used to monitor and control the use of the AFF/SADF budgetary resources. To ensure that the Department financial statements are meaningful at the entity level and to enhance reporting consistency within the department, Inventory and Related Property, Other Assets and Other Liabilities as defined by OMB Circular No. A-136 have been disaggregated on the Consolidated Balance Sheets. These include Forfeited Property, Net; Advances and Prepayments, with the Public; Accrued Payroll and Benefits; Accrued Annual and Compensatory Leave Liabilities; Deferred Revenue; and Seized Cash and Monetary Instruments.

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

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 Statements of Budgetary Resources are combined statements for FYs 2014 and 2013, 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 cash 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 the AFP does have statutory authority for the investment of idle cash.

G. Investments

The AFF and SADF are authorized by 28 U.S.C. § 524(c) to invest idle funds in excess of the AFP's immediate needs in U.S. Treasury Securities. Investments are short-term, non-marketable market-based Federal Debt securities issued by the Bureau of Fiscal Service (BFS) and purchased exclusively through the BFS'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 using the straight-line method over the life of the Treasury security. AFF and SADF intend to hold investments to maturity. Accordingly, no provision is made for unrealized gains or losses on these securities.

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

H. Accounts Receivable

Accounts receivable consist of amounts due from the Treasury Executive Office for Asset Forfeiture for goods or services provided by the AFP. Receivables arising from services provided to the Treasury Executive Office for Asset Forfeiture 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 AFP operates. The Department does not recognize depreciation on buildings owned by the GSA.

Property, plant and equipment consist of leasehold improvements and enhancements to the CATS, which meet the SFFAS No. 10, *Accounting for Internal Use Software*, definition of “internal use software.”

DOJ Financial Management Policy Memorandum (FMPM) 13-12, *Capitalization of General Property, Plant, and Equipment and Internal Use Software*, was issued in FY 2013 with an effective date for reporting periods ending after September 30, 2014. For financial statement purposes, the primary changes relate to the capitalization thresholds for real property, including leasehold improvements; personal property; and internal use software which resulted in a decrease to the overall PP&E balance.

Below are the capitalization thresholds:

Type of Property	Thresholds
Real Property	\$250
Personal Property	\$50
Aircraft	\$100
Internal Use Software	\$5,000

Except for land, all general PP&E will be capitalized when the cost of acquiring or improving the property meets the threshold noted in the table above and has a useful life of two or more years. Land is capitalized regardless of the acquisition cost. Except for land, all general PP&E is depreciated or amortized, based on historical cost, using the straight-line method over the estimated useful life of the asset. Land is never depreciated.

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

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, as well as, 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 as a 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

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.

M. Contingencies and Commitments

The AFF is 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. Legal actions where management and the Chief Counsel consider adverse decisions “probable” or “reasonably possible” and the amounts are reasonably estimable are disclosed in Note 13, *Contingencies and Commitments*. However, there are cases where amounts have not been

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

M. Contingencies and Commitments (Continued)

accrued or disclosed because the amounts of the potential loss cannot be estimated or the likelihood of an unfavorable outcome is considered “remote”.

N. Annual, Sick, and Other Leave

Annual leave and compensatory leave are expensed as earned with an offsetting liability. Liabilities are reduced as leave is taken. At the end of each fiscal quarter, the balance in the accrued annual leave liability account is adjusted to reflect valuation at current pay rates. To the extent current-year or prior-year appropriations are not available to fund annual and compensatory leave that is earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

O. 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.

P. Retirement Plans

With few exceptions, employees of the Department are covered by one of the following retirement programs:

- 1) Employees hired before January 1, 1984, are covered by the Civil Service Retirement System (CSRS). The AFF contributes 7% of the gross pay for regular employees and 7.5% for law enforcement officers.
- 2) Employees hired January 1, 1984 or later, are covered by the Federal Employees Retirement System (FERS).
 - a. Employees hired January 1, 1984 through December 31, 2012, are covered by the FERS. The AFF contributes 11.9% of the gross pay for regular employees and 26.3% for law enforcement officers.
 - b. Employees hired January 1, 2013 through December 31, 2013, are covered by the Federal Employees Retirement System-Revised Annuity Employees (FERS-RAE). The AFF contributes 9.6% of the gross pay for regular employees and 24.0% for law enforcement officers.

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

P. Retirement Plans (Continued)

- c. Employees hired January 1, 2014 or later are covered by the Federal Employees System-Further Revised Annuity Employees (FERS-FRAE). The AFF contributes 9.6% of the gross pay for regular employees and 24.0% for law enforcement officers.

Q. 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.

R. 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. 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.

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

S. Funds from Dedicated Collections

SFFAS No. 27 as amended defines ‘funds from dedicated collections’ as being financed by specifically identified revenues, provided to the Government by non-Federal sources, 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 a fund from dedicated collections are:

1. A statute committing the Federal Government to use specifically identified revenues and/or other financing sources that are originally provided to the Federal Government by a non-Federal source only for designated activities, benefits or purposes;
2. Explicit authority for the funds to retain revenues and/or 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/or other financing sources that distinguishes the fund from the Federal Government’s general revenues.

The AFF meets the definition of funds from dedicated collections, but the SADF does not meet the definition of funds from dedicated collections.

T. Tax Exempt Status

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

U. 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.

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

V. Reclassifications

The FY 2013 financial statements were reclassified to conform to the FY 2014 Departmental and OMB 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.

W. Subsequent Events

Subsequent events and transactions occurring after September 30, 2014 through the date of the auditors' opinion have been evaluated for potential recognition or disclosure in the financial statements. The date of the auditors' opinion also represents the date that the financial statements were available to be issued.

**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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Intragovernmental		
Investments, Net (Note 5)	\$ 1,271,626	\$ 1,371,064
With the Public		
Cash and Monetary Assets (Note 4)	<u>101,690</u>	<u>64,219</u>
Total Non-Entity Assets	1,373,316	1,435,283
Total Entity Assets	<u>7,335,110</u>	<u>4,952,724</u>
Total Assets	<u>\$ 8,708,426</u>	<u>\$ 6,388,007</u>

Note 3. Fund Balance with U.S. Treasury

As of September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Fund Balances		
Special Funds	<u>\$ 124,255</u>	<u>\$ 110,344</u>
Status of Fund Balances		
Unobligated Balance - Available	\$ 1,836,188	\$ 639,271
Unobligated Balance - Unavailable	79,384	247,467
Obligated Balance not yet Disbursed	4,801,697	3,124,598
Other Funds (With)/Without Budgetary Resources	<u>(6,593,014)</u>	<u>(3,900,992)</u>
Total Status of Fund Balances	<u>\$ 124,255</u>	<u>\$ 110,344</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 cash in DOJ custody but not yet deposited in the SADF.

As of September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash		
Seized Cash Deposited	\$ 79,675	\$ 40,063
Monetary Assets		
Seized Monetary Instruments	<u>22,015</u>	<u>24,156</u>
Total Cash and Monetary Assets	<u>\$ 101,690</u>	<u>\$ 64,219</u>

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, a dedicated collections 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 Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

Treasury securities provide the 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 Federal 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 Federal Government finances all other expenditures.

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

Note 5. Investments, Net (continued)

	<u>Face Value</u>	<u>Unamortized Premium (Discount)</u>	<u>Investments, Net</u>	<u>Market Value</u>
As of September 30, 2014				
Intragovernmental				
Non-Marketable Securities				
Market-Based				
AFF	\$ 7,063,467	\$ (787)	\$ 7,062,680	\$ 7,062,821
SADF	1,272,804	(1,178)	1,271,626	1,271,878
Total	<u>\$ 8,336,271</u>	<u>\$ (1,965)</u>	<u>\$ 8,334,306</u>	<u>\$ 8,334,699</u>

	<u>Face Value</u>	<u>Unamortized Premium (Discount)</u>	<u>Investments, Net</u>	<u>Market Value</u>
As of September 30, 2013				
Intragovernmental				
Non-Marketable Securities				
Market-Based				
AFF	\$ 4,697,793	\$ (692)	\$ 4,697,101	\$ 4,697,564
SADF	1,371,960	(896)	1,371,064	1,371,898
Total	<u>\$ 6,069,753</u>	<u>\$ (1,588)</u>	<u>\$ 6,068,165</u>	<u>\$ 6,069,462</u>

Note 6. Accounts Receivable

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

As of September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Intragovernmental		
Accounts Receivable	\$ 9,242	\$ 3,322
Total Accounts Receivable	<u>\$ 9,242</u>	<u>\$ 3,322</u>

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

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.

A. Forfeited Property, Net

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, 2014 and 2013.

FY 2014 AFF/SADF Annual Financial Statements

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

Note 7. Forfeited and Seized Property (continued)

Analysis of Changes in Forfeited Property -- For the Fiscal Year Ended September 30, 2014

Forfeited Property Category		Beginning		Forfeitures	Disposals	Ending Balance	Liens and Claims	Ending Balance, Net of Liens
		Balance	Adjustments (1)					
Financial Instruments	Number	212	278	444	(650)	284	-	284
	Value	\$ 2,417	\$ 6,389	\$ 129,203	\$ (133,102)	\$ 4,907	\$ -	\$ 4,907
Real Property	Number	526	26	390	(484)	458	-	458
	Value	\$ 98,773	\$ 6,739	\$ 81,133	\$ (97,966)	\$ 88,679	\$ (2,223)	\$ 86,456
Personal Property	Number	3,422	285	4,809	(5,284)	3,232	-	3,232
	Value	\$ 41,770	\$ 17,132	\$ 59,234	\$ (69,221)	\$ 48,915	\$ (2,013)	\$ 46,902
Firearms, Non-Valued	Number	24,001	(58)	15,430	(13,408)	25,965	-	25,965
Total	Number	28,161	531	21,073	(19,826)	29,939	-	29,939
	Value	\$ 142,960	\$ 30,260	\$ 269,570	\$ (300,289)	\$ 142,501	\$ (4,236)	\$ 138,265

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

Methods of Disposition of Forfeited Property -- For the Fiscal Year Ended September 30, 2014

Forfeited Property Category		Converted Financial Instruments/Property	Destroyed/Donated/ Transferred	Sold/ Liquidated (1)	Official Use/ Transfer for Equitable Sharing	Returned Assets	Variance (2)	Total
	Value	\$ 113,719	\$ 180	\$ 18,973	\$ -	\$ 230	\$ -	\$ 133,102
Real Property	Number	1	5	458	2	18	-	484
	Value	\$ 3	\$ 3,611	\$ 92,644	\$ 146	\$ 1,562	\$ -	\$ 97,966
Personal Property	Number	4	1,109	3,284	725	162	-	5,284
	Value	\$ 4,294	\$ 2,477	\$ 50,421	\$ 8,929	\$ 3,100	\$ -	\$ 69,221
Firearms, Non-Valued	Number	-	12,712	-	385	311	-	13,408
Total	Number	632	13,837	3,750	1,112	495	-	19,826
	Value	\$ 118,016	\$ 6,268	\$ 162,038	\$ 9,075	\$ 4,892	\$ -	\$ 300,289

(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 20 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 20 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.

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

Note 7. Forfeited and Seized Property (continued)

Analysis of Changes in Forfeited Property -- For the Fiscal Year Ended September 30, 2013

Forfeited Property Category		Beginning		Forfeitures	Disposals	Ending Balance	Liens and Claims	Ending Balance Net of Liens
		Balance	Adjustments (1)					
Financial Instruments	Number	178	-	275	(241)	212	-	212
	Value	\$ 1,329	\$ -	\$ 45,294	\$ (44,206)	\$ 2,417	\$ -	\$ 2,417
Real Property	Number	418	(2)	445	(335)	526	-	526
	Value	\$ 81,996	\$ (987)	\$ 86,903	\$ (69,139)	\$ 98,773	\$ (1,072)	\$ 97,701
Personal Property	Number	3,858	-	5,512	(5,948)	3,422	-	3,422
	Value	\$ 63,972	\$ -	\$ 53,505	\$ (75,707)	\$ 41,770	\$ (534)	\$ 41,236
Firearms, Non-Valued	Number	26,796	-	9,156	(11,951)	24,001	-	24,001
Total	Number	31,250	(2)	15,388	(18,475)	28,161	-	28,161
	Value	\$ 147,297	\$ (987)	\$ 185,702	\$ (189,052)	\$ 142,960	\$ (1,606)	\$ 141,354

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

Methods of Disposition of Forfeited Property -- For the Fiscal Year Ended September 30, 2013

Forfeited Property Category		Converted Financial Instruments/Property	Destroyed/Donated/ Transferred	Sold/ Liquidated (1)	Official Use/ Transfer for Equitable Sharing	Returned Assets	Variance (2)	Total
	Value	\$ 44,061	\$ 11	\$ 133	\$ -	\$ 1	\$ -	\$ 44,206
Real Property	Number	1	7	298	1	28	-	335
	Value	\$ 2	\$ 235	\$ 63,505	\$ 278	\$ 5,119	\$ -	\$ 69,139
Personal Property	Number	3	1,022	3,979	767	177	-	5,948
	Value	\$ 2	\$ 792	\$ 52,218	\$ 10,734	\$ 11,961	\$ -	\$ 75,707
Firearms, Non-Valued	Number	-	10,842	-	660	449	-	11,951
Total	Number	204	11,905	4,283	1,428	655	-	18,475
	Value	\$ 44,065	\$ 1,038	\$ 115,856	\$ 11,012	\$ 17,081	\$ -	\$ 189,052

(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 20 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 20 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.

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

Note 7. Forfeited and Seized Property (continued)

B. Seized Property

The following tables show the analysis of changes in and methods of disposition of property seized for forfeiture during the fiscal years ended September 30, 2014 and 2013. 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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**U.S. Department of Justice
Notes to the Financial Statements
(Dollars in Thousands, Except as Noted)**

Note 7. Forfeited and Seized Property (continued)

Analysis of Changes in Seized Property -- For the Fiscal Year Ended September 30, 2014

Seized Property Category		Beginning Balance	Adjustments (1)	Seizures	Disposals	Ending Balance	Liens and Claims	Ending Balance Net of Liens
Seized Cash and Monetary Instruments	Number	15,156	527	12,501	(14,360)	13,824	-	13,824
	Value	\$ 1,435,283	\$ 54,898	\$ 3,733,392	\$ (3,850,257)	\$ 1,373,316	\$ (205,829)	\$ 1,167,487
Financial Instruments	Number	404	(79)	248	(216)	357	-	357
	Value	\$ 46,013	\$ (13,413)	\$ 123,443	\$ (31,667)	\$ 124,376	\$ (1,726)	\$ 122,650
Real Property	Number	140	5	129	(143)	131	-	131
	Value	\$ 63,783	\$ (669)	\$ 31,697	\$ (42,225)	\$ 52,586	\$ (11,887)	\$ 40,699
Personal Property	Number	7,136	246	6,222	(6,311)	7,293	-	7,293
	Value	\$ 144,422	\$ (12,623)	\$ 103,667	\$ (87,661)	\$ 147,805	\$ (32,364)	\$ 115,441
Firearms, Non-Valued	Number	30,281	1,122	12,719	(19,728)	24,394	-	24,394
Total	Number	53,117	1,821	31,819	(40,758)	45,999	-	45,999
	Value	\$ 1,689,501	\$ 28,193	\$ 3,992,199	\$ (4,011,810)	\$ 1,698,083	\$ (251,806)	\$ 1,446,277

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

Methods of Disposition of Seized Property -- For the Fiscal Year Ended September 30, 2014

Seized Property Category		Converted Financial Instruments/Property	Destroyed/Donated/Transferred	Sold/Liquidated	Returned Assets	Forfeited (1)	Variance (2)	Total
Seized Cash and Monetary Instruments	Number	113	42	-	839	13,365	1	14,360
	Value	\$ 30,410	\$ 607	\$ -	\$ 47,961	\$ 3,771,388	\$ (109)	\$ 3,850,257
Financial Instruments	Number	3	-	-	33	180	-	216
	Value	\$ 5,065	\$ -	\$ -	\$ 339	\$ 26,263	\$ -	\$ 31,667
Real Property	Number	-	-	5	13	125	-	143
	Value	\$ -	\$ -	\$ 4,680	\$ 1,438	\$ 36,107	\$ -	\$ 42,225
Personal Property	Number	-	35	7	1,533	4,736	-	6,311
	Value	\$ -	\$ 61	\$ 147	\$ 29,299	\$ 58,154	\$ -	\$ 87,661
Firearms, Non-Valued	Number	-	101	-	4,251	15,376	-	19,728
Total	Number	116	178	12	6,669	33,782	1	40,758
	Value	\$ 35,475	\$ 668	\$ 4,827	\$ 79,037	\$ 3,891,912	\$ (109)	\$ 4,011,810

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

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

These notes are an integral part of the financial statements.

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

Note 7. Forfeited and Seized Property (continued)

Analysis of Changes in Seized Property -- For the Fiscal Year Ended September 30, 2013

Seized Property Category		Beginning Balance	Adjustments (1)	Seizures	Disposals	Ending Balance	Liens and Claims	Ending Balance Net of Liens
Seized Cash and Monetary Instruments	Number	14,200	29	14,589	(13,662)	15,156	-	15,156
	Value	\$ 1,536,523	\$ 24,251	\$ 1,738,021	\$ (1,863,512)	\$ 1,435,283	\$ (114,622)	\$ 1,320,661
Financial Instruments	Number	520	-	49	(165)	404	-	404
	Value	\$ 68,368	\$ -	\$ 39,165	\$ (61,520)	\$ 46,013	\$ (2,395)	\$ 43,618
Real Property	Number	127	3	227	(217)	140	-	140
	Value	\$ 45,084	\$ (3,013)	\$ 75,390	\$ (53,678)	\$ 63,783	\$ (20,618)	\$ 43,165
Personal Property	Number	8,019	-	6,224	(7,107)	7,136	-	7,136
	Value	\$ 183,797	\$ -	\$ 59,118	\$ (98,493)	\$ 144,422	\$ (21,356)	\$ 123,066
Firearms, Non-Valued	Number	33,572	-	13,496	(16,787)	30,281	-	30,281
Total	Number	56,438	32	34,585	(37,938)	53,117	-	53,117
	Value	\$ 1,833,772	\$ 21,238	\$ 1,911,694	\$ (2,077,203)	\$ 1,689,501	\$ (158,991)	\$ 1,530,510

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

Methods of Disposition of Seized Property -- For the Fiscal Year Ended September 30, 2013

Seized Property Category		Converted Financial Instruments/Property	Destroyed/Donated/Transferred	Sold/Liquidated	Returned Assets	Forfeited (1)	Variance (2)	Total
Seized Cash and Monetary Instruments	Number	57	92	-	956	12,557	-	13,662
	Value	\$ 4,268	\$ 4,478	\$ -	\$ 137,367	\$ 1,717,399	\$ -	\$ 1,863,512
Financial Instruments	Number	2	4	-	33	126	-	165
	Value	\$ 11	\$ -	\$ -	\$ 22,054	\$ 39,455	\$ -	\$ 61,520
Real Property	Number	-	1	1	18	197	-	217
	Value	\$ -	\$ 155	\$ 75	\$ 6,207	\$ 47,241	\$ -	\$ 53,678
Personal Property	Number	-	56	3	1,777	5,271	-	7,107
	Value	\$ -	\$ 192	\$ 31	\$ 38,380	\$ 59,890	\$ -	\$ 98,493
Firearms, Non-Valued	Number	-	89	-	2,565	14,133	-	16,787
Total	Number	59	242	4	5,349	32,284	-	37,938
	Value	\$ 4,279	\$ 4,825	\$ 106	\$ 204,008	\$ 1,863,985	\$ -	\$ 2,077,203

(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.

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

Note 8. General Property, Plant and Equipment, Net

	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Useful Life</u>
As of September 30, 2014				
Leasehold Improvements	\$ 1,119	\$ (502)	\$ 617	5 years
Equipment	74	(63)	11	5-12 years
Total	<u>\$ 1,193</u>	<u>\$ (565)</u>	<u>\$ 628</u>	
As of September 30, 2013				
Leasehold Improvements	\$ 1,046	\$ (470)	\$ 576	5 years
Equipment	74	(47)	27	5-12 years
Total	<u>\$ 1,120</u>	<u>\$ (517)</u>	<u>\$ 603</u>	

During FY 2014, the AFF completed the leasehold improvement project, the current year expenses for completion was \$72K.

Note 9. Other Assets

As of September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Intragovernmental		
Advances and Prepayments	\$ 40	\$ -

Note 10. Liabilities not Covered by Budgetary Resources

As of September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
With the Public		
Accrued Annual and Compensatory Leave Liability	\$ 1,766	\$ 1,726
Total Liabilities not Covered by Budgetary Resources	1,766	1,726
Total Liabilities Covered by Budgetary Resources	6,145,812	4,530,514
Total Liabilities	<u>\$ 6,147,578</u>	<u>\$ 4,532,240</u>

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

Note 11. Seized Cash and Monetary Instruments

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

As of September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Investments, Net (Note 5)	\$ 1,271,626	\$ 1,371,064
Seized Cash Deposited (Note 4)	79,675	40,063
Seized Monetary Instruments (Note 4)	<u>22,015</u>	<u>24,156</u>
Total Seized Cash and Monetary Instruments	<u>\$ 1,373,316</u>	<u>\$ 1,435,283</u>

Note 12. Other Liabilities

All Other Liabilities are current liabilities.

As of September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Intragovernmental		
Employer Contributions and Payroll Taxes Payable	\$ 198	\$ 146

Note 13. Contingencies and Commitments

	<u>Accrued Liabilities</u>	<u>Estimated Range of Loss</u>	
		<u>Lower</u>	<u>Upper</u>
As of September 30, 2014			
Reasonably Possible	\$ -	\$ 1,000	\$ 2,500
As of September 30, 2013			
Reasonably Possible	\$ -	\$ 2,000	\$ 3,250

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

Note 14. Funds from Dedicated Collections

The AFF, a fund from dedicated collections, 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 Treasury Forfeiture Fund. This revenue is presented on the Consolidated Statement of Net Cost as earned revenue. In accordance with 28 U.S.C. § 524 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).

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

Note 14. Funds from Dedicated Collections (continued)

As of September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Balance Sheet		
Assets		
Fund Balance with U.S. Treasury	\$ 124,255	\$ 110,344
Investments, Net	7,062,680	4,697,101
Other Assets	148,175	145,279
Total Assets	<u>\$ 7,335,110</u>	<u>\$ 4,952,724</u>
Liabilities		
Accounts Payable	\$ 4,633,169	\$ 2,952,453
Other Liabilities	141,093	144,504
Total Liabilities	<u>\$ 4,774,262</u>	<u>\$ 3,096,957</u>
Net Position		
Cumulative Results of Operations	\$ 2,560,848	\$ 1,855,767
Total Net Position	<u>\$ 2,560,848</u>	<u>\$ 1,855,767</u>
Total Liabilities and Net Position	<u>\$ 7,335,110</u>	<u>\$ 4,952,724</u>

For the Fiscal Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Statement of Net Cost		
Gross Cost of Operations	\$ 3,086,298	\$ 1,787,551
Less: Earned Revenue	14,065	12,201
Net Cost of Operations	<u>\$ 3,072,233</u>	<u>\$ 1,775,350</u>
Statement of Changes in Net Position		
Net Position Beginning of Period	\$ 1,855,767	\$ 1,619,856
Budgetary Financing Sources	3,472,100	1,831,586
Other Financing Sources	305,214	179,675
Total Financing Sources	3,777,314	2,011,261
Net Cost of Operations	(3,072,233)	(1,775,350)
Net Change	705,081	235,911
Net Position End of Period	<u>\$ 2,560,848</u>	<u>\$ 1,855,767</u>

These notes are an integral part of the financial statements.

FY 2014 AFF/SADF Annual Financial Statements

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

Note 15. Net Cost of Operations by Suborganization

		Gross Cost	Less: Earned Revenue	Net Cost of Operations
<hr/>				
For the Fiscal Year Ended September 30, 2014				
Goal 2:	Payments to Third Parties	\$ 1,952,351	\$ -	\$ 1,952,351
	Asset Management Expenses	94,063	-	94,063
	Special Contract Services	130,637	14,065	116,572
	ADP Equipment	30,278	-	30,278
	Forfeiture Case Prosecution	45,021	-	45,021
	Forfeiture Training and Printing	2,602	-	2,602
	Other Program Management	61,008	-	61,008
	Awards for Information	28,706	-	28,706
	Purchase of Evidence	7,296	-	7,296
	Equipping Conveyances	254	-	254
	Contracts to Identify Assets	46,226	-	46,226
	Investigative Cost Leading to Seizure	71,776	-	71,776
	Equitable Sharing	487,362	-	487,362
	Joint Law Enforcement Operations	128,718	-	128,718
	Net Cost of Operations	<u>\$ 3,086,298</u>	<u>\$ 14,065</u>	<u>\$ 3,072,233</u>

Goal 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law

		Gross Cost	Less: Earned Revenue	Net Cost of Operations
<hr/>				
For the Fiscal Year Ended September 30, 2013				
Goal 2:	Payments to Third Parties	\$ 446,105	\$ -	\$ 446,105
	Asset Management Expenses	71,990	-	71,990
	Special Contract Services	145,085	12,201	132,884
	ADP Equipment	33,062	-	33,062
	Forfeiture Case Prosecution	39,877	-	39,877
	Forfeiture Training and Printing	(84)	-	(84)
	Other Program Management	30,338	-	30,338
	Awards for Information	29,966	-	29,966
	Purchase of Evidence	8,053	-	8,053
	Equipping Conveyances	357	-	357
	Contracts to Identify Assets	50,322	-	50,322
	Investigative Cost Leading to Seizure	70,257	-	70,257
	Equitable Sharing	710,444	-	710,444
	Joint Law Enforcement Operations	151,779	-	151,779
	Net Cost of Operations	<u>\$ 1,787,551</u>	<u>\$ 12,201</u>	<u>\$ 1,775,350</u>

Goal 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law

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 16. Imputed Financing from Costs Absorbed by Others

Imputed Inter-Departmental Financing Sources are the unreimbursed (i.e., non-reimbursed and under-reimbursed) portion of the full costs of goods and services received by the AFF from a providing entity that is not part of the Department of Justice. In accordance with SFFAS No. 30, *Inter-Entity Cost Implementation Amending SFFAS 4, Managerial Cost Accounting Concepts and Standards for the Federal Government*, the material Imputed Inter-Departmental Financing Sources recognized by the AFF are the cost of benefits for the Federal Employees Health Benefits Program (FEHB), the Federal Employees’ Group Life Insurance Program (FEGLI), the Federal Pension plans that are paid by other Federal entities, and any un-reimbursed payments made from the Treasury Judgment Fund on behalf of the AFF. The Treasury Judgment Fund was established by the Congress and funded at 31 U.S.C. 1304 to pay in whole or in part the court judgments and settlement agreements negotiated by the Department on behalf of agencies, as well as certain types of administrative awards. Interpretation of Federal Financial Accounting Standards Interpretation No. 2, *Accounting for Treasury Judgment Fund Transactions*, requires agencies to recognize liabilities and expenses when unfavorable litigation outcomes are probable and the amount can be estimated and will be paid by the Treasury Judgment Fund.

SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, requires that employing agencies recognize the cost of pensions and other retirement benefits during their employees’ active years of service. SFFAS No. 5 requires OPM to provide cost factors necessary to calculate cost. OPM actuaries calculate the value of pension benefits expected to be paid in the future, and then determine the total funds to be contributed by and for covered employees, such that the amount calculated would be sufficient to fund the projected pension benefits. The cost factors are as follows:

	Category	Cost Factor (%)
Civil Service Retirement System (CSRS)	Regular Employees	32.8%
	Regular Employees Offset	24.4%
	Law Enforcement Officers	56.4%
	Law Enforcement Officers Offset	48.8%
Federal Employees Retirement System (FERS)	Regular Employees	15.1%
	Regular Employees – Revised Annuity Employees (RAE)	15.7%
	Regular Employees – Further Revised Annuity Employees (FRAE)	15.7%
	Law Enforcement Officers	33.3%
	Law Enforcement Officers – RAE	33.9%
	Law Enforcement Officers – FRAE	33.9%

The cost to be paid by other agencies is the total calculated future costs, less employee and employer contributions. In addition, the cost of other retirement benefits, which included health and life insurance that are paid by other Federal entities, must also be recorded.

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

Note 16. Imputed Financing from Costs Absorbed by Others (continued)

Imputed Intra-Departmental Financing Sources as defined in SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, are the unreimbursed portion of the full costs of goods and services received by the AFF from another component in the Department. The AFF does not have any imputed intra-departmental financing sources that meet the reporting requirements of the Department.

For the Fiscal Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Imputed Inter-Departmental Financing		
Health Insurance	\$ 959	\$ 828
Life Insurance	4	2
Pension	874	349
Total Imputed Inter-Departmental	<u>\$ 1,837</u>	<u>\$ 1,179</u>

Note 17. Information Related to the Statement of Budgetary Resources

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, 2014			
Obligations Apportioned Under			
Category A	\$ 20,371	\$ -	\$ 20,371
Category B	3,095,146	20,403	3,115,549
Total	<u>\$ 3,115,517</u>	<u>\$ 20,403</u>	<u>\$ 3,135,920</u>
For the Fiscal Year Ended September 30, 2013			
Obligations Apportioned Under			
Category A	\$ 19,195	\$ -	\$ 19,195
Category B	1,790,227	12,201	1,802,428
Total	<u>\$ 1,809,422</u>	<u>\$ 12,201</u>	<u>\$ 1,821,623</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 Asset Forfeiture Program Expenses. For a complete list of program expenses see Note 15.

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

Note 17. 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, 2014 and 2013

	2014	2013
UDO Obligations Unpaid	\$ 178,970	\$ 177,899
UDO Obligations Prepaid/Advanced	40	-
Total UDOs	\$ 179,010	\$ 177,899

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).

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

Note 17. Information Related to the Statement of Budgetary Resources (continued)

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

The reconciliation as of September 30, 2014 is not presented because the submission of the Budget of the United States (Budget) for FY 2016, which presents the execution of the FY 2014 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 2015.

For the Fiscal Year Ended September 30, 2013
(Dollars in Millions)

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources (SBR)	\$ 2,708	\$ 1,822	\$ 5	\$ 1,435
Funds not Reported in Budget of the U.S.				
Forfeiture Activity	(20)	-	-	-
OCDETF Adjustments	3	-	-	-
Investment Interest Accrual		-	(2)	2
Special and Trust Fund Receipts				
Interest and Profits on Investment - Assets Forfeiture Fund		-		3
Other	(1)	-	-	1
Budget of the United States Government	<u>\$ 2,690</u>	<u>\$ 1,822</u>	<u>\$ 3</u>	<u>\$ 1,441</u>

Funds not reported in the Budget - 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.

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

Note 18. Super Surplus and Official Use Transfers

Super Surplus. 28 U.S.C. §524(c)(8)(E), provides the Attorney General with the authority to use the AFF’s excess unobligated balance remaining at the end of a fiscal year, without fiscal year limitation, for any Federal law enforcement, litigative/prosecutive, and correctional activities, or any other authorized purpose of the Department of Justice. The excess unobligated balance consists of the AFF’s unobligated balance at the end of the fiscal year after the Asset Forfeiture Program’s operational needs for the subsequent year are reserved. The excess unobligated balance is historically known as “Super Surplus.”

For fiscal year ended September 30, 2013, the Attorney General renewed authorization for unused prior years’ Super Surplus authority for the Civil Division and the Executive Office for U.S. Attorneys (EOUSA) totaling \$357. At the beginning of FY 2014, unused prior years’ authority was again renewed, allowing the Civil Division and EOUSA to incur expenses against that authority for another fiscal year. For the fiscal year ended September 30, 2014, \$19 was transferred out to EOUSA, including distributions of \$7 and accounts payable of \$12.

Official Use Transfers. Property was distributed pursuant to the Attorney General’s authority to share forfeiture revenues with agencies that participated in the forfeiture that generated the property, and pursuant to the DOJ’s authority to place forfeited property into official use by the Government. For the fiscal years ended September 30, 2014 and 2013, transfers-out of forfeited property for official use totaled \$4,910 and \$7,158, 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, 2014 and 2013

	2014	2013
Income from AFF investments	\$ 4,291	\$ 2,163
Income from SADF investments	1,635	1,223
Amortization of AFF/SADF discount/(premium)	354	1,720
Total Investment Income	\$ 6,280	\$ 5,106

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

Note 20. Donations and Forfeitures

Forfeiture income includes forfeited cash, sales of forfeited property, penalties in lieu of forfeiture, recovery of returned asset management costs, judgment collections, and other miscellaneous income. For the Fiscal Years ended September 30, 2014 and 2013, net forfeiture income attributable to the AFF totaled \$4,467,127 and \$2,012,249 respectively, after the following payments and returns to agencies participating in seizures that led to forfeiture.

	<u>FY 2014</u>	<u>FY 2013</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 a court order.	\$ 293	\$ 530
Return of forfeiture income to the Treasury Forfeiture Fund for its participation in seizures that led to forfeiture	43,042	67,140
Return of forfeiture income to the U.S. Postal Service for its participation in seizures that led to forfeiture.	16,303	1,844
Return of forfeiture income to the other Federal Agencies for their participation in seizures that led to forfeiture.	(483)	(240)
Total Return of Forfeiture Income	<u>\$ 59,155</u>	<u>\$ 69,274</u>

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

Note 21. Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing)

For the Fiscal Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	\$ 3,135,920	\$ 1,821,623
Less: Spending Authority from Offsetting Collections and Recoveries	85,481	97,315
Obligations Net of Offsetting Collections and Recoveries	<u>3,050,439</u>	<u>1,724,308</u>
Less: Offsetting Receipts	6,280	5,106
Net Obligations	3,044,159	1,719,202
Other Resources		
Donations and Forfeitures of Property	308,307	185,769
Transfers-In/Out Without Reimbursement	(4,930)	(7,273)
Imputed Financing from Cost Absorbed by Others (Note 16)	1,837	1,179
Net Other Resources Used to Finance Activities	<u>305,214</u>	<u>179,675</u>
Total Resources Used to Finance Activities	3,349,373	1,898,877
Resources Used to Finance Items not Part of the Net Cost of Operations		
Net Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not Yet Provided	(2,706)	6,792
Budgetary Offsetting Collections and Receipts That do not Affect Net Cost of Operations	(302,027)	(180,664)
Resources That Finance the Acquisition of Assets	(72)	-
Other Resources or Adjustments to Net Obligated Resources That do not Affect Net Cost of Operations	<u>-</u>	<u>6,627</u>
Total Resources Used to Finance Items not Part of the Net Cost of Operations	<u>(304,805)</u>	<u>(167,245)</u>
Total Resources Used to Finance the Net Cost of Operations	<u>3,044,568</u>	<u>1,731,632</u>

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

Note 21. Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing) (continued)

For the Fiscal Years Ended September 30, 2014 and 2013

	2014	2013
Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period		
Components That Will Require or Generate Resources in Future Periods (Note 22)	\$ 40	\$ 1,480
Depreciation and Amortization	47	14
Other	27,578	42,224
Total Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period	\$ 27,665	\$ 43,718
Net Cost of Operations	\$ 3,072,233	\$ 1,775,350

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

Note 22. 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 no certainty that budgetary authority will be realized, such as the enactment of an appropriation, are considered liabilities not covered by budgetary resources. These liabilities totaling \$1,766 and \$1,726 on September 30, 2014 and 2013, 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. These increases, along with the change in the portion of exchange revenue receivables from the public, which are not considered budgetary resources until collected, represent components of current period net cost of operations that will require or generate budgetary resources in future periods. The changes in liabilities not covered by budgetary resources and receivables generating resources in future periods are comprised of the following:

For the Fiscal Years Ended September 30, 2014 and 2013

	2014	2013
Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods		
Increase in Accrued Annual and Compensatory Leave Liabilities	\$ 40	\$ 1,480
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	\$ 40	\$ 1,480

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U.S. DEPARTMENT OF JUSTICE

Assets Forfeiture Fund and Seized Asset Deposit Fund

Other Information (Unaudited)



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U. S. Department of Justice
Assets Forfeiture Fund and Seized Asset Deposit Fund
Combined Schedules of Spending
For the Fiscal Years Ended September 30, 2014 and 2013

Dollars in Thousands	2014	2013
What Money is Available to Spend?		
Total Resources	\$ 5,051,492	\$ 2,708,361
Less: Amount Available but Not Agreed to be Spent	1,836,188	639,271
Less: Amount Not Available to be Spent	79,384	247,467
Total Amounts Agreed to be Spent	\$ 3,135,920	\$ 1,821,623
How was the Money Spent?		
Personnel Compensation and Benefits		
1100 Personnel Compensation	\$ 29,009	\$ 33,599
1200 Personnel Benefits	9,764	10,843
Other Program Related Expenses		
2100 Travel & Transportation of Persons	4,156	5,763
2200 Transportation of Things	2,362	1,204
2300 Rent, Communications, and Utilities	25,012	33,370
2400 Printing and Reproduction	82	1,982
2500 Other Contractual Services	3,057,394	1,716,256
2600 Supplies and Materials	2,506	3,926
3100 Equipment	5,009	10,168
4200 Insurance Claims and Indemnities	506	106
4300 Interest and Dividends	1	4,406
4400 Refunds for Forfeited Assets	119	-
Total Amounts Agreed to be Spent	\$ 3,135,920	\$ 1,821,623
Who did the Money go to?		
For Profit	2,577,527	1,286,133
Government	508,771	501,418
Employees	29,009	33,599
Other	20,613	473
Total Amounts Agreed to be Spent	\$ 3,135,920	\$ 1,821,623

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U.S. DEPARTMENT OF JUSTICE

Assets Forfeiture Fund and Seized Asset Deposit Fund

Appendix



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

The Office of the Inspector General (OIG) provided a draft of the *Independent Auditors' Report on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* to the Assets Forfeiture Fund and Seized Asset Deposit Fund (AFF/SADF). The AFF/SADF's response is incorporated in the *Independent Auditors' Report on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* of this final report. The following provides the report's recommendations, the status of the recommendations, the OIG analysis of the response, and a summary of actions necessary to close the report.

Recommendation:

1. **Implement analytical review and analysis procedures, including the comparison of current year to prior year financial statement account balances, interrelated disclosures, and the investigation of significant fluctuations, as part of the financial statement preparation and review process, in addition to the quarterly reconciliation of UFMS and CATS data at the individual-asset level.**

Resolved. The AFF/SADF management concurred with our recommendation. The AFF/SADF management stated in its response that the Justice Management Division (JMD) Asset Forfeiture Management Staff (AFMS) will work concurrently with Finance Staff to continue to develop, refine and implement analytical review procedures over the quarterly financial statements to ensure that anomalies are investigated and any corrections needed are implemented timely.

This recommendation can be closed when subsequent annual financial statement audit testing verifies that AFF/SADF management has developed, refined, and implemented analytical review procedures over the quarterly financial statements to ensure that anomalies are investigated and any corrections needed are implemented timely.

2. **Use complete and accurate underlying reports to prepare financial statement footnote disclosures.**

Resolved. The AFF/SADF management concurred with our recommendation. The AFF/SADF management stated in its response that the AFMS and Finance Staff will review all underlying reports used to support the financial statement footnote disclosure to ensure completeness and accuracy in the reports. The AFMS and Finance Staff will also reinforce revenue recognition procedures and provide training to UFMS users, including the U.S. Marshals Service, to clarify the procedures and rules for proper revenue recognition.

This recommendation can be closed when subsequent annual financial statement audit testing verifies that complete and accurate underlying reports are used to prepare the financial statement footnote disclosures.

3. Perform a more thorough review of the interim and annual financial statement packages.

Resolved. The AFF/SADF management concurred with our recommendation. The AFF/SADF management stated in its response that the AFMS and Finance Staff will develop a detailed process for reviewing the journal vouchers, trial balances, and financial statements and will document those procedures for easy reference and review support.

This recommendation can be closed when subsequent annual financial statement audit testing verifies that AFF/SADF management has developed a detailed process for reviewing the journal vouchers, trial balances, and financial statements and has documented those procedures for easy reference and review support.

4. Make revisions to the pending Obligation and Accrued Liability Estimation policy that include (a) updating the policy to include only the relevant authoritative literature; (b) developing and implementing an analysis that includes at least 3 years of prior CATS data supporting the estimated obligations and accrued liabilities, and compares subsequently known data to the estimated accruals to determine the precision of the estimates over time; (c) maintaining a quarterly analysis, including an aging of obligations and related accrued liabilities; (d) developing and implementing written policy guidance to the participating agencies that describes how each data element in CATS is used as an assumption in the estimated obligation and related accrued liability; and (e) performing sufficient testing of underlying data to validate that the CATS outputs produce relevant and reliable information that should be used as the basis to estimate future outlays.

Resolved. The AFF/SADF management concurred with our recommendation. The AFF/SADF management stated in its response that the AFMS and Finance Staff will implement revised policies and procedures for obligating Victim and Other Third Party Payments (VTPP) and Equitable Sharing (ES) cases by March 31, 2015.

This recommendation can be closed when subsequent annual financial statement audit testing verifies that AFF/SADF management has implemented revised policies and procedures for obligating VTPP and ES cases.

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