



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 2016**

**ASSETS FORFEITURE FUND AND SEIZED ASSET DEPOSIT FUND
ANNUAL FINANCIAL STATEMENTS
FISCAL YEAR 2016**

**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, 2016, and September 30, 2015. 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 2016 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 2015, the AFF/SADF also received an unmodified opinion on its financial statements (OIG Audit Report No. 16-04).

KPMG LLP also issued reports on internal control over financial reporting and on compliance and other matters. The auditors identified one significant deficiency in the FY 2016 *Independent Auditors' Report on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. The significant deficiency related to inadequate internal controls over financial reporting. Improvements are needed in the AFF/SADF financial reporting process, specifically, controls over budgetary information presented in the financial statements, and completeness and accuracy of donation and forfeiture revenue.

No instances of non-compliance or other matters were identified during the audit that are required to be reported under *Government Auditing Standards*, in the FY 2016 *Independent Auditors' Report on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. Additionally, KPMG LLP's tests disclosed no instances in which the AFF/SADF financial management systems did not substantially comply with the *Federal Financial Management Improvement Act of 1996*.

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 9, 2016, 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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ASSETS FOREITURE FUND
AND SEIZED ASSET DEPOSIT FUND
ANNUAL FINANCIAL STATEMENTS
FISCAL YEAR 2016**

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Department of Justice

Assets Forfeiture Fund and Seized Asset Deposit Fund FY 2016 Management's Discussion and Analysis (Unaudited)



September 30, 2016

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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 mission of the Department of Justice (DOJ or Department) Asset Forfeiture Program (AFP) is to support the use of asset forfeiture consistently and strategically to disrupt and dismantle criminal enterprises, deprive wrongdoers of the profits and instrumentalities of criminal activity, deter crime, and restore property to victims of crime while protecting individual rights. 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.

ORGANIZATION STRUCTURE

An agency is by definition a participating member of the AFP if the forfeited proceeds of its seized assets are deposited into the Assets Forfeiture Fund (AFF). Only member agencies that contribute to the AFF in this way are eligible to receive an annual allocation of resources from it. AFP participants from the Department of Justice include, the Asset Forfeiture Management Staff (AFMS) of the Justice Management Division; Asset Forfeiture and Money Laundering Section (AFMLS) of the Criminal Division; Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF); Drug Enforcement Administration (DEA); Executive Office for Organized Crime Drug Enforcement Task Forces (OCDETF); Executive Office for United States Attorneys (EOUSA) and United States Attorneys' Offices (USAOs); Federal Bureau of Investigation (FBI); United States Marshals Service (USMS); and INTERPOL Washington, which withdrew from the AFP in March 2016. Other participants are United States Postal Inspection Service (USPIS); Department of Agriculture, Office of the Inspector General (USDA); Department of Defense, Defense Criminal Investigative Service (DCIS); Department of Health and Human Services, Food and Drug Administration, Office of Criminal Investigations (FDA); and Department of State, Bureau of Diplomatic Security (DS).

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

Table 1. Asset Forfeiture Program Participants by Function

Function	AFMLS	OCDETF	AFMS	ATF	DCIS	DEA	DS	USAO	FBI	FDA	INTERPOL Washington	USDA	USMS	USPIS
Investigation		♦		♦	♦	♦	♦		♦	♦	♦	♦		♦
Litigation	♦							♦						
Custody of Assets				♦		♦			♦				♦	
Management	♦		♦										♦	

FINANCIAL STRUCTURE

The AFF and Seized Asset Deposit Fund (SADF) together comprise a single financial reporting entity of the DOJ, which includes cash and property seized for forfeiture, and the transactions and program activities of the DOJ AFP components and other participating agencies.

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 by members of the AFP or administered by the DOJ (28 U.S.C. § 524(c)). The AFF is a special fund listed in the U.S. Treasury Federal Account Symbols and Titles (FAST) Book as 15X5042. Special funds are credited with receipts from specific sources that are earmarked by law for a specific purpose. At the point of collection these receipts are available immediately for expenditure depending upon statutory requirements.

The SADF is a deposit fund listed in the FAST Book as 15X6874. The SADF holds seized cash, the proceeds of any pre-forfeiture sale of seized property, and forfeited cash not yet transferred to the AFF. Income from operating businesses under seizure also may be held in the SADF. Because 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 or returned to the appropriate parties if the forfeiture is not accomplished.

Monies deposited in the AFF are used to cover operating costs of the AFP. These costs include, for example, forfeiture-related litigation and investigative expenses; asset management and disposition expenses; equitable sharing payments to participating state, local, and foreign governments; information systems; contract service payments; and payments of innocent third party claims. Salaries and employment related expenses may or may not be paid by the AFF. The *Attorney General's Guidelines on Seized and Forfeited Property* (July 1990, amended November 2005) generally prohibits payments of personnel expenses from the AFF. However, the Attorney General (AG) granted a number of waivers to cover the salaries and employment related costs of a specified number of personnel dedicated to the AFP who work within AFMS, AFMLS, EOUSA/USAOs, and USMS, as well as attorneys, FBI agents, and specialized contract support dedicated to the Kleptocracy Asset Recovery Initiative created by the AG to bring kleptocrats to justice. Salaries and employment related costs for which the AG has not granted such a waiver are reported in the financial statements of the participants' reporting agencies.

FY 2016 RESOURCE INFORMATION

The AFF 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 sub-allotment advice or reimbursement agreement. The AFF’s first priority is to cover the operational expenses of the AFP. After it is determined that operational requirements are sufficiently covered by 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. The sources of AFF revenue are presented in Table 2.

**Table 2. Sources of AFF Resources
(Dollars in Thousands)**

Source	FY 2016	FY 2015	Change %
Exchange Revenue	\$14,877	\$14,557	2.2%
Budgetary Financing Sources			
Nonexchange Revenues	34,336	6,610	419.5%
Donations and Forfeitures of Cash or Cash Equivalents	1,686,050	1,285,294	31.2%
Transfers-In/Out Without Reimbursement	(807,200)	(1,100,014)	26.6%
Other Financing Sources			
Donations and Forfeitures of Property	200,868	337,357	(40.5)%
Transfers-In/Out Without Reimbursement	(4,209)	(4,890)	13.9%
Imputed Financing from Costs Absorbed by Others	1,531	1,571	(2.5)%
Total Asset Forfeiture Fund Resources	\$1,126,253	\$540,485	108.4%

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, amended November 2005), and various other 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.

Excess unobligated balances identified at the end of a fiscal year may be declared a “Super Surplus” balance. After Congressional notification, Super Surplus balances may be allocated at the discretion of the AG 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). The most recent Super Surplus declaration in the AFF was in FY 2012.

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 AG 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 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. To ensure effective management and assure that the AFF/SADF are used for the purpose for which they were provided, the AFP follows internal control procedures referenced in Section X of the *Guide to Equitable Sharing for State and Local Law Enforcement Agencies* (April 2009) including review of regular reports from state and local law enforcement agencies receiving resources under the Equitable Sharing Program and external audit reports, when required.

As indicated in Table 3, the AFF resources supported Strategic Goal 2 of the AG’s Strategic Plan for Fiscal Years 2014 – 2018, 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.*

**Table 3. How AFF Resources are Spent
(Dollars in Thousands)**

Strategic Goal (SG)	FY 2016	FY 2015	Change %
SG 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law			
Total Gross Cost	\$1,215,946	\$1,551,414	
Less: Total Earned Revenue	(14,877)	(14,557)	
<i>Total Net Cost of Operations</i>	\$1,201,069	\$1,536,857	(21.8)%

Strategic Goal 2, Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law. Expenditures made to achieve Strategic Goal 2 include case, program, investigative, and other authorized support costs incurred by AFP participants to operate the activities of the AFP. The AFF’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 AFP. For the fiscal year ended September 30, 2016, \$1,201.1 million was expended (net of earned revenue) compared with \$1,536.9 million in FY 2015.

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. The USMS takes custody of firearms and ammunition seized or forfeited, in cases investigated by the DOJ agencies other than ATF. ATF has primary authority over the disposition of firearms and ammunition seized and forfeited by the ATF. 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 AFF/SADF financial statements were prepared from the accounting records of AFF/SADF in conformity with the accounting principles generally accepted in the United States and OMB Circular A-136, *Financial Reporting Requirements*.

2016 Financial Highlights

Consolidated Balance Sheets

Assets: The AFF/SADF Consolidated Balance Sheet as of September 30, 2016, shows \$7,620.6 million in total assets compared with \$8,735.4 million in FY 2015, a decrease of \$1,114.8 million. The majority of the decrease is the result of the \$900 million from the General Motors wire fraud case held in the SADF in FY 2015, and forfeited in FY 2016 and transferred to the AFF, which mitigated the \$746 million permanent rescission from the AFF in FY 2016. If seized assets, which are in custody of the government but not yet owned by the government, are excluded from both figures the adjusted total assets of the AFF decreased to \$6,397.8 million in FY 2016 compared with \$6,513.1 million in FY 2015, a decrease of \$115.3 million. Seized cash, both on deposit in the SADF and in the custody of participating agencies, is reflected on the Balance Sheet.

Liabilities: Total liabilities of the AFF/SADF were \$6,160.4 million as of September 30, 2016 compared with \$7,185.5 million in FY 2015, a decrease of \$1,025.1 million. If the liabilities for the seized assets held by the SADF are backed out of both figures, the adjusted total liabilities of the AFF decrease to \$4,943.2 million in FY 2016 compared with \$4,963.2 million in FY 2015. The SADF deposit fund liability is presented on the Balance Sheet. There are no liabilities associated with seized property. The decline in total liabilities is the result of the General Motors case as \$900 million seized cash was on deposit in SADF on September 30, 2015 along with the related liability.

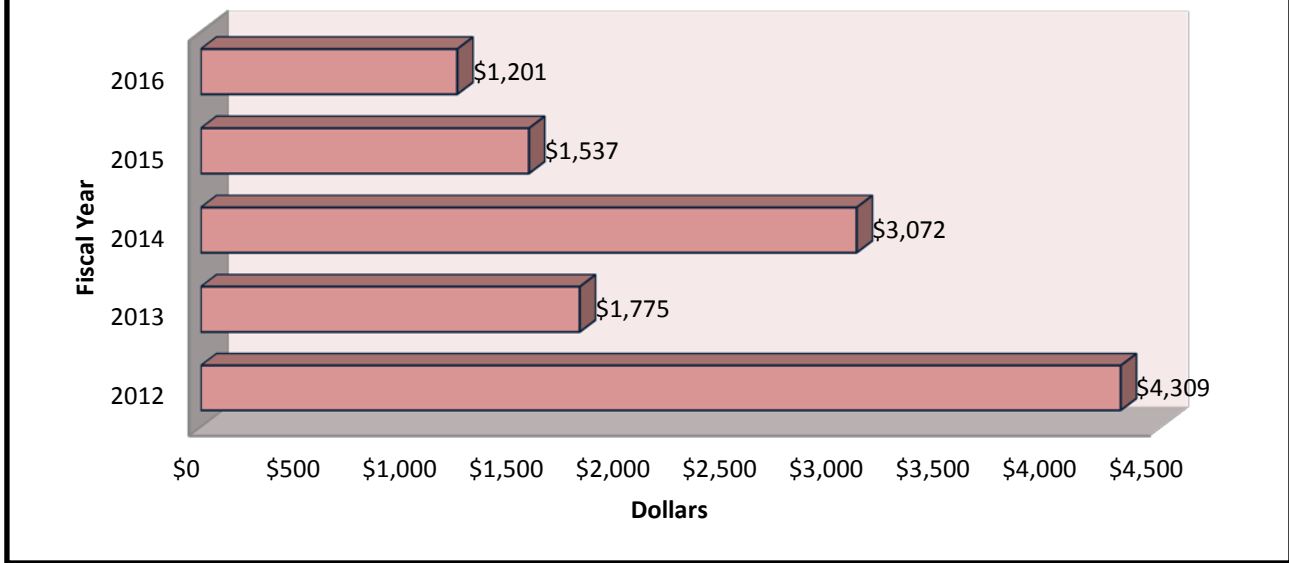
Consolidated Statements of Net Cost

Net Cost: The Consolidated Statements of Net Cost present the AFF's net cost of operations in relation to DOJ's Strategic Goal 2: *Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law*. Net cost over a five-year period is presented in Figure 1.

The net cost of operations for the year ended September 30, 2016 totaled \$1,201.1 million compared with \$1,536.9 million in FY 2015, a decrease of \$335.8 million. The decrease is primarily due to the \$300 million liability for victims of the Commerzbank fraud case in 2015. To the extent that financing sources do not cover net costs, AFF's carry forward balances are used to support AFP expenses. The carry forward balances consist of prior years' resources in excess of operational requirements. There are no costs associated with the SADF.

By January 31, 2017, FY 2016 expenses by category of expense and recipient agency will be posted on the Justice Asset Forfeiture Program website <https://www.justice.gov/afp>.

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



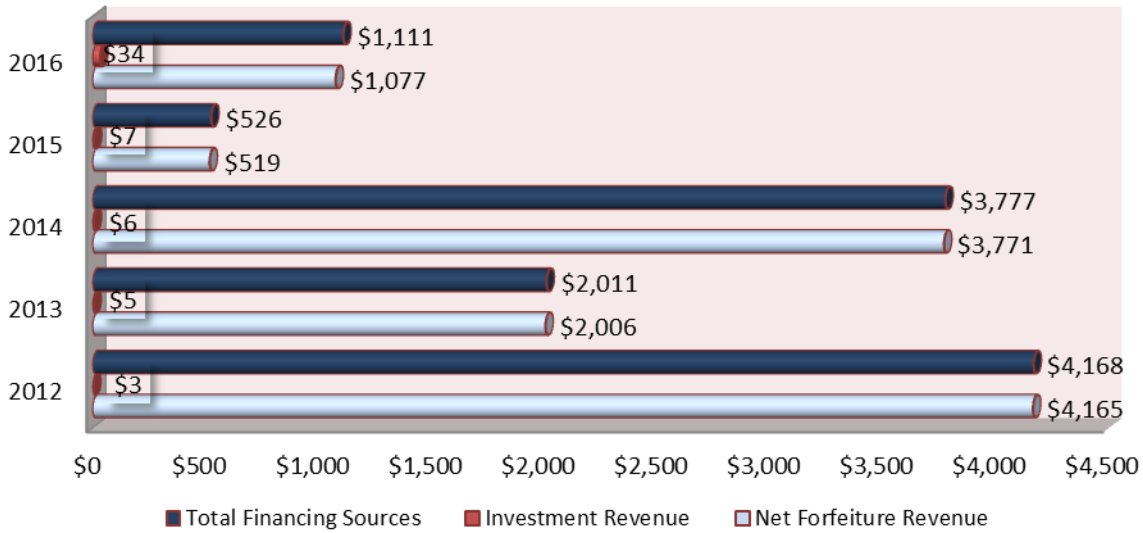
Consolidated Statements of Changes in Net Position

Donations and Forfeitures of Cash and Cash Equivalents and Donations and Forfeitures of Property: These two lines, in Table 2, comprise the AFF’s gross forfeiture revenue. The AFF reported \$1,886.9 million in forfeiture revenue in FY 2016 and \$1,622.7 million in FY 2015, an increase of \$264.2 million. This increase is the result of the \$900 million from the General Motors wire fraud case held in the SADF in FY 2015, and forfeited in FY 2016 and transferred to the AFF. Included in these figures are receipts from the Treasury Forfeiture Fund (TFF) for the Department’s participation in cases that resulted in forfeiture revenue to the TFF of \$73.6 million and \$30.2 million in FY 2016 and FY 2015, respectively.

Nonexchange Revenue: Cash balances from both the AFF and SADF are invested in Government securities. Earnings over a five-year period are presented in Figure 2. Investment interest earnings (i.e. nonexchange revenue) of \$34.3 million were realized in FY 2016 compared with \$6.6 million earned in FY 2015. The increased earnings are due primarily to the continual increase in short term interest rates for Treasury-backed securities throughout FY 2016. Amounts available for investment are difficult to predict because many factors influence the balance available. These factors may include unanticipated cash seizures and forfeitures increasing funds available for investment or orders to pay victims and other innocent third party payments decreasing the funds available for investment.

Total financing sources: The total financing sources realized by the AFF as of September 30, 2016 were \$1,111.4 million versus \$525.9 million in FY 2015, an increase of \$585.5 million. Earnings on SADF investments are deposited in the AFF and included on the Statement of Changes in Net Position. The majority of the increase is the result of an increase in forfeiture revenue of \$264.2 million and a decrease in transfers out of \$292.8 million.

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



Transfers-In/Out Without Reimbursement: Pursuant to the Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235), in FY 2015 the AFF transferred \$1,100 million to the USMS Office of the Federal Detention Trustee (OFDT) for necessary expenses related to United States prisoners in the custody of the USMS. The Continuing Appropriations Act, 2016 (P.L. 114-53) provided the authority for the AFF to transfer an additional \$61.2 million to OFDT in FY 2016. These transfers were treated as expenditure transfers of the AFF.

Also in FY 2016, the Bipartisan Budget Act of 2015 (P.L. 114-74), enacted in November 2015 included a \$746 million permanent rescission from the AFF, which was transferred to the U.S. Treasury in September 2016.

Net Position: The AFF/SADF Net Position, or excess of assets over liabilities, is an indicator of its ability to support ongoing operations in the future. At the end of FY 2016, Net Position totaled \$1,460.2 million versus \$1,549.9 million at the end of FY 2015, a decrease of \$89.7 million. Factors that consume resources and influence the AFF/SADF's net position include the short-term interest rates that affect revenue from investments in Government securities and the transfers of properties placed into official use.

Combined Statements of Budgetary Resources

Budgetary Resources: For FY 2016, the Budgetary Resources totaled \$1,973.3 million compared with \$3,743.9 million in FY 2015, a decrease of \$1,770.6 million. The decrease is the result of the expenditure transfer in FY 2015 of \$1,100 million to OFDT and decreased appropriations received in FY 2016 of \$907 million primarily due to permanent and temporary rescissions. These factors also impact the categories discussed below.

Agency Outlays, Net: The net outlays totaled \$1,213.7 million in FY 2016 versus \$2,404.5 million in FY 2015, a decrease of \$1,190.8 million. The decrease is mainly the result of the expenditure transfer in FY 2015 of \$1,100 million to OFDT.

Obligations: The new obligations and upward adjustments totaled \$1,333.6 million in FY 2016 versus \$2,727.4 million in FY 2015, a decrease of \$1,393.8 million. The decrease is mainly the result of the transfer to OFDT discussed in the Agency Outlays, Net section above.

Super Surplus: The last AFF Super Surplus declaration was made in FY 2012. Unexpended prior years' Super Surplus funds allocated to the AFP's participating agencies are reviewed annually and the authority is renewed for use by the recipient agency if sufficient cause is given. In FY 2015, \$10 thousand was transferred out to EOUSA, with disbursements of \$7 thousand and \$3 thousand was deobligated. In FY 2016, no unexpended Super Surplus authority was renewed.

FY 2016 REPORT ON SELECTED RESULTS

PERFORMANCE INFORMATION

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

This goal is supported by 100% of the AFF's Net Costs.

There are no applicable AFP performance measures. No performance measures are indicated because the AFP's operations are performed by its participants. The AFP 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

Federal Managers' Financial Integrity Act of 1982

The Federal Managers' Financial Integrity Act of 1982 (FMFIA or Integrity Act) provides the statutory basis for management's responsibility for and assessment of internal accounting and administrative controls. Such controls include program, operational, and administrative areas, as well as accounting and financial management. The Integrity Act requires Federal agencies to establish controls that reasonably ensure obligations and costs are in compliance with applicable law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to maintain accountability over the assets. The Integrity Act also requires agencies to annually assess and report on the internal controls that protect the integrity of Federal programs (FMFIA § 2) and whether financial management systems conform to related requirements (FMFIA § 4).

Guidance for implementing the Integrity Act is provided through OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. In addition to

requiring Federal agencies to provide an assurance statement on the effectiveness of programmatic internal controls and conformance with financial system requirements, the Circular requires agencies to provide an assurance statement on the effectiveness of internal control over financial reporting.

Internal Controls Program

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

FMFIA Assurance Statement

In accordance with OMB Circular A-123, AFMS conducted its annual assessment of the effectiveness of internal controls to support effective and efficient programmatic operations, reliable financial reporting, and compliance with applicable laws and regulations (FMFIA § 2). In addition, AFMS considered assessments made by the Department's OMB Circular A-123 Senior Assessment Team, the Justice Management Division's (JMD's) Internal Review and Evaluations Office, and JMD's Quality Control and Compliance Group.

Based on the results of these assessments, AFMS provided reasonable assurance that its internal controls met the objectives of FMFIA § 2, with the exception of the significant deficiency summarized below. AFMS assessed the effectiveness of internal controls over financial reporting and disclosed to the auditors all known deficiencies in their design or operation that were specific to the financial statements. During FY 2016 AFMS implemented corrective actions to mitigate those deficiencies. Based on those actions, AFMS provided reasonable assurance that internal control over financial reporting was effective. There have been no changes to internal control over financial reporting subsequent to September 30, 2016, or other factors that might significantly affect the effectiveness of internal control over financial reporting. AFMS also provided reasonable assurance that its financial management systems conformed to the financial systems requirements in FMFIA § 4.

FMFIA Section 2 – Significant Deficiency

The AFF/SADF determined that its internal controls over financial reporting were insufficient to detect a misclassification on the Consolidated Statement of Budgetary Resources for the period ended March 31, 2016. Internal controls were implemented in FY 2016 and corrected this deficiency in the third and fourth quarters' financial reports. Independent auditors also identified exceptions pertaining to transactions for aged property and nonexchange revenue. These represented increases over the exception rates noted by the independent auditors in FY 2015. Corrective actions include increased focus and oversight of these areas.

FMFIA Section 4 – Material Nonconformances

For FY 2016, the AFF/SADF reported no material nonconformances of its financial-mixed IT system CATS. In FY 2016, the DOJ did not identify any systems nonconformances required to be reported under FMFIA Section 4. The AFF/SADF relies upon the Department’s UFMS managers in JMD for Section 4 compliance on the Department’s financial system of record.

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 (FFMIA) was designed to advance Federal financial management by ensuring that Federal financial management systems provide accurate, reliable, and timely financial management information to the government’s managers. Compliance with the FFMIA provides the basis for the continuing use of reliable financial management information by program managers, as well as the President, Congress, and the public. The FFMIA requires agencies to have financial management systems that substantially comply with Federal financial management system requirements, applicable Federal accounting standards, and the application of the U.S. Government Standard General Ledger (USSGL) at the transaction level. FFMIA also requires independent auditors to report on agency compliance with the three requirements in the financial statement audit report. The Federal Information Security Management Act (FISMA) states that to be substantially compliant with FFMIA, there are to be no significant deficiencies in information security policies, procedures or practices.

FFMIA Compliance Determination

We have assessed the AFF/SADF’s financial management systems to determine whether they comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and application of the USSGL at the transaction level. Our assessment was based on guidance issued by OMB Circular A-123, Appendix D. The AFF/SADF’s financial management systems complied substantially with Federal financial management systems requirements, applicable Federal accounting standards, and application of the USSGL at the transaction level as of September 30, 2016.

IMPROPER PAYMENTS INFORMATION ACT OF 2002, AS AMENDED

In accordance with OMB Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*, and the Departmental guidance for implementing the Improper Payments Information Act of 2002 (IPIA), as amended, the Department implemented a top-down approach to assess the risk of significant improper payments across all five of the Department’s mission-aligned programs, and to identify and recapture improper payments through a payment recapture audit program. This approach promotes consistency across the Department and enhances internal control related to preventing, detecting, and recovering improper payments. Because of the OMB requirement to assess risk and report payment recapture audit activities by agency programs, the results of the Department’s risk assessment and recapture activities are reported at the Department-level only.

In accordance with the Departmental approach for implementing IPIA, as amended, the AFF/SADF assessed its activities for susceptibility to significant improper payments and conducted its payment

recapture audit program. AFMS reported the results of both the risk assessment and payment recapture audit activities to the Department for the Department-level reporting in the FY 2016 Agency Financial Report.

POSSIBLE FUTURE EFFECTS OF EXISTING EVENTS AND CONDITIONS

FY 2016 Budget Position

The Bipartisan Budget Act of 2015 (P.L. 114-74) enacted in November 2015 included a \$746 million permanent rescission from the AFF. The Consolidated Appropriation Act of 2016, signed into law on December 18, 2015, included an additional \$606.4 million temporary rescission in the FY 2016 AFF budget. Consequently, the AFF needed to absorb a \$1.4 billion decrease in budgetary resources during FY 2016 and the Department immediately deferred the obligation and disbursement of equitable sharing payments to the AFF's state, local, and tribal partners. By deferring equitable sharing temporarily, the Department preserved its ability to resume equitable sharing payments once the AFF's financial position improved. On March 28, 2016, the Department announced the resumption of equitable sharing payments to state, local and tribal law enforcement agencies.

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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Washington, DC 20006

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, 2016 and 2015, 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, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit 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.



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, 2016 and 2015, 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 Schedules of Spending and Appendix are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits 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, 2016 on our consideration of the AFF/SADF's internal control over financial reporting and our report dated November 9, 2016 on our tests of its compliance with certain provisions of laws, regulations, 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 result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the AFF/SADF's internal control over financial reporting and compliance.

KPMG LLP

Washington, D.C.
November 9, 2016

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KPMG LLP
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1801 K Street, NW
Washington, DC 20006

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. 15-02, *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, 2016 and 2015, and the related consolidated statements of net cost and changes in net position, and 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 9, 2016.

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, 2016, 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*.

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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in Exhibit I, which we consider to be a significant deficiency.



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

AFF/SADF's Response to Findings

The AFF/SADF's response to the significant deficiency identified in our audit and described in Exhibit I was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the result 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 9, 2016



Significant Deficiency

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

Improvements Needed in Controls over Budgetary Information Presented in Financial Statements and Completeness and Accuracy of Donation and Forfeiture Revenue.

In fiscal year (FY) 2016, the Justice Management Division's Asset Forfeiture Management Staff (AFMS) and federal agencies participating in the Department of Justice's (DOJ's) Assets Forfeiture Program (AFP) completed corrective actions to address certain previously-identified control deficiencies. However, based on our current year testing, we determined that deficiencies continued to exist in the internal controls over financial reporting. Collectively, these deficiencies indicate that improvements are still needed to ensure the accuracy of financial reporting. Specifically, improvements are needed in the financial reporting process to include reconciling and researching differences in budgetary information reported in the financial statements. Additionally, AFMS and federal agencies participating in the AFP continue to have weaknesses in gathering and evaluating the supporting judicial information prior to recognizing revenue and evaluating adjustments to revenue accounts. Cash property assets are recognized as revenue at the time a forfeiture decision is signed conveying ownership of the asset to the government.

Presentation and Adjustments to Budgetary Information in the Financial Statements

During our FY 2016 audit, we determined that certain portions of the unobligated balance were misclassified between apportioned and unapportioned on the Statement of Budgetary Resources (SBR) in the March 31, 2016 Financial Statement Package, which was generated for internal purposes. Specifically, we noted that Unobligated Balance, End of Period – Apportioned was understated by \$616.7 million and Unobligated Balance, End of Period – Unapportioned was overstated by \$616.7 million.

This presentation error was not detected and corrected because the reconciliation of the SBR to the *Report on Budget Execution and Budgetary Resources* (SF-133) did not contain the correct balances from the SBR for Unobligated Balance, End of Period – Apportioned and Unobligated Balance, End of Period – Unapportioned. Furthermore, the reconciliation was not reviewed before the second quarter Financial Statement Package was certified. We did note that the elements of unobligated balance were properly presented in the SF-133 that was submitted to the Office of Management and Budget as of March 31, 2016.

In addition, we noted that Distributed Offsetting Receipts reported in the SBR as of September 30, 2016 were overstated by \$22.1 million. This occurred because AFMS and Finance Staff incorrectly included certain nonexchange revenue related to the amortization of investment discounts in the Distributed Offsetting Receipts line item. Furthermore, AFMS and Finance Staff did not have a process in place to reconcile receipt accounts included in Distributed Offsetting Receipts reported in the SBR to the U.S. Department of the Treasury's Agency Standard Report Module in the Central Accounting Reporting System (CARS). This error was subsequently corrected as of September 30, 2016.



The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, states that "Management should design control activities to achieve objectives and respond to risks." It further states that "...Management may design a variety of transaction control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities."

OMB Circular No. A-136 – *Financial Reporting Requirements*, section II.4.6.8 states:

Distributed Offsetting Receipts. Offsetting receipts are collections that are credited to general fund, special fund or trust fund receipt accounts and that offset gross outlays.... The Quarterly Distributed Offsetting Receipts by Department Report can be accessed through the Agency Standard Report Module in the Central Accounting Reporting System. Agencies should include in the SBR, the receipt accounts in this report classified as:

- Proprietary Receipts from the Public;
- Intrabudgetary Receipts Deducted by Agencies; and
- Offsetting Governmental Receipts.

Incomplete and Inaccurate Information in the Consolidated Assets Tracking System (CATS) Impacting Revenue Cut-off and Recognition

During our testing over a sample of 208 cash and property revenue items, we identified 19 items totaling \$5.3 million that were forfeited in a prior fiscal year but were incorrectly recorded as revenue in FY 2016 because of incomplete or inaccurate information in CATS. As a result of these errors, we performed further analyses over the revenue population and determined that the projected misstatement caused by these and similar entries was a \$12.1 million overstatement of current year revenue and an understatement of prior year revenue for the same amount. From the same revenue sample, we also determined that forfeiture decisions for three items were not entered into CATS until the quarter after the final forfeiture was approved.

We also tested a sample of 20 aged forfeited property items in which we identified 4 forfeited property items totaling \$90 thousand that were either disposed or transferred to official use property but the records were not updated in CATS or the CATS asset value did not agree to the valuation support. Furthermore, we tested 189 current year forfeited property items in which we identified 8 items totaling \$11.0 million that were not updated in CATS or the CATS asset value did not agree to the valuation support. We projected these errors to the sampled populations of aged and current year forfeited property, which resulted in a combined projected overstatement of \$13.3 million in deferred revenue. AFMS subsequently corrected \$9.7 million of the identified errors as of September 30, 2016.

In addition, we noted that AFMS incorrectly recorded an adjusting journal entry as of September 30, 2016 that reversed \$17.2 million of revenue. The revenue was properly recognized earlier in the year when a U.S. Attorney's Office correctly entered a forfeiture decision for a seized cash asset into CATS but they subsequently removed it from the system in error at the end of the fiscal year. As a result of the forfeiture decision removal from CATS, the asset custodian scheduled a transfer to move the cash from the AFF back to the SADF, and prompted AFMS to record an adjusting journal entry to reverse the revenue. However, AFMS did not obtain sufficient documentation to support that the entry was appropriate. This error initially



EXHIBIT I

caused revenue to be understated by \$17.2 million but was corrected in the September 30, 2016 financial statements.

The above issues were primarily caused by the inconsistent application of Executive Office for United States Attorneys (EOUSA) guidelines and a lack of formal policies and procedures for the participating agencies related to the accounting treatment of forfeiture decisions that may be subject to claims, petitions, and appeals. As a result, U.S. Attorneys applied their individual judgment regarding the entry or removal of forfeiture decisions in CATS, which impacted the recognition of revenue. Furthermore, participating agencies inconsistently applied policies and procedures in place over the valuation and recording of assets in CATS.

Statement of Federal Financial Accounting Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, states that “Nonexchange revenues are inflows of resources that the Government demands or receives by donation. Such revenue should be recognized when a specifically identifiable, legally enforceable claim to resources arises, to the extent that collection is probable (more likely than not) and the amount is reasonably estimable.”

Specifically, as it relates to forfeiture revenue, SFFAS No. 7 states that “The timing of revenue recognition depends on how the property is forfeited and the nature of the property.... In the case of property acquired through forfeiture proceedings, the timing of recognition depends on the nature and disposition of the property. For monetary instruments, the revenue is recognized at the time of obtaining forfeiture judgment; for property that is sold, at the time of sale; and for property that is held for internal use or transferred to another Federal agency, at the time of obtaining approval to use the property internally or transfer it.”

SFFAS No. 3, *Accounting for Inventory and Related Property*, states that “The market value of seized property other than monetary instruments is to be disclosed in the notes to the financial statements. Seized monetary instruments are recognized as assets with an offsetting liability. This treatment was provided to foster a higher level of control over seized monetary instruments. Forfeited property is recognized as an asset upon forfeiture and valued at market value less any liens. Revenue recognition is deferred until sale except for monetary instruments.”

GAO’s *Standards for Internal Control in the Federal Government* (the Standards) requires that transactions be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records.

The Standards also states, “Management designs control activities in response to the entity’s objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management’s directives to achieve the entity’s objectives and address related risks. As part of the control environment component, management defines responsibilities, assigns them to key roles, and delegates authority to achieve the entity’s objectives. As part of the risk

assessment component, management identifies the risks related to the entity and its objectives, including its service organizations; the entity's risk tolerance; and risk responses. Management designs control activities to fulfill defined responsibilities and address identified risk responses.”

RECOMMENDATIONS:

We recommend that the Justice Management Division:

1. Implement more effective procedures over review of the Annual Financial Statements to supplement higher-level management reviews over the Trial Balance and financial statements, to include reconciling and researching differences in budgetary information. (*Updated*)

Management Response:

The Justice Management Division's (JMD's) AFMS, Budget Staff, and Finance Staff concur with this recommendation. AFMS and the Finance Staff have already implemented and tested new reconciliation procedures into the financial statement preparation process that proved effective when preparing the 3rd and 4th quarter Financial Statements Packages. In addition, AFMS and the Finance Staff have implemented weekly face-to-face meetings between all staff involved in the financial statement preparation process. These meetings have already resulted in self-identification of differences in budgetary information that are then resolved prior to financial reporting.

2. Work with all participating agencies to develop and implement formal policies and control procedures to ensure forfeiture decisions are accurately reflected and updated in CATS in a timely manner, which should include specific policies and procedures for the appropriate accounting treatment of forfeiture orders that are subsequently reversed or appealed. (*Updated*)

Management Response:

AFMS concurs with this recommendation. In the past 9 months, the AFMS Director personally addressed this issue at 3 quarterly working groups attended by 75 to 100 forfeiture prosecutors, agents, and program managers from all 13 participating agencies. As part of the FY 2017 budget allocation process, the AFMS approved a number of senior program management positions within the EOUSA and each of the investigative agencies that are designed to help improve administrative oversight, internal controls, enterprise risk management, and operational policy functions. These positions will be responsible for improving transparency around what we seize and forfeit, as well as how and why we seize and forfeit those assets.

3. Continue to reinforce with the EOUSA's and U.S. Attorneys' offices the importance of timely reporting of the forfeiture decision to ensure that data in the property and financial management systems are updated in a timely manner as changes in status occur. (*Updated*)

Management Response:

AFMS concurs with the recommendation. The AFMS Director personally briefed approximately 164 Assistant United States Attorneys representing all 94 Districts about the importance of timely recording of forfeiture decisions. In addition, AFMS prepared and distributed a 1-page handout, outlining the forfeiture case-related events that must be recorded into CATS, including the associated CATS fields that needed to be updated and the supporting documents that needed to be uploaded. He also briefed the importance of this issue directly to the Attorney General's Advisory Committee, comprised of the United States Attorneys from roughly a dozen and half of the districts representing the largest portion of asset forfeiture-related cases.

4. Continue to reinforce procedures among investigative agencies to ensure that data in CATS is recorded in a timely manner as changes in status and valuations occur. (*New*)

Management Response:

AFMS concurs with the recommendation. AFMS is regularly engaging with these investigative agencies about the importance of this issue during quarterly working group meetings and formal training events. As noted in the response to Recommendation 2, the newly-authorized government program management positions are an additional step in ensuring accountability in this area.

5. Develop and implement procedures to reconcile quarterly Distributed Offsetting Receipts to the Agency Standard Report Module in CARS. (*New*)

Management Response:

JMD's AFMS and Finance Staff concur with this recommendation. All personnel responsible for preparing the AFF/SADF financial statements implemented procedures to properly report Distributed Offsetting Receipts in the final FY 2016 Financial Statement Package. The AFMS and the Finance Staff will update the process for preparing the financial statements to include reconciling and reporting Distributed Offsetting Receipts in accordance with the Agency Standard Report Module in CARS.



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 material weakness and recommendations as of the end of FY 2016.

Report	Material Weakness	Recommendations	Status
Annual Financial Statements Fiscal Year 2015 Report No. 16-04	Improvements Needed in Controls over Budgetary Information Presented in Financial Statements and Completeness and Accuracy of Donation and Forfeiture Revenue	Recommendation No. 1: Implement more effective procedures over review of the Annual Financial Statements and related journal entries to supplement existing higher-level management reviews over the Trial Balance and financial statements, to include reconciling and researching differences in budgetary information.	In Process (Updated by Current Year Recommendation No. 1)
		Recommendation No. 2: Improve communication between budget and accounting staff to facilitate appropriate treatment of events impacting budgetary information.	Completed
		Recommendation No. 3: Work with participating agencies to develop clear policies and procedures for entering judicial information in CATS that more clearly address situations when attorneys have been using judgment to assess and enter information in CATS.	In Process (Updated by Current Year Recommendation No. 3)
		Recommendation No. 4: Work with participating agencies to develop and implement effective controls to ensure that all relevant judicial claim information is accurately and timely entered and updated in CATS.	In Process (Updated by Current Year Recommendation No. 2)
		Recommendation No. 5: Implement procedures to analyze and correct, when necessary, differences identified by analytical and review procedures.	Completed



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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. 15-02, *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, 2016 and 2015, 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 9, 2016.

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. 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 disclosed no instances that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 15-02.

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



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the result 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 9, 2016

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, 2016 and 2015

Dollars in Thousands	2016	2015
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with U.S. Treasury (Note 3)	\$ 115,389	\$ 153,034
Investments, Net (Note 5)	7,233,684	7,404,322
Accounts Receivable, Net (Note 6)	3,141	3,194
Other Assets (Note 9)	88	89
Total Intragovernmental	<u>7,352,302</u>	<u>7,560,639</u>
Cash and Other Monetary Assets (Note 4)	155,871	1,041,590
Accounts Receivable, Net (Note 6)	1,732	-
Forfeited Property, Net (Note 7)	110,138	132,420
General Property, Plant and Equipment, Net (Note 8)	556	752
Other Assets (Note 9)	38	-
Total Assets	<u>\$ 7,620,637</u>	<u>\$ 8,735,401</u>
LIABILITIES (Note 10)		
Intragovernmental		
Accounts Payable	\$ 164,377	\$ 128,284
Other Liabilities (Note 12)	278	197
Total Intragovernmental	<u>164,655</u>	<u>128,481</u>
Accounts Payable	4,665,588	4,699,405
Accrued Payroll and Benefits	1,158	1,006
Accrued Annual and Compensatory Leave Liabilities	1,650	1,900
Deferred Revenue	110,138	132,420
Seized Cash and Monetary Instruments (Note 11)	1,217,222	2,222,270
Total Liabilities	<u>\$ 6,160,411</u>	<u>\$ 7,185,482</u>
Contingent Liabilities (Note 13)		
NET POSITION		
Cumulative Results of Operations - Funds from Dedicated Collections (Note 14)	\$ 1,460,226	\$ 1,549,919
Total Net Position	<u>\$ 1,460,226</u>	<u>\$ 1,549,919</u>
Total Liabilities and Net Position	<u>\$ 7,620,637</u>	<u>\$ 8,735,401</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, 2016 and 2015

Dollars in Thousands

FY	Gross Costs			Less: Earned Revenues			Net Cost of Operations (Note 15)
	Intra-governmental	With the Public	Total	Intra-governmental	With the Public	Total	
Goal 2							
2016	\$ 619,482	\$ 596,464	\$ 1,215,946	\$ 14,877	\$ -	\$ 14,877	\$ 1,201,069
2015	\$ 578,656	\$ 972,758	\$ 1,551,414	\$ 14,557	\$ -	\$ 14,557	\$ 1,536,857
Total							
2016	<u>\$ 619,482</u>	<u>\$ 596,464</u>	<u>\$ 1,215,946</u>	<u>\$ 14,877</u>	<u>\$ -</u>	<u>\$ 14,877</u>	<u>\$ 1,201,069</u>
2015	<u>\$ 578,656</u>	<u>\$ 972,758</u>	<u>\$ 1,551,414</u>	<u>\$ 14,557</u>	<u>\$ -</u>	<u>\$ 14,557</u>	<u>\$ 1,536,857</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, 2016 and 2015

Dollars in Thousands	2016	2015
	Funds from Dedicated Collections	Funds from Dedicated Collections
Cumulative Results of Operations		
Beginning Balances	\$ 1,549,919	\$ 2,560,848
Budgetary Financing Sources		
Nonexchange Revenues (Note 19)	34,336	6,610
Donations and Forfeitures of Cash and Cash Equivalents (Note 20)	1,686,050	1,285,294
Transfers-In/Out Without Reimbursement (Note 18)	(807,200)	(1,100,014)
Other Financing Sources		
Donations and Forfeitures of Property (Note 20)	200,868	337,357
Transfers-In/Out Without Reimbursement (Note 18)	(4,209)	(4,890)
Imputed Financing from Costs Absorbed by Others (Note 16)	1,531	1,571
Total Financing Sources	1,111,376	525,928
Net Cost of Operations	(1,201,069)	(1,536,857)
Net Change	(89,693)	(1,010,929)
Cumulative Results of Operations	\$ 1,460,226	\$ 1,549,919
Net Position	\$ 1,460,226	\$ 1,549,919

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, 2016 and 2015

Dollars in Thousands	2016	2015
Budgetary Resources:		
Unobligated Balance, Brought Forward, October 1	\$ 1,016,485	\$ 1,915,572
Recoveries of Prior Year Unpaid Obligations	104,138	69,845
Other Changes in Unobligated Balance	1,528	2,826
Unobligated Balance from Prior Year Budget Authority, Net	1,122,151	1,988,243
Appropriations (discretionary and mandatory)	835,348	1,742,356
Spending Authority from Offsetting Collections (discretionary and mandatory)	15,788	13,292
Total Budgetary Resources	\$ 1,973,287	\$ 3,743,891
Status of Budgetary Resources:		
New Obligations and Upward Adjustments (Total) (Note 17)	\$ 1,333,585	\$ 2,727,406
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	624,216	796,822
Unapportioned - Unexpired Accounts	15,486	219,663
Unexpired Unobligated Balance, End of Year	639,702	1,016,485
Unobligated Balance - End of Year (Total)	639,702	1,016,485
Total Status of Budgetary Resources:	\$ 1,973,287	\$ 3,743,891
Change in Obligated Balance:		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1	\$ 5,037,587	\$ 4,813,200
New Obligations and Upward Adjustments (Total)	1,333,585	2,727,406
Outlays, Gross (-)	(1,242,354)	(2,433,174)
Recoveries of Prior Year Unpaid Obligations (-)	(104,138)	(69,845)
Unpaid Obligations, End of Year	5,024,680	5,037,587
Uncollected Payments:		
Uncollected Payments from Federal Sources, Brought Forward, October 1 (-)	(5,576)	(11,503)
Change in Uncollected Customer Payments from Federal Sources	(856)	5,927
Uncollected Customer Payments from Federal Sources, End of Year (-)	(6,432)	(5,576)
Memorandum (non-add) Entries:		
Obligated Balance, Start of Year	\$ 5,032,011	\$ 4,801,697
Obligated Balance, End of Year	\$ 5,018,248	\$ 5,032,011
Budgetary Authority and Outlays, Net:		
Budgetary Authority, Gross (discretionary and mandatory)	\$ 851,136	\$ 1,755,648
Less: Actual Offsetting Collections (discretionary and mandatory)	16,459	22,045
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	(856)	5,927
Recoveries of Prior Year Paid Obligations (discretionary and mandatory)	1,528	2,826
Budget Authority, Net (discretionary and mandatory)	\$ 835,349	\$ 1,742,356
Outlays, Gross (discretionary and mandatory)	\$ 1,242,354	\$ 2,433,174
Less: Actual Offsetting Collections (discretionary and mandatory)	16,459	22,045
Outlays, Net (discretionary and mandatory)	1,225,895	2,411,129
Less: Distributed Offsetting Receipts	12,220	6,610
Agency Outlays, Net (discretionary and mandatory)	\$ 1,213,675	\$ 2,404,519

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

U.S. DEPARTMENT OF JUSTICE

Assets Forfeiture Fund and Seized Asset Deposit Fund

Notes to the Principal Financial Statements



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

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Assets Forfeiture Fund (AFF) and Seized Asset Deposit Fund (SADF) together comprise a single financial reporting entity of the Department of Justice (DOJ or Department), herein after AFF/SADF. Property seized for forfeiture, and the transactions and Asset Forfeiture Program (AFP) activities of DOJ AFP components and other participating agencies as described more fully herein.

The primary mission of the DOJ 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 AFF/SADF 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 and Seized Property, Net; 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 Principal Financial Statements
(Dollars in Thousands, Except as Noted)**

C. Basis of Consolidation

The consolidated/combined financial statements include the accounts of the AFF and SADF. All significant proprietary intra-entity transactions and balances have been eliminated in consolidation. The Statements of Budgetary Resources are combined statements for FYs 2016 and 2015, 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 and Other Monetary Assets

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 AFMS does have statutory authority for the investment of idle AFF and SADF 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 Principal Financial Statements
(Dollars in Thousands, Except as Noted)**

H. Accounts Receivable

Intra-governmental 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.

Accounts receivable with the public consist of the proceeds of forfeited property sales not yet received. These accounts receivable are also considered fully collectible and there is no allowance for uncollectible accounts.

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.

Below are the capitalization thresholds:

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

Except for land, all general property, plant and equipment (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.

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.

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

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. Seized cash and monetary instruments are presented as assets with offsetting liabilities on the balance sheet. Seized property other than cash and monetary instruments are presented in the footnotes only.

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

**U.S. Department of Justice
Notes to the Principal Financial Statements
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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 AFF/SADF 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 13.7% of the gross pay for regular employees and 30.1% 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 11.9% of the gross pay for regular employees and 28.4% for law enforcement officers.
 - c. Employees hired January 1, 2014 or later are covered by the Federal Employees Retirement System-Further Revised Annuity Employees (FERS-FRAE). The AFF contributes 11.9% of the gross pay for regular employees and 28.4% for law enforcement officers.

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

P. Retirement Plans (Continued)

All employees are eligible to contribute to the Federal Thrift Savings Plan (TSP). For those employees covered by the FERS, FERS-RAE and FERS-FRAE, a TSP account is automatically established to which the AFF/SADF is required to contribute an additional 1% of gross pay and match employee contributions up to 4%. No government contributions are made to the TSP accounts established by the CSRS employees. The AFF/SADF does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, which may be applicable to its employees. Such reporting is the responsibility of the Office of Personnel Management (OPM). Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, requires employing agencies to recognize the cost of pensions and other retirement benefits during their employees' active years of service. Refer to Note 16, *Imputed Financing from Costs Absorbed by Others*, for additional details.

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 the 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, 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

U.S. Department of Justice
Notes to the Principal Financial Statements
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R. Revenues and Other Financing Sources (Continued)

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 pre-forfeiture sales of seized property, and income from property under seizure. No revenue recognition is given to cash deposited in the SADF.

S. Funds from Dedicated Collections

SFFAS No. 27, *Identifying and Reporting Funds from Dedicated Collections*, as amended by SFFAS No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds* 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 because seized cash is not available to finance the AFP.

U.S. Department of Justice
Notes to the Principal Financial Statements
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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.

V. Reclassifications

The FY 2015 financial statements were reclassified to conform to the FY 2016 Departmental and OMB financial statement presentation requirements. The reclassifications had no material effect on total assets, liabilities, net position, changes in net position or budgetary resources previously reported.

W. Subsequent Events

Subsequent events and transactions occurring after September 30, 2016 through the date of the auditors' opinion have been evaluated for potential recognition or disclosure in the financial statements. No changes were necessary for proper presentation of 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 Principal Financial Statements
(Dollars in Thousands, Except as Noted)**

Note 2. Non-Entity Assets

Non-entity assets are assets that are held by the AFF/SADF but are not available to fund the AFP.

As of September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Intragovernmental		
Investments, Net (Note 5)	\$ 1,067,000	\$ 1,180,680
With the Public		
Cash and Other Monetary Assets (Note 4)	<u>155,871</u>	<u>1,041,590</u>
Total Non-Entity Assets	1,222,871	2,222,270
Total Entity Assets	<u>6,397,766</u>	<u>6,513,131</u>
Total Assets	<u>\$ 7,620,637</u>	<u>\$ 8,735,401</u>

Note 3. Fund Balance with U.S. Treasury

As of September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Fund Balances		
Special Funds	<u>\$ 115,389</u>	<u>\$ 153,034</u>
Status of Fund Balances		
Unobligated Balance - Available	\$ 624,216	\$ 785,369
Unobligated Balance - Available in Subsequent Periods	-	11,453
Unobligated Balance - Unavailable	15,486	219,663
Obligated Balance not yet Disbursed	5,018,248	5,032,011
Other Funds (With)/Without Budgetary Resources	<u>(5,542,561)</u>	<u>(5,895,462)</u>
Total Status of Fund Balances	<u>\$ 115,389</u>	<u>\$ 153,034</u>

Unobligated Balance - Available in Subsequent Periods includes amounts apportioned for future fiscal years that are available for obligation in a subsequent period (apportioned as Category C).

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 Principal Financial Statements
(Dollars in Thousands, Except as Noted)**

Note 4. Cash and Other 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, 2016 and 2015

	2016	2015
Cash		
Seized Cash Deposited	\$ 134,580	\$ 1,023,825
Other Monetary Assets		
Seized Monetary Instruments	21,291	17,765
Total Cash and Other Monetary Assets	\$ 155,871	\$ 1,041,590

Note 5. Investments, Net

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with AFF or SADF. The cash receipts collected from the public for the AFF, a dedicated collections fund, or the SADF, a deposit fund, are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the AFF and SADF as evidence of its receipts. Treasury securities are an asset to the AFF and a liability to the U.S. Treasury. Because the AFF/SADF 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 Principal Financial Statements
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Note 5. Investments, Net (continued)

	Face Value	Unamortized Premium (Discount)	Investments, Net	Market Value
As of September 30, 2016				
Intragovernmental				
Non-Marketable Securities				
Market-Based				
AFF	\$ 6,173,391	\$ (6,707)	\$ 6,166,684	\$ 6,166,639
SADF	1,072,717	(5,717)	1,067,000	1,070,749
Total	<u>\$ 7,246,108</u>	<u>\$ (12,424)</u>	<u>\$ 7,233,684</u>	<u>\$ 7,237,388</u>

	Face Value	Unamortized Premium (Discount)	Investments, Net	Market Value
As of September 30, 2015				
Intragovernmental				
Non-Marketable Securities				
Market-Based				
AFF	\$ 6,225,468	\$ (1,826)	\$ 6,223,642	\$ 6,224,797
SADF	1,182,704	(2,024)	1,180,680	1,181,034
Total	<u>\$ 7,408,172</u>	<u>\$ (3,850)</u>	<u>\$ 7,404,322</u>	<u>\$ 7,405,831</u>

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

Note 6. Accounts Receivable, Net

Accounts receivable consist of amounts owed to the AFF from the Treasury Executive Office for Asset Forfeiture services provided to Treasury and amounts owed to the AFF by AFP's Federal participating agencies for the use of Forfeiture.gov for publication of forfeiture notices. There is no allowance for uncollectible accounts since accounts receivable from business with Federal entities are considered fully collectible.

As of September 30, 2016 and 2015

	2016	2015
Intragovernmental		
Accounts Receivable	\$ 3,141	\$ 3,194
With the Public		
Accounts Receivable	1,732	-
Total Accounts Receivable, Net	\$ 4,873	\$ 3,194

Note 7. Forfeited and Seized Property, Net

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, 2016 and 2015.

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

Note 7. Forfeited and Seized Property, Net (continued)

Analysis of Change in Forfeited Property -- For the Fiscal Year Ended September 30, 2016

Forfeited Property Category		Beginning Balance	Adjustments (1)	Forfeitures	Disposals	Ending Balance	Liens and Claims	Ending Balance, Net of Liens
Financial Instruments	Number	349	427	537	(980)	333		333
	Value	\$ 4,386	\$ 2,034	\$ 52,328	\$ (55,670)	\$ 3,078	\$ -	\$ 3,078
Real Property	Number	463	10	320	(406)	387		387
	Value	\$ 91,616	\$ 3,408	\$ 75,043	\$ (98,189)	\$ 71,878	\$ (2,078)	\$ 69,800
Personal Property	Number	3,846	128	3,268	(4,517)	2,725		2,725
	Value	\$ 39,967	\$ 3,854	\$ 44,795	\$ (50,578)	\$ 38,038	\$ (778)	\$ 37,260
Non-Valued Firearms	Number	24,147	(439)	19,980	(15,689)	27,999		27,999
Total	Number	28,805	126	24,105	(21,592)	31,444		31,444
	Value	\$ 135,969	\$ 9,296	\$ 172,166	\$ (204,437)	\$ 112,994	\$ (2,856)	\$ 110,138

(1) Adjustments include property status, asset group, and valuation changes that occurred during the current year for assets that were already on hand at the start of the year. Asset group changes occur primarily when cash is substituted for a different asset category. Valuation changes occur primarily due to changes in appraisals.

Methods of Disposition of Forfeited Property -- For the Fiscal Year Ended September 30, 2016

Forfeited Property Category		Converted Financial Instruments/Property	Destroyed/Donated/ Transferred	Sold/ Liquidated (1)	Official Use/ Transfer for Equitable Sharing	Returned Assets	Variance (2)	Total
Financial Instruments	Number	951	15	12	-	2	-	980
	Value	\$ 54,926	\$ 88	\$ 619	\$ -	\$ 37	\$ -	\$ 55,670
Real Property	Number	1	2	384	-	19	-	406
	Value	\$ 104	\$ 18	\$ 94,509	\$ -	\$ 3,558	\$ -	\$ 98,189
Personal Property	Number	6	1,227	2,750	382	152	-	4,517
	Value	\$ 2,813	\$ 1,527	\$ 37,078	\$ 4,787	\$ 4,373	\$ -	\$ 50,578
Non-Valued Firearms	Number	-	15,058	-	468	163	-	15,689
Total	Number	958	16,302	3,146	850	336	-	21,592
	Value	\$ 57,843	\$ 1,633	\$ 132,206	\$ 4,787	\$ 7,968	\$ -	\$ 204,437

(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 Principal Financial Statements
(Dollars in Thousands, Except as Noted)

Note 7. Forfeited and Seized Property, Net (continued)

Analysis of Change in Forfeited Property -- For the Fiscal Year Ended September 30, 2015

Forfeited Property Category		Beginning Balance	Adjustments (1)	Forfeitures	Disposals	Ending Balance	Liens and Claims	Ending Balance, Net of Liens
Financial Instruments	Number	284	469	577	(981)	349		349
	Value	\$ 4,907	\$ 9,819	\$ 188,277	\$ (198,617)	\$ 4,386	\$ -	\$ 4,386
Real Property	Number	458	(15)	384	(364)	463		463
	Value	\$ 88,679	\$ (4,585)	\$ 88,425	\$ (80,903)	\$ 91,616	\$ (3,200)	\$ 88,416
Personal Property	Number	3,232	78	5,305	(4,769)	3,846		3,846
	Value	\$ 48,915	\$ (4,162)	\$ 53,858	\$ (58,644)	\$ 39,967	\$ (349)	\$ 39,618
Non-Valued Firearms	Number	25,965	3,956	15,639	(21,413)	24,147		24,147
Total	Number	29,939	4,488	21,905	(27,527)	28,805		28,805
	Value	\$ 142,501	\$ 1,072	\$ 330,560	\$ (338,164)	\$ 135,969	\$ (3,549)	\$ 132,420

(1) Adjustments include property status, asset group, and valuation changes that occurred during the current year for assets that were already on hand at the start of the year. Asset group changes occur primarily when cash is substituted for a different asset category. Valuation changes occur primarily due to changes in appraisals.

Methods of Disposition of Forfeited Property -- For the Fiscal Year Ended September 30, 2015

Forfeited Property Category		Converted Financial Instruments/Property	Destroyed/Donated/ Transferred	Sold/ Liquidated (1)	Official Use/ Transfer for Equitable Sharing	Returned Assets	Variance (2)	Total
Financial Instruments	Number	921	52	5	-	2	1	981
	Value	\$ 192,759	\$ 10	\$ 5,845	\$ -	\$ 4	\$ (1)	\$ 198,617
Real Property	Number	-	2	342	-	20	-	364
	Value	\$ -	\$ 235	\$ 73,650	\$ -	\$ 7,018	\$ -	\$ 80,903
Personal Property	Number	3	914	3,047	631	174	-	4,769
	Value	\$ 3,680	\$ 354	\$ 43,456	\$ 8,462	\$ 2,692	\$ -	\$ 58,644
Non-Valued Firearms	Number	-	20,748	-	448	217	-	21,413
Total	Number	924	21,716	3,394	1,079	413	1	27,527
	Value	\$ 196,439	\$ 599	\$ 122,951	\$ 8,462	\$ 9,714	\$ (1)	\$ 338,164

(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 Principal Financial Statements
(Dollars in Thousands, Except as Noted)

Note 7. Forfeited and Seized Property, Net (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, 2016 and 2015. In the following tables, Seized Cash and Monetary Instruments includes seized cash in transit as well as pre-forfeiture deposits into the SADF of monetary instruments and depository account balances, proceeds from pre-forfeiture sales, and cash received in lieu of seized property. Financial Instruments include negotiable instruments and restricted depository accounts.

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

Note 7. Forfeited and Seized Property, Net (continued)

Analysis of Change in Seized Property -- For the Fiscal Year Ended September 30, 2016

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	11,234	612	7,448	(9,069)	10,225		10,225
	Value	\$ 2,222,270	\$ 18,931	\$ 706,942	\$ (1,730,921)	\$ 1,217,222	\$ (291,503)	\$ 925,719
Financial Instruments	Number	377	(59)	270	(172)	416		416
	Value	\$ 186,764	\$ (21,061)	\$ 24,290	\$ (11,030)	\$ 178,963	\$ (1,931)	\$ 177,032
Real Property	Number	80	9	111	(117)	83		83
	Value	\$ 33,858	\$ (3,392)	\$ 27,195	\$ (41,576)	\$ 16,085	\$ (7,787)	\$ 8,298
Personal Property	Number	5,487	456	3,578	(4,260)	5,261		5,261
	Value	\$ 128,426	\$ (10,909)	\$ 65,039	\$ (69,421)	\$ 113,135	\$ (39,545)	\$ 73,590
Non-Valued Firearms	Number	25,251	3,047	16,503	(22,026)	22,775		22,775
Total	Number	42,429	4,065	27,910	(35,644)	38,760		38,760
	Value	\$ 2,571,318	\$ (16,431)	\$ 823,466	\$ (1,852,948)	\$ 1,525,405	\$ (340,766)	\$ 1,184,639

(1) Adjustments include property status, asset group, and valuation changes that occurred during the current year for assets that were already on hand at the start of the year. Asset group changes occur primarily when cash is substituted for a different asset category. Valuation changes occur primarily due to changes in appraisals.

Methods of Disposition of Seized Property -- For the Fiscal Year Ended September 30, 2016

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	8	115	-	742	8,204	-	9,069
	Value	\$ 393	\$ 2,592	\$ -	\$ 62,427	\$ 1,665,509	\$ -	\$ 1,730,921
Financial Instruments	Number	1	3	-	6	162	-	172
	Value	\$ 122	\$ 12	\$ -	\$ 156	\$ 10,740	\$ -	\$ 11,030
Real Property	Number	-	-	-	14	103	-	117
	Value	\$ -	\$ -	\$ -	\$ 1,439	\$ 40,137	\$ -	\$ 41,576
Personal Property	Number	-	53	1	988	3,218	-	4,260
	Value	\$ -	\$ 286	\$ 23	\$ 27,847	\$ 41,265	\$ -	\$ 69,421
Non-Valued Firearms	Number	-	5,723	-	1,944	14,359	-	22,026
Total	Number	9	5,894	1	3,694	26,046	-	35,644
	Value	\$ 515	\$ 2,890	\$ 23	\$ 91,869	\$ 1,757,651	\$ -	\$ 1,852,948

(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 Principal Financial Statements
(Dollars in Thousands, Except as Noted)

Note 7. Forfeited and Seized Property, Net (continued)

Analysis of Change in Seized Property -- For the Fiscal Year Ended September 30, 2015

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	13,824	662	8,985	(12,237)	11,234		11,234
	Value	\$ 1,373,316	\$ 39,752	\$ 2,064,442	\$ (1,255,240)	\$ 2,222,270	\$ (156,523)	\$ 2,065,747
Financial Instruments	Number	357	(70)	345	(255)	377		377
	Value	\$ 124,376	\$ (79,070)	\$ 193,711	\$ (52,253)	\$ 186,764	\$ (491)	\$ 186,273
Real Property	Number	131	9	98	(158)	80		80
	Value	\$ 52,586	\$ (3,112)	\$ 30,738	\$ (46,354)	\$ 33,858	\$ (11,451)	\$ 22,407
Personal Property	Number	7,293	526	4,184	(6,516)	5,487		5,487
	Value	\$ 147,805	\$ (11,498)	\$ 73,400	\$ (81,281)	\$ 128,426	\$ (35,847)	\$ 92,579
Non-Valued Firearms	Number	24,394	6,481	14,725	(20,349)	25,251		25,251
Total	Number	45,999	7,608	28,337	(39,515)	42,429		42,429
	Value	\$ 1,698,083	\$ (53,928)	\$ 2,362,291	\$ (1,435,128)	\$ 2,571,318	\$ (204,312)	\$ 2,367,006

(1) Adjustments include property status, asset group, and valuation changes that occurred during the current year for assets that were already on hand at the start of the year. Asset group changes occur primarily when cash is substituted for a different asset category. Valuation changes occur primarily due to changes in appraisals.

Methods of Disposition of Seized Property -- For the Fiscal Year Ended September 30, 2015

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	44	46	-	1,071	11,076	-	12,237
	Value	\$ 15,658	\$ 792	\$ -	\$ 71,075	\$ 1,167,715	\$ -	\$ 1,255,240
Financial Instruments	Number	8	2	-	25	220	-	255
	Value	\$ 846	\$ 200	\$ -	\$ 2,334	\$ 48,873	\$ -	\$ 52,253
Real Property	Number	-	-	-	25	133	-	158
	Value	\$ -	\$ -	\$ -	\$ 8,610	\$ 37,744	\$ -	\$ 46,354
Personal Property	Number	-	39	3	1,228	5,246	-	6,516
	Value	\$ -	\$ 182	\$ 37	\$ 27,835	\$ 53,227	\$ -	\$ 81,281
Non-Valued Firearms	Number	-	5,093	-	4,842	10,414	-	20,349
Total	Number	52	5,180	3	7,191	27,089	-	39,515
	Value	\$ 16,504	\$ 1,174	\$ 37	\$ 109,854	\$ 1,307,559	\$ -	\$ 1,435,128

(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.

**U.S. Department of Justice
Notes to the Principal 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, 2016				
Equipment	\$ 402	\$ (203)	\$ 199	5-12 years
Leasehold Improvements	<u>1,119</u>	<u>(762)</u>	<u>357</u>	5 years
Total	<u><u>\$ 1,521</u></u>	<u><u>\$ (965)</u></u>	<u><u>\$ 556</u></u>	

	<u>Federal</u>	<u>Public</u>	<u>Total</u>
Sources of Capitalized Property, Plant and Equipment			
Purchases for FY 2016	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Useful Life</u>
As of September 30, 2015				
Equipment	\$ 402	\$ (137)	\$ 265	5-12 years
Leasehold Improvements	<u>1,119</u>	<u>(632)</u>	<u>487</u>	5 years
Total	<u><u>\$ 1,521</u></u>	<u><u>\$ (769)</u></u>	<u><u>\$ 752</u></u>	

	<u>Federal</u>	<u>Public</u>	<u>Total</u>
Sources of Capitalized Property, Plant and Equipment			
Purchases for FY 2015	<u>\$ -</u>	<u>\$ 328</u>	<u>\$ 328</u>

**U.S. Department of Justice
Notes to the Principal Financial Statements
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Note 9. Other Assets

As of September 30, 2016 and 2015

	2016	2015
Intragovernmental		
Advances and Prepayments	\$ 88	\$ 89
Total Intragovernmental	88	89
Other Assets With the Public	38	-
Total Other Assets	\$ 126	\$ 89

Note 10. Liabilities not Covered by Budgetary Resources

As of September 30, 2016 and 2015

	2016	2015
With the Public		
Accrued Annual and Compensatory Leave Liabilities	\$ 1,650	\$ 1,900
Total Liabilities not Covered by Budgetary Resources	1,650	1,900
Total Liabilities Covered by Budgetary Resources	6,158,761	7,183,582
Total Liabilities	\$ 6,160,411	\$ 7,185,482

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, 2016 and 2015

	2016	2015
Investments, Net (Note 5)	\$ 1,067,000	\$ 1,180,680
Seized Cash Deposited (Note 4)	134,580	1,023,825
Seized Monetary Instruments (Note 4)	21,291	17,765
Seized Cash in Transit to Forfeiture	(5,649)	-
Total Seized Cash and Monetary Instruments	\$ 1,217,222	\$ 2,222,270

These notes are an integral part of the financial statements.

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

Note 12. Other Liabilities

All Other Liabilities are current liabilities.

As of September 30, 2016 and 2015

	2016	2015
Intragovernmental		
Employer Contributions and Payroll Taxes Payable	\$ 278	\$ 197

Note 13. Contingencies and Commitments

	Accrued Liabilities	Estimated Range of Loss	
		Lower	Upper
As of September 30, 2016			
Reasonably Possible	\$ -	\$ 2,500	\$ 5,000
As of September 30, 2015			
Reasonably Possible	\$ -	\$ 1,000	\$ 2,500

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.

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

Note 14. Funds from Dedicated Collections (continued)

The AFF recognizes exchange revenue, on a reimbursement basis, when the United States Attorneys Offices provide services in judicial forfeiture cases brought by agencies participating in the TFF. This revenue is presented on the Consolidated Statement of Net Cost as earned revenue. In accordance with 28 U.S.C. § 524 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 Principal Financial Statements
(Dollars in Thousands, Except as Noted)

Note 14. Funds from Dedicated Collections (continued)

As of September 30, 2016 and 2015

	2016	2015
Balance Sheet		
Assets		
Fund Balance with U.S. Treasury	\$ 115,389	\$ 153,034
Investments, Net	6,166,684	6,223,642
Other Assets	115,693	136,455
Total Assets	\$ 6,397,766	\$ 6,513,131
Liabilities		
Accounts Payable	\$ 4,829,965	\$ 4,827,689
Other Liabilities	107,575	135,523
Total Liabilities	\$ 4,937,540	\$ 4,963,212
Net Position		
Cumulative Results of Operations	\$ 1,460,226	\$ 1,549,919
Total Net Position	\$ 1,460,226	\$ 1,549,919
Total Liabilities and Net Position	\$ 6,397,766	\$ 6,513,131

For the Fiscal Years Ended September 30, 2016 and 2015

Statement of Net Cost		
Gross Cost of Operations	\$ 1,215,946	\$ 1,551,414
Less: Earned Revenue	14,877	14,557
Net Cost of Operations	\$ 1,201,069	\$ 1,536,857
Statement of Changes in Net Position		
Net Position Beginning of Period	\$ 1,549,919	\$ 2,560,848
Budgetary Financing Sources	913,186	191,890
Other Financing Sources	198,190	334,038
Total Financing Sources	1,111,376	525,928
Net Cost of Operations	(1,201,069)	(1,536,857)
Net Change	(89,693)	(1,010,929)
Net Position End of Period	\$ 1,460,226	\$ 1,549,919

These notes are an integral part of the financial statements.

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

Note 15. Net Cost of Operations by Suborganization

The AFF's statute, 28 U.S.C. § 524(c), authorizes the AFF to fund Forfeiture Operations Expenses, including those for asset management and disposal, third party payments, equitable sharing payments, forfeiture case prosecution, forfeiture systems, special contract services, forfeiture training and printing, contracts to identify assets, and other program management; and General Investigative Expenses, including those for awards for information, purchases of evidence, equipping of conveyances, investigative costs leading to seizure and joint law enforcement operations.

For the Fiscal Year Ended September 30, 2016	<u>Forfeiture Operations Expenses</u>	<u>General Investigation Expenses</u>	<u>Total</u>
Goal 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law			
Gross Cost	\$ 950,677	\$ 265,269	\$ 1,215,946
Less: Earned Revenue	14,877	-	14,877
Net Cost of Operations	<u>\$ 935,800</u>	<u>\$ 265,269</u>	<u>\$ 1,201,069</u>

For the Fiscal Year Ended September 30, 2015	<u>Forfeiture Operations Expenses</u>	<u>General Investigation Expenses</u>	<u>Total</u>
Goal 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law			
Gross Cost	\$ 1,286,397	\$ 265,017	\$ 1,551,414
Less: Earned Revenue	14,557	-	14,557
Net Cost of Operations	<u>\$ 1,271,840</u>	<u>\$ 265,017</u>	<u>\$ 1,536,857</u>

**U.S. Department of Justice
Notes to the Principal 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/SADF from a providing Federal 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 Standards and Concepts*, the material Imputed Inter-Departmental Financing Sources recognized by the AFP 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 AFP. 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	33.5
	Regular Employees Offset	24.6
	Law Enforcement Officers	57.9
	Law Enforcement Officers Offset	49.7
Federal Employees Retirement System (FERS)	Regular Employees	15.1
	Regular Employees – Revised Annuity Employees (RAE)	15.6
	Regular Employees – Further Revised Annuity Employees (FRAE)	15.7
	Law Enforcement Officers	33.4
	Law Enforcement Officers – RAE	34.1
	Law Enforcement Officers – FRAE	34.1

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 Principal 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 Standards and Concepts*, are the unreimbursed portion of the full costs of goods and services received by the AFP from a providing entity that is a part of the U.S. Department of Justice. Recognition is required for those transactions determined to be material to the receiving entity. The determination of whether the cost is material requires considerable judgment based on the specific facts and circumstances of each type of good or service provided. SFFAS No. 4 also states that costs for broad and general support need not be recognized by the receiving entity, unless such services form a vital and integral part of the operations or output of the receiving entity. Costs are considered broad and general if they are provided to many, if not all, reporting components and not specifically related to the receiving entity's output. The AFP does not have any imputed intra-departmental financing sources that meet the reporting requirements.

For the Fiscal Years Ended September 30, 2016 and 2015

	2016	2015
Imputed Inter-Departmental Financing		
Health Insurance	\$ 1,153	\$ 1,041
Life Insurance	5	4
Pension	373	526
Total Imputed Inter-Departmental	\$ 1,531	\$ 1,571

Note 17. Information Related to the Statement of Budgetary Resources

Apportionment Categories of New Obligations and Upward Adjustments:

	Direct Obligations Incurred	Reimbursable Obligations Incurred	Total Obligations Incurred
For the Fiscal Year Ended September 30, 2016			
Apportioned Under			
Category A	\$ 20,106	\$ -	\$ 20,106
Category B	1,297,638	15,841	1,313,479
Total	\$ 1,317,744	\$ 15,841	\$ 1,333,585
For the Fiscal Year Ended September 30, 2015			
Apportioned Under			
Category A	\$ 20,442	\$ -	\$ 20,442
Category B	2,693,655	13,309	2,706,964
Total	\$ 2,714,097	\$ 13,309	\$ 2,727,406

These notes are an integral part of the financial statements.

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

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

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.

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, 2016 and 2015

	2016	2015
UDO Obligations Unpaid	\$ 193,278	\$ 208,695
UDO Obligations Prepaid/Advanced	88	89
Total UDO	\$ 193,366	\$ 208,784

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). See Note 18, *Transfers In/Out Without Reimbursement, Super Surplus*, for more information.

**U.S. Department of Justice
Notes to the Principal 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, 2016 is not presented because the submission of the Budget of the United States (Budget) for FY 2018, which presents the execution of the FY 2015 Budget, occurs after publication of these financial statements. The Department of Justice Budget Appendix can be found on the OMB website and will be available in early February 2017.

For the Fiscal Year Ended September 30, 2015
(Dollars in Millions)

	Total Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Agency Outlays, Net
Statement of Budgetary Resources (SBR)	\$ 3,744	\$ 2,727	\$ 7	\$ 2,405
Funds not Reported in the Budget AFF/SADF Forfeiture Activity	10	8		8
Funds not Reported in the SBR Sequestration Increase	(6)			
Other			(1)	
Budget of the United States Government	\$ 3,748	\$ 2,735	\$ 6	\$ 2,413

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/SADF's SBR and the Budget of the United States.

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

Note 18. Transfers In/Out Without Reimbursement

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 AFP's operational needs for the subsequent year are reserved. The excess unobligated balance is historically known as "Super Surplus."

At the beginning of FY 2015, unused prior years' Super Surplus authority totaling \$10 was renewed, allowing EOUSA to incur expenses against that authority for another fiscal year, and there were no additional Super Surplus declarations during the fiscal year ended September 30, 2015. For the fiscal year ended September 30, 2015, \$10 of authority was transferred out to EOUSA, with disbursements of \$7 and \$3 was deobligated. There was no Super Surplus authority renewed for FY 2016.

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, 2016 and 2015, transfers-out of forfeited property for official use totaled \$4,209 and \$4,880, respectively.

Transfers Pursuant to Public Law. Pursuant to the Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235) in FY15, the AFF transferred \$1,100 million to the USMS Office of the Federal Detention Trustee (OFDT) for necessary expenses related to United States prisoners in the custody of the USMS. The Continuing Appropriations Act, 2016 (P.L. 114-53) adopted this approach and the AFF transferred an additional \$61.2 million to OFDT in FY 2016. These transfers were treated as expenditure transfers of the AFF.

Further, the Bipartisan Budget Act of 2015 (P.L. 114-74) enacted in November 2015 included a \$746 million permanent rescission from the AFF, which was transferred to the U.S. Department of the Treasury in September 2016.

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.

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

Note 19. Nonexchange Revenues (Continued)

For the Fiscal Years Ended September 30, 2016 and 2015

	2016	2015
Total Investment Income	\$ 34,336	\$ 6,610

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, 2016 and 2015, net forfeiture income attributable to the AFF totaled \$1,886,918 and \$1,622,651 respectively, after the following payments and returns to agencies participating in seizures that led to forfeiture.

	FY 2016	FY 2015
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.	\$ 581	\$ 656
Return of forfeiture income to the TFF for its participation in seizures that led to forfeiture.	57,398	17,213
Return of forfeiture income to the U.S. Postal Service for its participation in seizures that led to forfeiture.	10,728	3,153
Return of forfeiture income to the other Federal Agencies for their participation in seizures that led to forfeiture.	5	-
Total Return of Forfeiture Income	\$ 68,712	\$ 21,022

These notes are an integral part of the financial statements.

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

Note 21. Reconciliation of Net Cost of Operations (proprietary) to Budget

For the Fiscal Years Ended September 30, 2016 and 2015

	2016	2015
Resources Used to Finance Activities		
Budgetary Resources Obligated		
New Obligations and Upward Adjustments (Total)	\$ 1,333,585	\$ 2,727,406
Less: Spending Authority from Offsetting Collections and Recoveries	121,454	85,963
Obligations Net of Offsetting Collections and Recoveries	1,212,131	2,641,443
Less: Offsetting Receipts and Nonexchange Revenue	34,336	6,610
Net Obligations	1,177,795	2,634,833
Other Resources		
Donations and Forfeitures of Property	200,868	337,357
Transfers-In/Out Without Reimbursement	(4,209)	(4,890)
Imputed Financing from Cost Absorbed by Others (Note 16)	1,531	1,571
Net Other Resources Used to Finance Activities	198,190	334,038
Total Resources Used to Finance Activities	1,375,985	2,968,871
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	16,329	(29,653)
Resources That Fund Expenses Recognized in Prior Periods (Note 22)	(250)	
Budgetary Offsetting Collections and Receipts That do not Affect Net Cost of Operations	(166,532)	(330,746)
Resources That Finance the Acquisition of Assets	-	(328)
Other Resources or Adjustments to Net Obligated Resources That do not Affect Net Cost of Operations	(56,991)	(1,095,110)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(207,444)	(1,455,837)
Total Resources Used to Finance the Net Cost of Operations	\$ 1,168,541	\$ 1,513,034

These notes are an integral part of the financial statements.

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

Note 21. Reconciliation of Net Cost of Operations (proprietary) to Budget (continued)

For the Fiscal Years Ended September 30, 2016 and 2015

	2016	2015
Components of Net Cost of Operations That Did not Require or Generate Resources in the Current Period		
Components That Will Require or Generate Resources in Future Periods (Note 22)	\$ -	\$ 134
Depreciation and Amortization	195	204
Other	32,333	23,485
Total Components of Net Cost of Operations That Did not Require or Generate Resources in the Current Period	\$ 32,528	\$ 23,823
Net Cost of Operations	\$ 1,201,069	\$ 1,536,857

**U.S. Department of Justice
Notes to the Principal 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 \$1,650 and \$1,900 on September 30, 2016 and 2015, 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, 2016 and 2015

	2016	2015
Resources that Fund Expenses Recognized in Prior Periods		
Decrease in Liabilities Not Covered by Budgetary Resources:		
Decrease in Accrued Annual and Compensatory Leave Liabilities	\$ (250)	\$ -
Total Resources that Fund Expenses Recognized in Prior Periods	\$ (250)	\$ -
Components That Will Require or Generate Resources in Future Periods		
Increase in Accrued Annual and Compensatory Leave Liabilities	\$ -	\$ 134
Total Components that Will Require or Generate Resources in Future Periods	\$ -	\$ 134

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, 2016 and 2015

Dollars in Thousands	2016	2015
What Money is Available to Spend?		
Total Resources	\$ 1,973,287	\$ 3,743,891
Less: Amount Available but Not Agreed to be Spent	624,216	796,822
Less: Amount Not Available to be Spent	15,486	219,663
Total Amounts Agreed to be Spent	\$ 1,333,585	\$ 2,727,406
How was the Money Spent?		
Personnel Compensation and Benefits		
1100 Personnel Compensation	\$ 37,227	\$ 30,923
1200 Personnel Benefits	12,980	10,563
Other Program Related Expenses		
2100 Travel & Transportation of Persons	5,597	7,253
2200 Transportation of Things	1,798	1,738
2300 Rent, Communications, and Utilities	34,618	25,340
2400 Printing and Reproduction	414	528
2500 Other Contractual Services	1,149,240	1,522,835
2600 Supplies and Materials	3,482	3,262
3100 Equipment	3,385	12,658
3200 Land and Structures	1,750	-
4200 Insurance Claims and Indemnities	106	101
4300 Interest and Dividends	-	76
4400 Refunds for Forfeited Assets	21,788	12,129
Expenditure Transfer to the U.S. Marshals Service	61,200	1,100,000
Total Amounts Agreed to be Spent	\$ 1,333,585	\$ 2,727,406
Who did the Money go to?		
For Profit	619,905	1,492,065
Federal Government	643,827	1,172,202
Employees	37,227	30,923
Other	32,626	32,216
Total Amounts Agreed to be Spent	\$ 1,333,585	\$ 2,727,406

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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.

Recommendations:

- 1. Implement more effective procedures over review of the Annual Financial Statements to supplement higher-level management reviews over the Trial Balance and financial statements, to include reconciling and researching differences in budgetary information.**

Resolved. The Justice Management Division's (JMD's) Asset Forfeiture Management Staff (AFMS), Budget Staff, and Finance Staff concurred with our recommendation. The AFF/SADF management stated in its response that the AFMS and the Finance Staff have already implemented and tested new reconciliation procedures into the financial statement preparation process that proved effective when preparing the 3rd and 4th quarter Financial Statements Packages. In addition, AFMS and the Finance Staff have implemented weekly face-to-face meetings between all staff involved in the financial statement preparation process. These meetings have already resulted in self-identification of differences in budgetary information that are then resolved prior to financial reporting.

This recommendation can be closed when subsequent annual financial statement audit testing verifies that management has sufficiently implemented procedures that reconciles its budgetary information and researches differences between the Trial Balance and the financial statements.

2. **Work with all participating agencies to develop and implement formal policies and control procedures to ensure forfeiture decisions are accurately reflected and updated in the Consolidated Assets Tracking System (CATS) in a timely manner, which should include specific policies and procedures for the appropriate accounting treatment of forfeiture orders that are subsequently reversed or appealed.**

Resolved. The AFMS concurred with our recommendation. The AFF/SADF management stated in its response that in the past 9 months, the AFMS Director personally addressed this issue at 3 quarterly working groups attended by 75 to 100 forfeiture prosecutors, agents, and program managers from all 13 participating agencies. As part of the FY 2017 budget allocation process, the AFMS approved a number of senior program management positions within the Executive Office for United States Attorneys (EOUSA) and each of the investigative agencies that are designed to help improve administrative oversight, internal controls, enterprise risk management, and operational policy functions. These positions will be responsible for improving transparency around what the AFF/SADF seize and forfeit, as well as how and why the AFF/SADF seize and forfeit those assets.

This recommendation can be closed when subsequent annual financial statement audit testing verifies that management has developed and adequately instructed its participating agencies to comply with formal policies and control procedures designed to ensure forfeiture decisions are accurately reflected and updated in CATS in a timely manner, which includes specific policies and procedures for appropriate accounting treatment of forfeiture orders that are subsequently reversed or appealed.

3. **Continue to reinforce with the EOUSA's and U.S. Attorneys' offices the importance of timely reporting of the forfeiture decision to ensure that data in the property and financial management systems are updated in a timely manner as changes in status occur.**

Resolved. The AFF/SADF concurred with our recommendation. The AFF/SADF management stated in its response that the AFMS Director personally briefed approximately 164 Assistant United States Attorneys representing all 94 Districts about the importance of timely recording of forfeiture decisions. In addition, AFMS prepared and distributed a 1-page handout, outlining the forfeiture case-related events that must be recorded into CATS, including the associated CATS fields that needed to be updated and the supporting documents that needed to be uploaded. The AFMS Director also briefed the importance of this issue directly to the Attorney General's Advisory Committee, comprised of the United States Attorneys from roughly a dozen and half of the districts representing the largest portion of asset forfeiture-related cases.

This recommendation can be closed when subsequent annual financial statement audit testing verifies that AFMS has adequately reinforced the

timeliness of entering forfeiture decisions into CATS by the EOUSA's and U.S. Attorneys' offices to ensure the data in the property and financial management systems are updated timely.

- 4. Continue to reinforce procedures among investigative agencies to ensure that data in CATS is recorded in a timely manner as changes in status and valuations occur.**

Resolved. The AFF/SADF concurred with our recommendation. The AFF/SADF management stated in its response that AFMS is regularly engaging with these investigative agencies about the importance of this issue during quarterly working group meetings and formal training events. As noted in the response to Recommendation No. 2, the newly-authorized government program management positions are an additional step in ensuring accountability in this area.

This recommendation can be closed when subsequent annual financial statement audit testing verifies that AFMS has adequately reinforced the procedures among its investigative agencies for timely recording changes in status and valuations for forfeited and seized assets in CATS.

- 5. Develop and implement procedures to reconcile quarterly Distributed Offsetting Receipts to the Agency Standard Report Module in the Central Accounting Reporting System (CARS).**

Resolved. The AFF/SADF concurred with our recommendation. The AFF/SADF management stated in its response that all personnel responsible for preparing the AFF/SADF financial statements implemented procedures to properly report Distributed Offsetting Receipts in the final FY 2016 Financial Statement Package. The AFMS and the Finance Staff will update the process for preparing the financial statements to include reconciling and reporting Distributed Offsetting Receipts in accordance with the Agency Standard Report Module in CARS.

This recommendation can be closed when subsequent annual financial statement audit testing verifies that procedures have been developed and implemented to reconcile quarterly Distributed Offsetting Receipts to the Agency Standard Report Module in CARS.

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