



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

**OVERSIGHT ★ INTEGRITY ★ GUIDANCE**



**Audit of the  
Assets Forfeiture Fund and  
Seized Asset Deposit Fund  
Annual Financial Statements  
Fiscal Year 2017**



# Commentary and Summary

*Audit of the Assets Forfeiture Fund and Seized Asset Deposit Fund Annual Financial Statements Fiscal Year 2017*

## Objectives

In accordance with the *Civil Asset Forfeiture Reform Act of 2000*, the Department of Justice Office of the Inspector General (OIG) is required to perform an audit of the Assets Forfeiture Fund and Seized Asset Deposit Fund's (AFF/SADF) annual financial statements.

The objectives of the audit are to opine on the financial statements, report on internal control over financial reporting, and report on compliance and other matters, including compliance with the *Federal Financial Management Improvement Act of 1996* (FFMIA).

## Results in Brief

The fiscal year (FY) 2017 audit resulted in an unmodified opinion on the AFF/SADF's financial statements. The auditors identified one significant deficiency in their report on internal controls over financial reporting. The auditors' report on compliance and other matters did not report any instances of noncompliance.

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 FFMIA, or conclusions on compliance and other matters. KPMG LLP is responsible for the attached auditors' reports dated November 8, 2017, 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.

## Recommendations

The OIG provided the AFF/SADF three recommendations to enhance internal controls over financial reporting.

## Audit Results

Under the direction of the OIG, KPMG LLP performed the AFF/SADF's audit in accordance with auditing standards generally accepted in the United States of America. The FY 2017 audit resulted in an unmodified opinion on the financial statements. An unmodified opinion means that the financial statements present fairly, in all material respects, the financial position and the results of the entity's operations in accordance with U.S. generally accepted accounting principles. For FY 2016, AFF/SADF also received an unmodified opinion on its financial statements (OIG Audit Division Report No. 17-06).

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 2017 *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 improvements needed over financial reporting. Specifically, improvements are needed in the processes related to revenue cut-off and recognition, reviews of manual journal entries, and the presentation of budgetary information in the financial statements.

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 2017 *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's financial management systems did not substantially comply with FFMIA.

**AUDIT OF THE  
ASSETS FORFEITURE FUND  
AND SEIZED ASSET DEPOSIT FUND  
ANNUAL FINANCIAL STATEMENTS  
FISCAL YEAR 2017**

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# Department of Justice

## Assets Forfeiture Fund and Seized Asset Deposit Fund FY 2017 Management's Discussion and Analysis (Unaudited)



September 30, 2017

**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; Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF); Drug Enforcement Administration (DEA); Federal Bureau of Investigation (FBI); INTERPOL Washington, which withdrew from the AFP in March 2016; Money Laundering and Asset Recovery Section (MLARS) of the Criminal Division (renamed in January 2017 from Asset Forfeiture and Money Laundering Section (AFMLS)); Executive Office for Organized Crime Drug Enforcement Task Forces (OCDETF); Executive Office for United States Attorneys (EOUSA) and United States Attorneys' Offices (USAOs); and United States Marshals Service (USMS). Other participants are Department of Defense, Defense Criminal Investigative Service (DCIS); Department of State, Bureau of Diplomatic Security (DS); Department of Health and Human Services, Food and Drug Administration, Office of Criminal Investigations (FDA); Department of Agriculture, Office of the Inspector General (USDA); and United States Postal Inspection Service (USPIS).

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

\* Withdrew from the AFP in March 2016

## 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. Department of the Treasury’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 equitable sharing payments to participating state, local, and foreign governments; payments to victims and other innocent third party claimants; federal and state/local task force expenses; contract service payments; forfeiture-related investigative and litigation expenses; information systems; asset management and disposition expenses; storage, protection and destruction of drugs; and forfeiture training. Liabilities and imputed financing costs of DOJ AFP participants are reported in the financial statements of the participants’ reporting agencies. 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, MLARS, 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 corrupt government leaders who misuse their countries’ resources 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 2017 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 operational expenses of the AFP are paid from the permanent indefinite authority of the AFF. Investigative expenses, such as awards for information, purchase of evidence, and equipping of conveyances, are paid from the discretionary authority of the AFF and are subject to appropriation limitation. The sources of AFF revenue are presented in Table 2.

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

Source	FY 2017	FY 2016	Change %
<b>Earned Revenue</b>	\$14,723	\$14,877	(1.0)%
<b>Budgetary Financing Sources</b>			
Nonexchange Revenues	56,868	34,336	65.6%
Donations and Forfeitures of Cash and Cash Equivalents	1,216,430	1,686,050	(27.9)%
Transfers-In/Out Without Reimbursement	(201,196)	(807,200)	75.1%
<b>Other Financing Sources</b>			
Donations and Forfeitures of Property	369,992	200,868	84.2%
Transfers-In/Out Without Reimbursement	(3,017)	(4,209)	28.3%
Imputed Financing from Costs Absorbed by Others	1,313	1,531	(14.2)%
<b>Total Asset Forfeiture Fund Resources</b>	<b>\$1,455,113</b>	<b>\$1,126,253</b>	<b>29.2%</b>

### 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 (FY) 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 the *Asset Forfeiture Policy Manual (2016), Chapter 6: Equitable Sharing and Official Use*, 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 FYs 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 2017	FY 2016	Change %
<b>SG 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law</b>			
Total Gross Cost	\$979,509	\$1,215,946	
Less: Total Earned Revenue	(14,723)	(14,877)	
<b>Total Net Cost of Operations</b>	<b>\$964,786</b>	<b>\$1,201,069</b>	<b>(19.7)%</b>

**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 FY ended September 30, 2017, \$964.8 million was expended (net of earned revenue) compared with \$1,201.1 million in FY 2016.

**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 other agencies. 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*.

### 2017 Financial Highlights

#### Consolidated Balance Sheets

**Assets:** The AFF/SADF Consolidated Balance Sheet as of September 30, 2017, shows Total Assets of \$8,261.3 million compared with \$7,620.6 million in FY 2016, an increase of \$640.7 million. If seized assets, which are in the AFP's custody but not yet owned by the government, are excluded from both figures the AFF's adjusted total assets decrease to \$6,760.3 million in FY 2017 compared with \$6,397.8 million in FY 2016, an increase of \$362.5 million. Seized cash, both on deposit in the SADF and in the custody of participating agencies, is reflected on the Balance Sheet. The increase in U.S. Fund Balance with Treasury from FY 2017 to FY 2016 was caused by liquidation of several long-term investments in preparation for payments to Madoff's fraud victims. The payments were anticipated to be processed prior to September 30, 2017.

**Liabilities:** Total liabilities of the AFF/SADF were \$6,325.5 million as of September 30, 2017 compared with \$6,160.4 million in FY 2016, an increase of \$165.1 million. If the liability for Seized Cash and Monetary Assets, which are not yet owned by the government, is backed out of both figures, the adjusted total liabilities of the AFF decrease to \$4,824.5 million in FY 2017 compared with \$4,943.2 million in FY 2016. The increase in Total Liabilities is the result of an increase in cash seizures in FY 2017.

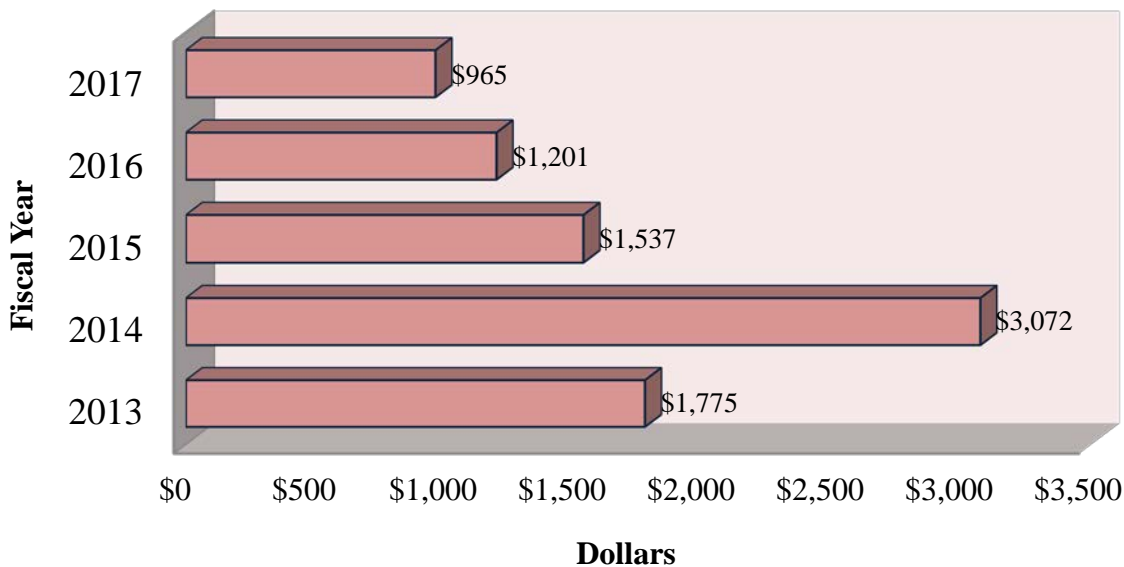
#### Consolidated Statements of Net Cost

**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, 2017, totaled \$964.8 million compared with \$1,201.1 million in FY 2016, a decrease of \$236.3 million. The decrease in net cost of operations is due primarily to the FY 2017 deobligation of \$300 million obligated in FY 2015 to pay victims' claims related to the Commerzbank AG fraud. During the fourth quarter of FY 2017, the Department determined that all claims were extinguished. 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, 2018, FY 2017 expenses by category of expense and recipient agency will be posted on the Justice AFP website <https://www.justice.gov/afp>.

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

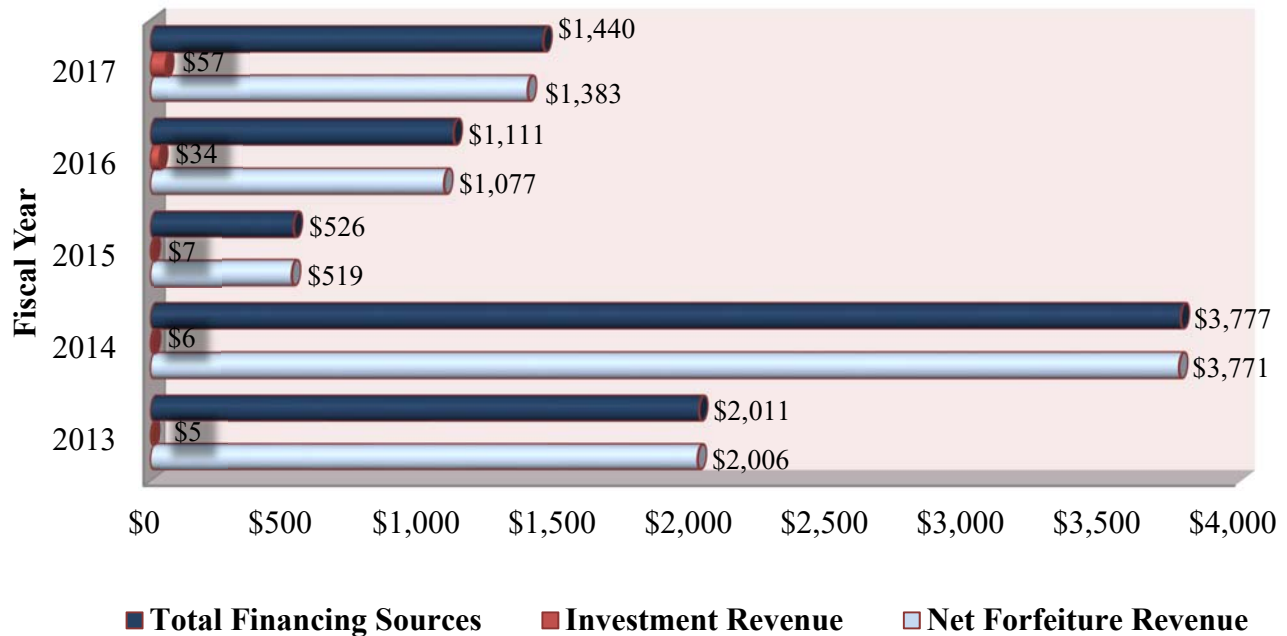


**Consolidated Statements of Changes in Net Position**

**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 \$1,586.4 million in forfeiture revenue in FY 2017 and \$1,886.9 million in FY 2016, a decrease of \$300.5 million. The decrease is the result of the \$900 million forfeiture from the General Motors case in FY 2016, less revenue in FY 2017 from the Western Union and Tenet Healthcare cases totaling \$436.4 million. Also 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 AFF of \$167.1 million and \$73.6 million in FYs 2017 and 2016 respectively, an increase of \$93.5 million. The increase is due primarily to proceeds from the ING Bank case of \$143.4 million.

**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. non-exchange revenue) of \$56.9 million were realized in FY 2017 compared with \$34.3 million earned in FY 2016. The increased earnings are due primarily to the continual increase in short term interest rates for Treasury-backed securities throughout FY 2017.

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



**Total financing sources:** The total financing sources realized by the AFF as of September 30, 2017 were \$1,440.4 million versus \$1,111.4 million in FY 2016, an increase of \$329 million. This increase represents decreases in permanent rescissions of \$544.8 million in FY 2017 and decreases in forfeiture revenue of \$300.5 million, from \$1,886.9 million in FY 2016 to \$1,586.4 million in FY 2017.

**Transfers-In/Out Without Reimbursement:**

Subject to P.L. 115-31: Consolidated Appropriations Act of 2017, AFF transferred \$201.2 million to the Treasury in FY 2017. In FY 2016, AFF transferred \$746 million to the Treasury, a decrease of \$544.8 million. These transfers were treated as non-expenditures transfer of the AFF.

**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 2017, Net Position totaled \$1,935.8 million versus \$1,460.2 million at the end of FY 2016, an increase of \$475.6 million. Factors that consume resources and influence the AFF/SADF’s net position include permanent rescissions to the AFF’s financing sources.

**Combined Statements of Budgetary Resources**

**Budgetary Resources:** For FY 2017, the Budgetary Resources totaled \$2,650.8 million compared with \$1,973.3 million in FY 2016, an increase of \$677.5 million. The increase is due to the decreases in permanent rescissions of \$544.8 million and temporary rescissions, from \$606.4 million in FY 2016 to \$444.0 million in FY 2017, a decrease of \$162.4 million.

**Agency Outlays, Net:** Agency outlays, net, were \$1,022.8 million in FY 2017 compared with \$1,213.7 million in FY 2016, a decrease of \$190 million. The decrease is the result of a \$61.2 million directed transfer to USMS in FY 2016 and the remainder reflects an overall decrease in expenses.

**Obligations:** New obligations and upward adjustments remained relatively stable in FY 2017. FY 2017 obligations and upward adjustments totaled \$1,347.9 million compared to \$1,333.6 million in FY 2016, an increase of \$14.3 million or 1.1%.

**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 2017, no unexpended Super Surplus Authority was renewed.

## **FY 2017 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 overseeing the adequacy internal accounting and administrative controls put in place by Assets Forfeiture Fund participants 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 (IREO), and JMD's Quality Control and Compliance Group (QCCG).

Based on the results of these assessments, AFMS provided unmodified reasonable assurance that its internal controls met the objectives of FMFIA § 2. 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 2017, 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, 2017, 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 not sufficient to detect an understatement on the Statement of Budgetary Resources for the period ended June 30, 2017. Independent auditors also identified exceptions related to out-of-period revenue, intradepartmental activity reconciliation process, journal entry approvals and equitable sharing liability estimates.

## FMFIA Section 4 – Material Nonconformances

For FY 2017, the AFF/SADF reported no material nonconformances of its financial-mixed IT system CATS. In FY 2017, 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.

## **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, 2017.

## **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 2017 Agency Financial Report.

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

### **FY 2017 Budget Position**

The AFF/SADF's financial position improved in FY 2017 because of decreased permanent rescissions. The Consolidated Appropriations Act, 2017 (P.L. 115-51), enacted a permanent rescission \$201.2 million, \$544.8 million less than in FY 2016's permanent rescission of \$746 million. As a result, the AFF/SADF did not defer the payment of any expenses in FY 2017, as it did with equitable sharing payments in FY 2016.

## **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.

# U.S. DEPARTMENT OF JUSTICE

## Assets Forfeiture Fund and Seized Asset Deposit Fund

### Independent Auditors' Reports







KPMG LLP  
Suite 12000  
1801 K Street, NW  
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, 2017 and 2016, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended; and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 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, 2017 and 2016, 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2017 on our consideration of the AFF/SADF's internal control over financial reporting and our report dated November 8, 2017 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**

November 8, 2017



KPMG LLP  
Suite 12000  
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. 17-03, *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, 2017 and 2016, 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 8, 2017.

### **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, 2017, 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 certain deficiencies in internal control, described in Exhibit I, that 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 is described in Exhibit I and 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

November 8, 2017

## Significant Deficiency

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

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### Improvements Needed in Internal Controls over Financial Reporting

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In fiscal year (FY) 2017, deficiencies continued to exist in the Assets Forfeiture Fund/Seized Asset Deposit Fund's (AFF/SADF) internal controls over financial reporting. Specifically, we noted that management did not have sufficient policies and procedures or effective controls in place to ensure that:

- Supporting judicial information was obtained timely and properly evaluated so that revenue was recognized in the appropriate accounting period, and federal agencies participating in the U.S. Department of Justice's (DOJ) Asset Forfeiture Program (AFP) updated the Consolidated Asset Tracking System (CATS) timely.
- Manual journal entries properly represented the underlying accounting events.
- Budgetary information reported in the financial statements was properly reconciled and presented.

Management continued to implement certain procedures to improve the internal controls during the current fiscal year. For example, management implemented a quarterly review of aged seized property during the last half of the fiscal year to ensure that seized property was still properly classified or to recognize the revenue related to those items for which a forfeiture order was obtained. While management has taken certain steps to address the control deficiencies, it needs to remain diligent to confirm that sufficient corrective action is implemented to ensure the deficiencies identified are fully resolved and that effective internal controls are in place throughout the entire fiscal year.

Collectively, the aforementioned deficiencies impair management's ability to prevent, or detect and correct misstatements of the entity's financial statements. As a result of these deficiencies, we identified the following errors during our FY 2017 audit:

#### Incomplete and Inaccurate Information in the CATS Impacting Revenue Cut-off and Recognition

During our testing over a sample of 196 cash and property revenue items, we identified certain items that were forfeited in a prior fiscal year but were incorrectly recorded as revenue in FY 2017 because of incomplete or inaccurate information in CATS. Specifically, we identified 7 items that resulted in a known overstatement of revenue in the current year totaling \$17.5 million and an additional projected overstatement of \$5.8 million. We determined that five of these items were initially forfeited between FY 2011 and FY 2012. We inquired with management regarding the exceptions identified and were informed that \$17.4 million related to these items were identified during management's quarterly review of the aged seized property. Since revenue for these items was not previously recognized, management recorded an adjusting entry during the fourth quarter of the current fiscal year that resulted in an overstatement of revenue and an understatement of beginning net position as of September 30, 2017.

We also identified other exceptions during our testing of the 196 revenue items. Specifically, we noted:

- Forfeiture decisions for three items were not entered into CATS until the quarter after the final forfeiture was approved; however the revenue was recorded later in the fiscal year.
- One item that was prematurely recorded as revenue before the final forfeiture order was approved and was not corrected until the subsequent quarter of the fiscal year.

During our testing of the variance between the prior year ending on hand balance in CATS and the current year beginning on hand balance, we identified one seized financial instrument of \$4.7 million that was seized in the prior year but was recorded into CATS in FY 2017, and another seized financial instrument of \$1.9 million recorded in FY 2016, but AFMS determined in FY 2017 that the asset was improperly reported as seized due to inaccurate information in CATS.

Insufficient Review of Manual Journal Entries

On a quarterly basis, Asset Forfeiture Management Staff (AFMS) reconciles AFF/SADF intragovernmental balances with its trading partners and records an adjusting entry to resolve differences. During our current year audit procedures, we determined that there was an error in management’s reconciliation process and that JMD was recording the related adjusting entry incorrectly. As a result of these errors, Accounts Payable with the Public and Intragovernmental Gross Costs were understated by \$8.2 million and \$10.1 million, respectively, while Gross Costs with the Public was overstated by \$18.1 million, as of March 31, 2017. JMD ultimately implemented corrective actions related to this process as of June 30, 2017.

During FY 2017, AFMS also determined that it recorded a \$13.9 million adjustment as of September 30, 2016, to accrue certain expenses in the general ledger system related to certain equitable sharing expenses that had already been accrued by the United States Marshals Service (USMS) but was not communicated to AFMS. Management determined this prior period error was not material to the FY 2016 financial statements as a whole but recorded an adjusting entry in the current fiscal year to correct net position. As a result of this error, Gross Costs with the Public and Beginning Cumulative Results of Operations were both understated by \$13.9 million as of September 30, 2017.

Presentation and Adjustments to Budgetary Information in the Financial Statements

During our FY 2017 audit, we determined that Anticipated Recoveries of Prior-Year Obligations in the amount of \$12.5 million were inadvertently omitted from the Statement of Budgetary Resources (SBR) in the Financial Statement Package for the nine-month period ended June 30, 2017. This omission caused Total Budgetary Resources to not agree to Total Status of Budgetary Resources. Management did not detect that a subsequent manual adjustment to the SBR incorrectly reduced Apportionments so that the Total Budgetary Resources and Total Status of Budgetary Resources would properly balance in the SBR. As a result of these errors, Anticipated Recoveries of Prior Year Obligations and Apportionments were understated by \$12.5 million in the SBR as of June 30, 2017. We did note that Anticipated Recoveries of Prior Year Obligations were properly presented in the SF-133 that was submitted to the OMB as of June 30, 2017.

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Our observations indicate that management needs to enhance its existing risk assessment processes to identify and assess the accounting and reporting risks for certain transactions that have a higher risk of error so that they are detected and corrected in a timely manner. FY 2017 events and transactions that had a greater likelihood of

error were not always timely identified and corrected to ensure proper or consistent reporting in the AFF/SADF financial statements. While steps were taken by management to further implement corrective actions during FY 2017, the preventive controls needed to mitigate the risks related to the financial reporting process were not fully implemented for the entire fiscal year.

We also noted that the policies and procedures related to the timely and accurately reporting of forfeiture decisions were still in draft form and had not been finalized as of the date of our report. In addition, we were informed that management lacked the authority to enforce the accountability of the AFP participating agencies in order to ensure that transactions related to the recognition and presentation of seized and forfeited property were timely and accurately entered into the applicable information systems.

## CRITERIA

The Government Accountability Office (GAO), *Standards for Internal Controls in the Federal Government*, (the Standard) principle 10.02, states that “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.”

The Standard also states:

- Principle 5.02, “Management enforces accountability of individuals performing their internal control responsibilities. Accountability is driven by the tone at the top and supported by the commitment to integrity and ethical values, organizational structure, and expectations of competence, which influence the control culture of the entity. Accountability for performance of internal control responsibility supports day-to-day decision making, attitudes, and behaviors.”
- Principle 10.02, “...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.”
- Principle 10.03, “Transactions are 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.”
- Principle 12.03, “Management documents in policies for each unit its responsibility for an operational process’s objectives and related risks, and control activity design, implementation, and operating effectiveness. Each unit, with guidance from management, determines the policies necessary to operate the process based on the objectives and related risks for the operational process. Each unit also documents policies in the appropriate level of detail to allow management to effectively monitor the control activity.”

DOJ’s *Financial Statement Requirements and Preparation Guide* states that “Upon receiving the provider listing, the Receiving Component should perform a quality control review of the listing to ensure its records are in agreement with the Providing Component’s listing. If during the review, the Receiving Component finds differences between the provider listing and its records, the differences must be researched and proper

adjustments must be made. The Providing and Receiving Components must agree on the type and amount of adjustment to be made.”

## **RECOMMENDATIONS:**

We recommend that the Asset Forfeiture Management Staff:

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

### **Management Response:**

AFMS and JMD Finance Staff concur with this recommendation. In July 2017, AFMS implemented a line-by-line reconciliation of the AFF’s SF-132 *Apportionment Schedule*, SF-133 *Report on Budget Execution and Budgetary Resources*, and Statement of Budgetary Resources monthly or quarterly, as applicable. Any differences identified are researched by AFMS and JMD and corrections made prior to submission of the financial statements.

2. Coordinate with Departmental management to develop and implement options to ensure AFP participating agencies are fully accountable for timely and accurately recording changes in status for seized and forfeited assets such as enhancing policies and procedures, expanding training, and assessing participating agencies compliance with CATS data entry requirements and developing corrective action as necessary. *(Updated)*

### **Management Response:**

AFMS concurs with this recommendation. Accountability can and should reside with those responsible for updating CATS transactions in a timely and accurate manner – the AFP participating agencies. Over the next few months, the Director, AFMS, will work with the Office of the Deputy Attorney General to establish incentives for AFP participating agencies to help ensure those agencies and components follow established policies and procedures for timely and accurately recording changes in seized/forfeited asset information. For example, participating agencies found to be noncompliant with existing policies and procedures for timely and accurate asset status or valuation information might be subject to having their annual AFF allocation restricted or reduced if severe lapses in policy compliance result in CATS errors that cause Notices of Findings and Recommendations (NFRs) to the AFF/SADF financial reporting.

While issuance of a formal policy is an important step, AFMS believes the central issue is more about policy enforcement and accountability. Even in the absence of a formal EOUSA policy, the message of timely and accurate CATS data entry during each quarter has been communicated clearly and regularly to all relevant program partners for the past 18 months. In May 2016, the Assistant Attorney General for Administration issued a formal memo to all component heads. That memo emphasized the following:

“With the increased scrutiny of the AFP and reduced resources, it is even more important now to ensure that the underlying root cause(s) of the audit weaknesses are addressed. One of the critical action items is to ensure all asset information and judicial actions are entered into the Consolidated Asset Tracking System (CATS) promptly and accurately. It is equally important that supporting documentation be available for all transactions entered into CATS. Any weakness related to the accuracy and timeliness of our AFF business should cause all of us to have concerns. ...Our offices need to work together to ensure the accurate and timely reporting of information about the seized and forfeited assets, including when judicial action changes the status of those assets.”



Beginning in April 2016 and continuing throughout this entire fiscal year, the AFMS Director personally communicated this same message to all USAO and investigative agency forfeiture personnel. In each written and oral communication, the Director emphasized that judicial information and changes in status for assets must be entered into CATS no later than the quarter in which the events occur to ensure financial data is recorded in a timely and accurate manner. This message was conveyed during program-wide training sessions with representatives attending from every USAO in the country. This clear and consistent message also has been reinforced by other AFMS personnel during formal training programs and in written checklists and guidance prepared and distributed by the CATS Data Quality Team (DQT). AFMS will continue emphasizing the importance of timely and accurate CATS data via its regular training and informational sessions, to include CATS user training sessions, updated written handouts, regular communication from senior leaders about the importance of entering accurate and timely data into CATS. However, issuing more formal policies, including one from EOUSA, will only change inaccurate or untimely CATS data entry if component personnel who fail to follow formal policies are appropriately held accountable.

3. Perform a more thorough review of manual journal entries to ensure that they accurately reflect underlying accounting events. (*New*)

**Management Response:**

AFMS and JMD Finance Staff concur with this recommendation. Before the second quarter of FY 2018, AFMS and JMD will evaluate all journal entries made every quarter for financial reporting and ensure that the General Ledger posting models comply with the U.S. Standard General Ledger. Further, any ad hoc journal entries made for financial reporting will be reviewed by both AFMS and JMD and concurrence received from both prior to entering in the financial system of record.

**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 the AFF/SADF has taken the 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 deficiencies were reported, our recommendations for improvement, and the status of the previously identified significant deficiencies and recommendations as of the end of FY 2017.

Report	Significant Deficiency	Recommendations	Status
Annual Financial Statements Fiscal Year 2016 Report No. 17-06	Improvements Needed in Controls over Budgetary Information Presented in Financial Statements and Completeness and Accuracy of Donation and Forfeiture Revenue	<b>Recommendation No. 1:</b> 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.	In Process
		<b>Recommendation No. 2:</b> 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.	In Process (Updated by CY Recommendation No. 2)
		<b>Recommendation No. 3:</b> 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.	In Process (Updated by CY Recommendation No. 2)
		<b>Recommendation No. 4:</b> 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.	In Process (Updated by CY Recommendation No. 2)
		<b>Recommendation No. 5:</b> Develop and implement procedures to reconcile quarterly Distributed Offsetting Receipts to the Agency Standard Report Module in the Central Accounting Reporting System.	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. 17-03, *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, 2017 and 2016, 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 8, 2017.

### **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 of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 17-03.

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 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

November 8, 2017

# 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



**U.S. Department of Justice**  
**Assets Forfeiture Fund and Seized Asset Deposit Fund**  
**Consolidated Balance Sheets**  
**As of September 30, 2017 and 2016**

<b>Dollars in Thousands</b>	<b>2017</b>	<b>2016</b>
<b>ASSETS (Note 2)</b>		
Intragovernmental		
Fund Balance with U.S. Treasury (Note 3)	\$ 1,389,918	\$ 115,389
Investments, Net (Note 5)	6,372,550	7,233,684
Accounts Receivable, Net (Note 6)	6,188	3,141
Other Assets (Note 9)	111	88
<b>Total Intragovernmental</b>	<u>7,768,767</u>	<u>7,352,302</u>
Cash and Other Monetary Assets (Note 4)	378,023	155,871
Accounts Receivable, Net (Note 6)	-	1,732
Forfeited Property, Net (Note 7)	112,178	110,138
General Property, Plant and Equipment, Net (Note 8)	2,363	556
Other Assets (Note 9)	1	38
<b>Total Assets</b>	<u><u>\$ 8,261,332</u></u>	<u><u>\$ 7,620,637</u></u>
<b>LIABILITIES (Note 10)</b>		
Intragovernmental		
Accounts Payable	\$ 145,246	\$ 164,377
Other Liabilities (Note 12)	297	278
<b>Total Intragovernmental</b>	<u>145,543</u>	<u>164,655</u>
Accounts Payable	4,563,869	4,665,588
Accrued Payroll and Benefits	1,101	1,158
Accrued Annual and Compensatory Leave Liabilities	1,788	1,650
Deferred Revenue	112,178	110,138
Seized Cash and Monetary Instruments (Note 11)	1,501,023	1,217,222
<b>Total Liabilities</b>	<u><u>\$ 6,325,502</u></u>	<u><u>\$ 6,160,411</u></u>
<b>Contingent Liabilities (Note 13)</b>		
<b>NET POSITION</b>		
Cumulative Results of Operations - Funds from Dedicated Collections (Note 14)	\$ 1,935,830	\$ 1,460,226
<b>Total Net Position</b>	<u><u>\$ 1,935,830</u></u>	<u><u>\$ 1,460,226</u></u>
<b>Total Liabilities and Net Position</b>	<u><u>\$ 8,261,332</u></u>	<u><u>\$ 7,620,637</u></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, 2017 and 2016**

**Dollars in Thousands**

	FY	Gross Costs			Less: Earned Revenues			Net Cost of Operations (Note 15)
		Intra-governmental	With the Public	Total	Intra-governmental	With the Public	Total	
<b>Goal 2</b>	<b>2017</b>	\$ 512,756	\$ 466,753	\$ 979,509	\$ 14,723	\$ -	\$ 14,723	\$ 964,786
	<b>2016</b>	\$ 619,482	\$ 596,464	\$ 1,215,946	\$ 14,877	\$ -	\$ 14,877	\$ 1,201,069
<b>Total</b>	<b>2017</b>	<u>\$ 512,756</u>	<u>\$ 466,753</u>	<u>\$ 979,509</u>	<u>\$ 14,723</u>	<u>\$ -</u>	<u>\$ 14,723</u>	<u>\$ 964,786</u>
	<b>2016</b>	<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>

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, 2017 and 2016**

<b>Dollars in Thousands</b>	<b>2017</b>	<b>2016</b>
	<b>Funds from Dedicated Collections</b>	<b>Funds from Dedicated Collections</b>
<b>Cumulative Results of Operations</b>		
<b>Beginning Balances</b>	\$ 1,460,226	\$ 1,549,919
<b>Budgetary Financing Sources</b>		
Nonexchange Revenues	56,868	34,336
Donations and Forfeitures of Cash and Cash Equivalents (Note 19)	1,216,430	1,686,050
Transfers-In/Out Without Reimbursement (Note 18)	(201,196)	(807,200)
<b>Other Financing Sources</b>		
Donations and Forfeitures of Property (Note 19)	369,992	200,868
Transfers-In/Out Without Reimbursement (Note 18)	(3,017)	(4,209)
Imputed Financing (Note 16)	1,313	1,531
<b>Total Financing Sources</b>	<b>1,440,390</b>	<b>1,111,376</b>
<b>Net Cost of Operations</b>	<b>(964,786)</b>	<b>(1,201,069)</b>
<b>Net Change</b>	<b>475,604</b>	<b>(89,693)</b>
<b>Cumulative Results of Operations</b>	<b>\$ 1,935,830</b>	<b>\$ 1,460,226</b>
<b>Net Position</b>	<b>\$ 1,935,830</b>	<b>\$ 1,460,226</b>

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



**U.S. Department of Justice**  
**Assets Forfeiture Fund and Seized Asset Deposit Fund**  
**Combined Statements of Budgetary Resources**  
**For the Fiscal Years Ended September 30, 2017 and 2016**

<b>Dollars in Thousands</b>	<b>2017</b>	<b>2016</b>
<b>Budgetary Resources:</b>		
Unobligated Balance, Brought Forward, October 1	\$ 639,702	\$ 1,016,485
Recoveries of Prior Year Unpaid Obligations	419,800	104,138
Other Changes in Unobligated Balance	574	1,528
Unobligated Balance from Prior Year Budget Authority, Net	<u>1,060,076</u>	<u>1,122,151</u>
Appropriations (discretionary and mandatory)	1,572,338	835,348
Spending Authority from Offsetting Collections (discretionary and mandatory)	18,354	15,788
<b>Total Budgetary Resources</b>	<b><u>\$ 2,650,768</u></b>	<b><u>\$ 1,973,287</u></b>
<b>Status of Budgetary Resources:</b>		
New Obligations and Upward Adjustments (Total) (Note 17)	\$ 1,347,936	\$ 1,333,585
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	1,302,832	624,216
Unapportioned - Unexpired Accounts	-	15,486
Unexpired Unobligated Balance, End of Year	<u>1,302,832</u>	<u>639,702</u>
Unobligated Balance - End of Year (Total)	<u>1,302,832</u>	<u>639,702</u>
<b>Total Status of Budgetary Resources:</b>	<b><u>\$ 2,650,768</u></b>	<b><u>\$ 1,973,287</u></b>
<b>Change in Obligated Balance:</b>		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1	\$ 5,024,680	\$ 5,037,587
New Obligations and Upward Adjustments	1,347,936	1,333,585
Outlays, Gross (-)	(1,083,053)	(1,242,354)
Recoveries of Prior Year Unpaid Obligations (-)	<u>(419,800)</u>	<u>(104,138)</u>
Unpaid Obligations, End of Year	<u>4,869,763</u>	<u>5,024,680</u>
Uncollected Payments:		
Uncollected Payments from Federal Sources, Brought Forward, October 1 (-)	(6,432)	(5,576)
Change in Uncollected Payments, Federal Sources	<u>(6,679)</u>	<u>(856)</u>
Uncollected Payments, Federal Sources, End of Year (-)	<u>(13,111)</u>	<u>(6,432)</u>
Memorandum (non-add) Entries:		
Obligated Balance, Start of Year	<u>\$ 5,018,248</u>	<u>\$ 5,032,011</u>
Obligated Balance, End of Year	<u>\$ 4,856,652</u>	<u>\$ 5,018,248</u>
<b>Budgetary Authority and Outlays, Net:</b>		
Budgetary Authority, Gross (discretionary and mandatory)	\$ 1,590,692	\$ 851,136
Less: Actual Offsetting Collections (discretionary and mandatory)	12,250	16,459
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	(6,679)	(856)
Recoveries of Prior Year Paid Obligations (discretionary and mandatory)	574	1,528
Budget Authority, Net (Total) (discretionary and mandatory)	<u>\$ 1,572,337</u>	<u>\$ 835,349</u>
Outlays, Gross (discretionary and mandatory)	\$ 1,083,053	\$ 1,242,354
Less: Actual Offsetting Collections (discretionary and mandatory)	12,250	16,459
Outlays, Net (Total) (discretionary and mandatory)	<u>1,070,803</u>	<u>1,225,895</u>
Less: Distributed Offsetting Receipts	48,045	12,220
Agency Outlays, Net (discretionary and mandatory)	<u>\$ 1,022,758</u>	<u>\$ 1,213,675</u>

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

**U.S. Department of Justice  
Notes to the Principal Financial Statements  
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**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), hereinafter referred to as the 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. The SADF was created administratively by the Department to ensure control over monies seized by agencies participating in the Department's AFP. AFF and SADF are managed by the Asset Forfeiture Management Staff (AFMS), Justice Management Division (JMD).

**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 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  
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**Note 1. Summary of Significant Accounting Policies (continued)**

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 2017 and 2016, 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.

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**U.S. Department of Justice**  
**Notes to the Principal Financial Statements**  
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**Note 1. Summary of Significant Accounting Policies (continued)**

**G. Investments**

The AFF and SADF are authorized by 28 U.S.C. § 524(c) to invest idle funds in excess of the AFF's and SADF's immediate needs in Treasury Securities. Investments are short-term, non-marketable market-based Federal Debt securities issued by the U.S. Treasury 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 cost 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.

**H. Accounts Receivable, Net**

Intra-governmental accounts receivable consist of amounts due from the Treasury Executive Office for Asset Forfeiture (TEOAF) for goods or services provided by the AFP. Receivables arising from services provided to the TEOAF 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 AFP leases buildings from the General Services Administration (GSA) to conduct most of its operations. The AFP has no leases that meet the capital leases requirements for financial reporting purposes. GSA charges a standard user fee, which approximates commercial rental rates for similar properties.

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 below and has a useful life of two or more years. All general PP&E, except for land, is depreciated or amortized, based on historical cost, using the straight-line method over the estimated useful life of the asset. Land is capitalized regardless of the acquisition cost. Land is never depreciated.

**U.S. Department of Justice**  
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**Note 1. Summary of Significant Accounting Policies (continued)**

Below are the capitalization thresholds:

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

Capitalization thresholds are established by DOJ Policy Statement 1400.06, *Capitalization of General Property, Plant and Equipment, and Internal Use Software*, pursuant to Statements of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment* and No. 10, *Accounting for Internal Use Software*.

**J. Advances and Prepayments**

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

**K. Forfeited and Seized Property**

Property is seized as a consequence of a violation of public law. Seized property can include monetary instruments, real property, and tangible personal property of others in the actual or constructive possession of the custodial agency. The value of seized property is its estimated fair market value at the time it was seized. Most seized property is held by the USMS from the point of seizure until its disposition. In certain cases, the investigative agency will keep seized property in its custody if the intention is to place the property into official use after forfeiture or to use the property as evidence in a court proceeding. Seized cash and monetary instruments are presented as assets with offsetting liabilities on the balance sheet. 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 seized cash deposited in the SADF that is not forfeited. Seized property other than cash and monetary instruments are only presented in the notes to the financial statements.

**U.S. Department of Justice  
Notes to the Principal Financial Statements  
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**Note 1. Summary of Significant Accounting Policies (continued)**

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 adjusted at the time of disposal, or as needed by AFP management.

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.

Fair market value of seized and forfeited property is determined by the following:

<b>Asset Type</b>	<b>Valuation Documentation</b>
Cash/Currency, Monetary Instruments	Copy of Check, Brinks Receipt, EFT, Wire Confirmation
Financial Instruments	Web-based, financial market, account statement, other source in accordance with agency policy
Vehicles	National Automobile Dealers Association (NADA) or Kelly Blue Book value in accordance with agency policy
Real Property	Real Property Appraisal/Broker's Price Opinion (BPO)
Other Valued Assets	Professional appraisal, Usedprice.com, other source in accordance with agency policy

**L. Liabilities**

AFF accounts payable represent liabilities to both Federal and non-Federal entities. Deferred revenue represents the estimated fair market 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 may include 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

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

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**Note 1. Summary of Significant Accounting Policies (continued)**

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

**N. Annual, Sick, and Other Leave**

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

**O. Interest on Late Payments**

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

**P. Retirement Plans**

With few exceptions, employees of the 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 13.2% of the gross pay for regular employees and 28.8% 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 11.1% of the gross pay for regular employees and 26.5% for law enforcement officers.

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**U.S. Department of Justice**  
**Notes to the Principal Financial Statements**  
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**Note 1. Summary of Significant Accounting Policies (continued)**

P. Retirement Plans (Continued)

- 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 11.1% of the gross pay for regular employees and 26.5% for law enforcement officers.

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). 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 nonexchange revenues 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 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



**U.S. Department of Justice  
Notes to the Principal Financial Statements  
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**Note 1. Summary of Significant Accounting Policies (continued)**

R. Revenues and Other Financing Sources (continued)

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 Treasury Forfeiture Fund (TFF). The AFF recognizes exchange revenue on a reimbursement basis and the revenue is presented on the Consolidated Statements of Net Cost as earned revenue. In accordance with 28 U.S.C. § 524 and AFMS Memorandums of Understanding, donations and forfeitures available for use by certain Federal Agencies are treated as returns of financing sources when disbursed.

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.

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**U.S. Department of Justice**  
**Notes to the Principal Financial Statements**  
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**Note 1. Summary of Significant Accounting Policies (continued)**

S. Funds from Dedicated Collections (continued)

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.

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 2016 financial statements were reclassified to conform to the FY 2017 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, 2017 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  
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**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, 2017 and 2016

	2017	2016
Intragovernmental		
Investments, Net (Note 5)	\$ 1,123,000	\$ 1,067,000
With the Public		
Cash and Other Monetary Assets (Note 4)	378,023	155,871
Total Non-Entity Assets	1,501,023	1,222,871
Total Entity Assets	6,760,309	6,397,766
Total Assets	\$ 8,261,332	\$ 7,620,637

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

As of September 30, 2017 and 2016

	2017	2016
Fund Balances		
Special Funds	\$ 1,389,918	\$ 115,389
Status of Fund Balances		
Unobligated Balance - Available	\$ 1,302,832	\$ 624,216
Unobligated Balance - Unavailable	-	15,486
Obligated Balance not yet Disbursed	4,856,652	5,018,248
Other Funds (With)/Without Budgetary Resources	(4,769,566)	(5,542,561)
Total Status of Fund Balances	\$ 1,389,918	\$ 115,389

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  
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**Note 4. Cash and Other Monetary Assets**

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

As of September 30, 2017 and 2016

	2017	2016
Cash		
Seized Cash Deposited	\$ 365,644	\$ 134,580
Other Monetary Assets		
Seized Monetary Instruments	12,379	21,291
Total Cash and Other Monetary Assets	\$ 378,023	\$ 155,871

**Note 5. Investments, Net**

The cash receipts collected from the public for the AFF, a dedicated collections fund, or the SADF, a deposit fund, are deposited in the Treasury. 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 Treasury. Because the AFF/SADF and the 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 Government-wide financial statements.

Treasury securities provide the AFF with authority to draw upon the 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)**

	Cost	Amortized (Premium) Discount	Investments, Net	Market Value Disclosure
As of September 30, 2017				
Intragovernmental				
Non-Marketable Securities				
Market-Based				
AFF	\$ 5,214,000	\$ 35,550	\$ 5,249,550	\$ 5,243,505
SADF	1,123,000	-	1,123,000	1,127,787
Total	<u>\$ 6,337,000</u>	<u>\$ 35,550</u>	<u>\$ 6,372,550</u>	<u>\$ 6,371,292</u>

	Cost	Amortized (Premium) Discount	Investments, Net	Market Value Disclosure
As of September 30, 2016				
Intragovernmental				
Non-Marketable Securities				
Market-Based				
AFF	\$ 6,140,000	\$ 26,684	\$ 6,166,684	\$ 6,166,639
SADF	1,067,000	-	1,067,000	1,070,749
Total	<u>\$ 7,207,000</u>	<u>\$ 26,684</u>	<u>\$ 7,233,684</u>	<u>\$ 7,237,388</u>

**U.S. Department of Justice  
Notes to the Principal Financial Statements  
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**Note 6. Accounts Receivable, Net**

Accounts receivable consist of amounts owed to the AFF from the TEOAF 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, 2017 and 2016

	2017	2016
Intragovernmental		
Accounts Receivable	\$ 6,188	\$ 3,141
With the Public		
Accounts Receivable	-	1,732
Total Accounts Receivable, Net	\$ 6,188	\$ 4,873

**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, 2017 and 2016.

**U.S. Department of Justice  
Notes to the Principal Financial Statements  
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**Note 7. Forfeited and Seized Property, Net (continued)**

**Analysis of Change in Forfeited Property -- For the Fiscal Year Ended September 30, 2017**

Forfeited Property Category		Beginning Balance	Adjustments (1)	Forfeitures	Disposals	Ending Balance	Liens and Claims	Ending Balance, Net of Liens
Financial Instruments	Number	333	418	566	(1,037)	280		280
	Value	\$ 3,078	\$ 3,910	\$ 270,066	\$ (272,158)	\$ 4,896	\$ (64)	\$ 4,832
Real Property	Number	387	1	257	(343)	302		302
	Value	\$ 71,878	\$ 4,701	\$ 73,492	\$ (75,277)	\$ 74,794	\$ (1,419)	\$ 73,375
Personal Property	Number	2,725	138	3,107	(3,247)	2,723		2,723
	Value	\$ 38,038	\$ (3,165)	\$ 30,046	\$ (30,909)	\$ 34,010	\$ (39)	\$ 33,971
Non-Valued Firearms	Number	27,999	(513)	15,807	(14,736)	28,557		28,557
Total	Number	31,444	44	19,737	(19,363)	31,862		31,862
	Value	\$ 112,994	\$ 5,446	\$ 373,604	\$ (378,344)	\$ 113,700	\$ (1,522)	\$ 112,178

(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, 2017**

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	997	20	5	-	14	1	1,037
	Value	\$ 271,913	\$ 14	\$ 3	\$ -	\$ 266	\$ (38)	\$ 272,158
Real Property	Number	3	4	304	-	32	-	343
	Value	\$ 24	\$ 264	\$ 69,944	\$ -	\$ 5,045	\$ -	\$ 75,277
Personal Property	Number	2	862	1,921	325	137	-	3,247
	Value	\$ 10	\$ 1,332	\$ 23,180	\$ 4,370	\$ 2,017	\$ -	\$ 30,909
Non-Valued Firearms	Number	-	14,020	-	346	370	-	14,736
Total	Number	1,002	14,906	2,230	671	553	1	19,363
	Value	\$ 271,947	\$ 1,610	\$ 93,127	\$ 4,370	\$ 7,328	\$ (38)	\$ 378,344

(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 19 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 19 represents the proceeds realized upon disposition.

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

**U.S. Department of Justice  
Notes to the Principal Financial Statements  
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**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 19 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 19 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  
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**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, 2017 and 2016. 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  
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**Note 7. Forfeited and Seized Property, Net (continued)**

**Analysis of Change in Seized Property -- For the Fiscal Year Ended September 30, 2017**

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	10,225	576	7,599	(7,933)	10,467		10,467
	Value	\$ 1,217,222	\$ 15,867	\$ 1,351,072	\$ (1,083,138)	\$ 1,501,023	\$ (258,350)	\$ 1,242,673
Financial Instruments	Number	416	143	356	(244)	671		671
	Value	\$ 178,963	\$ (63)	\$ 33,684	\$ (9,918)	\$ 202,666	\$ (20,141)	\$ 182,525
Real Property	Number	83	(17)	102	(83)	85		85
	Value	\$ 16,085	\$ (38)	\$ 45,917	\$ (27,553)	\$ 34,411	\$ (14,791)	\$ 19,620
Personal Property	Number	5,261	533	3,785	(4,177)	5,402		5,402
	Value	\$ 113,135	\$ (8,212)	\$ 87,973	\$ (55,076)	\$ 137,820	\$ (39,365)	\$ 98,455
Non-Valued Firearms	Number	22,775	3,228	19,729	(18,751)	26,981		26,981
Total	Number	38,760	4,463	31,571	(31,188)	43,606		43,606
	Value	\$ 1,525,405	\$ 7,554	\$ 1,518,646	\$ (1,175,685)	\$ 1,875,920	\$ (332,647)	\$ 1,543,273

(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, 2017**

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	10	41	-	710	7,172	-	7,933
	Value	\$ 443	\$ 1,191	\$ -	\$ 28,086	\$ 1,053,418	\$ -	\$ 1,083,138
Financial Instruments	Number	2	13	-	28	201	-	244
	Value	\$ 1	\$ 28	\$ -	\$ 1,377	\$ 8,512	\$ -	\$ 9,918
Real Property	Number	-	-	1	17	65	-	83
	Value	\$ -	\$ -	\$ 900	\$ 1,993	\$ 24,660	\$ -	\$ 27,553
Personal Property	Number	-	39	4	1,040	3,094	-	4,177
	Value	\$ -	\$ 64	\$ 163	\$ 25,028	\$ 29,821	\$ -	\$ 55,076
Non-Valued Firearms	Number	-	4,299	-	2,861	11,591	-	18,751
Total	Number	12	4,392	5	4,656	22,123	-	31,188
	Value	\$ 444	\$ 1,283	\$ 1,063	\$ 56,484	\$ 1,116,411	\$ -	\$ 1,175,685

(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  
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**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  
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**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, 2017				
Equipment	402	(268)	134	5-12 years
Leasehold Improvements	<u>3,215</u>	<u>(986)</u>	<u>2,229</u>	5 years
Total	<u>\$ 3,617</u>	<u>\$ (1,254)</u>	<u>\$ 2,363</u>	

	<u>Federal</u>	<u>Public</u>	<u>Total</u>
Sources of Capitalized Property, Plant and Equipment			
Purchases for FY 2017	<u>\$ 2,096</u>	<u>\$ -</u>	<u>\$ 2,096</u>

	<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>\$ 1,521</u>	<u>\$ (965)</u>	<u>\$ 556</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.S. Department of Justice  
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**Note 9. Other Assets**

As of September 30, 2017 and 2016

	2017	2016
Intragovernmental		
Advances and Prepayments	\$ 111	\$ 88
Total Intragovernmental	111	88
Other Assets With the Public	1	38
Total Other Assets	\$ 112	\$ 126

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

As of September 30, 2017 and 2016

	2017	2016
With the Public		
Accrued Annual and Compensatory Leave Liabilities	\$ 1,788	\$ 1,650
Total Liabilities not Covered by Budgetary Resources	1,788	1,650
Total Liabilities Covered by Budgetary Resources	6,323,714	6,158,761
Total Liabilities	\$ 6,325,502	\$ 6,160,411

**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, 2017 and 2016

	2017	2016
Investments, Net (Note 5)	\$ 1,123,000	\$ 1,067,000
Seized Cash Deposited (Note 4)	365,644	134,580
Seized Monetary Instruments (Note 4)	12,379	21,291
Seized Cash in Transit to Forfeiture	-	(5,649)
Total Seized Cash and Monetary Instruments	\$ 1,501,023	\$ 1,217,222

These notes are an integral part of the financial statements.

**U.S. Department of Justice  
Notes to the Principal Financial Statements  
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**Note 12. Other Liabilities**

All Other Liabilities are current liabilities.

As of September 30, 2017 and 2016

	2017	2016
Intragovernmental		
Employer Contributions and Payroll Taxes Payable	\$ 297	\$ 278

**Note 13. Contingencies and Commitments**

	Accrued Liabilities	Estimated Range of Loss	
		Lower	Upper
As of September 30, 2017			
Reasonably Possible	\$ -	\$ 3,000	\$ 5,000
As of September 30, 2016			
Reasonably Possible	\$ -	\$ 2,500	\$ 5,000

**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 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, 2017 and 2016

	2017	2016
<b>Balance Sheet</b>		
Assets		
Fund Balance with U.S. Treasury	\$ 1,389,918	\$ 115,389
Investments, Net	5,249,550	6,166,684
Other Assets	120,841	115,693
Total Assets	\$ 6,760,309	\$ 6,397,766
Liabilities		
Accounts Payable	\$ 4,709,115	\$ 4,829,965
Other Liabilities	115,364	107,575
Total Liabilities	\$ 4,824,479	\$ 4,937,540
Net Position		
Cumulative Results of Operations	\$ 1,935,830	\$ 1,460,226
Total Net Position	\$ 1,935,830	\$ 1,460,226
Total Liabilities and Net Position	\$ 6,760,309	\$ 6,397,766

For the Fiscal Years Ended September 30, 2017 and 2016

<b>Statement of Net Cost</b>		
Gross Cost of Operations	\$ 979,509	\$ 1,215,946
Less: Earned Revenue	14,723	14,877
Net Cost of Operations	\$ 964,786	\$ 1,201,069
<b>Statement of Changes in Net Position</b>		
Net Position Beginning of Period	\$ 1,460,226	\$ 1,549,919
Budgetary Financing Sources	1,072,102	913,186
Other Financing Sources	368,288	198,190
Total Financing Sources	1,440,390	1,111,376
Net Cost of Operations	(964,786)	(1,201,069)
Net Change	475,604	(89,693)
Net Position End of Period	\$ 1,935,830	\$ 1,460,226

These notes are an integral part of the financial statements.

**U.S. Department of Justice  
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**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, 2017

	Forfeiture Operations Expenses	General Investigation Expenses	Total
Goal 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law			
Gross Cost	\$ 743,434	\$ 236,075	\$ 979,509
Less: Earned Revenue	14,723	-	14,723
Net Cost of Operations	\$ 728,711	\$ 236,075	\$ 964,786

For the Fiscal Year Ended September 30, 2016

	Forfeiture Operations Expenses	General Investigation Expenses	Total
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	\$ 935,800	\$ 265,269	\$ 1,201,069



**U.S. Department of Justice**  
**Notes to the Principal Financial Statements**  
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**Note 16. Imputed Financing**

**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 AFF/SADF 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	32.8
	Regular Employees Offset	24.2
	Law Enforcement Officers	56.4
	Law Enforcement Officers Offset	48.5
Federal Employees Retirement System (FERS)	Regular Employees	14.7
	Regular Employees – Revised Annuity Employees (RAE)	15.3
	Regular Employees – Further Revised Annuity Employees (FRAE)	15.4
	Law Enforcement Officers	32.5
	Law Enforcement Officers – RAE	33.2
	Law Enforcement Officers – FRAE	33.3

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**  
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**Note 16. Imputed Financing (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 AFF/SADF from a providing entity that is a part of the Department. 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 AFF/SADF does not have any imputed intra-departmental financing sources that meet the reporting requirements.

For the Fiscal Years Ended September 30, 2017 and 2016

	2017	2016
Imputed Inter-Departmental Financing		
Health Insurance	\$ 979	\$ 1,153
Life Insurance	4	5
Pension	330	373
Total Imputed Inter-Departmental	\$ 1,313	\$ 1,531

**Note 17. Information Related to the Statement of Budgetary Resources**

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 activities, projects, and objectives or for a combination thereof.

**U.S. Department of Justice  
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**Note 17. Information Related to the Statement of Budgetary Resources (continued)**

**Apportionment Categories of New Obligations and Upward Adjustments:**

	Direct New Obligations and Upward Adjustments	Reimbursable New Obligations and Upward Adjustments	Total New Obligations and Upward Adjustments
For the Fiscal Year Ended September 30, 2017			
Apportioned Under			
Category A	\$ 20,419	\$ -	\$ 20,419
Category B	1,310,776	16,741	1,327,517
Total	<u>\$ 1,331,195</u>	<u>\$ 16,741</u>	<u>\$ 1,347,936</u>
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	<u>\$ 1,317,744</u>	<u>\$ 15,841</u>	<u>\$ 1,333,585</u>

**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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
UDO Obligations Unpaid	\$ 159,213	\$ 193,278
UDO Obligations Prepaid/Advanced	111	88
Total UDO	<u>\$ 159,324</u>	<u>\$ 193,366</u>

**Permanent Indefinite Appropriations:**

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

**U.S. Department of Justice  
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**Note 17. Information Related to the Statement of Budgetary Resources (continued)**

**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.

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

The reconciliation as of September 30, 2017 is not presented because the submission of the Budget of the United States (Budget) for FY 2019, which presents the execution of the FY 2017 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 2018.

For the Fiscal Year Ended September 30, 2016  
(Dollars in Millions)

	Total Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Agency Outlays, Net
Statement of Budgetary Resources (SBR)	\$ 1,973	\$ 1,334	\$ 12	\$ 1,213
Funds not Reported in the Budget				
AFF/SADF Forfeiture Activity	2	2		
Distributed Offsetting Receipts				12
Funds not Reported in the SBR				
Other	1			(2)
Budget of the United States Government	\$ 1,976	\$ 1,336	\$ 12	\$ 1,223

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  
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**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. 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." The last Super Surplus declaration was in FY 2012 and there were no open Super Surplus obligations on September 30, 2017 or 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, 2017 and 2016, transfers-out of forfeited property for official use totaled \$3,017 and \$4,209, respectively.

**Transfers Pursuant to Public Law.** The Consolidated Appropriations Act, 2017 (P.L. 115-51) enacted a \$201.2 million permanent rescission from the AFF, which was transferred to the Treasury in September 2017.

The Continuing Appropriations Act, 2016 (P.L. 114-53) authorized the AFF to transfer \$61.2 million to the USMS Office of the Federal Detention Trustee (OFDT) in FY 2016. This transfer was treated as an expenditure transfer 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 Treasury in September 2016.

**U.S. Department of Justice  
Notes to the Principal Financial Statements  
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**Note 19. 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, 2017 and 2016, net forfeiture income attributable to the AFF totaled \$1,586,422 and \$1,886,918 respectively, after the following payments and returns to agencies participating in seizures that led to forfeiture.

	FY 2017	FY 2016
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.	\$ 4	\$ 581
Return of forfeiture income to the TFF for its participation in seizures that led to forfeiture.	12,814	57,398
Return of forfeiture income to the U.S. Postal Service for its participation in seizures that led to forfeiture.	8,911	10,728
Return of forfeiture income to the other Federal Agencies for their participation in seizures that led to forfeiture.	-	5
Total Return of Forfeiture Income	\$ 21,729	\$ 68,712

**U.S. Department of Justice  
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**Note 20. Reconciliation of Net Cost of Operations (proprietary) to Budget**

For the Fiscal Years Ended September 30, 2017 and 2016

	2017	2016
Resources Used to Finance Activities		
Budgetary Resources Obligated		
New Obligations and Upward Adjustments	\$ 1,347,936	\$ 1,333,585
Less: Spending Authority from Offsetting Collections and Recoveries	438,728	121,454
Obligations Net of Offsetting Collections and Recoveries	909,208	1,212,131
Less: Offsetting Receipts and Nonexchange Revenue	56,868	34,336
Net Obligations	852,340	1,177,795
Other Resources		
Donations and Forfeitures of Property	369,992	200,868
Transfers-In/Out Without Reimbursement	(3,017)	(4,209)
Imputed Financing (Note 16)	1,313	1,531
Net Other Resources Used to Finance Activities	368,288	198,190
Total Resources Used to Finance Activities	1,220,628	1,375,985
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	37,697	16,329
Resources That Fund Expenses Recognized in Prior Periods (Note 21)	-	(250)
Budgetary Offsetting Collections and Receipts That do not Affect Net Cost of Operations	(313,125)	(166,532)
Resources That Finance the Acquisition of Assets	(2,096)	-
Other Resources or Adjustments to Net Obligated Resources That do not Affect Net Cost of Operations	3,017	(56,991)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(274,507)	(207,444)
Total Resources Used to Finance the Net Cost of Operations	\$ 946,121	\$ 1,168,541

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 20. Reconciliation of Net Cost of Operations (proprietary) to Budget (continued)**

For the Fiscal Years Ended September 30, 2017 and 2016

	2017	2016
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 21)	\$ 138	\$ -
Depreciation and Amortization	290	195
Other	18,237	32,333
Total Components of Net Cost of Operations That Did not Require or Generate Resources in the Current Period	\$ 18,665	\$ 32,528
Net Cost of Operations	\$ 964,786	\$ 1,201,069



**U.S. Department of Justice  
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**Note 21. 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 \$1,788 and \$1,650 on September 30, 2017 and 2016, 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, 2017 and 2016

	2017	2016
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	\$ 138	\$ -
Total Components that Will Require or Generate Resources in Future Periods	\$ 138	\$ -

# U.S. DEPARTMENT OF JUSTICE

## Assets Forfeiture Fund and Seized Asset Deposit Fund

### Appendix



**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 financial statements and trial balance, to include reconciling and researching differences in budgetary information.**

Resolved. Asset Forfeiture Management Staff (AFMS) and Justice Management Division (JMD) Finance Staff concurred with this recommendation. AFMS and JMD Finance Staff stated in their response that during FY 2017, AFMS implemented a quarterly line-by-line reconciliation of its related budgetary reports and financial statements.

This recommendation can be closed when subsequent annual financial statement audit testing verifies that management has sufficiently implemented a line-by-line reconciliation of its budgetary information and researches differences between the Trial Balance and the financial statements.

- 2. Coordinate with Departmental management to develop and implement options to ensure Asset Forfeiture Program (AFP) participating agencies are fully accountable for timely and accurately recording changes in status for seized and forfeited assets such as enhancing policies and procedures, expanding training, and assessing participating agencies compliance with CATS data entry requirements and developing corrective action as necessary.**

Resolved. AFMS concurred with this recommendation. AFMS stated in its response that it will work with the Office of the Deputy Attorney General to establish incentives for AFP participating agencies to help ensure those agencies and components follow established policies and procedures for timely and accurately recording changes in seized/forfeited asset information.

This recommendation can be closed when subsequent annual financial statement audit testing verifies that management has sufficiently coordinated with Departmental management to develop control actions to ensure AFP participating agencies are timely and accurately recording changes in the status of seized and forfeited assets.

**3. Perform a more thorough review of manual journal entries to ensure that they accurately reflect underlying accounting events.**

Resolved. AFMS and JMD Finance Staff concurred with this recommendation. AFMS and JMD Finance Staff stated in their response that they plan to evaluate all journal entries made every quarter for financial reporting and ensure that the General Ledger posting models comply with the U.S. Standard General Ledger. Further, any ad hoc journal entries made for financial reporting will be reviewed by both AFMS and JMD and concurrence received from both prior to entering in the financial system of record.

This recommendation can be closed when subsequent annual financial statement audit testing verifies that management has sufficiently evaluated and reviewed all journal entries made every quarter for financial reporting, ensured that the General Ledger posting models comply with the U.S. Standard General Ledger, and implemented the review of ad hoc financial reporting journal entries by AFMS and JMD prior to entry into the financial system of record.



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