**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 2018

Audit Division 19-05

December 2018

# Commentary and Summary

*Audit of the Assets Forfeiture Fund and Seized Asset Deposit Fund Annual Financial Statements Fiscal Year 2018*

## 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 or contract an independent auditor 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

KPMG LLP (KPMG) found the AFF/SADF's financial statements are fairly presented as of and for the year ended September 30, 2018. An unmodified opinion was issued. KPMG identified one material weakness in the Independent Auditors' Report. The Independent Auditors' Report did not report any instances of noncompliance.

The OIG reviewed KPMG's report 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 is responsible for the attached auditors' report dated November 9, 2018, and the conclusions expressed in the report. 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

KPMG provided the AFF/SADF two recommendations to enhance internal control over financial reporting.

## Audit Results

Under the direction of the OIG, KPMG performed the AFF/SADF's audit in accordance with auditing standards generally accepted in the United States of America. The FY 2018 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 2017, AFF/SADF also received an unmodified opinion on its financial statements (OIG Audit Division Report No. 18-05).

KPMG identified one material weakness in the AFF/SADF's internal controls related to improvements needed in controls over reporting budget related information in financial statements and the processes related to revenue cut-off and recognition.

No instances of non-compliance or other matters were identified during the audit that are required to be reported under Government Auditing Standards. Additionally, KPMG 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 2018

## TABLE OF CONTENTS

# Department of Justice

## Assets Forfeiture Fund and Seized Asset Deposit Fund
## FY 2018 Management's Discussion and Analysis

**(Unaudited)**

**September 30, 2018**

# 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 employ asset forfeiture powers to achieve the following goals outlined in *The Attorney General's Guidelines on the Asset Forfeiture Program* (July 2018) (AG Guidelines):

- Punish and deter criminal activity by depriving criminals of property used in or acquired through illegal activities;

- Promote and enhance cooperation between federal, state, local, tribal, and foreign law enforcement agencies;

- Recover assets that may be used to compensate victims when authorized under federal law; and

- Ensure the AFP is administered professionally, lawfully, and in a manner consistent with sound public policy.

To achieve this mission, agencies participating in the AFP investigate, identify, seize, and forfeit the assets of criminals and their organizations while ensuring that due process rights of all property owners are protected. Asset forfeiture plays a critical role in disrupting and dismantling illegal enterprises, depriving criminals of the proceeds of illegal activities, deterring crime, and restoring property to victims. The effective use of asset forfeiture is an essential component of the Department's efforts to combat the most sophisticated criminal actors and organizations – including terrorist financiers, cyber criminals, fraudsters, human traffickers, and transnational drug cartels.

## ORGANIZATION STRUCTURE

A participating agency of the AFP is one which deposits asset forfeiture proceeds in the Assets Forfeiture Fund (AFF). Participating agencies may be agencies within the Department or from other federal agencies. Only participating agencies that contribute to the AFF are eligible to receive an annual allocation of resources from it. AFP participating agencies in FYs 2018 and 2017 are presented below.

## AFP Participating Agencies

| DOJ AFP Paricipating Agencies |
|---|
| Asset Forfeiture Management Staff (AFMS), Justice Management Division (JMD) |
| Bureau of Alcohol, Tobacco, Firearms and Expolosives (ATF) |
| Drug Enforcement Administration (DEA) |
| Federal Bureau of Investigation (FBI) |
| Money Laundering and Asset Recovery Section, Criminal Division (MLARS)* |
| Executive Office for Organized Crime Drug Enforcement Task Force (OCDETF) |
| Executive Office for United States Attorneys (EOUSA) & United States Attorneys' Offices (USAOs) |
| United States Marshals Service (USMS) |

| Non-DOJ AFP Participating Agencies |
|---|
| Defense Criminal Investigative Service (DCIS) |
| Department of State Bureau of Diplomatic Security (DS) |
| Department of Health and Human Services Office of Criminal Investigations, Food and Drug Administration (FDA) |
| Department of Agriculture Office of the Inspector General (USDA) |
| United States Postal Inspection Service (USPIS) |

* *Renamed from Asset Forfeiture and Money Laundering Section (AFMLS) in January 2017.*

Participating agencies in the AFP 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, are shown below.

## Functions of AFP Participating Agencies

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

The USMS has primary responsibility for holding and maintaining real and tangible personal property seized by participating agencies for disposition. The ATF has primary responsibility over the custody, maintenance and disposition of firearms seized and forfeited by the participating agencies. Forfeited property is subsequently sold, placed into official use, destroyed, or transferred to other agencies.

## STRATEGIC GOALS AND OBJECTIVES

The *Department of Justice Strategic Plan for 2018 – 2022* (Plan) commits the Department to reducing violent crime that is scouring our communities, in part by supporting law enforcement and by providing additional prosecutorial resources to address the threat. It proposes to achieve these goals by enshrining the values of integrity, efficiency, and the Rule of Law. The AFF/Seized Asset Deposit Fund (SADF) supports three of the Department's strategic goals as follows:

**Strategic Goal 1, Enhance National Security and Counter the Threat of Terrorism**. AFF resources dedicated to Goal 1 fund the Criminal Division's MLARS and Office of International Affairs for their activities targeting transnational criminal organizations and activities threatening national security, to include exploitation of U.S. financial system vulnerabilities and links to terrorist-related organizations and activities. Approximately 5 percent of the AFF/SADF's net cost supports this goal.

**Strategic Goal 3, Reduce Violent Crime and Promote Public Safety.** AFF resources dedicated to Goal 3 fund investigation and litigation-related activities, including identifying, seizing, forfeiting, and disposing of assets; administering the victim compensation and equitable sharing programs, a diverse array of joint law enforcement operations, and case-related investigations and legal proceedings. Approximately 90 percent of the AFF/SADF's net cost supports this goal.

**Strategic Goal 4, Promote Rule of Law, Integrity, and Good Government.** Resources dedicated to Goal 4 are for AFMS's oversight of program-wide compliance, accountability, and "good government" practices and solutions that cut across the very diverse mission responsibilities carried out by each of the 13 AFP participating agencies. It is important to note that five of these participating partners are from other federal agencies external to the Department, with their own strategic goals and objectives. The eight participating agencies from within the Department support its goals in different ways because of the unique missions of each. AFMS supports all of these goals in different ways, depending on the component and mission of each agency. This includes effectively and efficiently managing the Consolidated Asset Tracking System (CATS) and related applications used program-wide, oversight of professional services contractors supporting participating agencies, budget formulation and allocation procedures for resourced activities, program and performance evaluations of resourced activities, audits and internal control activities, and compliance reviews to ensure resourced activities are operating in accordance with law, policy, and regulation. Approximately 5 percent of the AFF/SADF's net cost supports this goal.

# FINANCIAL STRUCTURE

The AFF and SADF together comprise a single financial reporting entity of the DOJ. The AFF was created by the Comprehensive Crime Control Act of 1984 as 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 with no-year budget authority, available until expended, and is identified in the U.S. Department of the Treasury's (Treasury) Federal Account Symbols and Titles Book (FAST) 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 pursuant to statutory requirements.

Funds deposited in the AFF are used for the costs of the AFP, including:

- Victims and other innocent third party claims
- Equitable sharing of forfeiture proceeds to state, local, and tribal agencies and foreign governments which directly assist in law enforcement efforts that lead to the seizure and forfeiture of assets
- Federal, state and local task forces expenses incurred in a joint law enforcement operation
- Forfeiture-related investigation and litigation
- Contract support services
- Information systems and equipment used in forfeiture work
- Management and disposal of assets
- Storage, protection and destruction of drugs
- Forfeiture training

Liabilities and imputed costs of AFP participants are reported in the financial statements of the participants'' reporting agencies. Some salaries and employment-related expenses are paid from the AFF when authorized by the Attorney General (AG). Salaries and employment-related costs not authorized by the AG for payment from the AFF are reported in the financial statements of the participants' reporting agencies.

The SADF is a deposit fund in the U.S. Treasury identified in FAST 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. Funds held in the SADF are not Government property and may not be used to cover any costs of the AFP. 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.

**Limitations on the use of the Assets Forfeiture Fund**

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 funds 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 AG Guidelines, other policy memoranda and statutory interpretations issued by appropriate authorities. Unless otherwise provided by law, restrictions on the use of the AFF retain those limitations after any AFF funds are made available to a recipient agency. Moreover, funds are available for use only to the extent that receipts are available in the AFF.

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 sharing, 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 AFF resources are used for the purpose for which they were provided, the AFP follows internal control procedures referenced in the joint Justice and Treasury *Guide to Equitable Sharing for State, Local, and Tribal Law Enforcement Agencies* (July 2018) and *Asset Forfeiture Policy Manual* (2016), *Chapter 6: Equitable Sharing and Official Use*. Internal controls include reviews of regular reports from state and local law enforcement agencies receiving equitable sharing resources and external audit reports, when required.

## FY 2018 RESOURCE INFORMATION

Most of the AFFs resources come from the forfeiture of cash and cash equivalents and donations and forfeitures of property. Interest earned on investments, presented below as nonexchange revenue, is also a valuable resource to the AFF. As depicted in Figure 2, below, earnings on investments in Federal securities have increased steadily over the last five years, largely due to increasing interest rates.

## Table 1 - Sources of AFF Resources
## (Dollars in Thousands)

| Source | FY 2018 | FY 2017 | % Change |
|---|---|---|---|
| **Exchange Revenue** | $ 22,253 | $ 14,723 | 51.14% |
| **Budgetary Financing Sources** | | | |
| Other Adjustments | (304,000) | - | 100.00% |
| Nonexchange Revenues | 102,877 | 56,868 | 80.90% |
| Donations and Forfeitures of Cash or Cash Equivalents | 1,072,488 | 1,216,430 | -11.83% |
| Transfers-In/Out Without Reimbursement | - | (201,196) | -100.00% |
| **Other Financing Sources** | | | |
| Donations and Forfeitures of Property | 203,682 | 369,992 | -44.95% |
| Transfers-In/Out Without Reimbursement | (3,880) | (3,017) | 28.60% |
| Imputed Financing from Costs Absorbed by Others | 2,451 | 1,313 | 86.67% |
| **Total Asset Forfeiture Fund Resources** | **$ 1,095,871** | **$ 1,455,113** | **-24.69%** |

As indicated in Table 2, below, AFF resources support Strategic Goals 1, 3 and 4 in the Plan. Expenses include case, program, investigative and other forfeiture support costs. Expenditures fluctuate in direct relation to the forfeiture activity of the investigative, prosecutive, litigative and administrative participants in the AFP.

## Table 2 – How AFF Resources Are Spent
## (Dollars in Thousands)

| Strategic Goal (SG) | FY 2018 | FY 2017 | % Change |
|---|---|---|---|
| SG 1: Enhance National Security and Counter the Threat of Terrorism | | | |
| Gross Cost | $ 75,407 | $ 48,975 | |
| Less: Earned Revenue | - | - | |
| *Net Cost* | $ 75,407 | $ 48,975 | 53.97% |
| SG 3: Reduce Violent Crime and Promote Public Safety | | | |
| Gross Cost | $ 1,357,329 | $ 881,559 | |
| Less: Earned Revenue | 22,253 | 14,723 | |
| *Net Cost* | $ 1,335,076 | $ 866,836 | 54.02% |
| SG 4: Promote Rule of Law, Integrity, and Good Government | | | |
| Gross Cost | $ 75,407 | $ 48,975 | |
| Less: Earned Revenue | - | - | |
| *Net Cost* | $ 75,407 | $ 48,975 | 53.97% |
| **Total Gross Cost** | **$ 1,508,143** | **$ 979,509** | |
| **Less: Total Earned Revenue** | **22,253** | **14,723** | |
| ***Total Net Cost of Operations*** | **$ 1,485,890** | **$ 964,786** | **54.01%** |

# 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*.

## Consolidated Balance Sheets

**Assets**: Total assets presented on the AFF/SADF Consolidated Balance Sheet as of September 30, 2018 are $6,635.7 million compared with $8,261.3 million in FY 2017, a decrease of $1,625.6 million. The decrease is mainly due to the payment of prior year liabilities of $1,326.9 million in FY 2018 representing payments to victims related to the Madoff case.

**Liabilities:** Total liabilities of the AFF/SADF were $5,112.1 million as of September 30, 2018 compared with $6,325.5 million in FY 2017, a decrease of $1,213.4 million, mainly due to the payment of prior year liabilities of $1,326.9 million in FY 2018 representing payments to victims related to the Madoff case.

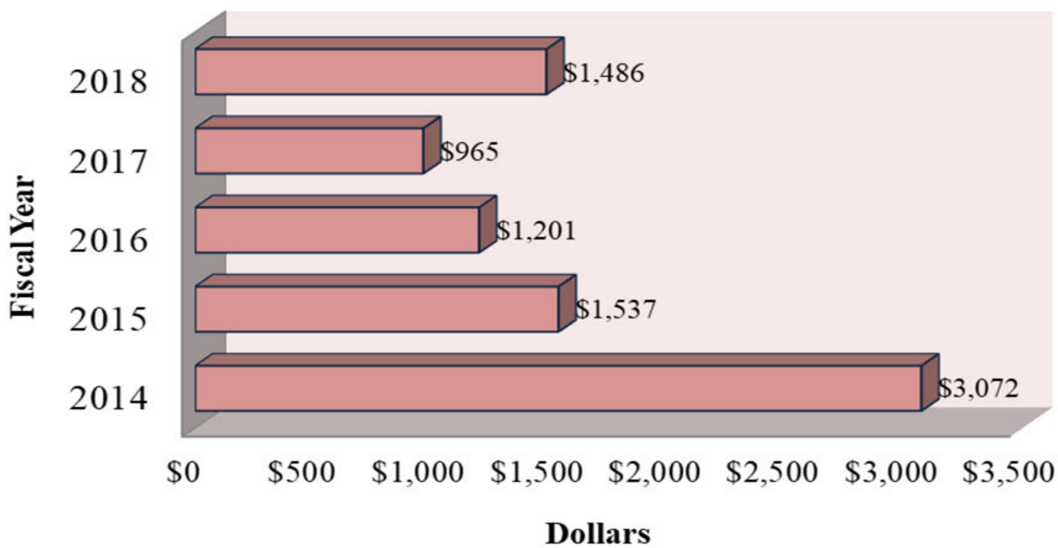
## Consolidated Statements of Net Cost

By September 30, 2018, all DOJ AFP participating agencies migrated to the Department's Unified Financial Management System (UFMS), with the exception of OCDETF. OCDETF's migration is planned for FY 2019. FBI will remain on a separate instance of UFMS and OCDETF's migration is planned for FY 2019. Agencies migrated to UFMS, except for FBI, receive their allocations on a suballotment advice (SA), which allows the agency to obligate and expend directly from the AFF. Transactions from these agencies are reflected in the AFF/SADF financial statements as intragovernmental or with the public, depending upon the trading partner. FBI and agencies not migrated to UFMS receive their allocations on a reimbursable agreement and must expend their agencies' funds and bill the AFF for reimbursement. These transactions are reflected in the financial statements as intragovernmental. The number and value of transactions migrated to UFMS in FY 2018 caused a marked decrease in intragovernmental obligations and gross cost, and an equal increase in obligations and costs with the public.

**Net Cost:** The Consolidated Statements of Net Cost present the AFF's net cost of operations by Strategic Goal. The net cost of operations for the year ended September 30, 2018, totaled $1,485.9 million compared with $964.8 million in FY 2017, an increase of $521.1 million. The increase is the result of increased approval and obligation of third party payments in FY 2018. To the extent that financing sources do not cover net costs, AFF's unobligated balances from prior years' budget authority (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.

Net cost over a five-year period is presented in Figure 1.

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




**Consolidated Statements of Changes in Net Position**

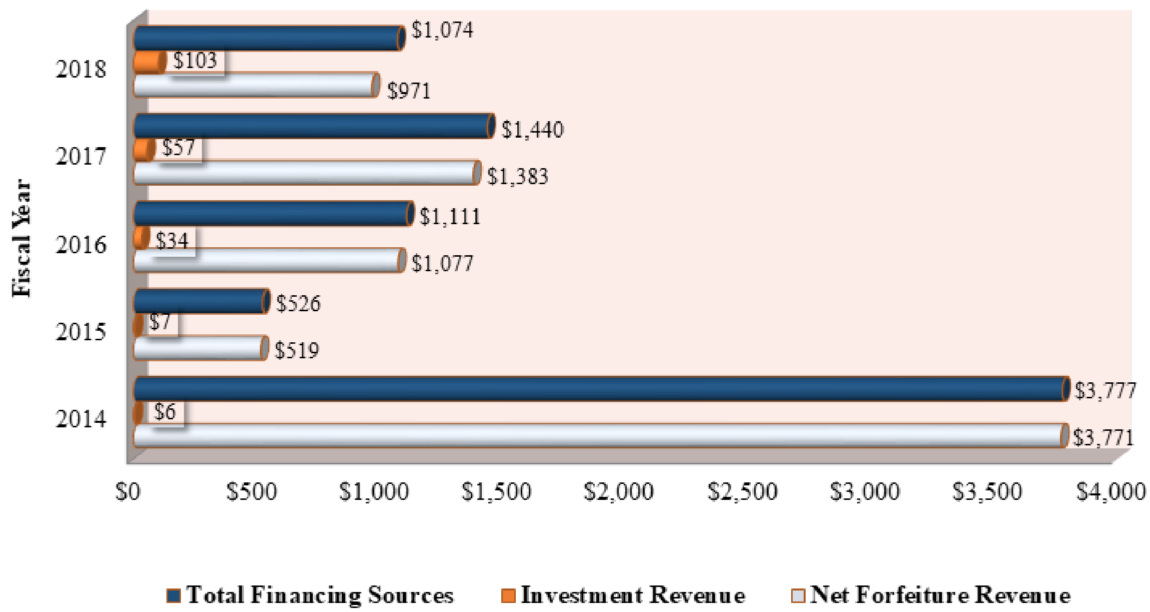
**Donations and Forfeitures of Cash and Cash Equivalents and Donations and Forfeitures of Property:** These two sources of AFF resources in Table 1 comprise the AFF's forfeiture revenue and consistently comprise the majority of the AFF's resources. The AFF's forfeiture revenue was $1,276.2 million in FY 2018 and $1,586.4 million in FY 2017, a decrease of $310.3 million. The decrease is due mainly to a reduction in large cases, in which related assets total $20 million or more, in FY 2018 compared to FY 2017. In FY 2017, there were 10 large cases which netted $881.2 million in forfeiture revenue. In FY 2018, there were eight large cases which netted $541.8 million in forfeiture revenue, including 1MalaysiaDevelopmentBerhard, SAIC, and Wilmington Trust.

**Nonexchange Revenue:** Nonexchange revenue on the Statement of Change in Net Position is comprised solely of interest earned on investments of AFF and SADF in government securities. Amounts available for investment are difficult to predict because many factors influence the balance available. These factors may include unanticipated cash seizures and forfeitures increasing funds available for investment or orders to pay victims and other innocent third party payments decreasing the funds available for investment. Although the amount of AFF and SADF investments remained relatively constant in FYs 2018 and 2017, revenue from these investments increased by $46 million, to $102.9 million in FY 2018 from $56.9 million in FY 2017. The increased revenue from investments is due to higher interest rates on Federal securities in FY 2018 than in FY 2017.

**Budgetary Financing Sources:** Subject to the Consolidated Appropriations Act, 2018 (P.L. 115–141), AFF transferred $304 million to the Treasury as a permanent rescission FY 2018. In FY 2017, the AFF transferred 201.2 million to the Treasury as a permanent rescission, an increase of $102.8 million in FY 2018 over FY 2017.

**Total financing sources**: AFF revenue and financing sources over a five-year period are presented in Figure 2.

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




**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 2018, Net Position totaled $1,523.6 million versus $1,935.8 million at the end of FY 2017, a decrease of $412.2 million. The decrease in Net Position is mainly due to the decrease in forfeiture revenue of $310.3 million and the increase in permanent rescissions of $102.8 million in FY 2018 from FY 2017.

### Combined Statements of Budgetary Resources

**Budgetary Resources:** Total Budgetary Resources in FY 2018 totaled $2,761.1 million compared with $2,650.8 million in FY 2017, an increase of $110.3 million. The increase is the result of several factors, including increased Unobligated Balance from Prior Year Budget Authority, Net, of $330.3 million over FY 2017, less increased permanent rescissions of $102.8 million.

**Unobligated Balance – End of Year (Total):** The Unobligated Balance as of September 30, 2018 was $1,200.9 million as opposed to $1,302.8 million as of September 30, 2017, a decrease of $101.9 million, which is the difference between the permanent rescissions in FYs 2018 and 2017 of $304 million and $201.2 million, respectively.

**Outlays, Net:** Net outlays were $2,608 million in FY 2018 compared with $1,070.8 million in FY 2017, an increase of $1,537.2 million. The majority of the increase represents payments to victims related to the Madoff case of $1,326.9 million in FY 2018.

## SUMMARY OF PERFORMANCE INFORMATION

The AFP is an enabling/administrative activity where resources are spread across agencies in accordance with full program costing guidance. AFP's operations are performed by its participants; therefore, performance measures are not applicable to the AFP.

## ANALYSIS OF SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

### Management Assurance

AFMS is responsible for overseeing the adequacy of internal accounting and administrative controls put in place by AFP 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 UFMS, monitor financial transactions on an ongoing basis. Since the AFP operations are performed in participating agencies with different systems of internal control outside the purview of AFMS, DOJ participating agencies submitted to the Director, AFMS, an AFP Participating Agency Sub-certification of Internal Controls over Financial Reporting, including the proper use of AFF resources, management of assets and legal compliance. 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's obligation status.

### 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.

**FMFIA Assurance Statement**

AFMS provided reasonable assurance that internal control over financial reporting was effective, considering weaknesses in reporting forfeiture revenue in the correct period. In FY 2018, in order to provide visibility into the internal controls of the AFP's participating agencies, most of the DOJ participating agencies provided a sub-certification of internal controls over the use of AFF resources. There have been no changes to internal control over financial reporting subsequent to September 30, 2018, or other factors that might significantly affect the effectiveness of internal control over financial reporting.

**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 by the President, Congress, and 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. Furthermore, the Act requires independent auditors to report on agency compliance with the three requirements in the financial statement audit report.

The Federal Information Security Management Act (FISMA) states that to be substantially compliant with FFMIA, there are to be no significant deficiencies in information security policies, procedures, or practices.

**FFMIA Compliance Determination**

We 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 results of this assessment are included in the Summary of Management Assurances, below.

**Financial Management Systems Strategy, Goals, and Framework**

The AFF/SADF's financial system of record is the Department's UFMS. The Department's UFMS managers in JMD are responsible for reporting on the UFMS's strategy, goals and framework.

**Summary of Financial Statement Audit and Management Assurances**

The following table summarizes the results of the AFF/SADF's FY 2018 financial statement audit and Management Assurances.

| **Financial Statement Audit Opinion and Material Weaknesses** | | | | |
|---|---|---|---|---|
| **Audit Opinion** | Unmodified | | | |
| **Restatement** | No | | | |
| **Material Weakness** | **Beginning Balance** | **New** | **Resolved** | **Ending Balance** |
| Financial Reporting | 0 | 1 | 0 | 1 |
| ***Total Material Weaknesses*** | **0** | **1** | **0** | **1** |

| Effectiveness of Internal Control over Operations (FMFIA § 2) | | | | |
|---|---|---|---|---|
| **Statement of Assurance** | **Unmodified** | | | |
| **Material Weaknesses** | **Beginning Balance** | **New** | **Resolved** | **Ending Balance** |
| None | 0 | 0 | 0 | 0 |
| ***Total Material Weaknesses*** | **0** | **0** | **0** | **0** |

| Effectiveness of Internal Control over Financial Reporting (FMFIA § 2) | | | | |
|---|---|---|---|---|
| **Statement of Assurance** | **Unmodified** | | | |
| **Material Weakness** | **Beginning Balance** | **New** | **Resolved** | **Ending Balance** |
| None | 0 | 0 | 0 | 0 |
| ***Total Material Weaknesses*** | **0** | **0** | **0** | **0** |

| Compliance with Section 803(a) of Federal Financial Management Improvement Act (FFMIA) | | |
|---|---|---|
| **Compliance with Specific Requirements** | | |
| **Specific Requirements** | **AFF/SADF** | **Auditor** |
| Federal Finanical Management System Requirements | No Lack of Compliance Noted | No Lack of Compliance Noted |
| Applicable Federal Accounting Standards | No Lack of Compliance Noted | No Lack of Compliance Noted |
| USSGL at Transaction Level | No Lack of Compliance Noted | No Lack of Compliance Noted |

# POSSIBLE FUTURE EFFECTS OF EXISTING EVENTS AND CONDITIONS

**FY 2018 Budget Position**

The AFF/SADF's financial position declined in FY 2018 because of increased permanent rescissions. The Consolidated Appropriations Act, 2018 (P.L. 115-141) enacted a permanent rescission of $304 million, $102.8 million more than in FY 2017's permanent rescission of $201.2 million. Significant rescissions may lead to AFP spending restrictions for participating agencies, leading to reductions in assets seized and forfeited by AFP participating agencies.

Several states implemented or are considering implementing state legislation restricting or prohibiting state, local or tribal law enforcement agencies' ability to accept Federal equitable sharing. As of September 30, 2018, there was no impact on the AFF/SADF resulting from these laws because most equitable sharing obligations and payments in FY 2018 were the result of case decisions which occurred prior to the enactment of these laws. The future impact on AFP seizure and forfeiture activity is not known at this time.

# FORWARD LOOKING INFORMATION

The most important existing uncertainty for the AFF/SADF is the impact of future rescissions on the ability of the AFP to continue to perform its mission, discussed above.

# 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' Report

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

# Independent Auditors' Report

Inspector General
U.S. Department of Justice

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

## Report on the Financial Statements

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, 2018 and 2017, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

*Management's Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Justice Assets Forfeiture Fund and Seized Asset Deposit Fund as of September 30, 2018 and 2017, 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***

*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, 2018, we considered the AFF/SADF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the AFF/SADF's internal control. Accordingly, we do not express an opinion on the effectiveness of the AFF/SADF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Exhibit I to be a material weakness.

AFF/SADF management did not report the material weakness presented in Exhibit I in the Statement of Assurance, included in the Management's Discussion and Analysis section of the consolidated financial statements.

Exhibit II presents the status of the prior years' findings and recommendations.

*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 under *Government Auditing Standards* or OMB Bulletin No. 19-01.

We also performed tests of the AFF/SADF's 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) the United States Government Standard General Ledger at the transaction level.

*AFF/SADF's Response to Findings*

The AFF/SADF's response to the findings identified in our audit is described in Exhibit I. The AFF/SADF's response 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 the Other Reporting Required by Government Auditing Standards*

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the AFF/SADF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
November 9, 2018

## Material Weakness

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

### Improvements Needed in Controls over Budget Related Information Presented in Financial Statements and Donation and Forfeiture Revenue

In fiscal year (FY) 2018, 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 effective controls in place to ensure that certain line items in the financial statements were materially accurate and properly presented. Specifically, we identified certain material misstatements in the Statement of Budgetary Resources as of September 30, 2018 and the related notes to the financial statements. We also noted that management was not able to enforce its policies and procedures to require agencies participating in the U.S. Department of Justice (DOJ) Asset Forfeiture Program (AFP) to review and evaluate supporting judicial information timely in the Consolidated Asset Tracking System (CATS) to ensure revenue was recognized in the appropriate accounting period.

The aforementioned deficiency impairs management's ability to prevent, or detect and correct misstatements of the entity's financial statements on a timely basis. As a result of this deficiency, we identified certain errors during our FY 2018 audit that are described further below.

*Inaccurate Information in the Statement of Budgetary Resources and Related Notes*

Various errors were identified in the Statement of Budgetary Resources and related notes submitted for audit for the fiscal year ended September 30, 2018. Specifically, we identified the following errors:

- Recoveries of prior year unpaid obligations were incorrectly presented as appropriations in the financial statements. As a result, the line item Unobligated Balance from Prior Year Budget Authority, Net was understated while Appropriations was overstated by $87.6 million on the Statement of Budgetary Resources;

- Unapportioned authority was incorrectly included with apportioned authority in the financial statements. As a result, Unobligated Balance, End of Period – Apportioned was overstated while Unobligated Balance, End of Period - Unapportioned was understated by $12.6 million in the Statement of Budgetary Resources. This also understated Unobligated Balance - Unavailable in Note 3, Fund Balance with Treasury, by the same amount;

- Certain portions of Note 10, Liabilities not Covered by Budgetary Resources, were misclassified. Specifically, we noted that the seized cash and monetary instruments liability and deferred revenue were improperly presented as either liabilities covered or not covered by budgetary resources. As a result, Liabilities not Covered by Budgetary Resources was overstated by $161.9 million, Liabilities Covered by Budgetary Resources was overstated by $1.4 billion, and Liabilities not Requiring Budgetary Resources were understated by $1.4 billion; and

- Certain portions of the line item Resources Used to Finance Items not Part of Net Cost of Operations were misclassified in Note 20, Reconciliation of Net Cost of Operations to Budget. Specifically, we noted that the line item Net Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not Yet Provided was understated by $106.3 million and the line item Budgetary Offsetting Collections and Receipts That do not Affect Net Cost of Operation was overstated by the same amount.

Management subsequently corrected the errors noted above in the Statement of Budgetary Resources and related notes as of September 30, 2018.

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

During our testing over a sample of 300 cash and property revenue items, we identified 18 items that were forfeited in a prior fiscal year but were incorrectly recorded as revenue in FY 2018 because of incomplete or inaccurate information in CATS. We determined that all of these items were initially forfeited between FY 2015 and FY 2017.

In addition, we identified three items that were improperly recorded as revenue in FY 2018 before the final forfeiture order was approved that resulted in an overstatement of revenue in the current year. As a result, we further analyzed the related population and identified an additional 15 items that were improperly recorded as revenue in FY 2018, which were confirmed by management. These errors resulted in a factual overstatement of $14.4 million and an additional projected overstatement of $13.6 million, which totaled to a most likely error of $28.0 million. We did note that management subsequently recorded an adjustment in the amount of $4.4 million to correct the overstatement of revenue that should have been recorded in FY 2019.

We also identified other exceptions during our revenue testing. Specifically, we identified two items for which revenue was not recorded in the general ledger until more than 90 days after the final forfeiture was approved because the items were not entered in CATS timely. We did note that the revenue for these items was ultimately recorded correctly in the current fiscal year.

Lastly, during our testing of the variance between the seized and forfeited assets prior year ending on-hand balances in CATS and the current year beginning on-hand balances, we identified the following delayed entries that were seized or forfeited in the prior year, but were recorded in CATS in FY 2018 due to inaccurate information in CATS: three forfeited non-cash property items totaling $7.7 million, three seized cash and monetary instruments totaling $4.1 million, and three seized non-cash property items totaling $5.2 million.

*****

Management's process-level controls, such as management review controls of the financial statements, were not sufficient to identify significant errors in the financial statements. Without sufficient controls in place over the financial statements, there is an increased risk that errors or a combination of errors in the financial statements may not be detected and corrected in a timely manner.

In addition, management continued to perform certain procedures to improve the internal controls during the current fiscal year. For instance, management updated its policies and procedures related to the timely and accurately reporting of forfeiture decisions, which were finalized in May 2018. However, management still 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 in the applicable information systems. While steps were taken by management to further implement corrective actions during FY 2018, the preventive controls needed to mitigate the risks related to the financial reporting process were not fully implemented for the entire fiscal year.

CRITERIA

Office of Management and Budget Circular No. A-136, *Financial Reporting Requirements*, states:

- Section II.3.3.4, “Liabilities Not Requiring Budgetary Resources. This is for liabilities that have not in the past required and will not in the future require the use of budgetary resources, e.g., liabilities for clearing accounts, non-fiduciary deposit funds, custodial collections, and unearned revenue.”
- Section II.3.9.3, “Note 3: Fund Balance with Treasury. Disclose the total of the entity’s FBWT, as reflected in the entity’s general ledger and represented by unobligated and obligated balances.”

The Government Accountability Office (GAO), *Standards for Internal Controls in the Federal Government*, (the Standard) Principle 16.04, states that “Management monitors the internal control system through ongoing monitoring and separate evaluations. Ongoing monitoring is built into the entity’s operations, performed continually, and responsive to change. Separate evaluations are used periodically and may provide feedback on the effectiveness of ongoing monitoring.”

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 10.03, “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 10.10, “…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 16.06, “Management uses separate evaluations to monitor the design and operating effectiveness of the internal control system at a specific time or of a specific function or process. The scope and frequency of separate evaluations depend primarily on the assessment of risks, effectiveness of ongoing monitoring, and rate of change within the entity and its environment. Separate evaluations may take the form of self-assessments, which include cross operating unit or cross functional evaluations.”

**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 crosswalk to financial statements. (*Updated)*

   **Management Response:** AFMS acknowledges the factual findings in this report. For clarification, the misclassifications of Recoveries of $87.6 million and Unapportioned Authority of $12.6 million totaling $100.2 million or 3.6 percent had no impact on the Total Budgetary Resources of $2,761.1 million reported.

It is most important to note that the underlying transactions supporting the Statement of Budgetary Resources (SBR) were complete and accurate and provided a sound basis for decision-making by management and the public who rely upon the budgetary resource information we publish. AFMS concurs that the specific recommendations provided in the FY 2017 Internal Control Report to fully investigate and address differences between the SBR and the underlying SF-133 prior to submission of the Financial Statements Package were not implemented effectively.

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. (*Repea*t)

   **Management Response:** AFMS concurs with the auditors' recommendation. It is important to note, however, that cited herein are thirty exceptions identified out of the total population of seized and forfeited assets of close to 73,000 or 4.15 percent and total exceptions in revenue recognition identified in this report of $35.7 million represent 2.8 percent of total cash forfeiture revenue of $1,276.2 million. Further, management tracks the occurrence of delayed entries of judicial data in CATS and notes that the number and value of delayed entries in CATS dropped by over 20 percent in number and over 54 percent in value since FY 2016.

**STATUS OF PRIOR YEARS' FINDINGS 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 findings and recommendations from the prior years' 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 2018.

| 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 | **Recommendation No. 1:** Implement more effective procedures over review of the Annual Financial Statements to supplement higher-level management reviews over the Trial Balance and financial statements, to include reconciling and researching differences in budgetary information. | In Process<br>(Updated by CY 2018 Recommendation No. 1) |
| Annual Financial Statements Fiscal Year 2017 Report No. 18-05 | Improvements Needed in Internal Controls over Financial Reporting | **Recommendation No. 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. | In Process<br>(CY 2018 Recommendation No. 2) |
| | | **Recommendation No. 3:** Perform a more thorough review of manual journal entries to ensure that they accurately reflect underlying accounting events. | Completed |

# U.S. DEPARTMENT OF JUSTICE

## Assets Forfeiture Fund and Seized Asset Deposit Fund

### Principal Financial Statements and Related Notes

**See Independent Auditors' Report**

**U.S. Department of Justice**
**Assets Forfeiture Fund and Seized Asset Deposit Fund**
**Consolidated Balance Sheets**
**As of September 30, 2018 and 2017**

| Dollars in Thousands | 2018 | 2017 |
|---|---|---|
| **ASSETS (Note 2)** | | |
| Intragovernmental | | |
| Fund Balance with Treasury (Note 3) | $ 156,642 | $ 1,389,918 |
| Investments (Note 5) | 6,254,711 | 6,372,550 |
| Accounts Receivable, Net (Note 6) | 13,993 | 6,188 |
| Other Assets (Note 9) | - | 111 |
| Total Intragovernmental | 6,425,346 | 7,768,767 |
| Cash and Other Monetary Assets (Note 4) | 62,247 | 378,023 |
| Forfeited Property, Net (Note 7) | 146,296 | 112,178 |
| General Property, Plant and Equipment, Net (Note 8) | 1,767 | 2,363 |
| Other Assets (Note 9) | 1 | 1 |
| **Total Assets** | **$ 6,635,657** | **$ 8,261,332** |
| **LIABILITIES (Note 10)** | | |
| Intragovernmental | | |
| Accounts Payable | $ 67,420 | $ 145,246 |
| Other Liabilities (Note 12) | 471 | 297 |
| Total Intragovernmental | 67,891 | 145,543 |
| Accounts Payable | 3,501,525 | 4,563,869 |
| Accrued Payroll and Benefits | 2,343 | 1,101 |
| Accrued Annual and Compensatory Leave Liabilities | 3,164 | 1,788 |
| Deferred Revenue | 146,296 | 112,178 |
| Seized Cash and Monetary Instruments (Note 11) | 1,390,880 | 1,501,023 |
| **Total Liabilities** | **$ 5,112,099** | **$ 6,325,502** |
| **Contingent Liabilities (Note 13)** | | |
| **NET POSITION** | | |
| Cumulative Results of Operations - Funds from Dedicated Collections (Note 14) | $ 1,523,558 | $ 1,935,830 |
| **Total Net Position** | **$ 1,523,558** | **$ 1,935,830** |
| **Total Liabilities and Net Position** | **$ 6,635,657** | **$ 8,261,332** |

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, 2018 and 2017**

**Dollars in Thousands**

| | | Gross Costs | | | Less: Earned Revenues | | | |
|---|---|---|---|---|---|---|---|---|
| | FY | Intra-governmental | With the Public | Total | Intra-governmental | With the Public | Total | Net Cost of Operations (Note 15) |
| **Goal 1** | **2018** | $ 10,828 | $ 64,579 | $ 75,407 | $ - | $ - | $ - | $ 75,407 |
| | **2017** | $ 25,638 | $ 23,337 | $ 48,975 | $ - | $ - | $ - | $ 48,975 |
| **Goal 3** | **2018** | $ 194,905 | $ 1,162,424 | $ 1,357,329 | $ 22,253 | $ - | $ 22,253 | $ 1,335,076 |
| | **2017** | $ 461,480 | $ 420,079 | $ 881,559 | $ 14,723 | $ - | $ 14,723 | $ 866,836 |
| **Goal 4** | **2018** | $ 10,828 | $ 64,579 | $ 75,407 | $ - | $ - | $ - | $ 75,407 |
| | **2017** | $ 25,638 | $ 23,337 | $ 48,975 | $ - | $ - | $ - | $ 48,975 |
| **Total** | **2018** | **$ 216,561** | **$ 1,291,582** | **$ 1,508,143** | **$ 22,253** | **$ -** | **$ 22,253** | **$ 1,485,890** |
| | **2017** | **$ 512,756** | **$ 466,753** | **$ 979,509** | **$ 14,723** | **$ -** | **$ 14,723** | **$ 964,786** |

| | |
|---|---|
| Goal 1 | Enhance National Security and Counter the Threat of Terrorism |
| Goal 3 | Reduce Violent Crime and Promote Public Safety |
| Goal 4 | Promote Rule of Law, Integrity, and Good Government |

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, 2018 and 2017**

| Dollars in Thousands | 2018 | 2017 |
|---|---|---|
| | Funds from Dedicated Collections | Funds from Dedicated Collections |
| **Cumulative Results of Operations** | | |
| **Beginning Balances** | $ 1,935,830 | $ 1,460,226 |
| **Budgetary Financing Sources** | | |
| Other Adjustments (Note 18) | (304,000) | - |
| Nonexchange Revenues | 102,877 | 56,868 |
| Donations and Forfeitures of Cash and Cash Equivalents (Note 19) | 1,072,488 | 1,216,430 |
| Transfers-In/Out Without Reimbursement (Note 18) | - | (201,196) |
| **Other Financing Sources (Nonexchange)** | | |
| Donations and Forfeitures of Property (Note 19) | 203,682 | 369,992 |
| Transfers-In/Out Without Reimbursement (Note 18) | (3,880) | (3,017) |
| Imputed Financing (Note 16) | 2,451 | 1,313 |
| **Total Financing Sources** | **1,073,618** | **1,440,390** |
| **Net Cost of Operations** | (1,485,890) | (964,786) |
| **Net Change** | (412,272) | 475,604 |
| **Cumulative Results of Operations** | **$ 1,523,558** | **$ 1,935,830** |
| **Net Position** | **$ 1,523,558** | **$ 1,935,830** |

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, 2018 and 2017**

| Dollars in Thousands | | 2018 | | 2017 |
|---|---|---|---|---|
| **Budgetary Resources:** | | | | |
| Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory) | $ | 1,390,425 | $ | 1,060,076 |
| Appropriations (discretionary and mandatory) | | 1,353,853 | | 1,572,338 |
| Spending Authority from Offsetting Collections (discretionary and mandatory) | | 16,857 | | 18,354 |
| **Total Budgetary Resources** | **$** | **2,761,135** | **$** | **2,650,768** |
| **Staus of Budgetary Resources:** | | | | |
| New Obligations and Upward Adjustments (Total) (Note 17) | $ | 1,560,266 | $ | 1,347,936 |
| Unobligated Balance, End of Year: | | | | |
| Apportioned, Unexpired Accounts | | 1,188,275 | | 1,302,832 |
| Unapportioned, Unexpired Accounts | | 12,594 | | - |
| Unexpired Unobligated Balance, End of Year | | 1,200,869 | | 1,302,832 |
| Unobligated Balance - End of Year (Total) | | 1,200,869 | | 1,302,832 |
| **Total Status of Budgetary Resources:** | **$** | **2,761,135** | **$** | **2,650,768** |
| **Outlays, Net:** | | | | |
| Outlays, Net (Total) (discretionary and mandatory) | $ | 2,607,980 | $ | 1,070,803 |
| Less: Distributed Offsetting Receipts (-) | | 62,064 | | 48,045 |
| Agency Outlays, Net (discretionary and mandatory) | **$** | **2,545,916** | **$** | **1,022,758** |

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

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

## Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Assets Forfeiture Fund (AFF) and Seized Asset Deposit Fund (SADF) together comprise a single financial reporting entity of the Department of Justice (DOJ or Department), 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 are 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. The AFF and SADF are managed by the Asset Forfeiture Management Staff (AFMS), which is a part of the 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, 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**
**Notes to the Principal Financial Statements**
**(Dollars in Thousands, Except as Noted)**

**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 2018 and 2017, 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 Treasury, and Cash and Other Monetary Assets

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

G. Investments

The AFF and SADF are authorized by 28 U.S.C. § 524(c) to invest 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

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

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

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 considered fully collectible and there is no allowance for uncollectible accounts.

I. General Property, Plant and Equipment

AFP participating agencies lease buildings from GSA for most of their operations. The AFP portion of those leases are reimbursed by the AFF. 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 proprieties.

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,* and are presented below:

| Type of Property | Thresholds |
|---|---:|
| Real Property | $250 |
| Personal Property | $50 |
| Internal Use Software | $5,000 |

Depreciation of general PP&E is based upon historical cost and is calculated using the straight-line method over the useful life of the asset.

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

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

J. Advances and Prepayments

Advances and prepayments include advances to state and local law enforcement agencies and 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 Intragovernmental Assets on the Balance Sheet. Advances to state and local agencies are classified as Other Assets on the Balance Sheet.

K. Forfeited and Seized Property

Property is seized as a consequence of an alleged violation of public law. Seized property can include cash and monetary instruments, real property, and tangible personal property of others in the actual or constructive possession of the custodial agency. With the exception of virtual currency, the value of seized property is its estimated fair market value at the time it was seized. Until July 1, 2018, seized virtual currency was revalued quarterly due to drastic fluctuations in value. The values of seized virtual currency, included in Financial Instruments in Note 7, reflect the revaluations prior to July 1, 2018, and may be lower than the value of those assets at the time of seizure. 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.

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.

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

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

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

| Asset Type | Valuation Documentation |
|---|---|
| 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 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

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

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

compensatory leave that is earned but not taken; funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

O. Interest on Late Payments

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

P. Retirement Plans

With few exceptions, employees of the AFF/SADF are covered by one of the following retirement programs:

1) Employees hired before January 1, 1984, are covered by the Civil Service Retirement System (CSRS). The AFF contributes 7% of the gross pay for regular employees and 7.5% for law enforcement officers.

2) Employees hired January 1, 1984 or later, are covered by the Federal Employees Retirement System (FERS).

   a. Employees hired January 1, 1984 through December 31, 2012, are covered by the FERS. The AFF contributes 13.7% of the gross pay for regular employees and 30.1% for law enforcement officers.

   b. Employees hired January 1, 2013 through December 31, 2013, are covered by the Federal Employees Retirement System-Revised Annuity Employees (FERS-RAE). The AFF contributes 11.9% of the gross pay for regular employees and 28.4% for law enforcement officers.

   c. Employees hired January 1, 2014 or later are covered by the Federal Employees Retirement System-Further Revised Annuity Employees (FERS-FRAE). The AFF contributes 11.9% of the gross pay for regular employees and 28.4% for law enforcement officers.

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

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

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

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 or when forfeited property is sold, placed into official use, or transferred to another Federal agency. The financing sources from legal judgments are not recognized until the judgment has been enforced. Deferred revenue is recorded when the property is forfeited. When the property is sold or otherwise disposed, the deferred revenue becomes earned and a financing source is recognized. The AFF recognizes exchange revenue when the USAOs provide services in judicial forfeiture cases brought by agencies participating in the 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.

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

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

S. Funds from Dedicated Collections

SFFAS No. 27, *Identifying and Reporting Funds from Dedicated Collections*, as amended by SFFAS No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds* defines 'funds from dedicated collections' as being financed by specifically identified revenues, provided to the Government by non-Federal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the Government's general revenues. The three required criteria for a fund from dedicated collections are:

1. A statute committing the Federal Government to use specifically identified revenues and/or other financing sources that are originally provided to the Federal Government by a non-Federal source only for designated activities, benefits or purposes;

2. Explicit authority for the funds to retain revenues and/or other financing sources not used in the current period for future use to finance the designated activities, benefits or purposes; and

3. A requirement to account for and report on the receipt, use, and retention of the revenues and/or other financing sources that distinguishes the fund from the Federal Government's general revenues.

The AFF meets the definition of funds from dedicated collections, but the SADF does not meet the definition of funds from dedicated collections because seized cash is not available to finance the AFP.

T. Tax Exempt Status

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

U. Use of Estimates

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

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

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

V. Reclassifications

The FY 2017 financial statements, related notes, and Required Supplemental Information were reclassified to conform to the Department's FY 2018 financial statement presentation. The AFF/SADF realigned changes to the presentation of the Combined Statements of Budgetary Resources and Note 10, Liabilities not Covered by Budgetary Resources, in accordance with OMB Circular A-136. Activity and balances reported on the FY 2017 Combined Statements of Budgetary Resources have been reclassified to conform to the current year presentation. In addition, the Combined Statements of Net Cost and Note 15, Net Cost of Operations by Suborganization, were aligned to the revised goal structure in the Department's FY 2018 – 2022 Strategic Plan. As such, certain other prior year amounts have also been reclassified to conform with the current year presentation.

These reclassifications have no effect on total assets, liabilities, net position, change in net position or budgetary resources, as previously reported.

W. Subsequent Events

Subsequent events and transactions occurring after September 30, 2018 through the date of the auditors' opinion have been evaluated for potential recognition or disclosure in the financial statements. No changes were necessary for proper presentation of the financial statements. The date of the auditors' opinion also represents the date that the financial statements were available to be issued.

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

## Note 2. Non-Entity Assets

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

As of September 30, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| Intragovernmental | | |
| Investments, Net (Note 5) | $ 1,323,500 | $ 1,123,000 |
| With the Public | | |
| Cash and Other Monetary Assets (Note 4) | 62,247 | 378,023 |
| Total With the Public | 62,247 | 378,023 |
| Total Non-Entity Assets | 1,385,747 | 1,501,023 |
| Total Entity Assets | 5,249,910 | 6,760,309 |
| Total Assets | $ 6,635,657 | $ 8,261,332 |

## Note 3. Fund Balance with Treasury

As of September 30, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| Status of Fund Balances | | |
| Unobligated Balance - Available | $ 1,188,275 | $ 1,302,832 |
| Unobligated Balance - Unavailable | 12,594 | - |
| Obligated Balance not yet Disbursed | 3,704,487 | 4,856,652 |
| Budgetary Resources from Invested Balances | (4,748,714) | (4,769,566) |
| Total Status of Fund Balances | $ 156,642 | $ 1,389,918 |

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

## Note 4. Cash and Other Monetary Assets

Cash consists of seized cash 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, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| Cash | | |
| Seized Cash Deposited | $ 46,643 | $ 365,644 |
| Total Cash | 46,643 | 365,644 |
| | | |
| Other Monetary Assets | | |
| Seized Monetary Instruments | 15,604 | 12,379 |
| Total Other Monetary Assets | 15,604 | 12,379 |
| Total Cash and Other Monetary Assets | $ 62,247 | $ 378,023 |

## 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.

The AFF is a Funds from Dedicated Collections that invest in Treasury securities. The Treasury does not set aside assets to pay future expenditures associated with funds from dedicated collections. Instead, the cash generated from Funds from Dedicated Collections is used by the Treasury for general government purposes. When the funds redeem their Treasury securities to make expenditures, the Treasury will finance the expenditures in the same manner that it finances all other expenditure.

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

## Note 5. Investments, Net (continued)

| | Cost | Amortized (Premium) Discount | Investments, Net | Market Value Disclosure |
|---|---|---|---|---|
| As of September 30, 2018 | | | | |
| Intragovernmental | | | | |
| Non-Marketable Securities | | | | |
| Market-Based | | | | |
| AFF | $ 4,854,567 | $ 76,644 | $ 4,931,211 | $ 4,917,138 |
| SADF | 1,323,500 | - | 1,323,500 | 1,109,634 |
| Total | $ 6,178,067 | $ 76,644 | $ 6,254,711 | $ 6,026,772 |

| | 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 | $ 6,337,000 | $ 35,550 | $ 6,372,550 | $ 6,371,292 |

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

## Note 6. Accounts Receivable, Net

Accounts receivable consist of amounts owed to the AFF from the 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. The AFF/SADF had no accounts receivable with the public as of September 30, 2018 or 2017.

As of September 30, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| Intragovernmental | | |
| Accounts Receivable | $ 13,993 | $ 6,188 |
| Total Accounts Receivable, Net | $ 13,993 | $ 6,188 |

## 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.

Liabilities for equitable sharing due to federal, state, and local law enforcement agencies for their participation in cases that led to forfeiture were $42,132 on September 30, 2018, and $66,109 on September 30, 2017.

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, 2018 and 2017.

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

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

**Analysis of Change in Forfeited Property -- For the Fiscal Year Ended September 30, 2018**

| Forfeited Property Category | | Beginning Balance | Adjustments (1) | Forfeitures | Disposals | Ending Balance | Liens and Claims | Ending Balance, Net of Liens |
|---|---|---|---|---|---|---|---|---|
| Financial Instruments | Number | 280 | 487 | 794 | (1,106) | 455 | | 455 |
| | Value | $ 4,896 | $ 3,803 | $ 116,785 | $ (113,094) | $ 12,390 | $ (26) | $ 12,364 |
| Real Property | Number | 302 | (9) | 276 | (266) | 303 | | 303 |
| | Value | $ 74,794 | $ 6,251 | $ 102,903 | $ (77,405) | $ 106,543 | $ (10,557) | $ 95,986 |
| Personal Property | Number | 2,723 | 153 | 3,374 | (3,356) | 2,894 | | 2,894 |
| | Value | $ 34,010 | $ (5,410) | $ 45,668 | $ (35,511) | $ 38,757 | $ (811) | $ 37,946 |
| Non-Valued Firearms | Number | 28,557 | 868 | 20,868 | (17,349) | 32,944 | | 32,944 |
| Total | Number | 31,862 | 1,499 | 25,312 | (22,077) | 36,596 | | 36,596 |
| | Value | $ 113,700 | $ 4,644 | $ 265,356 | $ (226,010) | $ 157,690 | $ (11,394) | $ 146,296 |

(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, 2018**

| 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 | 1,016 | 39 | 43 | - | 7 | 1 | 1,106 |
| | Value | $ 106,278 | $ 213 | $ 6,573 | $ - | $ 64 | $ (34) | $ 113,094 |
| Real Property | Number | - | 1 | 249 | 1 | 15 | - | 266 |
| | Value | $ - | $ 156 | $ 61,650 | $ 620 | $ 14,979 | $ - | $ 77,405 |
| Personal Property | Number | 3 | 907 | 1,958 | 327 | 161 | - | 3,356 |
| | Value | $ 2,066 | $ 272 | $ 25,290 | $ 4,926 | $ 2,957 | $ - | $ 35,511 |
| Non-Valued Firearms | Number | - | 16,450 | - | 112 | 787 | - | 17,349 |
| Total | Number | 1,019 | 17,397 | 2,250 | 440 | 970 | 1 | 22,077 |
| | Value | $ 108,344 | $ 641 | $ 93,513 | $ 5,546 | $ 18,000 | $ (34) | $ 226,010 |

(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**
**(Dollars in Thousands, Except as Noted)**

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

**Analysis of Change in Forfeited Property -- For the Fiscal Year Ended September 30, 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**
**(Dollars in Thousands, Except as Noted)**

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

B. Seized Property

The following tables show the analysis of changes in and methods of disposition of property seized for forfeiture during the fiscal years ended September 30, 2018 and 2017. In the following tables, Seized Cash and Monetary Instruments includes seized cash in transit, pre-forfeiture deposits into the SADF of monetary instruments and depository account balances, proceeds from pre-forfeiture sales, cash received in lieu of seized property. Financial Instruments include negotiable instruments, restricted depository accounts and crypto currency.

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

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

**Analysis of Change in Seized Property -- For the Fiscal Year Ended September 30, 2018**

| Seized Property Category | | Beginning Balance | Adjustments (1) | Seizures | Disposals | Ending Balance | Liens and Claims | Ending Balance Net of Liens |
|---|---|---|---|---|---|---|---|---|
| Seized Cash and | Number | 10,467 | 736 | 9,171 | (9,055) | 11,319 | | 11,319 |
| Monetary Instruments | Value | $ 1,501,023 | $ 29,484 | $ 913,725 | $ (1,058,485) | $ 1,385,747 | $ (240,175) | $ 1,145,572 |
| Financial Instruments | Number | 671 | (45) | 388 | (521) | 493 | | 493 |
| | Value | $ 202,666 | $ (8,007) | $ 132,328 | $ (35,367) | $ 291,620 | $ (30,703) | $ 260,917 |
| Real Property | Number | 85 | 11 | 116 | (109) | 103 | | 103 |
| | Value | $ 34,411 | $ (7,369) | $ 47,982 | $ (37,959) | $ 37,065 | $ (14,194) | $ 22,871 |
| Personal Property | Number | 5,402 | 612 | 3,626 | (4,352) | 5,288 | | 5,288 |
| | Value | $ 137,820 | $ (19,246) | $ 123,461 | $ (68,253) | $ 173,782 | $ (80,384) | $ 93,398 |
| Non-Valued Firearms | Number | 26,981 | 931 | 21,668 | (23,362) | 26,218 | | 26,218 |
| Total | Number | 43,606 | 2,245 | 34,969 | (37,399) | 43,421 | | 43,421 |
| | Value | $ 1,875,920 | $ (5,138) | $ 1,217,496 | $ (1,200,064) | $ 1,888,214 | $ (365,456) | $ 1,522,758 |

(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, 2018**

| Seized Property Category | | Converted Financial Instruments/Property | Destroyed/Donated/ Transferred | Sold/ Liquidated | Returned Assets | Forfeited (1) | Variance (2) | Total |
|---|---|---|---|---|---|---|---|---|
| Seized Cash and | Number | 69 | 69 | - | 677 | 8,240 | - | 9,055 |
| Monetary Instruments | Value | $ 6,914 | $ 1,465 | $ - | $ 52,341 | $ 997,765 | $ - | $ 1,058,485 |
| Financial Instruments | Number | 2 | 7 | - | 21 | 491 | - | 521 |
| | Value | $ 117 | $ 205 | $ - | $ 1,136 | $ 33,909 | $ - | $ 35,367 |
| Real Property | Number | - | 2 | - | 13 | 94 | - | 109 |
| | Value | $ - | $ 36 | $ - | $ 1,785 | $ 36,138 | $ - | $ 37,959 |
| Personal Property | Number | - | 55 | 10 | 934 | 3,353 | - | 4,352 |
| | Value | $ - | $ 248 | $ 242 | $ 24,195 | $ 43,568 | $ - | $ 68,253 |
| Non-Valued Firearms | Number | - | 5,423 | - | 2,556 | 15,383 | - | 23,362 |
| Total | Number | 71 | 5,556 | 10 | 4,201 | 27,561 | - | 37,399 |
| | Value | $ 7,031 | $ 1,954 | $ 242 | $ 79,457 | $ 1,111,380 | $ - | $ 1,200,064 |

(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.

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

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

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

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

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

| As of September 30, 2018 | Acquisition Cost | Accumulated Depreciation | Net Book Value | Useful Life |
|---|---|---|---|---|
| Equipment | $ 402 | (333) | $ 69 | 5-12 years |
| Leasehold Improvements | 2,939 | (1,241) | 1,698 | 5 years |
| Total | $ 3,341 | $ (1,574) | $ 1,767 | |

| | Federal | Public | Total |
|---|---|---|---|
| Sources of Capitalized Property, Plant and Equipment Purchases for FY 2018 | $ - | $ - | $ - |

| As of September 30, 2017 | Acquisition Cost | Accumulated Depreciation | Net Book Value | Useful Life |
|---|---|---|---|---|
| Equipment | $ 402 | (268) | $ 134 | 5-12 years |
| Leasehold Improvements | 3,215 | (986) | 2,229 | 5 years |
| Total | $ 3,617 | $ (1,254) | $ 2,363 | |

| | Federal | Public | Total |
|---|---|---|---|
| Sources of Capitalized Property, Plant and Equipment Purchases for FY 2017 | $ 2,096 | $ - | $ 2,096 |

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

## Note 9. Other Assets

As of September 30, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| Intragovernmental | | |
| Advances and Prepayments | $ - | $ 111 |
| Total Intragovernmental | - | 111 |
| Other Assets With the Public | 1 | 1 |
| Total Other Assets | $ 1 | $ 112 |

## Note 10. Liabilities not Covered by Budgetary Resources

As of September 30, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| With the Public | | |
| Accrued Annual and Compensatory Leave Liabilities | $ 3,164 | $ 1,788 |
| Total With the Public | 3,164 | 1,788 |
| Total Liabilities not Covered by Budgetary Resources | 3,164 | 1,788 |
| Total Liabilities Covered by Budgetary Resources | 3,571,759 | 4,710,513 |
| Total Liabilities not requiring Budgetary Resources | 1,537,176 | 1,613,201 |
| Total Liabilities | $ 5,112,099 | $ 6,325,502 |

Total Liabilities not Requiring Budgetary Resources consist of Seized Cash and Monetary Instruments pending forfeiture. Once forfeited, apportionment of the funds must be approved by the Office of Management and Budget process before new obligations are incurred.

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

## Note 11. Seized Cash and Monetary Instruments

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

As of September 30, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| Investments, Net (Note 5) | $ 1,323,500 | $ 1,123,000 |
| Seized Cash Deposited (Note 4) | 46,643 | 365,644 |
| Seized Monetary Instruments (Note 4) | 15,604 | 12,379 |
| Cash in Transit to SADF | 5,133 | - |
| Total Seized Cash and Monetary Instruments | $ 1,390,880 | $ 1,501,023 |

## Note 12. Other Liabilities

All Other Liabilities are current liabilities.

As of September 30, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| Intragovernmental | | |
| Employer Contributions and Payroll Taxes Payable | $ 471 | $ 297 |

## Note 13. Contingencies and Commitments

| | Accrued Liabilities | Estimated Range of Loss | |
|---|---|---|---|
| | | Lower | Upper |
| As of September 30, 2018 | | | |
| Reasonably Possible | $ - | $ - | $ - |
| As of September 30, 2017 | | | |
| Reasonably Possible | $ - | $ 3,000 | $ 5,000 |

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

## Note 14. Funds from Dedicated Collections

The AFF, a fund from dedicated collections, exists to eliminate economic disincentives to the 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 USAOs 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, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| Balance Sheet | | |
| Assets | | |
| Fund Balance with U.S. Treasury | $ 156,642 | $ 1,389,918 |
| Investments, Net | 4,931,211 | 5,249,550 |
| Other Assets | 162,057 | 120,841 |
| Total Assets | $ 5,249,910 | $ 6,760,309 |
| Liabilities | | |
| Accounts Payable | $ 3,568,945 | $ 4,709,115 |
| Other Liabilities | 157,407 | 115,364 |
| Total Liabilities | $ 3,726,352 | $ 4,824,479 |
| Net Position | | |
| Cumulative Results of Operations | $ 1,523,558 | $ 1,935,830 |
| Total Net Position | $ 1,523,558 | $ 1,935,830 |
| Total Liabilities and Net Position | $ 5,249,910 | $ 6,760,309 |

For the Fiscal Years Ended September 30, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| Statement of Net Cost | | |
| Gross Cost of Operations | $ 1,508,143 | $ 979,509 |
| Less: Earned Revenue | 22,253 | 14,723 |
| Net Cost of Operations | $ 1,485,890 | $ 964,786 |
| Statement of Changes in Net Position | | |
| Net Position Beginning of Period | $ 1,935,830 | $ 1,460,226 |
| Budgetary Financing Sources | 871,365 | 1,072,102 |
| Other Financing Sources | 202,253 | 368,288 |
| Total Financing Sources | 1,073,618 | 1,440,390 |
| Net Cost of Operations | (1,485,890) | (964,786) |
| Net Change | (412,272) | 475,604 |
| Net Position End of Period | $ 1,523,558 | $ 1,935,830 |

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

## Note 15. Net Cost of Operations by Suborganization

The AFF's statute, 28 U.S.C. § 524(c), authorizes the AFF to fund Forfeiture Operations Expenses, including those for third party payments, equitable sharing payments, asset management and disposal, 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. Third Party payments and equitable sharing are the most significant categories of Forfeiture Operations Expenses and Total Net Cost.

| For the Fiscal Year Ended September 30, 2018 | Forfeiture Operations Expenses | General Investigation Expenses | Total |
|---|---|---|---|
| Goal 1: Enhance National Security and Counter the Threat of Terrorism | | | |
| Gross Cost | $ 75,407 | $ - | $ 75,407 |
| Less: Earned Revenue | - | - | - |
| Net Cost of Operations | 75,407 | - | 75,407 |
| Goal 3: Reduce Violent Crime and Promote Public Safety | | | |
| Gross Cost | $ 1,114,756 | $ 242,573 | $ 1,357,329 |
| Less: Earned Revenue | 22,253 | - | 22,253 |
| Net Cost of Operations | 1,092,503 | 242,573 | 1,335,076 |
| Goal 4: Promote Rule of Law, Integrity, and Good Government | | | |
| Gross Cost | $ 75,407 | $ - | $ 75,407 |
| Less: Earned Revenue | - | - | - |
| Net Cost of Operations | 75,407 | - | 75,407 |
| Net Cost of Operations | $ 1,243,317 | $ 242,573 | $ 1,485,890 |

| For the Fiscal Year Ended September 30, 2017 | Forfeiture Operations Expenses | General Investigation Expenses | Total |
|---|---|---|---|
| Goal 1: Enhance National Security and Counter the Threat of Terrorism | | | |
| Gross Cost | $ 48,975 | $ - | $ 48,975 |
| Less: Earned Revenue | - | - | - |
| Net Cost of Operations | 48,975 | - | 48,975 |
| Goal 3: Reduce Violent Crime and Promote Public Safety | | | |
| Gross Cost | $ 645,484 | $ 236,075 | $ 881,559 |
| Less: Earned Revenue | 14,723 | - | 14,723 |
| Net Cost of Operations | 630,761 | 236,075 | 866,836 |
| Goal 4: Promote Rule of Law, Integrity, and Good Government | | | |
| Gross Cost | $ 48,975 | $ - | $ 48,975 |
| Less: Earned Revenue | - | - | - |
| Net Cost of Operations | 48,975 | - | 48,975 |
| Net Cost of Operations | $ 728,711 | $ 236,075 | $ 964,786 |

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

## 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. 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 | 37.4 |
| | Regular Employees Offset | 27.9 |
| | Law Enforcement Officers | 62.0 |
| | Law Enforcement Officers Offset | 53.2 |

| | | |
|---|---|---|
| Federal Employees Retirement System (FERS) | Regular Employees | 16.2 |
| | Regular Employees – Revised Annuity Employees (RAE) | 16.7 |
| | Regular Employees – Further Revised Annuity Employees (FRAE) | 16.9 |
| | Law Enforcement Officers | 33.8 |
| | Law Enforcement Officers – RAE | 34.3 |
| | Law Enforcement Officers – FRAE | 34.5 |

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

## 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.

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.

For the Fiscal Years Ended September 30, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| Imputed Inter-Departmental Financing | | |
| Health Insurance | $ 2,065 | $ 979 |
| Life Insurance | 8 | 4 |
| Pension | 378 | 330 |
| Total Imputed Inter-Departmental | $ 2,451 | $ 1,313 |

## 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**
**Notes to the Principal Financial Statements**
**(Dollars in Thousands, Except as Noted)**

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

### Apportionment Categories 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, 2018 | | | |
| Apportioned Under | | | |
| Category A | $ 20,127 | $ - | $ 20,127 |
| Category B | 1,530,716 | 9,423 | 1,540,139 |
| Total | $ 1,550,843 | $ 9,423 | $ 1,560,266 |
| 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 | $ 1,331,195 | $ 16,741 | $ 1,347,936 |

### 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, 2018 | 2018 |
|---|---|
| Intragovernmental | |
| UDO Obligations Unpaid | $ 57,527 |
| UDO Obligations Prepaid/Advanced | - |
| Total Intragovernmental UDO | 57,527 |
| With the Public | |
| UDO Obligations Unpaid | 90,685 |
| Total With the Public UDO | 90,685 |
| Total UDO | $ 148,212 |

| As of September 30, 2017 | 2017 |
|---|---|
| UDO Obligations Unpaid | $ 159,213 |
| UDO Obligations Prepaid/Advanced | 111 |
| Total UDO | $ 159,324 |

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

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

### Permanent Indefinite Appropriations:

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

### Legal Arrangements Affecting Use of Unobligated Balances:

Unobligated balances represent the cumulative amount of budget authority that is not obligated and that remains available for obligation, unless otherwise restricted. Excess unobligated balances identified at the end of a fiscal year may be declared a "Super Surplus" balance. Super Surplus balances may be allocated at the discretion of the Attorney General for "…any Federal law enforcement, litigative/prosecutive, and correctional activities, or any other authorized purpose of the DOJ" pursuant to 28 U.S.C. § 524(c)(8)(E). The last Super Surplus declaration was in FY 2012.

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

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

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

The reconciliation as of September 30, 2018 is not presented because the submission of the Budget of the United States (Budget) for FY 2020, which presents the execution of the FY 2018 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 2019.

For the Fiscal Year Ended September 30, 2017
(Dollars in Millions)

| | Total Budgetary Resources | New Obligations and Upward Adjustments | Distributed Offsetting Receipts | Agency Outlays, Net |
|---|---|---|---|---|
| Statement of Budgetary Resources (SBR) | $ 2,651 | $ 1,348 | $ 48 | $ 1,023 |
| Funds not Reported in the Budget | | | | |
| Distributed Offsetting Receipts | | | | 48 |
| Funds not Reported in the SBR | | | | |
| Other | 1 | | | |
| Budget of the United States Government | $ 2,652 | $ 1,348 | $ 48 | $ 1,071 |

Funds not Reported in the Budget – consist of distributed offsetting receipts earned from investment activity. Other differences represent financial statement adjustments, timing differences and other immaterial differences between amounts reported in the AFF/SADF's SBR and the Budget of the United States.

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

## Note 18. Transfers In/Out Without Reimbursement and Other Budgetary Financing Sources

**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.

**Other Adjustments.** The Consolidated Appropriations Act, 2018 (P.L. 115-141) enacted a $304.0 million permanent rescission from the AFF, which was transferred to the Treasury in September 2018.

**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, 2018 and 2017, transfers-out of forfeited property for official use totaled $3,880 and $3,017, respectively.

## 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, 2018 and 2017, net forfeiture income attributable to the AFF totaled $1,276,170 and $1,586,422 respectively, after the following payments and returns to agencies participating in seizures that led to forfeiture.

| | FY 2018 | FY 2017 |
|---|---|---|
| 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. | $ 1,747 | $ 4 |
| Return of forfeiture income to the TFF for its participation in seizures that led to forfeiture. | 48,801 | 12,814 |
| Return of forfeiture income to the U.S. Postal Service for its participation in seizures that led to forfeiture. | 1,705 | 8,911 |
| Total Return of Forfeiture Income | $ 52,253 | $ 21,729 |

**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

For the Fiscal Years Ended September 30, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| Resources Used to Finance Activities | | |
| Budgetary Resources Obligated | | |
| New Obligations and Upward Adjustments | $ 1,560,266 | $ 1,347,936 |
| Less: Spending Authority from Offsetting Collections and Recoveries | 104,451 | 438,728 |
| Obligations Net of Offsetting Collections and Recoveries | 1,455,815 | 909,208 |
| Less: Offsetting Receipts and Nonexchange Revenue | 102,877 | 56,868 |
| Net Obligations | 1,352,938 | 852,340 |
| Other Resources | | |
| Donations and Forfeitures of Property | 203,682 | 369,992 |
| Transfers-In/Out Without Reimbursement | (3,880) | (3,017) |
| Imputed Financing (Note 16) | 2,451 | 1,313 |
| Net Other Resources Used to Finance Activities | 202,253 | 368,288 |
| Total Resources Used to Finance Activities | 1,555,191 | 1,220,628 |
| 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 | 5,715 | 37,697 |
| Budgetary Offsetting Collections and Receipts That do not Affect Net Cost of Operations | (100,549) | (313,125) |
| Resources That Finance the Acquisition of Assets | 275 | (2,096) |
| Other Resources or Adjustments to Net Obligated Resources That do not Affect Net Cost of Operations | 3,880 | 3,017 |
| Total Resources Used to Finance Items not Part of the Net Cost of Operations | (90,679) | (274,507) |
| Total Resources Used to Finance the Net Cost of Operations | $ 1,464,512 | $ 946,121 |

**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)

| | 2018 | 2017 |
|---|---|---|
| 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) | $ 1,376 | $ 138 |
| Depreciation and Amortization | 320 | 290 |
| Other | 19,682 | 18,237 |
| Total Components of Net Cost of Operations That Did not Require or Generate Resources in the Current Period | $ 21,378 | $ 18,665 |
| Net Cost of Operations | $ 1,485,890 | $ 964,786 |

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

## 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 $3,164 and $1,788 on September 30, 2018 and 2017, 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, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| Components That Will Require or Generate Resources in Future Periods | | |
| Increase in Accrued Annual and Compensatory Leave Liabilities | $ 1,376 | $ 138 |
| Total Components that Will Require or Generate Resources in Future Periods | $ 1,376 | $ 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* to the Assets Forfeiture Fund and Seized Asset Deposit fund (AFF/SADF). The AFF/SADF's response is incorporated in the *Independent Auditors' Report* of this final report. The following provides the report's recommendations, the status of the recommendations, the OIG's 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 crosswalk to financial statements.**

   Resolved. Asset Forfeiture Management Staff (AFMS) concurred with the recommendation. AFMS stated in its response that the underlying transactions supporting the Statement of Budgetary Resources (SBR) were complete and accurate and provided a sound basis for decision-making by management and the public who rely upon the budgetary resource information we publish.

   This recommendation can be closed when subsequent annual financial statement audit testing verifies that management has sufficiently implemented effective procedures over review of the Annual Financial Statements package and crosswalk to the financial statements.

2. **Coordinate with Department 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.**

   Resolved. AFMS concurred with this recommendation. AFMS stated in its response that it will 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.

   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 sized and forfeited assets.

The Department of Justice Office of the Inspector General (DOJ OIG) is a statutorily created independent entity whose mission is to detect and deter waste, fraud, abuse, and misconduct in the Department of Justice, and to promote economy and efficiency in the Department's operations.

To report allegations of waste, fraud, abuse, or misconduct regarding DOJ programs, employees, contractors, grants, or contracts please visit or call the **DOJ OIG Hotline** at oig.justice.gov/hotline or (800) 869-4499.


**U.S. DEPARTMENT OF JUSTICE OFFICE OF THE INSPECTOR GENERAL**
950 Pennsylvania Avenue, Northwest
Suite 4760
Washington, DC 20530 0001

| **Website** | **Twitter** | **YouTube** |
| --- | --- | --- |
| oig.justice.gov | @JusticeOIG | JusticeOIG |

Also at Oversight.gov