



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 2019**



Commentary and Summary

Audit of the Assets Forfeiture Fund and Seized Asset Deposit Fund Annual Financial Statements Fiscal Year 2019

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, 2019. 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 12, 2019, 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 reporting budget related information in the financial statement notes.

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 fiscal year (FY) 2019 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 2018, AFF/SADF also received an unmodified opinion on its financial statements (OIG Audit Division Report No. 19-05).

KPMG reported a material weakness in the FY 2019 Independent Auditors' Report, noting that improvements are needed in controls over budget related information presented in financial statement notes.

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 2019**

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U.S. Department of Justice

Assets Forfeiture Fund and Seized Asset Deposit Fund

FY 2019 Management's Discussion and Analysis

(Unaudited)



September 30, 2019

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 Fiscal Years (FYs) 2019 and 2018 are presented below.

AFP Participating Agencies

DOJ AFP Participating Agencies	Non-DOJ AFP Participating Agencies
Asset Forfeiture Management Staff (AFMS), Justice Management Division (JMD)	Defense Criminal Investigative Service (DCIS)
Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF)	Department of State Bureau of Diplomatic Security (DS)
Drug Enforcement Administration (DEA)	Department of Health and Human Services Office of Criminal Investigations, Food and Drug Administration (FDA)
Federal Bureau of Investigation (FBI)	Department of Agriculture Office of the Inspector General (USDA)
Money Laundering and Asset Recovery Section, Criminal Division (MLARS)	United States Postal Inspection Service (USPIS)
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)	

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 affecting 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

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 the FAST Book as 15X6874. The SADF holds seized cash, the proceeds of any pre-forfeiture sale of seized property, and forfeited cash not yet transferred to the AFF. Income from operating businesses under seizure also may be held in the SADF. Funds held in the SADF are not Government property and may not be used to cover any costs of the AFP. Upon forfeiture, funds are transferred from the SADF to the AFF. In a limited number of cases, funds may be transferred to the United States Victims of State Sponsored Terrorism Fund (USVSSTF), a fund managed by the Department. In FY 2019, \$436.5 million was transferred from the SADF to the USVSSTF. There were no transfers from the SADF to the USVSSTF in FY 2018.

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 2019 RESOURCE INFORMATION

Most of the AFF's 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 2019	FY 2018	% Change
Exchange Revenue	\$ 19,123	\$ 22,253	-14.07%
Budgetary Financing Sources			
Other Adjustments	(674,000)	(304,000)	121.71%
Nonexchange Revenues	156,615	102,877	52.24%
Donations and Forfeitures of Cash or Cash Equivalents	1,710,195	1,072,488	59.46%
Other Financing Sources			
Donations and Forfeitures of Property	360,257	203,682	76.87%
Transfers-In/Out Without Reimbursement	(2,061)	(3,880)	-46.88%
Imputed Financing from Costs Absorbed by others	3,166	2,451	29.17%
Total Asset Forfeiture Fund Resources	\$ 1,573,295	\$ 1,095,871	43.57%

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 2019	FY 2018	% Change
SG 1: Enhance National Security and Counter the Threat of Terrorism			
Gross Cost	\$ 79,567	\$ 75,407	
Less: Earned Revenue	-	-	
Net Cost	\$ 79,567	\$ 75,407	5.52%
SG 3: Reduce Violent Crime and Promote Public Safety			
Gross Cost	\$ 1,432,214	\$ 1,357,329	
Less: Earned Revenue	19,123	22,253	
Net Cost	\$ 1,413,091	\$ 1,335,076	5.84%
SG 4: Promote Rule of Law, Integrity, and Good Government			
Gross Cost	\$ 79,567	\$ 75,407	
Less: Earned Revenue	-	-	
Net Cost	\$ 79,567	\$ 75,407	5.52%
Total Gross Cost	\$ 1,591,348	\$ 1,508,143	
Less: Total Earned Revenue	19,123	22,253	
Total Net Cost of Operations	\$ 1,572,225	\$ 1,485,890	5.81%

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, 2019 are \$6,762.7 million compared with \$6,635.7 million in FY 2018, an increase of \$127.0 million. The increase is mainly due to net higher seizure activity in 2019 than 2018.

Liabilities: Total liabilities of the AFF/SADF were \$5,257.2 million as of September 30, 2019 compared with \$5,112.1 million in FY 2018, an increase of \$145.1 million. The increase is mainly due to net higher seizure activity in 2019.

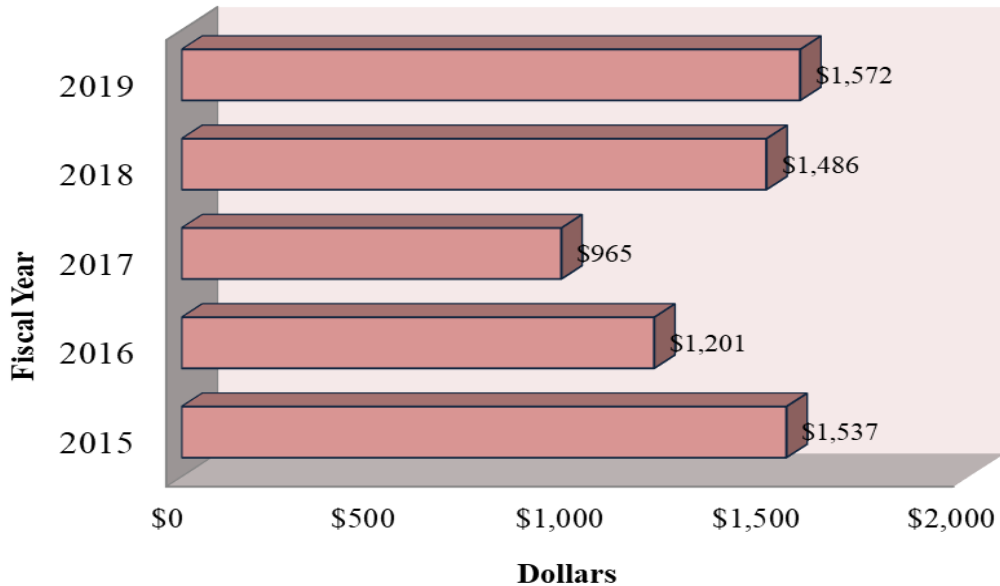
Consolidated Statements of Net Cost

All DOJ AFP participating agencies, except for FBI, uses the Department's Unified Financial Management System (UFMS) as the financial system of record. These agencies receive their allocations on a suballotment advice (SA), which allows the agencies to obligate and expend directly from the AFF within UFMS. These agencies transactions are reflected in the financial statements as intragovernmental or with the public, depending upon the trading partner. FBI remains on a separate instance of UFMS and therefore does not receive their allocations on a suballotment advice through UFMS. FBI and non-DOJ participating agencies receive allocations on a reimbursable agreement and must expend the agency's funds and bill the AFF for reimbursement. These transactions are reflected in the financial statements as intragovernmental.

Net Cost: The Consolidated Statements of Net Cost present the AFF's net cost of operations by Strategic Goal. The net cost of operations remained stable from FY 2018 to FY 2019, from \$1,485.9 million in FY 2018 to \$1,572.2 million in FY 2019, an increase of \$86.3 million or 5.8 percent. 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 \$2,070.5 million in FY 2019 and \$1,276.2 million in FY 2018, an increase of \$794.3 million. The increase is the result of FY 2019 deposits to the AFF from large cases, including 1MalaysiaDevelopmentBerhard and Reckitt Benckiser Group. Also included in these figures are receipts from the Treasury Forfeiture Fund (TFF) for the Department’s participation in cases that resulted in forfeiture revenue to the AFF of \$26.5 million and \$28.2 million in FYs 2019 and 2018 respectively.

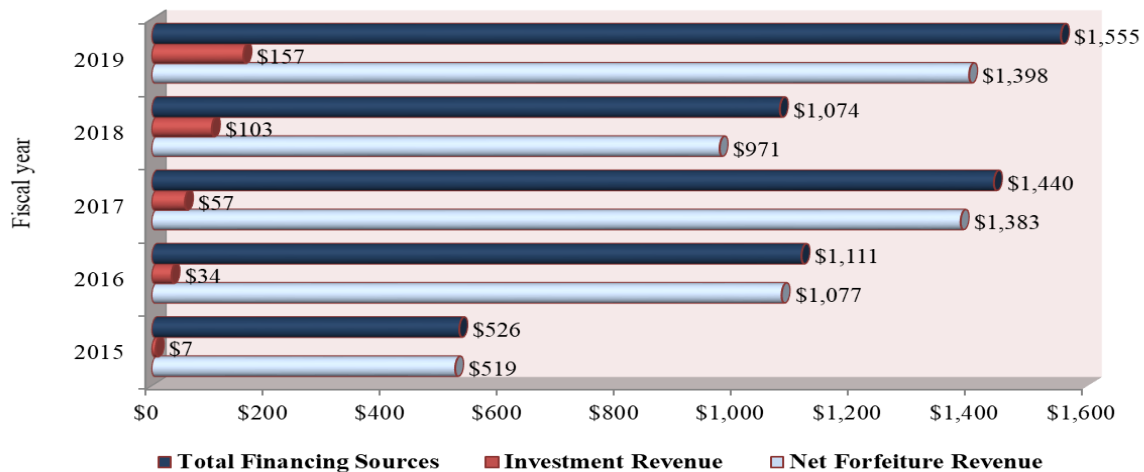
Nonexchange Revenue: Nonexchange revenue on the Statement of Changes in Net Position is comprised solely of interest earned on investments of AFF and SADF in government securities. Amounts available for investment are difficult to predict because many factors influence the balance available. These factors 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. Revenue from AFF and SADF investments increased by \$53.7 million, to \$156.6 million in FY 2019 from \$102.9 million in FY 2018. The increase is the result of higher average interest rates in 2019 compared to 2018.

Budgetary Financing Sources: Subject to the Consolidated Appropriations Act, 2019 (P.L.116-6), AFF transferred \$674 million to the Treasury as a permanent rescission. In FY 2018, AFF transferred \$304 million to the Treasury as a permanent rescission subject to the

Consolidated Appropriations Act, 2018 (P.L.115-141), an increase of \$370 million in FY 2019 over FY 2018.

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. Net Position remained stable from FY 2018 to FY 2019, decreasing by \$18.1 million or 1.2 percent, from \$1,523.6 million at the end of FY 2018 to \$1,505.5 million at the end of FY 2019.

Combined Statements of Budgetary Resources

Budgetary Resources: Total Budgetary Resources in FY 2019 totaled \$2,790.0 million compared with \$2,761.1 million in FY 2018, an increase of \$28.9 million. The increase was the result of increased appropriations in FY 2019 of \$144.9 million over FY 2018, offset by the decrease in unobligated balances brought forward from FY 2018 into FY 2019 of \$118.2 million.

Unobligated Balance – End of Year (Total): The Unobligated Balance as of September 30, 2019 was \$1,171.7 million as opposed to \$1,200.9 million as of September 30, 2018, a decrease of \$29.2 million.

Outlays, Net: Net outlays were \$2,408.6 million in FY 2019 compared with \$2,608.0 million in FY 2018, a decrease of \$199.4 million. The decrease is directly attributable to the decrease in payments to victims of the Bernard L. Madoff fraud of \$1,056.7 million in FY 2019 from \$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 DOJ AFP participants, except for FBI, monitor financial transactions on an ongoing basis. FBI and non-DOJ participating agencies provide status of funds reports for their AFF allocations to AFMS at least quarterly so the AFF's obligation status may be updated.

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 controls over financial reporting was effective, considering weaknesses in internal controls over financial reporting. There have been no changes to internal control over financial reporting subsequent to September 30, 2019, 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

During FY 2019, the AFF/SADF assessed its financial management systems for compliance with the FFMIA and determined that, when taken as a whole, they substantially comply with FFMIA. This determination is based on the results of FISMA reviews and testing performed for OMB Circular A-123, Appendix A. Consideration was also given to any issues identified during the AFF/SADF financial statement audit.

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 2019 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	1	1	1	1
<i>Total Material Weaknesses</i>	1	1	1	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
<i>Total Material Weaknesses</i>	0	0	0	0

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)				
Statement of Assurance	<i>Unmodified</i>			
Material Weakness	Beginning Balance	New	Resolved	Ending Balance
None	0	0	0	0
<i>Total Material Weaknesses</i>	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 Financial 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

Analysis of Legal Compliance

The Department of Justice management is committed to ensuring compliance with applicable laws and regulations, including data standards and appropriations and employment laws and regulations. Compliance is addressed through the financial statement audit and internal audits, reviews, and inspections. The audits, reviews, and inspections performed in FY 2019 identified no instances of noncompliance which are material to the Department's system of internal control or financial statements.

POSSIBLE FUTURE EFFECTS OF EXISTING EVENTS AND CONDITIONS

FY 2019 Budget Position

The AFF/SADF's financial position declined in FY 2019 because of increased permanent rescissions. The Consolidated Appropriations Act, 2019 (P.L. 116-6) enacted a permanent rescission of \$674 million, \$370 million more than FY 2018's permanent rescission of \$304 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, 2019, there was no impact on the AFF/SADF resulting from 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 and Seized Asset Deposit Fund (AFF/SADF), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, 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 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. 19-03, Audit Requirements for Federal Financial Statements. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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



Opinion

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, 2019 and 2018, 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, 2019, 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 a certain deficiency in internal control that we consider to be a material weakness.

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

AFF/SADF 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 accompanying 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 as of and for the year ended September 30, 2019, 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. 19-03.

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 (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 the Finding

The AFF/SADF's response to the findings identified in our audit are 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 12, 2019

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 Statement Notes

In fiscal year 2019, deficiencies continued to exist in the U.S. Department of Justice Assets Forfeiture Fund and Seized Asset Deposit Fund's (AFF/SADF) internal controls over financial reporting particularly as it related to certain note disclosures. Specifically, we determined that the management review control was not operating at a sufficient level of precision that was necessary to ensure that budget related information in the financial statement notes was materially accurate and properly presented in accordance with financial reporting requirements.

The accompanying notes are an integral part of the financial statements and provide additional disclosures that are necessary to make the financial statements more informative and not misleading. This 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 the following misstatements in the notes to the financial statements as of June 30, 2019, and as of September 30, 2019.

As of June 30, 2019:

- Certain items that did not impact net costs or net outlays were improperly included in Note 19, Reconciliation of Net Costs to Net Outlays, such as items related to nonexchange revenue, investments, the liability for seized assets, and a permanent reduction. As a result, Components of Net Cost That Are Not Part of Net Outlays Other: Other Assets, and Other Liabilities were overstated by \$674 million, \$2.6 billion, and \$1.5 billion, respectively, and Investments was understated by \$19.7 million. Components of Net Outlays That Are Not Part of Net Cost: Other was overstated by \$702 million;
- Deferred revenue was improperly presented in Note 10, Liabilities not Covered by Budgetary Resources, as liabilities covered by budgetary resources instead of liabilities not requiring budgetary resources causing both related line items to be misstated by \$136.8 million; and
- Unobligated Balance - Unavailable in Note 3, Fund Balance with Treasury, was overstated by \$13 million and Non-Budgetary Fund Balance with Treasury was understated by \$13 million.

As of September 30, 2019:

- Liabilities not requiring budgetary resources in Note 10 was overstated by \$427 million while liabilities covered by budgetary resources was understated by the same amount; and
- Unpaid undelivered orders (UDO) with the public in Note 17, Information Related to the statement of budgetary resources, was overstated by \$38 million while unpaid intragovernmental UDOs were understated by the same amount.

Management subsequently corrected the errors noted above as of September 30, 2019.

The errors above occurred because management did not document the specific requirements that the supervisory review of the financial statements should entail. In addition, management did not assess and respond to the risk of new financial statement disclosures to its control environment nor did it adequately train its personnel or allocate resources to ensure that the new financial statement disclosure was properly presented in accordance with financial reporting requirements.

CRITERIA

The Government Accountability Office, *Standards for Internal Controls in the Federal Government*, (the Standard) states:

- Principle 9.05, Further, changing conditions often prompt new risks or changes to existing risks that need to be assessed. As part of analyzing and responding to change, management performs a risk assessment to identify, analyze, and respond to any new risks prompted by the changes. Additionally, existing risks may require further assessment to determine whether the defined risk tolerances and risk responses need to be revised.
- Principle 10.02, Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks. As part of the control environment component, management defines responsibilities, assigns them to key roles, and delegates authority to achieve the entity's objectives. As part of the risk assessment component, management identifies the risks related to the entity and its objectives, including its service organizations; the entity's risk tolerance; and risk responses. Management designs control activities to fulfill defined responsibilities and address identified risk responses.
- Principle 12.03, Management documents in policies for each unit its responsibility for an operational process's objectives and related risks, and control activity design, implementation, and operating effectiveness. Each unit, with guidance from management, determines the policies necessary to operate the process based on the objectives and related risks for the operational process. Each unit also documents policies in the appropriate level of detail to allow management to effectively monitor the control activity.

RECOMMENDATIONS:

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

1. Document the specific requirements for the supervisory review of the AFF/SADF financial statements, which should include critically reviewing the financial statement amounts and disclosures to ensure they agree to the relevant crosswalks or other supporting documentation and are properly presented. *(Updated)*

Management Response:

Management concurs with recommendation. It is important to note that the underlying transactions supporting the principal financial statements were complete and accurate and provided a sound basis for decision-making by management and the public who rely upon the financial information we publish. AFMS and JMD Finance Staff (FS) are committed to documenting procedures and developing and revising edit checks used while the Financial Statements Package is reviewed by management, to ensure that any discrepancies are prevented, or detected and corrected, prior to submission of the Final Financial Statements Package, in FY 2020.

2. Implement effective risk assessment controls to identify, analyze, and respond to risks related to new financial reporting requirements. When new financial statement requirements are implemented, management should provide adequate training and allocate appropriate resources to ensure the new requirements are properly implemented in accordance with the applicable financial reporting requirements. *(New)*

Management Response:

Management concurs with recommendation. JMD FS will review, upon issuance, all changes to OMB A-136 that would require updates to the Department Financial Statement Guide. In addition, FS and AFMS will thoroughly review the impact of new financial reporting requirements on the AFF/SADF financial statements and implement new measures to ensure new requirements are incorporated.

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 numbers where the deficiencies were reported, our recommendations for improvement, and the status of the previously identified deficiencies and recommendations as of the end of fiscal year (FY) 2019.

Report	Deficiency	Recommendation	Status
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.	Completed
Annual Financial Statements Fiscal Year 2018 Report No. 19-05	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 financial statements and crosswalk to financial statements.	In Process (Updated by FY 2019 Recommendation No. 1)

U.S. Department of Justice

Assets Forfeiture Fund and Seized Asset Deposit Fund

Principal Financial Statements and Related Notes

(Unaudited)



September 30, 2019

U.S. Department of Justice
Assets Forfeiture Fund and Seized Asset Deposit Fund
Consolidated Balance Sheets
As of September 30, 2019 and 2018

Dollars in Thousands	2019	2018
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with Treasury (Note 3)	\$ 2,081,223	\$ 156,642
Investments (Note 5)	2,254,142	6,254,711
Accounts Receivable (Note 6)	18,662	13,993
Total Intragovernmental	<u>4,354,027</u>	<u>6,425,346</u>
Cash and Other Monetary Assets (Note 4)	2,270,286	62,247
Accounts Receivable, Net (Note 6)	185	-
Forfeited Property, Net (Note 7)	136,774	146,296
General Property, Plant and Equipment, Net (Note 8)	1,467	1,767
Other Assets (Note 9)	1	1
Total Assets	<u>\$ 6,762,740</u>	<u>\$ 6,635,657</u>
LIABILITIES (Note 10)		
Intragovernmental		
Accounts Payable	\$ 95,322	\$ 67,420
Other Liabilities (Note 12)	519	471
Total Intragovernmental	<u>95,841</u>	<u>67,891</u>
Accounts Payable	2,595,695	3,501,525
Accrued Payroll and Benefits	1,960	2,343
Accrued Annual and Compensatory Leave Liabilities	3,337	3,164
Deferred Revenue	136,774	146,296
Seized Cash and Monetary Instruments (Note 11)	2,423,628	1,390,880
Total Liabilities	<u>\$ 5,257,235</u>	<u>\$ 5,112,099</u>
Contingent Liabilities (Note 13)		
NET POSITION		
Cumulative Results of Operations - Funds from Dedicated Collections (Note 14)	\$ 1,505,505	\$ 1,523,558
Total Net Position	<u>\$ 1,505,505</u>	<u>\$ 1,523,558</u>
Total Liabilities and Net Position	<u>\$ 6,762,740</u>	<u>\$ 6,635,657</u>

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

U.S. Department of Justice
Assets Forfeiture Fund and Seized Asset Deposit Fund
Consolidated Statements of Net Cost
For the Fiscal Years Ended September 30, 2019 and 2018

Dollars in Thousands

	FY	Gross Costs			Less: Earned Revenues			Net Cost of Operations (Note 15)
		Intra-governmental	With the Public	Total	Intra-governmental	With the Public	Total	
Goal 1	2019	\$ 9,316	\$ 70,251	\$ 79,567	\$ -	\$ -	\$ -	\$ 79,567
	2018	\$ 10,828	\$ 64,579	\$ 75,407	\$ -	\$ -	\$ -	\$ 75,407
Goal 3	2019	\$ 167,694	\$ 1,264,520	\$ 1,432,214	\$ 19,123	\$ -	\$ 19,123	\$ 1,413,091
	2018	\$ 194,905	\$ 1,162,424	\$ 1,357,329	\$ 22,253	\$ -	\$ 22,253	\$ 1,335,076
Goal 4	2019	\$ 9,316	\$ 70,251	\$ 79,567	\$ -	\$ -	\$ -	\$ 79,567
	2018	\$ 10,828	\$ 64,579	\$ 75,407	\$ -	\$ -	\$ -	\$ 75,407
Total	2019	<u>\$ 186,326</u>	<u>\$ 1,405,022</u>	<u>\$ 1,591,348</u>	<u>\$ 19,123</u>	<u>\$ -</u>	<u>\$ 19,123</u>	<u>\$ 1,572,225</u>
	2018	<u>\$ 216,561</u>	<u>\$ 1,291,582</u>	<u>\$ 1,508,143</u>	<u>\$ 22,253</u>	<u>\$ -</u>	<u>\$ 22,253</u>	<u>\$ 1,485,890</u>

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, 2019 and 2018

Dollars in Thousands	2019	2018
	Funds from Dedicated Collections	Funds from Dedicated Collections
Cumulative Results of Operations		
Beginning Balances	\$ 1,523,558	\$ 1,935,830
Budgetary Financing Sources		
Other Adjustments	(674,000)	(304,000)
Nonexchange Revenues	156,615	102,877
Donations and Forfeitures of Cash and Cash Equivalents	1,710,195	1,072,488
Other Financing Sources		
Donations and Forfeitures of Property	360,257	203,682
Transfers-In/Out Without Reimbursement	(2,061)	(3,880)
Imputed Financing (Note 16)	3,166	2,451
Total Financing Sources	<u>1,554,172</u>	<u>1,073,618</u>
Net Cost of Operations	<u>(1,572,225)</u>	<u>(1,485,890)</u>
Net Change	<u>(18,053)</u>	<u>(412,272)</u>
Cumulative Results of Operations	<u>\$ 1,505,505</u>	<u>\$ 1,523,558</u>
Net Position	<u><u>\$ 1,505,505</u></u>	<u><u>\$ 1,523,558</u></u>

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

U.S. Department of Justice
Assets Forfeiture Fund and Seized Asset Deposit Fund
Combined Statements of Budgetary Resources
For the Fiscal Years Ended September 30, 2019 and 2018

Dollars in Thousands	2019	2018
Budgetary Resources:		
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory)	\$ 1,272,275	\$ 1,390,425
Appropriations (discretionary and mandatory)	1,498,726	1,353,853
Spending Authority from Offsetting Collections (discretionary and mandatory)	19,021	16,857
Total Budgetary Resources	\$ 2,790,022	\$ 2,761,135
Status of Budgetary Resources:		
New Obligations and Upward Adjustments (Total)	\$ 1,618,355	\$ 1,560,266
Unobligated Balance, End of Period:		
Apportioned, Unexpired Accounts	394,334	1,188,275
Unapportioned, Unexpired Accounts	777,333	12,594
Unexpired Unobligated Balance, End of Period	1,171,667	1,200,869
Unobligated Balance, End of Period (Total)	1,171,667	1,200,869
Total Status of Budgetary Resources:	\$ 2,790,022	\$ 2,761,135
Outlays, Net:		
Outlays, Net (Total) (discretionary and mandatory)	\$ 2,408,564	\$ 2,607,980
Less: Distributed Offsetting Receipts (-)	180,142	62,064
Agency Outlays, Net (discretionary and mandatory)	\$ 2,228,422	\$ 2,545,916

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). The Money Laundering and Asset Recovery Section (MLARS), Criminal Division, is responsible for coordination, direction and general oversight of the AFP.

B. Basis of Presentation

These financial statements have been prepared from the books and records of the AFF/SADF in accordance with United States generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) and presentation guidelines in the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*. These financial statements are different from the financial reports prepared pursuant to OMB directives, which are used to monitor and control the use of the AFF/SADF budgetary resources. To ensure that the AFF/SADF financial statements are meaningful at the entity level and to enhance reporting consistency within the Department, 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 2019 and 2018, and as such, intra-entity transactions have not been eliminated.

The FASAB Statement of Federal Financial Accounting Standards (SFFAS) 47, Reporting Entity, which sets forth guidance to include, in the financial statements or as footnote disclosures, “all organizations (1) budgeted for by elected officials of the federal government; (2) owned by the federal government; or (3) controlled by the federal government with risk of loss or expectation of benefits.” The standard also requires information to be provided about related party relationships of such significance that it would be misleading to exclude information. In FY 2019, the AFF/SADF did not identify any disclosure entity or related party relationships that meet the disclosure requirements of SFFAS 47.

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. Upon forfeiture and if the title passes to the U.S. Government, a determination is made whether the funds will go to the AFF or, in a limited number of cases, the United States Victims of State Sponsored Terrorism Fund (USVSSTF), a fund managed by the Department. Forfeited cash is then transferred from the SADF to the AFF or, in very limited cases, to the USVSSTF. The funds are transferred to 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)

AFF, USVSST Fund or as otherwise determined. 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 funds in the AFF and SADF.

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 Federal Investments Program. Investments are reported on the Consolidated Balance Sheet at their net value, the cost plus or minus any unamortized premium or discount. Premiums and discounts are amortized using the straight-line method over the life of the Treasury security. AFF and SADF intend to hold investments to maturity. Accordingly, no provision is made for unrealized gains or losses on these securities.

H. Accounts Receivable

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 and refunds due from commercial vendors. 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.

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:

**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)

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.

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. The value of seized property is its estimated fair market value at the time it was seized.

Most seized property is held by the USMS from the point of seizure until its disposition. In certain cases, the investigative agency will keep seized property in its custody if the intention is to place the property into official use after forfeiture or to use the property as evidence in a court proceeding. Seized cash and monetary instruments are presented as assets with offsetting liabilities on the Balance Sheet. The funds in the SADF are held in trust until a determination is made as to their disposition. These funds include seized cash, proceeds from pre-forfeiture sales of seized property, and income from property under seizure. No revenue recognition is given to seized cash deposited in the SADF that is not forfeited. Seized property other than cash and monetary instruments are only presented in the notes to the financial statements.

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

Note 1. Summary of Significant Accounting Policies (continued)

Forfeited property is property for which title has passed to the U.S. Government. This property is recorded at the estimated 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.

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

Asset Type	Valuation Documentation
Cash/Currency, Monetary Instruments	Copy of check, cash management company (e.g., Brinks) receipt, EFT, wire confirmation, in accordance with agency policy
Financial Instruments	Web-based valuation tools (e.g., for crypto currency, CoinMarketCap.com), financial market, account statement, other source in accordance with agency policy
Vehicles	National Automobile Dealers Association (NADA) or Kelley Blue Book value in accordance with agency policy
Real Property	Appraisal/Broker's Price Opinion (BPO)
Other Valued Assets	Professional appraisal, web-based valuation tools (e.g., 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 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.

These notes are an integral part of the financial statements.

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

Note 1. Summary of Significant Accounting Policies (continued)

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 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.

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)

- 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 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

**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)

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 non-exchange 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 (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 Treasury Forfeiture Fund (TFF). The AFF recognizes exchange revenue on a reimbursement basis at least quarterly 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 their final disposition is determined.

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.

**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)

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 because seized cash is not available to finance the AFP.

T. Tax Exempt Status

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

U. Use of Estimates

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

V. Reclassifications

The FY 2018 financial statements were reclassified to conform to the FY 2019 Departmental and OMB financial statement presentation requirements. The reclassifications had no material effect on total assets, liabilities, net position, changes in net position or budgetary resources previously reported.

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)

W. Subsequent Events

Subsequent events and transactions occurring after September 30, 2019 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.

X. Classified Activities

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

**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, 2019 and 2018

	2019	2018
Intragovernmental		
Investments, Net (Note 5)	\$ 150,000	\$ 1,323,500
With the Public		
Cash and Other Monetary Assets (Note 4)	2,270,286	62,247
Total Non-Entity Assets	2,420,286	1,385,747
Total Entity Assets	4,342,454	5,249,910
Total Assets	\$ 6,762,740	\$ 6,635,657

Note 3. Fund Balance with Treasury

As of September 30, 2019 and 2018

	2019	2018
Status of Fund Balances		
Unobligated Balance - Available	\$ 394,334	\$ 1,188,275
Unobligated Balance - Unavailable	777,333	12,594
Obligated Balance not yet Disbursed	2,823,852	3,704,487
Budgetary Resources from Invested Balances	(1,914,296)	(4,748,714)
Total Status of Fund Balances	\$ 2,081,223	\$ 156,642

These notes are an integral part of the financial statements.

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

Note 4. Cash and Other Monetary Assets

Cash consists of seized cash in the SADF, as well as forfeited cash in transit to the AFF. Other monetary assets include seized cash and monetary instruments in DOJ custody but not yet deposited in the SADF.

As of September 30, 2019 and 2018

	2019	2018
Cash		
Seized Cash Deposited	\$ 2,255,494	\$ 46,643
Total Cash	2,255,494	46,643
Other Monetary Assets		
Seized Monetary Instruments	14,792	15,604
Total Other Monetary Assets	14,792	15,604
Total Cash and Other Monetary Assets	\$ 2,270,286	\$ 62,247

Note 5. Investments

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 invests Funds from Dedicated Collections 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

These notes are an integral part of the financial statements.

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

Note 5. Investments (continued)

make expenditures, the Treasury will finance the expenditures in the same manner that it finances all other expenditures.

	Cost	Amortized Premium (Discount)	Investments, Net	Market Value Disclosure
As of September 30, 2019				
Intragovernmental				
Non-Marketable Securities				
Market-Based				
AFF	\$ 2,050,000	\$ 54,142	\$ 2,104,142	\$ 2,102,608
SADF	150,000	-	150,000	153,849
Total	<u>\$ 2,200,000</u>	<u>\$ 54,142</u>	<u>\$ 2,254,142</u>	<u>\$ 2,256,457</u>

	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	<u>\$ 6,178,067</u>	<u>\$ 76,644</u>	<u>\$ 6,254,711</u>	<u>\$ 6,026,772</u>

These notes are an integral part of the financial statements.

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

Note 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. Accounts receivable with the public consist of refunds receivable from commercial vendors.

As of September 30, 2019 and 2018

	2019	2018
Intragovernmental		
Accounts Receivable	\$ 18,662	\$ 13,993
Total Intragovernmental	\$ 18,662	\$ 13,993
With the Public		
Accounts Receivable	\$ 185	\$ -
Total With the Public	\$ 185	\$ -
Total Accounts Receivable, Net	\$ 18,847	\$ 13,993

Note 7. Forfeited and Seized Property, Net

A. Forfeited Property, Net

Liabilities for equitable sharing due to federal, state, and local law enforcement agencies which participated in cases that led to forfeiture were \$72,069 on September 30, 2019, and \$42,132 on September 30, 2018.

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, 2019 and 2018.

**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 Changes in Forfeited Property -- For the Twelve Months Ended September 30, 2019

Forfeited Property Category	Beginning Balance	Adjustments (1)	Forfeitures	Disposals	Ending Balance	Liens and Claims	Ending Balance Net of Liens	
Financial Instruments	Number	455	184	848	(1,217)	270	-	270
	Value	\$ 12,390	\$ 1,248	\$ 204,507	\$ (186,011)	\$ 32,134	\$ -	\$ 32,134
Real Property	Number	303	(2)	327	(421)	207	-	207
	Value	\$ 106,543	\$ (10,519)	\$ 111,478	\$ (139,250)	\$ 68,252	\$ (1,876)	\$ 66,376
Personal Property	Number	2,894	107	3,371	(3,168)	3,204	-	3,204
	Value	\$ 38,757	\$ (1,228)	\$ 49,064	\$ (47,553)	\$ 39,040	\$ (776)	\$ 38,264
Firearms, Non-Valued	Number	32,944	67	19,001	(8,633)	43,379	-	43,379
Total	Number	36,596	356	23,547	(13,439)	47,060	-	47,060
	Value	\$ 157,690	\$ (10,499)	\$ 365,049	\$ (372,814)	\$ 139,426	\$ (2,652)	\$ 136,774

(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, 2019

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	972	26	217	-	1	1,217
	Value	\$ 179,479	\$ 3,760	\$ 2,785	\$ -	\$ 62	\$ (75)
Real Property	Number	1	-	416	-	4	421
	Value	\$ 5	\$ -	\$ 138,576	\$ -	\$ 669	\$ 139,250
Personal Property	Number	2	943	1,961	161	101	3,168
	Value	\$ 55	\$ 342	\$ 39,667	\$ 2,537	\$ 4,952	\$ 47,553
Firearms, Non-Valued	Number	-	8,081	-	68	484	8,633
Total	Number	975	9,050	2,594	229	590	13,439
	Value	\$ 179,539	\$ 4,102	\$ 181,028	\$ 2,537	\$ 5,683	\$ (75)

(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 18 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 18 represents the proceeds realized upon disposition.

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

These notes are an integral part of the financial statements.

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

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

Analysis of Changes in Forfeited Property -- For the Twelve Months 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
Firearms, Non-Valued	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 Twelve Months 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
Firearms, Non-Valued	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 18 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 18 represents the proceeds realized upon disposition.

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

These notes are an integral part of the financial statements.

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

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

B. Seized Property

A seizure is the act of taking possession of goods in consequence of a violation of public law. Seized property consists of seized cash, monetary instruments, real property and tangible personal property in the actual or constructive possession of the seizing and the custodial agencies. The Department, until judicially or administratively forfeited, does not legally own such property.

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

The following tables show the analysis of changes in and methods of disposition of property seized for forfeiture during the fiscal years ended September 30, 2019 and 2018. In the following tables, Seized Cash and Monetary Instruments includes seized cash in transit as well as pre-forfeiture deposits into the SADF of monetary instruments and depository account balances, proceeds from pre-forfeiture sales, and cash received in lieu of seized property. Financial Instruments include negotiable instruments and restricted depository accounts.

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

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

Analysis of Changes in Seized Property -- For the Twelve Months Ended September 30, 2019

Seized Property Category		Beginning Balance	Adjustments (1)	Seizures	Disposals	Ending Balance	Liens and Claims	Ending Balance Net of Liens
Seized Cash and Monetary Instruments	Number	11,319	603	9,711	(9,159)	12,474	-	12,474
	Value	\$ 1,385,747	\$ 86,793	\$ 2,938,082	\$ (1,990,336)	\$ 2,420,286	\$ (864,579)	\$ 1,555,707
Financial Instruments	Number	493	(38)	728	(600)	583	-	583
	Value	\$ 291,620	\$ (45,242)	\$ 116,530	\$ (92,025)	\$ 270,883	\$ (18,159)	\$ 252,724
Real Property	Number	103	3	72	(69)	109	-	109
	Value	\$ 37,065	\$ 1,706	\$ 100,729	\$ (27,121)	\$ 112,379	\$ (74,759)	\$ 37,620
Personal Property	Number	5,288	679	3,932	(4,299)	5,600	-	5,600
	Value	\$ 173,782	\$ (39,503)	\$ 76,310	\$ (73,625)	\$ 136,964	\$ (49,343)	\$ 87,621
Firearms, Non-Valued	Number	26,218	3,110	23,297	(20,977)	31,648	-	31,648
Total	Number	43,421	4,357	37,740	(35,104)	50,414	-	50,414
	Value	\$ 1,888,214	\$ 3,754	\$ 3,231,651	\$ (2,183,107)	\$ 2,940,512	\$ (1,006,840)	\$ 1,933,672

(1) Adjustments include property status and asset group 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.

Methods of Disposition of Seized Property -- For the Twelve Months Ended September 30, 2019

Seized Property Category		Converted Financial Instruments/Property	Destroyed/Donated/Transferred (1)	Sold/Liquidated	Returned Assets	Forfeited (2)	Variance (3)	Total (3)
Seized Cash and Monetary Instruments	Number	30	40	-	724	8,365	-	9,159
	Value	\$ 6,181	\$ 438,042	\$ -	\$ 107,215	\$ 1,438,898	\$ -	\$ 1,990,336
Financial Instruments	Number	4	8	-	29	559	-	600
	Value	\$ 2,809	\$ 5	\$ -	\$ 3,461	\$ 85,750	\$ -	\$ 92,025
Real Property	Number	-	1	4	11	53	-	69
	Value	\$ -	\$ 360	\$ 1,030	\$ 2,363	\$ 23,368	\$ -	\$ 27,121
Personal Property	Number	-	37	4	906	3,352	-	4,299
	Value	\$ -	\$ 178	\$ 64	\$ 24,589	\$ 48,794	\$ -	\$ 73,625
Firearms, Non-Valued	Number	-	2,177	-	1,884	16,916	-	20,977
Total	Number	34	2,263	8	3,554	29,245	-	35,114
	Value	\$ 8,990	\$ 438,585	\$ 1,094	\$ 137,628	\$ 1,596,810	\$ -	\$ 2,183,107

(1) Transfers of seized cash to the USVSST Fund in FY 2019 of \$436.5 million account for the majority of this amount.

(2) 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.

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

These notes are an integral part of the financial statements.

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

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

Analysis of Changes in Seized Property -- For the Twelve Months 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 Monetary Instruments	Number	10,467	736	9,171	(9,055)	11,319		11,319
	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
Firearms, Non-Valued	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 and asset group 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.

Methods of Disposition of Seized Property -- For the Twelve Months Ended September 30, 2018

Seized Property Category		Converted Financial Instruments/Property	Destroyed/Donated/Transferred	Sold/Liquidated	Returned Assets	Forfeited (1)	Variance (2)	Total (3)
Seized Cash and Monetary Instruments	Number	69	69	-	677	8,240	-	9,055
	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
Firearms, Non-Valued	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.

These notes are an integral part of the financial statements.

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

Note 8. General Property, Plant and Equipment, Net

	Acquisition Cost	Accumulated Depreciation	Net Book Value	Useful Life
As of September 30, 2019				
Equipment	\$ 328	\$ (325)	\$ 3	5-12 years
Leasehold Improvements	2,940	(1,476)	1,464	5 years
Total	\$ 3,268	\$ (1,801)	\$ 1,467	

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

Note 9. Other Assets

As of September 30, 2019 and 2018

	2019	2018
Other Assets With the Public	1	1
Total Other Assets	\$ 1	\$ 1

These notes are an integral part of the financial statements.

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

Note 10. Liabilities not Covered by Budgetary Resources

As of September 30, 2019 and 2018

	2019	2018
With the Public		
Accrued Annual and Compensatory Leave Liabilities	\$ 3,337	\$ 3,164
Total With the Public	3,337	3,164
Total Liabilities not Covered by Budgetary Resources	3,337	3,164
Total Liabilities Covered by Budgetary Resources	2,693,496	3,571,759
Total Liabilities not Requiring Budgetary Resources	2,560,402	1,537,176
Total Liabilities	\$ 5,257,235	\$ 5,112,099

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.

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, 2019 and 2018

	2019	2018
Investments, Net (Note 5)	\$ 150,000	\$ 1,323,500
Seized Cash Deposited (Note 4)	2,255,494	46,643
Seized Monetary Instruments (Note 4)	14,792	15,604
Cash in Transit to SADF	3,342	5,133
Total Seized Cash and Monetary Instruments	\$ 2,423,628	\$ 1,390,880

These notes are an integral part of the financial statements.

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

Note 12. Other Liabilities

All Other Liabilities are current liabilities.

As of September 30, 2019 and 2018

	2019	2018
Intragovernmental		
Employer Contributions and Payroll Taxes Payable	\$ 519	\$ 471
Total Intragovernmental	\$ 519	\$ 471
Total Other Liabilities	\$ 519	\$ 471

Note 13. Contingencies and Commitments

	Accrued Liabilities	Estimated Range of Loss	
		Lower	Upper
As of September 30, 2019			
Reasonably Possible	\$ -	\$ -	\$ -
As of September 30, 2018			
Reasonably Possible	\$ -	\$ -	\$ -

Note 14. Funds from Dedicated Collections

Generally, funds from dedicated collections are financed by specifically identified revenues and are required by statute to be used for designated activities or purposes, and must be accounted for separately from the government's general revenues. See SFFAS No. 27, as amended by SFFAS No. 43, for the required criteria for a fund from dedicated collections.

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

Note 14. Funds from Dedicated Collections (continued)

The AFF, 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 their final disposition is determined.

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, 2019 and 2018

	2019	2018
Balance Sheet		
Assets		
Fund Balance with U.S. Treasury	\$ 2,081,223	\$ 156,642
Investments, Net	2,104,142	4,931,211
Other Assets	157,089	162,057
Total Assets	\$ 4,342,454	\$ 5,249,910
Liabilities		
Accounts Payable	\$ 2,691,017	\$ 3,568,945
Other Liabilities	145,932	157,407
Total Liabilities	\$ 2,836,949	\$ 3,726,352
Net Position		
Cumulative Results of Operations	\$ 1,505,505	\$ 1,523,558
Total Net Position	\$ 1,505,505	\$ 1,523,558
Total Liabilities and Net Position	\$ 4,342,454	\$ 5,249,910
Statement of Net Cost		
Gross Cost of Operations	\$ 1,591,348	\$ 1,508,143
Less: Earned Revenue	19,123	22,253
Net Cost of Operations	\$ 1,572,225	\$ 1,485,890
Statement of Changes in Net Position		
Net Position Beginning of Period	\$ 1,523,558	\$ 1,935,830
Budgetary Financing Sources	1,192,810	871,365
Other Financing Sources	361,362	202,253
Total Financing Sources	1,554,172	1,073,618
Net Cost of Operations	(1,572,225)	(1,485,890)
Net Change	(18,053)	(412,272)
Net Position End of Period	\$ 1,505,505	\$ 1,523,558

These notes are an integral part of the financial statements.

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

Note 15. Suborganization Program Costs/Program Costs by Segment

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, 2019	Forfeiture Operations Expenses	General Investigation Expenses	Total
Goal 1: Enhance National Security and Counter the Threat of Terrorism			
Gross Cost	\$ 79,567	\$ -	\$ 79,567
Less: Earned Revenue	-	-	-
Net Cost of Operations	79,567	-	79,567
Goal 3: Reduce Violent Crime and Promote Public Safety			
Gross Cost	\$ 1,187,391	\$ 244,823	\$ 1,432,214
Less: Earned Revenue	19,123	-	19,123
Net Cost of Operations	1,168,268	244,823	1,413,091
Goal 4: Promote Rule of Law, Integrity, and Good Government			
Gross Cost	\$ 79,567	\$ -	\$ 79,567
Less: Earned Revenue	-	-	-
Net Cost of Operations	79,567	-	79,567
Net Cost of Operations	\$ 1,327,402	\$ 244,823	\$ 1,572,225
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

These notes are an integral part of the financial statements.

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

Note 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 55, *Amending Inter-Entity Cost Provisions*, and SFFAS 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. For the FYs ended September 30, 2019 and 2018, the AFF had no liabilities related to 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	38.4
	Regular Employees Offset	28.8
	Law Enforcement Officers	62.3
	Law Enforcement Officers Offset	53.4
Federal Employees Retirement System (FERS)	Regular Employees	16.9
	Regular Employees – Revised Annuity Employees (RAE)	17.3
	Regular Employees – Further Revised Annuity Employees (FRAE)	17.6
	Law Enforcement Officers	34.9
	Law Enforcement Officers – RAE	35.4
	Law Enforcement Officers – FRAE	35.6

These notes are an integral part of the financial statements.

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

Note 16. Imputed Financing (continued)

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, 2019 and 2018

	2019	2018
Imputed Inter-Departmental Financing		
Health Insurance	\$ 1,038	\$ 2,065
Life Insurance	8	8
Pension	2,120	378
Total Imputed Inter-Departmental	\$ 3,166	\$ 2,451

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 has no imputed intra-departmental financing sources that meet reporting requirements.

Note 17. Information Related to the Statement of Budgetary Resources

Net Adjustments to Unobligated Balance, Brought Forward, October 1:

Net adjustments to the Unobligated Balance, Brought Forward, October 1 primarily includes activity relating to Upward and Downward Adjustments of Prior-Year Undelivered and Delivered Orders, Transfers of Prior-Year Balances, and other changes in obligated balances. There were no material corrections of errors relating to the Net Adjustments to Unobligated Balance, Brought Forward, October 1.

**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)

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, 2019 and 2018

	2019	2018
Intragovernmental		
UDO Obligations Unpaid	\$ 40,311	\$ 57,527
Total Intragovernmental UDO	40,311	57,527
With the Public		
UDO Obligations Unpaid	110,114	90,685
Total With the Public UDO	110,114	90,685
Total UDO	\$ 150,425	\$ 148,212

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.

In FY 2019, the Consolidated Appropriations Act, 2019, enacted a \$674 million permanent rescission from the AFF, an increase of \$370 million over FY 2018’s \$304 million. The FY 2019 permanent rescission was transferred to the Treasury in September 2019.

These notes are an integral part of the financial statements.

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

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

Explanation of Differences between the SBR and the Budget of the U.S Government:

The Statement of Budgetary Resources (SBR) versus the Budget of the U.S. Government as of September 30, 2018 is presented below.

The reconciliation as of September 30, 2019 is not presented because the submission of the Budget of the U.S. Government for FY 2021, which presents the execution of the FY 2019 Budget, occurs after publication of these financial statements. The DOJ Budget Appendix can be found on the OMB website and will be available in early February 2020.

For the Fiscal Year Ended September 30, 2018
(Dollars in Millions)

	Total Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Agency Outlays, Net
Statement of Budgetary Resources (SBR)	\$ 2,761	\$ 1,560	\$ 62	\$ 2,546
Funds not Reported in the Budget Distributed Offsetting Receipts				62
Funds not Reported in the SBR Other	1			
Budget of the United States Government	\$ 2,762	\$ 1,560	\$ 62	\$ 2,608

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.

Note 18. 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. Revenue from donations and forfeitures of cash and cash equivalents, after the following payments and returns to agencies participating in seizures that led to forfeiture, totaled \$2,070.5 million for the Fiscal Year ended September 30, 2019, and \$1,276.1 million for the Fiscal Year ended September 30, 2018.

These notes are an integral part of the financial statements.

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

Note 18. Donations and Forfeitures (continued)

	FY 2019	FY 2018
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.	\$ 707	\$ 1,747
Return of forfeiture income to the TFF for its participation in seizures that led to forfeiture.	9,763	48,801
Return of forfeiture income to the U.S. Postal Service for its participation in seizures that led to forfeiture.	7,556	1,705
Return of forfeiture income to the other Federal Agencies for their participation in seizures that led to forfeiture.	1	-
Total Return of Forfeiture Income	<u>\$ 18,027</u>	<u>\$ 52,253</u>

Note 19. Reconciliation of Net Cost to Net Outlays

AFF presents its Statement of Net Cost using the accrual basis of accounting. This differs from the obligation-based measurement of total resources supplied, both budgetary and from other sources, on the Statement of Budgetary Resources. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting.

The reconciliation explains the relationship between the net cost of operations and net outlays by presenting (1) components of net cost that are not part of net outlays (e.g. depreciation and amortization expenses of assets previously capitalized, change in asset/liabilities); (2) components of net outlays that are not part of net cost (e.g. acquisition of capital assets); and (3) other temporary timing difference (e.g. prior period adjustments due to correction of errors). The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays.

Accounts payable with the public, a component of Net Cost that are Not Part of Net Outlays, decreased by \$905.9 million, primarily as a result of payments to victims of the Bernard L. Madoff fraud of \$1,056.7 million in FY 2019, which were accrued in prior fiscal years. This decrease was offset by an increase in accounts payable to Madoff victims established in FY 2019 of \$134.9 million. Other components of net operating cost not part of the budgetary outlays includes primarily other expenses not requiring budgetary resources and future funded expenses. Other temporary timing difference relates to FY 2019 unreconciled variance of \$127 thousand.

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

Note 19. Reconciliation of Net Cost to Net Outlays (continued)

For the Fiscal Years Ended September 30, 2019

	Intra- governmental	With the Public	Total FY 2019
NET COST	\$ 167,203	\$ 1,405,022	\$ 1,572,225
Components of Net Cost That Are Not Part of Net Outlays:			
Property, Plant, and equipment depreciation	\$ -	\$ (300)	\$ (300)
Other	-	(44,777)	(44,777)
Increase/(decrease) in assets			
Accounts Receivable	4,642	185	4,827
(Increase)/decrease in liabilities			
Accounts Payable	(27,982)	905,911	877,929
Salaries and Benefits	(48)	383	335
Other Liabilities (Unfunded leave, Unfunded FECA, Actuarial FECA)		1,618	1,618
Other Financing Sources			
Federal employee retirement benefit costs paid by OPM and imputed to agency	(3,166)	-	(3,166)
Total Components of Net Cost That are Not Part of Net Outlays	\$ (26,554)	\$ 863,020	\$ 836,466
Component of Net Outlays That Are Not Part of Net Cost:	\$ -	\$ -	\$ -
Total Component of Net Outlays That Are Not Part of Net Cost	\$ -	\$ -	\$ -
Other Temporary Timing Difference	\$ (127)	\$ -	\$ (127)
NET OUTLAYS	\$ 140,522	\$ 2,268,042	\$ 2,408,564

These notes are an integral part of the financial statements.

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 Exhibit I of the *Independent Auditors' Report* of this final report. In response to the *Independent Auditors' Report*, the AFF/SADF concurred with the recommendations and discussed the actions it will implement in response to the finding. As a result, the status of the report is resolved. The following provides the OIG's analysis of the response and summary of actions necessary to close the report.

Recommendations for the Asset Forfeiture Management Staff and Justice Management Division personnel:

1. **Document the specific requirements for the supervisory review of the AFF/SADF financial statements, which should include critically reviewing the financial statement amounts and disclosures to ensure they agree to the relevant crosswalks or other supporting documentation and are properly presented. (Updated)**

Resolved. Asset Forfeiture Management Staff (AFMS) concurred with the recommendation. AFMS stated in its response that the AFMS and Justice Management Division Finance Staff (JMDFS) are committed to documenting procedures and developing and revising edit checks used while the financial statements package is reviewed by management, to ensure that any discrepancies are prevented, or detected and corrected, prior to submission of the final financial statements package, in FY 2020.

This recommendation can be closed when subsequent annual financial statement audit testing verifies AFMS and JMDFS have documented the specific requirements for the supervisory review of the AFF/SADF financial statements, which should include critically reviewing the financial statement amounts and disclosures to ensure they agree to the relevant crosswalks or other supporting documentation and are properly presented.

2. **Implement effective risk assessment controls to identify, analyze, and respond to risks related to new financial reporting requirements. When new financial statement requirements are implemented, management should provide adequate training and allocate appropriate resources to ensure the new requirements are properly implemented in accordance with the applicable financial reporting requirements. (New)**

Resolved. AFMS concurred with this recommendation. AFMS stated in its response that AFMS and JMDFS will review, upon issuance, all changes to OMB A-136 that would require updates to the Department Financial Statement Guide; and AFMS and JMDFS will thoroughly review the impact of

Statement Guide; and AFMS and JMDFS will thoroughly review the impact of new financial reporting requirements on the AFF/SADF financial statements; and implement new measures to ensure new requirements are incorporated.

This recommendation can be closed when subsequent annual financial statement audit testing verifies that management has implemented effective risk assessment controls to identify, analyze, and respond to risks related to new financial reporting requirements; and when new financial statement requirements are implemented, management has provided adequate training and allocated appropriate resources to ensure the new requirements are properly implemented in accordance with the applicable financial reporting requirements.



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