



Audit Report



OIG-12-021

Audit of the Department of the Treasury Forfeiture Fund's
Fiscal Years 2011 and 2010 Financial Statements

December 6, 2011

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 6, 2011

**MEMORANDUM FOR ERIC HAMPL, DIRECTOR
TREASURY FORFEITURE FUND**

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Audit of the Department of the Treasury Forfeiture Fund's Fiscal
Years 2011 and 2010 Financial Statements

I am pleased to transmit the attached audited Department of the Treasury Forfeiture Fund (TFF) financial statements for Fiscal Years 2011 and 2010. Under a contract monitored by the Office of Inspector General, GKA, P.C. (GKA), an independent certified public accounting firm, performed an audit of the financial statements of TFF as of September 30, 2011 and 2010 and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended; and the *GAO/PCIE Financial Audit Manual*.

The following reports, prepared by GKA, are incorporated in the attachment:

- Independent Auditor's Report on Financial Statements;
- Independent Auditor's Report on Internal Control over Financial Reporting;
and
- Independent Auditor's Report on Compliance with Laws and Regulations.

In its audit, GKA found:

- the financial statements were fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- no deficiencies in internal control over financial reporting that are considered material weaknesses; and
- no instances of reportable noncompliance with laws and regulations tested.

GKA also issued a management letter dated October 31, 2011, discussing matters involving internal control over financial reporting that were identified during the audit but were not required to be included in the auditor's reports. This letter will be transmitted separately.

In connection with the contract, we reviewed GKA's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. GKA is responsible for the attached auditor's reports dated October 31, 2011 and the conclusions expressed in the reports. However, our review disclosed no instances where GKA did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789, or a member of your staff may contact Catherine Yi, Manager, Financial Audits at (202) 927-5591.

Attachment



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**Treasury Forfeiture Fund
ACCOUNTABILITY REPORT
Fiscal Year 2011**

**DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.**

Member of the American Institute of Certified Public Accountants

Message from the Director

I am pleased to present the fiscal year (FY) 2011 Accountability Report for the Treasury Forfeiture Fund (the Fund). While highlighting the Fund's financial and operational performance over the past year, this report also focuses on some of the significant investigative achievements of our participating law enforcement agencies this year. FY 2011 was another highly successful revenue year for the law enforcement bureaus participating in the Treasury Forfeiture Fund, with earned revenue and recoveries of \$868.1 million from all sources, as compared to \$1.1 billion in FY 2010.

The continued high-impact performance of the Fund reflects the ongoing hard work of our law enforcement bureaus as well as Fund management's emphasis on major case initiatives, asset forfeiture program training and a focused approach regarding our performance measure which gauges revenue from high-impact cases. The mission of the Fund is to affirmatively influence the consistent and strategic use of asset forfeiture by our law enforcement bureaus to disrupt and dismantle criminal enterprise. It is our view that the greatest damage to criminal enterprise can be achieved through large forfeitures; hence we have set a target level of 80 percent of our forfeitures to be high-impact, i.e., cash forfeitures equal to or greater than \$100,000. This target level is up from 75 percent set for FY 2010 and prior years. For FY 2011, our member bureaus exceeded the target with a performance level of 91.44 percent high-impact cash forfeitures. Contributing significantly to this year's outstanding performance by our member bureaus was the large forfeiture from the Deutsche Bank major case investigated by IRS-CI that resulted in a forfeiture deposit of \$404 million during FY 2011. Also contributing to the banner year deposits were large equitable sharing deposits from the Department of Justice forfeiture fund, reflecting the role of Treasury bureaus in those forfeitures. The Fund's performance excluding the large Deutsche Bank case deposit also exceeded the target at 81.74%.

During FY 2011, the Treasury Executive Office for Asset Forfeiture (TEOAF) continued its seminar series, "Investigative and Forfeiture Issues Involving the Southwest Border" that was launched last year. The second seminar of this series was held in December 2010 in El Paso, Texas. Topics for the well-attended conference included bulk currency and post-interdiction financial investigations; human smuggling and trafficking; task forces operating on the Southwest Border; law enforcement activities in Central and South America, and international coordination; and Black Market Peso Exchange (BMPE) and trade based money laundering. There were a number of case studies illustrating law enforcement efforts and best practices.

Also in FY 2011, TEOAF launched two new seminar series: "Investigative and Forfeiture Issues Involving Money Service Businesses (MSBs)" and "Best Practices for Conducting Ponzi Scheme Investigations." The first seminar of the series "Investigative and Forfeiture Issues involving MSBs" was held in April in Minneapolis. The subject of MSBs is very important and timely given concerns about money laundering vulnerabilities associated with the MSB industry. The seminar agenda covered legal, regulatory and law enforcement aspects of MSB enforcement, discussed various new programs and task forces of the Internal Revenue Service (IRS) and Immigration and Customs Enforcement (ICE), that target MSBs and particularly unlicensed MSBs, and featured case studies and best practices of law enforcement agencies investigating MSB-related cases. The first in the Ponzi Scheme series of seminars was held in July in New York and featured best practices investigative techniques for this type of fraud and highlighted the intricacies of real-life cases. Emphasis was placed on victims, victim restitution and identifying promoters of the scheme.

The Treasury Forfeiture Fund continues in its capacity as a successful multi-Departmental Fund representing the interests of law enforcement components of the Departments of Treasury and Homeland Security. Member bureaus include the Internal Revenue Service's Criminal Investigation (IRS-CI), the U.S. Secret Service, Immigration and Customs Enforcement (ICE), and Customs and Border Protection (CBP). The U.S. Coast Guard continues its close working relationship with the legacy Customs bureaus. We look forward to another successful year in FY 2012.

Eric E. Hampl, Director
Executive Office for Asset Forfeiture
U.S. Department of the Treasury

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Treasury Forfeiture Fund FY 2011 Management Overview

Profile of the Treasury Forfeiture Fund

The Treasury Forfeiture Fund (the Fund) is the receipt account for the deposit of non-tax forfeitures made pursuant to laws enforced or administered by law enforcement bureaus that participate in the Treasury Forfeiture Fund. The Fund was established in October of 1992 as the successor to the Forfeiture Fund of the United States Customs Service. The Fund is a “special receipt account.” This means the Fund can provide money to other federal entities toward the accomplishment of a specific objective for which the recipient bureaus are authorized to spend money and toward other authorized expenses. The use of Fund resources is governed by law, policy and precedent as interpreted and implemented by the Department of the Treasury which manages the Fund. A key objective for management is the long-term viability of the Fund to ensure that there are ongoing resources to support member-bureau seizure and forfeiture activities well into the future. The emphasis of Fund management is on high impact cases that can do the most damage to criminal infrastructure.

The Treasury Forfeiture Fund continues in its capacity as a multi-Departmental Fund, representing the interests of law enforcement components of the Departments of Treasury and Homeland Security. Our member bureaus include the Internal Revenue Service’s Criminal Investigation (IRS-CI), the U.S. Secret Service, Immigration and Customs Enforcement (ICE), and Customs and Border Protection (CBP). The U.S. Coast Guard continues its close working relationship with the legacy Customs bureaus and functions in a member-bureau capacity.

The Executive Office for Asset Forfeiture (EOAF), which provides management oversight of the Fund, falls under the auspices of the Under Secretary for Terrorism and Financial Intelligence. EOAF’s organizational structure includes the Fund Director, Legal Counsel, Assistant Director for Financial Management and Assistant Director for Policy. Functional responsibilities are delegated to various team leaders. EOAF is located in Washington, D.C., and currently has 24 full time equivalent positions.

Strategic Mission

The mission of the Treasury Forfeiture Fund is to affirmatively influence the consistent and strategic use of asset forfeiture by law enforcement bureaus that participate in the Treasury Forfeiture Fund to disrupt and dismantle criminal enterprises.

Strategic Vision

Fund management works to focus the asset forfeiture program on strategic cases and investigations that result in high-impact forfeitures. Management believes this approach incurs the greatest damage to criminal organizations while accomplishing the ultimate objective – to disrupt and dismantle criminal enterprises.

Case Highlights

The following case highlights are intended to give the reader an idea of the types of investigative cases worked by the Fund's law enforcement bureaus during FY 2011 that resulted in the seizure and forfeiture of assets. Such cases as those profiled below are consistent with the Strategic Mission and Vision of the Treasury Forfeiture Program, which is to use high-impact asset forfeiture in investigative cases to disrupt and dismantle criminal enterprises.

Internal Revenue Service, Criminal Investigation (IRS-CI) Department of the Treasury

Deutsche Bank Forfeits \$404 Million; Deferred Prosecution Agreement re Fraudulent Tax Shelters Probe

Information included in the following forfeiture article is attributed to:

Wall Street Journal article dated December 22, 2010, entitled: *Deutsche Bank to Pay More than \$550 Million in Tax-Shelter Settlement*. The author of the article is Chad Bray.

In December 2010, Deutsche Bank AG agreed to pay \$553.6 million and admitted criminal wrongdoing to settle a long-running probe over fraudulent tax shelters that allowed clients to avoid paying billions of dollars in U.S. taxes. Under a Non-Prosecution Agreement (Agreement) with the U.S. Attorney's Office in Manhattan and the Internal Revenue Service, Deutsche Bank will not be prosecuted for its participation in about 15 tax shelters involving more than 2,100 customers between 1996 and 2002, including shelters marketed by accounting firm KPMG LLP and defunct law firm Jenkens & Gilchrist PC.

Customers used the fraudulent shelters to generate more than \$29 billion in bogus tax benefits, mainly losses, according to the Agreement. The \$553.6 million payment represents the total amount of fees that the bank collected during the period, the taxes and interest the IRS was unable to collect during the period, and a civil penalty of more than \$149 million. The Agreement resolves an investigation that stemmed from aggressive, prepackaged tax shelters that the government believed were fraudulent.

More than a dozen people were charged criminally in the matter. KPMG itself signed a Deferred Prosecution Agreement in which it admitted to the fraudulent sale and marketing of bogus tax shelters and agreed to pay a \$456 million penalty. The law firm, Jenkens & Gilchrist issued opinion letters touting the legitimacy of the transactions underlying some of the shelters and marketed some of the shelters. The firm closed its doors in 2007 after entering into an agreement avoiding prosecution and paying a \$76 million penalty.

Under the Agreement, Deutsche Bank admitted it knew or should have known that the transactions underlying the shelters were intended to create the appearance of investment activity, but taxpayers were entering into these transactions for the primary purpose of avoiding taxes, as opposed to making profits on the transactions. As part of the Agreement, Deutsche Bank agreed not to be involved with any type of prepackaged tax products and to adopt an ethics and compliance program. Deutsche Bank also agreed to cooperate with prosecutors.

Schiavone Construction to Forfeit \$20 Million for Public Works Hiring Fraud

Information included in the following forfeiture article is attributed to:

U.S. Department of Justice, Eastern District of New York, Press Release dated November 29, 2010, entitled: *Schiavone Construction to Pay \$20 Million and Costs of Investigation to Resolve Public Works Hiring Fraud*; an extract from IRS-CI Major Case Reporting documentation dated April 1, 2011; and a New York Times article, entitled: *Construction Giant Admits Fraud Over Minority Firms*, written by William K. Rashbaum, dated November 29, 2010.

In November 2010, the U.S. Attorney for the Eastern District of New York announced that Schiavone Construction Co. LLC (Schiavone), a construction services corporation, would pay the United States \$20 million to resolve a multi-agency joint criminal investigation into fraud the company committed in carrying out various public works contracts. As part of the resolution, Schiavone admitted that between 2002 and 2007, certain employees falsely and fraudulently reported that disadvantaged business enterprises (DBE) and minority and women-owned business enterprises (MWBE) performed subcontracted work on federally funded public works contracts, including the rehabilitation of New York City subway stations and the construction of the Croton Water Filtration Plant in the Bronx, when, in fact, non-DBE and non-MWBE subcontractors performed the work.

Under the terms of its Non-Prosecution Agreement with the government, Schiavone represented that it has undertaken various remedial measures to ensure compliance with the DBE and MWBE programs for its current and future federally funded capital constructions projects. These measures include: (i) establishing a position for an Ethics and Compliance Officer at Schiavone; (ii) creating contractor minority compliance manual, a code of ethics and business conduct, and mandatory compliance courses for its employees; (iii) removing the Schiavone employees directly involved with the scheme; and (iv) continuing to assist law enforcement in its ongoing investigation of the fraud regarding the four projects specified in the settlement.

The \$20 million forfeiture has been deposited in the Treasury Forfeiture Fund.

Significant Equitable Sharing Revenue Case¹

Barclays Bank - Treasury Forfeiture Fund Receives \$74 Million as an Equitable Share

Information included in the following forfeiture article is attributed to:

Federal Bureau of Investigation, New York Field Office, Press Release: “Barclays Bank PLC Agrees to Forfeit \$298 Million in Connection with Violations of the International Emergency Economic Powers Act and the Trading with the Enemy Act,” dated August 18, 2010.

Barclays Bank PLC, a United Kingdom Corporation headquartered in London, agreed to forfeit \$298 million to the United States and to the New York County District Attorney’s Office in connection with violations of the International Emergency Economic Powers Act (IEEPA) and the Trading with the Enemy Act (TWEA). Barclays publicly admitted its illegal acts and announced implementation of stringent compliance measures. The violations relate to transactions Barclays illegally conducted on behalf of customers from Cuba, Iran, Sudan, and other countries sanctioned in programs administered by Treasury’s Office of Foreign Assets Control (OFAC). Under IEEPA, it is a crime to willfully violate, or attempt to violate sanctions administered by OFAC. TWEA makes it a crime to willfully engage in financial transactions by, at the direction of, or for the benefit of Cuba or Cuban nationals.

¹ Pursuant to 31 U.S.C. 9703(d)(2)(C), the Treasury Forfeiture Fund is authorized to deposit into the Fund all amounts representing the equitable share of a Department of the Treasury law enforcement organization or the United States Coast Guard from the forfeiture of property under any Federal, State, local or foreign law.

Not just once, but numerous times over more than a decade, Barclays stripped vital information out of payment messages that would have alerted U.S. financial institutions about the true origins of the funds. Barclays followed instructions, principally from banks in Cuba, Iran, Libya, Sudan and Burma, not to mention their names in U.S. dollar payment messages sent to Barclay's branch in New York and to other financial institutions located in the United States. Barclays routed U.S. dollar payments through an internal Barclays account to hide the payments' connection to OFAC-sanctioned entities and amended and reformatted the U.S. dollar payment messages to remove information identifying the sanctioned entities.

A Criminal Information was filed August 16, 2010, in the U.S. District Court for the District of Columbia charging Barclays with one count of violating the IEEPA and one count of violating the TWEA. Barclays waived indictment, agreed to the filing of the information, and accepted and acknowledged responsibility for its criminal conduct. Barclays agreed to forfeit the funds as part of the deferred prosecution agreements reached with the Federal Government and the New York County District Attorney's Office.

Of the \$149 million forfeited to the U.S. Government, the Treasury Forfeiture Fund received \$74 million as an equitable share from the Assets Forfeiture Fund of the U. S. Department of Justice. The Federal Bureau of Investigation (FBI), a member bureau of the Justice Assets Forfeiture Fund, was the lead agency in the case and the Treasury Forfeiture Fund received an equitable share of the forfeiture proceeds representing IRS Criminal Investigation's (IRS-CI's) contributions to the forfeiture.

*Immigration and Customs Enforcement (ICE)
Department of Homeland Security*

Virginia Business Owners Forfeit \$1.2 Million for Harboring Illegal Aliens

Information included in the following forfeiture article is attributed to:

Immigration and Customs Enforcement (ICE) News Release dated November 23, 2010, "Virginia business owners sentenced to 18 months for harboring illegal aliens, forfeit \$1.2 million."

In November 2010, two business owners were sentenced to serve 18 months in prison followed by two years probation and ordered to forfeit \$1.2 million for their roles in a scheme to hire and harbor illegal aliens. Bao Ping Wang, 44, pled guilty to harboring illegal aliens and Trang "Tammy" Lu, 45, pled to misprision of a felony. Hi-Tech Trucking, Inc., a commercial trucking entity established by Wang and Lu for the delivery operations of SeaLands Food, another business operated by Wang and Lu for the distribution of seafood to Asian restaurants and markets throughout the mid-Atlantic region, was sentenced to three years probation for conspiring to harbor illegal aliens.

Hi-Tech Trucking, Inc. agreed to forfeit \$1,225,428 in illegal proceeds gained as a result of the offense and to pay a \$100,000 fine. In addition, Wang was also ordered to pay \$4,000 and agreed to deportation from the United States after service of his sentence. Lu was ordered to pay \$5,000 and agreed that she will comply with programs created by the Department of Homeland Security and Social Security Administration to screen all employees for determining workforce eligibility.

Wang and Lu both managed Hi-Tech Trucking Inc., and SeaLands Food. From 2006 through 2009, Wang employed a workforce at these companies consisting of both legal and illegal aliens, with Lu's knowledge or reckless disregard of the fact that a number of their employees were illegally present in

the country and illegally working without proper authorization. Federal investigators determined that Wang, with Lu's knowledge, harbored and employed between 6 to 24 illegal aliens at these companies at any point in time from 2006 through 2009.

Wang and Lu provided housing and meals of the illegal alien employees at three residences that they owned in Richmond, Virginia. Bank records for Hi-Tech Trucking, Inc accounts were used for payments for rental properties for employees and utilities for the three residential properties at which employees were housed, as well as payments to employees, including illegal aliens.

Jesse William Fadick, 64, Hiring Illegal Aliens at Wholesale Bakery, forfeits \$800,000

Information included in the following forfeiture article is attributed to:

Immigration and Customs Enforcement (ICE) News Release, "*Former owner, employees at San Diego bakery plead guilty to charges stemming from ICE worksite investigation*," dated November 30, 2010.

The former owner of a San Diego wholesale bakery and four other bakery employees pleaded guilty in U.S. District Court to knowingly hiring illegal aliens, the result of an investigation led by ICE with assistance from the Social Security Administration, Office of the Inspector General. Jesse William Fadick (Fadick), 64, the former owner of S&S Bakery, Inc., pleaded guilty to knowingly hiring 10 or more illegal aliens within a 12-month period. Fadick agreed to forfeit \$800,000 in proceeds as a result of the offense and paid the forfeiture in full.

14 People Charged with Conspiracy to Smuggle Cash into Mexico, Forfeit \$3.1 Million

Information included in the following forfeiture article is attributed to:

Immigration and Customs Enforcement (ICE) News Release, "*14 Charged with Conspiracy to Smuggle \$3.1 Million in Cash into Mexico*," dated September 29, 2010.

Fourteen passengers aboard a tour bus bound for Mexico were arrested and charged for knowingly conspiring to evade currency transactions reporting requirements by concealing \$3.1 million of U.S. Currency in luggage. The 14 passengers, seven U.S. citizens and 7 Mexican nationals, were arrested at the Hidalgo, Texas, Port of Entry after an intensive inspection of the tour bus resulted in discovery of 17 pieces of luggage, each containing hundreds of thousands of dollars in U.S. Currency. The cash was discovered wrapped in deflated air mattresses in all the luggage pieces.

It is not a crime to carry more than \$10,000, but it is a federal offense not to declare currency or monetary instruments totaling more than \$10,000 or more to a Customs and Border Patrol (CBP) officer upon entry into or exit from the United States. It is also a crime to conceal money with the intent to evade reporting requirements. Failure to declare the currency may result in seizure of the currency and/or arrest. An individual may petition for the return of the currency seized by CBP officers, but the petitioner must prove that the source and intended use of the currency was legitimate.

Maryland Woman Pleads Guilty to Smuggling Cash to Jamaica, Forfeits \$562,190

Information included in the following forfeiture article is attributed to:

Immigration and Customs Enforcement (ICE) News Release, "*Maryland woman pleads guilty to smuggling cash to Jamaica*," dated October 13, 2010.

In October 2010, Jean Brown (Brown), 41, of Catonsville, Maryland, pled guilty to bulk cash smuggling following an investigation led by ICE. According to Brown's plea agreement, shortly before December 25, 2008, Brown gave three other individuals a total of \$562,190 in cash to conceal in their luggage before boarding a flight to Montego Bay, Jamaica. Brown provided the plane tickets,

and instructed the individuals not to declare the cash in customs and to deliver the money to Brown's family who would meet them in the airport in Jamaica.

On December 25, 2008, Brown drove the individuals to the Baltimore-Washington International Airport where they boarded their flight to Jamaica. Before leaving the United States from Maryland, none of the individuals declared that they were carrying more than \$10,000, as required by federal law. When the flight arrived in Jamaica, the individuals presented their Jamaican Customs declaration form in which they failed to declare the money to Jamaican Customs. The form states that if a traveler is carrying more than \$10,000 in U.S. Currency, the traveler must declare the money prior to gaining entry into the country. Jamaican customs officers discovered the money in the individuals' luggage. As part of her plea agreement, Brown agreed to a forfeiture judgment of \$562,190.

Good Government

Law Enforcement Seizures by Member Bureaus that May Not Result in Treasury Forfeiture Fund Deposits but are Important to Law Enforcement and the American Public

Marc Knapp, 35, Pleads Guilty to Criminal Conduct Involving Illegal Exports to Hungary and Attempted Exports to the Islamic Republic of Iran and Russia

Information included in the following forfeiture article is attributed to:

Immigration and Customs Enforcement (ICE) News Release, "California man pleads guilty to attempting to export military items to Iran," dated January 13, 2011.

In January 2011, Marc Knapp (Knapp), 35, of Simi Valley, California, pled guilty to engaging in a seven-month course of criminal conduct involving illegal exports to Hungary and attempted exports to the Islamic Republic of Iran and Russia. This guilty plea resulted from an investigation conducted by ICE and the Defense Criminal Investigative Service (DCIS).

The information charged Knapp with violating the International Emergency Economic Powers Act (IEEPA) and the Arms Export Control Act. As set forth in the Information, as well as affidavits accompanying a Criminal Complaint and various search warrants, Knapp's conduct involved the illegal export and attempted export of the following United States defense articles:

- 1) A Tiger fighter jet;
- 2) Five anti-gravity flight suits, which are worn by pilots to counteract the forces of gravity and acceleration;
- 3) one emergency procedures manual, which is designed for use by pilots during in-flight emergencies in various fighter jets;
- 4) three (3) electronic versions of the emergency procedures manual;
- 5) four survival radios, which are hand-held search and rescue radios used primarily by U.S. Navy pilots as an emergency locator beacon; and
- 6) two military aircraft ejection seats.

According to documents that have been unsealed and information placed in the court record, a cooperating defendant introduced Knapp to an undercover ICE special agent (undercover agent). Between December 2009 and July 2010, the undercover agent met with Knapp on several occasions, at locations in California, Pennsylvania, Delaware, and Budapest, Hungary.

Knapp first broached the idea of obtaining an F-5 fighter jet from a source in California to sell to the undercover agent in January 2010. Knapp told the undercover agent that the "Iranians" might be interested in various items, including the F-5 fighter jet, and stated that he was not concerned whether the jet or the other items ended up in Iran.

During a January 2010 meeting in California, Knapp took the undercover agent to an airport to inspect the aircraft. Over the course of the next several months, the undercover agent and Knapp had multiple conversations regarding transporting the aircraft from California to a freight forwarder in Delaware; determining appropriate transshipment points to Iran; and devising a payment scheme. They also arranged to meet in Budapest, Hungary, to discuss the purchase.



Figure 1 F-5 Tiger Fighter Jet Involved in Sting Operation

When a certain F-5 Tiger fighter jet outlived its military use years ago, it was sold for surplus, and the plane was purchased by a California resident. The owner leased it as a big prop for Hollywood movies. This year, the fighter jet became the star of a real-life sting - against an American accused of trying to sell it to Iran. The F-5 was the centerpiece of an undercover Homeland Security investigation that stretched from Philadelphia to Los Angeles to Budapest, Hungary.

An arms broker from California has been charged with trying to sell the jet for over \$3 million to Philadelphia-based agents who were pretending to work on behalf of the Iranian military. He was sentenced in September 2011 to almost 5 years in prison.

In April 2010, the undercover agent and another undercover law enforcement officer posing as an Iranian intermediary, met with Knapp in Budapest. During the meetings, Knapp explained that he would have a contact fly the F-5 from California to the East Coast, where it would subsequently be crated and shipped to Hungary for transshipment to Iran. Knapp also discussed making payment for the F-5 look like a "gift" or a "loan."

In July 2010, Knapp sent a contract for the F-5 fighter jet to the undercover agent *via* the United States mail. The contract set forth the timing for flying the F-5 to Delaware after the undercover agent transferred \$3.25 million into a bank account specified by Knapp. The undercover agent asked

whether he could tell the Iranians that Marc Knapp personally guaranteed the aircraft, to which Knapp replied that he could. The parties then signed the contract. He stated that he would use a false name and said that he would describe the item to be shipped as a "Museum Display Shell." Following the meeting, federal agents placed defendant under arrest.

"This case demonstrates the threat to our national security posed by those, like Knapp, who are willing to trade with Iran and attempt to provide that nation with American goods and technology, particularly military components. I applaud our law enforcement partners for their exceptional dedication in pursuing this major investigation."

U.S. Attorney Oberly

Good Government

Law Enforcement Seizures by Member Bureaus that May Not Result in Treasury Forfeiture Fund Deposits but are Valuable to the International Community

ICE and CBP Officials Return Artifacts to the People's Republic of China

Information included in the following forfeiture article is attributed to:

ICE News Release dated March 11, 2011, "ICE and CBP Officials Return Artifacts to the People's Republic of China"

ICE and CBP officials repatriated a number of ancient Chinese artifacts seized as a result of ICE and CBP investigations. Most of the objects repatriated were part of Operation Great Wall, an initiative targeting illicit importations originating from the People's Republic of China. Following the signing of a bilateral agreement between the United States and the People's Republic of China in 2009, both countries have been working together closely to prevent the illicit trafficking of archaeological objects.

The artifacts being returned include:

- 2 Northern Wei Dynasty terracotta horses – A.D. 386-535
- Northern Qi Dynasty limestone Buddha - A.D. 550-577
- 7 Sui Dynasty Pottery Horses with Riders – A.D. 581-618
- Tang Dynasty Horse Sculpture – A.D. 618-907
- Song Dynasty Bodhisattva head – A.D. 960-1279
- Ming Dynasty Stone Frieze – A.D. 1368-1644
- Qing Dynasty Ceramic Vase – A.D. 1616-1840

The pottery sculptures of horses and riders from the Sui and Tang Dynasties were likely buried in tombs. Having a horse was a sign of wealth, and only those of a certain rank were allowed to use them. The tombs these likely came from were, therefore, those of aristocrats.



Figure 2 7 Sui Dynasty Pottery Horses with Riders - A.D. 581-618

While the Northern Qi Dynasty is usually considered a period of political unrest, it is known to art historians as a time when the arts flourished through interaction between Chinese and non-Chinese artisans.

“The items we are returning to the People’s Republic of China today are delicate, but tangible, ancient works of art that are an important part of China’s heritage. While seizing, forfeiting and repatriating these treasures is indeed reason for celebration, our long-term goal is to reduce the incentive for further destruction of ancient tombs and temples, where so many of these objects are dug up or chiseled off and pilfered.”

Kumar Kibble, Deputy Director
Immigration and Customs Enforcement

ICE plays a leading role in investigating crimes involving the illicit importation and distribution of cultural property. ICE uses its investigative authority to seize cultural property items if they were illegally imported into the United States. It also investigates the illegal trafficking of artwork, especially works that have been reported lost or stolen.

ICE Returns to French Government Stolen Degas Painting Missing for 37 Years

Information included in the following forfeiture article is attributed to:

ICE News Release dated January 21, 2011, “ICE returns to French government stolen Degas painting missing for 37 years”

In January 2011, ICE Director John Morton presented a painting by Edgar Degas, “Blanchisseuses Souffrant Des Dents” to the acting French Ambassador to the United States, François Rivasseau. The painting, completed between 1870 and 1872, depicts two views of a laundress with a toothache.

In 1961, the painting was loaned to the Musée Malraux in Le Havre in Normandy, France, but was stolen from the museum in December 1973. In October 2010, the Degas painting appeared in the Sotheby’s New York catalogue for a pending auction of Impressionist and modern art. INTERPOL notified ICE, which initiated the investigation. ICE agents tracked the provenance of the piece and

authenticated many markings on the back of the painting, including inventory marks by the Louvre, which confirmed the painting offered for sale was the stolen work.



Figure 3 Edgar Degas Painting, Missing 37 Years Returned to France

“On behalf of ICE, it is a great privilege to return this painting that rightfully belongs to the people of France, and reflects a part of your nation’s history and rich heritage. ICE’s Cultural Property, Art and Antiquities Unit was established to identify, investigate and return cultural treasures such as this stolen work of art, to their rightful owners and countries of original.”

John Morton, Director
Immigration and Customs Enforcement

ICE Seizes Phony Candy Easter Eggs - Filled with Cocaine

ICE Arrests Man Attempting to Smuggle in Cocaine Concealed in Phony Easter Eggs

Information included in the following forfeiture article is attributed to:

News Release dated December 27, 2010, “Feds find cache of cocaine inside phony candy Easter eggs”

In December 2010, Esteben Galtes, 23, of Miami, was taken into custody at Los Angeles International Airport by ICE Agents after attempting to smuggle in a cache of cocaine concealed inside dozens of phony candy Easter eggs. His arrest came after CBP officers searched Galtes’ luggage and discovered more than 14 pounds of cocaine, much of it camouflaged as pastel-colored, egg-shaped candies.



Figure 4 Cocaine Camouflaged as Easter Candy for Smuggling Attempt

Galtes told CBP officers the eggs were for his two children. The remainder of the cocaine was secreted under the cardboard bottom of a paper shopping bag. The seized cocaine had an estimated street value of more than \$100,000.

"Drug traffickers are always trying novel ways to conceal their contraband, but cocaine camouflaged Easter candy is one of the more unusual tactics we've come across."

Claude Arnold, Special Agent in Charge – Los Angeles
Immigration and Customs Enforcement

Customs and Border Protection (CBP) Department of Homeland Security

CBP has had a productive year for seizures of cash and drugs at the border and border regions; the following represents a sample of their law enforcement seizures.

Note about CBP Narratives: The major case narratives selected for CBP are seizures, which may or may not be forfeited and on deposit by the end of the fiscal year. Investigative narratives for other member bureaus include cases for which forfeiture deposits occurred during FY 2011.

CBP Officers Seize \$799,000 While Screening Traffic Going into Mexico

Information included in the following forfeiture article is attributed to:

News Release dated October 21, 2010, "CBP seizes more than \$799K in Undeclared Currency and Several Weapons at Nogales Port"

On October 20, 2010, CBP officers screening vehicles heading out of the country to Mexico stopped the driver of a 2010 Chevy pickup. While inspecting the vehicle for goods being exported illegally, officers noticed a discrepancy in the roof of the pickup's hood and decided to take a closer look. Officers used an x-ray system to assist with the inspection and noticed anomalies when looking at the images. Further inspection revealed a compartment that when opened, contained bundles of currency and several weapons.



Figure 5 \$799,000 in Undeclared Currency Seized from Hidden Compartment in Pickup Truck

As a result of the inspection, officers seized more than \$799,000 in cash and 4 handguns. The driver, a 25-year-old man and citizen of Mexico, was arrested and turned over to ICE for further investigation and prosecution.

CBP Officers Seize more than \$480,000 at Douglas Port of Entry

Information included in the following forfeiture article is attributed to:

News Release dated December 16, 2010, "CBP Officers Seize More Than \$480,000 at Douglas Port of Entry"

In mid-December 2010, CBP officers were screening traffic going into Mexico as part of a southbound operation. The officers selected a pickup truck for further inspection. The vehicle was being driven by a 20-year-old man identified as a Mexican national. With the assistance of a CBP K-9 team, the CPB officers discovered that the man was attempting to smuggle more than \$480,000 in undeclared currency out of the United States by concealing the money in an elaborately made hydraulic compartment constructed in the side wall of the bed of the pickup. CBP officers seized the vehicle and the undeclared currency. The man was turned over to the custody of Immigration and Customs Enforcement (ICE) for further investigation.

CBP Officers Seize \$565,950 in Undeclared Currency

Information included in the following forfeiture article is attributed to:

News Release dated November 19, 2010, "CBP Seized \$565,950 in Undeclared Currency, 43 Dead, Skinned Iguanas and Heroin at Laredo Port"

In mid-November 2010, at Lincoln-Juarez Bridge, CBP officers observed a vehicle that had been turned northbound from the automated toll southbound lane and referred it for a secondary examination. CBP officers conducted an intensive examination and discovered 14 bundles containing a total of \$565,950 in undeclared currency. CBP officers seized the currency and turned the 45 year old driver over to ICE for further investigation.

CBP Officers Seize \$462,566 in Undeclared Currency

Information included in the following forfeiture article is attributed to:

News Release dated February 14, 2011, "CBP U.S. Border Patrol Seizes More Than \$462,000 in Cash"

In February 2011, U.S. Border Patrol agents on patrol in Carlsbad, California, spotted a pickup truck being driven in an erratic and suspicious manner. Agents conducted an immigration stop on the vehicle and the driver's nervous demeanor and inconsistent responses led agents to request the assistance of a Border Patrol K-9 team. The K-9 team performed a cursory inspection of the vehicle which resulted in a positive alert to the passenger-side front fender.



Figure 6 42 Cellophane-wrapped Bundles Containing \$462,566 Seized during an Immigration Stop

Agents performed an interior inspection of the truck and discovered an aftermarket compartment on the passenger side near the engine firewall. Agents gained access to the compartment, where they discovered 42 cellophane-wrapped bundles containing \$462,566 in U.S. Currency. The Border Patrol processed the currency and Silverado for forfeiture proceedings pending the outcome of the ICE investigation of the suspected smuggler.

CBP Officers Seize \$420,440 in Undeclared Currency

Information included in the following forfeiture article is attributed to:

News Release dated January 18, 2011, "CBP Seizes in Excess of \$400,000 in Undeclared Currency"

In mid January 2011, CBP officers conducting southbound operations in cooperation with the Border Enforcement Security Task Force (BEST) at the El Paso port of entry Monday morning stopped a 46 year old man from leaving the country with \$420,440. CBP officers selected a vehicle for an intensive exam. The driver said he had nothing to declare during routine questioning by the CBP officer.

CBP officers initiated an intensive exam during which CBP currency and firearms detector sniffing dog alerted to the vehicle. CBP officers noted discrepancies in the vehicle seats and found 16 bundles of U.S. Currency hidden within the seats. The currency hidden in the seats totaled \$420,440. The driver, a Mexican citizen, was turned over to ICE agents and the vehicle was seized.



Figure 7 CBP Officers Seize \$420,440 in Undeclared Currency Hidden in Vehicle Seats

CBP Officers Seize \$381,060 in Currency Bound for Mexico

Information included in the following forfeiture article is attributed to:

News Release dated February 23, 2011, "CBP Seizes \$381K in Currency Bound for Mexico in Brownsville"

CBP officers and Border Patrol agents conducting outbound enforcement operations at the Brownsville port of entry seized \$381,060 in bulk U.S. Currency. In February 2011, CBP officers and Border Patrol agents working outbound enforcement operations at the Brownsville and Matamoros International Bridge came in contact with a vehicle as it attempted to exit the U.S. and enter Mexico. The driver, a 19 year old U.S. citizen, traveling with two minors was referred to a secondary inspection. During the secondary inspection of the vehicle, 15 packages of bulk U.S. Currency were discovered hidden in the vehicle. CBP seized the currency and the vehicle.

CBP Officers and Border Patrol Agents Seize \$277,405 in Bulk U.S. Currency at the Brownsville Port of Entry

Information included in the following forfeiture article is attributed to:

News Release dated October 12, 2010, "CBP Officers and Border Patrol Agents at Brownsville Port of Entry Seize \$277,405 During Outbound Enforcement Operation"

In mid October 2010, CBP Officers and Border Patrol agents working outbound enforcement operations at the Gateway International Bridge came in contact with a vehicle as it attempted to exit the United States and enter Mexico. The vehicle driven by a 35 year old Mexican citizen was referred for further inspection. A search of the Ford resulted in the discovery of 10 packages of bulk U.S. Currency totaling \$277,405. CBP officers seized the currency and the vehicle. The case was referred to ICE for further investigation.



Figure 8 \$277,405 in Bulk Currency Seized at Brownsville Port of Entry

CBP Officers Seize \$257,280 in Undeclared Currency Bound for Mexico

Information included in the following forfeiture article is attributed to:

News Release dated February 23, 2011, "CBP Officers in Calif. Intercept \$257,280 in U.S. Currency Bound for Mexico"

In February 2011, CPB officers seized \$258,280 in undeclared U.S. Currency during an outbound enforcement operation at the Andrade port of entry. The incident occurred when officers conducting outbound inspections stopped a 22 year old female U.S. citizen and resident of Mira Loma, California, driving a tan 2004 Chevrolet Trailblazer. An intensive examination of the Trailblazer that included a canine unit screening the vehicle led to the discovery of 16 wrapped packages containing U. S. currency concealed inside a non-factory compartment in the rear passenger floor area.

CBP officers arrested the driver and turned her over to the custody of ICE agents for further investigation. CBP seized the money and the vehicle.



Figure 9 \$257,280 in Undeclared U. S. Currency Seized from Mexico-bound Vehicle

Case Update - AdSurf Daily

**This case was first reported on behalf of the U.S. Secret Service in the
FY 2010 Accountability Report for the Treasury Forfeiture Fund**

In Rem Forfeiture of \$65 Million in Funds Seized from Bank Accounts Associated with the “Ad Surf Daily (ASD)” Ponzi Scheme

Information included in the following forfeiture article is attributed to:

United States District Court for the District of Columbia, Default Judgment and Final Order of Forfeiture dated January 4, 2010 re: United States of America, Plaintiff, v. 8 Gilcrease Lane, Quincy Florida 32351 et al., Defendants; copy of Email: dated September 14, 2011, captioned “RE: FY 2011 Accountability Report-Final Draft for Clearance –Initial draft due to GKA by October 5, 2011; and United States Attorney’s Office, District of Columbia, Press Release: undated, “Final Order of Forfeiture Issued in ASD Civil Forfeiture Action.”

In January 2010, approximately \$65 million in funds seized from bank accounts associated with the “Ad Surf Daily (ASD)” Ponzi-style fraud case were forfeited to the U.S. Government. The government anticipated a number of victims’ claims against these forfeitures.

Victim Restitution

In September 2011, the Treasury Executive Office for Asset Forfeiture forwarded the necessary paperwork to return \$54,762,447 to 8,482 victims of the AdSurf Ponzi Scheme.

Case Background: On August 5, 2008, the United States Government commenced a civil action *in rem* against 17 defendant properties seeking their forfeiture on the grounds that they constituted the proceeds of fraud and money laundering. The complaint alleged the existence of unlawful internet operations in the nature of “Ponzi-style” or “pyramid” frauds, which swindled many millions of dollars out of victims who sent money to the scheme’s operators.

The *In Rem* Civil Complaint asserted that ASD was operating a paid auto-surfing program and that program was merely a Ponzi scheme. Although ASD was careful to avoid calling its members “investors,” in an apparent effort to avoid regulatory scrutiny, ASD promoted paid membership by offering its members a 125% return on their membership fees. In addition, ASD encouraged members to recruit new members by paying commissions for referrals. ASD paid the source of a referral a percentage of each newly referred member’s fees.

According to the *In Rem* Civil Complaint, the investigation revealed that ASD did not appear to sell any independent products or services sufficient to generate an income stream needed to support the rebates and commissions that it promised its members. Further, the “advertisers” were not paying ASD for advertising services at all; instead, they were paying ASD with the expectation that ASD would provide a full rebate and additional revenue. Thus, absent continuous membership growth (an impossibility) ASD had no means to generate the returns it represented.

Tax and Trade Bureau (TTB), Department of the Treasury

Equitable Sharing Revenue Case

Tarbell Inc. Agrees to Forfeit \$1.75 Million of which \$875,000 is Shared with the Treasury Forfeiture Fund re Licensing Violations

Information included in the following forfeiture article is attributed to:

Lori Shull article in Watertown Daily Times, April 14, 2010, “Tarbell agrees to get licenses”

Tarbell Inc., a cigarette manufacturer on the Akwesasne reservation voluntarily agreed to comply with federal tax laws and obtain licenses from the government, and agreed to forfeit \$1.75 million to the Bureau of Alcohol, Tobacco, Firearms and Explosives of the Department of Justice as payment for selling unlicensed cigarettes. The company also agreed not to sell cigarettes over the Internet, which violates federal law. The financial settlement does not mean that the company admits any wrongdoing, but future violations would be criminal offenses. Of the amount forfeited, \$875,000 was equitably shared with the Treasury Forfeiture Fund representing the role of TTB in the forfeiture.

U. S. Coast Guard

Department of Homeland Security

The U.S. Coast Guard continues its close working relationship with the legacy Customs bureaus and functions in a member-bureau capacity. The Coast Guard also maintains a close working relationship with the Drug Enforcement Administration (DEA) of the Department of Justice, assisting with drug boat interceptions on the high seas which are then turned over to the Department of Justice for prosecution.

Coast Guard Cutter Thetis Intercepts Go Fast Drug Boat off the Coast of Panama

Information included in the following forfeiture article is attributed to: Immigration and Customs Enforcement New Release: December 30, 2010, “3 men charged in maritime drug smuggling operation.”

On December 17, 2010, the U.S. Coast Guard Cutter Thetis was conducting a routine maritime patrol in international waters off the Panamanian coastline. During this patrol, the Cutter Thetis launched its HITRON helicopter to assist in the patrol. While approximately 75 nautical miles north of Colon, Panama, the U.S. Coast Guard helicopter observed and approached an un-flagged go-fast style vessel heading north. After observing numerous bales on the deck of the vessel and several fuel drums, U.S. Coast Guard crew members on board the helicopter believed the vessel to be engaged in narcotics trafficking.

After receiving authorization, the U.S. Coast Guard crew member fired warning shots across the bow of the go-fast vessel and the vessel stopped its engines. Shortly thereafter, a Coast Guard team boarded the vessel and observed approximately 62 bales on the deck of the vessel. These bales later field-tested positive the presence of cocaine. The 62 bales of suspected cocaine were moved to a secure facility, where it was determined that the cocaine weighed approximately 3,300 pounds.

Program and Fund Highlights

The Treasury Forfeiture Fund is a “special receipt account.” Such accounts represent federal fund collections earmarked by law for a specific purpose. The enabling legislation for the Treasury Forfeiture Fund (31 U.S.C. § 9703) defines those purposes for which Treasury forfeiture revenue may be used. Once property or cash is seized, there is a forfeiture process. Upon forfeiture, seized currency, initially deposited into a suspense account, or holding account, is transferred to the Fund as forfeited revenue. Once forfeited, physical properties are sold and the proceeds are deposited into the Fund as forfeited revenue. It is this forfeiture revenue that comprises the budget authority for meeting expenses of running Treasury’s forfeiture program.

Expenses of the Fund are set in a relative priority so that unavoidable or “mandatory” costs are met first as a matter of policy. Expenses may not exceed revenue in the Fund. The Fund has several different spending authorities. Each of them is described below.

Mandatory Authority

The mandatory authority items are generally used to meet “business expenses” of the Fund, including expenses of storing and maintaining seized and forfeited assets, valid liens and mortgages, investigative expenses incurred in pursuing a seizure, information and inventory systems, and certain costs of local police agencies incurred in joint law enforcement operations. Following forfeiture, equitable shares are paid to state and local law enforcement agencies that contributed to the seizure activity at a level proportionate to their involvement.

It is a strategic goal of the Fund to emphasize and monitor high impact forfeitures. To make significant forfeitures requires longer, more in-depth investigations. To this end, Fund management emphasizes the use of mandatory funding authorities that fuel large case initiatives. These authorities include the Purchase of Evidence and Information, expenses associated with Joint Operations, Investigative Expenses Leading to Seizure, and Asset Identification and Removal Groups. In recent years, funding provided to computer forensic investigative tools has yielded high impact results.

Secretary's Enforcement Fund

The Secretary’s Enforcement Fund (SEF) is derived from equitable shares received from the Justice Department’s forfeiture fund for work done by law enforcement bureaus participating in the Treasury Forfeiture Fund leading to Justice forfeitures. SEF revenue is available for federal law enforcement purposes of any Treasury law enforcement organization or law enforcement bureau that participates in the Treasury Forfeiture Fund. In FY 2011, the Fund expensed just under \$1 million in SEF authority as compared to \$2.9 million in FY 2010, a decrease of \$1.9 million or 66 percent. The allocation of SEF resources to bureaus was restricted in FY 2010 and FY 2011 by the need to meet enacted budget rescissions.

Super Surplus

Super Surplus represents the remaining unobligated balance after an amount is reserved for Fund operations in the next fiscal year. Super Surplus can be used for any federal law enforcement purpose. In FY 2011, the Fund expensed \$102.5 million in Super Surplus authority as compared to \$78.9 million in FY 2010, an increase of 30 percent.

Program Performance

Strategic View

Fund management continues to focus on strategic cases and investigations that result in high-impact forfeitures. We believe this approach affects the greatest damage to criminal organizations while accomplishing the ultimate objective – to disrupt and dismantle criminal activity. To make significant forfeitures requires longer, more in-depth investigations. To this end, Fund management emphasizes the use of mandatory funding authorities that fuel large case initiatives including Purchase of Evidence and Information, expenses associated with Joint Operations, Investigative Expenses Leading to Seizure, Asset Identification and Removal teams and state-of-the-art Computer Forensics capability. FY 2011 was another banner year for major case forfeiture deposits.

In addition, the Fund continues to support record levels of sharing of federal forfeitures with the state and local and foreign governments that contributed to the successful seizure and forfeiture activity of the Fund. Reflecting the higher revenue level for FY 2011, the Fund expensed \$68.5 million for equitable sharing expenses in FY 2011 as compared to \$454.6 million expensed in FY 2010. Included in these sums are \$0.2 million and \$131.7 million for equitable sharing expenses with foreign countries that assisted in cases during FY 2011 and FY 2010, respectively. These are important resources afforded by policy of the Treasury Forfeiture Fund to protect and preserve the valuable working relationships between our federal law enforcement bureaus and the critically important state, local and foreign law enforcement agencies that work with them in an investigative capacity day-in and day-out.

Strategic Mission and Goal

The mission of the Treasury Forfeiture Fund is to affirmatively influence the consistent and strategic use of asset forfeiture by law enforcement bureaus to disrupt and dismantle criminal enterprises. The goal of the Treasury Forfeiture Fund is to support the Department of the Treasury's national asset forfeiture program in a manner that results in federal law enforcement's continued and effective use of asset forfeiture as a high-impact law enforcement sanction to disrupt and dismantle criminal activity. To achieve our mission and goal, the program must be administered in a fiscally responsible manner that seeks to minimize the administrative costs incurred, thereby maximizing the benefits for law enforcement and the society it protects.

Multi-Departmental Fund

The Treasury Forfeiture Fund continued in its capacity as a multi-Departmental Fund in FY 2011, representing the interests of law enforcement components of the Departments of Treasury and Homeland Security. FY 2011 posed continued management challenges including oversight of significant general property contract expenses associated with high revenue levels. In addition, commensurate with the successful revenue year, there were significant expenses incurred by the bureaus to run their programs. In the midst of this period of growth and change, the Fund's family of law enforcement bureaus continued their hard work of federal law enforcement and the application of asset forfeiture as a sanction to bring criminals to justice.

FY 2011 continued a pattern of robust revenue years with regular revenue of \$868.1 million from all sources, impressive even if somewhat less than the FY 2010 banner year of \$1.1 billion. As we enter fiscal year 2012, the Fund remains focused on support for strategic investigative initiatives that will have the greatest impact on national and international criminal enterprise including valuable training and investigative expense funding which emphasizes high impact cases.

Performance Measure

In FY 2011, the Fund measured performance through the use of the following performance measure: Percent of forfeited cash proceeds resulting from high-impact cases. This measures the percentage of forfeited cash proceeds resulting from high-impact cases (those with currency seizures in excess of \$100,000). Focusing on strategic cases and investigations which result in high-impact seizures will affect the greatest damage to criminal organizations while accomplishing the ultimate objective – to disrupt and dismantle criminal activity.

Results

The Fund performance measure and result for FY 2011 is as follows:

Performance Measure	FY 2010 Actual	FY 2011 Target	FY 2011 Actual
Percent of forfeited cash proceeds resulting from high-impact cases	93.11%	80%	91.44%

A target of 75 percent high-impact cases was set for FY 2010 and prior years since inception of the performance measure in FY 2002. However, for FY 2011, the target was increased to 80 percent, reflecting member bureaus' prior success in meeting the previous target. This is a fixed target for the Fund designed to afford our law enforcement bureaus the opportunity to undertake smaller seizure activity that is important to the overall federal law enforcement mission. The final percentage for FY 2011 was 91.44 percent, well above target. This compares with our FY 2009 and FY 2010 performance of 87.65 percent and 93.11 percent, respectively. The performance of our member bureaus is excellent and reflects Fund management's longstanding emphasis on high-impact forfeiture strategies as well as the use of Fund authorities to assist member bureaus with larger cases that may take longer or require additional resources not otherwise available. This measure was put into effect beginning with FY 2002.

This measure is calculated by dividing the total amount of forfeited cash proceeds from cases greater than \$100,000 by the total amount of forfeited cash proceeds for all cases.

Financial Statement Highlights

The following provides a brief explanation for each major section of the audited financial statements accompanying this report for the fiscal year ended September 30, 2011.

These statements have been prepared to disclose the financial position of the Fund, its net costs, changes in net position, and budgetary resources, pursuant to the requirements of the *Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994 (GMRA)*. While the financial statements have been prepared from the books and records of the Fund in accordance with the formats prescribed by the Office of Management and Budget, the statements are different from the financial reports used to monitor and control budgetary resources that are prepared from the same books and records and are subsequently presented in federal budget documents. Further, the notes to the financial statements and the independent auditor's opinion and reports on internal control over financial reporting, and compliance with laws and regulations are also integral components to understanding fully the financial highlights of Fund operations described in this chapter.

Statements: Changes in Net Position

Follows are brief highlights from the Statements of Changes in Net Position for FY 2011 and 2010.

Net Position – End of Year. For FY 2011, the Net Position for the Fund at the end of the year, an indicator of the future capability to support ongoing operations of the Fund, totaled \$1.453 billion versus \$986.1 million at the end of FY 2010. Both years closed with a strong and viable net position with which to commence the next fiscal year's operations.

Total Gross Non-Exchange Revenues. This line item on the *Statements of Changes in Net Position* is the best indicator of regular "business-type" income of the account on an annual basis. For a number of years, Fund management forecast \$250.0 million for the Fund from regular seizure and forfeiture activities of our participating bureaus. For FY 2011, the Fund closed with \$868.1 million in Gross Non-Exchange Revenues and a total of \$1.1 billion for FY 2010, reflecting two very successful, high-impact revenue years for the Treasury Forfeiture Fund.

Proceeds from Participating with other Federal Agencies. This line item on the *Statements of Changes in Net Position* indicates revenue earned from the participation of Treasury Forfeiture Fund law enforcement bureaus in the seizures leading to forfeiture of bureaus that participate in the Department of Justice Assets Forfeiture Fund or with the forfeiture fund of the U.S. Postal Service (Postal Service). It is noted that this category of revenue is recognized when received on deposit by the Treasury Forfeiture Fund. Therefore, there is no accrual recorded on the Fund's financial statements for this category of revenue.

As of the close of FY 2011, Treasury Forfeiture Fund bureaus earned a total of \$95.4 million in revenue from participation in the seizures leading to forfeiture of the Justice and Postal Service forfeiture funds as compared to a total of \$160.7 million during FY 2010. Fund management continues to work with the Department of Justice to identify delays and/or explain downward adjustments to percentages associated with Reverse Asset Sharing payments owed to the Treasury Forfeiture Fund. This revenue affords Treasury management significant funding flexibilities for our participating agencies as the authority is broad and not confined to funding program costs; it can be used for any law enforcement purpose of our participating bureaus. The allocation of this type of revenue for FY 2010 and FY 2011 was restricted by the need to meet enacted budget rescissions.

Cost of Operations. For FY 2011, the Cost of Operations totaled \$177.1 million, up from \$168.0 million in FY 2010.

Investment Interest Income. The Fund is authorized to invest cash balances in Treasury securities. As of September 30, 2011, investments totaled \$2.3 billion, up from \$2.1 billion invested as of September 30, 2010. Given the similar investment balance and continuing negligible interest rates on Treasury securities during FY 2011, investment income totaled just under \$1.4 million in FY 2011, as compared to just over \$1.4 million in FY 2010.

Equitable Sharing with Federal, State and Local Governments, and Foreign Countries. Each year, the Fund pays tens of millions of dollars to state and local law enforcement agencies, and foreign governments, for their participation in seizures that lead to forfeitures of the Treasury Forfeiture Fund. State and local law enforcement agencies can use these resources to augment their law enforcement budgets to fight crime in their jurisdictions. Without these funds, budgets of the local municipalities would be taxed to provide these important resources or the need would go unmet. During FY 2011, the Fund shared a total of \$96.3 million with other federal, state and local law enforcement agencies, and another \$0.2 million with foreign countries. This compares with \$325.2 million shared with other federal, state and local law enforcement agencies during FY 2010, and another \$131.7 million with foreign countries in FY 2010.

Victim Restitution. During FY 2011, the Fund paid \$24.3 million in restitution to victims as compared to \$4.0 million in FY 2010.

Summary of Statements of Changes in Net Position. The Fund closed with a strong net position in FY 2011. Management will continue to emphasize high-impact cases by participating law enforcement bureaus. The FY 2011 performance with forfeiture revenue earnings of \$868.1 million from all sources and a high rate of high-impact cases is truly a credit to the dedicated law enforcement personnel of our participating law enforcement bureaus.

Statements: Net Cost

Costs of the Forfeiture Program – Intra-governmental. After revenue is applied toward policy mandates such as equitable sharing, shown in the Statements of Changes in Net Position as negative revenue or applied non-exchange revenue, the remaining financing supports the law enforcement activities of the Fund and pays for the storage of seized and forfeited property and sales associated with the disposition of forfeited property.

On the Statements of Net Cost, the Net Cost of Operations totaled \$177.1 million in FY 2011, up from \$168.0 million in FY 2010.

Intra-governmental. This cost category totaled \$115.1 million in FY 2011, up from \$105.3 million in FY 2010. The amounts represent costs incurred by participating bureaus in running their respective forfeiture programs.

National Seized Property Contracts. One of the largest program costs of the Fund is the storage, maintenance and disposal of real and personal property. During FY 2011, general property was maintained by VSE Corporation and real property was maintained by the URS Corporation, formerly known as EG&G Technical Services, both contracts of the Department of the Treasury. In FY 2011,

expenses of these two contracts totaled \$50.4 million, down from \$51.2 million expensed for the two contracts in FY 2010.

Balance Sheet

Assets, Liabilities and Net Position

Total assets of the Fund increased in FY 2011 to \$2.5 billion, up from \$2.3 billion in FY 2010, an increase in asset value of over 8.6 percent. If seized currency and other monetary assets, which are assets in the custody of the government but not yet owned by the government, are backed out of both figures, the adjusted total assets of the Fund increased to \$1.7 billion in FY 2011, up from \$1.5 billion in FY 2010. During FY 2011, total liabilities of the Fund decreased to \$1.1 billion, down from \$1.3 billion in FY 2010. If seized currency and other monetary assets, which are also shown as a liability because they are not yet owned by the government, are backed out of both figures, the adjusted total liabilities of the Fund decreases to \$229.2 million in FY 2011, down from \$508.0 million in FY 2010.

With increasing asset amounts and more moderately increasing costs, the Cumulative Results of Operations, i.e., retained earnings, increased at the end of FY 2011 to a total of \$1.453 billion, up from \$986.1 million at the end of FY 2010.

Financial and Program Performance - What is needed and planned. OMB Circular A-136, *Financial Reporting Requirements*, requires that agencies include an explanation of what needs to be done and what is being planned to improve financial or program performance.

Auditor's Findings

FY 2011 Audit. The Fund's independent auditors have given the FY 2011 financial statements an Unqualified Opinion with no material weaknesses or other significant deficiencies in internal control over financial reporting identified. There are two management letter findings for FY 2011.

Summary of Financial Statement Highlights

Net Position. To summarize, Fund management concluded a highly productive FY 2011 "in the black," with the necessary resources to commence the business of the asset forfeiture program for FY 2012. Fund management declared a Super Surplus from FY 2011 operations and will work to recognize the hard work of our participating bureaus in the allocation of these resources.

A Look Forward

Fund management will continue to work with our large and diverse array of federal law enforcement bureaus as they undertake increasingly sophisticated methods and global effort to secure the financial and commercial markets of the nation and the world given the interdependence of financial systems. In addition, our bureaus support immigration enforcement that is designed to identify illegal smuggling to deter its impact on the nation's financial infrastructure and terrorism initiatives and to ensure that human smugglers do not harm unsuspecting victims keen on seeking a new if illegal start in the United States. Emphasis will continue to be placed on ever-evolving state-of-the-art investigative techniques, high-impact major case initiatives and training to support these areas of emphasis. This has and will continue to be the key to the growing success and law enforcement reach of the Treasury Forfeiture Fund.

Limitations of the Financial Statements. As required by OMB Circular A-136, Fund management makes the following statements regarding the limitations of the financial statements:

- The financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 USC § 3515(b).
- While the statements have been prepared from the books and records of the entity in accordance with 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. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

SECTION II
INDEPENDENT AUDITOR'S REPORTS

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Independent Auditor's Report on Financial Statements

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Inspector General
United States Department of the Treasury
Washington, D.C.

We have audited the Principal Statements (balance sheets and the related statements of net cost, changes in net position, and budgetary resources, hereinafter referred to as "financial statements") of the Department of the Treasury Forfeiture Fund (the Fund) as of and for the years ended September 30, 2011 and 2010. These financial statements are the responsibility of Fund Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Fund Management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of September 30, 2011 and 2010, and its net costs, changes in net position, and budgetary resources, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 31, 2011, on our consideration of the Fund's internal control over financial reporting and a report dated October 31, 2011, on our tests of its compliance with laws, regulations, and contracts. These reports are an integral part of an audit performed in accordance with *Government Auditing*

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Standards, and these reports should be read in conjunction with this report in considering the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph of this report as a whole. The information presented in Section I: Overview, Section IV: Required Supplemental Information and Section V: Other Accompanying Information is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America, OMB Circular A-136, *Financial Reporting Requirements*, or the Treasury Forfeiture Fund Act of 1992. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

GKA, P.C.

October 31, 2011

Independent Auditor's Report on Internal Control over Financial Reporting

Inspector General
United States Department of the Treasury
Washington, D.C.

We have audited the Principal Statements (balance sheet and the related statements of net cost, changes in net position, and budgetary resources, hereinafter referred to as “financial statements”) of the Department of the Treasury Forfeiture Fund (the Fund) as of and for the year ended September 30, 2011, and have issued our report thereon dated October 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

In planning and performing our audit, we considered the Fund’s internal control over financial reporting by obtaining an understanding of the design effectiveness of the Fund’s internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers’ Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to express an opinion on the effectiveness of the Fund’s internal control over financial reporting. Consequently, we do not express an opinion on internal control over financial reporting.

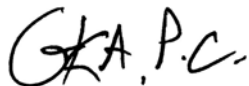
Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. Under standards issued by the American Institute of Certified Public Accountants, 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 significant deficiency is a deficiency or 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. 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.

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain matters involving internal control over financial reporting that we reported to Management of the Fund in a separate letter dated October 31, 2011.

This report is intended solely for the information and use of the Management of the Fund, the U.S. Department of the Treasury, OMB, the U.S. Congress, the Department of the Treasury Office of Inspector General and the Government Accountability Office and is not intended to be, and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

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October 31, 2011

Independent Auditor's Report on Compliance with Laws and Regulations

Inspector General
United States Department of the Treasury
Washington, D.C.

We have audited the Principal Statements (balance sheet and the related statements of net cost, changes in net position, and budgetary resources, hereinafter referred to as "financial statements") of the Department of the Treasury Forfeiture Fund (the Fund) as of and for the year ended September 30, 2011, and have issued our report thereon dated October 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

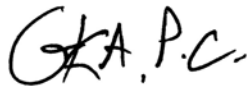
The management of the Fund is responsible for complying with laws, regulations, and contracts applicable to the Fund. As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04, including the requirements referred to in Section 803(a) of the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws, regulations, and contracts applicable to the Fund. Providing an opinion on compliance with certain provisions of laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed no instances of noncompliance with laws, regulations, and contracts discussed in the preceding paragraph, exclusive of FFMIA, that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04.

Under FFMIA, we are required to report whether the Fund's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests of FFMIA disclosed no instances in which the Fund's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

This report is intended solely for the information and use of the Management of the Fund, the U.S. Department of the Treasury, OMB, the U.S. Congress, the Department of the Treasury Office of Inspector General, and the Government Accountability Office and is not intended to be, and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Handwritten signature in black ink, appearing to read "G.A.P.C." with a stylized flourish.

October 31, 2011

SECTION III
FINANCIAL STATEMENTS AND NOTES

Department of the Treasury Forfeiture Fund
BALANCE SHEETS
As of September 30, 2011 and 2010
(Dollars in thousands)

	2011	2010
Assets:		
Intragovernmental:		
Fund balance with Treasury	\$ 23,094	\$ 33,490
Investments and related interest receivable (Note 3)	2,309,275	2,095,911
Advances	<u>79</u>	<u>266</u>
Total Intragovernmental	<u>2,332,448</u>	<u>2,129,667</u>
Cash and other monetary assets (Note 5)	119,766	90,212
Accounts Receivable	<u>430</u>	<u>561</u>
	<u>120,196</u>	<u>90,773</u>
Forfeited property (Note 6)		
Held for sale, net of mortgages, liens and claims	52,227	61,449
To be shared with federal, state or local, or foreign governments	<u>1,517</u>	<u>1,585</u>
Total forfeited property, net of mortgages, liens and claims	<u>53,744</u>	<u>63,034</u>
Total Assets	<u>\$2,506,388</u>	<u>\$2,283,474</u>
Liabilities:		
Intragovernmental:		
Accounts payable	<u>\$ 56,253</u>	<u>\$ 58,577</u>
Total Intragovernmental	<u>56,253</u>	<u>58,577</u>
Seized currency and other monetary instruments (Note 8)	824,219	789,437
Distributions payable (Note 9)		
State and local agencies and foreign governments	111,311	375,813
Accounts payable	7,939	10,542
Deferred revenue from forfeited assets	<u>53,744</u>	<u>63,034</u>
Total Liabilities	<u>1,053,466</u>	<u>1,297,403</u>
Net Position:		
Cumulative results of operations (Note 10)	<u>1,452,922</u>	<u>986,071</u>
Total Liabilities and Net Position	<u>\$2,506,388</u>	<u>\$2,283,474</u>

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

Department of the Treasury Forfeiture Fund
STATEMENTS OF NET COST
For the years ended September 30, 2011 and 2010
(Dollars in thousands)

	2011	2010
Program:		
ENFORCEMENT		
Intragovernmental:		
Seizure investigative costs and asset management	\$ 73,300	\$ 65,761
Other asset related contract services	8,565	9,178
Data systems, training and others	<u>33,253</u>	<u>30,334</u>
Total Intragovernmental	<u>115,118</u>	<u>105,273</u>
With the Public:		
National contract services seized property and other	50,359	51,207
Joint operations	<u>11,593</u>	<u>11,549</u>
Total with the Public	<u>61,952</u>	<u>62,756</u>
Net Cost of Operations	<u>\$ 177,070</u>	<u>\$ 168,029</u>

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

Department of the Treasury Forfeiture Fund
STATEMENTS OF CHANGES IN NET POSITION
For the years ended September 30, 2011 and 2010
(Dollars in thousands)

	2011	2010
Net Position – Beginning of year	<u>\$ 986,071</u>	<u>\$ 594,513</u>
Financing Sources (Non-Exchange Revenues):		
Intragovernmental		
Investment interest income	1,379	1,431
Public		
Forfeited currency and monetary instruments	763,378	914,227
Sales of forfeited property net of mortgages and claims	53,776	45,540
Proceeds from participating with other federal agencies	95,377	160,717
Value of property transferred in equitable sharing	4,675	4,019
Payments in lieu of forfeiture, net of refund (Note 18)	(57,026)	(29,949)
Reimbursed costs	3,559	3,115
Other	<u>2,958</u>	<u>3,245</u>
Total Gross Non-Exchange Revenues	<u>868,076</u>	<u>1,102,345</u>
Less: Equitable Sharing		
Intragovernmental		
Federal	<u>(27,927)</u>	<u>(2,327)</u>
Public		
State and local agencies	(68,373)	(322,887)
Foreign countries	(176)	(131,730)
Victim restitution	<u>(24,261)</u>	<u>(4,019)</u>
	<u>(92,810)</u>	<u>(458,636)</u>
Total Equitable Sharing	<u>(120,737)</u>	<u>(460,963)</u>
Total Non-Exchange Revenues, Net	<u>747,339</u>	<u>641,382</u>
Transfers –Out		
Intragovernmental		
Super surplus (Note 12)	(102,464)	(78,895)
Secretary’s enforcement fund (Note 13)	<u>(954)</u>	<u>(2,900)</u>
Total Transfers Out	<u>(103,418)</u>	<u>(81,795)</u>
Total Financing Sources - Net	643,921	559,587
Net Cost of Operations	<u>(177,070)</u>	<u>(168,029)</u>
Net Results of Operations	<u>466,851</u>	<u>391,558</u>
Net Position – End of Year	<u>\$ 1,452,922</u>	<u>\$ 986,071</u>

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

Department of the Treasury Forfeiture Fund
STATEMENTS OF BUDGETARY RESOURCES
For the years ended September 30, 2011 and 2010
(Dollars in thousands)

	2011	2010
Budgetary Resources:		
Unobligated balances- beginning of year	\$ 580,785	\$ 299,970
Recoveries of prior year unpaid obligations	57,464	49,620
Budget authority	<u>598,570</u>	<u>1,083,273</u>
Total Budgetary Resources	<u>\$ 1,236,819</u>	<u>\$ 1,432,863</u>
Status of Budgetary Resources:		
Obligations incurred	\$ 590,414	\$ 852,078
Unobligated balances - available	<u>646,405</u>	<u>580,785</u>
Total Status of Budgetary Resources	<u>\$ 1,236,819</u>	<u>\$ 1,432,863</u>
Change in Obligated Balance:		
Obligated balance, net-beginning of year	\$ 745,715	\$ 406,020
Obligations incurred	590,414	852,078
Less: Gross outlays	(739,602)	(462,763)
Less: Recoveries of prior year unpaid obligations, actual	<u>(57,464)</u>	<u>(49,620)</u>
Obligated balance, net – end of year	<u>\$ 539,063</u>	<u>\$ 745,715</u>
Net Outlays	<u>\$ 739,602</u>	<u>\$ 462,763</u>

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

Note 1: Reporting Entity

The Department of the Treasury Forfeiture Fund (Treasury Forfeiture Fund or the Fund) was established by the Treasury Forfeiture Fund Act of 1992, Public Law 102-393 (the TFF Act), and is codified at 31 USC 9703. The Fund was created to consolidate all Treasury law enforcement bureaus under a single forfeiture fund program administered by the Department of the Treasury (Treasury). Treasury law enforcement bureaus fully participating in the Fund upon enactment of this legislation were the U.S. Customs Service (Customs); the Internal Revenue Service (IRS); the United States Secret Service (Secret Service); the Bureau of Alcohol, Tobacco and Firearms (ATF); the Financial Crimes Enforcement Network (FinCEN); and the Federal Law Enforcement Training Center (FLETC). FinCEN and FLETC contribute no revenue to the Fund, however in recent years, significant amounts of Super Surplus funds have been allocated to FinCEN towards Bank Secrecy Act (BSA) Information Technology (IT) modernization, a tool used in the fight against money laundering and other criminal activity. The U.S. Coast Guard, formerly part of the Department of Transportation, now part of the Department of Homeland Security (DHS), also participates in the Fund. However, all Coast Guard seizures are treated as Customs seizures because the Coast Guard lacks seizure authority.

With enactment of the Homeland Security Act of 2002 (Homeland Security Act), law enforcement bureaus currently participating in the Fund are: the Internal Revenue Service - Criminal Investigation (IRS - CI) of Treasury, Customs and Border Protection (CBP), Immigration and Customs Enforcement (ICE) and the U.S. Secret Service (USSS) of DHS. The U.S. Coast Guard of DHS joins these bureaus. The Fund continues in its capacity as a multi-Departmental Fund, representing the interests of law enforcement components of the Departments of Treasury and Homeland Security.

The Fund is a special fund that is accounted for under Treasury symbol number 20X5697. From this no-year account, expenses may be incurred consistent with 31 USC 9703, as amended. A portion of these expenses, referred to as discretionary expenses, are subject to annual appropriation limitations. Others, referred to as non-discretionary (mandatory) expenses, are limited only by the availability of resources in the Fund. Both expense categories are limited in total by the amount of revenue in the Fund. The Fund is managed by the Treasury's Executive Office for Asset Forfeiture (EOAF).

The mission of the Treasury Forfeiture Fund is to affirmatively influence the consistent and strategic use of asset forfeiture by law enforcement bureaus to disrupt and dismantle criminal enterprises. The goal of the Treasury Forfeiture Fund is to support the Treasury's national asset forfeiture program in a manner that results in federal law enforcement's continued and effective use of asset forfeiture as a high-impact law enforcement sanction to disrupt and dismantle criminal activity. Under a Memorandum of Understanding (MOU) with Treasury, CBP acts as the executive agent for certain operations of the Fund. Pursuant to that executive agency role, CBP's National Finance Center (NFC) is responsible for accounting and financial reporting for the Fund, including timely and accurate reporting and compliance with Treasury, the Comptroller General and the Office of Management and Budget (OMB) regulations and reporting requirements.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The Fund began preparing audited financial statements in Fiscal Year 1993 as required by the Fund's enabling legislation 31 USC§9703(f)(2)(H), and the Chief Financial Officers Act of 1990. Beginning with the Fiscal Year 1996 report, the Government Management Reform Act of 1994 (GMRA) requires executive agencies, including the Treasury, to produce audited consolidated accountability reports and related footnotes for all activities and funds.

The financial statements have been prepared from the accounting records of the Fund in conformity with accounting principles generally accepted in the United States of America (GAAP) and specified by OMB in OMB Circular A-136, *Financial Reporting Requirements (OMB Circular A-136)*. GAAP for federal entities is prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is designated the official accounting standards setting body of the Federal Government by the American Institute of Certified Public Accountants.

Allowable Fund Expenses

The majority of the revenue recorded by the Fund is utilized for operating expenses or distributed to state and local law enforcement agencies, other federal agencies, and foreign governments, in accordance with the various laws and policies governing the operations and activities of the Fund. Under the TFF Act, the Fund is authorized to pay certain expenses using discretionary or mandatory funding authorities of the Fund.

Discretionary authorities include but may not be limited to: the payment of expenses for the purchase of awards for information or assistance leading to a civil or criminal forfeiture involving any law enforcement bureau participating in the Fund; purchase of evidence or information that meet the criteria set out in 31 USC 9703(a)(2)(B); payment for equipment for vessels, vehicles, or aircraft available for official use as described by 31 USC 9703(a)(2)(D) and (F); reimbursement of private persons for expenses incurred while cooperating with a Treasury law enforcement organization in investigations; publication of the availability of certain awards; and payment for training foreign law enforcement personnel with respect to seizure or forfeiture activities of the Fund. Discretionary expenses are subject to an annual, definite Congressional appropriation from revenue in the Fund.

Expenses from the mandatory authorities of the Fund include but are not limited to: all proper expenses of the seizure, including investigative costs and purchases of evidence and information leading to seizure, holding cost, security costs, etc., awards of compensation to informers under section 619 of the Tariff Act (19 USC 1619); satisfaction of liens against the forfeited property, and claims of parties with interest in forfeited property; expenses incurred by state and local law enforcement agencies in joint law enforcement operations with law enforcement agencies participating in the Fund; and equitable sharing payments made to state and local law enforcement agencies in recognition of their efforts in a Fund seizure leading to forfeiture. These mandatory expenses are paid pursuant to the permanent indefinite authorities of the Fund; are only limited by revenue in the Fund each year and do not require additional Congressional action for expenditure.

The Fund's expenses are either paid on a reimbursement basis or paid directly on behalf of a participating bureau. Reimbursable expenses are incurred by the respective bureaus participating in the Fund against their appropriation and then submitted to the Fund for reimbursement. The bureaus are reimbursed through Inter-Agency Transfers (SF-1081) or Intra-governmental Payments and Collection (IPAC) System. Certain expenses such as equitable sharing, liens, claims and state and local joint operations costs are paid directly from the Fund.

Further, the Fund is a component unit of the Treasury with participating bureaus in the DHS. As such, employees of both Departments may perform certain operational and administrative tasks related to the Fund. Payroll costs of employees directly involved in the security and maintenance of forfeited property are also recorded as expenses in the financial statements of the Fund (included in the line item "seizure investigative costs and asset management" in the statement of net cost.)

Revenue and Expense Recognition

Revenue from the forfeiture of property is deferred until the property is sold or transferred to a state, local or federal agency. Revenue is not recorded if the forfeited property is ultimately destroyed or cannot be legally sold.

Revenue from currency is recognized upon forfeiture. Payments in lieu of forfeiture (mitigated seizures) are recognized as revenue when the payment is received. Revenue received from participating with certain other federal agencies is recognized when the payment is received. Operating costs are recorded as expenses and related liabilities when goods are received or services are performed. Certain probable equitable sharing liabilities existing at year end are accrued based on estimates.

As provided for in the TFF Act, the Fund invests seized and forfeited currency that is not needed for current operations. Treasury's Bureau of Public Debt invests the funds in obligations of, or guaranteed by, the United States Government. Interest is reported to the Fund and recorded monthly as revenue in the general ledger.

Earmarked Funds

Earmarked funds are financed by specifically identified revenues, 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. In accordance with SFFAS 27, *Earmarked Funds*, all of the TFF's revenue meets these criteria and constitutes an earmarked fund.

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash collected from earmarked funds are deposited in the U.S. Treasury, which uses the cash for general government purposes. Treasury securities are issued to the TFF as evidence of its receipts. Treasury securities are an asset to the TFF and a liability to the U.S. Treasury. Because the TFF and U.S. Treasury are both parts of the government, these assets and liabilities offset each other from the standpoint of the government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

Treasury securities provide the TFF with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the TFF requires redemption of these securities to make expenditures, the 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 government finances all other expenditures.

Equitable Sharing (Assets Distributed)

Forfeited property, currency, or proceeds from the sales of forfeited property may be shared with federal, state and local law enforcement agencies or foreign governments, which provided direct or indirect assistance in the related seizure. In addition, the Fund may transfer forfeited property to other federal agencies, which would benefit from the use of the item. A class of asset distribution was established for victim restitution in 1995. These distributions include property and cash returned to victims of fraud and other illegal activity. Upon approval by Fund management to share or transfer the assets, both revenue from distributed forfeited assets and distributions are recognized for the net realizable value of the asset to be shared or transferred, thereby resulting in no gain or loss recognized. Revenue and /or expenses are recognized for property and currency, which are distributed to or shared with non-federal agencies, per SFFAS No. 7, *Accounting for Revenue and Other Financing Sources*.

Entity Assets

Entity assets are used to conduct the operations and activities of the Fund. Entity assets comprise intragovernmental and non-intragovernmental assets. Intragovernmental balances arise from transactions among federal agencies. These assets are claims of a federal entity against another federal entity. Entity assets consist of cash or other assets, which could be converted into cash to meet the Fund's current or future operational needs. Such other assets include investments of forfeited balances, accrued interest on seized balances, receivables, and forfeited property, which are held for sale or to be distributed.

- **Fund Balance with Treasury** – This represents amounts on deposit with Treasury.
- **Investments and Related Interest Receivable** – This includes forfeited cash held by the Fund and seized currency held in the Customs Suspense Account that had been invested in short term U.S. Government Securities.
- **Receivables** – The values reported for other receivables are primarily funds due from the national seized property contractor for properties sold; the proceeds of which have not yet been deposited into the Fund. No allowance has been made for uncollectible amounts as the accounts recorded as a receivable at year end were considered to be fully collectible as of September 30, 2011 and 2010.
- **Advances** – This primarily represents cash transfers to Treasury or law enforcement bureaus participating in the Fund for orders to be delivered.
- **Cash and Other Monetary Assets** – This includes forfeited currency on hand not yet deposited and forfeited currency held as evidence.

- **Forfeited Property and Currency** – Forfeited property and currency is recorded in the respective seized property and forfeited asset tracking systems at the estimated fair value at the time of seizure. However, based on historical sales experiences for the year, properties are adjusted to reflect the market value at the end of the fiscal year for financial statement reporting purposes. Direct and indirect holding costs are not capitalized for individual forfeited assets. Forfeited currency not deposited into the Fund is included as part of Entity Assets - Cash and Other Monetary Assets.

Further, mortgages and claims on forfeited assets are recognized as a valuation allowance and a reduction of deferred revenue from forfeited assets when the asset is forfeited. The allowance includes mortgages and claims on forfeited property held for sale and a minimal amount of claims on forfeited property previously sold. Mortgages and claims expenses are recognized when the related asset is sold and is reflected as a reduction of sales of forfeited property.

Additionally, SFFAS No. 3, *Accounting for Inventory and Related Property*, requires certain additional disclosures in the notes to the financial statements, including an analysis of changes in seized and forfeited property and currency, for both carrying value and quantities, from that on hand at the beginning of the year to that on hand at the end of the year. These analyses are disclosed in Notes 7 and 8.

Non-entity Assets

Non-entity assets held by the Fund are not available for use by the Fund. Non-entity assets comprise intragovernmental and other assets. Intragovernmental balances arise from transactions among federal agencies. These assets are claims of a federal entity against another federal entity. Non-entity assets are not considered as financing sources (revenue) available to offset operating expenses, therefore, a corresponding liability is recorded and presented as governmental liabilities in the balance sheet to reflect the custodial/fiduciary nature of these activities.

- **Seized Currency and Property** – Seized Currency is defined as cash or monetary instruments that are readily convertible to cash on a dollar for dollar basis. SFFAS No. 3 requires that seized monetary instruments (cash and cash equivalents) be recognized as an asset in the financial statements and a liability be established in an amount equal to the seized asset value due to: (i) the fungible nature of monetary instruments, (ii) the high level of control that is necessary over these assets; and (iii) the possibility that these monies may be returned to their owner in lieu of forfeiture.

Seized property is recorded at its appraised value at the time of seizure. The value is determined by the seizing entity and is usually based on a market analysis such as a third party appraisal, standard property value publications or bank statements. Seized property is not recognized as an asset in the financial statements, as transfer of ownership to the government has not occurred as of September 30. Accordingly, seized property other than monetary instruments is disclosed in the footnotes in accordance with SFFAS No. 3.

- **Investments and Related Interest Receivable** – This balance includes seized cash on deposit in the Fund's suspense account held by Treasury, which has been invested in short term U.S. Government Securities.

- **Cash and Other Monetary Assets** – This balance represents the aggregate amount of the Fund’s seized currency on deposit in the Fund’s suspense account held by Treasury, seized cash on deposit held with other financial institutions and, cash on hand in vaults held at field office locations.

Liabilities Covered by Budgetary Resources

Liabilities covered by budgetary resources represent liabilities incurred, which are covered by available budgetary resources. The components of such liabilities for the Fund are as follows:

- **Distributions Payable** – Distributions payable to federal and non-federal agencies is primarily related to equitable sharing payments and payments to be made by the Fund to the victims of fraud.
- **Accounts Payable** – Amounts reported in this category include accrued expenses authorized by the TFF Act (See "Allowable Fund Expenses") for which payment was pending at year end.
- **Seized Currency** – Amounts reported in this category represent the value of seized currency that is held by the Fund which equals the amount of seized currency reported as an asset.
- **Deferred Revenue from Forfeited Assets** – At year end, the Fund held forfeited assets, which had not yet been converted into cash through a sale. The amount reported here represents the value of these assets, net of mortgages and claims.

Liabilities Not Covered by Budgetary Resources

The Fund does not currently have liabilities not covered by available budgetary resources.

Net Position

The components of net position are classified as follows:

- **Retained Capital** – There is no cap on amounts that the Fund can carry forward into Fiscal Year 2011. The cap was removed by the Fiscal Year 1997 Omnibus Appropriations Act (PL 104-208).
- **Unliquidated Obligations** – This category represents the amount of undelivered purchase orders, contracts and equitable sharing requests which have been obligated with current budget resources or delivered purchase orders and contracts that have not been invoiced. An expense and liability are recognized and the corresponding obligations are reduced as goods are received or services are performed. A portion of the equitable sharing requests that were in final stages of approval are recognized as liabilities at year end. Prior experience with the nature of this account indicated that a substantial portion of these requests were certain liabilities at year end. (See also Distributions Payable at Note 9).
- **Net Results of Operations** – This category represents the net difference, for the activity during the year, between: (i) financing sources including transfers, and revenues; and (ii) expenses.

Note 3: Investments and Related Interest Receivable

All investments are intragovernmental short-term (35 days or less) non-marketable par value federal debt securities issued by, and purchased through Treasury's Bureau of the Public Debt. Investments are always purchased at a discount and are reported at acquisition cost, net of discount. The discount is amortized into interest income over the term of the investment. The investments are always held to maturity. They are made from cash in the Fund and from seized currency held in the Customs Suspense Account. The Customs Suspense Account became the depository for seized cash for the Fund following enactment of the TFF Act.

The following schedule presents the investments on hand as of September 30, 2011 and 2010, respectively (dollars in thousands):

Entity Assets

Description.	Cost	Unamortized Discount	Investment, Net
<u>September 30, 2011</u>			
Treasury Forfeiture Fund -			
28 days 0.0000% U.S. Treasury Bills	\$1,584,974	(\$0)	\$1,584,974
Interest Receivable			<u>0</u>
Total Investment, Net, and Interest Receivable			<u>\$1,584,974</u>
Fair Market Value			<u>\$1,584,959</u>
<u>September 30, 2010</u>			
Treasury Forfeiture Fund -			
28 days 0.1150% U.S. Treasury Bills	\$1,383,134	(\$124)	\$1,383,010
Interest Receivable			<u>47</u>
Total Investment, Net, and Interest Receivable			<u>\$1,383,057</u>
Fair Market Value			<u>\$1,383,026</u>

Non-entity Assets

<u>Description.</u>	<u>Cost</u>	<u>Unamortized Discount</u>	<u>Investment, Net</u>
<u>September 30, 2011</u>			
Treasury Forfeiture Fund – Seized Currency Suspense Account			
28 days 0.0000% U.S. Treasury Bills	\$724,301	\$0	<u>\$724,301</u>
Fair Market Value			<u>\$724,294</u>
<u>September 30, 2010</u>			
Treasury Forfeiture Fund – Seized Currency Suspense Account			
28 days 0.1150% U.S. Treasury Bills	\$712,918	(\$64)	<u>\$712,854</u>
Fair Market Value			<u>\$712,862</u>

Note 4: Analysis of Non-Entity Assets

The following schedule presents the non-entity assets as of September 30, 2011 and 2010, respectively, (dollars in thousands):

	<u>2011</u>	<u>2010</u>
Seized currency:		
Intragovernmental Investments (Note 3)	\$ 724,301	\$ 712,854
Cash and other monetary assets (Note 5)	<u>99,918</u>	<u>76,583</u>
Total Non-Entity Assets	824,219	789,437
Total Entity Assets	<u>1,682,169</u>	<u>1,494,037</u>
Total Assets	<u>\$ 2,506,388</u>	<u>\$ 2,283,474</u>

Note 5: Cash and Other Monetary Assets

Entity Assets

Cash and Other Monetary Assets held on hand included forfeited currency not yet deposited, as well as forfeited currency held as evidence, amounting to \$19.8 million and \$13.6 million as of September 30, 2011 and 2010, respectively.

Non-Entity Assets

Cash and Other Monetary Assets included seized currency not yet deposited, as well as deposited seized currency which is not invested in order to pay remissions, amounted to \$99.9 million and \$76.6 million as of September 30, 2011 and 2010, respectively.

Note 6: Forfeited Property

The following summarizes the components of forfeited property (net), as of September 30, 2011 and 2010, respectively, (dollars in thousands):

	<u>2011</u>	<u>2010</u>
Held for Sale	\$ 59,497	\$ 64,951
To be shared with federal, state or local, or foreign government	<u>1,517</u>	<u>1,585</u>
Total forfeited property (Note 7)	61,014	66,536
Less: Allowance for mortgages and claims	<u>(7,270)</u>	<u>(3,502)</u>
Total forfeited property, net	<u>\$ 53,744</u>	<u>\$ 63,034</u>

Note 7: FY 2011 Analysis of Changes in Forfeited Property and Currency

The following schedule presents the changes in the forfeited property and currency balances from October 1, 2010 to September 30, 2011. (Dollar value is in thousands.)

	10/1/10 Financial Statement Balance		Adjustments		10/1/10 Carrying Value		Forfeitures		Deposits/Sales		Disposals/Transfers			
	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.		
Currency	\$12,559	-	\$-	-	\$12,559	-	\$731,485	-	\$(749,316)	-	\$(243)	-		
Other Monetary Instruments	1,070	-	-	-	1,070	-	95	-	(164)	-	-	-		
Subtotal	13,629	-	-	-	13,629	-	731,580	-	(749,480)	-	(243)	-		
Real Property	48,953	223	24,090	-	73,043	223	37,517	133	(35,442)	(120)	(5,946)	(14)		
General Property	10,661	9,336	9,234	-	19,895	9,336	57,195	26,273	(30,969)	(3,128)	(3,900)	(2,004)		
Vessels	558	53	520	-	1,078	53	3,125	179	(2,048)	(75)	(1,014)	(19)		
Aircraft	149	3	164	-	313	3	877	11	(727)	(8)	-	-		
Vehicles	6,215	2,199	5,005	-	11,220	2,199	42,399	10,247	(33,308)	(8,804)	(9,614)	(1,244)		
Subtotal	66,536	11,814	39,013	-	105,549	11,814	141,113	36,843	(102,494)	(12,135)	(20,474)	(3,281)		
Grand Total	\$80,165	11,814	\$39,013	-	\$119,178	11,814	\$872,693	36,843	\$(851,974)	(12,135)	\$(20,717)	(3,281)		
	Victim Restitution		Destroyed		Other Adjustments		Value Change		2011 Carrying Value		Fair Market Value Adjustment		9/30/11 Financial Statement Balance	
	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.
Currency	\$-	-	\$-	-	\$25,118	-	\$26	-	\$19,629	-	\$-	-	\$19,629	-
Other Monetary Instruments	-	-	-	-	(12)	-	(770)	-	219	-	-	-	219	-
Subtotal	-	-	-	-	25,106	-	(744)	-	19,848	-	-	-	19,848	-
Real Property	-	-	-	-	8,252	29	285	-	77,709	251	(36,742)	-	40,967	251
General Property	-	-	(195)	(18,747)	5,038	628	(2,936)	-	44,128	12,358	(32,021)	-	12,107	12,358
Vessels	-	-	-	(103)	(36)	11	(123)	-	982	46	(453)	-	529	46
Aircraft	-	-	-	(1)	100	1	-	-	563	6	(228)	-	335	6
Vehicles	-	-	-	(70)	1,591	308	(231)	-	12,057	2,636	(4,981)	-	7,076	2,636
Subtotal	-	-	(195)	(18,921)	14,945	977	(3,005)	-	135,439	15,297	(74,425)	-	61,014	15,297
Grand Total	\$-	-	\$(195)	(18,921)	\$40,051	977	\$(3,749)	-	\$155,287	15,297	\$(74,425)	-	\$80,862	15,297

Note 7 (Cont'd): FY 2010 Analysis of Changes in Forfeited Property and Currency

The following schedule presents the changes in the forfeited property and currency balances from October 1, 2009 to September 30, 2010. (Dollar value is in thousands.)

	10/1/09 Financial Statement Balance		Adjustments		10/1/09 Carrying Value		Forfeitures		Deposits/Sales		Disposals/Transfers			
	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.		
Currency	\$18,188	-	\$-	-	\$18,188	-	\$899,821	-	\$(919,499)	-	\$-	-		
Other Monetary Instruments	309	-	-	-	309	-	852	-	-	-	(50)	-		
Subtotal	18,497	-	-	-	18,497	-	900,673	-	(919,499)	-	(50)	-		
Real Property	47,534	196	22,016	-	69,550	196	36,686	122	(43,647)	(114)	(7,429)	(24)		
General Property	4,958	9,391	18,100	-	23,058	9,391	15,919	20,193	(7,382)	(2,827)	(1,273)	(1,248)		
Vessels	745	62	505	-	1,250	62	2,416	132	(1,775)	(79)	(715)	(9)		
Aircraft	113	6	389	-	502	6	246	10	(295)	(7)	-	-		
Vehicles	6,128	3,284	9,223	-	15,351	3,284	42,005	12,098	(38,641)	(12,034)	(9,099)	(1,173)		
Subtotal	59,478	12,939	50,233	-	109,711	12,939	97,272	32,555	(91,740)	(15,061)	(18,516)	(2,454)		
Grand Total	\$77,975	12,939	\$50,233	-	\$128,208	12,939	\$997,945	32,555	\$(1,011,239)	(15,061)	\$(18,566)	(2,454)		
	Victim Restitution		Destroyed		Other Adjustments		Value Change		2010 Carrying Value		Fair Market Value Adjustment		9/30/10 Financial Statement Balance	
	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.
Currency	\$-	-	\$-	-	\$14,052	-	\$(3)	-	\$12,559	-	\$-	-	\$12,559	-
Other Monetary Instruments	-	-	-	-	(41)	-	-	-	1,070	-	-	-	1,070	-
Subtotal	-	-	-	-	14,011	-	(3)	-	13,629	-	-	-	13,629	-
Real Property	-	-	-	-	17,962	43	(79)	-	73,043	223	(24,090)	-	48,953	223
General Property	-	-	(168)	(16,486)	(2,120)	313	(8,139)	-	19,895	9,336	(9,234)	-	10,661	9,336
Vessels	-	-	-	(55)	77	2	(175)	-	1,078	53	(520)	-	558	53
Aircraft	-	-	-	(3)	(129)	(3)	(11)	-	313	3	(164)	-	149	3
Vehicles	-	-	-	(185)	1,810	209	(206)	-	11,220	2,199	(5,005)	-	6,215	2,199
Subtotal	-	-	(168)	(16,729)	17,600	564	(8,610)	-	105,549	11,814	(39,013)	-	66,536	11,814
Grand Total	\$-	-	\$(168)	(16,729)	\$31,611	564	\$(8,613)	-	\$119,178	11,814	\$(39,013)	-	\$80,165	11,814

Note 8: FY 2011 Analysis of Changes in Seized Property and Currency

Seized property and currency result primarily from enforcement activities. Seized property is not legally owned by the Fund until judicially or administratively forfeited. Because of the fungible nature of currency and the high level of control necessary over these assets and the possibility that these monies may be returned to their owners in lieu of forfeiture, seized currency is reported as a custodial asset upon seizure. Seized property other than currency is reported as a custodial asset upon forfeiture. (Dollar value is in thousands.)

	9/30/10 Financial Statement Balance		Seizures		Remissions		Forfeitures		Adjustments		Value Changes		9/30/11 Financial Statement Balance	
	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.
Currency	\$776,100	-	\$881,144	-	\$(108,526)	-	\$(731,485)	-	\$(13,380)	-	\$ 574	-	\$804,427	-
Other Monetary Instruments	13,337	-	8,699	-	(3)	-	(95)	-	(2,145)	-	(1)	-	19,792	-
Subtotal	789,437	-	889,843	-	(108,529)	-	(731,580)	-	(15,525)	-	573	-	824,219	-
Real Property	210,589	505	63,124	224	(10,897)	(58)	(37,517)	(133)	(4,538)	8	(14,700)	-	206,061	546
General Property	276,883	22,377	87,196	37,101	(58,075)	(4,129)	(57,195)	(26,273)	(8,300)	(4,668)	(15,001)	-	225,508	24,408
Vessels	6,772	167	3,271	206	(1,665)	(37)	(3,125)	(179)	(261)	(19)	157	-	5,149	138
Aircraft	16,754	29	3,695	23	(13,262)	(10)	(877)	(11)	(103)	(2)	(86)	-	6,121	29
Vehicles	46,525	5,758	92,004	14,973	(42,263)	(4,338)	(42,399)	(10,247)	(2,040)	(367)	(792)	-	51,035	5,779
Subtotal	557,523	28,836	249,290	52,527	(126,162)	(8,572)	(141,113)	(36,843)	(15,242)	(5,048)	(30,422)	-	493,874	30,900
Grand Total	\$1,346,960	28,836	\$1,139,133	52,527	\$(234,691)	(8,572)	\$(872,693)	(36,843)	\$(30,767)	(5,048)	\$(29,849)	-	\$1,318,093	30,900

Note 8 (Cont'd): FY 2010 Analysis of Changes in Seized Property and Currency

Seized property and currency result primarily from enforcement activities. Seized property is not legally owned by the Fund until judicially or administratively forfeited. Because of the fungible nature of currency and the high level of control necessary over these assets and the possibility that these monies may be returned to their owners in lieu of forfeiture, seized currency is reported as a custodial asset upon seizure. Seized property other than currency is reported as a custodial asset upon forfeiture. (Dollar value is in thousands.)

	9/30/09 Financial Statement Balance		Seizures		Remissions		Forfeitures		Adjustments		Value Changes		9/30/10 Financial Statement Balance	
	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.
Currency	\$585,258	-	\$935,136	-	\$(61,691)	-	\$(899,821)	-	\$219,892	-	\$ (2,674)	-	\$776,100	-
Other Monetary Instruments	13,829	-	2,829	-	(2,000)	-	(852)	-	751	-	(1,220)	-	13,337	-
Subtotal	599,087	-	937,965	-	(63,691)	-	(900,673)	-	220,643	-	(3,894)	-	789,437	-
Real Property	255,834	580	47,552	151	(11,355)	(70)	(36,686)	(122)	(19,967)	(34)	(24,789)	-	210,589	505
General Property	313,578	20,535	187,360	32,129	(74,515)	(4,649)	(15,919)	(20,193)	(25,270)	(5,445)	(108,351)	-	276,883	22,377
Vessels	5,799	107	7,089	242	(3,003)	(39)	(2,416)	(132)	211	(11)	(908)	-	6,772	167
Aircraft	8,247	23	40,894	30	(31,617)	(12)	(246)	(10)	-	(2)	(524)	-	16,754	29
Vehicles	53,756	7,543	83,876	16,220	(44,309)	(5,221)	(42,005)	(12,098)	(4,372)	(686)	(421)	-	46,525	5,758
Subtotal	637,214	28,788	366,771	48,772	(164,799)	(9,991)	(97,272)	(32,555)	(49,398)	(6,178)	(134,993)	-	557,523	28,836
Grand Total	\$1,236,301	28,788	\$1,304,736	48,772	\$(228,490)	(9,991)	\$(997,945)	(32,555)	\$171,245	(6,178)	\$(138,887)	-	\$1,346,960	28,836

Note 9: Distributions Payable (state and local agencies and foreign governments)

Distributions Payable (state and local agencies and foreign governments) amounted to \$111.3 million and \$375.8 million as of September 30, 2011 and 2010, respectively. Fund management recognizes as a liability a portion (based on the average of historical pay-out percentage) of the equitable sharing requests, that were approved or in final stages of approval on September 30, 2011 and 2010, respectively. Prior experience with the nature of this account indicated that a substantial portion of these requests were certain to be paid out by the Fund during the following fiscal year.

Note 10: Net Position

Cumulative Results

The following summarizes components of cumulative results as of and for the years ended September 30, 2011 and 2010, respectively, (dollars in thousands):

	<u>2011</u>	<u>2010</u>
Retained Capital	\$ 622,905	\$ 293,273
Unliquidated Obligations	363,166	301,240
Net Results of Operations	<u>466,851</u>	<u>391,558</u>
	<u>\$ 1,452,922</u>	<u>\$ 986,071</u>

Unliquidated Obligations

The following summarizes the components of unliquidated obligations as of September 30, 2011 and 2010 respectively, (dollars in thousands):

	<u>2011</u>	<u>2010</u>
Equitable Sharing	\$ 150,392	\$ 52,606
Mandatory	<u>212,774</u>	<u>248,634</u>
	<u>\$ 363,166</u>	<u>\$ 301,240</u>

Note 11: Related Party Transactions

The Fund reimbursed agencies for the purchase of certain capital assets. These assets are reported by the participating agencies in their financial statements.

Note 12: Super Surplus

31 USC 9703 (g)(4)(B) allows for the expenditure, without fiscal year limitation, after the reservation of amounts needed to continue operations of the Fund. This “Super Surplus” balance may be used for law enforcement activities of any federal agency.

Amounts distributed to other federal agencies for law enforcement activities under “Super Surplus” requirements amounts to \$102.5 million and \$78.9 million in fiscal years 2011 and 2010, respectively.

Note 13: Secretary’s Enforcement Fund

31 USC 9703 (b)(5) is another category of permanent indefinite authority. These funds are available to the Secretary, without further action by Congress and without fiscal year limitation, for federal law enforcement purposes of Treasury law enforcement organizations. The source of Section 9703(b)(5) funds is equitable sharing payments received from the Department of Justice and the U.S. Postal Service (USPS) representing Treasury's share of forfeiture proceeds from Justice and USPS cases.

Amounts distributed for federal law enforcement purposes of Treasury law enforcement organizations amounted to \$1 million and \$2.9 million in fiscal years 2011 and 2010, respectively.

Note 14: Commitments and Contingencies

COMMITMENTS

A portion of the equitable sharing requests that were in final stages of approval are recognized as liabilities as of September 30 (See also Note 9, Distributions Payable).

In addition to the amounts estimated above, there are other amounts, which may ultimately be shared, that are not identified at this time.

CONTINGENCIES

In the opinion of the Fund’s management and legal counsel, there are no pending or threatened litigation claims for which the amount of potential loss, individually, or in aggregate, will have a material adverse effect on the Fund’s financial statements.

Note 15: Disclosures Related to the Statements of Net Cost

Gross costs and earned revenue related to Law Enforcement Programs administered by the Fund are presented in Treasury’s budget functional classification (in thousands) as set out below:

	<u>2011</u>	<u>2010</u>
Gross Costs	\$ 177,070	\$ 168,029
Earned Revenues	-	-
Net Costs	<u>\$ 177,070</u>	<u>\$ 168,029</u>

The Fund falls under the Treasury’s budget functional classification related to Administration of Justice.

Note 16: Disclosures Related to the Statements of Budgetary Resources

The Fund’s net amount of budgetary resources obligated at the end of fiscal years 2011 and 2010 were \$539.1 million and \$745.7 million, respectively. This amount is fully covered by cash on hand in the Fund and Entity Investments. The Fund does not have borrowing or contract authority and, therefore, has no repayment requirements, financing sources for repayment, or other terms of

borrowing authority. There are no legal arrangements, outside of normal government wide restrictions, specifically affecting the Fund's use of unobligated balances of budget authority.

Adjustments to budgetary resources available at the beginning of fiscal years 2011 and 2010 consist of the following (in thousands):

	<u>2011</u>	<u>2010</u>
Recoveries of Prior Year Unpaid Obligations	\$ 57,464	\$ 49,620

Recoveries of prior year obligations are the difference between amounts that Fund management obligated (including equitable sharing) and amounts subsequently approved for payment against those obligations.

Note 17: Dedicated Collections

The Fund is classified as a special fund. All its activities are reported as dedicated collections held for later use.

Note 18: Payments in Lieu of Forfeiture, Net of Refund

The following summarizes Payments in Lieu of Forfeiture, Net of Refunds as of September 30, 2011 and 2010, respectively, (dollars in thousands):

	<u>2011</u>	<u>2010</u>
Payments in Lieu of Forfeiture	\$ 12,653	\$ 6,656
Refunds	(69,679)	(36,605)
Total	<u>(\$ 57,026)</u>	<u>(\$ 29,949)</u>

Note 19: Reconciliation of Net Cost of Operations (Proprietary) to Budget

The reconciliation of Net Cost of Operations to Budget demonstrates the relationship between the Fund's proprietary (net cost of operations) and budgetary accounting (net obligations) information.

	<u>2011</u>	<u>2010</u>
Resources Used to Finance Activities:		
Budgetary resources obligated		
Obligations incurred	\$ 590,414	\$ 852,078
Less: Spending authority from offsetting		
Collections and recoveries	(57,464)	(49,620)
Net Obligations	<u>532,950</u>	<u>802,458</u>
Other resources		
Transfers – out	<u>(103,418)</u>	<u>(81,795)</u>
Total Resources Used to Finance Activities	<u>429,532</u>	<u>720,663</u>
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	(57,251)	(50,768)
Other resources or adjustments to net obligated resources that do not affect net cost of operations		
Mortgages and claims	(4,795)	(4,298)
Refunds	(69,679)	(36,605)
Equitable Sharing (federal, state/local and foreign)	(96,476)	(456,944)
Victim restitution	<u>(24,261)</u>	<u>(4,019)</u>
Total Resources Used to Finance Items not Part of the Net Cost of Operations	<u>(252,462)</u>	<u>(552,634)</u>
Total Resources Used to Finance the Net Cost of Operations	<u>177,070</u>	<u>168,029</u>
Net Cost of Operations	<u>\$ 177,070</u>	<u>\$ 168,029</u>

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SECTION IV
REQUIRED SUPPLEMENTAL INFORMATION
(UNAUDITED)

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Intragovernmental Amounts – Assets (Dollars in thousands)

Partner Agency	2011			2010		
	Fund Balance with Treasury	Accounts Receivable/Advances	Investments	Fund Balance with Treasury	Accounts Receivable/Advances	Investments
Treasury	\$ 23,094	\$ -	\$ -	\$ 33,490	\$ -	\$ -
Departmental Offices	-	79	-	\$ -	\$ 266	\$ -
Bureau of Public Debt	-	-	2,309,275	-	-	2,095,911
Totals	<u>\$ 23,094</u>	<u>\$ 79</u>	<u>\$ 2,309,275</u>	<u>\$ 33,490</u>	<u>\$ 266</u>	<u>\$ 2,095,911</u>

Intragovernmental Amounts – Liabilities (Dollars in thousands)

Partner Agency	2011 Accounts Payable	2010 Accounts Payable
Department of Justice	\$ -	\$ 4,205
Departmental Offices	6,574	1,171
Fincen	6,340	4,295
Tax and Trade	83	470
Internal Revenue Service	43,256	48,436
Totals	<u>\$ 56,253</u>	<u>\$ 58,577</u>

Intragovernmental Amounts – Revenues and Costs (Dollars in thousands)

Budget Functions	2011		2010	
	Cost to Generate Exchange Intragovernmental Revenue	Costs to Generate Non-Exchange Intragovernmental Revenue	Cost to Generate Exchange Intragovernmental Revenue	Costs to Generate Non-Exchange Intragovernmental Revenue
Administration of Justice	\$ -	\$ 115,118	\$ -	\$ 105,273

Intragovernmental Amounts – Non-exchange Revenue (Dollars in thousands):

Partner Agency	2011		2010	
	In	Out	In	Out
Department of Justice	\$ -	\$ 610	\$ -	\$ 3,792
Department of Homeland Security	-	58,529	-	36,599
Department of Treasury	-	284	-	141
Internal Revenue Service	-	30,131	-	35,404
Financial Crimes Enforcement Network	-	13,633	-	3,944
Tax and Trade	-	231	-	1,122
Department of Labor	-	-	-	300
Department of Commerce	-	-	-	493
Totals	\$ -	\$ 103,418	\$ -	\$ 81,795

SECTION V
OTHER ACCOMPANYING INFORMATION
(UNAUDITED)

TREASURY FORFEITURE FUND
Equitable Sharing Summarized by State and U.S. Territories
For the Year Ended September 30, 2011
(Dollars in Thousands)
(Unaudited)

<u>State/U.S. Territories</u>	<u>Currency Value</u>	<u>Property Value</u>
Alabama	\$ 950	\$ -
Alaska	-	4
Arizona	667	-
Arkansas	484	-
California	10,473	88
Colorado	260	1
Connecticut	29	-
D.C. Washington	63	-
Delaware	315	-
Florida	4,980	134
Georgia	2,645	38
Guam	666	-
Hawaii	237	-
Idaho	198	365
Illinois	2,394	12
Indiana	334	-
Iowa	232	-
Kansas	64	24
Kentucky	396	43
Louisiana	317	14
Maine	26	-
Maryland	2,642	16
Massachusetts	981	-
Michigan	1,045	524
Minnesota	155	37
Mississippi	195	-
Missouri	1,677	-
Montana	28	-
Nebraska	56	-
Nevada	124	-
New Jersey	5,924	-
New Hampshire	159	-
New Mexico	103	117
New York	12,400	463
North Carolina	2,747	14
North Dakota	-	-
Ohio	2,909	159
Oklahoma	736	3
Oregon	619	37
Pennsylvania	681	18
Puerto Rico	213	-
Rhode Island	-	-
South Carolina	204	193
South Dakota	-	-
Tennessee	176	38
Texas	13,471	1,047
Utah	<u>582</u>	<u>352</u>
<i>Subtotal carried forward</i>	<u>\$ 73,557</u>	<u>\$3,741</u>

TREASURY FORFEITURE FUND
Equitable Sharing Summarized by State and U.S. Territories
For the Year Ended September 30, 2011
(Dollars in Thousands)
(Unaudited)

<u>State/U.S. Territories</u>	<u>Currency Value</u>	<u>Property Value</u>
<i>Subtotal brought forward</i>	\$73,557	\$3,741
Vermont	18	-
Virgin Islands	26	-
Virginia	989	5
Washington	990	7
West Virginia	43	-
Wisconsin	89	-
Wyoming	<u>68</u>	<u>-</u>
Totals	<u>\$75,780</u>	<u>\$3,753</u>

Summarized above are the currency and property values of assets forfeited and shared with state and local agencies and U.S. Territories participating in the seizure. This supplemental schedule is not a required part of the financial statement of the Department of the Treasury Forfeiture Fund. Information presented on this schedule represents assets physically transferred during the year and, therefore, does not agree with total assets shared with state and local agencies in the financial statements. In addition, the above numbers do not include the adjustment to present property distributed at net realizable value.

TREASURY FORFEITURE FUND
Uncontested Seizures of Currency and Monetary Instruments Valued Over
\$100 Thousand Taking More Than 120 Days from Seizure to Deposit in Fund
For the Year Ended September 30, 2011
(Dollars in Thousands)

31 U.S.C. 9703(f)(2)(E) requires the Secretary of the Treasury to report annually to Congress uncontested seizures of currency or proceeds of monetary instruments over \$100 thousand which were not deposited in the Department of the Treasury Forfeiture Fund within 120 days of the seizure date. There were 52 administrative seizures over \$100 thousand over 120 days old totaling \$17,156 that had not been transferred from the Seized Currency Suspense Account to the Treasury Forfeiture Fund as of the end of FY 2011.

TREASURY FORFEITURE FUND
Analysis of Revenue and Expenses
and Distributions
For the Year Ended September 30, 2011
(Dollars in Thousands)

Revenue, Expenses and Distributions by Asset Category:

	<u>Revenue</u>	<u>Expenses and Distributions</u>
Vehicles	\$13,994	\$124,208
Vessels	3,887	158,254
Aircraft	3,887	50,983
General Property	12,439	502,306
Real Property	43,535	19,675
Currency and monetary instruments	<u>864,808</u>	<u>87,124</u>
	942,550	942,550
Less:		
Mortgages and claims	(4,795)	(4,795)
Refunds	(69,679)	(69,679)
Add:		
Excess of net revenues and financing sources over total program expenses	<u> --</u>	<u> --</u>
Total	<u>\$ 868,076</u>	<u>\$ 868,076</u>

Revenue, Transfers, Expenses and Distributions by Type of Disposition:

Sales of property and forfeited currency and monetary instruments	818,254	174,409
Reimbursed storage costs	3,559	94,255
Assets shared with state and local agencies	68,373	68,373
Assets shared with other federal agencies	27,927	27,927
Assets shared with foreign countries	176	176
Victim Restitution	24,261	24,261
Destructions	--	113,106
Pending disposition	<u> --</u>	<u>440,043</u>
	942,550	942,550
Less:		
Mortgages and claims	(4,795)	(4,795)
Refunds	(69,679)	(69,679)
Add:		
Excess of net revenues and financing sources over total program expenses	<u> --</u>	<u> --</u>
Total	<u>\$ 868,076</u>	<u>\$ 868,076</u>

The revenue amount of \$868,076 is from the Statement of Changes in Net Position. This supplemental schedule "Analysis of Revenues, Expenses and Distributions" is required under the Treasury Forfeiture Fund Act of 1992.

TREASURY FORFEITURE FUND
Information Required by 31 U.S.C. 9703(f)
For the Year Ended September 30, 2011
(Dollars in Thousands)

The Treasury Forfeiture Fund Act of 1992, 31 U.S.C. 9703(f), requires the Secretary of the Treasury to transmit to Congress, no later than February 1, of each year, certain information. The following summarizes the required information.

(1) A report on:

- (A) The estimated total value of property forfeited with respect to which funds were not deposited in the Department of the Treasury Forfeiture Fund during the preceding fiscal year under any law enforced or administered by the Department of the Treasury law enforcement organizations of the United States Coast Guard, in the case of fiscal years beginning after 1993.

As reported in the audited financial statements, at September 30, 2011, the Fund had forfeited property held for sale of \$59,497. The realized proceeds will be deposited in the Fund when the property is sold.

Upon seizure, currency and other monetary instruments not needed for evidence in judicial proceedings are deposited in a Customs and Border Protection (CBP) suspense account. Upon forfeiture, it is transferred to the Treasury Forfeiture Fund. At September 30, 2011, there was \$19,848 of forfeited currency and other monetary instruments that had not yet been transferred to the Fund. This is reported as a part of "Cash and Other Monetary Assets" in the audited financial statements.

- (B) The estimated total value of all such property transferred to any state or local law enforcement agency.

The estimated total value of all such property transferred to any state or local law enforcement bureau is summarized by state and U.S. territories. Total currency transferred was \$75,780 and total property transferred was \$3,753 at appraised value.

(2) A report on:

- (A) The balance of the Fund at the beginning of the preceding fiscal year.

The total net position of the Treasury Forfeiture Fund on September 30, 2010 which became the beginning balance for the Fund on October 1, 2011, as reported in the audited financial statements is \$986,071.

TREASURY FORFEITURE FUND
Information Required by 31 U.S.C. 9703(f)
For the Year Ended September 30, 2011
(Dollars in Thousands)

- (B) Liens and mortgages paid and the amount of money shared with federal, state, local and foreign law enforcement bureaus during the preceding fiscal year.

Mortgages and claims expense, as reported in the audited financial statements, was \$4,795. The amount actually paid on a cash basis was not materially different.

The amount of forfeited currency and property shared with federal, and distributed to state, local and foreign law enforcement bureaus as reported in the audited financial statements was as follows:

	<u>Amount</u>
State and local	\$68,373
Foreign countries	176
Other federal agencies	27,927
Victim restitution	24,261

- (C) The net amount realized from the operations of the Fund during the preceding fiscal year, the amount of seized cash being held as evidence, and the amount of money that has been carried over into the current fiscal year.

The net cost of operations of the Fund as shown in the audited financial statements is \$177,070.

The amount of seized currency not on deposit in the Fund's suspense account at September 30, 2011, was \$99,918. This amount includes some funds in the process of being deposited at year-end; cash seized in August or September 2011 that is pending determination of its evidentiary value from the U.S. Attorney; and the currency seized for forfeiture being held as evidence.

On a budgetary basis, unobligated balances as originally reported on the Office of Management and Budget Reports, SF-133, "Report on Budget Execution" was approximately \$646,405 for fiscal year 2011. This excludes \$422,600 in FY 2011 rescinded authority that is classified as "temporary." If this figure is added to the unobligated balances at the end of FY 2011, the figure becomes \$1,069,005.

TREASURY FORFEITURE FUND
Information Required by 31 U.S.C. 9703(f)
For the Year Ended September 30, 2010
(Dollars in Thousands)

- (D) Any defendant's property not forfeited at the end of the preceding fiscal year, if the equity in such property is valued at \$1 million or more.

The total approximate value of such property for the Treasury Forfeiture Fund, at estimated values determined by bureau and contractor's officials, and the number of seizures is as follows:

<u>Bureau</u>	<u>Amount</u>	<u>Number</u>
CBP	\$114,267	31 seizures
IRS	376,791	109 seizures
U.S. Secret Service	59,356	20 seizures

- (E) The total dollar value of uncontested seizures of monetary instruments having a value of over \$100 thousand which, or the proceeds of which, have not been deposited into the Fund within 120 days after the seizure, as of the end of the preceding fiscal year.

The total dollar value of such seizures is \$17,156. This is also documented on page 56.

- (F) The balance of the Fund at the end of the current fiscal year.

The total net position of the Fund at September 30, 2011, as reported in the audited financial statements is \$1,452,922.

- (G) The net amount, if any, of the excess unobligated amounts remaining in the Fund at the end of the preceding fiscal year and available to the Secretary for Federal law enforcement related purposes.

There is no cap on amounts that can be carried forward into Fiscal Year 2011 per the fiscal year 1997 Omnibus Appropriations Act (PL 104-208).

- (H) A complete set of audited financial statements prepared in a manner consistent with the requirements of the Chief Financial Officers Act of 1990.

The audited financial statements, including the Independent Auditor's Report, are found in Sections II and III.

- (I) An analysis of income and expense showing revenue received or lost: (i) by property category (such as general property, vehicles, vessels, aircraft, cash, and real property); and (ii) by type of disposition (such as sale, remission, cancellation, placement into official use, sharing with state and local agencies, and destruction).

A separate schedule is presented on page 57.

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