Audit Report

OIG-13-032

Audit of the Financial Crimes Enforcement Network's
Fiscal Years 2012 and 2011 Financial Statements

February 12, 2013

Office of
Inspector General

Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

February 12, 2013

**MEMORANDUM FOR JENNIFER SHASKY CALVERY, DIRECTOR
FINANCIAL CRIMES ENFORCEMENT NETWORK**

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Audit of the Financial Crimes Enforcement Network's Fiscal Years 2012 and 2011 Financial Statements

I am pleased to transmit the attached audited Financial Crimes Enforcement Network's (FinCEN) financial statements for fiscal years 2012 and 2011. 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 FinCEN as of September 30, 2012 and 2011 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 reported:

- that the financial statements were fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America,

- no matters involving internal control and its operations that are considered material weaknesses, and

- no instances of reportable noncompliance with laws and regulations tested.

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 February 8, 2013 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 Ade Bankole, Manager, Financial Audits at (202) 927-5329.

Attachment

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Financial Crimes Enforcement Network
AUDIT REPORT
Fiscal Year 2012

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

TABLE OF CONTENTS

United States Department of the Treasury
Financial Crimes Enforcement Network

Management Discussion and Analysis
September 30, 2012

FinCEN directly supports the Treasury Department's strategic goal to "protect our national security through targeted financial actions." The Director of FinCEN reports to the Under Secretary for the Office of Terrorism and Financial Intelligence (TFI). FinCEN carries out its mission by exercising regulatory functions under the Bank Secrecy Act (BSA); receiving and maintaining financial transaction data; analyzing and disseminating that data for law enforcement purposes; and building global cooperation with counterpart organizations in other countries and with international bodies. FinCEN serves as the financial intelligence unit (FIU) of the United States, responsible for receiving, analyzing, and disseminating disclosures of financial information in order to combat money laundering and terrorism financing.

FinCEN's efforts are linked to the following bureau strategic goals:

- Financial systems are more transparent and resistant to financial crime;
- Analysis and information sharing contribute to the detection and deterrence of financial crime; and
- Financial reporting and data are useful, comprehensive, and secure.

FY 2012 Accomplishments

FinCEN's accomplishments towards its FY 2012 priorities include:

- Enhanced proactive compliance efforts through collaboration with the Internal Revenue Service (IRS) and State regulatory agencies to increase concurrent compliance examinations, identification of State regulatory agencies on which FinCEN may be able to rely for certain non-bank financial institution examinations (focusing on money services businesses), and development of initial business rules that will leverage modernized analytical tools to identify areas of compliance risk;
- Transition towards a paperless reporting environment in support of Treasury's paperless initiative, through mandatory electronic filing of most FinCEN reports, release of new dynamic electronic versions of the Suspicious Activity Report and Currency Transaction Report, and consolidation of remaining processing functions from IRS to FinCEN operations and oversight;
- The networking business requirements in the IT Modernization program to automate some of the notifications for the networking and deconfliction program. The enhancement of the networking and deconfliction processes should expedite networking notifications to agencies, as well as increase the number of agencies networked. The rules for networking will be implemented, tested and modified to insure optimal performance;
- Designed and developed business rules for new proactive alerts to identify when new FinCEN data filings meet established rules based criteria. This capability will be part of IT Modernization and should result in increased awareness of relevant filings, and expedited detection of illicit activity documented through filings;

- Disseminated proactive intelligence reports based on FinCEN reporting to a number of foreign FIUs on possible instances of public corruption. Several jurisdictions indicated that the reports provided information that would be investigated further. FinCEN is expanding its program of proactive disclosures to FIUs in FY 2012 to include terrorism and terrorist financing; and
- Completed conversion of 11 years of FinCEN data and the transition of collection, processing, and storage from the legacy IRS system to the new FinCEN system of record. FinCEN released four new filing reports: Suspicious Activity Report, Currency Transaction Report, Registration of Money Services Business, and Designation of Exempted Persons—to industry for submission through FinCEN's Electronic Filing system in support of Treasury's paperless initiative.

Highlights of Performance Measures

Performance Measures	FY 2011 Actual	FY 2012 Target	FY 2012 Actual
Percentage of financial regulators finding information exchanged with FinCEN under MOUs valuable to improve BSA consistency and compliance	92%	88%	93%
Percentage of regulatory helpline customers understanding BSA guidance	92%	90%	89%
Percentage of domestic law enforcement finding FinCEN's analytic reports contribute to the detection and deterrence of financial crime	86%	80%	83%
Percentage of foreign FIUs finding FinCEN's analytic reports provide valuable information towards the detection and deterrence of financial crime	92%	90%	82%
Percentage of customers finding the FinCEN data provides valuable information towards the detection and deterrence of financial crime	89%	86%	90%

In the regulatory area, FinCEN tracks the percentage of financial regulators finding information exchanged with FinCEN under MOUs valuable to improve BSA consistency and compliance. For this measure, FinCEN surveys its compliance MOU holders to determine the impact of the information exchange to improve the consistency and compliance of the financial system with FinCEN's regulations implementing the BSA. In FY 2012, FinCEN surpassed its target of 88 percent with 93 percent. FinCEN was able to accomplish this performance by strengthening relationships with state regulatory agencies in a number of areas, including support for concurrent examinations and initiating information sharing agreements with state insurance commissioners. In FY 2014, FinCEN will increase the target to 90 percent rating the information exchange as valuable, and will intend to maintain a level of 90 percent in future years. To meet future targets, FinCEN must continue to effectively support regulatory partners. FinCEN has proposed legislative amendments to allow for reliance on examinations conducted by a state supervisory agency for categories of institutions not subject to a federal regulator. If implemented, this statutory amendment could expand FinCEN's relationship with state regulatory agencies.

FinCEN also measures the percentage of regulatory helpline customers understanding BSA guidance. This measure is linked to FinCEN's goal to provide financial institutions with understandable guidance and success is critical to institutions establishing anti-money laundering programs that comply with FinCEN's regulations. Understandable guidance will also contribute to protecting financial institutions and their customers from financial crime. In FY 2012, FinCEN's goal is to maintain a 90 percent satisfaction level, and FinCEN narrowly missed this target with 89 percent due to resource demands associated with a significant increase in call volume. Average monthly call volume has increased fivefold since the start of the fiscal year and additional volume will be added at the beginning of FY 2013 as further IRS support ends. In FY 2014, the target is to attain 90 percent. Significant additions of staff beginning in early calendar year 2012, enhanced training programs for less experienced staff, and a reorganization to expand oversight and supervision of this functional area are part of FinCEN's efforts to achieve future targeted performance levels. Factors potentially affecting FinCEN's ability to achieve this goal include the planned centralization within FinCEN of all outreach and call center activities as well as operational functions relating to data quality currently performed by IRS; additional outreach support for new industries as a result of FinCEN's ongoing regulatory and informational initiatives; increased call volume concerning the mandatory electronic filing of most FinCEN reports; and expected increases in inquiries associated with FinCEN initiatives involving IT modernization and increased communication to the MSB industry.

In the analytical area, FinCEN supports domestic law enforcement and international FIU partners by providing analyses of BSA information. The percentage of domestic law enforcement finding FinCEN's analytic reports contribute to the detection and deterrence of financial crime is a survey measure. While results were down slightly in FY 2012, FinCEN still met its target of 80 percent with 83 percent of domestic law enforcement finding the reports valuable. In reviewing the survey results, FinCEN noted that the decrease is attributable to scores related to its proactive analytical products.

The second measure tracks the value of the analytic reports to foreign FIU customers. In FY 2010, FinCEN set a baseline for this measure of 90 percent. In FY 2012, 82 percent of foreign FIU customers completing the survey found the analytic reports valuable. FinCEN did not meet the target of 90 percent due to a decrease in the number of FIU customers indicating that FinCEN provided new information relevant to their investigations. Because the survey indicated a strong preference for new lead information, FinCEN will continue to seek ways to meet this demand.

To determine the success of the goal to provide useful data, FinCEN measures the percentage of customers finding the FinCEN data provides valuable information towards the detection and deterrence of financial crime. This measure tracks the value of the FinCEN information to law enforcement and regulatory agency users with direct access to the FinCEN data. This is a composite measure compiled from survey results. The survey looks at the value of FinCEN data, such as whether the data provided unknown information, supplemented or expanded known information, verified information, helped identify new leads, opened a new investigation or examination, supported an existing investigation or examination, and provided information for an investigative or examination report. In FY 2012, FinCEN surpassed its target of 86 percent with 90 percent of customers finding the FinCEN data provides valuable information. FinCEN was able to surpass this target through outreach and training that emphasizes the value of the data and provides concrete examples of utilization. The FY 2014 target is 90 percent. The modernized technical environment aims to further enhance the performance of this measure by maximizing data integrity and providing more robust and flexible query tools. The new BSA technical foundation will provide additional data quality checks and validations and more feedback to the filing community to continue FinCEN's goal of improving the quality of information.

Future Outlook for FY 2013/FY 2014

In order to achieve its priorities and continue to advance its strategic goals, FinCEN will improve its ability to enhance the integrity of financial systems by facilitating the detection and deterrence of financial crime. To meet these priorities, FinCEN will:

- Continue to enhance proactive compliance and enforcement through stronger coordination between federal and state regulatory agencies on examinations, increased interaction with law enforcement to target potential noncompliant institutions;
- Continue to advance regulatory initiatives designed to further protect the U.S. financial system from abuse while balancing their impact on the financial industry. This would include carefully considering public comment on and weighing changes to proposed rules as appropriate;
- Continue law enforcement and private sector collaboration in the Southwest Border and in other high threat areas for the purpose of developing and sharing real-time or actionable intelligence on related money laundering patterns, trends, and methods;
- Support law enforcement efforts to combat illicit activities through the fusion of investigative data with the FinCEN data to provide complex analytical products that advance investigations and prosecutions;
- Implement the new IT capacity to create alerts on relevant BSA and other data from regulated financial institutions for internal and external stakeholders;
- Continue joint analytical projects with foreign FIUs, particularly in the areas of proactive and strategic analysis. Just as FinCEN receives financial intelligence from BSA reports, each FIU also receives similar reporting in their own country on financial activity. By working together, FinCEN and foreign FIUs can find connections in data streams relating to suspicious activity that otherwise would not be found; and
- Leverage the new IT capabilities to enhance longstanding efforts to help coordinate among various federal, state and local agencies that might be investigating related subjects or similar types of financial crime.

FY 2012 Financial Statement Highlights

Highlights of FinCEN's FY 2012 financial performance appear below. FinCEN is financed annually through appropriations authorized by Congress. The FY 2012 enacted budget is $111 million.

In fiscal year 2012, an accounting policy was implemented that requires FinCEN to capture the revenue accrual with the Treasury Forfeiture Fund in a "Transfer-in" account appearing in the

Statement of Changes in Net Position. Previously this activity was recorded in a revenue account that appeared on the Statement of Net Cost. For comparative purposes the policy was applied to FY 2011 and FY 2012.

Balance Sheets:
Assets: The total assets as of September 30, 2012 and 2011 were $114.2 and $92.0 million, respectively, of which approximately 55.1 percent consists of fund balance with Treasury in 2012 and 57.0 percent in 2011. Total assets increased by $22.2 million. This increase primarily resulted from a $15.6 million increase in plant and equipment as a result of IT Modernization for internal use software capitalization. It also included a $10.5 million increase in the fund balance with Treasury, and a $3.8 million decrease in accounts receivable. Liabilities: The total liabilities as of September 30, 2012 and 2011 were $19.1 and $15.9 million, respectively. There was an approximately $3.2 million increase in the total liabilities in FY 2012 over FY 2011. The increase was a result of the Information Technology Project referred to as BSA IT Modernization.

Statement of Net Costs*:*
The net cost of operations as of September 30, 2012 and 2011 were $117.0 and $122.5 million, respectively. Total net cost of operations decreased by $5.5 million from 2011. All of FinCEN's costs are reported under the Department of the Treasury's Strategic goal of "protecting our national security through targeted financial actions." FinCEN's net cost aligned to its own Strategic Goals as disclosed on the face of the statement of net cost. A significant portion of FinCEN's net costs ($59.1 million or 50.5% percent) relates to FinCEN's Strategic Goal 3: Financial reporting and data are useful, comprehensive and secure.

Internal Controls, Systems, and Audits

Financial management systems are in substantial compliance with the requirements imposed by the Federal Financial Management Improvement Act (FFMIA), and applicable sections of the Federal Manager's Financial Integrity Act (FMFIA). FinCEN relies on the Bureau of Public Debt (BPD) Administrative Resource Center (ARC) for administrative and accounting services and systems.

Improper Payments Elimination and Recovery Act (IPERA) Reporting

The Improper Payments Elimination and Recovery Act of 2010 (IPERA) requires agencies to review their programs and activities to identify those that are susceptible to significant erroneous payments. "Significant" is defined as annual erroneous payments in the program exceeding both 205 percent of program outlays and $10 million of all program or activity payments made during the fiscal year reported or $100,000,000 (at any percent of program outlays).

As a bureau of the Department of the Treasury, FinCEN follows the methodology and guidance prescribed by the Department. Each year, a comprehensive inventory of the funding sources for all programs and activities is developed. Treasury Fund Symbols with disbursements or total funding equal to or greater than $1 million have been identified as Risk Assessment required at the payment type level (e.g., payroll, contracts, vendors, travel, etc.). For those payment types resulting in high risk assessments that comprise at least 2.5 percent and $10 million of a total fund group annual payments, (1) statistical sampling must be performed to determine the actual improper payment rate, and (2) a corrective action plan to reduce erroneous payments must be developed and submitted to the Office of Management and Budget (OMB) for approval. All of FinCEN's programs and activities resulted in low risk susceptibility for improper payments.

Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of FinCEN. While the statements have been prepared from the books and records of FinCEN in accordance with GAAP for federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

United States Department of the Treasury
Financial Crimes Enforcement Network
Balance Sheets

	As of September 30	
	2012	**2011**
ASSETS (Note 2)		
Intragovernmental:		
Fund balance with Treasury (Note 3)	$62,968,443	$52,454,502
Accounts receivable (Note 4)	2,646,346	6,468,599
Advances and prepayments	470,152	471,291
Total intragovernmental	**66,084,941**	**59,394,392**
Accounts receivable, net (Note 4)	6,156	35,062
Property and equipment, net (Note 5)	48,177,273	32,580,135
Total assets	**$114,268,370**	**$92,009,589**
LIABILITIES (Note 7)		
Intragovernmental:		
Accounts payable	10,265,670	7,205,984
Other (Note 8)	1,181,172	1,539,434
Total intragovernmental	**11,446,842**	**8,745,418**
Accounts payable	2,608,419	2,064,094
Other (Note 8)	5,065,882	5,107,097
Total liabilities	**19,121,143**	**15,916,609**
Commitments and contingencies (Notes 9 and 10)		
NET POSITION		
Unexpended appropriations	50,757,921	47,650,941
Cumulative results of operations	44,389,306	28,442,039
Total net position	**95,147,227**	**76,092,980**
Total liabilities and net position	**$114,268,370**	**$92,009,589**

The accompanying notes are an integral part of these financial statements

United States Department of the Treasury
Financial Crimes Enforcement Network
Statements of Net Cost

	For the Years Ended September 30	
PROGRAM COSTS (Note 11)	**2012**	**Restated 2011**
Financial systems are more transparent and resistant to financial crime		
Gross costs	$30,470,730	$32,297,997
Less: earned revenue	-	(70,242)
Net program costs	**30,470,730**	**32,227,755**
Analysis and information sharing contribute to the detection and deterrence of financial crime		
Gross costs	28,079,602	30,531,119
Less: earned revenue	(644,565)	(827,731)
Net program costs	**27,435,037**	**29,703,388**
Financial reporting and data are useful, comprehensive, and secure		
Gross costs	59,074,867	60,570,065
Less: earned revenue	-	(4,035)
Net program costs	**59,074,867**	**60,566,030**
Net cost of operations	**$116,980,634**	**$122,497,173**

The accompanying notes are an integral part of these financial statements

United States Department of the Treasury
Financial Crimes Enforcement Network
Statements of Changes in Net Position

	For the Years Ended September 30 2012	Restated 2011
Cumulative Results of Operations:		
Beginning balances	$28,442,039	$6,426,025
Budgetary financing sources:		
Appropriations used	106,888,370	105,774,845
Other financing sources (non-exchange):		
Transfers in without reimbursement	5,118,220	15,728,878
Imputed financing from costs absorbed by others (Note 6)	20,921,311	23,009,464
Total financing sources	**132,927,901**	**144,513,187**
Net cost of operations (Note 11)	(116,980,634)	(122,497,173)
Net change	**15,947,267**	**22,016,014**
Cumulative results of operations	**$44,389,306**	**$28,442,039**
Unexpended appropriations:		
Beginning balance	47,650,941	43,181,049
Budgetary financing sources:		
Appropriations received	110,788,000	111,010,000
Other adjustments	(792,650)	(765,263)
Appropriations used	(106,888,370)	(105,774,845)
Total budgetary financing sources	**3,106,980**	**4,469,892**
Total unexpended appropriations	**50,757,921**	**47,650,941**
Net position	**$95,147,227**	**$76,092,980**

The accompanying notes are an integral part of these financial statements

United States Department of the Treasury
Financial Crimes Enforcement Network
Statements of Budgetary Resources

	For the Years Ended September 30 2012	2011
BUDGETARY RESOURCES		
Unobligated balance brought forward, October	$33,987,602	$28,037,420
Recoveries of prior year unpaid obligations (Note 12)	1,270,194	1,420,440
Other changes in unobligated balance (Note 12)	(792,650)	(543,243)
Unobligated balance from prior year budget authority, net	34,465,146	$28,914,617
Appropriations (discretionary and mandatory)	110,788,000	110,787,980
Spending Authority from offsetting collections	7,768,828	12,755,195
Total Budgetary Resources	**$153,021,974**	**$152,457,792**
STATUS OF BUDGETARY RESOURCES		
Obligations incurred (Note 12)	$118,360,658	$118,470,190
Un-obligated Balance, end of year		
Apportioned	32,198,212	31,556,426
Unapportioned	2,463,104	2,431,176
Unobligated balance brought forward, end of year	34,661,316	33,987,602
Total Budgetary Resources	**$153,021,974**	**$152,457,792**

(Continued)

The accompanying notes are an integral part of these financial statements

United States Department of the Treasury
Financial Crimes Enforcement Network
Statements of Budgetary Resources

	For the Years Ended September 30 2012	2011
CHANGE IN OBLIGATED BALANCE		
Unpaid obligations, brought forward, October 1 (gross)	$27,099,782	$29,542,142
Uncollected customer payments from Federal sources, brought forward, October 1	(8,632,882)	(10,361,919)
Obligated balance start of year (net)	$18,466,900	$19,180,223
Obligations incurred	118,360,658	118,470,190
Outlays (gross)	(109,100,758)	(119,492,110)
Change in uncollected customer payments from Federal Sources	1,850,521	1,729,036
Recoveries of prior year unpaid obligations	(1,270,194)	(1,420,440)
Unpaid Obligations, end of year (gross)	35,089,489	27,099,782
Uncollected customer payments from Federal sources, end of year	(6,782,362)	(8,632,882)
Obligated balance, end of year (net)	**$28,307,127**	**$18,466,900**
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget authority, gross (discretionary and mandatory)	$118,556,828	$123,543,175
Actual offsetting collections (discretionary and mandatory)	(9,619,349)	(14,484,231)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory)	1,850,521	1,729,036
Budget Authority, net (discretionary and mandatory)	**$110,788,000**	**$110,787,980**
Outlay, gross (discretionary and mandatory)	$109,100,758	$119,492,110
Actual offsetting collections (discretionary and mandatory)	(9,619,349)	(14,484,231)
Outlays, net (discretionary and mandatory)	$99,481,409	$105,007,879
Distributed offsetting receipts	-	(774)
Agency Outlays, net (discretionary and mandatory)	**$99,481,409**	**$105,007,105**

The accompanying notes are an integral part of these financial statements

United States Department of the Treasury
Financial Crimes Enforcement Network
Statements of Custodial Activity

	For the Years Ended September 30	
	2012	**2011**
Revenue activity (Note 13):		
Sources of cash collections:		
Civil monetary penalties and other revenue	$55,180	$286,774
Total cash collections	**55,180**	**286,774**
Accrual Adjustment	(20,000)	25,000
Total custodial revenue	**35,180**	**311,774**
Disposition of collections:		
Transferred to others:		
Department of the Treasury	(55,180)	(286,774)
Accrual Adjustment	20,000	(25,000)
Total Disposition of Custodial Revenue & Collections	**(35,180)**	**(311,774)**
Net custodial activity	**$ -**	**$ -**

The accompanying notes are an integral part of these financial statements

United States Department of the Treasury
Financial Crimes Enforcement Network
Notes to the Financial Statements
For the Years Ended September 30, 2012 and 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity
The Financial Crimes Enforcement Network (FinCEN) was formally established by the Department of the Treasury (Treasury), Order 105-08, on April 25, 1990 and upgraded to bureau status October 26, 2001 in Public Law 107-56. The mission of FinCEN is to enhance the integrity of the financial systems by facilitating the detection and deterrence of financial crime. This is accomplished primarily through the administration of the Bank Secrecy Act (BSA); supporting law enforcement, intelligence, and regulatory agencies through sharing and analysis of financial intelligence; enhancing international anti-money laundering and counterterrorist financing efforts and cooperation; and networking people, entities, ideas, and information.

Basis of Accounting and Presentation
The financial statements have been prepared from FinCEN's accounting records in conformity with accounting principles generally accepted in the United States of America. Accounting principles generally accepted for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). FASAB is recognized by the American Institute of Certified Public Accountants as the official accounting standards-setting body of the United States Government.

These financial statements are provided to assist the Department of the Treasury meet the requirements of the Government Management Reform Act of 1994. The financial statements consist of the balance sheets and the statements of net costs, changes in net position, budgetary resources and custodial activity. The financial statements and the related notes are presented on a comparative basis.

FinCEN's financial statements with respect to the balance sheets, the statements of net cost, and the statements of changes in net position are reported using the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. FinCEN's statement of budgetary resources is reported using the budgetary basis of accounting. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. It generally differs from the accrual basis of accounting in that obligations are recognized when new orders are placed, contracts awarded, and services received, that will require payments during the same or future periods. FinCEN's non-entity revenues are reported on the statement of custodial activity using a modified accrual basis of accounting. With this method, revenue from cash collections are reported separately from receivable accruals and cash disbursements are reported separately from payable accruals. Intragovernmental assets and liabilities result from activity with other Federal agencies. All other assets and liabilities result from activity with parties outside the Federal government, such as domestic and foreign persons, organizations, or governments. Intragovernmental earned revenues are collections or accruals of revenue from other Federal agencies, and intragovernmental costs are payments or accruals to other Federal agencies.

While these financial statements have been prepared from the books and records of FinCEN, these financial statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

These financial statements should be read with the realization that they are for a component of a sovereign entity, where liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity. The statements of net cost, changes in net position and budgetary resources for fiscal year 2011 have been reclassified to make them comparable to the fiscal year 2012 presentation.

Fund Balance with Treasury
FinCEN does not maintain cash in commercial bank accounts. The Treasury processes cash receipts and disbursements. Fund balance with Treasury is composed of appropriated and trust funds that are available to pay current liabilities and finance authorized purchase commitments.

Accounts Receivable
Accounts receivable represent amounts owed to FinCEN by other Federal agencies and the public.

Intragovernmental accounts receivable represent amounts due from other Federal agencies under contractual agreements or other arrangements for services or activities performed by FinCEN. These receivables are expected to be fully collected.

Public accounts receivable consist of administrative receivables from employees or suppliers and the levy of civil monetary penalties from non-Federal sources resulting from FinCEN's regulatory responsibilities. Public accounts receivable are presented net of an allowance for doubtful accounts, which is determined by considering the debtor's current ability to pay, the debtor's payment record and willingness to pay, and an analysis of aged receivable activity.

Advances and Prepayments
Intragovernmental advances and prepayments consist of amounts paid to the Department of the Treasury Working Capital Fund prior to FinCEN's receipt of goods and services.

Property and Equipment
Property and equipment is recorded at cost and is depreciated using the straight-line method over the estimated useful lives of the assets. FinCEN's capitalization threshold for general property and equipment is established at minimum of $25,000, and an estimated useful life of two years or more. FinCEN's capitalization threshold for bulk purchases is established at a minimum of $100,000 per lot and $5,000 per line item. The cost of each individual item must be at least

$5,000, but below the minimum capitalization threshold of $25,000. Any item in the lot that meets the capitalization threshold of $25,000 is capitalized separately and not considered to be a part of the bulk purchase lot.

Internal-use software includes commercial off-the-shelf (COTS), internally and contractor developed software and license fees with a cost of $125,000 or more and an estimated useful life of 2 years or more. Capitalized costs for internally developed software include the full cost (direct and indirect) incurred during the software development phase. Costs associated with the preliminary design phase, and the post-implementation/operational phases are expensed as incurred. For COTS software, the capitalized cost includes the amount paid to the vendor for the software. Capitalized costs for contractor developed software include the amount paid to a contractor to design, program, install and implement the software.

Enhancements to internal use software are capitalized if the costs are $125,000 or more, have an estimated useful life of 2 years or more, and add significant additional capabilities. Costs incurred solely to repair a design flaw or to perform minor upgrades that may extend the useful life without adding capabilities are expensed.

Major alterations and renovations that increase an asset's useful life are capitalized, while normal maintenance and repair costs are charged to expense as incurred. Upon legal transfer, donation, or approval for disposal of property and equipment, the value of the related asset and corresponding accumulated depreciation is removed.

Leasehold improvements are amortized over the shorter of the term of the remaining portion of the lease, or the useful life of the improvement. Amortization of capitalized software begins on the date the software is placed in production (i.e., successfully installed and tested).

Equipment that is to be constructed is recorded as construction-in-progress until completed and is valued at actual costs. Construction-in-progress assets are not depreciated until completed and placed in service.

Liabilities

Liabilities represent the probable and measurable future outflow or other sacrifice of resources as a result of past transactions or events. Liabilities covered by budgetary resources are those liabilities for which Congress has appropriated funds or funding is otherwise available to pay amounts due. Liabilities not covered by budgetary or other resources represent amounts owed in excess of available, congressionally appropriated funds or other amounts, and there is no certainty that the appropriations will be enacted.

Annual, Sick and Other Leave

Annual leave is accrued as a liability when earned, and the accrual is reduced as leave is taken. The balances in the accrued annual leave account reflects current pay rates and leave balances, and is reported within other liabilities in the accompanying Balance Sheet. Sick leave and other types of non-vested leave are charged to operating costs as the leave is taken.

Workers' Compensation
A liability is recorded for actual and estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The actual liability is presented as a component of intragovernmental other liabilities, and the actuarial liability is presented within other liabilities in the accompanying Balance Sheet.
FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred work-related occupational diseases and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits to employees are administered by the U.S. Department of Labor (DOL) which initially pays valid claims and subsequently seeks reimbursement from the Federal agencies employing the claimants. Reimbursement to DOL occurs approximately two years subsequent to the actual disbursement to the claimant. Budgetary resources for this intragovernmental liability are made available to FinCEN as part of its annual appropriation from Congress in the year in which the reimbursement takes place.

Future workers' compensation estimates are generated by DOL from an application of actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability for future workers' compensation benefits includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Based on information provided by the DOL, Treasury allocates the overall Treasury liability to Treasury components based on prior claims payment experience. The accrued liability is not covered by budgetary resources and will require future funding.

Unamortized Rent Abatement
The terms of the operating lease between FinCEN and the General Services Administration (GSA) for the Vienna, VA facility contain a rent abatement period. FinCEN is recognizing rent expense on a straight-line basis over the lease term. Accordingly, an unamortized rent abatement liability is included in other intragovernmental liabilities in the accompanying Balance Sheet. This liability is being amortized on a straight-line basis over the lease term.

Pension Costs and Other Retirement Benefits
Most FinCEN employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS). As of September 30, 2012 and 2011, FinCEN contributed 7 percent of base pay for regular employees.

Employees hired after December 31, 1983 are automatically covered by the Federal Employee's Retirement System (FERS) and Social Security. As of September 30, 2012 and 2011, FinCEN contributed 11.9 and 11.7, respectively, percent of base pay for the FERS basic benefit. A primary feature of FERS is that it offers a savings plan to which FinCEN automatically contributes 1 percent of base pay and matches employee contributions up to an additional 4 percent of base pay. FinCEN also contributes the employer's Social Security matching share for FERS participants.

FinCEN is not responsible for administering either CSRS or FERS. Therefore, FinCEN does not report CSRS or FERS assets, accumulated plan benefits or unfunded liabilities, if any, applicable to FinCEN employees. Reporting such amounts is the responsibility of the Office of Personnel Management (OPM).

Similar to CSRS and FERS, OPM, rather than FinCEN, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and the Federal Employees Group Life Insurance Program (FEGLI). FinCEN does not contribute funds for the cost to provide health benefits and life insurance to its retirees.

The estimated cost of providing CSRS and FERS retirement and FEHBP and FEGLI benefits to retirees is more than the amounts contributed by FinCEN and its employees. Federal entities are required to report the full cost of providing retirement benefits to include the cost financed by OPM. The additional expense representing the difference between the estimated cost and the employer and employee contributions for these programs is included as an expense and as a related imputed financing source in FinCEN's financial statements.

Entity Revenues, Financing Sources and Imputed Financing Sources

FinCEN receives the majority of funding needed to support its programs through Congressional appropriations. Additional funding is obtained through exchange revenues.

Appropriations are recognized as a financing source at the time the expenses are incurred or assets are purchased. Exchange revenue from reimbursable agreements is recognized when earned (i.e., goods have been delivered or services rendered). Reimbursable work between Federal appropriations is subject to the *Economy Act (31 U.S.C. 1535)* or other statutes authorizing reimbursement. Prices for goods and services sold to other Federal agencies are generally limited to the recovery of actual costs. FinCEN recognizes as an imputed financing source the amount of pension and post-retirement benefit expense for current employees paid on behalf of FinCEN by the Office of Personnel Management (OPM), as well as amounts paid from the Department of Treasury Judgment Fund in settlement of claims, legal settlements, or court assessments. When costs that are identifiable to FinCEN and directly attributable to FinCEN's operations are paid for by other agencies, FinCEN recognizes these amounts as imputed costs and financing sources.

Imputed intradepartmental costs represent the un-reimbursed portion of the full costs of goods and services received by FinCEN from a providing bureau that is part of Treasury. FinCEN identifies intra-entity costs that meet the criteria for recognition (i.e. materiality, significance to the entity, directness of the relationship to entity operations, identifiably) that are not fully reimbursed and recognizes them as operating expenses and an imputed financing source.

Non-Entity Assets, Revenues and Disbursements

Non-entity assets are those held by FinCEN that are not available for use by FinCEN. Non-entity accounts receivable reported on FinCEN's Balance Sheet and non-entity revenue reported on FinCEN's Statement of Custodial Activity includes civil monetary penalties. Civil monetary penalties represent amounts assessed on or collected from non-Federal sources for violations of laws and regulations under FinCEN's regulatory responsibility.

Non-entity accounts receivable, custodial revenue and disposition of revenue is recognized when FinCEN is entitled to collect civil monetary penalties on behalf of the Federal government that have been established as a legally enforceable claim and collection is probable. Proceeds from the civil monetary penalty assessments are ultimately deposited in the Treasury General Fund based on established laws and regulations. These funds are not available to fund FinCEN's operating activities and accordingly, an offsetting liability due to the Treasury General Fund is recorded for amounts recognized as non-entity accounts receivable.

Non-entity accounts receivable are presented net of amounts deemed uncollectible. An allowance for doubtful accounts is established based on an assessment of the debtor's current ability to pay, the debtor's payment record and willingness to pay, and an analysis of aged receivable activity.

Use of Estimates

The preparation of the financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant estimates relate to an allowance for loss on a receivable for fines and penalties, accrued payroll and benefits, and accrued unfunded leave. Actual results may differ from those estimates.

NOTE 2. NON-ENTITY ASSETS

Non-entity assets as of September 30, 2012 and 2011 consisted of the following:

	2012	**2011**
Civil penalties assessed	$1,600,945	$1,571,000
Less allowance for doubtful collection	(1,595,945)	(1,546,000)
Total non-entity assets	**5,000**	**25,000**
Total entity assets	114,263,370	91,984,589
Total assets	**$114,268,370**	**$92,009,589**

Non-entity accounts receivable as of September 30, 2012 and 2011 primarily represents civil monetary penalties due from non-Federal sources for violations of laws or regulations under FinCEN's regulatory responsibility.

The total non-entity assets, if any, are offset on the balance sheet by the custodial liability Due to the Treasury General Fund. The amount Due to the Treasury General Fund is included in the intragovernmental other liabilities balance shown in note 8.

NOTE 3. FUND BALANCE WITH TREASURY

Fund Balances:
Fund balance with Treasury as of September 30, 2012 and 2011 consisted of the following components:

	2012	2011
Trust funds	$65,164	$65,164
Appropriated funds	62,903,279	52,389,338
Total	**$62,968,443**	**$52,454,502**

Trust funds consist of a violent crime reduction expenditure account that is designated by law as a trust fund. Receipts in this account are used for law enforcement related information technology projects.

Appropriated funds consist of amounts appropriated annually by Congress to fund the operations of FinCEN.

Status of Fund Balances:
The status of fund balance with Treasury as of September 30, 2012 and 2011 consisted of the following:

	2012	2011
Unobligated balance:		
Available	$32,198,212	$31,556,426
Unavailable	2,463,104	2,431,176
Obligated balance not yet disbursed	28,307,127	18,466,900
Total	**$62,968,443**	**$52,454,502**

The unobligated balance unavailable represents amounts appropriated in prior fiscal years that are not available to fund new obligations, but may be used to adjust obligations and disbursements that were recorded before the budgetary authority expired or to meet a bona fide need that arose in the fiscal year for which the appropriation was made.

The obligated balance not yet disbursed represents amounts designated for payment of goods and services ordered but not received, or goods and services received but for which payment has not yet been made.

NOTE 4. ACCOUNTS RECEIVABLE, NET

Components of accounts receivable as of September 30, 2012 and 2011, were as follows:

	2012	2011
Intragovernmental:		
Accounts receivable	$2,646,346	$6,468,599
Public:		
Accounts receivable	1,156	10,062
Civil penalties assessed	1,600,945	1,571,000
Less allowance for doubtful collection	(1,595,945)	(1,546,000)
Public accounts receivable, net	6,156	35,062
Total accounts receivable, net	**$2,652,502**	**$6,503,661**

Intragovernmental accounts receivable arise generally from the provision of goods and services to other Federal agencies.

Accounts receivable from public sources consist of administrative receivables from employees or suppliers and civil monetary penalties which have been billed or accrued and remain uncollected as of year-end. The collection of civil monetary penalties is a custodial activity performed by FinCEN. An allowance for doubtful accounts of $1,595,945 and $1,546,000 was recognized as of September 30, 2012 and 2011, respectively, to offset civil monetary penalties. A claim for $1,500,000 has been referred to Department of Justice for possible termination of collection activity.

NOTE 5. PROPERTY AND EQUIPMENT, NET

Property and equipment as of September 30, 2012 and 2011 consisted of the following:

			2012		
	Depreciation Method	Useful Life (In years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Furniture, fixtures and equipment	S/L	5-7	$18,043,910	($7,862,193)	$10,181,717
Construction in progress	N/A	N/A	235,518	-	235,518
Internal-use software	S/L	5	52,793,936	(18,290,756)	34,503,180
Internal-use software in development	N/A	N/A	2,969,902	-	2,969,902
Leasehold improvements	S/L	3-5	1,503,135	(1,216,179)	286,956
Total			**$75,546,401**	**($27,369,128)**	**$48,177,273**

			2011		
	Depreciation Method	Useful Life (In years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Furniture, fixtures and equipment	S/L	5-7	$14,006,221	($5,173,008)	$8,833,213
Construction in progress	N/A	N/A	117,173	-	117,173
Internal-use software	S/L	5	25,512,273	(13,508,591)	12,003,682
Internal-use software in development	N/A	N/A	11,228,467	-	11,228,467
Leasehold improvements	S/L	3-5	1,415,002	(1,017,402)	397,600
Total			**$52,279,136**	**($19,699,001)**	**$32,580,135**

Construction-in-progress represents equipment that has been received but has not yet been constructed and placed into operation.

Internal-use software in development represents actual (direct) costs and other indirect costs incurred for various software development projects not yet placed in service. Depreciation and amortization expense recognized during the year ended September 30, 2012 and 2011 was $8,025,448 and $4,376,211, respectively.

NOTE 6. IMPUTED FINANCING SOURCES

FinCEN has imputed financing costs borne by the Office of Personnel Management for employee related costs as well as with the Internal Revenue Service. Imputed financing costs borne by the Internal Revenue Service relate to the collection and processing of Bank Secrecy Act Data. A summary of the imputed financing costs by agency for the years ended September 30, 2012 and 2011 is as follows:

	2012	**2011**
Office of Personnel Management	$2,335,790	$2,681,522
Internal Revenue Service	18,585,521	20,327,942
Total Imputed Financing Sources	**$20,921,311**	**$23,009,464**

NOTE 7. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources represent amounts owed in excess of available appropriated or other amounts. The liquidation of liabilities not covered by budgetary resources is dependent on future congressional appropriations. The September 30, 2012 and 2011 liabilities not covered by budgetary resources consisted of the following:

	2012	**2011**
Intragovernmental:		
Accrued workers' compensation	$15,455	$15,045
Unamortized rent abatement	650,545	1,022,285
Total intragovernmental	666,000	1,037,330
Public:		
Accrued annual leave	2,985,779	2,966,749
Actuarial liability for workers' compensation	47,227	53,963
Total public	3,033,006	3,020,712
Total liabilities not covered by budgetary resources	**3,699,006**	**4,058,042**
Total liabilities covered by budgetary resources or non-entity assets	15,422,137	11,858,567
Total liabilities	**$19,121,143**	**$15,916,609**

NOTE 8. OTHER LIABILITIES

Other liabilities as of September 30, 2012 and 2011 consisted of the following:

	2012		
	Non-Current	Current	Total
Intragovernmental:			
Due to Treasury General Fund	$ -	$ 5,000	$ 5,000
Accrued employee benefits	-	475,861	475,861
Prepayments from Federal agencies		34,311	34,311
Accrued workers' compensation	926	14,529	15,455
Unamortized rent abatement	278,805	371,740	650,545
Total intragovernmental	**279,731**	**901,441**	**1,181,172**
Public:			
Accrued payroll and employee benefits	-	2,032,876	2,032,876
Accrued annual leave	-	2,985,779	2,985,779
Actuarial liability for workers' compensation	47,227	-	47,227
Total public	**47,227**	**5,018,655**	**5,065,882**
Total other liabilities	**$326,958**	**$5,920,096**	**$6,247,054**

	2011		
	Non-Current	Current	Total
Intragovernmental:			
Due to Treasury General Fund	$ -	$ 25,000	$ 25,000
Accrued employee benefits	-	477,104	477,104
Accrued workers' compensation	14,529	516	15,045
Unamortized rent abatement	650,545	371,740	1,022,285
Total intragovernmental	**665,074**	**874,360**	**1,539,434**
Public:			
Accrued payroll and employee benefits	-	2,086,385	2,086,385
Accrued annual leave	-	2,966,749	2,966,749
Actuarial liability for workers' compensation	53,963	-	53,963
Total public	**53,963**	**5,053,134**	**5,107,097**
Total other liabilities	**$719,037**	**$5,927,494**	**$6,646,531**

Amounts due to other agencies include payroll collections received for employees of those agencies.

NOTE 9. LEASES

FinCEN leases office space from the General Services Administration (GSA) under long-term occupancy agreements. All of the office space occupied by FinCEN is leased by GSA from commercial sources. GSA space is assigned to FinCEN based upon current needs. FinCEN is not committed to continue to pay rent to GSA beyond the period occupied providing proper advance notice to GSA is made. However, it is expected that FinCEN will continue to occupy and lease office space from GSA in future years. The lease expense incurred related to GSA leases during fiscal years 2012 and 2011 was $4,514,262 and $4,793,612, respectively.

As of September 30, 2012 future lease payments due under non-cancelable operating leases are as follows:

Year	Amount
2013	$24,361
2014	24,361
2015	24,361
2016	24,361
2017	24,361
Thereafter	257,820
Total future payments	**$379,625**

NOTE 10. COMMITMENTS AND CONTINGENCIES

FinCEN is party to various administrative proceedings, legal actions and claims. In the opinion of management and legal counsel, no legal actions against FinCEN were both probable and estimable as of September 30, 2012 and 2011, and no legal liabilities have been accrued in the accompanying financial statements.

There were no pending or threatened litigation or unasserted claims that required disclosure as of September 30, 2012 and 2011.

NOTE 11. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental costs and exchange revenue for the years ended September 30, 2012 and 2011 consisted of the following:

	2012	Restated 2011
PROGRAM COSTS		
Financial systems are more transparent and resistant to financial crime		
Intragovernmental costs	$15,104,943	$17,763,944
Public costs	15,365,787	14,534,053
Total program costs	**30,470,730**	**32,297,997**
Intragovernmental earned revenue	-	(70,242)
Net program cost	**30,470,730**	**32,227,755**
Analysis and information sharing contribute to the detection and deterrence of financial crime		
Intragovernmental costs	13,919,613	16,792,158
Public costs	14,159,989	13,738,961
Total program costs	**28,079,602**	**30,531,119**
Intragovernmental earned revenue	(644,565)	(827,731)
Net program cost	**27,435,037**	**29,703,388**
Financial reporting and data are useful, comprehensive, and secure		
Intragovernmental costs	29,284,578	33,313,621
Public costs	29,790,289	27,256,444
Total program costs	**59,074,867**	**60,570,065**
Intragovernmental earned revenue	-	(4,035)
Net program cost	**59,074,867**	**60,566,030**
Net cost of operations	**$116,980,634**	**$122,497,173**

The criteria used for this classification are that the intragovernmental costs relate to the source of goods and services purchased by the reporting entity, and not to the classification of related revenue. For example, "exchange revenue with the public" is when the buyer of the goods or services is a non-Federal entity. While with "intragovernmental costs," the buyer and seller are both Federal entities. If a Federal entity purchases goods or services from another Federal entity and sells them to the public, the exchange revenue would be classified as "with the public," but the related costs would be classified as "intragovernmental." The purpose of this classification is to enable the Federal government to provide consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmenal revenue.

In fiscal year 2012, an accounting policy was implemented that requires FinCEN to capture certain revenue activity with the Treasury Forfeiture Fund as Transfers in without reimbursement on the Statements of Changes in Net Position. This activity was previously recorded as earned revenue on the Statements of Net Cost. For comparative purposes the policy was applied to fiscal years 2012 and 2011. The effect of the change on the fiscal year 2011 financial statements was to increase transfers in without re-imbursement on the Statements of Changes in Net Position and reduce earned revenue on the Statements of Net Cost by $2,095,747.

NOTE 12. STATEMENT OF BUDGETARY RESOURCES

Apportionment Categories of Obligations Incurred

Obligations incurred as reported on the Statement of Budgetary Resources for the years ended September 30, 2012 and 2011 consisted of the following:

	2012	**2011**
Direct Obligations		
Category B	$110,409,578	$105,604,852
Reimbursable Obligations		
Category B	7,951,080	12,865,338
Total	**$118,360,658**	**$118,470,190**

Apportionment categories are determined in accordance with the guidance provided in OMB Circular A-11, *Preparation, Submission and Execution of the Budget.* Category B represents resources apportioned for other time periods other than calendar quarters; for activities, projects, or objectives; or for any combination thereof. FinCEN only has Category B apportionments.

Adjustments to Beginning Balance of Budgetary Resources

Adjustments to budgetary resources available at the beginning of fiscal years 2012 and 2011 consisted of the following:

	2012	**2011**
Recoveries of prior year obligations	$1,270,194	$1,420,440
Cancellations of expired accounts	(792,650)	(543,243)
Enacted Rescissions	-	(222,020)
Total	**$477,544**	**$655,177**

Differences Between the Statement of Budgetary Resources and the Budget of the United States

The fiscal year 2014 *Budget of the United States Government* (also known as the President's Budget) with actual numbers for fiscal year 2012, was not published at the time these financial statements were issued. The President's Budget is expected to be published in February 2013.

There were no material differences between the fiscal year 2011 Statement of Budgetary Resources and the actual fiscal year 2011 balances included in the fiscal year 2013 President's Budget.

Undelivered Orders at the End of the Period

Undelivered orders as of September 30, 2012 and 2011 were $20,176,815 and $15,737,507, respectively.

NOTE 13. STATEMENT OF CUSTODIAL ACTIVITY

FinCEN assesses civil monetary penalties related to enforcement of the Bank Secrecy Act as authorized by 31 U.S.C. 5321(b). FinCEN collects this custodial revenue and distributes the full amount of penalties collected to the Treasury General Fund. For the years ended September 30, 2012 and 2011 cash collections and distributions to Treasury were $55,180 and $286,774 respectively. The custodial accrual adjustment decrease of $20,000 and increase of $25,000 at September 30, 2012 and 2011, respectively, reflects the change in accounts receivable FinCEN has which are offset by the increase in custodial liability.

NOTE 14. RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET

A reconciliation of net cost of operations to budget for the years ended September 30, 2012 and 2011 follows:

	For the Years Ended September 30	
	2012	**2011**
Resources used to finance activities:		
Budgetary resources obligated:		
Obligations incurred	$118,360,658	$118,470,190
Less: Spending authority from offsetting collections and Recoveries	(9,039,022)	(14,175,635)
Obligations net of offsetting collections and recoveries	109,321,636	104,294,555
Less: Offsetting receipts	-	(774)
Net obligations	109,321,636	104,293,781
Other resources:		
Transfers in without reimbursement	5,118,220	15,728,878
Imputed financing from costs absorbed by others	20,921,311	23,009,464
Net other resources used to finance activities	26,039,531	38,738,342
Total resources used to finance activities	**135,361,167**	**143,032,123**
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	2,433,265	(1,480,290)
Resources that fund expenses recognized in prior periods	375,570	442,769
Budgetary offsetting collections and receipts that do not affect net cost of operations:		
Other	5,118,220	15,728,104
Resources that finance the acquisition of assets	23,622,586	25,993,059
Other resources or adjustments to net obligated resources that do not affect net cost of operations	(5,118,200)	(15,728,878)
Total resources used to finance items not part of the net cost of operations	**26,431,421**	**24,954,764**
Total resources used to finance the net cost of operations	**108,929,746**	**118,077,359**

(Continued)

	For the Years Ended September 30 2012	2011
Components of the net cost of operations that will not require or generate resources in the current period:		
Components requiring or generating resources in future periods:		
Increase in annual leave liability	$19,030	$ -
Other	6,410	43,050
Total components of net cost of operations that will require or generate resources in future periods	**25,440**	**43,050**
Components not requiring or generating resources:		
Depreciation and amortization	8,025,448	4,376,211
Revaluation of assets or liabilities	-	8,764
Other	-	(8,211)
Total components of net cost of operations that will not require or generate resources	**8,025,448**	**4,376,764**
Total components of net cost of operations that will not require or generate resources in the current period	**8,050,888**	**4,419,814**
Net cost of operations	**$116,980,634**	**$122,497,173**

United States Department of the Treasury
Financial Crimes Enforcement Network
Required Supplementary Information
For the Years Ended September 30, 2012 and 2011

STATEMENT OF BUDGETARY RESOURCES

Budgetary resources disaggregated by major accounts for the years ended September 30, 2012 and 2011 consisted of the following:

	2012		
	Appropriated Funds	Trust Funds	Total
BUDGETARY RESOURCES			
Unobligated balance brought forward, October	$33,922,438	$65,164	$33,987,602
Recoveries of prior year unpaid obligations (Note 12)	1,270,194	-	1,270,194
Other changes in unobligated balance (Note 12)	(792,650)	-	(792,650)
Unobligated balance from prior year budget authority, net	34,399,982	65,164	34,465,146
Appropriations (discretionary and mandatory)	110,788,000	-	110,788,000
Spending Authority from offsetting collections	7,768,828	-	7,768,828
Total Budgetary Resources	**$152,956,810**	**$65,164**	**153,021,974**
STATUS OF BUDGETARY RESOURCES			
Obligations incurred (Note 12)	$118,360,658	$ -	$118,360,658
Un-obligated Balance, end of year			
Apportioned	32,133,048	65,164	32,198,212
Unapportioned	2,463,104	-	2,463,104
Unobligated balance brought forward, end of year	$34,596,152	$65,164	$ 34,661,316
Total Budgetary Resources	**$152,956,810**	**$65,164**	**$153,021,974**

(Continued)

	2012		
	Appropriated Funds	Trust Funds	Total
CHANGE IN OBLIGATED BALANCE			
Unpaid obligations, brought forward, October 1 (gross)	$27,099,782	$ -	$27,099,782
Uncollected customer payments from Federal sources, brought forward, October 1	(8,632,882)	-	(8,632,882)
Obligated balance start of year (net)	18,466,900	-	18,466,900
Obligations incurred	118,360,658	-	118,360,658
Outlays (gross)	(109,100,758)	-	(109,100,758)
Change in uncollected customer payments from Federal sources	1,850,521	-	1,850,521
Recoveries of prior year unpaid obligations	(1,270,194)	-	(1,270,194)
Unpaid Obligations, end of year (gross)	35,089,489	-	35,089,489
Uncollected customer payments from Federal sources, end of Year	(6,782,362)	-	(6,782,362)
Obligated balance, end of year (net)	**$28,307,127**	**$ -**	**$28,307,127**
BUDGET AUTHORITY AND OUTLAYS, NET			
Budget authority, gross (discretionary and mandatory)	$118,556,828	-	$118,556,828
Actual offsetting collections (discretionary and mandatory)	(9,619,349)	-	(9,619,349)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory)	1,850,521	-	1,850,521
Budget Authority, net (discretionary and mandatory)	**$110,788,000**	**$ -**	**$110,788,000**
Outlay, gross (discretionary and mandatory)	$109,100,758	-	$109,100,758
Actual offsetting collections (discretionary and mandatory)	(9,619,349)	-	(9,619,349)
Outlays, net (discretionary and mandatory)	99,481,409	-	99,481,409
Agency Outlays, net (discretionary and mandatory)	**$99,481,409**	**$ -**	**$99,481,409**

United States Department of the Treasury
Financial Crimes Enforcement Network
Required Supplementary Information
For the Years Ended September 30, 2012 and 2011

STATEMENT OF BUDGETARY RESOURCES

Budgetary resources disaggregated by major accounts for the years ended September 30, 2012 and 2011 consisted of the following:

	2011		
	Appropriated Funds	Trust Funds	Total
BUDGETARY RESOURCES			
Unobligated balance brought forward, October	$27,972,256	$65,164	$28,037,420
Recoveries of prior year unpaid obligations (Note 12)	1,420,440	-	1,420,440
Other changes in unobligated balance (Note 12)	(543,243)	-	(543,243)
Unobligated balance from prior year budget authority, net	28,849,453	65,164	28,914,617
Appropriations (discretionary and mandatory)	110,787,980	-	110,787,980
Spending Authority from offsetting collections	12,755,195	-	12,755,195
Total Budgetary Resources	**$152,392,628**	**$65,164**	**$152,457,792**
STATUS OF BUDGETARY RESOURCES			
Obligations incurred (Note 12)	$118,470,190	$ -	$118,470,190
Un-obligated Balance, end of year			
Apportioned	31,491,262	65,164	31,556,426
Unapportioned	2,431,176	-	2,431,176
Unobligated balance brought forward, end of year	$ 33,922,438	$65,164	33,987,602
Total Budgetary Resources	**$152,392,628**	**$65,164**	**$152,457,792**

(Continued)

	2011		
	Appropriated Funds	Trust Funds	Total
CHANGE IN OBLIGATED BALANCE			
Unpaid obligations, brought forward, October 1 (gross)	$29,542,142	$ -	$29,542,142
Uncollected customer payments from Federal sources, brought forward, October 1	(10,361,919)	-	(10,361,919)
Obligated balance start of year (net)	19,180,223	-	19,180,223
Obligations incurred	118,470,190	-	118,470,190
Outlays (gross)	(119,492,110)	-	(119,492,110)
Change in uncollected customer payments from Federal Sources	1,729,036	-	1,729,036
Recoveries of prior year unpaid obligations	(1,420,440)	-	(1,420,440)
Obligated balance, end of year			
Unpaid Obligations, end of year (gross)	27,099,782	-	27,099,782
Uncollected customer payments from Federal sources, end of year	(8,632,882)	-	(8,632,882)
Obligated balance, end of year (net)	**$18,466,900**	**$ -**	**$18,466,900**
BUDGET AUTHORITY AND OUTLAYS, NET			
Budget authority, gross (discretionary and mandatory)	$123,543,175	-	$123,543,175
Actual offsetting collections (discretionary and mandatory)	(14,484,231)	-	(14,484,231)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory)	1,729,036	-	1,729,036
Budget Authority, net (discretionary and mandatory)	**$110,787,980**	**$ -**	**$110,787,980**
Outlay, gross (discretionary and mandatory)	$119,492,110	-	$119,492,110
Actual offsetting collections (discretionary and mandatory)	(14,484,231)	-	(14,484,231)
Outlays, net (discretionary and mandatory)	105,007,879	-	105,007,879
Distributed offsetting receipts	(774)	-	(774)
Agency Outlays, net (discretionary and mandatory)	**$105,007,105**	**$ -**	**$105,007,105**

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Independent Auditor's Report on Financial Statements

Inspector General, U.S. Department of the Treasury, and
Director, Financial Crimes Enforcement Network:

We have audited the accompanying balance sheets of the U.S. Department of the Treasury - Financial Crimes Enforcement Network (FinCEN) as of September 30, 2012 and 2011, and the related statements of net cost, changes in net position, budgetary resources and custodial activity, hereinafter referred to as "financial statements" for the years then ended. These financial statements are the responsibility of FinCEN's 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 and OMB Bulletin 07-04 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 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 FinCEN as of September 30, 2012, and 2011, and its net costs, changes in net position, budgetary resources and custodial activity for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the financial statements, in fiscal year 2012, an accounting policy was implemented that requires FinCEN to capture certain revenue activity with the Treasury Forfeiture Fund as Transfers in without reimbursement on the Statements of Changes in Net Position. This activity was previously recorded as earned revenue on the Statements of Net Cost. For comparative purposes the policy was applied to fiscal years 2012 and 2011.

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U.S. generally accepted accounting principles require that the information in the Management Discussion and Analysis and Required Supplemental Information be presented to supplement the basic financial statements referred to in the first paragraph of this report. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 8, 2013, on our consideration of FinCEN's internal control over financial reporting and a report dated February 8, 2013, 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 Standards*, and should be read in conjunction with this report in considering the results of our audits.

GKA, P.C.

February 8, 2013

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Independent Auditor's Report on Internal Control over Financial Reporting

Inspector General, U.S. Department of the Treasury, and
Director, Financial Crimes Enforcement Network:

We have audited the balance sheet and the related statements of net cost, changes in net position, budgetary resources and custodial activity, hereinafter referred to as "financial statements" of the U.S. Department of the Treasury - Financial Crimes Enforcement Network (FinCEN) as of and for the year ended September 30, 2012, and have issued our report thereon dated February 8, 2013. 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 Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

In planning and performing our audit, we considered FinCEN's internal control over financial reporting by obtaining an understanding of the design effectiveness of FinCEN's internal control, determined whether these internal controls had been placed in operation, assessed control risk, and performed 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 provide an opinion on the effectiveness of FinCEN's internal control over financial reporting. Consequently, we do not provide an opinion on the effectiveness of FinCEN's internal control over financial reporting.

Our consideration of the 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. 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 a combination of deficiencies,

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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.

This report is intended solely for the information and use of the Management of FinCEN, the Department of the Treasury Office of Inspector General, the Government Accountability Office, OMB, and the U.S. Congress, 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.

GKA, P.C.

February 8, 2013

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Independent Auditor's Report on Compliance with Laws and Regulations

Inspector General, U.S. Department of the Treasury, and
Director, Financial Crimes Enforcement Network:

We have audited the balance sheet and the related statements of net cost, changes in net position, budgetary resources and custodial activity, hereinafter referred to as "financial statements" of the U.S. Department of the Treasury - Financial Crimes Enforcement Network (FinCEN) as of and for the year ended September 30, 2012, and have issued our report thereon dated February 8, 2013. 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, the applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

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

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

Under FFMIA, we are required to report whether FinCEN's financial management systems substantially comply with (1) federal financial

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management systems requirements, (2) applicable federal accounting standards, and (3) 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 disclosed no instances in which FinCEN'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 FinCEN, the Department of the Treasury Office of Inspector General, the Government Accountability Office, OMB, and U.S. Congress 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.

GKA, P.C.

February 8, 2013