



Audit Report



OIG-09-021

Audit of the Department of the Treasury Forfeiture Fund's
Fiscal Years 2008 and 2007 Financial Statements

December 22, 2008

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 22, 2008

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

FROM: Michael Fitzgerald /s/
Director, Financial Audits

SUBJECT: Audit of the Department of the Treasury Forfeiture Fund's
Fiscal Years 2008 and 2007 Financial Statements

I am pleased to transmit the attached audited Department of the Treasury Forfeiture Fund (TFF) financial statements for Fiscal Years 2008 and 2007. 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, 2008 and 2007 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*; 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 matters involving 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, 2008, discussing a matter involving internal control over financial reporting that was identified during the audit but was 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 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, 2008 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



Certified Public Accountants | Management Consultants

**Treasury Forfeiture Fund
ACCOUNTABILITY REPORT
Fiscal Year 2008**

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

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Message from the Director

I am pleased to present the fiscal year (FY) 2008 Accountability Report for the Treasury Forfeiture Fund. While highlighting the Treasury Forfeiture Fund's (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 2008 was another milestone revenue year for the law enforcement bureaus participating in the Treasury Forfeiture Fund, with earned revenue of \$386 million from all sources as compared to \$366 million in FY 2007 and \$257 million in FY 2006.

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 75 percent of our forfeitures to be high impact, i.e., currency forfeitures equal to or greater than \$100,000. For FY 2008, our member bureaus exceeded the target with performance of 86.91 percent high-impact cash forfeitures.

For FY 2008, the Treasury Executive Office for Asset Forfeiture (TEOAF) continued its priority emphasis on training with conferences addressing the cutting edge of investigative and forfeiture practices of our member bureaus. We developed and funded a new curriculum for Suspicious Activity Reporting (SAR)/Title 31 Task Forces geared specifically for 11 new IRS-led Title 31 Task Forces launched in the spring of 2008. The focus of the curriculum was two-fold: investigative/forfeiture issues in Title 31 cases and existing best practices; and operational issues involved in establishing and maintaining a Title 31 Task Force. Additionally, TEOAF conducted the fourth and last seminar in the series "Investigation and Forfeiture in Cases of Illegal Alien Employment, Smuggling and Trafficking." Lastly, we developed a new curriculum for Procedural Issues of the Asset Forfeiture Program and conducted the first seminar on this subject.

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 2009.

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

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Treasury Forfeiture Fund FY 2008 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 20 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 2008 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 Investigations (IRS-CI) Department of the Treasury

In Rem Forfeiture of real property in the U.S. Virgin Islands linked to LipoBan fraud

This was an *in rem*¹ forfeiture, pursuant to Title 18 United States Code, Section 981 (18 U.S.C. § 981) of a luxury property located in St. Thomas, U.S. Virgin Islands. The property was forfeited on the grounds that it represented the proceeds of mail and wire fraud in violation of 18 U.S.C. § 1341 and 1343, and/or was property involved in money laundering offenses in violation of 18 U.S.C. 1956 and 1957.



Dockside view: Luxury home including just over one acre of property, located in Little Northside Quarter, St. Thomas, U.S. Virgin Islands. Property forfeited *in rem* pursuant to the U.S. Government's Complaint for Forfeiture In Rem which alleged that the defendant property was purchased with proceeds from illegal mail and wire fraud and was property involved in money laundering.

¹ A civil forfeiture action *in rem* is against the property itself for being involved in a violation of law.



Above, view from the patio of the forfeited luxury home, St. Thomas, U.S. Virgin Islands. Below, view of the pool-deck.



On February 19, 2008, a Final Decree of Forfeiture was signed against the defendant real property located in Little Northside Quarter, St. Thomas, U.S. Virgin Islands. The forfeited property includes a luxury home and slightly over one acre of land. In the government’s Complaint for Forfeiture *In Rem* (Complaint), the United States asserted that from 2000 to 2004, George Forgione and his partner Frank Sarcona, (Forgione and Sarcona) through various entities, advertised and sold “LipoBan” to

thousands of victims. LipoBan was sold by way of advertisements in various newspapers, through the LipoBan website and by direct mail solicitations.

These advertisements and correspondence used misrepresentations in order to induce victims to purchase LipoBan, including statements that LipoBan absorbs 100 times its weight in fat, that if you used LipoBan you could lose all of your excess weight without changing your diet or exercise habits, and that LipoBan had been proven effective by two clinical trials. The government's Complaint asserted that there was no evidence to support these claims.

Additionally, Forgione and Sarcona mailed correspondence and advertised statements in Florida and elsewhere alleged to be from a medical doctor, Dr. Joseph Maya. The correspondence and advertisements touted the effectiveness of LipoBan, however, the government's Complaint stated that an investigation revealed that there was no doctor by the name of Joseph Maya licensed to practice medicine in Florida.

As a result of the misrepresentations and omissions, thousands of victims were illegally induced to buy LipoBan. Forgione and Saracona obtained millions of dollars in fraud proceeds that were transferred to various accounts. According to the government's Complaint, the defendant property, pictured above, was purchased with proceeds from the LipoBan-related illegal mail and wire fraud and was property involved in money laundering in violation of Title 18, United States Code.

In Rem Forfeiture of luxury 65-foot Hatteras Yacht, hull name "GOLF," linked to Fernandez and Amador money laundering case

This was an *in rem* forfeiture of a luxury 65-foot Hatteras Yacht, with the hull name, "GOLF." The U.S. Government Complaint for Forfeiture sought forfeiture of the defendant vessel pursuant to 18 USC §981(a)(1). The Amended Final Judgment of Forfeiture, signed June 16, 2008, affirmed the forfeiture of the "GOLF" to the U.S. Government.

During an ongoing money laundering investigation into the activities of Julio Fernandez (Fernandez) and Guillermo De Leon Amador (Amador), it was discovered that a group of individuals in Puerto Rico was attempting to launder approximately \$10 million in United States (U.S.) currency. In early November 2006, these individuals placed an initial deposit of between \$130,000 and \$155,000 with DT&F Yacht Sales, the owner of the defendant vessel, toward purchase of the yacht.

Two weeks later, Fernandez and Amador delivered approximately \$603,500 in U.S. currency concealed inside a large duffle bag to someone whom they believed would help them to launder the ill-gotten currency, who was actually an undercover law enforcement officer. Some of the currency was bundled with rubber bands and some was loose inside the bag. The \$603,500 was intended as further down payment on the defendant vessel, which the undercover officer agreed to launder for Amador and Fernandez. Later the same day, a narcotic detection canine (K-9) alerted to the presence of narcotics on the black duffle bag containing the U.S. currency as well as the currency contained within the bag. The K-9 is trained to alert to the odor of several narcotic drugs, including cocaine, marijuana and heroin.

Inside the duffel bag, along with the currency was a type-written note with wire transfer instructions pertaining to Oviatt Marine Inc., the seller of the Hatteras yacht. The next day, the undercover officer deposited the U.S. currency into a bank account and on November 28, 2006, wired over \$543,000 into the Oviatt Marine account number pursuant to the written instructions found in the black duffel

bag along with the currency. The balance of over \$60,000 was retained as the pre-arranged commission for laundering the currency.

Similar to the first transaction, on December 4, 2006, Fernandez and Amador delivered just under \$745,000 in U.S. currency to the undercover officer. Again, after the currency was delivered, a narcotics detection K-9 alerted to the presence of narcotics on the bags containing the currency. The same day, the undercover officer deposited the currency into the same bank account as previous. On December 7, 2006, the undercover officer wire transferred just over \$670,000 to the Oviatt Marine Inc's account number. Once again, the difference of about \$75,000 was retained by the undercover officer as the pre-arranged commission for laundering the currency.

Forfeited *in rem*, a 2001 65-foot Hatteras Convertible Yacht, hull name "GOLF." The yacht is outfitted with twin 1400 horsepower Caterpillar diesel engines.



Over \$1.2 million in laundered U.S. currency was paid for the purchase of the "GOLF," a 65-foot luxury yacht, forfeited to the U.S. Government on June 16, 2008, for Title 18 and 21 violations.

An analysis of the Oviatt Marine Bank account for the relevant period to trace the disposition of the \$1,213,583 wire transferred by the undercover officer showed that the vessel was purchased with monies furnished or intended to be furnished in exchange for a controlled substance or proceeds traceable thereto.

Financier Thomas Kontogiannis, forfeits \$1,012,538.75 for laundering bribes for former Congressman Randall "Duke" Cunningham

Financier Thomas Kontogiannis (Kontogiannis) pled guilty in February 2007 to one count of Engaging in Monetary Transaction in Property Derived from Specified Unlawful Activities in violation of 18 U.S.C. § 1957, for his involvement in laundering bribe money for then-Congressman Randall "Duke" Cunningham.

On May 16, 2008, Kontogiannis was sentenced to serve 97 months in custody, to pay a \$1,050,000 fine, and to serve three years of supervised release following his release from custody. In addition, Kontogiannis agreed to forfeit \$1,012,538 in U.S. currency which constituted or was derived from proceeds traceable to various violations of Title 18 of the United States Code. The Forfeiture Judgment was signed on June 4, 2008.

Saad Kamil Deeb charged with 29 counts of structuring financial transactions with a financial institution to evade reporting requirements, forfeits \$871,300

According to the Indictment, dated November 8, 2006, Defendant Saad Kamil Deeb (Deeb) was a pharmacist licensed in the State of West Virginia and the owner and operator of Deeb Drug, Inc., also known as Citizens Pharmacy and as Citizens Drug Store, a retail pharmacy business located in Welch, West Virginia.

According to the Verified Complaint of Forfeiture, dated November 28, 2007, Deeb conspired with other persons to illegally structure financial transactions for the purpose of avoiding the reporting requirements of 31 U.S.C. § 5313(a) and associated regulations, in violation of 31 U.S.C. § 5324(a)(3). The intent was to conceal from the United States, in particular the Internal Revenue Service, the amount of currency possessed by Deeb in connection with his unlawful activity, federal income tax evasion, in violation of 26 U.S.C. § 7201, and conducting an illegal gambling business in violation of 18 U.S.C. §1955.

The Final Order of Forfeiture was signed on May 27, 2008, forfeiting \$871,300 to the U.S. Government.

Robert and Otis Harrison, Harrison Amusement Company, Inc., plead guilty to charges related to illegal gambling, money laundering and others, forfeit \$26 million in real property, cash and personal property

From the late 1990's until December 2006, Harrison Amusement Company, Inc. was a major provider of video poker machines in southern North Carolina. During that time period, North Carolina law allowed such machines only for "Amusement purposes." Cash payouts and awards of merchandise valued at more than \$10 were prohibited.

Law enforcement groups received numerous complaints alleging illegal cash payouts from Harrison video poker machines, and that players were losing large sums of money. In June 2006, the North Carolina Law Enforcement Division (ALE) began an undercover investigation of Harrison Amusement. More than 45 undercover visits to 38 locations revealed widespread and blatant violations of state gambling laws by the operators of Harrison Amusement machines. The investigation also revealed that Otis Harrison and his son, Robert "Bobby" Harrison, the owner/operators of Harrison Amusement, knew of and encouraged the practice of making illegal cash payouts. For example, they kept an employee on call at all times with up to \$15,000 in cash available to deliver in the event a player hit a large "jackpot."

Quarterly reports filed with the North Carolina Department of Revenue by Harrison Amusement reflect that the business had gross receipts of more than \$62,000,000 and paid out approximately \$20,000,000 in awards from 2001 through September 2006. During this time, Otis and Bobby Harrison amassed more than \$26,000,000 in cash, investment accounts and real property.

The investigation of the Harrisons culminated in early December 2006, when IRS and ALE, with the assistance of other state and local law enforcement agencies, executed dozens of search and seizure warrants. Federal jurisdiction in this matter was based on Title 18, United States Code, Section 1952 (Interstate Travel or Transportation in Aid of Racketeering Enterprises); Title 18 United States Code, Section 1955 (Illegal Gambling Businesses); Title 18, United States Code, Section 1956 (Laundering of Monetary Instruments); and Title 18, United States Code, Section 1957 (Engaging in Monetary Transactions in Property Derived from Specified Unlawful Activity.)

Robert and Otis Harrison eventually plead guilty to federal charges and consented to forfeiture of more than \$5 million in cash and investment accounts, seven vehicles, a boat, four commercial properties in North Carolina, two commercial properties in downtown Bennettsville, South Carolina, and 17 luxury rental and commercial properties in Myrtle Beach, South Carolina. The total value of the forfeited property is estimated to be \$26,000,000.

Sentencing for Otis and Bobby Harrison is scheduled for November 2008.



Forfeited pursuant to the Harrison and Harrison Amusement gambling and money laundering matter, 902 South Waccamaw Drive, Garden City, South Carolina and all furnishing, fixtures and equipment at the address. Pictured above, the front and rear of the residence, including custom boat dock and boat.



Also forfeited pursuant to the Harrison, Harrison Amusement illegal gambling and money laundering matter, 18 Charlestowne Court, Pawley's Island, South Carolina and all furnishings, fixtures and equipment at that address.

Richard M. Rosenbaum, Edward Scott Cunningham, and Christina A. Flocken forfeit real properties, insurance policies and cash and bank accounts for federal violations related to harboring illegal aliens and for conspiring to defraud the U.S. Government

In June 1997, Richard M. Rosenbaum (Rosenbaum) and Edward Scott Cunningham (Cunningham), residents of Florida, filed articles of incorporation in Nevada for a corporation named “Rosenbaum-Cunningham International, Inc., (RCI).” Rosenbaum and Cunningham described their business as a “janitorial contracting service,” in business registration documents also filed in Nevada. In late November 1997, Rosenbaum, Cunningham, and Christina A. Flocken (Flocken) opened a bank account under the corporate name “RCI Inc.” and entitled “RCI Inc. Payroll Account.” Rosenbaum signed the account signature card as “President,” Cunningham signed as “Vice President,” and Flocken signed as “Controller.”

Between June 1997 and February 15, 2007, Rosenbaum, Cunningham, and Flocken developed, maintained and managed a workforce of hundreds of employees working at hospitality sector venues throughout the United States.

Rosenbaum, Cunningham and Flocken unlawfully enriched themselves by establishing, maintaining, and managing an unskilled labor force of employees, knowingly and in reckless disregard of the fact that most of those employees were aliens who had come to, entered, and resided in the United States in violation of law. The defendants adopted this as a means because the composition of RCI’s workforce was essential to the success of their scheme. Illegal aliens were willing to be paid in cash, without the creation of payroll records; they could be hired on the spot, without the creation of any employment records; and could be fired at will without likely legal recourse, and were highly unlikely to report the irregular nature of their employment to any authority.



Real Property at 17531 Via Loma Drive, Poway, California, forfeited *in rem* from Christina A. Flocken, pursuant to violations of Title 18, United States Code.

From there, Rosenbaum, Cunningham and Flocken failed to collect, account for, or pay federal income tax withholding, Social Security and Medicare taxes (FICA), and Federal unemployment taxes to the Internal Revenue Service from the wages they paid to these employees as they were

required by law to do. The defendants expended a portion of these unlawfully retained funds on operating costs of RCI, and retained the balance as profit for RCI, which they then divided among themselves.

Between tax years 2001 and 2005, RCI received gross receipts from its clients of approximately \$54.3 million. As a direct result of RCI's deliberate failure to collect, account for, and pay the noted taxes to the Internal Revenue Service, the United States Government was deprived of approximately \$18.6 million in employment taxes.

The defendants used ill-gotten funds to buy luxury boats and vehicles; to purchase lavish homes in Florida and California; to acquire race horses and to pay for their maintenance, to pay college tuition for their respective children; to fund excessive insurance policies; and generally to support extravagant spending and lifestyle costs.

On May 27, 2008, a Final Order of Forfeiture was signed ordering the defendants to forfeit: bank accounts totaling over \$1.2 million, insurance policies with cash values of over \$165,000, currency of over \$134,000 and \$1.3 million of proceeds from the Interlocutory Sale of two real properties, one located at 429 Vista Oak Drive, Longwood, Florida owned by Flocken; and the other located at 17531 Via Loma Drive, Poway, California, jointly owned by Flocken and a shell company created to disguise the fraudulent activities.

These forfeitures were ordered pursuant to 18 U.S.C. § 982(a)(6)(A)(ii).

A Look Back at 2007 for IRS-CI

The following forfeiture occurred in the latter part of FY 2007, and includes a significant forfeiture for IRS-CI.

Wall Street Success Story Fingerhut forfeits \$11 million in illegal profits for scheme that cheated banks and their depositors

Information for the following forfeiture article is attributed to:

Peter Lattman, from his article: “Ex-Star Analyst Sentenced to Prison for IPO Caper,” published in the *Wall Street Journal* on August 6, 2007;

Jeff Whelan, from his article: “Wall Street success story Fingerhut is going to jail for financial fraud,” published in *The Star-Ledger*, on August 4, 2007; and

Greg Saitz and Guy Sterling from their article, “Investor admits to \$12M bank fraud,” published in *Business* on May 27, 2007.

Wall Streeter, Bert Fingerhut (Fingerhut) was a top-ranked securities analyst for eight straight years and achieved the status of Director of Research at Oppenheimer & Company in 1980. A mere three years later, at the age of only 40, he retired to Aspen, Colorado. In Colorado, Fingerhut applied his passion to conservation efforts, joining the boards of several environmental organizations. But Fingerhut still had investment yearnings. According to published articles about this case, somewhere along the way, Fingerhut acquired a copy of Peter Lynch’s “Beating the Street,” in which the former Fidelity Magellan Fund star manager wrote about “bank-conversion investing.”

Bank conversion investing occurs when mutual, depositor-owned banks convert to public companies and let depositors buy stock at the initial-public-offering (IPO) price. The new shares are often priced at a discount. Mr. Fingerhut apparently took great interest in this investment activity because starting in 1995, he opened accounts at more than 400 banks across the country, from Wellsburg, West Virginia to Covina, California. He eventually participated in public offerings at many of them and sold the purchased stock shares for quick profits. Over a decade, according to articles about this case, Fingerhut made \$11 to \$12 million from these bank conversion investment efforts. Unfortunately, the way Fingerhut went about his bank conversion investments, he was breaking the law.

Fingerhut secretly and fraudulently amassed shares to which he was not entitled and sold them. In this manner, he defrauded other eligible depositors from the possibility of purchasing shares of stock, admitting that he organized a strategy to circumvent federal and state banking regulations. Fingerhut’s childhood friend with whom he grew up in New York, Robert Danetz, pleaded guilty to charges for his role in the scheme. Fingerhut used Danetz, 62, who retired after 34 years as a school teacher in the Bronx, and others to make illegal purchases on his behalf at dozens of banks. Fingerhut’s nephew and Danetz’s brother became entangled in the scheme as well. Regulators called it the most extensive bank conversion fraud they had ever seen. Danetz signed a Plea Agreement with the Federal Government in April 2007, in which he agreed to forfeit over \$800,000.

In August of 2007, a federal judge sentenced Fingerhut to up to two years behind bars and four months’ home confinement. He was also fined \$75,000 and forfeited \$11 million in illegal profits.

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

Michael Pelletier, 56, convicted of drug trafficking, money laundering and other charges, sentenced to life in prison and ordered to forfeit two automobiles, a farm tractor, three pieces of real estate and nearly \$21,000 in cash.

In January 2008, Michael Pelletier (Pelletier), of Maine, was sentenced to life in prison following his 2007 conviction on drug trafficking, money laundering, structuring and Social Security fraud charges. In the federal criminal justice system, there is no parole. As part of his sentence, Pelletier was also ordered to forfeit two automobiles, a farm tractor, three pieces of real estate, and nearly \$21,000 in cash. In addition, he was ordered to pay \$83,848 in restitution to the Social Security Administration.

Evidence presented at Pelletier's trial revealed that between 2003 and 2006, at a time when he was receiving Social Security disability benefits, he and others participated in a conspiracy to import into the United States from Canada 1,000 kilograms or more of marijuana for the purpose of distribution. Pelletier arranged for delivery of the marijuana from his Canadian sources of supply and hired smugglers to ferry 60 pounds or more at a time across remote locations. The marijuana was then distributed in multi-pound quantities to customers through Maine.

Pelletier used the proceeds from his marijuana trafficking business to purchase real estate, vehicles, farm equipment, horses, and all-terrain vehicles. His purchase of some of these assets resulted in his convictions for money laundering and structuring. In addition, because even illegal activities constitute "work," as defined by the Social Security laws, and because the evidence revealed that Pelletier failed to report his work, namely, his operation of his marijuana distribution business, to the Social Security Administration, he was also convicted of three counts of Social Security fraud.

Felisberto Magalhaes, 55, of Manassas, Virginia pleads guilty to illegal employment of aliens, sentenced to one year probation, ordered to forfeit \$122,000

In April 2008, Felisberto Magalhaes (Megalhaes), 55, of Manassas, Virginia pled guilty to a pattern or practice of illegal employment of aliens without lawful authority to work in the United States. Magalhaes was sentenced to one year probation, and ordered to forfeit \$122,000. According to court documents, Magalhaes was associated with CMC Concrete and Stonewall Concrete, both based in Manassas, Virginia. Magalhaes hired aliens without lawful permission to work or reside in the United States. During the execution of a search warrant in March 2008, Immigration and Customs Enforcement (ICE) agents encountered 34 aliens without lawful permission to work or reside in the United States. Approximately, 257 aliens employed were using Social Security numbers that had not been issued to anyone or had been issued to people other than the aliens using the numbers.

Cindy Ahn, 51, of Los Angeles, California, pleads guilty to federal charges stemming from operation of an unlicensed money transmitter business, forfeits \$687,000

In October 2007, Cindy Ahn, 51, owner of Security Trust and Foreign Exchange (Security Trust) on Wilshire Boulevard, Los Angeles, admitted she failed to maintain the required records to verify the

identity of her customers and failed to maintain records of the transactions of transfers of more than \$10,000 to or from persons or accounts outside the United States. From 2002 until September 2005, Security Trust illegally funneled hundreds of thousands of dollars to and from South Korea.

According to Ahn's plea agreement, Ahn understood that her business enabled individuals to anonymously transfer large amounts of money, avoiding the scrutiny of government regulators as well as federal and state taxing authorities. As part of the investigation, the government seized more than \$1 million, of which Ahn was ordered to forfeit \$687,000 identified as proceeds of her illegal activity.

Scott Haymond, a 43-year old mortgage broker of Washington State ordered to forfeit \$268,800 for structuring violations

In July 2008, Scott Haymond (Haymond), 43, a mortgage broker from Bonney Lake, Washington, was sentenced to six months of home detention, three years of probation, a \$5,000 fine and ordered to forfeit \$268,800. In an April 2008 plea agreement, Haymond admitted to structuring bank deposits to avoid federal financial reporting requirements. Haymond made 28 deposits into multiple branches of six different banks totaling \$268,800 in September 2005. Fourteen months later, he made 19 deposits into 13 bank branches totaling \$185,000. All of the deposits were for amounts ranging from \$9,000 to \$9,900.

Structuring is a federal crime under the Bank Secrecy Act. It occurs when an individual splits a cash deposit or withdrawal of more than \$10,000 into smaller transactions to circumvent financial reporting requirements.

Jong Ock Mao, 50, of West Covina, California, pleads guilty to federal charges, forfeits more than \$12 million in assets

Jong Ock Mao (Mao), 50, of West Covina, California, ran a string of brothels out of chiropractic offices, acupuncture clinics, "spas," tanning salons and massage parlors in Southern California and Dallas. Ock pled guilty in August 2008 to felony criminal charges for her role in the scheme, specifically to conspiring to use interstate commerce to promote prostitution and using the proceeds from her six brothels to purchase real estate. As part of her guilty plea, Mao, a naturalized Korean native, agreed to forfeit more than \$12 million and property and assets she derived from the prostitution scheme which included four private motocross tracks in California, Texas, and Florida.

This was a joint investigation by Immigration and Customs Enforcement (ICE), Internal Revenue Service Criminal Investigations (IRS-CI) and the Los Angeles County Sheriff's Department.

Saulo Reyes Gamboa, 37, guilty of conspiring to import marijuana and other crimes, sentenced to 8 years in prison, a \$50,000 fine, and ordered to forfeit \$19,250 and a vehicle

Immigration and Customs Enforcement (ICE) agents arrested Saulo Reyes Gamboa (Reyes) in January 2008, after he paid a bribe to a person he believed to be a corrupt federal officer to facilitate smuggling drug loads through the international ports of entry. Reyes pled guilty June 13, 2008, to conspiracy to import 100 kilograms (220 pounds) or more of marijuana. Reyes admitted that he paid \$4,250 on January 15, 2008, and another \$15,000 on January 16, 2008, to an undercover ICE agent,

whom he believed was a bridge inspector, to allow a vehicle loaded with more than 400 kilograms of marijuana through the Paso del Norte Port of Entry without proper inspection.

Reyes was sentenced in September 2008 to a 97-month prison sentence, ordered to pay a \$50,000 fine, required to serve 20 years under supervised release after he completes his prison term, and ordered to forfeit the illegal proceeds derived from the criminal actions which included \$19,250 in U.S. currency, and a 2005 Volkswagen Tourareg vehicle.

Jose Martinez, 44, owner of Martinez Autos in El Paso, Texas, forfeits 26 vehicles and \$107,769 for structuring and currency reporting violations

Jose Martinez (Martinez), 44, owner of Martinez Autos in El Paso, Texas, was named in a 19-count indictment that charged him with illegally structuring bank deposits and failing to file currency transaction reports. Immigration and Customs Enforcement (ICE) agents arrested Martinez in November 2007, and he pled guilty to one count each of structuring and failure to file currency transactions reports. The investigation showed that Martinez, who had owned Martinez Autos since March 2003, began in January 2004 to open bank accounts in various names associated with the business. From that time, Martinez made more than 50 structured cash deposits in amounts ranging from \$5,000 to \$9,500 that totaled \$740,585.

In June 2008, Martinez was sentenced to more than two years in prison and ordered to forfeit 26 vehicles, and up to \$107,769 as proceeds derived from the illegal activity. In addition, a monetary judgment was ordered against Martinez in the amount of \$792,250.

Saeed Ahmed, 46, of Salisbury, Maryland, pleads guilty to a racketeering conspiracy and agrees to forfeit \$500,465

Saeed Ahmed (Ahmed), 46, of Salisbury, Maryland pled guilty in August 2008, to a racketeering conspiracy related to a scheme to bribe officials with U.S. Citizenship and Immigration Services (USCIS) to illegally obtain green cards and the Maryland Comptroller's Office to receive abatement of state taxes. The payments for the bribes were all made to a cooperating witness, who provided the money to federal law enforcement agents. There were no corrupt USCIS and state officials involved in the scheme. As part of a plea agreement, Ahmed agreed to forfeit \$500,465. Ahmed also faces a maximum sentence of 20 years in prison and is scheduled for sentencing in early November 2008.

This was an ICE lead investigation with assistance from the Federal Bureau of Investigation (FBI), the Internal Revenue Service and the Maryland Comptroller's Office.

Several individuals, including two M.D.'s, plead guilty to conspiracy for their participation in the illegal sale of prescription pharmaceuticals, forfeit millions in ill-gotten gains

In August 2008, two physicians pleaded guilty to conspiracy for their participation in an Internet pharmacy business that generated more than \$126 million in gross revenues from the illegal sale of prescription pharmaceuticals. Chandresh Shah (Shah), M.D., 51, of Smyrna, Georgia, pleaded guilty to one count of conspiracy to illegally distribute controlled substances and was ordered to forfeit \$16,674. In early July 2008, Gerald Morris (Morris), M.D., 37, of Houston, also pleaded guilty to one count of conspiracy to illegally distribute controlled substances and was ordered to forfeit \$52,446.

Shah and Morris were indicted in July 2007, along with 16 other defendants, for their role in a conspiracy to operate an international online pharmaceutical distribution network known as Affpower. According to the indictment, the Affpower enterprise sold controlled and non-controlled prescription drugs through numerous affiliated Web sites to customers who lacked prescriptions for the drugs from a personal physician. From August 2004 to June 2006, the Affpower enterprise allegedly received more than one million Internet orders for controlled and non-controlled prescription pharmaceuticals from customers in all 50 states.

In their plea agreements, both Shah and Morris admitted that they and other doctors issued drug prescriptions, not in the course of diagnosing and treating medical conditions, but to facilitate the sale of prescription pharmaceuticals pre-selected by customers and for the doctors' own personal profit. Morris and Shah also admitted Affpower enterprise doctors conducted no physical or mental examinations before issuing prescriptions, had no contact with customers and had no physician-patient relationship with any customer for whom the doctors prescribed drugs. Both Shah and Morris face a maximum of five years in prison and \$250,000 in fines for conspiracy to illegally distribute controlled substances. They are scheduled to be sentenced in early 2009.

In addition to the pleas by Shah and Morris, plea agreements for two other defendants connected to the Affpower enterprise show that Michael L. Bezonsky (Bezonsky), 46, of Calabasas, California, pled guilty in San Diego to one count of participating in a RICO conspiracy for his role in creating and operating the Affpower enterprise. In pleading guilty, Bezonsky admitted that at his and others' direction, the Affpower enterprise engaged in a pattern of racketeering activity involving multiple acts of illegally distributing controlled substances and money laundering. Bezonsky agreed to forfeit more than \$12 million in connection with his plea. Bezonsky faces a maximum of 20 years in prison and a fine of \$250,000 or twice his gross profits from the illegal activity for the RICO conspiracy when he is sentenced, scheduled for early 2009.

At the same time, Bezonsky also entered a guilty plea to one count of conspiracy to distribute controlled substances and one count of money laundering charged in a separate indictment returned in August 2006, in the Eastern District of Pennsylvania stemming from other related illegal Internet pharmacy activities. Bezonsky was ordered to forfeit more than \$635,792 in connection with the Pennsylvania plea. In that plea agreement, Bezonsky admitted to being the principal operator of another Internet pharmacy business known as RX Medical One, which received approximately \$33 million from the sale of controlled pharmaceutical substances from approximately September 2003 to May 2004. Bezonsky faces fines and penalties similar to those in California for the Pennsylvania crimes.

Brittin Cahill (Cahill), 45, of Aliso Viejo, California also pled guilty to one count of conspiracy to illegally distribute controlled substances and one count of conspiracy to commit money laundering. Cahill admitted that she operated Affpower enterprises' Web sites, recruited and managed other affiliates who advertised the Affpower enterprises' business, and opened an overseas account in the name of a fictitious business in which she received some of her commissions from the illegal sales of controlled substances. Cahill was ordered to forfeit \$582,746 as part of her plea agreement, and faces a maximum of five years in prison and a \$250,000 fine for the conspiracy to illegally distribute controlled substances and a maximum of 20 years in prison and a \$500,000 fine for the conspiracy to commit money laundering.

In addition, two other defendants pled guilty for their roles in the Affpower enterprise and agreed to forfeitures as part of their plea agreements. David Ari Glass agreed to forfeit \$118,000 of illegally earned proceeds from his participation in the Affpower enterprise, and Jeffrey Alan Wright pled guilty to a misdemeanor charge of conspiracy to dispense misbranded drugs and agreed to forfeit \$205,143.

The charges are the result of an investigation by a multi-agency task force in San Diego made up of agents from U.S. Immigration and Customs Enforcement (ICE), the Federal Drug Administration's (FDA) Office of Investigations, the Internal Revenue Service Criminal Investigations (IRS CI), the Federal Bureau of Investigation (FBI), the Drug Enforcement Administration and the U.S. Postal Inspection Service.

Maryland restaurant owner, wife plead guilty in scheme to launder money and harbor illegal aliens, owner agrees to forfeit \$7.2 million in cash, properties, vehicles and other assets

Francisco C. Solano (Solano), 56, of Germantown, Maryland, co-owner of El Pollo Rico Restaurant in Wheaton, pled guilty in July 2008 to conspiracy to harbor aliens, conspiracy to commit money laundering, and structuring bank transactions to evade reporting requirements in connection with the operation of the restaurant. His wife, Ines Hoyos-Solano, 60, pled guilty to conspiracy to commit money laundering.

According to his guilty plea, from January 1999 to July 2007, Solano concealed illegal aliens in residences and businesses they owned and rented in Wheaton and Kensington, Maryland. He paid the aliens in cash and accepted rent payments in cash only. Solano did not prepare Employment Eligibility Verification Forms, which establish the eligibility of an individual to be employed in the United States legally for those employees. In addition, Solano laundered the proceeds from the illegal employment of aliens. He and others deposited more than \$6 million from the operation of the restaurant into the El Pollo Rico business account from 2002 to 2007. Transfers were made from the El Pollo Rico business account to business and personal accounts in the names of Solano and other co-conspirators. Funds from those deposits were used to pay for personal assets, including property, jewelry, collectible coins, cars and investment accounts. Between 2002 and 2006, Solano structured deposits into the El Pollo Rico business account in amounts less than \$10,000 to avoid triggering bank reporting requirements that could reveal criminal conduct.

According to Ines Hoyos-Solano's guilty plea, she knew that aliens were harbored at El Pollo Rico and with her knowledge and approval, let her husband use proceeds from the harboring to purchase a \$120,000 life insurance policy in their joint names.

As part of the plea, Solano forfeited nearly \$7.2 million derived from the illegal activities including, 13 bank and investor accounts, seven properties located in Wheaton, Kensington, and Silver Spring, Maryland, and in Arlington, Virginia; three vehicles, collectible coins and jewelry. Ines Hoyos-Solano agreed to forfeit \$1,572,218 in cash found in the bedroom of her residence during a July 2007 search, and money held in two bank accounts, property in Silver Spring, Maryland, collectible coins, and jewelry. Both defendants agreed to cooperate with the Internal Revenue Service (IRS) in the assessment and collection of their tax liabilities for the years 2000 to 2007.



The highly-rated El Pollo Rico Restaurant in Wheaton Maryland. Owner, Francisco Solano and wife forfeit \$7.2 million derived from harboring illegal aliens and structuring transactions to evade reporting requirements of the U.S. Government.

Picture credit to: NBC4.com

Both defendants face a maximum of 20 years in prison for the money laundering conspiracy. In addition, Solano faces a maximum sentence of 10 years in prison for the harboring conspiracy and five years in prison for structuring transactions to evade reporting requirements. The defendants are scheduled to be sentenced in November 2008.

Solano's sister, Consuelo Solano, 70 of Arlington, Virginia, and brother, Juan Faustino Solano, 57, of Kensington, Maryland, pled guilty in June 2008 to the money laundering conspiracy and Juan Solano also pled guilty to conspiracy to harbor aliens.

Houston area donut company president and 3 managers plead guilty to immigration violations, forfeits \$1.334 million

ShIPLEY Do-Nut Flour and Supply Company Inc. (ShIPLEY Do-Nut), pled guilty in September 2008 to conspiring to harbor illegal aliens, and three former and current managers also pled guilty to hiring or continuing to hire illegal aliens. ShIPLEY Do-Nut, headquartered in Houston, is a corporation involved in supplying baking materials and logistical support to retail stores, and to 200 franchises in Texas, Alabama, Arkansas, Louisiana, Mississippi and Tennessee.

As part of its agreement with the United States, the company has taken measures to revise its immigration compliance program, and has agreed to begin implementing new procedures to prevent future violations of federal immigration laws. ShIPLEY Do-Nut agreed to pay \$1.334 million to the United States in lieu of forfeiting the company's interest in the various company-owned residences where illegal alien employees were housed.

ICE Returns to Iraq more than 1,000 Artifacts Illegally Imported to the United States

In September 2008, Immigration and Customs Enforcement (ICE) officials completed the repatriation of 1,046 cultural antiquities to the Government of Iraq that were seized in four separate investigations dating back to 2001. The items, which included terra cotta cones inscribed in Cuneiform text, a praying god figurine that was once imbedded in a Sumerian temple and coins bearing the likenesses of ancient emperors, are illustrative of the long and varied history of the country now known as Iraq. Remnants of ancient Cuneiform tablets, which were seized by the Customs Service in 2001, were recovered from beneath the ruins of the World Trade Center.

In all four investigations of the importation of the Iraqi artifacts into the United States, the items were seized for false declaration of country of origin:

1. In 2001, ICE agents detained a commercial delivery of 300 Cuneiform clay tablets by a Newark, New Jersey antiquities gallery for authentication by experts, which confirmed that the text on the tablets was of Iraqi origin and not from Dubai, United Arab Emirates, as declared on Customs entry documents. These tablets were later recovered from the ruins of the World Trade Center attack. This cache included 45 molded terracotta tablets, eight stone cylinder seals and nine amulets with animals indicative of the Old Babylonian Period (1500 to 1700 B.C.)
2. Also in 2001, ICE agents received information from the Art Loss Register that a copper Sumerian Foundation Peg Figurine was being sold by auction at Christie's New York. Archaeologists familiar with an excavation at Al Hiba, Iraq, confirmed that it was a Sumerian Foundation figurine, circa 3rd Century, B.C., depicting a praying god, dating to the reign of King Enannatum of Lagash (circa 2400 B.C.). Importation documents indicated Syria as the figurine's country of origin. Foundation figures such as this one were buried in the foundations of temples to establish the patronage of the ruler who built the temple. The figurine, estimated to be worth \$100,000, had been stolen from the Iraqi museum at the end of the first Gulf war.



Sumerian Foundation Peg Figurine, circa 3rd Century, B.C. Foundation figures such as this were buried in the foundations of temples to establish the patronage of the ruler who built the temple. Estimated to be worth \$100,000, this heritage artifact was stolen from the Iraqi museum at the end of the first Gulf war. Recovered by Immigration and Customs Enforcement (ICE) and returned to the Government of Iraq in 2008.

3. In 2003, twelve more foundation cones were identified as from Lagash (Southeast Iraq) and not Syria as declared on a Customs entry document. The cones were created at or about 2141-2122 B.C.
4. Also in 2003, five Federal Express packages containing glass bottles, coins, copper knives, spear heads, necklaces, cylinder seals, a bronze stick and a set of decorative armor were imported by another Newark, New Jersey gallery. ICE agents determined, with the help of experts, that the items, which were originally declared to be of British origin, were all, except for the armor, from Iraq. In total, 671 items were seized and determined to be from various locations throughout Iraq.



ICE seized these and other artifacts from a Federal Express package addressed to a New Jersey gallery importer. With the help of experts, ICE determined that these were antiquities belonging to Iraq.



Other Iraqi antiquities seized by ICE and returned to the Government of Iraq in 2008.

The items were turned over in a ceremony at the Embassy of Iraq, where Iraqi Ambassador Samir Shakir Mahmood Sumaida'ie accepted on behalf of his government.

CBP officers at the El Paso port of entry intercept vehicle with bundles of U.S. currency totaling \$1.8 million concealed in door panels, seized for forfeiture

In February 2008, CBP officers working at the El Paso port of entry intercepted a 1992 Ford Expedition with \$1,858,085 of U.S. currency concealed in the door panels of the vehicle. The seizure was made shortly before 11 a.m. when the vehicle, carrying a family of three, entered the Bridge of the Americas port of entry from Mexico. A CBP officer at the primary inspection booth noticed that the driver of the vehicle was nervous during a routine inspection. The CBP officer began to search the vehicle using a “Buster” density meter and received high readings consistent with hidden contraband.

The CBP officer examined a door more closely and spotted bundles of U.S. currency wrapped in clear plastic tape behind the door panel. The officers took custody of the driver and continued the inspection of the vehicle, discovering currency bundles concealed in all five doors of the vehicle, denominations included \$100’s, \$50’s, \$20’s, \$10’s and \$5’s.



Plastic-wrapped bundles of U.S. currency, \$100’s, \$50’s, \$20’s, \$10’s and \$5’s, were concealed in the door panels of a 1992 Ford Expedition. The concealed currency totaled more than \$1.8 million, and was seized at the Bridge of the Americas port of entry.

CBP Air and Marine P-3 aircraft detects 35-foot, twin outboard go fast boat, \$250,000 seized for forfeiture

On March 13, 2008, a CBP Air and Marine P-3 aircraft, deployed to Liberia, Costa Rica, was tasked by Joint Interagency Task Force South (JIATF-S) to perform a search in an area 220 nautical miles northwest of Cartagena Colombia. The P-3 detected a go-fast Eduardono type vessel, approximately 35 feet long with 2 outboards and a four person crew. The P-3 vectored a U.S. Coast Guard Cutter to the area, and the Cutter launched a helicopter to investigate. The helicopter used disabling gunfire to stop the vessel. A U.S. Coast Guard boarding team seized \$250,000 in cash and detained four suspects.



This picture depicts the 35-foot, double outboard Eduardono-type vessel interdicted northwest of Cartagena, Colombia, with \$250,000 onboard.

CBP Fights Drug Traffic

CBP Officers Arrest 31-Year Old Male, Attempting to Smuggle Liquid Cocaine into the United States from St. Lucia

In June 2008, CBP officers at the Luis Muñoz Marin International Airport, San Juan, Puerto Rico, detained a Jamaican national attempting to smuggle liquid cocaine from St. Lucia. The CBP officers referred the 31-year-old male passenger for a secondary inspection. During the examination, CBP officers found three bottles of liquor among his belongings. The content of the bottles was tested and reacted positive for cocaine. A total of 3.14 liters of cocaine were seized and the passenger was arrested.



Three liquor bottles in the luggage of a passenger from St. Lucia, containing 3.14 liters of cocaine, 31-year-old arrested.

CBP Air and Marine Aid Panama Police in Seizing More than \$49 Million Worth of Cocaine, Two Go-Fast Boats

In June 2008, CBP Air and Marine assisted Panamanian authorities in the seizure of 5,511 pounds of cocaine, worth more than \$49 million on the street, and two vessels in the ocean approximately 85

miles west of Panama City, Panama. A CBP P-3 surveillance aircraft out of Corpus Christi, Texas, detected a go-fast vessel on course to rendezvous with a stationary go-fast vessel. CBP agents and the Panamanian National Police coordinated interdiction of the vessels which were suspected to be part of a coordinated smuggling effort with another vessel. The effort led to the successful interdiction of two 30-foot four-engine go fast boats each carrying approximately 20 barrels of fuel. Further investigation led to the discovery of 110 bales of cocaine buried in the sand on the beach.



Two 30-foot, 4-engine “go fast” speedboats carrying 20 barrels of fuel each, interdicted by CBP and Panamanian law enforcement. A total of 5,511 pounds of cocaine was seized, with a street value of more than \$49 million.

CBP Air and Marine P-3 aircraft operating out of Puerto Rico and U.S. Coast Guard intercept the fishing vessel Don Giovanni, 17,637 pounds of cocaine seized

In April 2008, a CBP Air and Marine P-3 aircraft, operating out of Puerto Rico, conducting a covert search detected four small fishing vessels. One of the four vessels was the fishing vessel Don Giovanni which a U.S. Coast Guard cutter intercepted and boarded. The interdiction resulted in the seizure of 17,637 pounds of cocaine.



The fishing vessel, Don Giovanni, interdicted 150 nautical miles east of Barbados, carrying 17,637 pounds of cocaine.

*CBP Fights Human Smuggling
Dangerous, Often Deadly to Desperate Aliens*

Border Patrol agents rescue 51 illegal aliens from tractor trailer, including three children

In mid-June 2008, Border Patrol agents in Laredo, Texas, disrupted a human smuggling attempt and rescued 51 people. In the early morning hours, agents working at the Border Patrol check point north of Laredo conducted an immigration inspection of the driver of a tractor trailer. As an agent talked to the driver a Border Patrol canine alerted on the trailer, indicating the presence of hidden contraband or people. Agents opened the sealed trailer and found 51 people sitting atop and among crates of avocados. They were all illegal aliens from Mexico. The group included three children, ages 5, 10 and 16.

CBP Protects Trademarks from Counterfeiters

CBP officers seize millions of dollars worth of counterfeit Nike footwear

In May 2008, at the Los Angeles/Long Beach seaport, CBP officers confiscated 18,560 pairs of fake Nike athletic shoes and 252 pairs of generic shoes that were put at the end of a shipping container to conceal the counterfeit Nikes. The appraised domestic value of the shipment was \$521,000. However, if the shoes had been legitimate, their value would have been \$2.6 million. Nike officials advised CBP that they had not authorized the importer or exporter to use their trademark.



Los Angeles/Long Beach seaport: Two shipping containers, the contents of which were declared as “drainage pipeline fitting,” actually held 18,560 pairs of counterfeit Nike athletic shoes. The counterfeit shoes were confiscated to protect the trademark holder.

Digital Currency Business E-Gold pleads guilty to money laundering and illegal money transmitting charges, forfeits \$1.75 million

In July 2008, E-Gold, Ltd., an Internet-based digital currency business, and its three principal directors and owners, pled guilty to criminal charges relating to money laundering and the operation of an illegal money transmitting business. E-Gold and its corporate affiliate Gold & Silver Reserve Inc., each pled guilty to conspiracy to engage in money laundering and conspiracy to operate an unlicensed money transmitting business. The principal director of E-Gold and Chief Executive Officer (CEO) of Gold & Silver Reserve Inc, Dr. Douglas Jackson, 51, of Melbourne, Florida, pled guilty to conspiracy to engage in money laundering and operating an unlicensed money transmitting business. Two other E-Gold directors, Barry Downey, 48, of Baltimore, and Reid Jackson, 45, of Melbourne, each pled guilty to felony violations of District of Columbia law relating to operating a money transmitting business without a license.

In addition to the fines and prison sentences, each of the defendants agreed that E-Gold and Gold & Silver Reserve will move to fully comply with all applicable federal and state laws relating to operating as a licensed money transmitting business and the prevention of money laundering, which includes registering as money service businesses. The businesses will create a comprehensive money laundering detection program that will require verified customer identification, suspicious activity reporting and regular supervision by the Internal Revenue Service's (IRS) Bank Secrecy Act Division. E-Gold and Gold & Silver Reserve will hire a consultant to ensure their compliance with applicable law and hire an auditor to verify the companies' claims that all transactions are fully back by gold bullion.

At sentencing, E-Gold and Gold and Silver Reserve face a maximum fine of \$3.7 million. Douglas Jackson faces a maximum prison sentence of 20 years and combined fines for the offenses totaling \$750,000. Downey and Jackson each face a maximum of five years in prison and a fine of \$25,000.

Additionally, as part of the plea, E-Gold and Gold & Silver Reserve agreed to forfeiture in the amount of \$1.75 million in the form of a money judgment for which they are jointly and severally liable.

Sentencing for all defendants is set for November 2008.

AdSurfDaily (ASD) investigated for questionable business practices involving a Ponzi scheme principal, \$93.5 million seized to date

In August 2008, Secret Service agents in Florida executed a series of federal search and seizure warrants on business locations, residences, and bank accounts linked to AdSurfDaily, Inc (ASD). The search and seizure followed an investigation that revealed ASD was engaging in questionable business practices that operated on a pyramid or Ponzi scheme principle.

Ponzi schemes promote allegedly lucrative business opportunities, when in reality there is in fact no underlying profitable business to support the payments promoters say they will make to the investors or participants. The Internet is increasingly used as a vehicle to promote each of these types of frauds

and while Ponzi schemes have evolved with technology, the basic premise remains the same, later investors' funds are used to pay the earlier investors.

The version of the Ponzi scheme Secret Service investigators uncovered in the ADS investigation is referred to as an "auto-surf" program, a form of online advertising that claims to generate revenue from so-called "advertisers" who pay fees to have their website displayed to other viewers through the host's web-based operation. As part of the program and to encourage more advertisers to pay the membership fee, the host pays the advertisers a so-called rebate for viewing fellow advertisers' web pages, while encouraging the recruitment of new advertisers by paying a referral fee. In this Ponzi model, the host generates most, if not all, of its funding from membership fees, and therefore must use money received from later advertisers to pay rebates and referral fees to earlier advertisers. These programs collapse when new membership fees fail to cover the payouts promised to existing members.

In August 2008, the Florida Attorney General filed a lawsuit against ADS and its president, Thomas A. "Andy" Bowdoin Jr., seeking civil damages and an injunction against the company to prohibit them from engaging in future deceptive marketing schemes. The U.S. Secret Service has identified and frozen various funds, raising the total of assets seized in this matter to more than \$93.5 million.

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.

U.S. Coast Guard Cutters Dauntless and Forward work together to capture \$52 million in cocaine from the Honduran fishing vessel Miss Alyssa

In March 2008, the U.S. Coast Guard Cutter Forward offloaded approximately 1,600 pounds of cocaine and turned over six suspected smugglers to federal agents for prosecution at Naval Station Mayport, Florida. The crew of the Coast Guard Cutter Forward located the illegal narcotics in a hidden compartment aboard the Honduran fishing vessel, Miss Alyssa, on February 25, 2008, in the western Caribbean Sea. The Miss Alyssa was originally boarded by the Coast Guard Cutter Dauntless which found evidence of illegal narcotics with the use of an ion scan machine but had to depart the investigation for another mission before the hidden compartments could be located.

"This case was an outstanding example of multiple unit coordination ashore and at sea. Detailed search efforts and a thorough relief by Cutter Dauntless helped our boarding team zero in on the hidden compartments."

Cmdr. Matthew Sibley, Commanding Officer of the Coast Guard Forward



Coast Guard Dauntless.

The Coast Guard Dauntless, left, is a 210-foot medium endurance cutter from Galveston, Texas. The Coast Guard Forward is a 270-foot medium endurance cutter from Portsmouth, Virginia. The Dauntless discovered evidence of drugs on the Miss Alyssa, but had to depart to another investigation. A further search by the Forward discovered hidden compartments of the Miss Alyssa and 1,600 pounds of cocaine with a street value of \$52 million.



Miss Alyssa, foreground, and Coast Guard Forward, background.

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 Treasury law enforcement bureaus 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 2008, the Fund allocated \$32.0 million in SEF spending to the law enforcement agencies. The actual expense for FY 2008 was \$17.9 million.

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. The Fund declared a Super Surplus in the amount of \$51.0 million for FY 2008. The actual expense for FY 2008 was \$34.9 million.

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.

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. The Fund provided \$130.0 million toward equitable sharing expenses in FY 2008, just slightly down from \$140 million in FY 2007, representing 25 percent of the regular mandatory expense budget. The actual expense for FY 2008 was \$90.2 million. The higher allocation levels for FY 2007 and FY 2008 also reflect the higher forfeiture revenue earnings for those years. These are critical 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 Treasury 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 2008, representing the interests of law enforcement components of the Departments of Treasury and Homeland Security. FY 2008 posed some management challenges including continued oversight of escalating general property contract expenses associated with higher revenue levels. In addition, commensurate with the high revenue year, there were additional expenses incurred by the bureaus. 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 2008 continued a pattern of robust revenue years with regular revenue of \$386.4 million from all sources, surpassing the FY 2007 banner year by 6 percent. As we enter fiscal year 2009, 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 2008, 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 2008 is as follows:

| Performance Measure | FY 2007 Actual | FY 2008 Target | FY 2008 Actual |
|---|----------------|----------------|----------------|
| Percent of forfeited cash proceeds resulting from high-impact cases | 84.18% | 75% | 86.91% |

A target of 75 percent high-impact cases was set for FY 2008. 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 2008 was 86.91 percent, well above target. This compares with our FY 2007 and FY 2006 performance of 84.18 percent and 72.90 percent, respectively. This achievement 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 in FY 2001.

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, 2008.

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 2008 and 2007.

Net Position – End of Year. For FY 2008, 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 \$426.8 million versus \$361.4 million at the end of FY 2007. Both years closed with a strong and viable net position with annual revenue reaching well past the forecasted \$250.0 million program level each year.

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. Fund management generally forecasts between \$200.0 million and \$250.0 million for the Fund from regular seizure and forfeiture activities of our participating bureaus. For FY 2008, the Fund closed with \$386.4 million in Gross Non-Exchange Revenues versus a total for the FY 2007 closing of \$366.0 million, an increase of six (6) percent over FY 2007.

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 2008, Treasury Forfeiture Fund bureaus earned a total of \$51.0 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 \$58.0 million during FY 2007, both excellent years. A portion of these decreases reflects Fund management's continued work with the Department of Justice to identify delays and/or downward adjustments to percentages associated with Reverse Asset Sharing payments 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 but can be used for any law enforcement purpose of our

participating bureaus. Significant projects will continue to be funded in FY 2009 if anticipated revenue is received early enough in the fiscal year.

Cost of Operations. For FY 2008, the Cost of Operations totaled \$171.9 million, up from \$153.5 million in FY 2007. The cost of operations has increased with the higher revenue level as expected.

Investment Interest Income. The Fund is authorized to invest cash balances in Treasury securities. As of September 30, 2008, investments totaled \$1.03 billion, up from \$928.1 million invested as of September 30, 2007. Given the somewhat higher investment balance but lower interest rates on Treasury securities over the prior year, investment income totaled \$21.1 million in FY 2008 as compared to \$37.5 million in FY 2007.

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 2008, the Fund shared a total of \$90 million with other federal, state and local law enforcement agencies, and another \$0.2 million with foreign countries. This compares with \$42.5 million shared with other federal, state and local law enforcement agencies during FY 2007, and another \$0.5 million with foreign countries in FY 2007.

Victim Restitution. During FY 2008, the Fund paid restitution to victims the amount of \$6.1 million as compared with \$4.9 million in FY 2007.

Summary of Statements of Changes in Net Position. The Fund closed with a strong net position in FY 2008. Management will continue to emphasize high-impact cases by participating law enforcement bureaus. The FY 2008 performance with forfeiture revenue earnings of over \$386.4 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 increased to \$171.9 million in FY 2008, up from \$153.5 million in FY 2007.

Intra-governmental Costs less Secretary's Enforcement Fund and Super Surplus Expenses. This net figure represents the amounts incurred by participating bureaus in running their respective forfeiture programs. Secretary Enforcement Fund Expenses generally represent expenses that while key to the law enforcement bureau are not costs of running the forfeiture program itself.

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 2008, general property was maintained by VSE Corporation and real property was maintained by EG&G Technical Services, both contracts of the Department of the Treasury. In FY 2008, expenses of these two contracts totaled \$53.2 million as compared to expenses of the two contracts in FY 2007 of \$46.6 million.

Statements: Balance Sheet

Assets, Liabilities and Net Position

Total assets of the Fund increased in FY 2008 to \$1.26 billion, up from \$1.13 billion million in FY 2007, an increase in asset value of nearly 12 percent. If seized currency, which is an asset in the custody of the government but not yet owned by the government, is backed out of both figures, the adjusted total assets of the Fund increased to \$643.9 million in FY 2008, up from \$584.0 million in FY 2007. During FY 2008, total liabilities of the Fund increased to \$837.7 million, up from \$770.4 million in FY 2007. However, again, if seized currency, which is also shown as a liability because it is not yet owned by the government, is backed out of both figures, the adjusted total liabilities of the Fund decreased modestly to \$217.2 million in FY 2008, down from \$222.6 million in FY 2007.

With increased assets and decreased liabilities in FY 2008, the Cumulative Results of Operations, i.e., retained earnings, increased at the end of FY 2008 to a total of \$426.8 million, up from \$361.4 million at the end of FY 2007.

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 2008 Audit. The Fund's independent auditors have given the FY 2008 financial statements an Unqualified Opinion with no material weaknesses in the accounting for the Fund's financial statements. A previous long-standing significant deficiency about the recording of indirect overhead expenses of property to the line item level has been reduced to a Management Letter finding and is expected to be fully resolved in FY 2009. The significant deficiency identified in FY 2007 regarding the timeliness of post-inventory updates to SEACATS, the Fund's seized and forfeited property inventory system, has been resolved.

Summary of Financial Statement Highlights

Net Position. To summarize, Fund management concluded a highly productive FY 2008 "in the black," with the necessary resources to commence the business of the asset forfeiture program for FY 2009. Fund management declared a Super Surplus from FY 2008 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

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

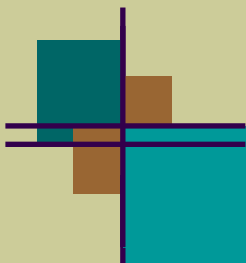
We have audited the Principal Statements (balance sheets and the related statements of net cost, changes in net position, and budgetary resources, hereinafter referred to as "financial statements") of the Department of the Treasury Forfeiture Fund (the Fund) as of and for the years ended September 30, 2008 and 2007. 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*. 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.

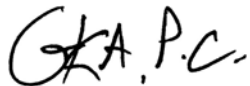
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of September 30, 2008 and 2007, and its net costs, changes in net position, and budgetary resources, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 31, 2008, on our consideration of the Fund's internal control over financial reporting and a report dated October 31, 2008, 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 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.

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October 31, 2008

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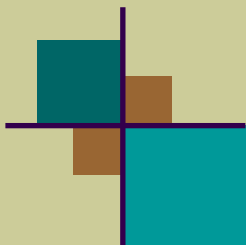
Independent Auditor's Report on Internal Control over Financial Reporting

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, 2008, and have issued our report thereon dated October 31, 2008. 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*.

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 provide an opinion on internal control over financial reporting.

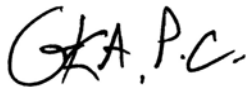
Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily disclose all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Under standards issued by the American Institute of Certified Public Accountants, a control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Fund’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Fund’s financial statements that is more than inconsequential will not be prevented or detected by the Fund’s internal control. A material weakness is a



significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Fund's internal control. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, and in accordance with *Government Auditing Standards*, we noted a certain matter involving the internal control and its operation that we have reported to Fund Management in a separate letter dated October 31, 2008.

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.

A handwritten signature in black ink that reads "G.A.P.C." with a stylized flourish at the end.

October 31, 2008

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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, 2008, and have issued our report thereon dated October 31, 2008. 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*.

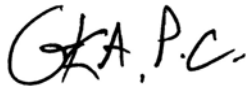
The management of the Fund is responsible for complying with laws, regulations, and contracts applicable to the Fund. As part of obtaining reasonable assurance about whether the Fund’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions 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 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* or 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.

A handwritten signature in black ink that reads "G.A.P.C." with a stylized flourish at the end.

October 31, 2008

SECTION III
FINANCIAL STATEMENTS AND NOTES

Department of the Treasury Forfeiture Fund
BALANCE SHEETS
As of September 30, 2008 and 2007
(Dollars in Thousands)

| | 2008 | 2007 |
|---|---------------------|---------------------|
| Assets: | | |
| Intragovernmental : | | |
| Fund balance with Treasury | \$ 9,936 | \$ 48,678 |
| Investments and related interest (Note 3) | 1,030,653 | 928,069 |
| Advances (Note 5) | 270 | 240 |
| Total Intragovernmental | 1,040,859 | 976,987 |
| Cash and other monetary assets (Note 6) | 136,855 | 76,553 |
| Accounts receivable | 1,208 | 1,470 |
| | 138,063 | 78,023 |
| Forfeited property (Note 7) | | |
| Held for sale, net of mortgages, liens and claims | 83,599 | 74,146 |
| To be shared with federal, state or local, or foreign governments | 1,966 | 2,588 |
| Total forfeited property, net of mortgages, liens and claims | 85,565 | 76,734 |
| Total Assets | \$ 1,264,487 | \$ 1,131,744 |
| Liabilities: | | |
| Intragovernmental: | | |
| Distributions payable | | |
| Other federal agencies | \$ 13,035 | \$ 20,287 |
| Accounts payable | 28,636 | 13,195 |
| Total Intragovernmental | 41,671 | 33,482 |
| Seized currency and other monetary instruments (Note 9) | 620,541 | 547,772 |
| Distributions payable (Note 10) | | |
| State and local agencies and foreign governments | 68,631 | 85,601 |
| Accounts payable | 21,300 | 26,768 |
| Deferred revenue from forfeited assets | 85,565 | 76,734 |
| Total Liabilities | 837,708 | 770,357 |
| Net Position: | | |
| Cumulative results of operations (Note 11) | 426,779 | 361,387 |
| Total Liabilities and Net Position | \$ 1,264,487 | \$ 1,131,744 |

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, 2008 and 2007
(Dollars in Thousands)

| | 2008 | 2007 |
|--|-------------------|-------------------|
| Program: | | |
| ENFORCEMENT | | |
| Intragovernmental: | | |
| Seizure investigative costs and asset management | \$ 69,779 | \$ 62,915 |
| Other asset related contract services | 6,964 | 4,401 |
| Awards to informer | 99 | 319 |
| Data systems, training and others | 31,309 | 30,125 |
| Total Intragovernmental | 108,151 | 97,760 |
| With the Public: | | |
| National contract services seized property and other | 53,235 | 46,635 |
| Joint operations | 10,490 | 9,111 |
| Total with the Public | 63,725 | 55,746 |
| Net Cost of Operations | \$ 171,876 | \$ 153,506 |

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, 2008 and 2007
(Dollars in Thousands)

| | <u>2008</u> | <u>2007</u> |
|---|--------------------------|--------------------------|
| Net Position - Beginning of year | \$ <u>361,387</u> | \$ <u>236,757</u> |
| Financing Sources (Non-Exchange Revenues): | | |
| Intragovernmental | | |
| Investment interest income | 21,082 | 37,544 |
| Public | | |
| Forfeited currency and monetary instruments | 412,151 | 207,956 |
| Sales of forfeited property net of mortgages and claims | 52,611 | 44,236 |
| Proceeds from participating with other federal agencies | 50,948 | 57,952 |
| Value of property transferred in equitable sharing | 8,095 | 9,840 |
| Payments in lieu of forfeiture, net of refund (Note 19) | (166,561) | (3,184) |
| Reimbursed costs | 4,352 | 4,789 |
| Others | <u>3,698</u> | <u>6,860</u> |
| Total Gross Non-Exchange Revenues | <u>386,376</u> | <u>365,993</u> |
| Less: Equitable Sharing | | |
| Intragovernmental | | |
| Federal | <u>(11,551)</u> | <u>(9,806)</u> |
| Public | | |
| State and local agencies | (78,498) | (32,743) |
| Foreign countries | (177) | (514) |
| Victim restitution | <u>(6,086)</u> | <u>(4,871)</u> |
| | <u>(84,761)</u> | <u>(38,128)</u> |
| Total Equitable Sharing | <u>(96,312)</u> | <u>(47,934)</u> |
| Total Non-Exchange Revenues, Net | <u>290,064</u> | <u>318,059</u> |
| Transfers-Out | | |
| Intragovernmental | | |
| Super surplus (Note 13) | (34,871) | (27,474) |
| Secretary's enforcement fund (Note 14) | <u>(17,925)</u> | <u>(12,449)</u> |
| Total Transfers-Out | <u>(52,796)</u> | <u>(39,923)</u> |
| Total Financing Sources- Net | 237,268 | 278,136 |
| Net Cost of Operations | <u>(171,876)</u> | <u>(153,506)</u> |
| Net Results of Operations | <u>65,392</u> | <u>124,630</u> |
| Net Position - End of Year | \$ <u><u>426,779</u></u> | \$ <u><u>361,387</u></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, 2008 and 2007
(Dollars in Thousands)

| | <u>2008</u> | <u>2007</u> |
|---|-------------------|-------------------|
| Budgetary Resources: | | |
| Unobligated balance - beginning of year | \$ 160,117 | \$ 82,935 |
| Recoveries of prior year unpaid obligations | 41,607 | 17,231 |
| Budget authority | <u>578,645</u> | <u>451,463</u> |
| Total Budgetary Resources | <u>\$ 780,369</u> | <u>\$ 551,629</u> |
| Status of Budgetary Resources: | | |
| Obligations incurred | \$ 597,287 | \$ 391,512 |
| Unobligated balances - available | <u>183,082</u> | <u>160,117</u> |
| Total Status of Budgetary Resources | <u>\$ 780,369</u> | <u>\$ 551,629</u> |
| Change in Obligated Balance: | | |
| Obligated balance, net - beginning of year | \$ 316,085 | \$ 244,515 |
| Obligations incurred | 597,287 | 391,512 |
| Less: Gross outlays | (513,622) | (302,711) |
| Less: Recoveries of prior year unpaid obligations, actual | <u>(41,607)</u> | <u>(17,231)</u> |
| Obligated balance, net - end of year | <u>\$ 358,143</u> | <u>\$ 316,085</u> |
| Net Outlays | <u>\$ 513,622</u> | <u>\$ 302,711</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 and receive relatively few distributions from the Fund. 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 join 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.

Financial Statements Presented

These financial statements are provided to meet the requirements of the Chief Financial Officers Act of 1990, and the Government Management Reform Act of 1994. They consist of the balance sheet, the statement of net cost, the statement of changes in net position, and the statement of budgetary resources, all of which are prescribed by OMB.

Comparative financial statements are presented in order to provide a better understanding of, and identifying trends in the financial position and results of operations of the Fund.

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 this 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** – Intragovernmental receivables principally represent monies due from the law enforcement agencies participating in the Fund. 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, 2008 and 2007.
- **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. Mortgage 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 8 and 9.

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 are disclosed in the footnotes in accordance with SFFAS No. 3.

- **Investments** – 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 2008. 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. Prior to Fiscal Year 1999, expenses and liabilities were recognized and the corresponding obligations reduced when final management approval for an equitable sharing request was given (See also Distributions Payable at Note 10).
- **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

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, 2008 and 2007, respectively (dollars in thousands):

Entity Assets

| Description | Cost | Unamortized Discount | Investment, Net |
|---|-------------|---------------------------------|----------------------------|
| <u>September 30, 2008:</u> | | | |
| Treasury Forfeiture Fund - 35 days 0.160% | | | |
| U.S. Treasury Bills | \$ 531,371 | \$ (83) | \$ 531,288 |
| Interest Receivable | | | 55 |
| Total Investment, Net, and Interest Receivable | | | <u>\$ 531,343</u> |
| Fair Market Value | | | <u>\$ 531,302</u> |
| | | | |
| Description | Cost | Unamortized Discount | Investment, Net |
| <u>September 30, 2007:</u> | | | |
| Treasury Forfeiture Fund - 28 days 3.315% | | | |
| U.S. Treasury Bills | \$ 428,629 | \$ (1,105) | \$ 427,524 |
| Interest Receivable | | | 855 |
| Total Investment, Net, and Interest Receivable | | | <u>\$ 428,379</u> |
| Fair Market Value | | | <u>\$ 427,973</u> |

Non-entity Assets

| <u>Description</u> | <u>Cost</u> | <u>Unamortized Discount</u> | <u>Investment, Net</u> |
|--|-------------|---------------------------------|----------------------------|
| <u>September 30, 2008:</u> | | | |
| Treasury Forfeiture Fund – Seized Currency Suspense Account 35 days 0.160% | | | |
| U.S. Treasury Bills | \$ 499,388 | \$ (78) | <u>\$ 499,310</u> |
| Fair Market Value | | | <u>\$ 499,324</u> |
| <u>September 30, 2007:</u> | | | |
| Treasury Forfeiture Fund – Seized Currency Suspense Account 28 days 3.315% | | | |
| U.S. Treasury Bills | \$ 500,981 | \$ (1,291) | <u>\$ 499,690</u> |
| Fair Market Value | | | <u>\$ 500,214</u> |

Note 4: Non-Entity Assets

The following schedule presents the non-entity assets as of September 30, 2008 and 2007, respectively, (dollars in thousands):

| | <u>2008</u> | <u>2007</u> |
|---|---------------------|---------------------|
| Seized currency: | | |
| Intragovernmental Investments (Note 3) | \$ 499,310 | \$ 499,690 |
| Cash and other monetary assets (Note 6) | <u>121,231</u> | <u>48,082</u> |
| Total Non-Entity Assets | 620,541 | 547,772 |
| Total Entity Assets | <u>643,946</u> | <u>583,972</u> |
| Total Assets | <u>\$ 1,264,487</u> | <u>\$ 1,131,744</u> |

Note 5: Advances

Advances amounted to \$270 thousand and \$240 thousand as of September 30, 2008 and 2007, respectively.

Note 6: 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 \$15.6 million and \$28.5 million as of September 30, 2008 and 2007, 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, amounting to \$121.2 million and \$48.1 million as of September 30, 2008 and 2007, respectively.

Note 7: Forfeited Property

The following summarizes the components of forfeited property (net), as of September 30, 2008 and 2007, respectively, (dollars in thousands):

| | <u>2008</u> | <u>2007</u> |
|--|------------------|------------------|
| Held for Sale | \$ 95,149 | \$ 79,882 |
| To be shared with federal, state or local, or foreign government | <u>1,966</u> | <u>2,588</u> |
| Total forfeited property (Note 8) | 97,115 | 82,470 |
| Less: Allowance for mortgages and claims | <u>(11,550)</u> | <u>(5,736)</u> |
| Total forfeited property, net | <u>\$ 85,565</u> | <u>\$ 76,734</u> |

Note 8: FY 2008 Analysis of Changes in Forfeited Property and Currency

The following schedule presents the changes in the forfeited property and balances from October 1, 2007 to September 30, 2008.
(Dollar value is in thousands.)

| | <u>10/1/07 Financial Statement Balance</u> | | <u>Adjustments</u> | | <u>10/1/07 Carrying Value</u> | | <u>Forfeitures</u> | | <u>Deposits/Sales</u> | | <u>Disposals/Transfers</u> | |
|------------------|--|---------------|--------------------|---------------|-------------------------------|---------------|--------------------|---------------|-----------------------|-----------------|----------------------------|----------------|
| | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> |
| Currency | \$ 28,023 | - | \$ - | - | \$ 28,023 | - | \$ 288,883 | - | \$ (320,420) | - | \$ (160) | - |
| Other Monetary | - | - | - | - | - | - | - | - | - | - | - | - |
| Instruments | 448 | - | - | - | 448 | - | 96,572 | - | (96,709) | - | - | - |
| Subtotal | <u>28,471</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>28,471</u> | <u>-</u> | <u>385,455</u> | <u>-</u> | <u>(417,129)</u> | <u>-</u> | <u>(160)</u> | <u>-</u> |
| Real Property | 63,141 | 136 | (14,799) | - | 48,342 | 136 | 65,102 | 112 | (25,728) | (119) | (6,590) | (17) |
| General Property | 7,757 | 8,947 | 18,017 | - | 25,774 | 8,947 | 41,312 | 14,836 | (12,351) | (2,488) | (25,723) | (1,129) |
| Vessels | 355 | 52 | 512 | - | 867 | 52 | 3,290 | 103 | (3,620) | (77) | (218) | (6) |
| Aircraft | 437 | 7 | 239 | - | 676 | 7 | 200 | 3 | (244) | (4) | - | - |
| Vehicles | 10,780 | 5,656 | 16,669 | - | 27,449 | 5,656 | 56,143 | 14,525 | (53,777) | (15,374) | (12,124) | (1,141) |
| Subtotal | <u>82,470</u> | <u>14,798</u> | <u>20,638</u> | <u>-</u> | <u>103,108</u> | <u>14,798</u> | <u>166,047</u> | <u>29,579</u> | <u>(95,720)</u> | <u>(18,062)</u> | <u>(44,655)</u> | <u>(2,293)</u> |
| Grand Total | <u>\$110,941</u> | <u>14,798</u> | <u>\$ 20,638</u> | <u>-</u> | <u>\$ 131,579</u> | <u>14,798</u> | <u>\$ 551,502</u> | <u>29,579</u> | <u>\$ (512,849)</u> | <u>(18,062)</u> | <u>\$ (44,815)</u> | <u>(2,293)</u> |

| | <u>Victim Restitution</u> | | <u>Destroyed</u> | | <u>Other Adjustments</u> | | <u>Value Change</u> | | <u>2008 Carrying Value</u> | | <u>Fair Market Value Adjustment</u> | | <u>9/30/08 Financial Statement Balance</u> | |
|------------------|---------------------------|---------------|------------------|-----------------|--------------------------|---------------|---------------------|---------------|----------------------------|---------------|-------------------------------------|---------------|--|---------------|
| | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> |
| Currency | \$ - | - | - | - | 19,082 | - | \$ (95) | - | \$ 15,313 | - | \$ - | - | \$ 15,313 | - |
| Other Monetary | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Instruments | - | - | - | - | - | - | - | - | 311 | - | - | - | 311 | - |
| Subtotal | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>19,082</u> | <u>-</u> | <u>(95)</u> | <u>-</u> | <u>15,624</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>15,624</u> | <u>-</u> |
| Real Property | - | - | - | - | 7,636 | 99 | 764 | - | 89,526 | 211 | (6,233) | - | 83,293 | 211 |
| General Property | - | - | (122) | (12,428) | 376 | 59 | (8,023) | - | 21,243 | 7,797 | (14,790) | - | 6,453 | 7,797 |
| Vessels | - | - | - | (32) | 183 | 4 | (23) | - | 479 | 44 | (253) | - | 226 | 44 |
| Aircraft | - | - | - | - | (60) | (1) | - | - | 572 | 5 | (229) | - | 343 | 5 |
| Vehicles | - | - | - | (269) | (870) | (283) | (313) | - | 16,508 | 3,114 | (9,708) | - | 6,800 | 3,114 |
| Subtotal | <u>-</u> | <u>-</u> | <u>(122)</u> | <u>(12,729)</u> | <u>7,265</u> | <u>(122)</u> | <u>(7,595)</u> | <u>-</u> | <u>128,328</u> | <u>11,171</u> | <u>(31,213)</u> | <u>-</u> | <u>97,115</u> | <u>11,171</u> |
| Grand Total | <u>\$ -</u> | <u>-</u> | <u>\$ (122)</u> | <u>(12,729)</u> | <u>\$ 26,347</u> | <u>(122)</u> | <u>\$ (7,690)</u> | <u>-</u> | <u>\$ 143,952</u> | <u>11,171</u> | <u>\$ (31,213)</u> | <u>-</u> | <u>\$ 112,739</u> | <u>11,171</u> |

Note 8 (Cont'd): FY 2007 Analysis of Changes in Forfeited Property and Currency

The following schedule presents the changes in the forfeited property and balances from October 1, 2006 to September 30, 2007.
(Dollar value is in thousands.)

| | <u>10/1/06 Financial Statement Balance</u> | | <u>Adjustments</u> | | <u>10/1/06 Carrying Value</u> | | <u>Forfeitures</u> | | <u>Deposits/Sales</u> | | <u>Disposals/Transfers</u> | |
|------------------|--|---------------|--------------------|---------------|-----------------------------------|---------------|--------------------|---------------|-----------------------|-----------------|----------------------------|----------------|
| | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> |
| Currency | \$ 18,997 | - | \$ - | - | \$ 18,997 | - | \$ 263,943 | - | \$ (269,656) | - | \$ (4) | - |
| Other Monetary | - | - | - | - | - | - | - | - | - | - | - | - |
| Instruments | 283 | - | - | - | 283 | - | 190 | - | (9) | - | (5) | - |
| Subtotal | <u>19,280</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>19,280</u> | <u>-</u> | <u>264,133</u> | <u>-</u> | <u>(269,665)</u> | <u>-</u> | <u>(9)</u> | <u>-</u> |
| Real Property | 40,312 | 141 | (8,304) | - | 32,008 | 141 | 40,172 | 105 | (30,022) | (119) | (4,214) | (11) |
| General Property | 3,423 | 6,117 | 5,583 | - | 9,006 | 6,117 | 21,954 | 15,208 | (3,541) | (544) | (1,076) | (932) |
| Vessels | 712 | 39 | 372 | - | 1,084 | 39 | 1,202 | 77 | (1,481) | (65) | (15) | (2) |
| Aircraft | 241 | 2 | 132 | - | 373 | 2 | 284 | 4 | - | - | - | - |
| Vehicles | 10,017 | 3,608 | 9,169 | - | 19,186 | 3,608 | 60,590 | 17,023 | (40,970) | (13,364) | (9,828) | (929) |
| Subtotal | <u>54,705</u> | <u>9,907</u> | <u>6,952</u> | <u>-</u> | <u>61,657</u> | <u>9,907</u> | <u>124,202</u> | <u>32,417</u> | <u>(76,014)</u> | <u>(14,092)</u> | <u>(15,133)</u> | <u>(1,874)</u> |
| Grand Total | <u>\$ 73,985</u> | <u>9,907</u> | <u>\$ 6,952</u> | <u>-</u> | <u>\$ 80,937</u> | <u>9,907</u> | <u>\$ 388,335</u> | <u>32,417</u> | <u>\$ (345,679)</u> | <u>(14,092)</u> | <u>\$ (15,142)</u> | <u>(1,874)</u> |

| | <u>Victim Restitution</u> | | <u>Destroyed</u> | | <u>Other Adjustments</u> | | <u>Value Change</u> | | <u>2007 Carrying Value</u> | | <u>Fair Market Value Adjustment</u> | | <u>9/30/07 Financial Statement Balance</u> | |
|------------------|---------------------------|---------------|------------------|-----------------|--------------------------|---------------|---------------------|---------------|----------------------------|---------------|---|---------------|--|---------------|
| | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> |
| Currency | \$ - | - | \$ - | - | 14,743 | - | \$ - | - | \$ 28,023 | - | \$ - | - | \$ 28,023 | - |
| Other Monetary | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Instruments | - | - | - | - | (11) | - | - | - | 448 | - | - | - | 448 | - |
| Subtotal | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>14,732</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>28,471</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>28,471</u> | <u>-</u> |
| Real Property | - | - | - | - | 10,228 | 20 | 170 | - | 48,342 | 136 | 14,799 | - | 63,141 | 136 |
| General Property | - | - | (129) | (11,353) | 1,173 | 451 | (1,613) | - | 25,774 | 8,947 | (18,017) | - | 7,757 | 8,947 |
| Vessels | - | - | - | (10) | 83 | 13 | (6) | - | 867 | 52 | (512) | - | 355 | 52 |
| Aircraft | - | - | - | - | 19 | 1 | - | - | 676 | 7 | (239) | - | 437 | 7 |
| Vehicles | - | - | - | (182) | (1,455) | (500) | (74) | - | 27,449 | 5,656 | (16,669) | - | 10,780 | 5,656 |
| Subtotal | <u>-</u> | <u>-</u> | <u>(129)</u> | <u>(11,545)</u> | <u>10,048</u> | <u>(15)</u> | <u>(1,523)</u> | <u>-</u> | <u>103,108</u> | <u>14,798</u> | <u>(20,638)</u> | <u>-</u> | <u>82,470</u> | <u>14,798</u> |
| Grand Total | <u>\$ -</u> | <u>-</u> | <u>\$ (129)</u> | <u>(11,545)</u> | <u>\$ 24,780</u> | <u>(15)</u> | <u>\$ (1,523)</u> | <u>-</u> | <u>\$ 131,579</u> | <u>14,798</u> | <u>\$ (20,638)</u> | <u>-</u> | <u>\$ 110,941</u> | <u>14,798</u> |

Note 9: FY 2008 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.)

| | <u>9/30/07 Financial</u> | | <u>Seizures</u> | | <u>Remissions</u> | | <u>Forfeitures</u> | | <u>Adjustments</u> | | <u>Value Changes</u> | | <u>9/30/08 Financial</u> | |
|------------------|--------------------------|---------------|-------------------|---------------|---------------------|----------------|---------------------|-----------------|--------------------|----------------|----------------------|---------------|--------------------------|---------------|
| | <u>Statement Balance</u> | | | | | | | | | | | | <u>Statement Balance</u> | |
| | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> |
| Currency | \$ 535,538 | - | \$ 417,485 | - | \$ (22,265) | - | \$ (288,883) | - | \$ (32,242) | - | \$ (1,170) | - | \$ 608,463 | - |
| Other Monetary | | | | | | | | | | | | | | |
| Instruments | 12,234 | - | 98,788 | - | - | - | (96,572) | - | (2,372) | - | - | - | 12,078 | - |
| Subtotal | <u>547,772</u> | <u>-</u> | <u>516,273</u> | <u>-</u> | <u>(22,265)</u> | <u>-</u> | <u>(385,455)</u> | <u>-</u> | <u>(34,614)</u> | <u>-</u> | <u>(1,170)</u> | <u>-</u> | <u>620,541</u> | <u>-</u> |
| Real Property | 279,550 | 752 | 110,175 | 198 | (34,086) | (193) | (65,102) | (112) | 6,460 | (55) | 816 | - | 297,813 | 590 |
| General Property | 339,804 | 16,983 | 134,948 | 24,178 | (104,128) | (3,778) | (41,312) | (14,836) | (3,899) | (3,804) | (27,880) | - | 297,533 | 18,743 |
| Vessels | 7,889 | 112 | 7,518 | 222 | (3,792) | (63) | (3,290) | (103) | (349) | (8) | (941) | - | 7,035 | 160 |
| Aircraft | 2,707 | 13 | 5,439 | 13 | (3,326) | (5) | (200) | (3) | (516) | (1) | (863) | - | 3,241 | 17 |
| Vehicles | 64,341 | 8,655 | 113,850 | 19,486 | (55,780) | (5,163) | (56,143) | (14,525) | (10,236) | (1,457) | (1,011) | - | 55,021 | 6,996 |
| Subtotal | <u>694,291</u> | <u>26,515</u> | <u>371,930</u> | <u>44,097</u> | <u>(201,112)</u> | <u>(9,202)</u> | <u>(166,047)</u> | <u>(29,579)</u> | <u>(8,540)</u> | <u>(5,325)</u> | <u>(29,879)</u> | <u>-</u> | <u>660,643</u> | <u>26,506</u> |
| Grand Total | <u>\$ 1,242,063</u> | <u>26,515</u> | <u>\$ 888,203</u> | <u>44,097</u> | <u>\$ (223,377)</u> | <u>(9,202)</u> | <u>\$ (551,502)</u> | <u>(29,579)</u> | <u>\$ (43,154)</u> | <u>(5,325)</u> | <u>\$ (31,049)</u> | <u>-</u> | <u>\$ 1,281,184</u> | <u>26,506</u> |

Note 9 (Cont'd): FY 2007 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.)

| | <u>9/30/06 Financial</u> | | <u>Seizures</u> | | <u>Remissions</u> | | <u>Forfeitures</u> | | <u>Adjustments</u> | | <u>Value Changes</u> | | <u>9/30/07 Financial</u> | | | | | | | | |
|------------------|--------------------------|-----------|-----------------|---------------|-------------------|---------------|--------------------|---------------|--------------------|---------------|----------------------|---------------|--------------------------|---------------|---------|----|----------|-----|---------|-----------|--------|
| | <u>Statement Balance</u> | | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | <u>Value</u> | <u>Number</u> | | | | | | | |
| Currency | \$ | 452,065 | - | \$ | 406,059 | - | \$ | (65,402) | - | \$ | 6,441 | - | \$ | 318 | - | \$ | 535,538 | - | | | |
| Other Monetary | | | | | | | | | | | | | | | | | | | | | |
| Instruments | | 12,550 | - | | 219 | - | | (116) | - | | (229) | - | | - | - | | 12,234 | - | | | |
| Subtotal | | 464,615 | - | | 406,278 | - | | (65,518) | - | | 6,212 | - | | 318 | - | | 547,772 | - | | | |
| Real Property | | 278,470 | 701 | | 116,070 | 269 | | (22,529) | (170) | | (53,754) | 57 | | 1,465 | - | | 279,550 | 752 | | | |
| General Property | | 237,133 | 14,676 | | 318,012 | 24,598 | | (139,959) | (3,845) | | (21,954) | (15,208) | | (2,285) | (3,238) | | (51,143) | - | 339,804 | 16,983 | |
| Vessels | | 4,272 | 92 | | 8,649 | 147 | | (2,650) | (38) | | (1,202) | (77) | | (1,241) | (12) | | 61 | - | 7,889 | 112 | |
| Aircraft | | 3,761 | 10 | | 15,504 | 10 | | (13,266) | (3) | | (284) | (4) | | (3,233) | - | | 225 | - | 2,707 | 13 | |
| Vehicles | | 51,731 | 7,610 | | 126,987 | 23,274 | | (49,739) | (4,609) | | (60,590) | (17,023) | | (3,671) | (597) | | (377) | - | 64,341 | 8,655 | |
| Subtotal | | 575,367 | 23,089 | | 585,222 | 48,298 | | (228,143) | (8,665) | | (124,202) | (32,417) | | (64,184) | (3,790) | | (49,769) | - | 694,291 | 26,515 | |
| Grand Total | \$ | 1,039,982 | 23,089 | \$ | 991,500 | 48,298 | \$ | (293,661) | (8,665) | \$ | (388,335) | (32,417) | \$ | (57,972) | (3,790) | \$ | (49,451) | - | \$ | 1,242,063 | 26,515 |

Note 10: Distributions Payable (state and local agencies and foreign governments)

Distributions Payable (state and local agencies and foreign governments) amounted to \$68.6 million and \$85.6 million as of September 30, 2008 and 2007, 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, 2008 and 2007, 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 11: Net Position

Cumulative Results

The following summarizes components of cumulative results as of and for the years ended September 30, 2008 and 2007, respectively, (dollars in thousands):

| | <u>2008</u> | <u>2007</u> |
|--------------------------|-------------------|-------------------|
| Retained Capital | \$ 132,959 | \$ 64,045 |
| Unliquidated Obligations | 228,428 | 172,712 |
| Results of Operations | <u>65,392</u> | <u>124,630</u> |
| | <u>\$ 426,779</u> | <u>\$ 361,387</u> |

Unliquidated Obligations

The following summarizes the components of unliquidated obligations as of September 30, 2008 and 2007, respectively, (dollars in thousands):

| | <u>2008</u> | <u>2007</u> |
|-------------------|-------------------|-------------------|
| Equitable Sharing | \$ 88,181 | \$ 4,090 |
| Mandatory | <u>140,247</u> | <u>168,622</u> |
| | <u>\$ 228,428</u> | <u>\$ 172,712</u> |

Note 12: 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 13: 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 \$34.9 million and \$27.5 million in fiscal years 2008 and 2007, respectively.

Note 14: 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 \$17.9 million and \$12.4 million in fiscal years 2008 and 2007, respectively.

Note 15: Commitments and Contingencies

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 10, 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

There are no pending or threatened litigation claims or assessments exceeding \$250,000. Last year's Note 15 referenced the class action lawsuit styled Julie Sueoka, et al. v. United States, Case No. 98-6313-AAH (RCx)(C.D. Cal.). The class action was filed in the Central District of California in August 1998 against the seizing and forfeiting law enforcement agencies of the Departments of Treasury and Justice. After years of discovery and final resolution as to which subclasses would be certified, the parties entered into a settlement agreement, which was approved by the court on October 29, 2007. Claimants had until December 10, 2007 to file a claim pursuant to the terms of the settlement agreement. The Fund's forfeiting law enforcement agencies (member agencies) received a total of 17 claims. The Executive Office for Asset Forfeiture (EOAF) and the Fund's member agencies reviewed each claim with the Assistant U.S. Attorney and issued ruling letters either granting or denying each claim. As of June 6, 2008, the time for any TFF claimant to appeal his or her ruling had expired. The TFF denied all but three claims, for a total claims payment of \$9 thousand. The time for all appeals has been exhausted, and the case is concluded. Additionally, EOAF's share of the expenses for the implementation of the settlement agreement was approximately \$616 thousand most of which was billed for and paid prior to September 30, 2008. EOAF is awaiting invoices for approximately \$47 thousand of the expenses.

There are no other contingencies to disclose.

Note 16: 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>2008</u> | <u>2007</u> |
|-----------------|-------------------|-------------------|
| Gross Costs | \$ 171,876 | \$ 153,506 |
| Earned Revenues | - | - |
| Net Costs | <u>\$ 171,876</u> | <u>\$ 153,506</u> |

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

Note 17: Disclosures Related to the Statements of Budgetary Resources

The Fund’s net amount of budgetary resources obligated at the end of fiscal years 2008 and 2007 are \$358.1 million and \$316.1 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. No adjustments were required during the reporting period to budgetary resources available at the beginning of the year. 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 2008 and 2007 consist of the following (in thousands):

| | <u>2008</u> | <u>2007</u> |
|---|------------------|------------------|
| Recoveries of Prior Year Unpaid Obligations | <u>\$ 41,607</u> | <u>\$ 17,231</u> |

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 18: Dedicated Collections

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

Note 19: Payments in Lieu of Forfeiture, Net of Refund

The following summarizes Payments in Lieu of Forfeiture, Net of Refunds as of September 30, 2008 and 2007, respectively, (dollars in thousands):

| | <u>2008</u> | <u>2007</u> |
|--------------------------------|---------------------|-------------------|
| Payments in Lieu of Forfeiture | \$ 10,355 | \$ 7,547 |
| Refunds | <u>(176,916)</u> | <u>(10,731)</u> |
| Total | <u>(\$ 166,561)</u> | <u>(\$ 3,184)</u> |

Note 20: 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>2008</u> | <u>2007</u> |
|---|-------------------|-------------------|
| Resources Used to Finance Activities: | | |
| Budgetary resources obligated | | |
| Obligations incurred | \$ 597,287 | \$ 391,512 |
| Less: Spending authority from offsetting | | |
| Collections and recoveries | <u>(41,607)</u> | <u>(17,231)</u> |
| Net Obligations | 555,680 | 374,281 |
| Other resources | | |
| Transfers – out | <u>(52,796)</u> | <u>(39,923)</u> |
| Total Resources Used to Finance Activities | <u>502,884</u> | <u>334,358</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 | (47,393) | (112,141) |
| Other resources or adjustments to net obligated resources that do not affect net cost of operations | | |
| Mortgages and claims | (10,386) | (10,046) |
| Refunds | (176,917) | (10,731) |
| Equitable Sharing (federal, state/local and foreign) | (90,226) | (43,063) |
| Victim restitution | <u>(6,086)</u> | <u>(4,871)</u> |
| Total Resources Used to Finance Items not Part of the Net Cost of Operations | <u>(331,008)</u> | <u>(180,852)</u> |
| Total Resources Used to Finance the Net Cost of Operations | <u>171,876</u> | <u>153,506</u> |
| Net Cost of Operations | <u>\$ 171,876</u> | <u>\$ 153,506</u> |

SECTION IV

REQUIRED SUPPLEMENTAL INFORMATION

(Unaudited)

Intragovernmental Amounts – Assets (Dollars in thousands)

| Partner Agency | 2008 | | | 2007 | | |
|-----------------------|----------------------------|------------------------------|---------------------|----------------------------|------------------------------|-------------------|
| | Fund Balance with Treasury | Accounts Receivable/Advances | Investments | Fund Balance with Treasury | Accounts Receivable/Advances | Investments |
| Departmental Offices | \$ - | \$ 270 | \$ - | \$ - | \$ 240 | \$ - |
| Bureau of Public Debt | - | - | 1,030,653 | - | - | 928,069 |
| Totals | \$ - | \$ 270 | \$ 1,030,653 | \$ - | \$ 240 | \$ 928,069 |

Intragovernmental Amounts – Liabilities (Dollars in thousands)

| Partner Agency | 2008 Accounts Payable | 2007 Accounts Payable |
|---------------------------------|-----------------------|-----------------------|
| Department of Justice | \$ 2,280 | \$ 11,955 |
| Departmental Offices | 897 | 178 |
| Department of Homeland Security | 10,752 | 8,331 |
| Department of Defense | 3 | - |
| Fincen | 925 | 4 |
| Tax and Trade | 22 | - |
| Internal Revenue Service | 26,792 | 13,014 |
| Totals | \$ 41,671 | \$ 33,482 |

Intragovernmental Amounts – Revenues and Costs (Dollars in thousands)

| Budget Functions | 2008 | | 2007 | |
|---------------------------|---|--|---|--|
| | 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 | \$ - | \$ 108,151 | \$ - | \$ 97,760 |

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

| Partner Agency | 2008 | | 2007 | |
|--------------------------------------|-------------|------------------|-------------|---------------|
| | In | Out | In | Out |
| Department of Justice | \$ - | \$ 244 | \$ - | \$ - |
| Department of Homeland Security | - | 20,584 | - | 24,322 |
| Department of Treasury | - | 318 | - | 2,190 |
| Internal Revenue Service | - | 30,569 | - | 13,250 |
| Financial Crimes Enforcement Network | - | 475 | - | - |
| Tax and Trade | - | 116 | - | - |
| Department of State | - | 140 | - | 36 |
| Department of Labor | - | 250 | - | 125 |
| Department of Commerce | - | 100 | - | - |
| Totals | \$ - | \$ 52,796 | \$ - | 39,923 |

SECTION V

OTHER ACCOMPANYING INFORMATION

(Unaudited)

TREASURY FORFEITURE FUND
Equitable Sharing Summarized by State and U.S. Territories
For the Year Ended September 30, 2008
(Dollars in Thousands)
(Unaudited)

| <u>State/U.S. Territories</u> | <u>Currency Value</u> | <u>Property Value</u> |
|---------------------------------|-----------------------|-----------------------|
| Alabama | \$ 4 | \$ 15 |
| Alaska | - | 27 |
| Arizona | 2,991 | - |
| Arkansas | 45 | - |
| California | 9,231 | 251 |
| Colorado | 14 | 8 |
| Connecticut | 341 | 130 |
| D.C. Washington | 171 | - |
| Delaware | 70 | - |
| Florida | 4,742 | 547 |
| Georgia | 2,798 | - |
| Guam | 138 | - |
| Hawaii | 67 | - |
| Idaho | 28 | - |
| Illinois | 3,502 | 120 |
| Indiana | 579 | - |
| Iowa | 20 | - |
| Kansas | 192 | - |
| Kentucky | 693 | 90 |
| Louisiana | 526 | 34 |
| Maine | 35 | 14 |
| Maryland | 5,915 | 27 |
| Massachusetts | 1,016 | 150 |
| Michigan | 1,220 | 14 |
| Minnesota | 4 | 3 |
| Mississippi | 155 | 94 |
| Missouri | 55 | - |
| Montana | 22 | 51 |
| Nebraska | - | - |
| Nevada | 1,124 | - |
| New Jersey | 2,371 | - |
| New Hampshire | 55 | 64 |
| New Mexico | 178 | - |
| New York | 8,565 | 48 |
| North Carolina | 6,257 | 631 |
| North Dakota | 349 | - |
| Ohio | 2,008 | 13 |
| Oklahoma | 53 | 10 |
| Oregon | 896 | - |
| Pennsylvania | 2,217 | - |
| Puerto Rico | 634 | 20 |
| Rhode Island | 55 | 8 |
| South Carolina | 806 | 22 |
| South Dakota | - | - |
| Tennessee | 868 | 435 |
| Texas | 12,312 | 64 |
| Utah | 10 | - |
| <i>Subtotal carried forward</i> | <u>\$73,332</u> | <u>\$2,890</u> |

TREASURY FORFEITURE FUND
Equitable Sharing Summarized by State and U.S. Territories
For the Year Ended September 30, 2008
(Dollars in Thousands)
(Unaudited)

| <i>State/U.S. Territories</i> | <u>Currency Value</u> | <u>Property Value</u> |
|---------------------------------|-----------------------|-----------------------|
| <i>Subtotal brought forward</i> | \$73,332 | \$2,890 |
| Vermont | 123 | - |
| Virgin Islands | - | - |
| Virginia | 10,354 | 473 |
| Washington | 1,678 | 429 |
| West Virginia | 67 | - |
| Wisconsin | 365 | 487 |
| Wyoming | <u>-</u> | <u>-</u> |
| Totals | <u>\$85,919</u> | <u>\$ 4,279</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
\$100,000, Taking More Than 120 Days from Seizure to Deposit in Fund
For the Year Ended September 30, 2008
(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 \$100,000, which were not deposited in the Department of the Treasury Forfeiture Fund within 120 days of the seizure date. There were no administrative seizures over \$100,000 over 120 days old for all bureaus in FY 2008.

TREASURY FORFEITURE FUND
Analysis of Revenue and Expenses and Distributions
For the Year Ended September 30, 2008
(Dollars in Thousands)

Revenue, Expenses and Distributions by Asset Category:

| | <u>Revenue</u> | <u>Expenses and Distributions</u> |
|--|------------------|-----------------------------------|
| Vehicles | \$14,652 | \$71,097 |
| Vessels | 4,070 | 90,585 |
| Aircraft | 4,070 | 29,183 |
| General Property | 13,024 | 287,521 |
| Real Property | 45,586 | 11,262 |
| Currency and monetary instruments | <u>492,277</u> | <u>84,031</u> |
| | 573,679 | 573,679 |
| Less: | | |
| Mortgages and claims | (10,386) | (10,386) |
| Refunds | (176,917) | (176,917) |
| Add: | | |
| Excess of net revenues and financing sources over total program expenses | <u> --</u> | <u> --</u> |
| Total | <u>\$386,376</u> | <u>\$386,376</u> |

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

| | | |
|--|------------------|------------------|
| Sales of property and forfeited currency and monetary instruments | 473,015 | 108,999 |
| Reimbursed storage costs | 4,352 | 57,368 |
| Assets shared with state and local agencies | 78,498 | 78,498 |
| Assets shared with other federal agencies | 11,551 | 11,551 |
| Assets shared with foreign countries | 177 | 177 |
| Victim Restitution | 6,086 | 6,086 |
| Destructions | -- | 68,841 |
| Pending disposition | <u> --</u> | <u>242,159</u> |
| | 573,679 | 573,679 |
| Less: | | |
| Mortgages and claims | (10,386) | (10,386) |
| Refunds | (176,917) | (176,917) |
| Add: | | |
| Excess of net revenues and financing sources over total program expenses | <u> --</u> | <u> --</u> |
| Total | <u>\$386,376</u> | <u>\$386,376</u> |

The revenue amount of \$386,376 is from the Statement of 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, 2008
(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, 2008, the Fund had forfeited property held for sale of \$95,149. 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 U.S. Customs Service (Customs) suspense account. Upon forfeiture, it is transferred to the Treasury Forfeiture Fund. At September 30, 2008, there was \$15,624 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 \$85,919 and total property transferred was \$4,279 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, 2007 which became the beginning balance for the Fund on October 1, 2008, as reported in the audited financial statements is \$361,387.

- (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 \$10,386. The amount actually paid on a cash basis was not materially different.

TREASURY FORFEITURE FUND
Information Required by 31 U.S.C. 9703(f)
For the Year Ended September 30, 2008
(Dollars in Thousands)

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:

| | |
|------------------------|----------|
| State and local | \$78,498 |
| Foreign countries | 177 |
| Other federal agencies | 11,551 |
| Victim restitution | 6,086 |

- (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 \$171,876.

The amount of seized currency not on deposit in the Fund's suspense account at September 30, 2008, was \$121,231. This amount includes some funds in the process of being deposited at yearend; cash seized in August or September 2008 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 \$183,082 for fiscal year 2008.

- (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:

| | | |
|---------------------|-----------|--------------|
| CBP | \$121,786 | 26 seizures |
| IRS | 281,660 | 107 seizures |
| U.S. Secret Service | 88,559 | 14 seizures |

- (E) The total dollar value of uncontested seizures of monetary instruments having a value of over \$100,000 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 \$0. This is also documented on page 64.

TREASURY FORFEITURE FUND
Information Required by 31 U.S.C. 9703(f)
For the Year Ended September 30, 2008
(Dollars in Thousands)

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

The total net position of the Fund at September 30, 2008, as reported in the audited financial statements is \$426,779.

(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 2009 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, is found in Section II.

(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 65.