Audit Report

OIG-09-023

Audit of the Financial Crimes Enforcement Network's Fiscal Years 2008 and 2007 Financial Statements

January 6, 2009

Office of Inspector General

Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

January 6, 2009

MEMORANDUM FOR JAMES H. FREIS, JR., DIRECTOR
FINANCIAL CRIMES ENFORCEMENT NETWORK

FROM: Michael Fitzgerald /s/
Director, Financial Audits

SUBJECT: Audit of the Financial Crimes Enforcement Network's Fiscal Years 2008 and 2007 Financial Statements

I am pleased to transmit the attached audited Financial Crimes Enforcement Network's (FinCEN) financial statements for fiscal years 2008 and 2007. Under a contract monitored by the Office of Inspector General, KPMG LLP, an independent certified public accounting firm, performed an audit of the financial statements of FinCEN 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 KPMG LLP, are incorporated in the attachment:

- Independent Auditors' Report on Financial Statements;
- Independent Auditors' Report on Internal Control Over Financial Reporting; and
- Independent Auditors' Report on Compliance and Other Matters.

In its audit, KPMG LLP reported:

- that the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,

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

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

- an instance of a potential Anti-deficiency Act violation related to obligations and expenditures for FinCEN's Bank Secrecy Act Direct Retrieval and Sharing System project.

In connection with the contract, we reviewed KPMG LLP'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. KPMG LLP is responsible for the attached auditors' reports dated December 18, 2008 and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789, or a member of your staff may contact Ade Bankole, Manager, Financial Audits at (202) 927-5329.

Attachment

DEPARTMENT OF THE TREASURY
FINANCIAL CRIMES ENFORCEMENT NETWORK

Financial Statements

September 30, 2008

DEPARTMENT OF THE TREASURY
FINANCIAL CRIMES ENFORCEMENT NETWORK

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Financial Statements

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

We have audited the accompanying balance sheets of the U.S. Department of the Treasury – Financial Crimes Enforcement Network (FinCEN) as of September 30, 2008 and 2007, and the related statements of net cost, changes in net position, budgetary resources and custodial activity (hereinafter referred to as "financial statements") for the years then ended. These financial statements are the responsibility of FinCEN's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FinCEN's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of the Treasury – Financial Crimes Enforcement Network as of September 30, 2008 and 2007, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in conformity with U.S. generally accepted accounting principles.

The information in the *Management Discussion and Analysis* and *Required Supplementary Information* sections is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 18, 2008, on our consideration of FinCEN's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

December 18, 2008

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Control Over Financial Reporting

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

We have audited balance sheets of the U.S. Department of the Treasury – Financial Crimes Enforcement Network (FinCEN) as of September 30, 2008 and 2007 and the related statements of net cost, changes in net position, budgetary resources and custodial activity (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated December 18, 2008.

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 Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of FinCEN is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2008 audit, we considered FinCEN's internal control over financial reporting by obtaining an understanding of the design effectiveness of FinCEN's internal control, determining whether 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. To achieve this purpose, we did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of FinCEN's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of FinCEN's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

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 FinCEN's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of FinCEN's financial statements that is more than inconsequential will not be prevented or detected by FinCEN'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 FinCEN's internal control.

In our fiscal year 2008 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. Exhibit I presents the status of prior year's material weakness.

This report is intended solely for the information and use of FinCEN's management, the U.S. Department of the Treasury Office of the Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 18, 2008

STATUS OF PRIOR YEARS' MATERIAL WEAKNESS

As required by *Government Auditing Standards* issued by the Comptroller General of the United States, and by OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, we have reviewed the status of prior year's finding and recommendation. The following table provides our assessment of the progress FinCEN has made in correcting the material weakness identified during these audits.

Material Weakness	Recommendation	Status
Improvements are needed in the supervisory review performed over calculation of expenses and revenues for the statement of net cost	**Recommendation No. 1:** We recommend that FinCEN improve its review procedures over the financial statements preparation. Improvements should include: o Implementing procedures to ensure accurate percentages are used in allocating expenses and revenues on the SNC. o Adequate supervisory review of the final allocations performed over the SNC and the related footnote disclosures before issuing financial statements.	Closed

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance and Other Matters

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

We have audited the balance sheets of the U.S. Department of the Treasury – Financial Crimes Enforcement Network (FinCEN) as of September 30, 2008 and 2007, and the related statements of net cost, changes in net position, budgetary resources and custodial activity (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated December 18, 2008.

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 Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

The results of our tests of compliance described in the preceding paragraph of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed no instances in which FinCEN's financial management systems did not substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

During our audit, FinCEN management informed us that, between fiscal years 2004 and 2006, obligations and expenditures related to FinCEN's Banks Secrecy Act Direct Retrieval and Sharing System (BSA Direct R&S) project may have exceeded the approved and appropriated funding limits. The U.S. Department of the Treasury Office of Inspector General has requested the General Counsel of the U.S. Government Accountability Office (GAO) to review this matter to determine whether a violation of the

Anti-Deficiency Act occurred, but a conclusion has not yet been reached. Since GAO's review is not complete, the outcome of this matter, and any resulting actions, are not presently known.

This report is intended solely for the information and use of FinCEN's management, the U.S. Department of the Treasury Office of Inspector General, OMB, the GAO, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 18, 2008

Management Discussion and Analysis

Department of the Treasury
Financial Crimes Enforcement Network

Management Discussion and Analysis
September 30, 2008

The Financial Crimes Enforcement Network (FinCEN), a bureau within the Department of the Treasury's Office of Terrorism and Financial Intelligence, plays a key role in supporting the Department's strategic goal of 'Prevented terrorism and promoted the nation's security through strengthened international financial systems'. This role includes ensuring safer and more transparent U.S. and international financial systems through the administration of the Bank Secrecy Act (BSA).

The BSA requires financial institutions to file reports on certain types of financial activity and to establish appropriate internal controls to guard against money laundering, terrorist financing, and other types of illicit finance. These reports have a high degree of usefulness in criminal, tax, and regulatory matters. Documents filed by businesses pursuant to the BSA requirements are heavily used by law enforcement agencies, both domestically and through exchanges with international counterparts, to identify, detect and deter money laundering, whether it is in furtherance of a criminal enterprise, terrorism, tax evasion or other unlawful activity. FinCEN also serves as the nation's financial intelligence unit (FIU). An FIU serves as a national center to collect, analyze, disseminate, and exchange information pursuant to a country's anti-money laundering/combating the financing of terrorism (AML/CFT) legislation and regulations. This includes information about suspicious or unusual financial activity reported by the financial sector.

FinCEN fulfills its mission, goals and priorities by: administering the BSA; supporting policy makers, law enforcement, regulatory, and intelligence agencies through sharing and analysis of financial intelligence; enhancing international AML/CFT efforts and cooperation; and networking people, entities, ideas, and information. FinCEN's activities and efforts are developed in coordination with federal, state, and international partners. These bureau efforts are linked to the following strategic goals:

- Financial systems resistant to abuse by money launders, terrorists, and their financial supporters, and other perpetrators of financial crime;
- Detection and deterrence of money laundering, terrorism financing, and other illicit activity; and
- Efficient management, safeguarding, and use of BSA information.

Regulatory Accomplishments

FinCEN's regulatory policy efforts focus on efficient and effective administration of the BSA. This includes improving the consistency in the application of BSA regulations to regulated financial institutions, providing guidance regarding regulatory expectations, conducting studies to provide feedback to stakeholders, and initiating enforcement actions when appropriate.

In FY 2008, FinCEN published guidance relating to the anti-money laundering program rule for dealers in precious metals, precious stones, or jewels, as well as several pieces of guidance to further clarify the definition of money services businesses (MSBs). FinCEN also published a notice of proposed rulemaking in the Federal Register that would simplify the existing currency transaction reporting exemption regulatory requirements, and the bureau continued to work towards presenting a final rule.

Also in FY 2008, FinCEN published three strategic assessments describing findings from Suspicious Activity Report (SAR) analysis to provide feedback to industry, regulatory, and law enforcement stakeholders. The assessments identified reporting trends and patterns and described vulnerabilities and typologies gleaned from reviewing SAR records: reviewing SARs after the first year of mandated reporting by certain insurance companies; reporting suspected money laundering activities in the residential real estate sector; and describing mortgage loan fraud.

Additionally, in FY 2008, FinCEN published a proposed rule to overhaul BSA regulations for inclusion in a new Code of Federal Regulations (CFR) chapter. The new CFR chapter is an effort to provide greater clarity in regulations and make them easier for industry to follow, as well as more intuitive and responsive to industry feedback.

Analytic Efforts in Support of Detection and Deterrence of Money Laundering

FinCEN's analytic efforts focus on developing products and services to help law enforcement better utilize resources to enhance detection and deterrence of domestic and international money laundering, terrorism financing, and other illicit activity. This includes exchange of information with counterpart foreign government FIUs in 108 countries that are members of the Egmont Group.

In FY 2008, FinCEN continued to enhance its support to law enforcement agencies by focusing on actionable analyses targeted at high-priority money laundering and terrorist financing targets. This effort was enhanced through collaborative efforts with Customs and Border Protection, Immigration and Customs Enforcement, and the Coast Guard. Additionally, FinCEN published two comprehensive technical reference guides for law enforcement officials (PayPal and MoneyGram).

FinCEN continued to work with its Egmont Group partners to develop actionable intelligence concerning illicit money flows and provided technical assistance and training to Egmont Group candidates and members. FinCEN increased collaboration with the Mexican FIU that involved analytical training, multiple on-site visits, support of information technology updates, and joint analytical projects.

Accessibility of BSA Information

FinCEN's efforts related to the efficient management, safeguarding, and use of BSA information focus on maximizing utilization by improving the overall information infrastructure and enhancing information technology management capabilities. Improving data quality and access remains a priority for FinCEN.

In FY 2008, FinCEN began the process to retire magnetic media filing, maximized BSA E-Filing capabilities and BSA data validation, and implemented data quality measures to improve its management of BSA data and increase coordination and communication with its federal stakeholders. The bureau also continued initial planning associated with the previously announced multi-year information technology modernization initiative. FinCEN implemented a new public website in May 2008 that improved navigation and allows customers to more easily find the information needed and created a more flexible and sustainable site structure. FinCEN also increased law enforcement access to BSA information through additional memoranda of understanding (MOUs) with U.S. Attorney's Offices.

Highlights of Performance Measures

Performance Measures	FY 2007 Actual	FY 2008 Target	FY 2008 Actual
Percentage of federal and state regulatory agencies with memoranda of understanding/information sharing agreements	New	40%	41%
Percentage of FinCEN's Regulatory Resource Center customers rating the guidance received as understandable	91%	90%	94%
Average time to process enforcement matters (years)	1.1	1.0	0.7
Percentage of FinCEN's compliance MOU holders finding FinCEN's information exchange valuable to improve the BSA consistency and compliance of the financial system	New	Est. Baseline	64%
Percentage of bank examinations conducted by the Federal Banking Agencies indicating a systemic failure of the anti-money laundering program rule.	5.2	5.2	2.5
Percentage of customers finding FinCEN's analytic support highly valuable	82%	79%	83%
Percentage of customers satisfied with BSA E-Filing	94%	90%	93%

FinCEN continues to increase activities to monitor BSA compliance by financial institutions examined by state and federal regulators through entering into MOUs to exchange information. In 2008, FinCEN executed three additional such agreements and surpassed its FY 2008 target of 40 percent with 41 percent of federal/state regulatory agencies with MOUs. These MOUs help ensure effective application of the BSA regulations across all regulated financial service industries by providing vital compliance data. In FY 2008, FinCEN surveyed its compliance MOU holders to determine the impact of the information exchange to improve the BSA consistency and compliance of the financial system, and established a 64 percent baseline of respondents rating the information exchange valuable to improving BSA consistency and compliance. FinCEN's goal to provide financial institutions with understandable guidance is critical to institutions establishing anti-money laundering programs that comply appropriately with the BSA. FinCEN's goal is to maintain a 90 percent satisfaction level and it surpassed the target with 94 percent of customers rating the guidance received as "understandable."

FinCEN works closely with its regulatory partners to take enforcement action against financial institutions that systemically and egregiously violate the provisions of the BSA, including through imposition of civil money penalties when appropriate. Timely enforcement action is essential to deter non-compliance with the BSA. In FY 2008, FinCEN surpassed its target of an average time to process enforcement matters of 1.0 years with an average time of 0.7 years. FinCEN established a baseline for the performance measure "percentage of bank examinations conducted by federal banking agencies indicating a systemic anti-money laundering program failure" in FY 2007. This measure provides an indicator to FinCEN of trends in regulatory compliance and examination efforts. As the percentage goes up or down, FinCEN considers what it means within a totality of circumstances. Either laxity in examinations or increased vigilance in compliance could trigger a downward trend in the indicator. In FY 2008, the percentage of banking institutions cited for program failures during examinations fell significantly below the 5.2 percent indicator level to 2.5 percent. The improvement is primarily attributable to greater consistency among bank regulators in citing instances of program failures.

FinCEN supports domestic law enforcement and international FIU partners by providing analyses of BSA information, and measures the percentage of customers finding FinCEN's analytic reports highly valuable. The measure closely ties to how BSA information is used by law enforcement and international FIUs to identify, investigate, and prevent abuse of the financial system. In FY 2008, FinCEN surpassed its target of 79 percent with 83 percent of its customers finding the analytic products highly valuable.

The information and technology used to facilitate analysis are at the core of FinCEN's mission to deter and detect criminal activity, and to safeguard financial systems from abuse by promoting transparency in the U.S. and international financial systems. FinCEN conducts a survey of the users of the BSA E-Filing system to determine the overall satisfaction level and to identify where improvements are needed. The FY 2008 target is to maintain at least a 90 percent satisfaction level, and FinCEN surpassed its target with 93 percent.

Future Outlook for FY 2009/FY 2010

FinCEN's future plans will improve its ability to strengthen financial system security and enhance U.S. national security. To ensure financial systems are resistant to abuse by money launderers, terrorists and other perpetrators of financial crimes, FinCEN will:

- Continue its outreach initiative to reach out to the largest fifteen depository institutions in the U.S. and expand this to include additional financial service industries;
- Develop a strategy for more consistent application of the BSA across industries;

- Develop additional MOUs to exchange information with state regulators, with a focus on insurance commissioners;
- Conduct and publish additional studies promoting greater awareness of emerging money laundering trends and vulnerabilities; and
- Provide greater clarity to regulated industries regarding their requirements under the BSA.

To further detect and deter money laundering, terrorism financing, and other illicit activity, FinCEN will:

- Improve and expand collaborative relationships with investigative and intelligence agencies to exploit SARs for proactive evaluation;
- Implement a process to capture and measure analytic product relevance to support law enforcement;
- Increase the number of strategic analysis projects undertaken, including suspicious transnational money flows documented by BSA information, and Casino and Securities and Futures SARs to identify significant suspicious activity that transcends local SAR review criteria;
- Increase analyst exchanges and joint analytic activities with partner FIUs, and expand the complexity of FinCEN products provided to international partners; and
- Increase outreach to U.S. law enforcement and regulatory agencies to educate them on the benefits provided by the global network of FIUs.

To ensure efficient management, safeguarding and use of BSA information, FinCEN will:

- Increase BSA utilization by improving BSA information management and analysis;
- Develop or acquire technology to proactively identify, extract and analyze specific datasets, entities or subject networks;
- Upgrade information technology to better retrieve and share BSA information with a growing user population; and
- Continue information technology modernization.

FY 2008 Financial Statement Highlights

Highlights of FinCEN's FY 2008 financial performance appear below. FinCEN is financed annually through appropriations authorized by Congress. The FY 2008 enacted budget is $85.8 million. Total assets were $39.9 and $41.8 million and total liabilities were $11.5 and $14.4 million at the end of FYs 2008 and 2007, respectively.

*Assets***:** FinCEN's total assets as of September 30, 2008 and 2007 were $39.9 and $41.8 million, respectively, of which approximately 70 percent consists of the fund balance with the Treasury in 2008 and 64 percent in 2007. Total assets decreased by $1.9 million. The property and equipment decreased by $5.4 million. This decrease was primarily the result of a $3.2 million write-off of equipment and software, a $2.9 million decrease due to depreciation expense, and a $.7 million offset by asset additions and adjustments. The write-off of equipment and software is associated with the cancellation of the BSA Direct Data Retrieval and Sharing Project. This write-off was caused by the further delay of the BSA modernization project effort that would have used this commercial software. The decrease in property and equipment is offset by a $3.5 million increase in intragovernmental assets that includes a $1.3 million increase to the Fund Balance with Treasury, a $.9 million increase in accounts receivable, and a $1.3 million increase in "other" intragovernmental assets primarily due to prepayments for acquisition services with Department of Interior, National Business Center.

*Liabilities***:** Total liabilities as of September 30, 2008 and 2007 were $11.5 and $14.4 million, respectively. There was a $2.9 million decrease in the total liabilities in FY 2008 over FY 2007. This consisted of a $2.3 million reduction in intragovernmental and a $0.6 million reduction in liabilities with the public. The major component of the decrease in intragovernmental liabilities was the result of timelier billing by the Department of Homeland Security for guard services.

*Net Cost of Operations***:** The net cost of FinCEN operations totaled as of September 30, 2008 and 2007 was $111.3 million and $106.2 million, respectively, an increase of 4.8 percent. All of FinCEN's costs are reported under the Department of the Treasury's Strategic Goal 3: Preserve the Integrity of Financial Systems. FinCEN's net cost aligned to its own Strategic Goals is disclosed on the face of the statement of net cost. A significant portion of FinCEN's net costs ($52.3 million or 47 percent) relates to Strategic Goal 3: Enhanced management, use and security of BSA information.

*Custodial Revenue***:** Total custodial revenue as of September 30, 2008 and 2007 was $.01 million and $11 million, respectively. Total net revenue collected by FinCEN on behalf of the federal government consists mainly of civil monetary penalties. These penalties are assessed against businesses or individuals who do not comply with the reporting and disclosure requirements of the BSA.

Internal Controls, Systems, and Audits

Financial management systems are in compliance with federal financial systems standards, the Federal Manager's Financial Integrity Act (FMFIA) Section 4, and the Federal Financial Management Improvement Act (FFMIA). FinCEN relies on the Bureau of Public Debt (BPD) Administrative Resource Center (ARC) for administrative and accounting services and systems. FinCEN's investment review board meets routinely to monitor ongoing IT projects and review proposed capital investments.

Four audits were completed in FY 2008; two by the Government Accountability Office (GAO) and two by the Treasury Office of Inspector General (OIG). The first GAO audit reviewed currency transaction report exemptions and recommended changes to reduce industry reporting requirements. The second GAO audit reviewed USA PATRIOT Act Section 311 actions and concluded that Treasury's process for implementing Section 311 was consistent with legal requirements set forth in the Act. The first OIG report reviewed responsibilities associated with the BSA among various federal organizations. The report recommended that FinCEN assess the compliance information sharing agreements with regulators, ensure communication with law enforcement regarding investigative support, and develop a BSA-related performance measure. The second OIG report reviewed FinCEN's information technology infrastructure and identified opportunities to further strengthen network security.

At the end of FY 2008, eight GAO and OIG audits were ongoing. In association with one of the ongoing audits, GAO is reviewing a possible Anti-Deficiency Act violation relating to an FY 2004 closed contract, but has currently not completed that review.

Improper Payment Improvement Act (IPIA) Reporting

Background: The Improper Payments Information Act of 2002 (IPIA) requires agencies to review their programs and activities to identify those that are susceptible to significant erroneous payments. "Significant" means that an estimated error rate and a dollar amount exceed the threshold of 2.5 percent and $10 million of total program funding.

Risk Assessment Methodology: As a bureau of the Department of the Treasury, FinCEN follows the methodology and guidance prescribed by the Department. Each year, a comprehensive inventory of the funding sources for all programs and activities is developed. If program or activity funding is at least $10 million, risk assessments are required at the payment type level (e.g., payroll, contracts, vendors, travel, etc.). For those payment types resulting in high risk assessments that comprise at least 2.5 percent and $10 million of a total funding source, (1) statistical sampling must be performed to determine the actual improper payment rate, and (2) if erroneous payments exceed $10 million, a corrective action plan to reduce erroneous payments must be developed and submitted to the Office of Management and Budget (OMB) for approval.

Results for FY 2008: All of FinCEN's programs and activities resulted in low risk susceptibility for improper payments.

Limitations of the Financial Statements

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

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

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

	As of September 30	
	2008	**2007**
ASSETS (Note 2)		
Intragovernmental:		
Fund balance with Treasury (Note 3)	$28,070,158	$26,747,399
Accounts receivable (Note 4)	987,111	117,179
Other (Note 6)	3,518,468	2,189,308
Total intragovernmental	**32,575,737**	**29,053,886**
Accounts receivable, net (Notes 2 and 4)	5,228	5,392
Property and equipment, net (Note 5)	7,350,830	12,701,297
Other (Note 6)	11,990	0
Total assets	**$39,943,785**	**$41,760,575**
LIABILITIES (Note 7)		
Intragovernmental:		
Accounts payable	1,891,961	3,985,945
Other (Note 8)	2,462,237	2,760,079
Total intragovernmental	**4,354,198**	**6,746,024**
Accounts payable	3,249,208	4,317,323
Other (Note 8)	3,887,206	3,381,775
Total liabilities	**11,490,612**	**14,445,122**
Commitments and contingencies (Notes 9 and 10)		
NET POSITION		
Unexpended appropriations	25,676,184	19,374,601
Cumulative results of operations	2,776,989	7,940,852
Total net position	**28,453,173**	**27,315,453**
Total liabilities and net position	**$39,943,785**	**$41,760,575**

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

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

PROGRAM COSTS (Note 11)	For the Years Ended September 30 2008	 2007
Financial systems resistant to abuse by money launders, terrorists, etc.		
Gross costs	$33,749,889	$32,338,615
Less: earned revenue	(22,171)	0
Net program costs	**33,727,718**	**32,338,615**
Detection and deterrence of money laundering, terrorism financing and other illicit activity		
Gross costs	25,477,865	23,707,014
Less: earned revenue	(174,069)	(415,015)
Net program costs	**25,303,796**	**23,291,999**
Efficient management, safeguarding, and use of Bank Secrecy Act information		
Gross costs	54,226,684	51,538,213
Less: earned revenue	(1,934,751)	(1,003,801)
Net program costs	**52,291,933**	**50,534,412**
Net cost of operations	**$111,323,447**	**$106,165,026**

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

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

	For the Years Ended September 30	
	2008	**2007**
Cumulative Results of Operations:		
Beginning balances	$7,940,852	$14,685,344
Budgetary financing sources:		
Appropriations used	78,434,305	74,482,105
Other financing sources (non-exchange):		
Transfers in/out without reimbursement	475,111	-
Imputed financing from costs absorbed by others (Note 14)	27,250,168	24,938,429
Total financing sources	**106,159,584**	**99,420,534**
Net cost of operations	(111,323,447)	(106,165,026)
Net change	**(5,163,863)**	**(6,744,492)**
Cumulative results of operations	**$2,776,989**	**$7,940,852**
Unexpended appropriations:		
Beginning balance	$19,374,601	$20,879,843
Budgetary financing sources:		
Appropriations received	85,844,000	73,216,364
Appropriations transferred in/out	221,045	225,000
Other adjustments (Note 12)	(1,329,157)	(464,501)
Appropriations used	(78,434,305)	(74,482,105)
Total budgetary financing sources	**6,301,583**	**(1,505,242)**
Total unexpended appropriations	**25,676,184**	**19,374,601**
Net position	**$28,453,173**	**$27,315,453**

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

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

	For the Years Ended September 30	
	2008	**2007**
BUDGETARY RESOURCES		
Unobligated balance, brought forward, October 1	$11,218,743	$13,170,510
Recoveries of prior year unpaid obligations (Note 12)	2,427,034	1,083,210
Budget authority:		
Appropriations	85,844,000	73,216,364
Spending authority from offsetting collections:		
Earned		
Collected	1,736,169	1,357,315
Change in receivables from Federal sources	869,932	61,500
Change in unfilled customer orders		
Without advance from Federal sources	1,625,405	507,984
Subtotal	**90,075,506**	**75,143,163**
Non-expenditure transfers, net, anticipated and actual	221,045	225,000
Permanently not available (Note 12)	(1,329,157)	(464,501)
Total budgetary resources	**$102,613,171**	**$89,157,382**
STATUS OF BUDGETARY RESOURCES		
Obligations incurred (Note 12):		
Direct	$79,783,234	$75,962,067
Reimbursable	4,369,943	1,976,572
Subtotal	**84,153,177**	**77,938,639**
Unobligated balance:		
Apportioned	14,639,175	7,553,962
Unobligated balance not available	3,820,819	3,664,781
Total status of budgetary resources	**$102,613,171**	**$89,157,382**

(Continued)

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

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

	For the Years Ended September 30	
	2008	**2007**
CHANGE IN OBLIGATED BALANCE		
Obligated balance, net:		
Unpaid obligations brought forward, October 1	$16,223,079	$19,566,426
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(694,423)	(124,939)
Total unpaid obligated balance, net	**15,528,656**	**19,441,487**
Obligations incurred, net	84,153,177	77,938,639
Less: Gross outlays	(85,149,298)	(80,198,776)
Less: Recoveries of prior year unpaid obligations, actual	(2,427,034)	(1,083,210)
Change in uncollected customer payments from Federal sources	(2,495,337)	(569,484)
Obligated balance, net, end of period:		
Unpaid obligations	12,799,924	16,223,079
Less: Uncollected customer payments from Federal sources	(3,189,760)	(694,423)
Total, unpaid obligated balance, net, end of period	**$9,610,164**	**$15,528,656**
NET OUTLAYS		
Gross outlays	$85,149,298	$80,198,776
Less: Offsetting collections	(1,736,169)	(1,357,315)
Less: Distributed offsetting receipts	2,821	(3,440)
Net outlays	**$83,415,950**	**$78,838,021**

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

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

	For the Years Ended September 30	
	2008	**2007**
Revenue activity (Note 13):		
Sources of cash collections:		
Civil monetary penalties	$12,532	$13,461,367
Total cash collections	**12,532**	**13,461,367**
Accrual adjustments	(2,821)	(2,497,179)
Total custodial revenue	**9,711**	**10,964,188**
Disposition of collections:		
Transferred to others:		
Department of the Treasury	(12,532)	(13,461,367)
Decrease in amounts yet to be transferred	2,821	2,497,179
Net custodial activity	**$0**	**$0**

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

United States Department of the Treasury
Financial Crimes Enforcement Network
Notes to the Financial Statements
For the Years Ended September 30, 2008 and 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Financial Crimes Enforcement Network (FinCEN) was formally established by the Department of the Treasury (Treasury), Order 105-08, on April 25, 1990 and upgraded to bureau status on October 26, 2001 in Public Law 107-56. The mission of FinCEN is to enhance U. S. national security, deter and detect criminal activity, and safeguard financial systems from abuse by promoting transparency in the U.S. and international financial systems. This is accomplished primarily through the administration of the Bank Secrecy Act (BSA); supporting law enforcement, intelligence, and regulatory agencies through sharing and analysis of financial intelligence; enhancing international anti-money laundering and counterterrorist financing efforts and cooperation; and networking people, entities, ideas, and information. To align with FinCEN's new strategic plan, Strategic Goals in fiscal year 2008 were revised as follows: (1) Financial systems resistant to abuse by money launderers, terrorists and their financial supporters, and other perpetrators of financial crime; (2) Detection and deterrence of money laundering, terrorism financing, and other illicit activity and; (3) Efficient management, safeguarding, and use of BSA information. The new plan eliminated a stand alone international goal and integrated this objective within the regulatory and analytic outcome goals. The methodology used to allocate the costs between goals has been updated to reflect the new strategic plan. The FY 2007 statement of net cost has been reclassified using the revised methodology from FY 2008 for comparison purposes.

Basis of Accounting and Presentation

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

These financial statements are provided to meet the requirements of the Government Management Reform Act of 1994. The financial statements consist of the balance sheet, and the statements of net costs, changes in net position, budgetary resources and custodial activity. The financial statements and the related notes are presented on a comparative basis providing information for fiscal years 2008 and 2007.

FinCEN's financial statements with respect to the balance sheets, the statement of net cost, and the statement of changes in net position are reported using the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. FinCEN's statement of budgetary resources is reported using the budgetary basis of accounting. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. It generally differs from the accrual basis of accounting in that obligations are recognized when new orders are placed, contracts awarded, and services received, that will require payments during the same or future periods. FinCEN's statement of financing reconciles differences between the budgetary and accrual bases of accounting. FinCEN's non-entity revenues are reported on the statement of custodial activity using a modified accrual basis of accounting. With this method, revenue from cash collections are reported separately from receivable accruals and cash disbursements are reported separately from payable accruals.

Intragovernmental assets and liabilities result from activity with other Federal agencies. All other assets and liabilities result from activity with parties outside the Federal government, such as domestic and foreign persons, organizations, or governments. Intragovernmental earned revenues are collections or accruals of revenue from other Federal agencies, and intragovernmental costs are payments or accruals to other Federal agencies.

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

These financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

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

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

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

Property and Equipment
Property and equipment is recorded at cost and is depreciated using the straight-line method over the estimated useful lives of the assets. FinCEN capitalizes property and equipment with an acquisition value of $25,000 or greater, and a useful life of two years or greater. FinCEN also capitalizes bulk acquisitions of like-kind property and equipment items that are individually valued under the capitalization threshold but are, in the aggregate, significant to FinCEN's financial position or results of operations.

Internal-use software includes purchased commercial off-the-shelf software (COTS), contractor developed software, and software that was internally developed by agency employees. For COTS software, the capitalized costs include the amount paid to the vendor for the software, for contractor developed software it includes the amount paid to a contractor to design, program, install and implement the software. Capitalized costs for internally developed software include the full cost (direct and indirect) incurred during the software development phase.

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

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

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

Liabilities
Liabilities represent the probable and measurable future outflow or other sacrifice of resources as a result of past transactions or events. Since FinCEN is a component of the United States government, a sovereign entity, FinCEN's liabilities cannot be liquidated without legislation that provides resources or an appropriation. Liabilities covered by budgetary resources are those liabilities for which Congress has appropriated funds or funding is otherwise available to pay amounts due. Liabilities not covered by budgetary or other resources represent amounts owed in excess of available, congressionally appropriated funds or other amounts, and there is no certainty that the appropriations will be enacted. The United States government, acting in its sovereign capacity, can abrogate liabilities of FinCEN arising from other than contracts.

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

Workers' Compensation
A liability is recorded for actual and estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The actual liability is presented as a component of intragovernmental other liabilities, and the actuarial liability is presented within other liabilities in the accompanying Balance Sheet.

FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred work-related occupational diseases and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits to employees are administered by the U.S. Department of Labor (DOL) which initially pays valid claims and subsequently seeks reimbursement from the Federal agencies employing the claimants. Reimbursement to DOL occurs approximately two years subsequent to the actual disbursement to the claimant. Budgetary resources for this intragovernmental liability are made available to FinCEN as part of its annual appropriation from Congress in the year in which the reimbursement takes place.

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

Unamortized Rent Abatement
The terms of the operating lease between FinCEN and the General Services Administration (GSA) for the Vienna, VA facility, contains a rent abatement period of one year. During the rent abatement period no rent is payable to GSA. Rent payments commenced in fiscal year 2006, however, FinCEN is recognizing rent expense on a straight-line basis over the lease term. Accordingly, an unamortized rent abatement liability is included in other intragovernmental liabilities in the accompanying Balance Sheet. This liability is being amortized on a straight-line basis over the lease term.

Pension Costs and Other Retirement Benefits
Most FinCEN employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS). As of September 30, 2008 and 2007, FinCEN contributed 7 percent of base pay for regular employees.

Employees hired after December 31, 1983 are automatically covered by the Federal Employee's Retirement System (FERS) and Social Security. As of September 30, 2008 and 2007, FinCEN contributed 11.2 percent of base pay for the FERS basic benefit. A primary feature of FERS is that it offers a savings plan to which FinCEN automatically contributes 1 percent of base pay and matches employee contributions up to an additional 4 percent of base pay. FinCEN also contributes the employer's Social Security matching share for FERS participants.

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

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

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

Entity Revenues, Financing Sources and Imputed Financing Sources

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

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

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

Non-Entity Assets, Revenues and Disbursements

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

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

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

Use of Estimates

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

Tax Status

FinCEN, as a Federal agency, is not subject to Federal, state, or local income taxes and, accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

NOTE 2. NON-ENTITY ASSETS

Non-entity assets as of September 30, 2008 and 2007 consisted of the following:

	2008	**2007**
Civil penalties assessed	$1,500,000	$1,500,000
Custodial account receivable	-	2,821
Less allowance for doubtful collection	(1,500,000)	(1,500,000)
Total non-entity assets	**0**	**2,821**
Total entity assets	39,943,785	41,757,754
Total assets	**$39,943,785**	**$41,760,575**

Non-entity accounts receivable as of September 30, 2007 represents civil monetary penalties due from non-Federal sources for violations of laws or regulations under FinCEN's regulatory responsibility.

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

NOTE 3. FUND BALANCE WITH TREASURY

Fund Balances:

Fund balance with Treasury as of September 30, 2008 and 2007 consisted of the following components:

	2008	2007
Trust funds	$149,628	$149,628
Appropriated funds	27,920,530	26,597,771
Total	**$28,070,158**	**$26,747,399**

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

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

Status of Fund Balances:

The status of fund balance with Treasury as of September 30, 2008 and 2007 consisted of the following:

	2008	2007
Unobligated balance:		
Available	$14,639,175	$7,553,962
Unavailable	3,820,819	3,664,781
Obligated balance not yet disbursed	9,610,164	15,528,656
Total	**$28,070,158**	**$26,747,399**

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

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

NOTE 4. ACCOUNTS RECEIVABLE, NET

Components of accounts receivable as of September 30, 2008 and 2007, were as follows:

	2008	**2007**
Intragovernmental:		
Accounts receivable	$987,111	$117,179
Public:		
Accounts receivable	5,228	5,392
Civil penalties assessed	1,500,000	1,500,000
Less allowance for doubtful collection	(1,500,000)	(1,500,000)
Public accounts receivable, net	**5,228**	**5,392**
Total accounts receivable, net	**$992,339**	**$122,571**

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

Accounts receivable from public sources consist of administrative receivables from employees or suppliers and civil monetary penalties which have been billed or accrued and remain uncollected as of year-end. The collection of civil monetary penalties is a custodial activity performed by FinCEN. An allowance for doubtful accounts of $1,500,000 has been recognized to offset a civil monetary penalty that was referred to Debt Management Operations within the Financial Management Service.

NOTE 5. PROPERTY AND EQUIPMENT, NET

Property and equipment as of September 30, 2008 and 2007 consisted of the following:

			2008		
	Depreciation Method	Useful Life (In years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Furniture, fixtures and equipment	S/L	5-7	$8,538,507	($5,001,914)	$3,536,593
Construction in progress	N/A	N/A	617,220	-	617,220
Internal-use software	S/L	5	11,726,769	(9,022,786)	2,703,983
Internal-use software in development	N/A	N/A	273,473	-	273,473
Leasehold improvements	S/L	3-5	864,147	(644,586)	219,561
Total			**$22,020,116**	**($14,669,286)**	**$7,350,830**

			2007		
	Depreciation Method	Useful Life (In years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Furniture, fixtures and equipment	S/L	5-7	$8,241,891	($4,089,171)	$4,152,720
Construction in progress	N/A	N/A	1,379,204	-	1,379,204
Internal-use software	S/L	5	10,152,489	(7,488,342)	2,664,147
Internal-use software in development	N/A	N/A	4,473,584	-	4,473,584
Leasehold improvements	S/L	3-5	601,829	(570,187)	31,642
Total			**$24,848,997**	**($12,147,700)**	**$12,701,297**

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

Internal-use software in development represents actual (direct) costs and other indirect costs incurred for various software development projects not yet placed in service. The indirect costs consist of the applied overhead on FinCEN employee labor associated with the software in development. Depreciation and amortization expense recognized during the year ended September 30, 2008 and 2007 was $2,869,897 and $2,713,477, respectively.

On July 13, 2006 FinCEN permanently halted the BSA Direct Retrieval and Sharing Component (BSA Direct R&S) project. FinCEN wrote off $5.1 million in FY06, $7.1 million in FY 07, and $3.2 million in FY08. This further write-off in fiscal year 2008 is due to delays in the overall BSA modernization project that initially planned to employ the remaining assets. This write-off decreased the property, plant and equipment balance reported on the balance sheet and increased the expenses reported in the statement of net cost. Specifically, this write-off decreased Internal Use Software in Development by $3.0 million and Construction in progress by $0.2 million and resulted in a decrease to the property and equipment balance reported on the balance sheet and increased the expenses reported in the statement of net cost.

NOTE 6. OTHER ASSETS

Other assets as of September 30, 2008 and 2007 consisted of the following:

	2008	**2007**
Intragovernmental:		
Advances and prepayments	$ 3,518,468	$ 2,189,308
Total intragovernmental	3,518,468	2,189,308
Advances and prepayments	11,990	-
Total Other Assets	$ 3,530,458	$ 2,189,308

Intragovernmental advances and prepayments primarily consist of amounts paid to the Department of the Treasury Working Capital Fund and the Department of Interior National Business Center Franchise Fund Acquisition Services Directorate prior to FinCEN's receipt of goods and services.

NOTE 7. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources represent amounts owed in excess of available appropriated or other amounts. The liquidation of liabilities not covered by budgetary resources is dependent on future congressional appropriations. The September 30, 2008 and 2007 liabilities not covered by budgetary resources consisted of the following:

	2008	**2007**
Intragovernmental:		
Accrued workers' compensation	$8,509	$5,262
Unamortized rent abatement	2,137,506	2,509,246
Total intragovernmental	2,146,015	2,514,508
Public:		
Accrued annual leave	2,391,282	2,209,877
Actuarial liability for workers' compensation	21,204	32,980
Total public	2,412,486	2,242,857
Total liabilities not covered by budgetary resources	**4,558,501**	**4,757,365**
Total liabilities covered by budgetary resources or non-entity assets	6,932,111	9,687,757
Total liabilities	**$11,490,612**	**$14,445,122**

NOTE 8. OTHER LIABILITIES

Other liabilities as of September 30, 2008 and 2007 consisted of the following:

	2008		
	Non-Current	Current	Total
Intragovernmental:			
Due to Treasury General Fund	$-	$0	$0
Due to other Federal agencies		1,573	1,573
Accrued employee benefits	-	314,649	314,649
Accrued workers' compensation	3,967	4,542	8,509
Unamortized rent abatement	1,765,766	371,740	2,137,506
Total intragovernmental	**1,769,733**	**692,504**	**2,462,237**
Public:			
Accrued payroll and employee benefits	-	1,474,720	1,474,720
Accrued annual leave	-	2,391,282	2,391,282
Actuarial liability for workers' compensation	21,204	-	21,204
Total public	**21,204**	**3,866,002**	**3,887,206**
Total other liabilities	**$1,790,937**	**$4,558,506**	**$6,349,443**

	2007		
	Non-Current	Current	Total
Intragovernmental:			
Due to Treasury General Fund	$-	$2,821	$2,821
Due to other Federal agencies	-	1,652	1,652
Accrued employee benefits	-	241,098	241,098
Accrued workers' compensation	4,942	320	5,262
Unamortized rent abatement	2,137,506	371,740	2,509,246
Total intragovernmental	**2,142,448**	**617,631**	**2,760,079**
Public:			
Accrued payroll and employee benefits	-	1,138,919	1,138,919
Accrued annual leave	-	2,209,876	2,209,876
Actuarial liability for workers' compensation	32,980	-	32,980

Total public	**32,980**	**3,348,795**	**3,381,775**
Total other liabilities	**$2,175,428**	**$3,966,426**	**$6,141,854**

NOTE 9. LEASES

FinCEN leases office space from the General Services Administration (GSA) under long-term occupancy agreements. All of the office space occupied by FinCEN is leased by GSA from commercial sources. GSA space is assigned to FinCEN based upon current needs. FinCEN is not committed to continue to pay rent to GSA beyond the period occupied providing proper advance notice to GSA is made. However, it is expected that FinCEN will continue to occupy and lease office space from GSA in future years. The lease expense incurred related to GSA leases during fiscal years 2008 and 2007 was $4,161,305 and $4,630,723 respectively.

As of September 30, 2008 future lease payments due under non-cancelable operating leases are as follows:

2009	$25,718
2010	24,361
2011	24,361
2012	24,361
2013	24,361
Thereafter	355,264
Total future payments	**$478,426**

NOTE 10. CONTINGENT LIABILITIES

FinCEN is party to various administrative proceedings, legal actions and claims. The balance sheet includes an estimated liability for those legal actions where the Legal Counsel considers adverse decisions probable and the potential loss can be estimated. In the opinion of management and legal counsel, no legal actions against FinCEN are both probable and estimable as of September 30, 2008 and 2007, and no legal liabilities have been accrued in the accompanying financial statements.

There are no legal actions where management or legal counsel considers adverse decisions reasonably possible and amounts are reasonably estimable as of September 30, 2008. The two legal actions considered reasonably possible as of September 30, 2007 were settled for $18,000.

Reasonably possible losses are not recognized on the balance sheet.

NOTE 11. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental costs and exchange revenue for the years ended September 30, 2008 and 2007 consisted of the following:

	2008	2007
PROGRAM COSTS		
Financial systems resistant to abuse by money launders, terrorists, etc.		
Intragovernmental costs	$17,389,203	$15,264,950
Public costs	16,360,686	17,073,665
Total program costs	**33,749,889**	**32,338,615**
Intragovernmental earned revenue	(22,171)	-
Net program cost	**33,727,718**	**32,338,615**
Detection and deterrence of money laundering, terrorism financing and other illicit activity		
Intragovernmental costs	13,127,148	11,190,534
Public costs	12,350,717	12,516,480
Total program costs	**25,477,865**	**23,707,014**
Intragovernmental earned revenue	(174,069)	(415,015)
Net program cost	**25,303,796**	**23,291,999**
Efficient management, safeguarding, and use of Bank Secrecy Act information		
Intragovernmental costs	27,939,613	24,327,827
Public costs	26,287,071	27,210,386
Total program costs	**54,226,684**	**51,538,213**
Intragovernmental earned revenue	(1,934,751)	(1,003,801)
Net program cost	**52,291,933**	**50,534,412**
Net cost of operations	**$111,323,447**	**$106,165,026**

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

FinCEN revised the distribution of the Statement of Net Cost program goals to align with FinCEN's new strategic plan. The new plan eliminated a stand alone international goal and integrated these objectives within the regulatory and analytic outcome goals. The methodology used to allocate the costs between goals has been updated to classify and present programmatic costs consistent with the new strategic plan. In addition, the method to allocate the earned revenue was revised to more closely align with the program goals. The statement of net cost for the year ended September 30, 2007 has been reclassified using the revised methodologies for comparative purposes.

NOTE 12. STATEMENT OF BUDGETARY RESOURCES

Apportionment Categories of Obligations Incurred

Obligations incurred as reported on the Statement of Budgetary Resources for the years ended September 30, 2008 and 2007 consisted of the following:

	2008	**2007**
Direct Obligations		
Category B	$79,783,234	$75,962,067
Reimbursable Obligations		
Category B	4,369,943	1,976,572
Total	**$84,153,177**	**$77,938,639**

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

Adjustments to Beginning Balance of Budgetary Resources

Adjustments to budgetary resources available at the beginning of fiscal years 2008 and 2007 consisted of the following:

	2008	**2007**
Recoveries of prior year obligations	$2,427,034	$1,083,210
Cancellations of expired accounts	(1,329,157)	(464,501)
Total	**$1,097,877**	**$618,709**

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

The fiscal year 2010 *Budget of the United States Government* (also known as the President's Budget) with actual numbers for fiscal year 2008, was not published at the time these financial statements were issued. The President's Budget is expected to be published in February 2009.

The following chart displays the differences between the fiscal year 2007 Statement of Budgetary Resources and the actual fiscal year 2007 balances included in the fiscal year 2009 President's Budget.

	(In millions)			
	Budgetary Resources	Obligations Incurred	Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$75	$78	$1	$79
Obligations in expired accounts not included in President's Budget	-	(1)	-	-
President's Budget	$75	$77	$1	$79

The obligations in expired accounts are not included in the President's Budget as they not would be true reflections of the available funds.

Undelivered Orders at the End of the Period

Undelivered orders as of September 30, 2008 and 2007 were $9,398,270 and $8,727,449, respectively.

NOTE 13. STATEMENT OF CUSTODIAL ACTIVITY

FinCEN assesses civil monetary penalties related to enforcement of the Bank Secrecy Act as authorized by 31 U.S.C. 5321(b). FinCEN collects this custodial revenue and distributes the full amount of penalties collected to the Treasury General Fund. For the years ended September 30, 2008 and 2007 cash collections and distributions to Treasury were $12,532 and $13,461,367, respectively. The custodial accrual adjustment totaling $2,821 and $2,497,179 at September 30, 2008 and 2007, respectively, reflects the change in accounts receivable FinCEN has which are offset by the increase in custodial liability – amounts yet to be transferred of $2,821 in 2008 and a decrease in custodial liability – amounts yet to be transferred of $2,497,179 in 2007.

NOTE 14. IMPUTED FINANCING SOURCES

FinCEN has imputed financing costs with the Office of Personnel Management for employee related costs as well as the Internal Revenue Service. Imputed financing sources from the Internal Revenue Service relate to the collection and processing of Bank Secrecy Act Data. A summary of the imputed financing costs by agency for the years ended September 30, 2008 and 2007 is as follows:

	2008	**2007**
Office of Personnel Management	$1,862,984	$1,968,866
Internal Revenue Service	25,387,184	22,969,563
Total Imputed Financing Sources	**$27,250,168**	**$24,938,429**

NOTE 15. RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY)
TO BUDGET

A reconciliation of net cost of operations to budget for the years ended September 30, 2008 and 2007 follows:

	For the Years Ended September 30	
	2008	**2007**
Resources used to finance activities:		
Budgetary resources obligated:		
Obligations incurred	$84,153,177	$77,938,639
Less: Spending authority from offsetting collections and recoveries	(6,658,540)	(3,010,009)
Obligations net of offsetting collections and recoveries	77,494,637	74,928,630
Less: Offsetting receipts	2,821	(3,440)
Net obligations	77,497,458	74,925,190
Other resources:		
Transfers in/out without reimbursement	475,111	-
Imputed financing from costs absorbed by others	27,250,168	24,938,429
Net other resources used to finance activities	27,725,279	24,938,429
Total resources used to finance activities	**105,222,737**	**99,863,619**
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	(954,584)	444,224
Resources that fund expenses recognized in prior periods	383,516	365,333
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Other	477,932	(3,440)
Resources that finance the acquisition of assets	1,080,894	2,694,594
Other resources or adjustments to net obligated resources that do not affect net cost of operations	(475,111)	-
Total resources used to finance items not part of the net cost of operations	**512,647**	**3,500,711**
Total resources used to finance the net cost of operations	**104,710,090**	**96,362,908**

(Continued)

	For the Years Ended September 30	
	2008	**2007**
Components of the net cost of operations that will not require or generate resources in the current period:		
Components requiring or generating resources in future periods:		
Increase in annual leave liability	$181,406	$10,873
Other	3,247	4,095
Total components of net cost of operations that will require or generate resources in future periods	**184,653**	**14,968**
Components not requiring or generating resources:		
Depreciation and amortization	2,869,897	2,713,477
Revaluation of assets or liabilities	3,561,464	7,073,673
Other	(2,657)	-
Total components of net cost of operations that will not require or generate resources	**6,428,704**	**9,787,150**
Total components of net cost of operations that will not require or generate resources in the current period	**6,613,357**	**9,802,118**
Net cost of operations	**$111,323,447**	**$106,165,026**

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STATEMENT OF BUDGETARY RESOURCES

Budgetary resources disaggregated by major accounts for the years ended September 30, 2008 and 2007 consisted of the following:

	2008		
	Appropriated Funds	Trust Funds	Total
BUDGETARY RESOURCES			
Unobligated balance, brought forward, October 1	$11,157,150	$61,593	$11,218,743
Recoveries of prior year unpaid obligations	2,427,034	-	2,427,034
Budget authority:			
Appropriations	85,844,000	-	85,844,000
Spending authority from offsetting collections:			
Earned			
Collected	1,736,169	-	1,736,169
Change in receivables from Federal sources	869,932	-	869,932
Change in unfilled customer orders			
Without advance from Federal sources	1,625,405	-	1,625,405
Subtotal	**90,075,506**	**-**	**90,075,506**
Non-expenditure transfer, net: anticipated and actual	221,045	-	221,045
Permanently not available	(1,329,157)	-	(1,329,157)
Total budgetary resources	**$102,551,578**	**$61,593**	**$102,613,171**
STATUS OF BUDGETARY RESOURCES			
Obligations incurred:			
Direct	$79,783,234	$0	$79,783,234
Reimbursable	4,369,943	-	4,369,943
Subtotal	**84,153,177**	**-**	**84,153,177**
Unobligated balance:			
Apportioned	14,577,582	61,593	14,639,175
Unobligated balance not available	3,820,819	-	3,820,819
Total status of budgetary resources	**$102,551,578**	**$61,593**	**$102,613,171**

(Continued)

	2008		
	Appropriated Funds	Trust Funds	Total
CHANGE IN OBLIGATED BALANCES			
Obligated balance, net:			
Unpaid obligations brought forward, October 1	$16,135,044	$88,035	$16,223,079
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(694,423)		(694,423)
Total unpaid obligated balance, net	**15,440,621**	**88,035**	**15,528,656**
Obligations incurred, net	84,153,177	-	84,153,177
Less: Gross outlays	(85,149,298)	-	(85,149,298)
Less: Recoveries of prior year unpaid obligations, actual	(2,427,034)	-	(2,427,034)
Change in uncollected customer payments from Federal sources	(2,495,337)		(2,495,337)
Obligated balance, net, end of period			
Unpaid obligations	12,711,889	88,035	12,799,924
Less: Uncollected customer payments from Federal sources	(3,189,760)	-	(3,189,760)
Total, unpaid obligated balance, net, end of period	**$9,522,129**	**$88,035**	**$9,610,164**
NET OUTLAYS			
Gross outlays	$85,149,298	$0	$85,149,298
Less: Offsetting collections	(1,736,169)	-	(1,736,169)
Less: Distributed offsetting receipts	2,821	-	2,821
Net outlays	**$83,415,950**	**$0**	**$83,415,950**

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	2007		
	Appropriated Funds	Trust Funds	Total
BUDGETARY RESOURCES			
Unobligated balance, brought forward, October 1	$13,105,616	$64,894	$13,170,510
Recoveries of prior year unpaid obligations	1,083,210	-	1,083,210
Budget authority:			
Appropriations	73,216,364	-	73,216,364
Spending authority from offsetting collections:			
Earned			
Collected	1,357,315	-	1,357,315
Change in receivables from Federal sources	61,500	-	61,500
Change in unfilled customer orders			
without advance from Federal sources	507,984	-	507,984
Subtotal	**75,143,163**	**-**	**75,143,163**
Non-expenditure transfer, net: anticipated and actual	225,000		225,000
Permanently not available	(464,501)	-	(464,501)
Total budgetary resources	**$89,092,488**	**$64,894**	**$89,157,382**
STATUS OF BUDGETARY RESOURCES			
Obligations incurred:			
Direct	$75,958,766	$3,301	$75,962,067
Reimbursable	1,976,572	-	1,976,572
Subtotal	**77,935,338**	**3,301**	**77,938,639**
Unobligated balance:			
Apportioned	7,492,369	61,593	7,553,962
Unobligated balance not available	3,664,781	-	3,664,781
Total status of budgetary resources	**$89,092,488**	**$64,894**	**$89,157,382**

(Continued)

	2007		
	Appropriated Funds	Trust Funds	Total
CHANGE IN OBLIGATED BALANCES			
Obligated balance, net			
Unpaid obligations brought forward, October 1	$19,474,850	$91,576	$19,566,426
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(124,939)	-	(124,939)
Total unpaid obligated balance, net	**19,349,911**	**91,576**	**19,441,487**
Obligations, incurred, net	77,941,940	(3,301)	77,938,639
Less: Gross outlays	(80,191,934)	(6,842)	(80,198,776)
Less: Recoveries of prior year unpaid obligations, actual	(1,083,210)	-	(1,083,210)
Change in uncollected customer payments from Federal sources	(569,484)	-	(569,484)
Obligated balance, net, end of period			
Unpaid obligations	16,135,044	88,035	16,223,079
Less: Uncollected customer payments from Federal sources	(694,423)	-	(694,423)
Total, unpaid obligated balance, net, end of period	**$15,440,621**	**$88,035**	**$15,528,656**
NET OUTLAYS			
Gross outlays	$80,191,934	$6,842	$80,198,776
Offsetting collections	(1,357,315)	-	(1,357,315)
Distributed offsetting receipts	(3,440)	-	(3,440)
Net outlays	**$78,831,179**	**$6,842**	**$78,838,021**