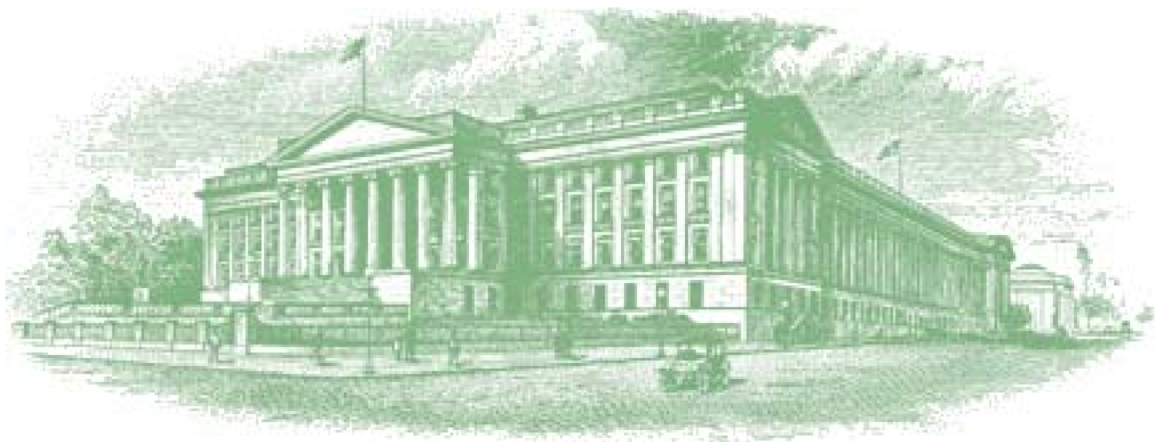
Audit Report



OIG-10-026

Audit of the Financial Crimes Enforcement Network's Fiscal Years 2009 and 2008 Financial Statements

December 22, 2009

Office of Inspector General

Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 22, 2009

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

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Audit of the Financial Crimes Enforcement Network's Fiscal Years 2009 and 2008 Financial Statements

I am pleased to transmit the attached audited Financial Crimes Enforcement Network's (FinCEN) financial statements for fiscal years 2009 and 2008. 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, 2009 and 2008 and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended*;* and the *GAO/PCIE Financial Audit Manual*.

The following reports, prepared by 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.

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 performed in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. KPMG LLP is responsible for the attached auditors' reports dated December 15, 2009 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, 2009

DEPARTMENT OF THE TREASURY
FINANCIAL CRIMES ENFORCEMENT NETWORK

Table of Contents

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, 2009 and 2008, 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*, as amended. 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, 2009 and 2008, 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 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 15, 2009, 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 15, 2009

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, 2009 and 2008 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 15, 2009.

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*, as amended. 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 2009 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 was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses.

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

In our fiscal year 2009 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of FinCEN's management, the U.S. Department of the Treasury Office of 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 15, 2009

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 sheet of the U.S. Department of the Treasury – Financial Crimes Enforcement Network (FinCEN) as of September 30, 2009 and 2008, 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 15, 2009.

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*, as amended. 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.

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 15, 2009

Management Discussion and Analysis

Department of the Treasury
Financial Crimes Enforcement Network

Management Discussion and Analysis
September 30, 2009

The Financial Crimes Enforcement Network (FinCEN), a Treasury Department bureau reporting to the Under Secretary, 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.' FinCEN supports Treasury's national security goal by identifying criminal activity to utilize the financial system for illicit dealings and ensuring safer and more transparent U.S. and international financial systems through the administration of the Bank Secrecy Act (BSA). The bureau also supports Treasury's other strategic goals by deterring noncompliance with tax laws and promoting investigation of fraud and abuse/asset recovery, strengthening financial institutions and markets, and promoting compliance with laws and regulations.

FinCEN efforts clearly support the Treasury Secretary's priority to restore confidence in the financial system by harnessing all of its authorities to support domestic and global efforts in the fight against financial fraud. Specifically, FinCEN's activities to safeguard the financial system, improve market integrity, and promote confidence in the financial system. FinCEN mission components continually enhance the Secretary's priority in unique and complimentary ways. The regulatory component identifies financial industries and new payment methods vulnerable to money laundering, and develops corresponding policy and guidance to strengthen financial stability. The analytic component examines the BSA data filed by financial industries to identify vulnerabilities and financial fraud, which if left undetected undermines economic growth. Finally, modernization of the system to collect and store BSA data improves government-wide efforts to detect criminal activity, including tax and financial fraud.

The BSA requires financial institutions to file reports and maintain records on certain types of financial activity and to establish appropriate internal controls to guard against financial fraud, money laundering, terrorist financing, and other types of illicit finance. These reports and records have a high degree of usefulness in criminal, tax, and regulatory matters. Law enforcement agencies use BSA information, domestically and through exchanges with international counterparts, to identify, detect and deter financial fraud and money laundering. Acts of fraud and money-laundering are interconnected and as the proceeds of these fraudulent activities are ultimately integrated into the financial system. Regulatory authorities use BSA information in promoting safety and soundness of financial institutions and markets in carrying out prudential supervision, including to ensure compliance with BSA requirements.

FinCEN also serves as the nation's financial intelligence unit (FIU). A FIU serves as a national center to collect, analyze, disseminate, and exchange information pursuant to a country's anti-money laundering/counter-terrorist financing (AML/CFT) legislation and regulations. This includes information about suspicious or unusual financial activity reported by the financial sector. FinCEN has a unique authority to facilitate law enforcement investigations involving transnational criminal activity and financial flows, by exchanging lead information with FIU counterparts in over 100 countries around the world.

FinCEN's activities and efforts are developed in coordination with federal, state, and international partners. These efforts are linked to the following strategic goals:

- Financial systems resistant to abuse by money launderers, 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.

FY 2009 Accomplishments

In the regulatory area, FinCEN's policy efforts focus on efficient and effective BSA administration. 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 2009, FinCEN:

- Issued an advisory to assist financial institutions in identifying questionable loan modification schemes and reporting that information to law enforcement, in support of a major Administration effort to combat foreclosure rescue scams. The advisory provided "red flags" for financial institutions that may indicate a loan modification or foreclosure rescue scam;
- Issued a Notice of Proposed Rulemaking (NPRM) to re-designate and reorganize the BSA regulations in a new chapter within the Code of Federal Regulations. The re-designation and reorganization of the regulations in a new chapter is not intended to alter regulatory requirements. The regulations will be organized in a more consistent and intuitive structure that more easily allows financial institutions to identify their specific regulatory requirements under the BSA. The new chapter will replace 31 CFR Part 103;
- Published a final rule that simplifies the current requirements for depository institutions to exempt their eligible customers from currency transaction reporting. The final rule was developed in accordance with the Government Accountability Office's recommendations, FinCEN's independent research, and after considering valuable industry feedback received during the public comment process;
- Issued a BSA examination manual for money services businesses (MSBs), in collaboration with the Internal Revenue Service (IRS), state agencies responsible for MSB regulation, the Money Transmitter Regulators Association (MTRA), and the Conference of State Bank Supervisors (CSBS). The manual's risk-based approach empowers the examiner to decide what examination procedures are necessary to evaluate whether the MSB's AML program is compliant with BSA requirements; and

- Proposed revised rules and guidance that would permit certain affiliates of depository institutions as well as broker-dealers in securities, mutual funds, futures commission merchants, and introducing brokers in commodities, to share suspicious activity reports (SARs) within a corporate organizational structure for purposes consistent with Title II of the BSA. The revised rules will help financial institutions better facilitate compliance with the applicable BSA requirements and more effectively implement enterprise-wide risk management.

FinCEN's efforts in the analytical area focus on developing products and services to enhance law enforcement's detection and deterrence of domestic and international financial fraud, money laundering, terrorism financing, and other illicit activity. FinCEN intends to improve its expert analysis of BSA data to provide early warning of emerging trends of fraud and other criminal abuse. This includes information exchange with counterpart FIUs in 116 countries that are members of the Egmont Group.

In FY 2009, FinCEN:

- Continued to support efforts to combat mortgage fraud by publishing a report entitled *Mortgage Loan Fraud Connections with other Financial Crime* that examined a range of BSA reports to identify, evaluate and document interconnections between individuals involved in mortgage loan fraud and other financial crimes;
- As part of the larger U.S. Government efforts to bring relief to America's housing market and homeowners, FinCEN initiated an advanced targeting process to identify potential loan modification perpetrators and to provide analytical support to investigations and prosecutions. FinCEN issued an advisory to financial institutions to help them identify and report questionable foreclosure rescue and mortgage modification schemes. Finally, FinCEN worked with Federal, state, and local agencies to combat the increase in mortgage foreclosure scams by networking agencies with common subjects to avoid overlapping investigations;
- Participated in a multi-agency task force headed by the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) to deter, detect, and investigate instances of fraud in the Term Asset-Backed Securities Loan Facility (TALF);
- Held several inter-agency information sharing events to discuss sensitive data with the private sector. These events combined analytical findings and related law enforcement presentations for financial industry personnel, and provided an opportunity for industry personnel to share information on vulnerabilities and suspicious activities identified through their operations. A recent event included information sharing on money laundering and other financial crimes in Mexico and on the Southwest Border with representatives from banks that provide financial services to Mexico and the Southwest border region;
- Produced a series of strategic international studies addressing complex money laundering schemes and examining money flows related to illicit activities;

- Composed and disseminated 1,027 tactical reports to the other Egmont FIUs. These intelligence products are integral to investigations of money laundering and terrorist financing around the world; and
- Continued outreach and liaison activities that enhance the quality and quantity of financial intelligence exchanged between FinCEN and foreign FIUs. These efforts included training and technical assistance programs that strengthen the global network of FIUs.

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 2009, FinCEN:

- Retired magnetic media filing as a means to provide BSA information, enabling FinCEN to continue increasing the number of electronic filers. By the end of FY 2009, 82 percent of all customers used E-Filing;
- Introduced additional field and business rule validations to batch data at E-Filing submission to improve data quality and provide faster error notification. This validation process currently applies to Currency Transaction Report (CTR) forms and the Designation of Exempt Person form. Filers receive e-mail that their submitted file has errors and may access a designated error page to view batch validation error details;
- Transitioned to Adobe LiveCycle from IBM WorkPlace forms during the third quarter of FY 2009. Moving to a widely used industry standard, Adobe LiveCycle brings E-filing in line with industry standards and offers improved forms usability for financial institutions;
- Implemented functionality to provide the BSA E-filing community with SAR acknowledgement files that contains the unique identifier for each submitted form or batch of forms. This feedback will alert filers about errors contained in filings with the goal of increasing BSA data quality;
- Implemented a collaboration and communities portal under the auspices of the Egmont Secure Web. This initiative leverages Web 2.0 Technologies and enables Egmont members to use secure communities for collaboration on sensitive special projects, as well as improve how each working group manages and shares documents and their contents; and
- Completed all of the program/enterprise-level documentation defined in FinCEN's System Development Life Cycle for the BSA IT Modernization initiative. This documentation sets the foundation for the rest of the program and includes program management, business, and IT solution development documents, such as the Business System Requirements Report, the System Validation and Verification Plan, and the Transition Management Plan.

Highlights of Performance Measures

Performance Measures	FY 2008 Actual	FY 2009 Target	FY 2009 Actual
Percentage of federal and state regulatory agencies with memoranda of understanding (MOU)/information sharing agreements	41%	45%	43%
Percentage of FinCEN's Regulatory Resource Center customers rating the guidance received as understandable	94%	90%	94%
Average time to process enforcement matters (years)	0.7	1.0	1.0
Percentage of FinCEN's compliance MOU holders finding FinCEN's information exchange valuable to improve the BSA consistency and compliance of the financial system	64%	66%	82%
Percentage of customers finding FinCEN's analytic support highly valuable	83%	80%	81%
Percentage of customers satisfied with BSA E-Filing	93%	90%	94%

In the regulatory area, FinCEN continues to increase awareness by state and federal regulators that examine for BSA compliance by negotiating MOUs for information sharing. In 2009, FinCEN reached a level 43 percent of federal and state regulatory agencies with MOU/information sharing agreements, but did not meet its target of 45 percent. FinCEN finalized an MOU with the Commodity Futures Trading Commission (CFTC), the last remaining federal regulator with BSA examination authority to sign an agreement and the Public Corporation for the Supervision and Insurance of Cooperatives in Puerto Rico. However, FinCEN was not able to execute three additional agreements partially due to budget restraints at the state regulators. FinCEN will continue collaborating with state insurance agencies and other regulatory agencies to sign additional agreements to meet future targets. 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. In FY 2009, FinCEN surpassed its target of 66 percent rating the information exchange valuable with 82 percent. FinCEN attributes a portion of this success to the distribution of analytic information to the MOU holders throughout the fiscal year. To achieve future targets, FinCEN will continue to facilitate routine discussions with the MOU holders.

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 at least a 90 percent satisfaction level and FinCEN surpassed its target with a 94 percent. FinCEN attainted this success by responding timely (within 24 hours of the inquiry), providing a high level of service, and improving the organization of information on its public website. In order to achieve future targets, FinCEN will continue to make guidance available on the Internet, accept and analyze customer feedback, and conduct surveys to measure customer satisfaction.

FinCEN also 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 2009, FinCEN met its target of 1.0 years with an average time of 1.0 years. FinCEN will continue to actively manage casework to meet future targets.

In the analytical area, 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 2009, FinCEN surpassed its target of 80 percent with 81 percent. FinCEN will continue its efforts to solicit input from its customers on types of products they would like to see produced and possible ways to improve the structure of its reports to meet future targets.

In the efficient management, safeguarding, and use of BSA information, 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 2009 target was to maintain at least a 90 percent satisfaction level, and FinCEN surpassed its target with 94 percent. FinCEN will continue outreach to E-Filers and ensure the technology supports to the demand to achieve future targets.

Future Outlook for FY 2010/FY 2011

FinCEN's future plans in the regulatory area 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 fraud and crimes, FinCEN will:

- Clarify the scope of the MSB definitions to the extent consistent with appropriately managing money laundering risks in this industry, and continue to review the appropriate regulatory treatment of stored value providers within the MSB framework, consistent with the requirements of the Credit Card Accountability, Responsibility, and Disclosure Act;
- Continue the outreach initiative to the financial services industry, which expanded from visits to the largest fifteen depository institutions in the U.S. to large MSBs, and will continue to expand to additional financial service industries;
- Implement a simplified, revised regulatory structure, proposed in FY 2009, to reorganize BSA regulations under Chapter 10 of the Code of Federal Regulations;
- Conduct analysis in support of efforts to combat mortgage loan fraud, building off prior analysis efforts to identify emerging trends, and continue to consider appropriate regulatory options; and

- Strengthen oversight of recently-covered industries under the BSA, by beginning to sign information sharing agreements with state insurance regulators and working cooperatively with the IRS and state regulators on consistent, risk-based examination procedures.

FinCEN's future plans in the analytical area will improve its ability to strengthen financial system security and enhance U.S. national security. To detect and deter financial fraud, money laundering, terrorism financing, and other illicit activity, FinCEN will:

- Implement a process to capture and gauge analytic product relevance to support law enforcement;
- Advance collaborative relationships with investigative and intelligence agencies to exploit SARs for proactive evaluation;
- Expand working agreements with the government agency customer community within the provisions of 31 USC 5311 and financial institution AML compliance personnel on issues of strategic importance to FinCEN's analytical objectives;
- Improve analytical products and responsiveness to foreign government counterparts to strengthen the effectiveness of international AML/CFT efforts; and
- Increase joint analytical projects with foreign FIU counterparts through intensified operational engagements with key strategic partner FIUs.

FinCEN's future plans will improve its ability to strengthen financial system security and enhance U.S. national security. To ensure efficient management, safeguarding and use of BSA information, FinCEN will:

- Modernize BSA information management and analysis to equip law enforcement and financial industry regulators with better decision-making abilities and increase the value of BSA information through increased data integrity and analytical tools. This multi-year program will:
    - Deploy advanced analytical and BSA data storage technologies;
    - Implement innovative Web-services and E-Filing technologies;
    - Enrich and standardize BSA data to maximize value for state and federal partners;
    - Integrate BSA data with other state and federal sources;
    - Deploy proven customer relationship technologies to capture data usage and access patterns and solicit/provide feedback to partners;
    - Establish effective data security and audit technologies to maximize BSA data confidentiality and integrity; and
    - Retire the current system of record (WebCBRS).

FY 2009 Financial Statement Highlights

Highlights of FinCEN's FY 2009 financial performance appear below. FinCEN is financed annually through appropriations authorized by Congress. The FY 2009 enacted budget is $91.5 million.

Balance Sheets*:*
Assets: The total assets as of September 30, 2009 and 2008 were $ 44.5 and $ 39.9 million, respectively. Of which approximately 78.9 percent consists of the Fund Balance with Treasury in 2009 and 70.4 percent in 2008. Total assets increased by $ 4.6 million. This increase primarily resulted from $7.0 million increase in fund balance with Treasury and also a $.3 million increase in accounts receivable. This was offset by a $2.1 million decrease in advances and prepayments and $.6 million decrease in plant and equipment.
Liabilities: The total liabilities as of September 30, 2009 and 2008 were $10.9 and $11.5 million, respectively. There was a $0.6 million decrease in the total liabilities in FY 2009 over FY 2008. This decrease was due to a $0.6 million reduction in liabilities with the public.

Statement of Net Costs*:* The net cost of operations totaled as of September 30, 2009 and 2008 was $119.6 million and $111.3 million, respectively. This was an increase of $8.3 million, 7.5 percent. All of FinCEN's costs are reported under the Department of the Treasury's Strategic Goal 3: Prevented Terrorism and Promoted the Nation's Security through Strengthened International 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 ($59.4 million or 49.7 percent) relates to FinCEN's Strategic Goal 3: Efficient Management, Safeguarding and Use of BSA Information.

Internal Controls, Systems, and Audits

Financial management systems are in substantial 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.

Three audits were completed in FY 2009 by the Government Accountability Office (GAO). The first GAO audit examined information security controls that protect the Bank Secrecy Act data and recommended changes to improve information security. The second GAO audit reviewed the usefulness of SARs and recommended that FinCEN further develop and document its form revision process to ensure appropriate participation by external stakeholders. The third GAO audit reviewed the current BSA compliance and enforcement framework, including FinCEN's relationship with other federal agencies with delegated examination authority for BSA compliance. The report recommended that FinCEN further expand its BSA compliance coordination and information-sharing efforts with other federal agencies.

Improper Payment Improvement Act (IPIA) Reporting

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.

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) a corrective action plan to reduce erroneous payments must be developed and submitted to the Office of Management and Budget (OMB) for approval.

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

Limitations of the Financial Statements

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

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

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

	As of September 30	
	2009	**2008**
ASSETS (Note 2)		
Intragovernmental:		
Fund balance with Treasury (Note 3)	$35,130,998	$28,070,158
Accounts receivable (Note 4)	1,326,724	987,111
Other (Note 6)	1,320,109	3,518,468
Total intragovernmental	**37,777,831**	**32,575,737**
Accounts receivable, net (Note 4)	1,270	5,228
Property and equipment, net (Note 5)	6,753,289	7,350,830
Other (Note 6)	0	11,990
Total assets	**$44,532,390**	**$39,943,785**
LIABILITIES (Note 7)		
Intragovernmental:		
Accounts payable	2,204,608	1,891,961
Other (Note 8)	2,169,570	2,462,237
Total intragovernmental	**4,374,178**	**4,354,198**
Accounts payable	1,833,138	3,249,208
Other (Note 8)	4,659,507	3,887,206
Total liabilities	**10,866,823**	**11,490,612**
Commitments and contingencies (Notes 9 and 10)		
NET POSITION		
Unexpended appropriations	31,558,804	25,676,184
Cumulative results of operations	2,106,763	2,776,989
Total net position	**33,665,567**	**28,453,173**
Total liabilities and net position	**$44,532,390**	**$39,943,785**

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

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

	For the Years Ended September 30	
PROGRAM COSTS (Note 11)	**2009**	**2008**
Financial system resistant to abuse by money launders, terrorists, etc.		
Gross costs	33,055,480	$33,749,889
Less: earned revenue	(55,039)	(22,171)
Net program costs	**33,000,441**	**33,727,718**
Detection and deterrence of money laundering, terrorism financing and other illicit activity		
Gross costs	27,485,779	25,477,865
Less: earned revenue	(364,014)	(174,069)
Net program costs	**27,121,765**	**25,303,796**
Efficient management, safeguarding, and use of BSA information.		
Gross costs	59,826,548	54,226,684
Less: earned revenue	(396,590)	(1,934,751)
Net program costs	**59,429,958**	**52,291,933**
Net cost of operations	**119,552,164**	**$111,323,447**

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	
	2009	**2008**
Cumulative Results of Operations:		
Beginning balances	$2,776,989	$7,940,852
Budgetary financing sources:		
Appropriations used	85,729,313	78,434,305
Other financing sources (non-exchange):		
Transfers in/out without reimbursement	5,355,153	475,111
Imputed financing from costs absorbed by others (Note 14)	27,797,472	27,250,168
Total financing sources	**118,881,938**	**106,159,584**
Net cost of operations (Note 11)	(119,552,164)	(111,323,447)
Net change	**(670,226)**	**(5,163,863)**
Cumulative results of operations	**$2,106,763**	**$2,776,989**
Unexpended appropriations:		
Beginning balance	$25,676,184	$19,374,601
Budgetary financing sources:		
Appropriations received	91,465,000	85,844,000
Appropriations transferred in/out	250,000	221,045
Other adjustments	(103,067)	(1,329,157)
Appropriations used	(85,729,313)	(78,434,305)
Total budgetary financing sources	**5,882,620**	**6,301,583**
Total unexpended appropriations	**31,558,804**	**25,676,184**
Net position	**$33,665,567**	**$28,453,173**

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	
	2009	**2008**
BUDGETARY RESOURCES		
Unobligated balance, brought forward, October 1	$18,459,994	$11,218,743
Recoveries of prior year unpaid obligations (Note 12)	1,582,110	2,427,034
Budget authority:		
Appropriations	91,465,000	85,844,000
Spending authority from offsetting collections:		
Earned		
Collected	5,788,303	1,736,169
Change in receivables from Federal sources	339,613	869,932
Change in unfilled customer orders		
Without advance from Federal sources	949,515	1,625,405
Subtotal	**98,542,431**	**90,075,506**
Non-expenditure transfers, net: anticipated and actual	250,000	221,045
Permanently not available (Note 12)	(103,067)	(1,329,157)
Total budgetary resources	**$118,731,468**	**$102,613,171**
STATUS OF BUDGETARY RESOURCES		
Obligations incurred (Note 12):		
Direct	$86,540,979	$79,783,234
Reimbursable	7,149,178	4,369,943
Subtotal	**93,690,157**	**84,153,177**
Unobligated balance:		
Apportioned	20,357,952	14,639,175
Unobligated balance not available	4,683,359	3,820,819
Total status of budgetary resources	**$118,731,468**	**$102,613,171**

(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	
	2009	**2008**
CHANGE IN OBLIGATED BALANCE		
Obligated balance, net:		
Unpaid obligations brought forward, October 1	$12,799,924	$16,223,079
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(3,189,760)	(694,423)
Total unpaid obligated balance, net	**9,610,164**	**15,528,656**
Obligations incurred, net	93,690,157	84,153,177
Less: Gross outlays	(90,339,397)	(85,149,298)
Less: Recoveries of prior year unpaid obligations, actual	(1,582,110)	(2,427,034)
Change in uncollected customer payments from Federal sources	(1,289,128)	(2,495,337)
Obligated balance, net, end of period:		
Unpaid obligations	14,568,575	12,799,924
Less: Uncollected customer payments from Federal sources	(4,478,888)	(3,189,760)
Total, unpaid obligated balance, net, end of period	**$10,089,687**	**$9,610,164**
NET OUTLAYS		
Gross outlays	$90,339,397	$85,149,298
Less: Offsetting collections	(5,788,303)	(1,736,169)
Less: Distributed offsetting receipts	(16,165)	2,821
Net outlays	**$84,534,929**	**$83,415,950**

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	
	2009	**2008**
Revenue activity (Note 13):		
Sources of cash collections:		
Civil monetary penalties	$16,308	$12,532
Total cash collections	**16,308**	**12,532**
Accrual adjustments	0	(2,821)
Total custodial revenue	**16,308**	**9,711**
Disposition of collections:		
Transferred to others:		
Department of the Treasury	(16,308)	(12,532)
(Increase)/decrease in amounts yet to be transferred	0	2,821
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, 2009 and 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Financial Crimes Enforcement Network (FinCEN) was formally established by the Department of the Treasury (Treasury), Order 105-08, on April 25, 1990 and upgraded to bureau status October 26, 2001 in Public Law 107-56. The mission of FinCEN is to enhance U. S. national security, deter and detect criminal activity, and safeguard the 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.

Basis of Accounting and Presentation

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

These financial statements are provided to assist the Department of Treasury 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 2009 and 2008.

FinCEN's financial statements with respect to the balance sheet, 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 non-entity revenues are reported on the statement of custodial activity using a modified accrual basis of accounting. With this method, revenue from cash collections are reported separately from receivable accruals and cash disbursements are reported separately from payable accruals. Intragovernmental assets and liabilities result from activity with other Federal agencies. All other assets and liabilities result from activity with parties outside the Federal government, such as domestic and foreign persons, organizations, or governments. Intragovernmental earned revenues are collections or accruals of revenue from other Federal agencies, and intragovernmental costs are payments or accruals to other Federal agencies.

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

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

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 from the financial statements.

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

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

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

Annual, Sick and Other Leave
Annual leave is accrued as a liability when earned, and the accrual is reduced as leave is taken. The 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 contain a rent abatement period. FinCEN is recognizing rent expense on a straight-line basis over the lease term. Accordingly, an unamortized rent abatement liability is included in other intragovernmental liabilities in the accompanying Balance Sheet. This liability is being amortized on a straight-line basis over the lease term.

Pension Costs and Other Retirement Benefits

Most FinCEN employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS). As of September 30, 2009 and 2008, 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, 2009 and 2008, 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 the Office of Personnel Management (OPM).

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

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

Entity Revenues, Financing Sources and Imputed Financing Sources
FinCEN receives the majority of funding needed to support its programs through Congressional appropriations. Additional funding is obtained through exchange revenues.

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

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

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

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

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

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

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, 2009 and 2008 consisted of the following:

	2009	**2008**
Civil penalties assessed	$1,500,000	$1,500,000
Less allowance for doubtful collection	(1,500,000)	(1,500,000)
Total non-entity assets	**0**	**0**
Total entity assets	44,532,390	39,943,785
Total assets	**$44,532,390**	**$39,943,785**

Non-entity accounts receivable as of September 30, 2009 and 2008 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, 2009 and 2008 consisted of the following components:

	2009	2008
Trust funds	$122,921	$149,628
Appropriated funds	35,008,077	27,920,530
Total	**$35,130,998**	**$28,070,158**

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, 2009 and 2008 consisted of the following:

	2009	2008
Unobligated balance:		
Available	$20,357,952	$14,639,175
Unavailable	4,683,359	3,820,819
Obligated balance not yet disbursed	10,089,687	9,610,164
Total	**$35,130,998**	**$28,070,158**

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, 2009 and 2008, were as follows:

	2009	2008
Intragovernmental:		
Accounts receivable	$1,326,724	$987,111
Public:		
Accounts receivable	1,270	5,228
Civil penalties assessed	1,500,000	1,500,000
Less allowance for doubtful collection	(1,500,000)	(1,500,000)
Public accounts receivable, net	**1,270**	**5,228**
Total accounts receivable, net	**$1,327,994**	**$992,339**

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

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

NOTE 5. PROPERTY AND EQUIPMENT, NET

Property and equipment as of September 30, 2009 and 2008 consisted of the following:

			2009		
	Depreciation Method	Useful Life (In years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Furniture, fixtures and equipment	S/L	5-7	$7,485,014	($4,970,215)	$2,514,799
Construction in progress	N/A	N/A	92,483	-	92,483
Internal-use software	S/L	5	13,072,470	(9,831,198)	3,241,272
Internal-use software in development	N/A	N/A	444,501	-	444,501
Leasehold improvements	S/L	3-5	1,269,767	(809,533)	460,234
Total			**$22,364,235**	**($15,610,946)**	**$6,753,289**

			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**

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

Internal-use software in development represents actual (direct) costs and other indirect costs incurred for various software development projects not yet placed in service. Depreciation and amortization expense recognized during the year ended September 30, 2009 and 2008 was $2,420,252 and 2,869,897, respectively.

NOTE 6. OTHER ASSETS

Other assets as of September 30, 2009 and 2008 consisted of the following:

	2009	2008
Intragovernmental:		
Advances and prepayments	$ 1,320,109	$3,518,468
Total intragovernmental	1,320,109	3,518,468
Advances and prepayments	-	11,990
Total Other Assets	$ 1,320,109	$3,530,458

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, 2009 and 2008 liabilities not covered by budgetary resources consisted of the following:

	2009	2008
Intragovernmental:		
Accrued workers' compensation	$6,686	$8,509
Unamortized rent abatement	1,765,765	2,137,506
Total intragovernmental	1,772,451	2,146,015
Public:		
Accrued annual leave	2,819,101	2,391,282
Actuarial liability for workers' compensation	23,885	21,204
Total public	2,842,986	2,412,486
Total liabilities not covered by budgetary resources	**4,615,437**	**4,558,501**
Total liabilities covered by budgetary resources or non-entity assets	6,251,386	6,932,111
Total liabilities	**$10,866,823**	**$11,490,612**

NOTE 8. OTHER LIABILITIES

Other liabilities as of September 30, 2009 and 2008 consisted of the following:

	2009		
	Non-Current	Current	Total
Intragovernmental:			
Due to Treasury General Fund	$-	$0	$0
Due to other Federal agencies		1,573	1,573
Accrued employee benefits	-	395,546	395,546
Accrued workers' compensation	3,142	3,544	6,686
Unamortized rent abatement	1,394,025	371,740	1,765,765
Total intragovernmental	**1,397,167**	**772,403**	**2,169,570**
Public:			
Accrued payroll and employee benefits	-	1,816,521	1,816,521
Accrued annual leave	-	2,819,101	2,819,101
Actuarial liability for workers' compensation	23,885	-	23,885
Total public	**23,885**	**4,635,622**	**4,659,507**
Total other liabilities	**$1,421,052**	**$5,408,025**	**$6,829,077**

	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**

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

NOTE 9. LEASES

FinCEN leases office space from the General Services Administration (GSA) under long-term occupancy agreements. All of the office space occupied by FinCEN is leased by GSA from commercial sources. GSA space is assigned to FinCEN based upon current needs. FinCEN is not committed to continue to pay rent to GSA beyond the period occupied providing proper advance notice to GSA is made. However, it is expected that FinCEN will continue to occupy and lease office space from GSA in future years. The lease expense incurred related to GSA leases during fiscal years 2009 and 2008 was $4,584,206 and $4,161,305 respectively.

As of September 30, 2009 future lease payments due under non-cancelable operating leases are as follows:

2010	$24,361
2011	24,361
2012	24,361
2013	24,361
2014	24,361
Thereafter	330,903
Total future payments	**$452,708**

NOTE 10. COMMITMENTS AND CONTINGENCIES

FinCEN is party to various administrative proceedings, legal actions and claims. In the opinion of management and legal counsel, no legal actions against FinCEN were both probable and estimable as of September 30, 2009 and 2008, and no legal liabilities have been accrued in the accompanying financial statements.

There were no pending or threatened litigation or unasserted claims as of September 30, 2009.

NOTE 11. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental costs and exchange revenue for the years ended September 30, 2009 and 2008 consisted of the following:

	2009	2008
PROGRAM COSTS		
Financial system resistant to abuse by money launders, terrorists, etc.		
Intragovernmental costs	$18,724,719	$17,389,203
Public costs	14,330,761	16,360,686
Total program costs	**33,055,480**	**33,749,889**
Intragovernmental earned revenue	(55,039)	(22,171)
Net program cost	**33,000,441**	**33,727,718**
Detection and deterrence of money laundering, terrorism financing and other illicit activity		
Intragovernmental costs	15,569,687	13,127,148
Public costs	11,916,092	12,350,717
Total program costs	**27,485,779**	**25,477,865**
Intragovernmental earned revenue	(364,014)	(174,069)
Net program cost	**27,121,765**	**25,303,796**
Efficient management, safeguarding, and use of BSA information		
Intragovernmental costs	33,889,548	27,939,613
Public costs	25,937,000	26,287,071
Total program costs	**59,826,548**	**54,226,684**
Intragovernmental earned revenue	(396,590)	(1,934,751)
Net program cost	**59,429,958**	**52,291,933**
Net cost of operations	**119,552,164**	**$111,323,447**

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

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, 2009 and 2008 consisted of the following:

	2009	**2008**
Direct Obligations		
Category B	$86,540,979	$79,783,234
Reimbursable Obligations		
Category B	7,149,178	4,369,943
Total	**$93,690,157**	**$84,153,177**

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 2009 and 2008 consisted of the following:

	2009	**2008**
Recoveries of prior year obligations	$1,582,110	$2,427,034
Cancellations of expired accounts	(103,067)	(1,329,157)
Total	**$1,479,043**	**$1,097,877**

Differences Between the Statement of Budgetary Resources and the Budget of the United States
The fiscal year 2011 *Budget of the United States Government* (also known as the President's Budget) with actual numbers for fiscal year 2009, was not published at the time these financial statements

were issued. The President's Budget is expected to be published in February 2010.There were no differences between the fiscal year 2008 Statement of Budgetary Resources and the actual fiscal year 2008 balances included in the fiscal year 2010 President's Budget.

Undelivered Orders at the End of the Period
Undelivered orders as of September 30, 2009 and 2008 were $9,637,297 and $9,398,270, 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, 2009 and 2008 cash collections and distributions to Treasury were $16,308 and $12,532, respectively. The custodial accrual adjustment totaling $0 and $2,821 at September 30, 2009 and 2008, respectively, reflects the change in accounts receivable FinCEN has which are offset by the increase in custodial liability – amounts yet to be transferred of $0 in 2009 and a decrease in custodial liability – amounts yet to be transferred of $2,821 in 2008.

NOTE 14. IMPUTED FINANCING SOURCES

FinCEN has imputed financing costs with the Office of Personnel Management for employee related costs as well as with 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, 2009 and 2008 is as follows:

	2009	**2008**
Office of Personnel Management	$2,144,252	$1,862,984
Internal Revenue Service	25,653,220	25,387,184
Total Imputed Financing Sources	**$27,797,472**	**$27,250,168**

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, 2009 and 2008 follows:

	For the Years Ended September 30 2009	2008
Resources used to finance activities:		
Budgetary resources obligated:		
Obligations incurred	$93,690,157	$84,153,177
Less: Spending authority from offsetting collections and recoveries	(8,659,541)	(6,658,540)
Obligations net of offsetting collections and recoveries	85,030,616	77,494,637
Less: Offsetting receipts	(16,165)	2,821
Net obligations	85,014,451	77,497,458
Other resources:		
Transfers in/out without reimbursement	5,355,153	475,111
Imputed financing from costs absorbed by others	27,797,472	27,250,168
Net other resources used to finance activities	33,152,625	27,725,279
Total resources used to finance activities	**118,167,076**	**105,222,737**
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	(710,488)	(954,584)
Resources that fund expenses recognized in prior periods	369,605	383,516
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Other	5,338,988	477,932
Resources that finance the acquisition of assets	1,983,340	1,080,894
Other resources or adjustments to net obligated resources that do not affect net cost of operations	(5,355,153)	(475,111)
Total resources used to finance items not part of the net cost of operations	**1,626,292**	**512,647**
Total resources used to finance the net cost of operations	**116,540,784**	**104,710,090**

(Continued)

	For the Years Ended September 30	
	2009	**2008**
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	$427,818	$181,406
Other	2,681	3,247
Total components of net cost of operations that will require or generate resources in future periods	**430,499**	**184,653**
Components not requiring or generating resources:		
Depreciation and amortization	2,420,252	2,869,897
Revaluation of assets or liabilities	160,629	3,561,464
Other	0	(2,657)
Total components of net cost of operations that will not require or generate resources	**2,580,881**	**6,428,704**
Total components of net cost of operations that will not require or generate resources in the current period	**3,011,380**	**6,613,357**
Net cost of operations	**$119,552,164**	**$111,323,447**

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STATEMENT OF BUDGETARY RESOURCES

Budgetary resources disaggregated by major accounts for the years ended September 30, 2009 and 2008 consisted of the following:

	2009		
	Appropriated Funds	Trust Funds	Total
BUDGETARY RESOURCES			
Unobligated balance, brought forward, October 1	$18,398,401	$61,593	$18,459,994
Recoveries of prior year unpaid obligations	1,537,236	44,874	1,582,110
Budget authority:			
Appropriations	91,465,000	-	91,465,000
Spending authority from offsetting collections:			
Earned			
Collected	5,788,303	-	5,788,303
Change in receivables from Federal sources	339,613	-	339,613
Change in unfilled customer orders			
Without advance from Federal sources	949,515	-	949,515
Anticipated for rest of year, without advances	0	-	0
Subtotal	**98,542,431**	**-**	**98,542,431**
Non-expenditure transfer, net: anticipated and actual	250,000	-	250,000
Permanently not available	(103,067)	-	(103,067)
Total budgetary resources	**$118,625,001**	**$106,467**	**$118,731,468**
STATUS OF BUDGETARY RESOURCES			
Obligations incurred:			
Direct	$86,473,971	$67,008	$86,540,979
Reimbursable	7,149,178	-	7,149,178
Subtotal	**93,623,149**	**67,008**	**93,690,157**
Unobligated balance:			
Apportioned	20,318,493	39,459	20,357,952
Unobligated balance not available	4,683,359	-	4,683,359
Total status of budgetary resources	**$118,625,001**	**$106,467**	**$118,731,468**

(Continued)

	2009		
	Appropriated Funds	Trust Funds	Total
CHANGE IN OBLIGATED BALANCES			
Obligated balance, net:			
Unpaid obligations brought forward, October 1	$12,711,889	$88,035	$12,799,924
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(3,189,760)		(3,189,760)
Total unpaid obligated balance, net	**9,522,129**	**88,035**	**9,610,164**
Obligations incurred, net	93,623,149	67,008	93,690,157
Less: Gross outlays	(90,312,690)	(26,707)	(90,339,397)
Less: Recoveries of prior year unpaid obligations, actual	(1,537,236)	(44,874)	(1,582,110)
Change in uncollected customer payments from Federal sources	(1,289,128)		(1,289,128)
Obligated balance, net, end of period			
Unpaid obligations	14,485,113	83,462	14,568,575
Less: Uncollected customer payments from Federal sources	(4,478,888)	**-**	(4,478,888)
Total, unpaid obligated balance, net, end of period	**$10,006,225**	**$83,462**	**$10,089,687**
NET OUTLAYS			
Gross outlays	$90,312,690	$26,707	$90,339,397
Less: Offsetting collections	(5,788,303)	-	(5,788,303)
Less: Distributed offsetting receipts	(16,165)	-	(16,165)
Net outlays	**$84,508,222**	**$26,707**	**$84,534,929**

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	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
Offsetting collections	(1,736,169)	-	(1,736,169)
Distributed offsetting receipts	2,821	-	2,821
Net outlays	**$83,415,950**	**$0**	**$83,415,950**