



Office of the Inspector General  
U.S. Department of Justice



# **Audit of the Assets Forfeiture Fund and Seized Asset Deposit Fund Annual Financial Statements Fiscal Year 2015**



**ASSETS FORFEITURE FUND AND SEIZED ASSET DEPOSIT FUND  
ANNUAL FINANCIAL STATEMENTS  
FISCAL YEAR 2015**

**OFFICE OF THE INSPECTOR GENERAL  
COMMENTARY AND SUMMARY**

This audit report contains the Annual Financial Statements of the Assets Forfeiture Fund and Seized Asset Deposit Fund (AFF/SADF) for the fiscal years (FY) ended September 30, 2015, and September 30, 2014. Under the direction of the Office of the Inspector General (OIG), KPMG LLP performed the AFF/SADF's audit in accordance with auditing standards generally accepted in the United States of America. The FY 2015 audit resulted in an unmodified opinion on the financial statements. An unmodified opinion means that the financial statements are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles. For FY 2014, the AFF/SADF also received an unmodified opinion on its financial statements (OIG Audit Report No. 15-08).

KPMG LLP also issued reports on internal control over financial reporting and on compliance and other matters. The auditors identified one material weakness in the FY 2015 *Independent Auditors' Report on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. The material weakness related to inadequate internal controls over financial reporting. Improvements are needed in the AFF/SADF financial reporting process, specifically, controls over budgetary information presented in the financial statements, and completeness and accuracy of donation and forfeiture revenue. The AFF/SADF management agreed with the report's five recommendations to improve controls over financial reporting. No instances of non-compliance or other matters were identified during the audit that are required to be reported under *Government Auditing Standards*, in the FY 2015 *Independent Auditors' Report on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. Additionally, KPMG LLP's tests disclosed no instances in which the AFF/SADF financial management systems did not substantially comply with the *Federal Financial Management Improvement Act of 1996*.

The OIG reviewed KPMG LLP's reports and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an audit in accordance with *Government Auditing Standards*, was not intended to enable us to express, and we do not express, an opinion on the AFF/SADF's financial statements, conclusions about the effectiveness of internal control, conclusions on whether the AFF/SADF's financial management systems substantially complied with the *Federal Financial Management Improvement Act of 1996*, or conclusions on compliance and other matters. KPMG LLP is responsible for the attached auditors' reports dated November 9, 2015, and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with auditing standards generally accepted in the United States of America.

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**AUDIT OF THE  
ASSETS FOREITURE FUND  
AND SEIZED ASSET DEPOSIT FUND  
ANNUAL FINANCIAL STATEMENTS  
FISCAL YEAR 2015**

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# Department of Justice

## Assets Forfeiture Fund and Seized Asset Deposit Fund FY 2015 Management's Discussion and Analysis (Unaudited)



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# U.S. Department of Justice

## Assets Forfeiture Fund and Seized Asset Deposit Fund

### Management’s Discussion and Analysis

#### (Unaudited)

## MISSION

The primary mission of the Department of Justice (DOJ or the Department) Asset Forfeiture Program (AFP or the Program) is to prevent and reduce crime by disrupting, damaging, and dismantling criminal organizations through the use of the forfeiture sanction. This is accomplished by means of depriving drug traffickers, racketeers, and other criminal syndicates of their ill-gotten proceeds and instrumentalities of their trade. Components responsible for the administration and financial management of the AFP are charged with lawfully, effectively, and efficiently supporting law enforcement authorities in the application of specified forfeiture statutes. The Assets Forfeiture Fund (AFF or the Fund) and Seized Asset Deposit Fund (SADF) together comprise a single financial reporting entity of the DOJ, which includes the specified funds, property seized for forfeiture, and the transactions and program activities of DOJ forfeiture program components and other participating agencies as described more fully herein.

## ORGANIZATION STRUCTURE

Table 1 below displays the primary functional activities of the participating agencies in the AFP. For the full names of the participating agencies, see Footnote 1. These agencies investigate or prosecute criminal activity under statutes, such as the Comprehensive Drug Abuse Prevention and Control Act of 1970, the Racketeer Influenced and Corrupt Organizations statute, the Controlled Substances Act, and the Money Laundering Control Act, or provide administrative support services to the Program.

**Table 1. Asset Forfeiture Program Participants by Function <sup>1</sup>**

Function	AFMLS	OCDETF	AFMS	ATF	DCIS	DEA	DS	EOUSA	FBI	FDA	INTERPOL-W	USDA	USMS	USPS
Investigation		X		X	X	X	X		X	X	X	X		X
Litigation	X							X						
Custody of Assets				X		X			X				X	
Management	X		X											

## FINANCIAL STRUCTURE

The AFP is comprised of two funds, which are under the management control of the Asset Forfeiture Management Staff (AFMS). The AFF is a special fund listed in the U.S. Treasury Federal Account Symbols and Titles Book as 15X5042. The SADF is a deposit fund listed as 15X6874.

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<sup>1</sup> The participants include the Asset Forfeiture and Money Laundering Section, Criminal Division (AFMLS); Organized Crime Drug Enforcement Task Force (OCDETF); Asset Forfeiture Management Staff, Justice Management Division (AFMS); Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF); Defense Criminal Investigative Service (DCIS); Drug Enforcement Administration (DEA); Bureau of Diplomatic Security, Department of State (DS); Executive Office for United States Attorneys (EOUSA); Federal Bureau of Investigation (FBI); Food and Drug Administration (FDA); INTERPOL-Washington (INTERPOL-W); United States Department of Agriculture (USDA); United States Marshals Service (USMS); and United States Postal Service (USPS).

The AFF was created by the Comprehensive Crime Control Act of 1984 to be the repository of the proceeds of forfeitures under any law enforced and administered by the DOJ (28 U.S.C. § 524(c)). All amounts earned from the investment of AFF and SADF balances are deposited into the AFF. The interest earned on the AFF balances is the property of the United States Government.

Monies deposited in the AFF are used to cover operating costs of the Program. These costs include, for example, asset management and disposition expenses; equitable sharing payments to participating state, local, and foreign governments; Automatic Data Processing (ADP) equipment expenses; contract service payments; and payments of innocent third party claims. All salaries and employment related expenses, liabilities, and imputed financing costs of DOJ AFP participants are reported in the financial statements of the participants' reporting entities. Salaries and employment related costs of administrative personnel of the AFMS, AFMLS, EOUSA, and USMS are charged to the AFP as program operating costs. The AFP's operating costs do not include the costs of any participant salaries incurred while conducting investigations leading to seizure and forfeiture.

While the AFF is the repository for forfeited currency and proceeds arising from the sale of forfeited property and also serves as the operating fund for specified program expenditures, the SADF serves as a repository for seized currency and specified deposits.

The SADF was created administratively by the DOJ to ensure control over monies seized by agencies participating in the DOJ's AFP. Public Law (P.L.) 102-140, dated October 28, 1991, provided authority for the investment of SADF balances pending adjudication. Generally, monies in the SADF are not the property of the Government. The SADF holds seized cash, the proceeds of any pre-forfeiture sale of seized property, and forfeited cash not yet transferred to the AFF. Operating businesses under seizure also may be managed through the SADF. Because most funds held in the SADF are not Government property, monies in the SADF cannot be expended. SADF balances are transferred to the AFF upon the successful conclusion of a forfeiture action.

The Fund receives most of its revenue from the forfeiture of cash and other monetary assets and, secondly, from the sale of forfeited property. AFP participants may receive annual allocations by suballotment advice or reimbursement agreement. The Fund's first priority is to cover the business or operational expenses of the AFP. After it is determined that there will be sufficient receipts, allocations may be made for investigative expenses, such as awards for information, purchase of evidence, and equipping of conveyances, and also discretionary expenses, such as storage, protection and destruction of controlled substances.

## **Limitations on the Use of the Assets Forfeiture Fund**

The AFF is defined by statute. Authorities and limitations governing the use of the AFF are specified in 28 U.S.C. § 524(c). In addition, use of the AFF is controlled by laws and regulations governing the use of public monies and appropriations (e.g., 31 U.S.C. § 1341-1353 and 1501-1558, Office of Management and Budget (OMB) Circulars, and provisions of annual appropriation acts). The AFF is further controlled by the *Attorney General's Guidelines on Seized and Forfeited Property* (July 1990), policy memoranda, and statutory interpretations issued by appropriate authorities. Unless otherwise provided by law, restrictions on the use of AFF monies retain those limitations after any monies are made available to a recipient agency. Moreover, monies are available for use only to the extent that receipts are available in the AFF.

In Fiscal Years (FY) 2015 and 2014, monies were available under a permanent indefinite appropriation to finance the following:

- (1) The operational costs of the forfeiture program, including handling and disposal of seized and forfeited assets, and the execution of legal forfeiture proceedings to perfect the title of the United States in that property.
- (2) The payment of innocent third party claims.
- (3) The payment of equitable shares to participating foreign governments, and state and local law enforcement agencies.
- (4) The costs of ADP equipment and ADP support for the Program.
- (5) Contract services in support of the Program.
- (6) Training and printing associated with the Program.
- (7) Other management expenses of the Program.
- (8) Awards for information leading to forfeiture.
- (9) Joint Federal, state, and local law enforcement operations.
- (10) Investigative expenses leading to seizure.

Resources of the AFF are intended to cover the business expenses of the AFP, with any excess balances available for discretionary purposes, including investigative expenses subject to appropriations limitation (definite authority). Excess unobligated balances identified at the end of a fiscal year may be declared a "Super Surplus" balance. Super Surplus balances may be allocated at the discretion of the Attorney General for ". . . any Federal law enforcement, litigative/prosecutive, and correctional activities, or any other authorized purpose of the DOJ" pursuant to 28 U.S.C. § 524(c)(8)(E).

Among other important benefits of a well-managed forfeiture program is the application of surplus revenues to law enforcement objectives, such as enhancing cooperation among Federal, state, and local law enforcement agencies through the equitable sharing of Federal forfeiture proceeds. Pursuant to 21 U.S.C. § 881(e)(1) and 19 U.S.C. § 1616(a), as made applicable by 21 U.S.C. § 881(d) and other statutes, the Attorney General has the authority to equitably transfer forfeited property and cash to state and local agencies that directly participate in the law enforcement effort leading to the seizure and forfeiture of property. All property and cash transferred to state and local agencies and any income generated by this property and cash is to be used for law enforcement purposes. As a result, state and local law enforcement programs and capabilities benefit significantly from their cooperative efforts with Federal law enforcement agencies. Among the uses of equitable shares, priority is given to supporting community policing activities, training, and law enforcement operations intended to result in further seizures and forfeitures.

## **Holding and Accounting for Seized and Forfeited Property**

The USMS has primary responsibility for holding and maintaining real and tangible personal property seized by participating agencies for disposition. Seized property can be either returned to the owner or forfeited to the Government. Forfeited property is subsequently sold, placed into official use, destroyed, or transferred to another agency. Seized and forfeited property is not considered inventory held for resale in the normal course of business.

## **ANALYSIS OF FINANCIAL STATEMENTS**

The following are brief explanations for the AFF/SADF financial results, position, and condition conveyed in the principal financial statements. In FY 2015, five major fraud cases resulted in large case forfeiture income of \$612.1 million compared to the eight major fraud cases in FY 2014 that resulted in large case forfeiture income of \$3,502.9 million. The term “large case” refers to nonrecurring forfeiture income greater than \$20 million. The AFF/SADF financial results reflect the impact of the large cases on forfeiture income and accrued liabilities in the fund balance with Treasury, accounts payable, forfeiture revenue, and budgetary resources.

### Consolidated Balance Sheets

Total assets, which present as of a specific time the amounts of future economic benefits owned or managed by the AFF/SADF, remained stable in FY 2015 at \$8,735.4 million compared to \$8,708.4 million in FY 2014, a slight increase of .3 percent. If seized assets, which are not yet owned by the Government, are not included, the adjusted assets of the AFF decreased to \$6,513.1 million in FY 2015 from \$7,335.1 million in FY 2014, a decrease of 11.2 percent. Although total assets managed by the AFF/SADF remained relatively stable, forfeited assets decreased as a result of an overall decrease in forfeiture activity during FY 2015.

Total liabilities of the funds increased to \$7,185.5 million in FY 2015 from \$6,147.6 million in FY 2014, an increase of 16.9 percent. The majority of the change, \$1,037.9 million, is primarily due to the increase in Seized Cash and Monetary Instruments related to large deposits to the SADF for the General Motors and the Silk Road cases. Current assets were more than current liabilities by a ratio of 1.7 to 1, which reflects an increase of .1 from FY 2014. This ratio continues to indicate that the AFF will be able to meet its obligations when due. In the calculation of the ratio of current assets to current liabilities, current assets consist of total assets less SADF net investments, plus seized cash deposited, seized monetary instruments (see Note 11), and less property, plant and equipment while current liabilities include the total of liabilities covered by budgetary resources, except for total seized cash and monetary instruments.

### Consolidated Statements of Net Cost

Net cost of operations is related to DOJ’s Strategic Goal 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law. Net cost of operations decreased to \$1,536.9 million in FY 2015 from \$3,072.2 million in FY 2014, a decrease of 50.0 percent. In FY 2014, the recognition of liabilities for payments to victims associated with the Bernard Madoff case increased Net cost of operations by \$1,700 million. If the Bernard Madoff case was excluded in FY 2014 for comparison purposes, the adjusted Net cost of operations for the Fund would have increased in FY 2015 by 12 percent. To the extent that financing sources do not cover net costs, AFF’s carry forward balances are used to support program expenses. The carry forward balances consist primarily of special case funds and monies for operational requirements.

## Consolidated Statements of Changes in Net Position

Net position, an indicator of the AFF's future capability to support ongoing operations, decreased to \$1,549.9 million in FY 2015 from \$2,560.8 million in FY 2014, a decrease of 39.5 percent. The Fund's financing sources consist primarily of forfeited cash and other monetary assets and, secondly, sale proceeds of forfeited property. Additional factors that consume resources and influence the AFF net position to a lesser extent include the short-term interest rates that affect revenue from investments in Government securities; the nature of seized non-cash properties that must be converted into cash and the transfers of properties placed into official use.

The Program invests cash balances from both the AFF and SADF in Government securities. Earnings over a five-year period are presented in Figure 2. Investment interest earnings (i.e., nonexchange revenue) realized for the fiscal year ended September 30, 2015, totaled \$6.6 million, which is \$300 thousand more than the \$6.3 million in investment interest earnings for the fiscal year ended September 30, 2014. FY 2015 investment interest earned is \$2.6 million more than the \$4 million estimated for FY 2016 in the Budget of the United States Government, Fiscal Year 2015--Appendix. The increased earnings are due to a slight increase in investment earnings rates in FY 2015.

Total financing sources realized by the Fund in FY 2015 were \$525.9 million, a decrease of \$3,251.4 million compared to \$3,777.3 million realized in FY 2014. The decrease is due to a sharp decrease in forfeiture revenue realized during the year. In FY 2014 there were eight large fraud cases which yielded \$3,502.9 million in forfeitures. Specifically, the Toyota and Bernard Madoff cases resulted in forfeitures of \$2,900 million. However, this is the tenth year since inception of the Fund that it has exceeded \$1 billion in deposits.

## Combined Statements of Budgetary Resources

Total budgetary resources decreased to \$3,743.9 million in FY 2015 from \$5,051.5 million in FY 2014, a 25.9 percent decrease. As discussed above, there was a sharp decrease in forfeiture revenue realized during FY 2015. The net outlays increased to \$2,404.5 million in FY 2015 from \$1,367.1 million in FY 2014, an increase of 75.9 percent, because of a \$1.1 billion transfer to the USMS during the second quarter of FY 2015.

The total obligations incurred in FY 2015 were \$2,727.4 million, a decrease of \$408.5 million compared to \$3,135.9 million incurred in FY 2014. The FY 2015 obligations incurred decreased relative to FY 2014 nonrecurring case activity in FY 2015.

The AFF's unobligated balance was \$1,016.5 million as of September 30, 2015, a decrease of 46.9 percent as compared to \$1,915.6 million as of September 30, 2014. The FY 2015 unobligated balance decreased relative to FY 2014 because of the sharp decrease in forfeiture activity during FY 2015. The unobligated balance carried forward is retained in the AFF to ensure the availability of sufficient monies in the upcoming fiscal year for authorized purposes. These purposes include program operating expenses as well as pending extraordinary distributions, pending innocent third party payments, uncommitted Super Surplus authority, and other items.

**Table 2. Source of Assets Forfeiture Fund Resources  
(Dollars in Thousands)**

Source	FY 2015	FY 2014	Change %
<b>Exchange Revenue</b>	\$ 14,557	\$ 14,065	3.5%
<b>Budgetary Financing Sources</b>			
Nonexchange Revenues	6,610	\$ 6,280	5.3%
Donations and Forfeitures of Cash or Cash Equivalents	1,285,294	4,158,820	(69.1%)
Transfers-In/Out Without Reimbursement	(1,100,014)	(693,000)	58.7%
<b>Other Financing Sources</b>			
Donations and Forfeitures of Property	337,357	308,307	9.4%
Transfers-In/Out Without Reimbursement	(4,890)	(4,930)	(0.8%)
Imputed Financing from Costs Absorbed by Others	1,571	1,837	(14.5%)
<b>Total</b>	\$ 540,485	\$ 3,791,379	(85.7%)

**Table 3. How Assets Forfeiture Fund Resources are Spent  
(Dollars in Thousands)**

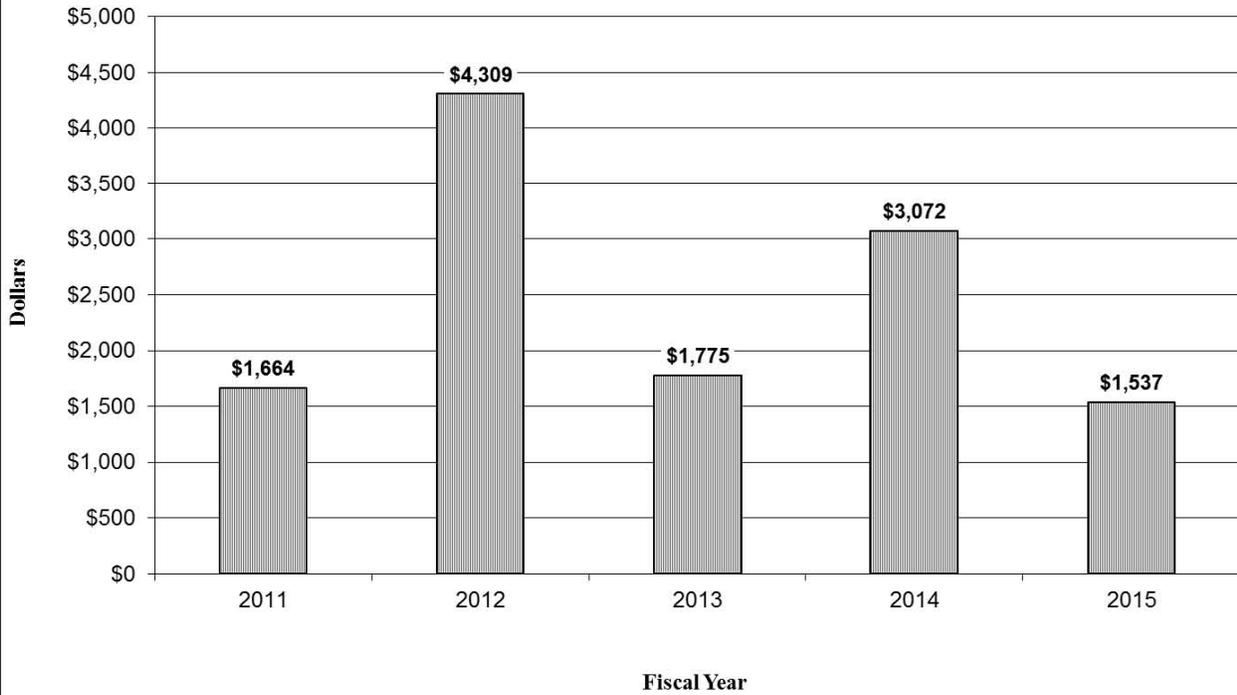
Strategic Goal (SG)	FY 2015	FY 2014	Change %
<b>SG 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law</b>			
Total Gross Cost	\$ 1,551,414	\$ 3,086,298	
Less: Total Earned Revenue	(14,557)	(14,065)	
<i>Total Net Cost of Operations</i>	\$ 1,536,857	\$ 3,072,233	-50.0%

**2015 Financial Highlights**

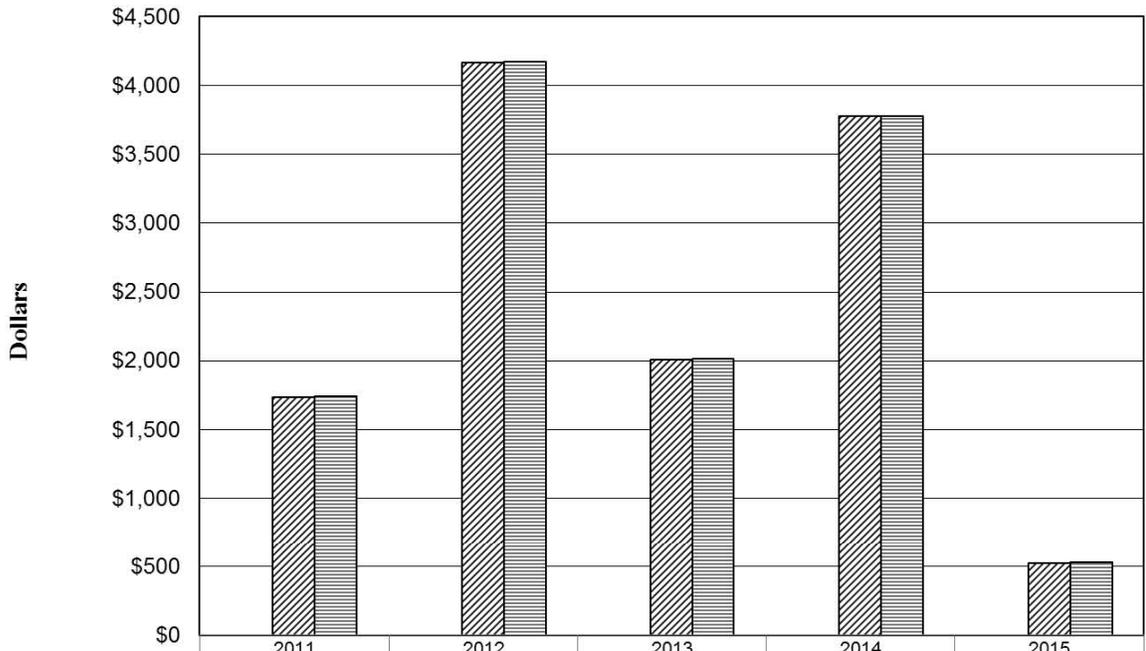
As indicated in Table 3, in FY 2015 the AFF supported Strategic Goal 2 of the Attorney General’s Strategic Plan for Fiscal Years 2012 – 2016, which includes Strategic Objective 2.2 - *Prevent and Intervene in Crimes Against Vulnerable Populations; Uphold the Rights of, and Improve Services to, America’s Crime Victims.*

**Strategic Goal 2, Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law.** Included are expenditures made for case, program, investigative, and other authorized support costs incurred by AFP participants to operate the activities of the Program. The Fund’s resources cover the costs of seizing, evaluating, inventorying, maintaining, protecting, advertising, forfeiting, and disposing of property seized for forfeiture. These costs are necessary to support the AFP and fluctuate in direct relation to the forfeiture activity levels of the investigative, prosecutive, litigative, and administrative participants of the Fund. The AFF has no costs associated with counterterrorism or homeland security. For the fiscal year ended September 30, 2015, \$1,536.9 million was expended (net of earned revenue) while \$3,072.2 million was expended (net of earned revenue) for the fiscal year ended September 30, 2014. Goal 2 net costs are presented in Figure 1; financing sources are presented in Figure 2.

**Figure 1. AFF Net Costs  
(Dollars in Millions)**



**Figure 2. AFF Financing Sources  
(Dollars in Millions)**



Investment Revenue	\$5	\$3	\$5	\$6	\$7
Net Forfeiture Revenue	\$1,732	\$4,165	\$2,006	\$3,771	\$519
Total Net Financing Sources	\$1,737	\$4,168	\$2,011	\$3,777	\$526

# **FY 2015 REPORT ON SELECTED RESULTS**

## **PERFORMANCE INFORMATION**

### **STRATEGIC GOAL 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law.**

This goal is supported by 100% of the AFF's Net Costs.

There are no applicable AFP performance measures. No performance measures are indicated because the Fund's program operations are performed by its participants. The Fund is considered to be an enabling/administrative activity where resources are spread across agencies in accordance with full program costing guidance.

## **ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE**

The Federal Managers' Financial Integrity Act of 1982 (Integrity Act or FMFIA) provides the statutory basis for management's responsibility for and assessment of internal accounting and administrative controls. Such controls include program, operational, and administrative areas, as well as accounting and financial management. The Integrity Act requires federal agencies to establish controls that reasonably ensure obligations and costs are in compliance with applicable law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to maintain accountability over the assets. The Integrity Act also requires agencies to annually assess and report on the internal controls that protect the integrity of federal programs (FMFIA § 2) and whether financial management systems conform to related requirements (FMFIA § 4).

Guidance for implementing the Integrity Act is provided through OMB Circular A-123. In addition to requiring agencies to provide an assurance statement on the effectiveness of programmatic internal controls and conformance with financial system requirements, the Circular requires agencies to provide an assurance statement on the effectiveness of internal control over financial reporting.

### **FMFIA Section 2 – Material Weaknesses**

For FY 2015, the independent auditors reported one material internal control weakness. For the period ended September 30, 2015, various errors were identified in the presentation and adjustments to budgetary information in the financial statements. Also during FY 2015 the auditors identified errors in the completeness and accuracy of donation and forfeiture revenue. AFMS Management's self-assessments of the AFF/SADF internal controls over financial reporting, conducted in FY 2015, as required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and OMB Circular No. A-123, *Management's Responsibility for Internal Control*, identified no additional internal control weaknesses. Based on the results of the assessment for the year ended September 30, 2015, the JMD management did report the Section 2 material weakness identified above.

## **Internal Control Program**

AFMS is responsible for maintaining internal accounting and administrative controls that are adequate to ensure that: (1) transactions are executed in accordance with applicable budgetary and financial laws, and other requirements, consistent with the purposes authorized, and are recorded in accordance with Federal accounting standards; (2) assets are properly safeguarded to deter fraud, waste, and abuse; and (3) management information is adequately supported. AFMS, along with other Fund participants who use the Unified Financial Management System (UFMS), monitors financial transactions on an ongoing basis. AFMS also requires participants who enter Fund and SADF transactions into their own financial system to provide reports of their financial transactions at least quarterly to update the AFF obligation status.

For FY 2015, the Offices, Boards and Divisions' (OBD) and AFP's management participated in the Departmental assessment of internal controls over financial reporting required by Appendix A of OMB Circular No. A-123. Results of the testing of the controls over financial reporting in the AFP will be consolidated with other Departmental components and reported in the overall Departmental assurance statement.

## **FMFIA Section 4 – Material Nonconformances**

For FY 2015, the Fund reported no material nonconformances of its financial-mixed IT system CATS. In FY 2015 the DOJ did not identify any systems nonconformance required to be reported under FMFIA Section 4. The Fund relies upon the Department's UFMS managers in JMD for Section 4 compliance on the Department's financial system of record.

## **Legal Compliance**

For FY 2015, the AFF/SADF was in compliance with the requirements and responsibilities defined in applicable laws and administrative requirements, including FMFIA and relevant OMB Circulars. The AFF/SADF's financial management systems complied substantially with the Federal Financial Management Improvement Act of 1996's (FFMIA) Federal financial management systems requirements, applicable Federal accounting standards, and application of the USSGL at the transaction level as of September 30, 2015.

## **IMPROPER PAYMENTS INFORMATION ACT OF 2002, AS AMENDED**

In accordance with OMB Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*, and the Departmental guidance for implementing the Improper Payments Information Act of 2002 (IPIA), as amended, the Department implemented a top-down approach to assess the risk of significant improper payments across all five of the Department's mission-aligned programs, and to identify and recapture improper payments through a payment recapture audit program. The approach promotes consistency across the Department and enhances internal control related to preventing, detecting, and recovering improper payments. Because of the OMB requirement to assess risk and report payment recapture audit activities by agency programs, the results of the Department's risk assessment and recapture activities are reported at the Department-level only.

In accordance with the Departmental approach for implementing IPIA, as amended, the AFMS assessed its activities for susceptibility to significant improper payments and conducted its payment

recapture audit program. The AFMS provided the results of both the risk assessment and payment recapture audit activities to the Department for the Department-level reporting in the FY 2015 Agency Financial Report.

## **POSSIBLE FUTURE EFFECTS OF EXISTING EVENTS AND CONDITIONS**

Financing sources in FY 2015 totaled \$525.9 million, which are \$3,251.4 million less than the \$3,777.3 million reported in FY 2014. As discussed above, financing sources in FY 2015 were less than in FY 2014 because of a sharp decrease in forfeiture activity during FY 2015. It is difficult to project future levels of financing since they are dependent upon many factors, including the development of new cases, uneven flow of cases through the forfeiture process, level of appropriations that Federal law enforcement agencies receive, level of personnel and monetary resources dedicated to the forfeiture program, international cooperation in forfeiture and repatriation matters, Federal court decisions, and evolving forfeiture law.

## **LIMITATIONS OF THE FINANCIAL STATEMENTS**

The financial statements have been prepared to report the financial position and results of operations of the AFF/SADF, pursuant to the requirements of 31 U.S.C. § 3515(b).

While the statements have been prepared from the books and records of the AFF/SADF in accordance with U.S. generally accepted accounting principles 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.

# U.S. DEPARTMENT OF JUSTICE

## Assets Forfeiture Fund and Seized Asset Deposit Fund

### Independent Auditors' Reports



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Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## **Independent Auditors' Report on the Financial Statements**

Inspector General  
U.S. Department of Justice

Chief Financial Officer  
Assets Forfeiture Fund and Seized Asset Deposit Fund  
U.S. Department of Justice

We have audited the accompanying consolidated financial statements of the U.S. Department of Justice Assets Forfeiture Fund (AFF) and Seized Asset Deposit Fund (SADF), which comprise the consolidated balance sheets as of September 30, 2015 and 2014, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended; and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated 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. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02, require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



***Opinion on the Financial Statements***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Justice Assets Forfeiture Fund and Seized Asset Deposit Fund as of September 30, 2015 and 2014, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

***Other Matters***

***Required Supplementary Information***

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

***Other Information***

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The Combined Schedule of Spending is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2015 on our consideration of the AFF/SADF's internal control over financial reporting, and our report dated November 9, 2015 on our tests of its compliance with certain provisions of laws, regulations, and 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* in considering the AFF/SADF's internal control over financial reporting and compliance.

**KPMG LLP**

November 9, 2015



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## **Independent Auditors' Report on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Inspector General  
U.S. Department of Justice

Chief Financial Officer  
Assets Forfeiture Fund and Seized Asset Deposit Fund  
U.S. Department of Justice

We have audited, 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. 15-02, *Audit Requirements for Federal Financial Statements*, the consolidated financial statements of the U.S. Department of Justice Assets Forfeiture Fund (AFF) and Seized Asset Deposit Fund (SADF), which comprise the consolidated balance sheets as of September 30, 2015 and 2014, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 9, 2015.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2015, we considered the AFF/SADF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the AFF/SADF's internal control. Accordingly, we do not express an opinion on the effectiveness of the AFF/SADF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in Exhibit I, we identified a deficiency in internal control that we consider to be a material weakness.

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 material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness,



Independent Auditors' Report on Internal Control over Financial Reporting  
Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards*  
Page 2

yet important enough to merit attention by those charged with governance. We consider the deficiency described in Exhibit I to be a material weakness.

**AFF/SADF's Response to Finding**

The AFF/SADF's response to the material weakness identified in our audit and presented in Exhibit I was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

Exhibit II presents the status of the prior year's finding and recommendations.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the AFF/SADF's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the AFF/SADF's internal control. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

November 9, 2015

**EXHIBIT I**

**MATERIAL WEAKNESS**

This section contains our discussion of the material weakness that we identified in internal control over financial reporting.

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**Improvements Needed in Controls over Budgetary Information Presented in Financial Statements and Completeness and Accuracy of Donation and Forfeiture Revenue.**

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Deficiencies exist in the Justice Management Division's (JMD), Asset Forfeiture Management Staff (AFMS), Budget Staff, and Finance Staff internal controls over financial reporting. Collectively, these deficiencies indicate that improvements are needed to ensure the quality of its overall financial management. Specifically, improvements are needed in the financial reporting process, to include analysis of related accounts and data sources to determine whether adjustments are being appropriately recorded and presented in the financial statements. Additionally, AFMS and federal agencies participating in the Department of Justice's Asset Forfeiture Program continue to have weaknesses in gathering and evaluating the supporting judicial information prior to recognizing revenue and evaluating adjustments to revenue accounts. Cash property assets are recognized as revenue at the time a forfeiture order is signed conveying ownership of the asset to the government. The forfeiture order must be entered in the Consolidated Asset Tracking System (CATS) to inform the custodial agency that ownership has transferred and for revenue to be recognized. Non-cash property items that have been forfeited are recognized as deferred revenue until they are sold or converted to cash at which time revenue is recognized. Deferred revenue reflects the appraised value of the asset at the time of forfeiture reduced by any liens or claims that must be satisfied prior to ownership of the asset transferring to the government. Liens and claims must be entered in CATS to avoid overstating deferred revenue for non-cash assets, and revenue for cash assets. Donations and forfeitures of cash and cash equivalents are presented as Budgetary Financing Sources while donations and forfeitures of property are presented as Other Financing Sources in the Statement of Changes in Net Position.

*Presentation and Adjustments to Budgetary Information in the Financial Statements*

Various errors were identified in the September 30, 2015 financial statements submitted for audit. Among the errors noted were: (1) Appropriations and Unobligated Balance - Unapportioned in the Statement of Budgetary Resources were understated by \$83.6 million because restored funding from a prior year temporary rescission was incorrectly reported as a current year temporary reduction; (2) Obligations Incurred in Note 17, *Information Related to the Statement of Budgetary Resources*, were misclassified between Category A and Category B in the amount of \$118 million; (3) Appropriations and Obligations Incurred in the Statement of Budgetary Resources were understated by approximately \$41.8 million due to journal entry errors; (4) Category C Apportionments in the amount of \$11.4 million were not disclosed properly in Note 3, *Fund Balance with U.S. Treasury*.

These presentation and journal entry errors were not detected and corrected through reviews performed by the AFMS, Budget Staff, and Finance Staff.

## EXHIBIT I

**Office of Management and Budget (OMB) Circular No. A-123**, *Management's Responsibility for Internal Controls*, Appendix A, Section I states that "Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting. Reliability of financial reporting means that management can reasonably make the assertion that the financial report is presented in the proper form and any required disclosures are present.

The **U.S. Department of Justice** *Financial Statement Requirements and Preparation Guide* requires each component to submit an electronic certified unaudited quarterly comparative financial statement package to Justice Management Division Finance Staff for which the certification is intended to ensure that component management has reviewed the package and that it conforms to Departmental requirements.

### Data Analysis and Reconciliation

During our analysis of relationships between financial statement line items and related note disclosures, we identified a \$40 million difference between the amounts disclosed in the Statement of Changes in Net Position for Donations and Forfeitures of Property, and Donations and Forfeitures of Cash and Cash Equivalents. The difference was the result of a prior year reclassification journal entry that was inappropriately reversed in the current year.

AFMS performed analytical review and analysis procedures (e.g., comparison of financial statement account balances and interrelated disclosures, and the investigation and correction of significant fluctuations) to detect errors for these accounts and identified similar errors. While AFMS identified the erroneous entry as a reconciling item during their analysis procedures they did not sufficiently research the item to determine that corrections in the general ledger were necessary.

**OMB Circular No. A-136**, *Financial Reporting Requirements*, requires that donations and forfeitures of cash and cash equivalents be presented as a budgetary resource in Budgetary Financing Sources in the Statement of Changes in Net Position. The line "includes voluntary gifts and involuntary forfeitures of resources to the Federal Government by non-Federal entities. Donations of financial resources may be in the form of cash or securities. This amount also includes the forfeiture of seized cash and cash equivalents."

**Government Accountability Office (GAO's) Standards for Internal Control in the Federal Government** defines internal control as an integral component of an organization's management that provides reasonable assurance that certain objectives will be achieved. Included among the objectives of internal control described in the GAO standards is the reliability of financial reporting, including reports on budget execution, financial statement, and other reports for internal and external use.

### Incomplete and Inaccurate Information in CATS Impacting Revenue Cut-off and Recognition

During our testing over a sample of 144 cash revenue items, we identified two items totaling \$647.6 thousand that were forfeited during fiscal year (FY) 2014 but were incorrectly recorded in FY 2015 because of the delayed entry of the forfeiture order into CATS. As a result of these errors, we performed further analyses over the property population and determined that the likely misstatement caused by these and similar entries was a \$31.6 million overstatement of current year revenue and an understatement of prior year revenue for the same amount. From the same cash revenue sample, we also determined that forfeiture decisions for 22

**EXHIBIT I**

items were not entered into the property management system within 15 days of final forfeiture approval per participating agency guidelines. The forfeiture decisions for these 22 cash items were entered into the property management system between 18 and 99 days after final forfeiture approval.

During our testing over the June 30, 2015 donation and forfeiture revenue adjustment journal entry, a sample item for \$36.5 million was improperly included in revenue that had a claim on file that prevented forfeiture from perfecting and the title passing to the Assets Forfeiture Fund. The claim was not entered in CATS and was not considered when recording the revenue adjustment as of June 30, 2015. This error was ultimately corrected as of September 30, 2015.

The above issues were primarily caused by a lack of formal policies in place to document the requirements for entering judicial information into the property management system, which created circumstances that required program participants to exercise professional judgment when making certain entries. The issues concerning delayed entry of final orders of forfeiture were not detected or corrected due to a lack of effectively designed and implemented preventive and detective controls.

**Statement of Federal Financial Accounting Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting***, states that “Nonexchange revenues are inflows of resources that the Government demands or receives by donation. Such revenue should be recognized when a specifically identifiable, legally enforceable claim to resources arises, to the extent that collection is probable (more likely than not) and the amount is reasonably estimable.” Specifically, as it relates to forfeiture revenue, SFFAS No. 7 states: “The timing of revenue recognition depends on how the property is forfeited and the nature of the property... In the case of property acquired through forfeiture proceedings, the timing of recognition depends on the nature and disposition of the property. For monetary instruments, the revenue is recognized at the time of obtaining forfeiture judgment; for property that is sold, at the time of sale; and for property that is held for internal use or transferred to another Federal agency, at the time of obtaining approval to use the property internally or transfer it.”

**GAO's *Standards for Internal Control in the Federal Government*** requires that transactions be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records.

**OMB Circular No. A-123, *Management's Responsibility for Internal Control***, states that “Control activities include policies, procedures and mechanisms in place to help ensure that agency objectives are met. Several examples include: proper segregation of duties (separate personnel with authority to authorize a transaction, process the transaction, and review the transaction); physical controls over assets (limited access to inventories or equipment); proper authorization; and appropriate documentation and access to that documentation.”

**EXHIBIT I**

**RECOMMENDATIONS:**

We recommend that the Justice Management Division:

1. Implement more effective procedures over review of the Annual Financial Statements and related journal entries to supplement existing higher-level management reviews over the Trial Balance and financial statements, to include reconciling and researching differences in budgetary information. (*Updated*)

**Management Response:**

The JMD, AFMS, Budget Staff and Finance Staff concur with this finding and recommendation. The JMD will establish a higher level management review of budgetary and propriety resources. They will include periodic reconciliations between the SF-132 *Apportionment Schedule*, SF-133 *Report on Budget Execution and Budgetary Resources* and the audited financial Statements.

2. Improve communication between budget and accounting staff to facilitate appropriate treatment of events impacting budgetary information. (*New*)

**Management Response:**

The JMD, AFMS, Budget Staff and Finance Staff concur with this finding and recommendation. Following up on management's response to number 1 above JMD will ensure communication and coordination between the JMD staffs.

3. Work with participating agencies to develop clear policies and procedures for entering judicial information in CATS that more clearly address situations when attorneys have been using judgment to assess and enter information in CATS. (*New*)

**Management Response:**

The JMD, AFMS, and Finance Staff concur with this finding and recommendation.

In FY 2015 AFMS substantially increased communication and training with U.S. Attorney's Offices (USAOs) and agencies participating in the DOJ Asset Forfeiture Program to stress the importance of entering timely and accurate data into CATS. AFMS also accelerated quarterly cutoffs for USAOs and participating agencies for data entry into CATS as a control to improve the accuracy of financial reporting. After the quarterly cutoffs, AFMS continued to coordinate with its program partners to record accounting events on their behalf to ensure accurate and timely reporting.

FY 2015 audit exceptions noted that USAOs and participating agencies did not consistently adhere to timelines in Executive Office for United States Attorneys' (EOUSA) draft guidelines for recording forfeiture revenue in CATS. However, a number of these delays exceeded the draft guidelines by a small number of days, and most transactions were recorded in the proper quarter and were accurately reflected in the financial statements.

## EXHIBIT I

It is also important to note that the large revenue accrual error referenced by the auditors pertained to a large and unusual case that is not characteristic of the majority of cases for which CATS is the primary data repository. For several years, this case has required special communications to accurately report the status of claims and revenue. In FY 2015 AFMS' internal review procedures identified the revenue accrual error recorded in the third quarter. After coordinating with the USAO to obtain the accurate claim information, AFMS corrected the erroneous entry in the fourth quarter of FY 2015, and the USAO entered the claim in CATS.

Going forward, AFMS will work with the EOUSA and the Criminal Division to collaborate on updating policies, procedures, and guidance that sufficiently address the timeliness and accuracy of data to be entered into CATS by USAOs and participating agencies. In addition, AFMS will enhance its review procedures for large and unusual cases for which special processes and communications external to CATS are required for accurate financial reporting.

4. Work with participating agencies to develop and implement effective controls to ensure that all relevant judicial claim information is accurately and timely entered and updated in CATS. (*New*)

### **Management Response:**

The JMD, AFMS, and Finance Staff concur with this finding and recommendation.

During FY 2015 AFMS continued its outreach to USAO's and participating agencies to notify them of audit exceptions, ensure they understood the issues, and inform them of the proper policies and procedures. AFMS also expanded its communications with, and training to, USAOs, participating agencies, and the CATS user community to highlight the need for accurate and timely data updates in CATS.

Going forward, AFMS will continue its outreach to USAOs and participating agencies to ensure they are aware of the policies/procedures regarding CATS data entry. In addition, AFMS will consider implementing CATS user training certifications and CATS user access controls to ensure CATS users are aware of applicable policies and procedures before they are granted or provided continued access to CATS. AFMS will also explore potential ways to leverage the use of electronic court reporting data to monitor, accelerate, and streamline the receipt of key asset information so that it may be entered into CATS more quickly. Finally, AFMS will explore using technology and data analytics to help streamline the review of court documents to accelerate identification of potential accounting and reporting events.

**EXHIBIT I**

5. Implement procedures to analyze and correct, when necessary, differences identified by analytical and review procedures. (*Updated*)

**Management Response:**

The JMD, AFMS, and Finance Staff concur with this finding and recommendation. In FY 2015 AFMS worked with the U.S. Marshals Service to implement new procedures to identify revenue transaction errors and make detailed corrections in the financial management system on an asset-by-asset basis. This new process substantially reduced the quarterly accounting entries AFMS was required to record to reclassify revenue. Specifically, for the fourth quarter of FY 2015, AFMS reclassified a net amount of \$400,000 as compared with a net reclassification of \$40 million in the fourth quarter of FY 2014.

It is important to note that, effective with the new process implemented in FY 2015, the error caused by reversing the FY 2014 revenue accrual was an isolated circumstance that will not be repeated in the future and was not indicative of problems with other journal voucher transactions. However, AFMS will enhance its analytical procedures to research significant fluctuations and interrelated disclosures, especially in instances where new accounting transactions and procedures are implemented.

**EXHIBIT II**

**STATUS OF PRIOR YEAR'S FINDING AND RECOMMENDATIONS**

As required by *Government Auditing Standards* issued by the Comptroller General of the United States, we have evaluated whether AFF/SADF has taken appropriate corrective action to address the finding and recommendations from the prior year's financial statements audits that could have a material effect on the financial statements or other financial data significant to the audit objectives. The following table provides the Office of the Inspector General report number where the deficiency was reported, our recommendation for improvement, and the status of the previously identified material weakness and recommendation as of the end of FY 2015.

<b>Report</b>	<b>Material Weakness</b>	<b>Recommendations</b>	<b>Status</b>
Annual Financial Statements Fiscal Year 2014 Report No. 15-08	Improvements Needed in Analysis of Accounting Data, Review of Financial Statements, and Analysis of Obligations and Accrued Liability Estimates	<b>Recommendation No. 1:</b> Implement analytical review and analysis procedures, including the comparison of current year to prior year financial statement account balances, interrelated disclosures, and the investigation of significant fluctuations, as part of the financial statement preparation and review process.	In Process (Updated by Current Year Recommendation No. 5)
		<b>Recommendation No. 2:</b> Use complete and accurate underlying reports to prepare financial statement note disclosures.	Completed
		<b>Recommendation No. 3:</b> Perform a more thorough review of the interim and annual financial statement packages.	In Process (Updated by Current Year Recommendation No. 1)
		<b>Recommendation No. 4:</b> Make revisions to the pending Obligation and Accrued Liability Estimation Methodology that include:  a. Updating the policy to include only relevant authoritative literature.  b. Developing and implementing an analysis that: (1) includes at least 3 years of prior CATS data supporting the estimated obligations and accrued liabilities, and (2) compares subsequently known data to the estimated accruals to determine the precision of the estimates over time.	Completed

**EXHIBIT II**

<b>Report</b>	<b>Material Weakness</b>	<b>Recommendations</b>	<b>Status</b>
Annual Financial Statements Fiscal Year 2014 Report No. 15-08	Improvements Needed in Analysis of Accounting Data, Review of Financial Statements, and Analysis of Obligations and Accrued Liability Estimates	<ul style="list-style-type: none"> <li>c. Maintaining a quarterly analysis, including an aging of obligations and related accrued liabilities.</li> <li>d. Developing and implementing written policy guidance to the participating agencies that describes how each data element in CATS is used as an assumption in the estimated obligation and related accrued liability.</li> <li>e. Performing sufficient testing of underlying data to validate that the CATS outputs produce relevant and reliable information that should be used as the basis to estimate future outlays.</li> </ul>	



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## **Independent Auditors' Report on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Inspector General  
U.S. Department of Justice

Chief Financial Officer  
Assets Forfeiture Fund and Seized Asset Deposit Fund  
U.S. Department of Justice

We have audited, 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. 15-02, Audit Requirements for Federal Financial Statements, the consolidated financial statements of the U.S. Department of Justice Assets Forfeiture Fund (AFF) and Seized Asset Deposit Fund (SADF), which comprise the consolidated balance sheets as of September 30, 2015 and 2014, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 9, 2015.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the AFF/SADF's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 disclosed no instances of noncompliance or other matters that are required to be reported herein under Government Auditing Standards or OMB Bulletin No. 15-02.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which the AFF/SADF's financial management systems did not substantially comply with the (1) federal financial management system requirements, (2) applicable federal accounting standards, and (3) application of the United States Government Standard General Ledger at the transaction level.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the AFF/SADF's compliance. This report is an integral part of an



Independent Auditors' Report on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards*  
Page 2

audit performed in accordance with *Government Auditing Standards* in considering the AFF/SADF's compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

November 9, 2015

# U.S. DEPARTMENT OF JUSTICE

## Assets Forfeiture Fund and Seized Asset Deposit Fund

### Principal Financial Statements and Related Notes

See Independent Auditors' Report on Financial Statements



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**U.S. Department of Justice**  
**Assets Forfeiture Fund and Seized Asset Deposit Fund**  
**Consolidated Balance Sheets**  
**As of September 30, 2015 and 2014**

<b>Dollars in Thousands</b>	<b>2015</b>	<b>2014</b>
<b>ASSETS (Note 2)</b>		
Intragovernmental		
Fund Balance with U.S. Treasury (Note 3)	\$ 153,034	\$ 124,255
Investments, Net (Note 5)	7,404,322	8,334,306
Accounts Receivable (Note 6)	3,194	9,242
Other Assets (Note 9)	89	40
Total Intragovernmental	<u>7,560,639</u>	<u>8,467,843</u>
Cash and Monetary Assets (Note 4)	1,041,590	101,690
Forfeited Property, Net (Note 7)	132,420	138,265
General Property, Plant and Equipment, Net (Note 8)	752	628
<b>Total Assets</b>	<b><u>\$ 8,735,401</u></b>	<b><u>\$ 8,708,426</u></b>
<b>LIABILITIES (Note 10)</b>		
Intragovernmental		
Accounts Payable	\$ 128,284	\$ 108,261
Other Liabilities (Note 12)	197	198
Total Intragovernmental	<u>128,481</u>	<u>108,459</u>
Accounts Payable	4,699,405	4,524,908
Accrued Payroll and Benefits	1,006	864
Accrued Annual and Compensatory Leave Liabilities	1,900	1,766
Deferred Revenue	132,420	138,265
Seized Cash and Monetary Instruments (Note 11)	2,222,270	1,373,316
<b>Total Liabilities</b>	<b><u>\$ 7,185,482</u></b>	<b><u>\$ 6,147,578</u></b>
<b>Contingent Liabilities (Note 13)</b>		
<b>NET POSITION</b>		
Cumulative Results of Operations - Funds from Dedicated Collections (Note 14)	\$ 1,549,919	\$ 2,560,848
<b>Total Net Position</b>	<b><u>\$ 1,549,919</u></b>	<b><u>\$ 2,560,848</u></b>
<b>Total Liabilities and Net Position</b>	<b><u>\$ 8,735,401</u></b>	<b><u>\$ 8,708,426</u></b>

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

**U.S. Department of Justice**  
**Assets Forfeiture Fund and Seized Asset Deposit Fund**  
**Consolidated Statements of Net Cost**  
**For the Fiscal Years Ended September 30, 2015 and 2014**

**Dollars in Thousands**

FY	Gross Costs			Less: Earned Revenues			Net Costs of Operations (Note 15)
	Intra-governmental	With the Public	Total	Intra-governmental	With the Public	Total	
<b>Goal 2</b>							
2015	\$ 578,656	\$ 972,758	\$ 1,551,414	\$ 14,557	\$ -	\$ 14,557	\$ 1,536,857
2014	\$ 508,771	\$ 2,577,527	\$ 3,086,298	\$ 14,065	\$ -	\$ 14,065	\$ 3,072,233
<b>Total</b>	<b>\$ 578,656</b>	<b>\$ 972,758</b>	<b>\$ 1,551,414</b>	<b>\$ 14,557</b>	<b>\$ -</b>	<b>\$ 14,557</b>	<b>\$ 1,536,857</b>
	<b>\$ 508,771</b>	<b>\$ 2,577,527</b>	<b>\$ 3,086,298</b>	<b>\$ 14,065</b>	<b>\$ -</b>	<b>\$ 14,065</b>	<b>\$ 3,072,233</b>

Goal 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law

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

**U.S. Department of Justice**  
**Assets Forfeiture Fund and Seized Asset Deposit Fund**  
**Consolidated Statements of Changes in Net Position**  
**For the Fiscal Years Ended September 30, 2015 and 2014**

<b>Dollars in Thousands</b>	<b>2015</b>	<b>2014</b>
	<b>Funds from Dedicated Collections</b>	<b>Funds from Dedicated Collections</b>
<b>Cumulative Results of Operations</b>		
<b>Beginning Balances</b>	\$ 2,560,848	\$ 1,855,767
<b>Budgetary Financing Sources</b>		
Nonexchange Revenues (Note 19)	6,610	6,280
Donations and Forfeitures of Cash and Cash Equivalents (Note 20)	1,285,294	4,158,820
Transfers-In/Out Without Reimbursement	(1,100,014)	(693,000)
<b>Other Financing Sources</b>		
Donations and Forfeitures of Property (Note 20)	337,357	308,307
Transfers-In/Out Without Reimbursement (Note 18)	(4,890)	(4,930)
Imputed Financing from Costs Absorbed by Others (Note 16)	1,571	1,837
<b>Total Financing Sources</b>	<u>525,928</u>	<u>3,777,314</u>
<b>Net Cost of Operations</b>	<u>(1,536,857)</u>	<u>(3,072,233)</u>
<b>Net Change</b>	<u>(1,010,929)</u>	<u>705,081</u>
<b>Cumulative Results of Operations</b>	<u>\$ 1,549,919</u>	<u>\$ 2,560,848</u>
<b>Net Position</b>	<u><u>\$ 1,549,919</u></u>	<u><u>\$ 2,560,848</u></u>

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

**U.S. Department of Justice**  
**Assets Forfeiture Fund and Seized Asset Deposit Fund**  
**Combined Statements of Budgetary Resources**  
**For the Fiscal Years Ended September 30, 2015 and 2014**

<b>Dollars in Thousands</b>	<b>2015</b>		<b>2014</b>	
<b>Budgetary Resources:</b>				
Unobligated Balance, Brought Forward, October 1	\$	1,915,572	\$	886,738
Recoveries of Prior Year Unpaid Obligations		69,845		71,239
Unobligated Balance from Prior Year Budget Authority, Net		1,985,417		957,977
Appropriations (discretionary and mandatory)		1,742,356		4,079,273
Spending Authority from Offsetting Collections (discretionary and mandatory)		16,118		14,242
<b>Total Budgetary Resources</b>	<b>\$</b>	<b>3,743,891</b>	<b>\$</b>	<b>5,051,492</b>
<b>Status of Budgetary Resources:</b>				
Obligations Incurred (Note 17)	\$	2,727,406	\$	3,135,920
Unobligated Balance, End of Year:				
Apportioned		796,822		1,836,188
Unapportioned		219,663		79,384
Total Unobligated Balance - End of Year		1,016,485		1,915,572
<b>Total Status of Budgetary Resources:</b>	<b>\$</b>	<b>3,743,891</b>	<b>\$</b>	<b>5,051,492</b>
<b>Change in Obligated Balance:</b>				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward October 1	\$	4,813,200	\$	3,131,775
Obligations Incurred		2,727,406		3,135,920
Outlays, Gross (-)		(2,433,174)		(1,383,256)
Recoveries of Prior Year Unpaid Obligations (-)		(69,845)		(71,239)
Unpaid Obligations, End of Year		5,037,587		4,813,200
Uncollected Payments:				
Uncollected Payments from Federal Sources, Brought Forward, October 1 (-)		(11,503)		(7,177)
Change in Uncollected Customer Payments from Federal Sources		5,927		(4,326)
Uncollected Customer Payments from Federal Sources, End of Year (-)		(5,576)		(11,503)
Memorandum (non-add) Entries:				
Obligated Balance, Start of Year	<b>\$</b>	<b>4,801,697</b>	<b>\$</b>	<b>3,124,598</b>
Obligated Balance, End of Year	<b>\$</b>	<b>5,032,011</b>	<b>\$</b>	<b>4,801,697</b>
<b>Budgetary Authority and Outlays, Net:</b>				
Budgetary Authority, Gross (discretionary and mandatory)	\$	1,758,474	\$	4,093,515
Less: Actual Offsetting Collections (discretionary and mandatory)		22,045		9,916
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)		5,927		(4,326)
Budget Authority, Net (discretionary and mandatory)	<b>\$</b>	<b>1,742,356</b>	<b>\$</b>	<b>4,079,273</b>
Outlays, Gross (discretionary and mandatory)	\$	2,433,174	\$	1,383,256
Less: Actual Offsetting Collections (discretionary and mandatory)		22,045		9,916
Outlays, Net (discretionary and mandatory)		2,411,129		1,373,340
Less: Distributed Offsetting Receipts		6,610		6,280
Agency Outlays, Net (discretionary and mandatory)	<b>\$</b>	<b>2,404,519</b>	<b>\$</b>	<b>1,367,060</b>

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

# U.S. DEPARTMENT OF JUSTICE

## Assets Forfeiture Fund and Seized Asset Deposit Fund

### Notes to the Principal Financial Statements



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**U.S. Department of Justice  
Notes to the Principal Financial Statements  
(Dollars in Thousands, Except as Noted)**

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**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Assets Forfeiture Fund (AFF or Fund) and Seized Asset Deposit Fund (SADF) together comprise a single financial reporting entity of the Department of Justice (DOJ or Department), which includes the specified funds, property seized for forfeiture, and the transactions and program activities of DOJ forfeiture program components and other participating agencies as described more fully herein.

The primary mission of the DOJ Asset Forfeiture Program (AFP) is to maximize the effectiveness of forfeiture as a deterrent to crime. This is accomplished by means of depriving drug traffickers, racketeers, and other criminal syndicates of their ill-gotten proceeds and instrumentalities of their trade. Components responsible for administration and financial management of the AFP are charged with lawfully, effectively, and efficiently supporting law enforcement authorities in the application of specified forfeiture statutes.

The AFF was created by the Comprehensive Crime Control Act of 1984 to be a repository of proceeds from forfeitures under any law enforced and administered by the DOJ. AFF and SADF are managed by the Asset Forfeiture Management Staff (AFMS), Justice Management Division (JMD). The SADF was created administratively by the Department to ensure control over monies seized by agencies participating in the Department's AFP.

**B. Basis of Presentation**

These financial statements have been prepared from the books and records of the AFF/SADF in accordance with United States generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) and presentation guidelines in the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*. These financial statements are different from the financial reports prepared pursuant to OMB directives, which are used to monitor and control the use of the AFF/SADF budgetary resources. To ensure that the AFF/SADF financial statements are meaningful at the entity level and to enhance reporting consistency within the Department, Inventory and Related Property, Other Assets and Other Liabilities as defined by OMB Circular No. A-136 have been disaggregated on the Consolidated Balance Sheets. These include Forfeited Property, Net; Accrued Payroll and Benefits; Accrued Annual and Compensatory Leave Liabilities; Deferred Revenue; and Seized Cash and Monetary Instruments.

**U.S. Department of Justice**  
**Notes to the Principal Financial Statements**  
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C. Basis of Consolidation

The consolidated/combined financial statements include the accounts of the AFF/SADF. All significant proprietary intra-entity transactions and balances have been eliminated in consolidation. The Statements of Budgetary Resources are combined statements for FYs 2015 and 2014, and as such, intra-entity transactions have not been eliminated.

D. Basis of Accounting

Transactions are recorded on the accrual and budgetary bases of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recorded when incurred, regardless of when cash is exchanged. Under the budgetary basis, however, funds availability is recorded based upon legal considerations and constraints. As a result, certain line items on the proprietary financial statements may not equal similar line items on the budgetary financial statements.

E. Non-Entity Assets

Non-entity assets consist of seized cash and investments of seized cash that are not available to fund the operations of the AFP.

F. Fund Balance with U.S. Treasury, and Cash and Monetary Assets

Generally, the U.S. Treasury processes cash receipts and disbursements for the AFF and SADF. The funds in the AFF, a special fund receipt account, are entity assets and are used to finance the operations of the AFP. Seized cash is deposited and accounted for in the SADF, a deposit fund, until a determination has been made as to its disposition. If title passes to the U.S. Government, the forfeited cash is then transferred from the SADF to the AFF. The cash balance in the SADF is a non-entity asset and is not available to finance the AFP activities, but the AFP does have statutory authority for the investment of idle cash.

G. Investments

The AFF and SADF are authorized by 28 U.S.C. § 524(c) to invest idle funds in excess of the AFP's immediate needs in U.S. Treasury Securities. Investments are short-term, non-marketable market-based Federal Debt securities issued by the Bureau of Fiscal Service (BFS) and purchased exclusively through the BFS's Division of Federal Investments. Investments are reported on the Consolidated Balance Sheet at their net value, the face value plus or minus any unamortized premium or discount. Premiums and discounts are amortized using the straight-line method over the life of the Treasury security. AFF and SADF intend to hold investments to maturity. Accordingly, no provision is made for unrealized gains or losses on these securities.

**U.S. Department of Justice  
Notes to the Principal Financial Statements  
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**H. Accounts Receivable**

Accounts receivable consist of amounts due from the Treasury Executive Office for Asset Forfeiture for goods or services provided by the AFP. Receivables arising from services provided to the Treasury Executive Office for Asset Forfeiture are considered fully collectible. Therefore, no allowance for uncollectible accounts is established.

**I. General Property, Plant and Equipment**

The General Services Administration (GSA), which charges rent equivalent to the commercial rates for similar properties, provides a building on a reimbursable basis in which AFP operates. The Department does not recognize depreciation on buildings owned by the GSA.

Below are the capitalization thresholds:

Type of Property	Thresholds
Real Property	\$250
Personal Property	\$50
Internal Use Software	\$5,000

Except for land, all general property, plant and equipment (PP&E) will be capitalized when the cost of acquiring or improving the property meets the threshold noted in the table above and has a useful life of two or more years. Land is capitalized regardless of the acquisition cost. Except for land, all general PP&E is depreciated or amortized, based on historical cost, using the straight-line method over the estimated useful life of the asset. Land is never depreciated.

**J. Advances and Prepayments**

Advances and prepayments include advances to other Federal agencies for any law enforcement, litigative/prosecutive, and correctional activity, or any other authorized purpose of the DOJ, as well as, travel advances issued to Federal employees for official travel. Travel advances are limited to meals and incidental expenses expected to be incurred by employees during official travel. Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of payment and are recognized as expenses when the goods and services are received. Advances and prepayments involving other Federal agencies are classified as Other Assets on the balance sheet.

**U.S. Department of Justice**  
**Notes to the Principal Financial Statements**  
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K. Forfeited and Seized Property

Property is seized as a consequence of a violation of public law. Seized property can include monetary instruments, real property, and tangible personal property of others in the actual or constructive possession of the custodial agency. The value of seized property is its estimated fair market value at the time it was seized. Most seized property is held by the USMS from the point of seizure until its disposition. In certain cases, the investigative agency will keep seized property in its custody if the intention is to place the property into official use after forfeiture or to use the property as evidence in a court proceeding.

Forfeited property is property for which title has passed to the U.S. Government. This property is recorded at the estimated fair market value at the time of forfeiture and is not adjusted for any subsequent increases and decreases in estimated fair market value. The value of the property is reduced by estimated liens of record. The amount ultimately realized from the forfeiture and disposition of these assets could differ from the amounts initially reported. The proceeds from the sale of forfeited property are deposited in the AFF.

L. Liabilities

AFF accounts payable represent liabilities to both Federal and non-Federal entities. Deferred revenue represents the value of forfeited property not yet sold or placed into official use. Seized cash and monetary instruments represent liabilities for SADF amounts on deposit pending disposition.

M. Contingencies and Commitments

The AFF is party to various administrative proceedings, legal actions and claims. The balance sheet includes an estimated liability for those legal actions where management and the Chief Counsel consider adverse decisions “probable” and amounts are reasonably estimable. Legal actions where management and the Chief Counsel consider adverse decisions “probable” or “reasonably possible” and the amounts are reasonably estimable are disclosed in Note 13, *Contingencies and Commitments*. However, there are cases where amounts have not been accrued or disclosed because the amounts of the potential loss cannot be estimated or the likelihood of an unfavorable outcome is considered “remote”.

N. Annual, Sick, and Other Leave

Annual leave and compensatory leave are expensed as earned with an offsetting liability. Liabilities are reduced as leave is taken. At the end of each fiscal quarter, the balance in the accrued annual leave liability account is adjusted to reflect valuation at current pay rates. To the extent current-year or prior-year appropriations are not available to fund annual and compensatory leave that is earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

**U.S. Department of Justice  
Notes to the Principal Financial Statements  
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O. Interest on Late Payments

Pursuant to the Prompt Payment Act, 31 U.S.C. § 3901-3907, Federal agencies must pay interest on payments for goods or services made to concerns after the due date. The due date is generally 30 days after receipt of a proper invoice or acceptance of the goods or services, whichever is later.

P. Retirement Plans

With few exceptions, employees of the AFF/SADF are covered by one of the following retirement programs:

- 1) Employees hired before January 1, 1984, are covered by the Civil Service Retirement System (CSRS). The AFF contributes 7% of the gross pay for regular employees and 7.5% for law enforcement officers.
- 2) Employees hired January 1, 1984 or later, are covered by the Federal Employees Retirement System (FERS).
  - a. Employees hired January 1, 1984 through December 31, 2012, are covered by the FERS. The AFF contributes 11.9% of the gross pay for regular employees and 26.3% for law enforcement officers.
  - b. Employees hired January 1, 2013 through December 31, 2013, are covered by the Federal Employees Retirement System-Revised Annuity Employees (FERS-RAE). The AFF contributes 9.6% of the gross pay for regular employees and 24.0% for law enforcement officers.
  - c. Employees hired January 1, 2014 or later are covered by the Federal Employees Retirement System-Further Revised Annuity Employees (FERS-FRAE). The AFF contributes 9.6% of the gross pay for regular employees and 24.0% for law enforcement officers.

All employees are eligible to contribute to the Federal Thrift Savings Plan (TSP). For those employees covered by the FERS, FERS-RAE and FERS-FRAE, a TSP account is automatically established to which the AFF/SADF is required to contribute an additional 1% of gross pay and match employee contributions up to 4%. No government contributions are made to the TSP accounts established by the CSRS employees. The AFF/SADF does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, which may be applicable to its employees. Such reporting is the responsibility of the Office of Personnel Management (OPM). Statement of Federal Financial Accounting Standards (SFFAS) No. 5, Accounting for Liabilities of the Federal Government, requires employing agencies to recognize the cost of pensions and

**U.S. Department of Justice  
Notes to the Principal Financial Statements  
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P. Retirement Plans (Continued)

other retirement benefits during their employees' active years of service. Refer to Note 16, Imputed Financing from Costs Absorbed by Others, for additional details.

Q. Intragovernmental Activity

Intragovernmental costs and exchange revenue represent transactions made between two reporting entities within the Federal Government. Costs and earned revenues with the public represent exchange transactions made between the reporting entity and a non-Federal entity. With the exception of certain accruals, the classification of revenue or cost as "intragovernmental" or "with the public" is defined on a transaction-by-transaction basis. The purpose of this classification is to enable the Federal Government to prepare consolidated financial statements, not to match public and intragovernmental revenue with costs incurred to produce public and intragovernmental revenue.

R. Revenues and Other Financing Sources

The funds in the AFF are derived primarily from financing sources and are presented on the Consolidated Statements of Changes in Net Position as both Budgetary and Other Financing Sources. Financing sources consist of (1) interest earned on investments (i.e., nonexchange revenues) and (2) donations and forfeitures, which include forfeited cash, proceeds from the sale of forfeited property (or conversion of deferred revenue to realized revenue through sale), receipt of payments in lieu of property forfeiture, recovery of asset management expenses, and financing sources from judgments. These financing sources are recognized when cash is forfeited; forfeited property is sold, placed into official use, or transferred to another Federal agency. The financing sources from legal judgments are not recognized until the judgment has been enforced. Deferred revenue is recorded when the property is forfeited. When the property is sold or otherwise disposed, the deferred revenue becomes earned and a financing source is recognized. The AFF recognizes exchange revenue when the United States Attorneys Offices provide services in judicial forfeiture cases brought by agencies participating in the U.S. Department of the Treasury (Treasury), Treasury Forfeiture Fund (TFF). The AFF recognizes exchange revenue on a reimbursement basis and the revenue is presented on the Consolidated Statements of Net Cost as earned revenue. In accordance with 28 U.S.C. § 524 and AFMS Memorandums of Understanding, donations and forfeitures available for use by certain Federal Agencies are treated as returns of financing sources when disbursed. The funds in the SADF are held in trust until a determination is made as to their disposition. These funds include seized cash, proceeds from pre-forfeiture sales of seized property, and income from property under seizure. No revenue recognition is given to cash deposited in the SADF.

**U.S. Department of Justice**  
**Notes to the Principal Financial Statements**  
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S. Funds from Dedicated Collections

SFFAS No. 27, *Identifying and Reporting Funds from Dedicated Collections*, as amended by SFFAS No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards SFFAS No. 27, Identifying and Reporting Earmarked Funds* defines ‘funds from dedicated collections’ as being financed by specifically identified revenues, provided to the Government by non-Federal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the Government’s general revenues. The three required criteria for a fund from dedicated collections are:

1. A statute committing the Federal Government to use specifically identified revenues and/or other financing sources that are originally provided to the Federal Government by a non-Federal source only for designated activities, benefits or purposes;
2. Explicit authority for the funds to retain revenues and/or other financing sources not used in the current period for future use to finance the designated activities, benefits or purposes; and
3. A requirement to account for and report on the receipt, use, and retention of the revenues and/or other financing sources that distinguishes the fund from the Federal Government’s general revenues.

The AFF meets the definition of funds from dedicated collections, but the SADF does not meet the definition of funds from dedicated collections.

T. Tax Exempt Status

As an agency of the Federal Government, AFF/SADF is exempt from all income taxes imposed by any governing body whether it be a Federal, state, commonwealth, local, or foreign government.

U. Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**U.S. Department of Justice  
Notes to the Principal Financial Statements  
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V. Subsequent Events

Subsequent events and transactions occurring after September 30, 2015 through the date of the auditors' opinion have been evaluated for potential recognition or disclosure in the financial statements. No changes were necessary for proper presentation of the financial statements. The date of the auditors' opinion also represents the date that the financial statements were available to be issued.

**U.S. Department of Justice  
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**Note 2. Non-Entity Assets**

Non-entity assets are assets held by the AFP that are not available for use by the AFP.

As of September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Intragovernmental		
Investments, Net (Note 5)	\$ 1,180,680	\$ 1,271,626
With the Public		
Cash and Monetary Assets (Note 4)	<u>1,041,590</u>	<u>101,690</u>
Total Non-Entity Assets	2,222,270	1,373,316
Total Entity Assets	<u>6,513,131</u>	<u>7,335,110</u>
Total Assets	<u>\$ 8,735,401</u>	<u>\$ 8,708,426</u>

**Note 3. Fund Balance with U.S. Treasury**

As of September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Fund Balances		
Special Funds	<u>\$ 153,034</u>	<u>\$ 124,255</u>
Status of Fund Balances		
Unobligated Balance - Available	\$ 785,369	\$ 1,836,188
Unobligated Balance - Available in Subsequent Period	11,453	-
Unobligated Balance - Unavailable	219,663	79,384
Obligated Balance not yet Disbursed	5,032,011	4,801,697
Other Funds (With)/Without Budgetary Resources	<u>(5,895,462)</u>	<u>(6,593,014)</u>
Total Status of Fund Balances	<u>\$ 153,034</u>	<u>\$ 124,255</u>

Unobligated Balance - Available in Subsequent Periods includes amounts apportioned for future fiscal years that are available for obligation in a subsequent period (apportioned as Category C).

Other Funds (With)/Without Budgetary Resources primarily represent the AFF investments in short-term securities less amounts Temporarily not Available Pursuant to Public Law.

**U.S. Department of Justice  
Notes to the Principal Financial Statements  
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**Note 4. Cash and Monetary Assets**

Cash consists of seized cash deposited in the SADF. Monetary assets include seized cash in DOJ custody but not yet deposited in the SADF.

As of September 30, 2015 and 2014

	2015	2014
Cash		
Seized Cash Deposited	\$ 1,023,825	\$ 79,675
Monetary Assets		
Seized Monetary Instruments	17,765	22,015
Total Cash and Monetary Assets	\$ 1,041,590	\$ 101,690

**Note 5. Investments, Net**

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

Treasury securities provide the AFF with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the AFF requires redemption of these securities to make expenditures, the Federal Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Federal Government finances all other expenditures.

**U.S. Department of Justice  
Notes to the Principal Financial Statements  
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**Note 5. Investments, Net (continued)**

	<u>Face Value</u>	<u>Unamortized Premium (Discount)</u>	<u>Investments, Net</u>	<u>Market Value</u>
As of September 30, 2015				
Intragovernmental				
Non-Marketable Securities				
Market-Based				
AFF	\$ 6,225,468	\$ (1,826)	\$ 6,223,642	\$ 6,224,797
SADF	1,182,704	(2,024)	1,180,680	1,181,034
Total	<u>\$ 7,408,172</u>	<u>\$ (3,850)</u>	<u>\$ 7,404,322</u>	<u>\$ 7,405,831</u>

	<u>Face Value</u>	<u>Unamortized Premium (Discount)</u>	<u>Investments, Net</u>	<u>Market Value</u>
As of September 30, 2014				
Intragovernmental				
Non-Marketable Securities				
Market-Based				
AFF	\$ 7,063,467	\$ (787)	\$ 7,062,680	\$ 7,062,821
SADF	1,272,804	(1,178)	1,271,626	1,271,878
Total	<u>\$ 8,336,271</u>	<u>\$ (1,965)</u>	<u>\$ 8,334,306</u>	<u>\$ 8,334,699</u>

**Note 6. Accounts Receivable**

Accounts receivable consist of amounts owed to the AFF from the Treasury Executive Office for Asset Forfeiture services provided to Treasury and amounts owed to the AFF by AFP's Federal participating agencies for the use of Forfeiture.gov for publication of forfeiture notices. There is no allowance for uncollectible accounts since accounts receivable from business with Federal entities are considered fully collectible.

As of September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Intragovernmental		
Accounts Receivable	\$ 3,194	\$ 9,242
Total Accounts Receivable	<u>\$ 3,194</u>	<u>\$ 9,242</u>

**U.S. Department of Justice**  
**Notes to the Principal Financial Statements**  
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**Note 7. Forfeited and Seized Property**

Property seized for any purpose other than forfeiture and held by the seizing agency or a custodial agency is reported in the financial statements of the seizing or custodial agency. All property seized for forfeiture, including property with evidentiary value, is reported in the financial statements of the AFF/SADF. Federal Financial Accounting and Auditing Technical Release No. 4, *Reporting on Non-Valued Seized and Forfeited Property*, requires disclosure of property that does not have a legal market in the United States or does not have a value to the Federal Government.

A. Forfeited Property, Net

The following tables show the analysis of changes in and methods of disposition of forfeited property, excluding cash, during the fiscal years ended September 30, 2015 and 2014.

**FY 2015 AFF/SADF Annual Financial Statements**

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**Note 7. Forfeited and Seized Property (continued)**

**Analysis of Change in Forfeited Property -- For the Fiscal Year Ended September 30, 2015**

Forfeited Property Category		Beginning		Forfeitures	Disposals	Ending Balance	Liens and Claims	Ending Balance, Net of Liens
		Balance	Adjustments (1)					
Financial Instruments	Number	284	469	577	(981)	349		349
	Value	\$ 4,907	\$ 9,819	\$ 188,277	\$ (198,617)	\$ 4,386	\$ -	\$ 4,386
Real Property	Number	458	(15)	384	(364)	463		463
	Value	\$ 88,679	\$ (4,585)	\$ 88,425	\$ (80,903)	\$ 91,616	\$ (3,200)	\$ 88,416
Personal Property	Number	3,232	78	5,305	(4,769)	3,846		3,846
	Value	\$ 48,915	\$ (4,162)	\$ 53,858	\$ (58,644)	\$ 39,967	\$ (349)	\$ 39,618
Non-Valued Firearms	Number	25,965	3,956	15,639	(21,413)	24,147		24,147
Total	Number	29,939	4,488	21,905	(27,527)	28,805		28,805
	Value	\$ 142,501	\$ 1,072	\$ 330,560	\$ (338,164)	\$ 135,969	\$ (3,549)	\$ 132,420

(1) Adjustments include property status, asset group, and valuation changes that occurred during the current year for assets that were already on hand at the start of the year. Asset group changes occur primarily when cash is substituted for a different asset category. Valuation changes occur primarily due to changes in appraisals.

**Methods of Disposition of Forfeited Property -- For the Fiscal Year Ended September 30, 2015**

Forfeited Property Category		Converted Financial Instruments/Property	Destroyed/Donated/ Transferred	Sold/ Liquidated (1)	Official Use/ Transfer for Equitable Sharing	Returned Assets	Variance (2)	Total
	Value	\$ 192,759	\$ 10	\$ 5,845	\$ -	\$ 4	\$ (1)	\$ 198,617
Real Property	Number	-	2	342	-	20	-	364
	Value	\$ -	\$ 235	\$ 73,650	\$ -	\$ 7,018	\$ -	\$ 80,903
Personal Property	Number	3	914	3,047	631	174	-	4,769
	Value	\$ 3,680	\$ 354	\$ 43,456	\$ 8,462	\$ 2,692	\$ -	\$ 58,644
Non-Valued Firearms	Number	-	20,748	-	448	217	-	21,413
Total	Number	924	21,716	3,394	1,079	413	1	27,527
	Value	\$ 196,439	\$ 599	\$ 122,951	\$ 8,462	\$ 9,714	\$ (1)	\$ 338,164

(1) The sold/liquidated total dollar value does not agree to Donations and Forfeitures of Property on the Statement of Changes in Net Position and Note 20 because the sold/liquidated amount above represents the assets at their appraised values at forfeiture, and the Donations and Forfeitures of Property on the Statement of Changes in Net Position and Note 20 represents the proceeds realized upon disposition.

(2) Variances can result from differences between the value of the property when seized and the value of the property when disposed.

**These notes are an integral part of the financial statements.**

**FY 2015 AFF/SADF Annual Financial Statements**

**U.S. Department of Justice  
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**Note 7. Forfeited and Seized Property (continued)**

**Analysis of Change in Forfeited Property -- For the Fiscal Year Ended September 30, 2014**

Forfeited Property Category		Beginning		Forfeitures	Disposals	Ending Balance	Liens and Claims	Ending Balance Net of Liens
		Balance	Adjustments (1)					
Financial Instruments	Number	212	278	444	(650)	284		284
	Value	\$ 2,417	\$ 6,389	\$ 129,203	\$ (133,102)	\$ 4,907	\$ -	\$ 4,907
Real Property	Number	526	26	390	(484)	458		458
	Value	\$ 98,773	\$ 6,739	\$ 81,133	\$ (97,966)	\$ 88,679	\$ (2,223)	\$ 86,456
Personal Property	Number	3,422	285	4,809	(5,284)	3,232		3,232
	Value	\$ 41,770	\$ 17,132	\$ 59,234	\$ (69,221)	\$ 48,915	\$ (2,013)	\$ 46,902
Non-Valued Firearms	Number	24,001	(58)	15,430	(13,408)	25,965		25,965
Total	Number	28,161	531	21,073	(19,826)	29,939		29,939
	Value	\$ 142,960	\$ 30,260	\$ 269,570	\$ (300,289)	\$ 142,501	\$ (4,236)	\$ 138,265

(1) Adjustments include property status, asset group, and valuation changes that occurred during the current year for assets that were already on hand at the start of the year. Asset group changes occur primarily when cash is substituted for a different asset category. Valuation changes occur primarily due to changes in appraisals.

**Methods of Disposition of Forfeited Property -- For the Fiscal Year Ended September 30, 2014**

Forfeited Property Category		Converted Financial Instruments/Property	Destroyed/Donated/ Transferred	Sold/ Liquidated (1)	Official Use/ Transfer for Equitable Sharing	Returned Assets	Variance (2)	Total
	Value	\$ 113,719	\$ 180	\$ 18,973	\$ -	\$ 230	\$ -	\$ 133,102
Real Property	Number	1	5	458	2	18	-	484
	Value	\$ 3	\$ 3,611	\$ 92,644	\$ 146	\$ 1,562	\$ -	\$ 97,966
Personal Property	Number	4	1,109	3,284	725	162	-	5,284
	Value	\$ 4,294	\$ 2,477	\$ 50,421	\$ 8,929	\$ 3,100	\$ -	\$ 69,221
Non-Valued Firearms	Number	-	12,712	-	385	311	-	13,408
Total	Number	632	13,837	3,750	1,112	495	-	19,826
	Value	\$ 118,016	\$ 6,268	\$ 162,038	\$ 9,075	\$ 4,892	\$ -	\$ 300,289

(1) The sold/liquidated total dollar value does not agree to Donations and Forfeitures of Property on the Statement of Changes in Net Position and Note 20 because the sold/liquidated amount above represents the assets at their appraised values at forfeiture, and the Donations and Forfeitures of Property on the Statement of Changes in Net Position and Note 20 represents the proceeds realized upon disposition.

(2) Variances can result from differences between the value of the property when seized and the value of the property when disposed.

**These notes are an integral part of the financial statements.**

**U.S. Department of Justice**  
**Notes to the Principal Financial Statements**  
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**Note 7. Forfeited and Seized Property (continued)**

B. Seized Property

The following tables show the analysis of changes in and methods of disposition of property seized for forfeiture during the fiscal years ended September 30, 2015 and 2014. In the following tables, Seized Cash and Monetary Instruments includes seized cash in transit as well as pre-forfeiture deposits into the SADF of monetary instruments and depository account balances, proceeds from pre-forfeiture sales, and cash received in lieu of seized property. Financial Instruments include negotiable instruments and restricted depository accounts.

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**U.S. Department of Justice  
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**Note 7. Forfeited and Seized Property (continued)**

**Analysis of Change in Seized Property -- For the Fiscal Year Ended September 30, 2015**

Seized Property Category		Beginning Balance	Adjustments (1)	Seizures	Disposals	Ending Balance	Liens and Claims	Ending Balance Net of Liens
Seized Cash and Monetary Instruments	Number	13,824	662	8,985	(12,237)	11,234		11,234
	Value	\$ 1,373,316	\$ 39,752	\$ 2,064,442	\$ (1,255,240)	\$ 2,222,270	\$ (156,523)	\$ 2,065,747
Financial Instruments	Number	357	(70)	345	(255)	377		377
	Value	\$ 124,376	\$ (79,070)	\$ 193,711	\$ (52,253)	\$ 186,764	\$ (491)	\$ 186,273
Real Property	Number	131	9	98	(158)	80		80
	Value	\$ 52,586	\$ (3,112)	\$ 30,738	\$ (46,354)	\$ 33,858	\$ (11,451)	\$ 22,407
Personal Property	Number	7,293	526	4,184	(6,516)	5,487		5,487
	Value	\$ 147,805	\$ (11,498)	\$ 73,400	\$ (81,281)	\$ 128,426	\$ (35,847)	\$ 92,579
Non-Valued Firearms	Number	24,394	6,481	14,725	(20,349)	25,251		25,251
Total	Number	45,999	7,608	28,337	(39,515)	42,429		42,429
	Value	\$ 1,698,083	\$ (53,928)	\$ 2,362,291	\$ (1,435,128)	\$ 2,571,318	\$ (204,312)	\$ 2,367,006

(1) Adjustments include property status, asset group, and valuation changes that occurred during the current year for assets

**Methods of Disposition of Seized Property -- For the Fiscal Year Ended September 30, 2015**

Seized Property Category		Converted Financial Instruments/Property	Destroyed/Donated/ Transferred	Sold/ Liquidated	Returned Assets	Forfeited (1)	Variance (2)	Total
Seized Cash and Monetary Instruments	Number	44	46	-	1,071	11,076	-	12,237
	Value	\$ 15,658	\$ 792	\$ -	\$ 71,075	\$ 1,167,715	\$ -	\$ 1,255,240
Financial Instruments	Number	8	2	-	25	220	-	255
	Value	\$ 846	\$ 200	\$ -	\$ 2,334	\$ 48,873	\$ -	\$ 52,253
Real Property	Number	-	-	-	25	133	-	158
	Value	\$ -	\$ -	\$ -	\$ 8,610	\$ 37,744	\$ -	\$ 46,354
Personal Property	Number	-	39	3	1,228	5,246	-	6,516
	Value	\$ -	\$ 182	\$ 37	\$ 27,835	\$ 53,227	\$ -	\$ 81,281
Non-Valued Firearms	Number	-	5,093	-	4,842	10,414	-	20,349
Total	Number	52	5,180	3	7,191	27,089	-	39,515
	Value	\$ 16,504	\$ 1,174	\$ 37	\$ 109,854	\$ 1,307,559	\$ -	\$ 1,435,128

(1) Forfeitures reported on the Analysis of Change in Forfeited Property may be greater because some assets are not seized until after they are declared forfeited.

(2) Variances can result from differences between the value of the property when seized and the value of the property when disposed.

**These notes are an integral part of the financial statements.**

**FY 2015 AFF/SADF Annual Financial Statements**

**U.S. Department of Justice  
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**Note 7. Forfeited and Seized Property (continued)**

**Analysis of Change in Seized Property -- For the Fiscal Year Ended September 30, 2014**

Seized Property Category		Beginning Balance	Adjustments (1)	Seizures	Disposals	Ending Balance	Liens and Claims	Ending Balance Net of Liens
Seized Cash and Monetary Instruments	Number	15,156	527	12,501	(14,360)	13,824		13,824
	Value	\$ 1,435,283	\$ 54,898	\$ 3,733,392	\$ (3,850,257)	\$ 1,373,316	\$ (205,829)	\$ 1,167,487
Financial Instruments	Number	404	(79)	248	(216)	357		357
	Value	\$ 46,013	\$ (13,413)	\$ 123,443	\$ (31,667)	\$ 124,376	\$ (1,726)	\$ 122,650
Real Property	Number	140	5	129	(143)	131		131
	Value	\$ 63,783	\$ (669)	\$ 31,697	\$ (42,225)	\$ 52,586	\$ (11,887)	\$ 40,699
Personal Property	Number	7,136	246	6,222	(6,311)	7,293		7,293
	Value	\$ 144,422	\$ (12,623)	\$ 103,667	\$ (87,661)	\$ 147,805	\$ (32,364)	\$ 115,441
Non-Valued Firearms	Number	30,281	1,122	12,719	(19,728)	24,394		24,394
Total	Number	53,117	1,821	31,819	(40,758)	45,999		45,999
	Value	\$ 1,689,501	\$ 28,193	\$ 3,992,199	\$ (4,011,810)	\$ 1,698,083	\$ (251,806)	\$ 1,446,277

(1) Adjustments include property status, asset group, and valuation changes that occurred during the current year for assets that were already on hand at the start of the year. Asset group changes occur primarily when cash is substituted for a different asset category. Valuation changes occur primarily due to changes in appraisals.

**Methods of Disposition of Seized Property -- For the Fiscal Year Ended September 30, 2014**

Seized Property Category		Converted Financial Instruments/Property	Destroyed/Donated/Transferred	Sold/Liquidated	Returned Assets	Forfeited (1)	Variance (2)	Total
Seized Cash and Monetary Instruments	Number	113	42	-	839	13,365	1	14,360
	Value	\$ 30,410	\$ 607	\$ -	\$ 47,961	\$ 3,771,388	\$ (109)	\$ 3,850,257
Financial Instruments	Number	3	-	-	33	180	-	216
	Value	\$ 5,065	\$ -	\$ -	\$ 339	\$ 26,263	\$ -	\$ 31,667
Real Property	Number	-	-	5	13	125	-	143
	Value	\$ -	\$ -	\$ 4,680	\$ 1,438	\$ 36,107	\$ -	\$ 42,225
Personal Property	Number	-	35	7	1,533	4,736	-	6,311
	Value	\$ -	\$ 61	\$ 147	\$ 29,299	\$ 58,154	\$ -	\$ 87,661
Non-Valued Firearms	Number	-	101	-	4,251	15,376	-	19,728
Total	Number	116	178	12	6,669	33,782	1	40,758
	Value	\$ 35,475	\$ 668	\$ 4,827	\$ 79,037	\$ 3,891,912	\$ (109)	\$ 4,011,810

(1) Forfeitures reported on the Analysis of Changes in Forfeited Property may be greater because some assets are not seized until after they are declared forfeited.

(2) Variances can result from differences between the value of the property when seized and the value of the property when disposed.

**These notes are an integral part of the financial statements.**

**U.S. Department of Justice  
Notes to the Principal Financial Statements  
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**Note 8. General Property, Plant and Equipment, Net**

The AFF purchased \$328 and \$0 in capital property from the public, during FYs 2015 and 2014, respectively. In FY 2014 there were leasehold improvement project expenses of \$72k.

	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Useful Life</u>
As of September 30, 2015				
Equipment	\$ 402	\$ (137)	\$ 265	5-12 years
Leasehold Improvements	<u>1,119</u>	<u>(632)</u>	<u>487</u>	5 years
Total	<u><u>\$ 1,521</u></u>	<u><u>\$ (769)</u></u>	<u><u>\$ 752</u></u>	
As of September 30, 2014				
Equipment	\$ 74	\$ (63)	\$ 11	5-12 years
Leasehold Improvements	<u>1,119</u>	<u>(502)</u>	<u>617</u>	5 years
Total	<u><u>\$ 1,193</u></u>	<u><u>\$ (565)</u></u>	<u><u>\$ 628</u></u>	

**Note 9. Other Assets**

As of September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Intragovernmental		
Advances and Prepayments	\$ 89	\$ 40

**Note 10. Liabilities not Covered by Budgetary Resources**

As of September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
With the Public		
Accrued Annual and Compensatory Leave Liabilities	<u>\$ 1,900</u>	<u>\$ 1,766</u>
Total Liabilities not Covered by Budgetary Resources	1,900	1,766
Total Liabilities Covered by Budgetary Resources	<u>7,183,582</u>	<u>6,145,812</u>
Total Liabilities	<u><u>\$ 7,185,482</u></u>	<u><u>\$ 6,147,578</u></u>

**U.S. Department of Justice  
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**Note 11. Seized Cash and Monetary Instruments**

The Seized Cash and Monetary Instruments represent liabilities for seized assets held by the SADF pending disposition.

As of September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Investments, Net (Note 5)	\$ 1,180,680	\$ 1,271,626
Seized Cash Deposited (Note 4)	1,023,825	79,675
Seized Monetary Instruments (Note 4)	<u>17,765</u>	<u>22,015</u>
Total Seized Cash and Monetary Instruments	<u><u>\$ 2,222,270</u></u>	<u><u>\$ 1,373,316</u></u>

**Note 12. Other Liabilities**

All Other Liabilities are current liabilities.

As of September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Intragovernmental		
Employer Contributions and Payroll Taxes Payable	\$ 197	\$ 198

**Note 13. Contingencies and Commitments**

	<u>Accrued Liabilities</u>	<u>Estimated Range of Loss</u>	
		<u>Lower</u>	<u>Upper</u>
As of September 30, 2015			
Reasonably Possible	\$ -	\$ 1,000	\$ 2,500
As of September 30, 2014			
Reasonably Possible	\$ -	\$ 1,000	\$ 2,500

**U.S. Department of Justice**  
**Notes to the Principal Financial Statements**  
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**Note 14. Funds from Dedicated Collections**

The AFF, a fund from dedicated collections, exists to eliminate economic disincentives to operation of an extensive national asset forfeiture program by providing a stable source of funds to pay costs, not otherwise funded under agency appropriations, to execute forfeiture functions. This is made possible by depositing the proceeds of all forfeitures under any laws enforced or administered by the Department into the Fund, and using those receipts to finance expenses associated with asset forfeiture functions.

The funds in the AFF are derived primarily from financing sources and are presented on the Consolidated Statement of Changes in Net Position as both Budgetary and Other Financing Sources. Financing sources consist of (1) interest earned on Treasury investments (i.e., nonexchange revenues) and (2) non-governmental donations and forfeitures, which include forfeited cash, proceeds from the sale of forfeited property (or conversion of deferred revenue to realized revenue through sale), receipt of payments in lieu of property forfeiture, recovery of asset management expenses, and financing sources from judgments.

The AFF recognizes exchange revenue, on a reimbursement basis, when the United States Attorneys Offices provide services in judicial forfeiture cases brought by agencies participating in the Treasury Forfeiture Fund. This revenue is presented on the Consolidated Statement of Net Cost as earned revenue. In accordance with 28 U.S.C. § 524 donations and forfeitures available for use by certain Federal agencies are treated as returns of financing sources when disbursed.

All funds deposited to the AFF are considered "public" monies, i.e., funds belonging to the U.S. Government. The monies deposited into the AFF are available to cover all expenditures in support of the AFP that are allowable under the Fund statute created by the Comprehensive Crime Control Act of 1984 (P.L. 98-473, dated October 12, 1984) at 28 U.S.C. § 524(c).

**U.S. Department of Justice  
Notes to the Principal Financial Statements  
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**Note 14. Funds from Dedicated Collections (continued)**

As of September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Balance Sheet		
Assets		
Fund Balance with U.S. Treasury	\$ 153,034	\$ 124,255
Investments, Net	6,223,642	7,062,680
Other Assets	<u>136,455</u>	<u>148,175</u>
Total Assets	<u>\$ 6,513,131</u>	<u>\$ 7,335,110</u>
Liabilities		
Accounts Payable	\$ 4,827,689	\$ 4,633,169
Other Liabilities	<u>135,523</u>	<u>141,093</u>
Total Liabilities	<u>\$ 4,963,212</u>	<u>\$ 4,774,262</u>
Net Position		
Cumulative Results of Operations	<u>\$ 1,549,919</u>	<u>\$ 2,560,848</u>
Total Net Position	<u>\$ 1,549,919</u>	<u>\$ 2,560,848</u>
Total Liabilities and Net Position	<u>\$ 6,513,131</u>	<u>\$ 7,335,110</u>

For the Fiscal Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Statement of Net Cost		
Gross Cost of Operations	\$ 1,551,414	\$ 3,086,298
Less: Earned Revenue	<u>14,557</u>	<u>14,065</u>
Net Cost of Operations	<u>\$ 1,536,857</u>	<u>\$ 3,072,233</u>
Statement of Changes in Net Position		
Net Position Beginning of Period	\$ 2,560,848	\$ 1,855,767
Budgetary Financing Sources	191,890	3,472,100
Other Financing Sources	<u>334,038</u>	<u>305,214</u>
Total Financing Sources	525,928	3,777,314
Net Cost of Operations	(1,536,857)	(3,072,233)
Net Change	<u>(1,010,929)</u>	<u>705,081</u>
Net Position End of Period	<u>\$ 1,549,919</u>	<u>\$ 2,560,848</u>

These notes are an integral part of the financial statements.

**U.S. Department of Justice  
Notes to the Principal Financial Statements  
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**Note 15. Net Cost of Operations by Suborganization**

		Gross Cost	Less: Earned Revenue	Net Cost of Operations
For the Fiscal Year Ended September 30, 2015				
Goal 2:	Payments to Third Parties	\$ 492,914	\$ -	\$ 492,914
	Asset Management Expenses	45,906	-	45,906
	Special Contract Services	133,319	14,557	118,762
	ADP Equipment	40,913	-	40,913
	Forfeiture Case Prosecution	77,299	-	77,299
	Forfeiture Training and Printing	3,972	-	3,972
	Other Program Management	85,056	-	85,056
	Awards for Information	12,173	-	12,173
	Purchase of Evidence	8,075	-	8,075
	Equipping Conveyances	207	-	207
	Contracts to Identify Assets	45,567	-	45,567
	Investigative Cost Leading to Seizure	102,292	-	102,292
	Equitable Sharing	361,451	-	361,451
	Joint Law Enforcement Operations	142,270	-	142,270
	Net Cost of Operations	<u>\$ 1,551,414</u>	<u>\$ 14,557</u>	<u>\$ 1,536,857</u>

Goal 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law

		Gross Cost	Less: Earned Revenue	Net Cost of Operations
For the Fiscal Year Ended September 30, 2014				
Goal 2:	Payments to Third Parties	\$ 1,952,351	\$ -	\$ 1,952,351
	Asset Management Expenses	94,063	-	94,063
	Special Contract Services	130,637	14,065	116,572
	ADP Equipment	30,278	-	30,278
	Forfeiture Case Prosecution	45,021	-	45,021
	Forfeiture Training and Printing	2,602	-	2,602
	Other Program Management	61,008	-	61,008
	Awards for Information	28,706	-	28,706
	Purchase of Evidence	7,296	-	7,296
	Equipping Conveyances	254	-	254
	Contracts to Identify Assets	46,226	-	46,226
	Investigative Cost Leading to Seizure	71,776	-	71,776
	Equitable Sharing	487,362	-	487,362
	Joint Law Enforcement Operations	128,718	-	128,718
	Net Cost of Operations	<u>\$ 3,086,298</u>	<u>\$ 14,065</u>	<u>\$ 3,072,233</u>

Goal 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law

**U.S. Department of Justice  
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**Note 16. Imputed Financing from Costs Absorbed by Others**

**Imputed Inter-Departmental Financing Sources** are the unreimbursed (i.e., non-reimbursed and under-reimbursed) portion of the full costs of goods and services received by the AFF from a providing entity that is not part of the Department of Justice. In accordance with SFFAS No. 30, *Inter-Entity Cost Implementation Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts for the Federal Government*, the material Imputed Inter-Departmental Financing Sources recognized by the AFF are the cost of benefits for the Federal Employees Health Benefits Program (FEHB), the Federal Employees' Group Life Insurance Program (FEGLI), the Federal Pension plans that are paid by other Federal entities, and any un-reimbursed payments made from the Treasury Judgment Fund on behalf of the AFF. The Treasury Judgment Fund was established by the Congress and funded at 31 U.S.C. § 1304 to pay in whole or in part the court judgments and settlement agreements negotiated by the Department on behalf of agencies, as well as certain types of administrative awards. Interpretation of Federal Financial Accounting Standards Interpretation No. 2, *Accounting for Treasury Judgment Fund Transactions*, requires agencies to recognize liabilities and expenses when unfavorable litigation outcomes are probable and the amount can be estimated and will be paid by the Treasury Judgment Fund.

SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, requires that employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS No. 5 requires OPM to provide cost factors necessary to calculate cost. OPM actuaries calculate the value of pension benefits expected to be paid in the future, and then determine the total funds to be contributed by and for covered employees, such that the amount calculated would be sufficient to fund the projected pension benefits. The cost factors are as follows:

	Category	Cost Factor (%)
Civil Service Retirement System (CSRS)	Regular Employees	33.4%
	Regular Employees Offset	24.5%
	Law Enforcement Officers	57.7%
	Law Enforcement Officers Offset	49.5%
Federal Employees Retirement System (FERS)	Regular Employees	14.8%
	Regular Employees – Revised Annuity Employees (RAE)	15.4%
	Regular Employees – Further Revised Annuity Employees (FRAE)	15.5%
	Law Enforcement Officers	32.8%
	Law Enforcement Officers – RAE	33.5%
	Law Enforcement Officers – FRAE	33.6%

The cost to be paid by other agencies is the total calculated future costs, less employee and employer contributions. In addition, the cost of other retirement benefits, which included health and life insurance that are paid by other Federal entities, must also be recorded.

**U.S. Department of Justice  
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**Note 16. Imputed Financing from Costs Absorbed by Others (continued)**

**Imputed Intra-Departmental Financing Sources** as defined in SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, are the unreimbursed portion of the full costs of goods and services received by the AFF from another component in the Department. The AFF does not have any imputed intra-departmental financing sources that meet the reporting requirements of the Department.

For the Fiscal Years Ended September 30, 2015 and 2014

	2015	2014
Imputed Inter-Departmental Financing		
Health Insurance	\$ 1,041	\$ 959
Life Insurance	4	4
Pension	526	874
Total Imputed Inter-Departmental	\$ 1,571	\$ 1,837

**Note 17. Information Related to the Statement of Budgetary Resources**

**Apportionment Categories of Obligations Incurred:**

	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
For the Fiscal Year Ended September 30, 2015			
Obligations Apportioned Under			
Category A	\$ 20,442	\$ -	\$ 20,442
Category B	2,693,655	13,309	2,706,964
Total	\$ 2,714,097	\$ 13,309	\$ 2,727,406

For the Fiscal Year Ended September 30, 2014

Obligations Apportioned Under			
Category A	\$ 20,371	\$ -	\$ 20,371
Category B	3,095,146	20,403	3,115,549
Total	\$ 3,115,517	\$ 20,403	\$ 3,135,920

Apportionment categories are determined in accordance with the guidance provided in Part 4 *Instructions on Budget Execution* of OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*. Category A represents resources apportioned for calendar quarters. Category B represents resources apportioned for other periods; for Asset Forfeiture Program Expenses. For a complete list of program expenses see Note 15.

**U.S. Department of Justice  
Notes to the Principal Financial Statements  
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**Note 17. Information Related to the Statement of Budgetary Resources (continued)**

**Status of Undelivered Orders:**

Undelivered Orders (UDOs) represent the amount of goods and/or services ordered, which have not been actually or constructively received. This amount includes any orders which may have been prepaid or advanced but for which delivery or performance has not yet occurred.

As of September 30, 2015 and 2014

	2015	2014
UDO Obligations Unpaid	\$ 208,695	\$ 178,970
UDO Obligations Prepaid/Advanced	89	40
Total UDOs	\$ 208,784	\$ 179,010

**Permanent Indefinite Appropriations:**

28 U.S.C. § 524(c)(1) authorizes the Attorney General to use AFF receipts to pay program operations expenses, equitable sharing to state and local law enforcement agencies who assist in forfeiture cases, and lien holders. This permanent indefinite authority is open-ended as to both its period of availability (amount of time the agency has to spend the funds) and its amount.

**Legal Arrangements Affecting Use of Unobligated Balances:**

Unobligated balances represent the cumulative amount of budget authority that is not obligated and that remains available for obligation, unless otherwise restricted. Excess unobligated balances identified at the end of a fiscal year may be declared a “Super Surplus” balance. Super Surplus balances may be allocated at the discretion of the Attorney General for “...any Federal law enforcement, litigative/prosecutive, and correctional activities, or any other authorized purpose of the DOJ” pursuant to 28 U.S.C. § 524(c)(8)(E).

**U.S. Department of Justice  
Notes to the Principal Financial Statements  
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**Note 17. Information Related to the Statement of Budgetary Resources (continued)**

**Statement of Budgetary Resources vs. the Budget of the United States Government:**

The reconciliation as of September 30, 2015 is not presented because the submission of the Budget of the United States (Budget) for FY 2017, which presents the execution of the FY 2015 Budget, occurs after publication of these financial statements. The Department of Justice Budget Appendix can be found on the OMB website (<http://www.whitehouse.gov/omb/budget>) and will be available in early February 2016.

For the Fiscal Year Ended September 30, 2014  
(Dollars in Millions)

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources (SBR)	\$ 5,051	\$ 3,136	\$ 6	\$ 1,367
Funds not Reported in Budget Forfeiture Activity	26	(4)		8
Funds not Reported in the SBR Sequestration Reduction	(5)			
Rounding			(1)	
Budget of the United States Government	<u>\$ 5,072</u>	<u>\$ 3,132</u>	<u>\$ 5</u>	<u>\$ 1,375</u>

Funds not reported in the Budget - Forfeiture Activity, primarily represent forfeiture activities that are unavailable until the authority is granted in the subsequent year. These activities represent real estate sales and accrued revenue. Other differences represent financial statement adjustments, timing differences and other immaterial differences between amounts reported in the AFF's SBR and the Budget of the United States.

**U.S. Department of Justice  
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**Note 18. Super Surplus and Official Use Transfers**

**Super Surplus.** 28 U.S.C. § 524(c)(8)(E), provides the Attorney General with the authority to use the AFF’s excess unobligated balance remaining at the end of a fiscal year, without fiscal year limitation, for any Federal law enforcement, litigative/prosecutive, and correctional activities, or any other authorized purpose of the Department of Justice. The excess unobligated balance consists of the AFF’s unobligated balance at the end of the fiscal year after the Asset Forfeiture Program’s operational needs for the subsequent year are reserved. The excess unobligated balance is historically known as “Super Surplus.”

At the beginning of FY 2014, the Attorney General renewed authorization for unused prior years’ Super Surplus authority for the Civil Division and the Executive Office for U.S. Attorneys (EOUSA) totaling \$357, and there were no additional Super Surplus declarations during the fiscal year ended September 2014. At the beginning of FY 2015, unused prior years’ Super Surplus authority totaling \$10 was renewed, allowing EOUSA to incur expenses against that authority for another fiscal year, and there were no additional Super Surplus declarations during the fiscal year ended September 30, 2015. For the fiscal year ended September 30, 2014, \$19 of authority was transferred out to EOUSA, with disbursements of \$9. For the fiscal year ended September 30, 2015, \$10 of authority was transferred out to EOUSA, with disbursements of \$7.

**Official Use Transfers.** Property was distributed pursuant to the Attorney General’s authority to share forfeiture revenues with agencies that participated in the forfeiture that generated the property, and pursuant to the DOJ’s authority to place forfeited property into official use by the Government. For the fiscal years ended September 30, 2015 and 2014, transfers-out of forfeited property for official use totaled \$4,880 and \$4,910, respectively.

**Note 19. Nonexchange Revenues**

Nonexchange revenue consists of income from the investment of the AFF and SADF in U.S. Treasury securities. The investment accrual revenue represents the amortization of the discount on marketable bills using the straight-line basis.

For the Fiscal Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Income from AFF investments	\$ 3,236	\$ 4,291
Income from SADF investments	1,554	1,635
Amortization of AFF/SADF discount/(premium)	<u>1,820</u>	<u>354</u>
Total Investment Income	<u>\$ 6,610</u>	<u>\$ 6,280</u>

**U.S. Department of Justice  
Notes to the Principal Financial Statements  
(Dollars in Thousands, Except as Noted)**

**Note 20. Donations and Forfeitures**

Forfeiture income includes forfeited cash, sales of forfeited property, penalties in lieu of forfeiture, recovery of returned asset management costs, judgment collections, and other miscellaneous income. For the Fiscal Years ended September 30, 2015 and 2014, net forfeiture income attributable to the AFF totaled \$1,622,651 and \$4,467,127 respectively, after the following payments and returns to agencies participating in seizures that led to forfeiture.

	<u>FY 2015</u>	<u>FY 2014</u>
Payments to individuals or organizations for proceeds from assets forfeited and deposited into the AFF and subsequently returned to them through a settlement agreement or by a court order.	\$ 656	\$ 293
Return of forfeiture income to the Treasury Forfeiture Fund for its participation in seizures that led to forfeiture	17,213	43,042
Return of forfeiture income to the U.S. Postal Service for its participation in seizures that led to forfeiture.	3,153	16,303
Return of forfeiture income to the other Federal Agencies for their participation in seizures that led to forfeiture.	-	(483)
Total Return of Forfeiture Income	<u>\$ 21,022</u>	<u>\$ 59,155</u>

**U.S. Department of Justice  
Notes to the Principal Financial Statements  
(Dollars in Thousands, Except as Noted)**

**Note 21. Reconciliation of Net Cost of Operation to Budget**

For the Fiscal Years Ended September 30, 2015 and 2014

	2015	2014
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	\$ 2,727,406	\$ 3,135,920
Less: Spending Authority from Offsetting Collections and Recoveries	85,963	85,481
Obligations Net of Offsetting Collections and Recoveries	2,641,443	3,050,439
Less: Offsetting Receipts	6,610	6,280
Net Obligations	2,634,833	3,044,159
Other Resources		
Donations and Forfeitures of Property	337,357	308,307
Transfers-In/Out Without Reimbursement	(4,890)	(4,930)
Imputed Financing from Cost Absorbed by Others (Note 16)	1,571	1,837
Net Other Resources Used to Finance Activities	334,038	305,214
Total Resources Used to Finance Activities	2,968,871	3,349,373
Resources Used to Finance Items not Part of the Net Cost of Operations		
Net Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not Yet Provided	(29,653)	(2,706)
Budgetary Offsetting Collections and Receipts That do not Affect Net Cost of Operations	(330,746)	(302,027)
Resources That Finance the Acquisition of Assets	(328)	(72)
Other Resources or Adjustments to Net Obligated Resources That do not Affect Net Cost of Operations	(1,095,110)	-
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(1,455,837)	(304,805)
Total Resources Used to Finance the Net Cost of Operations	1,513,034	3,044,568

**U.S. Department of Justice  
Notes to the Principal Financial Statements  
(Dollars in Thousands, Except as Noted)**

**Note 21. Reconciliation of Net Cost of Operation to Budget (continued)**

For the Fiscal Years Ended September 30, 2015 and 2014

	2015	2014
Components of Net Cost of Operations That Did not Require or Generate Resources in the Current Period		
Components That Will Require or Generate Resources in Future Periods (Note 22)	\$ 134	\$ 40
Depreciation and Amortization	204	47
Other	23,485	27,578
Total Components of Net Cost of Operations That Did not Require or Generate Resources in the Current Period	\$ 23,823	\$ 27,665
Net Cost of Operations	\$ 1,536,857	\$ 3,072,233

**U.S. Department of Justice**  
**Notes to the Principal Financial Statements**  
**(Dollars in Thousands, Except as Noted)**

**Note 22. Explanation of Differences Between Liabilities not Covered by Budgetary Resources and Components of Net Cost of Operations Requiring or Generating Resources in Future Periods**

Liabilities that are not covered by realized budgetary resources and for which there is no certainty that budgetary authority will be realized, such as the enactment of an appropriation, are considered liabilities not covered by budgetary resources. These liabilities totaling \$1,900 and \$1,766 on September 30, 2015 and 2014, respectively, are discussed in Note 10, Liabilities not Covered by Budgetary Resources. Decreases in these liabilities result from current year budgetary resources that were used to fund expenses recognized in prior periods. Increases in these liabilities represent unfunded expenses that were recognized in the current period. These increases, along with the change in the portion of exchange revenue receivables from the public, which are not considered budgetary resources until collected, represent components of current period net cost of operations that will require or generate budgetary resources in future periods. The changes in liabilities not covered by budgetary resources and receivables generating resources in future periods are comprised of the following:

For the Fiscal Years Ended September 30, 2015 and 2014

	2015	2014
Components That Will Require or Generate Resources in Future Periods		
Increase in Accrued Annual and Compensatory Leave Liabilities	\$ 134	\$ 40
Total Components That Will Require or Generate Resources in Future Periods	\$ 134	\$ 40

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# U.S. DEPARTMENT OF JUSTICE

## Assets Forfeiture Fund and Seized Asset Deposit Fund

### Other Information (Unaudited)



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**U. S. Department of Justice**  
**Assets Forfeiture Fund and Seized Asset Deposit Fund**  
**Combined Schedules of Spending**  
**For the Fiscal Years Ended September 30, 2015 and 2014**

<b>Dollars in Thousands</b>	<b>2015</b>	<b>2014</b>
<b>What Money is Available to Spend?</b>		
Total Resources	\$ 3,743,891	\$ 5,051,492
Less: Amount Available but Not Agreed to be Spent	796,822	1,836,188
Less: Amount Not Available to be Spent	219,663	79,384
<b>Total Amounts Agreed to be Spent</b>	<b>\$ 2,727,406</b>	<b>\$ 3,135,920</b>
<b>How was the Money Spent?</b>		
Personnel Compensation and Benefits		
1100 Personnel Compensation	\$ 30,923	\$ 29,009
1200 Personnel Benefits	10,563	9,764
Other Program Related Expenses		
2100 Travel & Transportation of Persons	7,253	4,156
2200 Transportation of Things	1,738	2,362
2300 Rent, Communications, and Utilities	25,340	25,012
2400 Printing and Reproduction	528	82
2500 Other Contractual Services	1,522,835	3,057,394
2600 Supplies and Materials	3,262	2,506
3100 Equipment	12,658	5,009
4200 Insurance Claims and Indemnities	101	506
4300 Interest and Dividends	76	1
4400 Refunds for Forfeited Assets	12,129	119
Expenditure Transfer to the U.S. Marshals Service	1,100,000	
<b>Total Amounts Agreed to be Spent</b>	<b>\$ 2,727,406</b>	<b>\$ 3,135,920</b>
<b>Who did the Money go to?</b>		
For Profit	1,492,065	2,490,460
Government	1,172,202	606,660
Employees	30,923	29,009
Other	32,216	9,791
<b>Total Amounts Agreed to be Spent</b>	<b>\$ 2,727,406</b>	<b>\$ 3,135,920</b>

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# U.S. DEPARTMENT OF JUSTICE

## Assets Forfeiture Fund and Seized Asset Deposit Fund

### Appendix



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**OFFICE OF THE INSPECTOR GENERAL  
ANALYSIS AND SUMMARY OF ACTIONS  
NECESSARY TO CLOSE THE REPORT**

The Office of the Inspector General (OIG) provided a draft of the *Independent Auditors' Report on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* to the Assets Forfeiture Fund and Seized Asset Deposit Fund (AFF/SADF). The AFF/SADF's response is incorporated in the *Independent Auditors' Report on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* of this final report. The following provides the report's recommendations, the status of the recommendations, the OIG analysis of the response, and a summary of actions necessary to close the report.

**Recommendations:**

- 1. Implement more effective procedures over review of the Annual Financial Statements and related journal entries to supplement existing higher-level management reviews over the Trial Balance and financial statements, to include reconciling and researching differences in budgetary information.**

Resolved. The AFF/SADF concurred with our recommendation. The AFF/SADF management stated in its response that the Justice Management Division (JMD) will establish a higher-level management review of budgetary and proprietary resources. They will include periodic reconciliations between the SF-132 *Apportionment Schedule*, SF-133 *Report on Budget Execution and Budgetary Resources* and the audited financial statements.

This recommendation can be closed when subsequent annual financial statement audit testing verifies that management has sufficiently implemented more effective procedures over review of the Annual Financial Statements, to include reconciling and researching differences in budgetary information.

- 2. Improve communication between budget and accounting staff to facilitate appropriate treatment of events impacting budgetary information.**

Resolved. The AFF/SADF concurred with our recommendation. The AFF/SADF management stated in its response that in following up on management's response to number 1 above, JMD will ensure communication and coordination between the JMD staffs.

This recommendation can be closed when subsequent annual financial statement audit testing verifies that management has sufficiently improved

communication between budget and accounting staff to facilitate appropriate treatment of events impacting budgetary information.

- 3. Work with participating agencies to develop clear policies and procedures for entering judicial information in the Consolidated Assets Tracking System (CATS) that more clearly address situations when attorneys have been using judgment to assess and enter information in CATS.**

Resolved. The AFF/SADF concurred with our recommendation. The AFF/SADF management stated in its response that the Asset Forfeiture Management Staff (AFMS) will work with the Executive Office for United States Attorneys and the Criminal Division to collaborate on updating policies, procedures, and guidance that sufficiently address the timeliness and accuracy of data to be entered into CATS by United States Attorneys' Offices (USAO) and participating agencies. In addition, AFMS will enhance its review procedures for large and unusual cases for which special processes and communications external to CATS are required for accurate financial reporting.

This recommendation can be closed when subsequent annual financial statement audit testing verifies that AFF/SADF has sufficiently updated policies and procedures to more clearly address situations when attorneys have been using judgment to assess and enter information in CATS.

- 4. Work with participating agencies to develop and implement effective controls to ensure that all relevant judicial claim information is accurately and timely entered and updated in CATS.**

Resolved. The AFF/SADF concurred with our recommendation. The AFF/SADF management stated in its response that AFMS will continue its outreach to USAOs and participating agencies to ensure they are aware of the policies/procedures regarding CATS data entry. In addition, AFMS will consider implementing CATS user training certifications and CATS user access controls to ensure CATS users are aware of applicable policies and procedures before they are granted or provided continued access to CATS. AFMS will also explore potential ways to leverage the use of electronic court reporting data to monitor, accelerate, and streamline the receipt of key asset information so that it may be entered into CATS more quickly. Finally, AFMS will explore using technology and data analytics to help streamline the review of court documents to accelerate identification of potential accounting and reporting events.

This recommendation can be closed when subsequent annual financial statement audit testing verifies that AFMS has developed and implemented effective controls to ensure that all relevant judicial claim information is accurately and timely entered and updated in CATS.

**5. Implement procedures to analyze and correct, when necessary, differences identified by analytical and review procedures.**

Resolved. The AFF/SADF concurred with our recommendation. The AFF/SADF management stated in its response that AFMS will enhance its analytical procedures to research significant fluctuations and interrelated disclosures, especially in instances where new accounting transactions and procedures are implemented.

This recommendation can be closed when subsequent annual financial statement audit testing verifies that AFMS has sufficiently implemented procedures to analyze and correct, when necessary, differences identified by analytical and review procedures.



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