



# Audit Report



OIG-06-027

Audit of the Financial Crimes Enforcement Network's  
Fiscal Year 2005 Balance Sheet

February 1, 2006

## Office of Inspector General

DEPARTMENT OF THE TREASURY

This report has been reviewed for public dissemination by the Office of Counsel to the Inspector General. Information requiring protection from public dissemination has been redacted from this report in accordance with the Freedom of Information Act, 5 U.S.C. section 552.



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

February 1, 2006

OFFICE OF  
INSPECTOR GENERAL

**MEMORANDUM FOR WILLIAM J. FOX, DIRECTOR  
FINANCIAL CRIMES ENFORCEMENT NETWORK**

**FROM:** William H. Pugh *William H. Pugh*  
Deputy Assistant Inspector General  
for Financial Management and Information  
Technology Audits

**SUBJECT:** Audit of the Financial Crimes Enforcement Network's  
Fiscal Year 2005 Balance Sheet

I am pleased to transmit the attached audited Financial Crimes Enforcement Network (FinCEN) balance sheet for fiscal year 2005. We contracted with the independent certified public accounting firm KPMG LLP to audit FinCEN's balance sheet as of September 30, 2005. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*; and the *GAO/PCIE Financial Audit Manual*.

The following reports, prepared by KPMG LLP, are incorporated in the attachment:

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

In its audit, KPMG LLP found that the balance sheet was fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. However, KPMG LLP's Report on Internal Control over Financial Reporting contained the following material weakness:

- Improvement is Needed in Accounting for Internal Use Software and Accrued Liabilities

KPMG LLP found no instances of reportable noncompliance with laws and regulations, exclusive of the *Federal Financial Management Improvement Act of 1996 (FFMIA)*, tested. However, KPMG LLP's tests of *FFMIA* Section 803(a)

requirements disclosed one instance in which FinCEN's financial management systems did not substantially comply with applicable Federal accounting standards and the United States Government Standard General Ledger at the transaction level, which is related to the material weakness noted above.

In connection with the contract, we reviewed KPMG LLP's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the balance sheet or conclusions about the effectiveness of internal control or compliance with laws and regulations. KPMG LLP is responsible for the attached auditors' reports dated November 21, 2005 and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5400, or a member of your staff may contact Mike Fitzgerald, Director, Financial Audits at (202) 927-5789.

Attachment

**DEPARTMENT OF THE TREASURY  
FINANCIAL CRIMES ENFORCEMENT NETWORK**

Financial Statements

September 30, 2005

**DEPARTMENT OF THE TREASURY  
FINANCIAL CRIMES ENFORCEMENT NETWORK**

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KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report on Financial Statements

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

We have audited the accompanying balance sheet of the Department of the Treasury – Financial Crimes Enforcement Network (FinCEN) as of September 30, 2005. The balance sheet is the responsibility of FinCEN's management. Our responsibility is to express an opinion on this balance sheet based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of the Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FinCEN's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the financial position of FinCEN as of September 30, 2005, in conformity with accounting principles generally accepted in the United States of America.

We have not audited the accompanying statements of net cost, changes in net position, financing, budgetary resources, and custodial activity and, accordingly, do not express an opinion on those financial statements.

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



In accordance with *Government Auditing Standards*, we have also issued reports dated November 21, 2005, on our consideration of FinCEN's internal control over financial reporting and 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* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

November 21, 2005



**KPMG LLP**  
2001 M Street, NW  
Washington, DC 20036

## **Independent Auditors' Report on Internal Control over Financial Reporting**

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

We have audited the balance sheet of the Department of the Treasury – Financial Crimes Enforcement Network (FinCEN) as of September 30, 2005, and have issued our report thereon dated November 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of the Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered FinCEN's internal control over financial reporting by obtaining an understanding of FinCEN's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the balance sheet as of September 30, 2005. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on FinCEN's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect FinCEN's ability to record, process, summarize, and report financial data consistent with the assertions by management in the balance sheet. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the balance sheet being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

In our audit of FinCEN's balance sheet as of September 30, 2005, we noted one matter, discussed in Exhibit I, involving the internal control over financial reporting and its operation that we consider to be a reportable condition. We believe that the reportable condition presented in Exhibit I is a material weakness.





### **Additional Required Procedures**

As required by OMB Bulletin No. 01-02 in our audit of FinCEN's balance sheet as of September 30, 2005, with respect to internal control related to performance measures determined by management to be key and reported in the *Management Discussion and Analysis*, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

\* \* \* \* \*

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

**KPMG LLP**

November 21, 2005

**MATERIAL WEAKNESS****Improvement is Needed in Accounting for Internal Use Software and Accrued Liabilities**

*GAO Standards for Internal Control in the Federal Government* states that transactions should 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. In addition, control activities help to ensure that all transactions are completely and accurately recorded. These entries should be made at the transaction level and should not need periodic updating during the year.

We noted the following weaknesses:

1. FinCEN capitalized internal use software only at year-end. Throughout the year the costs related to internal use software were incorrectly expensed.
2. We noted that FinCEN only reviews their undelivered orders for payables and accrued liabilities at year-end. Therefore, throughout the year, accounts payable and accrued liabilities may be misstated.

The effect of these weaknesses was that FinCEN needed to make year end adjusting entries in the amount of approximately \$10.7 and \$3.3 million to its property and equipment and accounts payable balances, respectively. The majority of the adjustment to property and equipment was caused by one large contract, where the development costs were expensed during the year and reclassified as capital assets at year end. The adjustment in the accounts payable balance was primarily due to rent abatement that was not recorded as a future liability. Based on the weaknesses above, we noted FinCEN's financial reports and statements were inaccurate at interim periods during the year.

***Recommendation:***

We recommend that FinCEN's management develop procedures that would allow recording of internal use software capitalization as well as accounts payable and accrued liabilities as transactions occur and review these transactions on at least a monthly basis.

***Management Response:***

Management concurs. We have developed and put in place procedures to meet the accrual objective and the internal use software objective. These procedures include management review of these objectives on a quarterly basis.

We have put manual procedures and review processes in place to address these issues for the quarterly statements. Where feasible, we have taken steps to record accruals and capitalize internal use software at the transaction level.



**KPMG LLP**  
2001 M Street, NW  
Washington, DC 20036

## **Independent Auditors' Report on Compliance and Other Matters**

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

We have audited the balance sheet of the Department of the Treasury – Financial Crimes Enforcement Network (FinCEN) as of September 30, 2005, and have issued our report thereon dated November 21, 2005. We conducted our audit of FinCEN's balance sheet in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of the Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of FinCEN is responsible for complying with laws, regulations, and contracts applicable to FinCEN. As part of obtaining reasonable assurance about whether FinCEN's balance sheet as of September 30, 2005 is free of material misstatement, we performed tests of FinCEN's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of balance sheet amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA). We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to FinCEN. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether FinCEN's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

The results of our tests of FFMIA Section 803(a) requirements disclosed one instance in which FinCEN's financial management systems did not substantially comply with applicable Federal accounting standards and the United States Government Standard General Ledger at the transaction level that is presented in Exhibit I of our Report on Internal Control over Financial Reporting dated November 21, 2005.



The results of our tests disclosed no instances in which FinCEN's financial management systems did not substantially comply with Federal financial management systems requirements.

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

KPMG LLP

November 21, 2005

## **Management's Discussion and Analysis**

**DEPARTMENT OF THE TREASURY  
FINANCIAL CRIMES ENFORCEMENT NETWORK**

Management's Discussion and Analysis

September 30, 2005

**Mission and Organizational Structure**

The Financial Crimes Enforcement Network (FinCEN), a bureau within Treasury's Office of Terrorism and Financial Intelligence, is the largest overt collector of financial intelligence in the United States. Our mission is to safeguard the financial system from the abuses of financial crime, including terrorist financing, money laundering, and other illicit activity. This is accomplished primarily through the administration of the Bank Secrecy Act; supporting law enforcement, intelligence, and regulatory agencies through sharing and analysis of financial intelligence; building global cooperation with our counterpart financial intelligence units; and networking people, ideas, and information.

**Strategic Goals and Performance Goals**

FinCEN's strategic goals directly link to the Treasury Strategic Goal: "Preserve the Integrity of the Financial Systems" and the national priority of "Dismantling the Financial Infrastructure of Terrorist Networks." To improve and clarify our strategic foundation, we developed and released an updated Strategic Plan that revised our strategic objectives, and developed performance measures that link directly to our strategic plan to monitor program execution. FinCEN's structure was also reorganized to reflect our functional priorities and alignment with the Strategic Plan. FinCEN's four strategic goals and related performance goals are listed below:

1. Protecting the financial system through effective administration of the Bank Secrecy Act (BSA).
  - Develop and implement appropriate anti-money laundering regulatory policy and regulations under the BSA and related authorities.
  - Provide guidance to support financial institutions in establishing risk-based programs that comply with the BSA.
  - Promote uniform and effective application of, examination for, and enforcement of the BSA.
  - Use regulatory means to support law enforcement in the investigation and prosecution of financial crimes.
2. Combating terrorism, money laundering, and other financial crime through analysis of BSA data and other relevant information.
  - Expand the production of analytic products that incorporate analysis of relevant classified information.
  - Produce policy-level assessments of terrorist financing and money laundering threats that fuse BSA data with all appropriate information sources.
  - Adjust our support of law enforcement investigations to better reflect our increased capabilities to perform complex data mining and analysis.
  - Apply analytical resources to support regulatory activity concerning the BSA.
3. Intensify international anti-money laundering collaboration through the global network of financial intelligence units.
  - Strengthen anti-terrorist financing and anti-money laundering policies and programs worldwide.
  - Enhance international standard-setting cooperation in the areas of terrorist financing, money laundering and other financial crimes.

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4. Facilitate regulatory compliance, data management, and information sharing through E-government.
  - Accelerate the secure flow of financial information from the industries subject to BSA requirements to the law enforcement agencies that use it to prevent, detect, and prosecute financial crime, including terrorist financing; and to the regulators who must assess the adequacy of that information as well as oversee BSA compliance.
  - Enhance communications between the government and the financial industry to ensure expeditious notification to law enforcement of possible terrorist or other illegal activity.

**Performance Results**

In FY 2005, we developed aggressive performance measures and milestones to support the achievement of the above outcomes. We're proud of our accomplishments and progress in implementing the Strategic Goals of the Department and the National priorities. Our performance results are highlighted below.

To protect the financial system through administration of the Bank Secrecy Act (BSA), we executed agreements with the five Federal Banking Agencies, the Internal Revenue Service, and more than half of the state banking agencies. These agreements will provide oversight information needed to assess levels of BSA compliance in covered industries, and will provide a framework for enhanced communication, collaboration and information sharing between Federal and State agencies. The agreements and resulting collaboration will result in more effective BSA administration.

In administering the Bank Secrecy Act (BSA), we work closely with our regulatory partners to take action in cases of noncompliance with BSA regulations. We impose civil monetary penalties or lesser enforcement remedies against violating institutions to promote and encourage greater compliance. To measure effective, efficient, and uniform enforcement of anti-money laundering regulations, we monitor the processing time for enforcement matters. The average time to process enforcement matters has decreased from 1.6 years in 2001 to 1.3 years in FY 2005. Although we demonstrated efficiencies in processing of civil penalties, it will be difficult to continue to show efficiencies as the number of industries covered by the BSA increases. As a result of this growth, we anticipate the processing time to rise slightly and accordingly have adjusted our future targets.

To combat terrorism, money laundering, and other financial crime through analysis and improved analytic capabilities and processes, we established the Office of Intelligence Support within our Analytics Division. [SENTENCE REDACTED]

To evaluate our analytic products, we conducted baseline surveys to determine their value to the financial industry and law enforcement communities. In the future our support to law enforcement agencies will focus on more complex analytical products, rather than the routine checks that law enforcement agencies can directly perform over the secure web based system. As a result, we will use our analytic expertise within the Offices of Law Enforcement Support and Intelligence Support for complex investigative, intelligence support, lead development and assessments focused on issues within specific industry and geographic regions. To measure the change in the nature of the work, we established a measure that monitors the percent increase of complex analysis. In FY 2004 the percentage of complex analysis was 1.6% and in FY 2005 we completed 10%. We achieved progress by increased interaction with requesters; implementing a marketing plan that provided guidance to law enforcement customers; and establishing processes to solicit analytical requests at higher levels of complexity.

**DEPARTMENT OF THE TREASURY**  
**FINANCIAL CRIMES ENFORCEMENT NETWORK**

Management's Discussion and Analysis

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To strengthen our international work, we hosted the Egmont Group's annual plenary meeting in Washington, D.C. The June 2005 meeting celebrated the 10<sup>th</sup> Anniversary of the Egmont Group of Financial Intelligence Units (FIUs); we proudly affirm that we were one of the original members. Over the past 10 years, the Egmont Group expanded to 101 FIUs in 2005. One of the main goals of the Egmont Group is to create a global network by promoting international co-operation between FIUs. Each FIU has made a commitment to share the information they collect with other units. Additionally, we participated in two newly created Financial Action Task Force (FATF) Style Regional Bodies, the Middle East and North Africa FATF, and the Eurasia FATF. Our global successes result from our work to expand and systematically exchange financial intelligence information, improve the expertise and capabilities of personnel who combat money laundering and terrorist financing areas. We foster better and more secure communication among financial intelligence units through the application of technology. It is a challenge to measure our global progress. We are reviewing how to measure the results of FinCEN training, conferences, and on-site assessments.

To facilitate information sharing, we initiated a major system to make BSA data and analytical tools available to authorized users through an easy-to-use, secure, web-based program. This critical initiative, called BSA Direct, integrates the collection, retrieval and sharing components. BSA Direct will continue to meet our law enforcement requirements for financial data allowing our staff to transition to more complex analysis. To support this analytical transition, we observed an increase in law enforcement customers directly accessing BSA data through the web-based system from 582 in FY 2001 to 3,941 in FY 2005, meeting our target of 3,000. We achieved increased usage of the BSA data by increasing outreach and training, and establishing Memoranda of Understanding with law enforcement agencies who access the data.

**Future Perspective**

In the future we will continue to partner with financial institutions, who act as our first line of defense to the security of our financial system, and work toward the goals of the BSA. We must ensure that the financial industry has the systems, procedures and programs in place to protect institutions and systems from the threats of financial crime; and ensure that a system of recordkeeping and reporting that provides the government with the right information that will be highly useful in efforts to prevent, deter, investigate and prosecute financial crime. In order to protect our financial system, we must continue to work closely and collaboratively with the financial industry. This demands a partnership and on-going dialogue between the government and the financial industry. To improve the dialogue, we must enhance our program for implementing section 314 (a) of the USA PATRIOT Act and execute information sharing agreements with the remaining State banking agencies. These actions will enhance our oversight and administration of the BSA and make our financial system safer.

To achieve our goals we must:

- Improve our outreach to financial industries newly covered by BSA regulations and strengthen our oversight of the BSA compliance examination activities of the federal regulators. The USA PATRIOT Act greatly expanded regulatory support needs by extending the BSA regulatory framework and anti-money laundering requirements to a vast array of financial industries. Outreach activities are critical to our ability to promote higher levels of compliance in covered industries.



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Management's Discussion and Analysis

September 30, 2005

- Strengthen overall analytical products through expertise in mining information, providing link analysis, and integrating data sources. Link analysis follows the money trail of criminals and terrorists, uncovers the funding source, shows the existence of terrorist networks, identifies systemic or geographic weaknesses, and helps predict trends and patterns. [SENTENCE REDACTED]

To accomplish full integration, we will retool and build the required security related support structure.

- Expand international terrorist financing information exchanges by upgrading the secure web system used by the Financial Intelligence Unit network. We house the Egmont Secure Web, which provides a unique opportunity to relay time-sensitive information requests rapidly among the governmental organizations in each of the 100 plus Egmont nations. We will utilize our leadership role within Egmont to implement information exchange policies and procedures to systematize terrorism-related financial record checks and analysis throughout the global network.
- Enhance BSA data analysis and the BSA environment by upgrading the overall regulatory filing environment. We will accomplish this by improving marketing and outreach for the BSA E-Filing system and enhancing analytical tools to improve text retrieval search capabilities. To fulfill our E-Filing goal, we must reach out to the filers, educate them about system and benefits of E-Filing, and offer assistance to help them transition to E-Filing. We will improve our technology tools to enhance our capability for text retrieval. Technology now exists to extract meaning from unstructured text to identify patterns and associations among entities and topics. Technology will improve BSA data analysis by improving text identification and linking Suspicious Activity Report narratives. We plan to make these text-mining tools available to external agencies that access BSA data through BSA Direct.

**Financial Statements**

Highlights of our FY 2005 financial performance appear below. FinCEN is financed annually through appropriations authorized by Congress. The FY 2005 enacted budget is \$72 million and includes an across-the-board rescission of .8%. Total assets were \$50 million and total liabilities were \$14 million at the end of FY 2005.

During 2005, FinCEN continued building and improving its financial management operations. FinCEN changed to a new service provider with integrated accounting, procurement, time and attendance and travel systems. This will improve our ability to provide timely financial data to FinCEN leadership.

**Systems and Internal Controls**

FinCEN's investment review board meets routinely to monitor ongoing IT projects and review proposed capital investments. Financial management systems are in compliance with Federal financial systems standards, Federal Manager's Financial Integrity Act (FMFIA) Section 4 and Federal Financial Management Improvement Act (FFMIA) except as noted in the audit report. FinCEN relies on the Bureau of Public Debt Administrative Resource Center for administrative and accounting services, and uses their systems. However, the requisition system and asset management systems are not integrated, require duplicate data entry and manual reconciliation. FinCEN is working with Treasury and BPD on this issue.

**DEPARTMENT OF THE TREASURY  
FINANCIAL CRIMES ENFORCEMENT NETWORK**

Management's Discussion and Analysis

September 30, 2005

FinCEN completed an internal control review of its purchase card program and found that it has strong safeguards against waste, fraud and abuse. FinCEN also reviewed its procedures for receiving and tracking accountable property and identified additional controls needed to improve accountability.

**Other Information/Issues**

Two audits identified opportunities for improvement. First, the Office of Inspector General's (OIG) audit of BSA E-Filing found E-Filing to be an effective mechanism for filing BSA reports. The OIG recommended that we conduct additional outreach among potential E-Filing users. Second, the Government Accountability Office's audit of the implementation of regulations related to customer identification and information sharing procedures, determined that FinCEN, the federal financial regulators, and self-regulatory organizations overcame challenges to create regulations that apply consistently to a diverse financial sector and have used several outreach mechanisms to help the financial industry understand and comply with Customer Identification requirements and information sharing requirements. However, some implementation challenges remain.

**DEPARTMENT OF THE TREASURY  
FINANCIAL CRIMES ENFORCEMENT NETWORK**

Management's Discussion and Analysis

September 30, 2005

**FinCEN Performance Measures**

Performance Measures	FY 2004 Actual	FY 2005 Actual
Number of domestic and overseas outreach events conducted by the Regulatory Policy and Programs Division in which we participated as a speaker/panelist	24	73
Average time to process enforcement matters (years)	1.0	1.3
Number of Memorandum of Understanding (MOU) agreements with the regulatory agencies	New	41
Number of pieces of significant regulatory guidance developed	9	12
Percentage of customers finding FinCEN's analytic support valuable	N/A	73%
Percentage of complex analytic work completed by FinCEN analysts	1.6%	10%
Average time expended to perform financial institution reviews dealing with compliance issues in response to MOU agreements with regulatory agencies	New	62 days
Number of collaborative analysis projects with foreign financial intelligence units	1	2
Percentage of targeted jurisdictions that receive technical assistance and training	N/A	26%
Number of Countries admitted to Egmont	94	101
Number of FIUs connected to the network	84	93
Number of countries sponsored	1	3
Number of users directly accessing BSA data through FinCEN's web based system.	2,181	3,941
Share of BSA filings submitted electronically.	20%	29%
Cost per BSA Form E-Filed	0.64	0.32
Number of requests for specific sensitive financial information transmitted from federal law enforcement agencies to financial institutions	198	92

**DEPARTMENT OF THE TREASURY  
FINANCIAL CRIMES ENFORCEMENT NETWORK**

Balance Sheet

As of September 30, 2005

**Assets (Note 2)**

Intragovernmental:	
Fund balance with Treasury (note 3)	\$ 31,933,229
Accounts receivable (note 4)	42,918
Other (note 6)	<u>461,082</u>
Total intragovernmental	32,437,229
Accounts receivable, net (note 4)	6,114
Property and equipment, net (note 5)	17,899,022
Other (note 6)	<u>3,822</u>
Total assets	\$ <u><u>50,346,187</u></u>

**Liabilities (Note 7)**

Intragovernmental:	
Accounts payable	\$ 2,540,641
Other (note 8)	<u>3,465,809</u>
Total intragovernmental	6,006,450
Accounts payable	4,662,506
Other (note 8)	<u>3,356,494</u>
Total liabilities	14,025,450
Commitments and contingencies (note 10)	
Net position:	
Unexpected appropriations	23,917,882
Cumulative results of operations	<u>12,402,855</u>
Total net position	<u>36,320,737</u>
Total liabilities and net position	\$ <u><u>50,346,187</u></u>

See accompanying notes to financial statements.

**DEPARTMENT OF THE TREASURY  
FINANCIAL CRIMES ENFORCEMENT NETWORK**

Statement of Net Cost (Unaudited)

Year ended September 30, 2005

**Program Costs (Note 11)**

Protect the financial system:	
Gross costs	\$ 26,569,147
Less earned revenue	<u>(350,648)</u>
Net program costs	26,218,499
Combat terrorism, money laundering, and other financial crime:	
Gross costs	22,904,437
Less earned revenue	<u>(302,283)</u>
Net program costs	22,602,154
Intensify international anti-money laundering collaboration:	
Gross costs	4,580,888
Less earned revenue	<u>(60,457)</u>
Net program costs	4,520,431
Facilitate compliance, data management, and information sharing through e-Government:	
Gross costs	37,563,277
Less earned revenue	<u>(495,743)</u>
Net program costs	<u>37,067,534</u>
Net cost of operations	<u><u>\$ 90,408,618</u></u>

See accompanying notes to financial statements.

**DEPARTMENT OF THE TREASURY  
FINANCIAL CRIMES ENFORCEMENT NETWORK**

Statement of Changes in Net Position (Unaudited)

Year ended September 30, 2005

	<b>Cumulative results of operations</b>	<b>Unexpended appropriations</b>
Beginning balances	\$ 4,559,808	20,200,472
Budgetary financing sources:		
Appropriations received	—	72,502,000
Other adjustments	—	(1,142,298)
Appropriations used	67,642,292	(67,642,292)
Other financing sources:		
Transfer in without reimbursement	2,000,000	—
Imputed financing from costs absorbed by others (note 15)	28,609,373	—
Total financing sources	98,251,665	3,717,410
Net cost of operations	(90,408,618)	—
Net change	7,843,047	3,717,410
Ending balances	\$ 12,402,855	23,917,882

See accompanying notes to financial statements.

**DEPARTMENT OF THE TREASURY  
FINANCIAL CRIMES ENFORCEMENT NETWORK**

Statement of Budgetary Resources (Unaudited)

Year ended September 30, 2005

**Budgetary Resources**

Budget authority:		
Appropriations received	\$	72,502,000
Unobligated balance:		
Beginning of period		12,434,003
Spending authority from offsetting collections:		
Earned:		
Collected		3,170,101
Receivable from Federal sources		39,030
Change in unfilled customer orders without advance from Federal sources		(2,014,213)
Subtotal		1,194,918
Recoveries of prior year obligations		1,361,449
Permanently not available		(1,142,298)
Total budgetary resources	\$	86,350,072

**Status of Budgetary Resources**

Obligations incurred:		
Direct	\$	76,156,077
Reimbursable		1,202,907
Subtotal		77,358,984
Unobligated balance:		
Apportioned		7,536,577
Unobligated balance not available		1,454,511
Total status of budgetary resources	\$	86,350,072

**Relationship of Obligations to Outlays**

Obligated balance, net, beginning of period	\$	10,554,930
Obligated balance, net, end of period:		
Accounts receivable		(42,918)
Unfilled customer orders from Federal resources		(81,341)
Undelivered orders		14,497,373
Accounts payable		8,569,028
Outlays:		
Disbursements		65,585,506
Collections		(3,170,101)
Net outlays	\$	62,415,405

See accompanying notes to financial statements.

**DEPARTMENT OF THE TREASURY  
FINANCIAL CRIMES ENFORCEMENT NETWORK**

Statement of Financing (Unaudited)

Year ended September 30, 2005

Resources used to finance activities:	
Budgetary resources obligated:	
Obligations incurred	\$ 77,358,984
Less spending authority from offsetting collections and recoveries	<u>(2,556,367)</u>
Net obligations	74,802,617
Other resources:	
Transfers in without reimbursement	2,000,000
Imputed financing from costs absorbed by others	<u>28,609,373</u>
Net other resources used to finance activities	<u>30,609,373</u>
Total resources used to finance activities	105,411,990
Resources used to finance items not part of the net cost of operations:	
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	4,682,809
Resources that fund expenses recognized in prior periods	9,074
Budgetary offsetting collections and receipts that do not affect net cost of operations	—
Other	2,000,000
Resources that finance the acquisition of assets	12,989,754
Other resources or adjustments to net obligated resources that do not affect net cost of operations	<u>1,455,123</u>
Total resources used to finance items not part of the net cost of operations	<u>21,136,760</u>
Total resources used to finance the net cost of operations	<u>84,275,230</u>
Components of the net cost of operations that will not require or generate resources in the current period:	
Components requiring or generating resources in future periods:	304,881
Other	<u>3,252,726</u>
Total components requiring or generating resources in future periods	<u>3,557,607</u>
Components not requiring or generating resources:	
Depreciation and amortization	2,286,613
Revaluation of assets or liabilities	295,282
Other	<u>(6,114)</u>
Total components of net cost of operations that will not require or generate resources	<u>2,575,781</u>
Total components of net cost of operations that will not require or generate resources in current period	<u>6,133,388</u>
Net cost of operations	<u>\$ 90,408,618</u>

See accompanying notes to financial statements.



**DEPARTMENT OF THE TREASURY  
FINANCIAL CRIMES ENFORCEMENT NETWORK**

Statement of Custodial (Unaudited)

Year ended September 30, 2005

Revenue activity:	
Sources of cash collections:	
Civil monetary penalties	\$ <u>10,000,000</u>
Total cash collections	10,000,000
Accrual adjustments	<u>(45,966)</u>
Total custodial revenue	9,954,034
Disposition of collections transferred to others:	
Department of the Treasury	(10,000,000)
Decrease in amounts yet to be transferred	<u>45,966</u>
Net custodial activity	\$ <u><u>—</u></u>

See accompanying notes to financial statements.

**DEPARTMENT OF THE TREASURY  
FINANCIAL CRIMES ENFORCEMENT NETWORK**

Notes to Financial Statements  
Year ended September 30, 2005

**(1) Summary of Significant Accounting Policies**

**(a) Reporting Entity**

The Financial Crimes Enforcement Network (FinCEN) was formally established by the Treasury, Order 105-08, on April 25, 1990 and upgraded to bureau status October 26, 2001 in Public Law 107-56. The mission of FinCEN is to safeguard the financial system from the abuse of financial crime, including terrorists, drug traffickers, and other criminals and isolate their support networks. This is accomplished primarily through the administration of the Bank Secrecy Act; supporting law enforcement, intelligence, and regulatory agencies through sharing and analysis of financial intelligence; building global cooperation with our counterpart financial intelligence units; and networking people, ideas, and information. To achieve our strategic plan, we have established the following Strategic Goals: Protect the financial system through effective administration of the Bank Secrecy Act; Combat terrorism, money laundering and other financial crime through analysis of the Bank Secrecy Act data and other relevant information; Intensify international anti-money laundering collaboration through the global network of Financial Intelligence Units; and Facilitate regulatory compliance, data management and information sharing through electronic government.

**(b) Basis of Accounting and Presentation**

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

These financial statements are provided to meet the requirements of the Government Management Reform Act of 1994. The financial statements consist of a balance sheet, and the statements of net cost, changes in net position, budgetary resources, financing and custodial activity.

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

**DEPARTMENT OF THE TREASURY**  
**FINANCIAL CRIMES ENFORCEMENT NETWORK**

Notes to Financial Statements  
Year ended September 30, 2005

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

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

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

**(c) *Fund Balance with Treasury***

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

**(d) *Accounts Receivable***

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

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

**(e) *Property and Equipment***

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

Internal-use software includes purchased commercial off-the-shelf software (COTS), contractor developed software, and software that was internally developed by agency employees. For COTS software, the capitalized costs include the amount paid to the vendor for the software, for contractor

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Notes to Financial Statements

Year ended September 30, 2005

developed software it includes the amount paid to a contractor to design, program, install and implement the software. Capitalized costs for internally developed software include the full cost (direct and indirect) incurred during the software development phase.

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

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

**(f) Liabilities**

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

**(g) Annual, Sick and Other Leave**

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

**(h) Workers' Compensation**

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

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

**DEPARTMENT OF THE TREASURY  
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Year ended September 30, 2005

made available to FinCEN as part of its annual appropriation from Congress in the year in which the reimbursement takes place.

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

**(i) *Unamortized Rent Abatement***

The terms of the operating lease between FinCEN and the General Services Administration (GSA) for the Vienna, VA facility contain a rent abatement period. During the rent abatement period no rent is payable to GSA. Although rent payments are not being made on a straight-line basis, FinCEN is recognizing rent expense on a straight-line basis over the lease term. Accordingly, an unamortized rent abatement liability is included in other intragovernmental liabilities in the accompanying Balance Sheet. This liability is being amortized on a straight-line basis over the lease term.

**(j) *Pension Costs and Other Retirement Benefits***

Most FinCEN employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS). As of September 30, 2005, FinCEN contributed 7 percent of base pay for regular employees.

Employees hired after December 31, 1983 are automatically covered by the Federal Employee's Retirement System (FERS) and Social Security. As of September 30, 2005, FinCEN contributed 11.2 percent and 10.7 percent, respectively of base pay for the FERS basic benefit. A primary feature of FERS is that it offers a savings plan to which FinCEN automatically contributes 1 percent of base pay and matches employee contributions up to an additional 4 percent of base pay. FinCEN also contributes the employer's Social Security matching share for FERS participants.

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

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

The estimated cost of providing CSRS and FERS retirement and FEHBP and FEGLI benefits to retirees is more than the amounts contributed by FinCEN and its employees. Federal entities are

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**FINANCIAL CRIMES ENFORCEMENT NETWORK**

Notes to Financial Statements  
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required to report the full cost of providing retirement benefits to include the cost financed by OPM. The additional expense representing the difference between the estimated cost and the employer and employee contributions for these programs is included as an expense and as an imputed financing source in FinCEN's financial statements.

**(k) *Entity Revenues, Financing Sources and Imputed Financing Sources***

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

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

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

**(l) *Non-Entity Assets, Revenues and Disbursements***

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

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

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Notes to Financial Statements  
Year ended September 30, 2005

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

**(m) Use of Estimates**

The preparation of the financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

**(n) Tax Status**

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

**(2) Non-Entity Assets**

Non-entity assets as of September 30, 2005 consisted of the following:

Civil penalties assessed	\$	700,000
Less allowance for doubtful collection		<u>(700,000)</u>
Total non-entity assets		—
Total entity assets		<u>50,346,187</u>
Total assets	\$	<u><u>50,346,187</u></u>

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

**(3) Fund Balance With Treasury**

***Fund Balances***

Fund balance with Treasury as of September 30, 2005 consisted of the following components:

Trust funds	\$	134,043
Appropriated funds		<u>31,799,186</u>
Total	\$	<u><u>31,933,229</u></u>

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

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FINANCIAL CRIMES ENFORCEMENT NETWORK**

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

***Status of Fund Balances***

The status of fund balance with Treasury as of September 30, 2005 consisted of the following:

Unobligated balance:		
Available	\$	7,536,577
Unavailable		1,454,511
Obligated balance not yet disbursed		<u>22,942,141</u>
Total	\$	<u><u>31,933,229</u></u>

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

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

**(4) Accounts Receivable, Net**

Components of accounts receivable as of September 30, 2005 were as follows:

Intragovernmental:		
Accounts receivable	\$	42,918
Public:		
Accounts receivable		6,114
Civil penalties assessed		700,000
Less allowance for doubtful collection		<u>(700,000)</u>
Public accounts receivable, net		<u>6,114</u>
Total accounts receivable, net	\$	<u><u>49,032</u></u>

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

Accounts receivable from non-Federal sources consist of administrative receivables from employees or suppliers, and civil monetary penalties which have been billed or accrued and remain uncollected as of year-end. The collection of civil monetary penalties is a custodial activity performed by FinCEN and are not considered financing sources (revenues) available to offset the operating expenses of FinCEN and accordingly, a corresponding liability is recorded on the accompanying Balance Sheet. An allowance for doubtful accounts of \$700,000 has been recognized to offset civil monetary penalties currently being litigated by the Department of Justice.



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Notes to Financial Statements

Year ended September 30, 2005

**(5) Property and Equipment, Net**

Property and equipment as of September 30, 2005 consisted of the following:

	<u>Depreciation method</u>	<u>Useful life (in years)</u>	<u>Acquisition cost</u>	<u>Acumulated depreciation/ amortization</u>	<u>Net book value</u>
Furniture, fixtures and equipment	S/L	5-7	\$ 5,214,801	(3,535,951)	1,678,850
Internal-use software	S/L	5	8,329,778	(3,897,599)	4,432,179
Internal-use software in development	N/A	N/A	11,734,339	—	11,734,339
Leasehold improvements	S/L	3-5	<u>601,829</u>	<u>(548,175)</u>	<u>53,654</u>
Total			<u>\$ 25,880,747</u>	<u>(7,981,725)</u>	<u>17,899,022</u>

Internal-use software in development represents actual (direct) costs and other indirect costs incurred for various software development projects not yet placed in service. The indirect costs consist of the applied overhead on FinCEN employee labor associated with the software in development. In fiscal year 2005, the total amount of internal-use software in development recorded was \$12,184,331 of which \$78,534 was indirect costs. Depreciation and amortization expense recognized during the year ended September 30, 2005 was \$2,286,613 (unaudited).

**(6) Other Assets**

Other assets as of September 30, 2005 consisted of the following:

Intragovernmental:		
Advances and prepayments	\$	461,082
Public:		
Accounts and prepayments		<u>3,822</u>
Total other assets	\$	<u>464,904</u>

Intragovernmental advances and prepayments consist of amounts paid to the Department of the Treasury Working Capital Fund prior to FinCEN's receipt of goods and services. All other advances and prepayments consist of employee travel advances.

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Notes to Financial Statements  
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**(7) Liabilities Not Covered by Budgetary Resources**

Liabilities not covered by budgetary resources represent amounts owed in excess of available appropriated or other amounts. The liquidation of liabilities not covered by budgetary resources is dependent on future congressional appropriations. As of September 30, 2005 liabilities not covered by budgetary resources consisted of the following:

Intragovernmental:		
Other		\$ 3,253,573
Public:		
Accrued annual leave		2,158,900
Actuarial liability for workers' compensation		43,949
Total public		<u>2,202,849</u>
Total liabilities not covered by budgetary resources		5,456,422
Total liabilities covered by budgetary resources or non-entity assets		<u>8,569,028</u>
Total liabilities		<u>\$ 14,025,450</u>

**(8) Other Liabilities**

Other liabilities as of September 30, 2005 consisted of the following:

	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
Intragovernmental:			
Accrued employee benefits	\$ —	212,236	212,236
Accrued workers' compensation	847	—	847
Unamortized rent abatement	2,880,986	371,740	3,252,726
Total intragovernmental	<u>2,881,833</u>	<u>583,976</u>	<u>3,465,809</u>
Public:			
Accrued payroll and employee benefits	—	1,153,645	1,153,645
Accrued annual leave	—	2,158,900	2,158,900
Actuarial liability for workers' compensation	43,949	—	43,949
Total public	<u>43,949</u>	<u>3,312,545</u>	<u>3,356,494</u>
Total other liabilities	<u>\$ 2,925,782</u>	<u>3,896,521</u>	<u>6,822,303</u>

**(9) Leases (Unaudited)**

FinCEN leases office space from the General Services Administration (GSA) under long-term occupancy agreements. All of the office space occupied by FinCEN is leased by GSA from commercial sources. GSA space is assigned to FinCEN based upon current needs. FinCEN is not committed to continue to pay rent to

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GSA beyond the period occupied providing proper advance notice to GSA is made. However, it is expected that FinCEN will continue to occupy and lease office space from GSA in future years. The lease amount paid to GSA during fiscal year 2005 was \$1,475,313.

As of September 30, 2005 future lease payments due under GSA operating leases were as follows:

2006	\$	4,082,719
2007		4,088,304
2008		4,121,365
2009		4,129,774
2010		4,135,880
Thereafter		<u>16,608,403</u>
Total future payments	\$	<u><u>37,166,445</u></u>

**(10) Commitments and Contingencies**

FinCEN is party to various administrative proceedings, legal actions, and claims. In the opinion of management, the probability is remote that the ultimate resolution of these matters, individually or in the aggregate, will have a material adverse effect on FinCEN's financial position or the results of its operations.

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Notes to Financial Statements  
Year ended September 30, 2005

**(11) Intragovernmental Costs and Exchange Revenue (Unaudited)**

Intragovernmental costs and exchange revenue for the year ended September 30, 2005 consisted of the following:

Program costs:	
Protect the financial system:	
Intragovernmental costs	\$ 14,846,798
Public costs	11,722,349
Total program costs	<u>26,569,147</u>
Intragovernmental earned revenue	<u>(350,648)</u>
Net program cost	26,218,499
Combat terrorism, money laundering, and other financial crime:	
Intragovernmental costs	12,798,964
Public costs	10,105,473
Total program costs	<u>22,904,437</u>
Intragovernmental earned revenue	<u>(302,283)</u>
Net program cost	22,602,154
Intensify international anti-money laundering collaboration:	
Intragovernmental costs	2,559,794
Public costs	2,021,094
Total program costs	<u>4,580,888</u>
Intragovernmental earned revenue	<u>(60,457)</u>
Net program cost	4,520,431
Facilitate compliance, data management, and information sharing through e-Government:	
Intragovernmental costs	20,990,302
Public costs	16,572,975
Total program costs	<u>37,563,277</u>
Intragovernmental earned revenue	<u>(495,743)</u>
Net program cost	<u>37,067,534</u>
Net cost of operations	<u>\$ 90,408,618</u>

The criteria used for this classification are that the intragovernmental costs relate to the source of goods and services purchased by the reporting entity, and not to the classification of related revenue. For example “exchange revenue with the public,” is when the buyer of the goods or services is a non-Federal entity. While with “intragovernmental costs,” the buyer and seller are both Federal entities. If a Federal entity

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purchases goods or services from another Federal entity and sells them to the public, the exchange revenue would be classified as “with the public,” but the related costs would be classified as “intragovernmental.” The purpose of this classification is to enable the Federal government to provide consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

**(12) Statement of Budgetary Resources (Unaudited)**

**(a) Apportionment Categories of Obligations Incurred**

Obligations incurred as reported on the Statement of Budgetary Resources for the year ended September 30, 2005 consisted of the following:

Direct obligations:		
Category B	\$	76,156,077
Reimbursable obligations:		
Category B		<u>1,202,907</u>
Total	\$	<u><u>77,358,984</u></u>

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

**(b) Adjustments to Beginning Balance of Budgetary Resources**

Adjustments to budgetary resources available at the beginning of fiscal year 2005 consisted of the following:

Recoveries of prior year obligations	\$	1,361,449
Cancellations of expired accounts		(562,282)
Enacted reductions		<u>(580,016)</u>
Total	\$	<u><u>219,151</u></u>

**(c) Differences Between the Statement of Budgetary Resources and the Budget of the United States**

The *Budget of the United States Government* (also known as the President’s Budget), with actual numbers for fiscal year 2005, was not published at the time these financial statements were issued. The President’s Budget is expected to be published in February 2006.

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**(13) Statement of Financing (Unaudited)**

The Components Requiring or Generating Resources in Future Periods presented on the Statement of Financing represents the change between the beginning and ending balances for the Liabilities Not Covered by Budgetary Resources presented on the Balance Sheet and detailed in note 7.

**(14) Statement of Custodial Activity (Unaudited)**

FinCEN assesses civil monetary penalties related to enforcement of the Bank Secrecy Act as authorized by 31 U.S.C. 5321(b). FinCEN collects this custodial revenue and distributes the full amount of penalties collected to the Treasury General Fund. For the year ended September 30, 2005, cash collections and distributions to Treasury were \$10,000,000.

**(15) Imputed Financing Sources (Unaudited)**

FinCEN has imputed financing costs with the Office of Personnel Management as well as the Internal Revenue Service. FinCEN recognizes \$26,871,384 as an imputed financing source from the Internal Revenue Service for the collection and processing of Bank Secrecy Act Data. A summary of the imputed financing costs by agency for the year ended September 30, 2005 is as follows:

Office of Personnel Management	\$ 1,737,989
Internal Revenue Service	<u>26,871,384</u>
Total imputed financing costs	<u><u>\$ 28,609,373</u></u>

**DEPARTMENT OF THE TREASURY  
FINANCIAL CRIMES ENFORCEMENT NETWORK**

Required Supplementary Information (Unaudited)

Year ended September 30, 2005

**Statement of Budgetary Resources**

Budgetary resources disaggregated by major accounts for the year ended September 30, 2005 consisted of the following:

	<u>Appropriated funds</u>	<u>Trust funds</u>	<u>Total</u>
Budgetary resources:			
Budget authority:			
Appropriations received	\$ 72,502,000	—	72,502,000
Unobligated balance:			
Beginning of period	12,422,651	11,352	12,434,003
Spending authority from offsetting collections:			
Earned:			
Collected	3,170,101	—	3,170,101
Receivable from Federal sources	39,030	—	39,030
Change in unfilled customer orders without advance from Federal sources	(2,014,213)	—	(2,014,213)
Subtotal	1,194,918	—	1,194,918
Recoveries of prior year obligations	1,343,053	18,396	1,361,449
Permanently not available	(1,142,298)	—	(1,142,298)
Total budgetary resources	<u>\$ 86,320,324</u>	<u>29,748</u>	<u>86,350,072</u>
Status of budgetary resources:			
Obligations incurred:			
Direct	\$ 76,155,859	218	76,156,077
Reimbursable	1,202,907	—	1,202,907
Subtotal	77,358,766	218	77,358,984
Unobligated balance:			
Apportioned	7,507,047	29,530	7,536,577
Unobligated balance not available	1,454,511	—	1,454,511
Total status of budgetary resources	<u>\$ 86,320,324</u>	<u>29,748</u>	<u>86,350,072</u>
Relationship of obligations to outlays:			
Obligated balance, net, beginning of period	\$ 10,395,860	159,070	10,554,930
Obligated balance, net, end of period:			
Accounts receivable	(42,918)	—	(42,918)
Unfilled customer orders from Federal sources	(81,341)	—	(81,341)
Undelivered orders	14,392,860	104,513	14,497,373
Accounts payable	8,569,028	—	8,569,028
Outlays:			
Disbursements	65,549,127	36,379	65,585,506
Collections	(3,170,101)	—	(3,170,101)
Net outlays	<u>\$ 62,379,026</u>	<u>36,379</u>	<u>62,415,405</u>