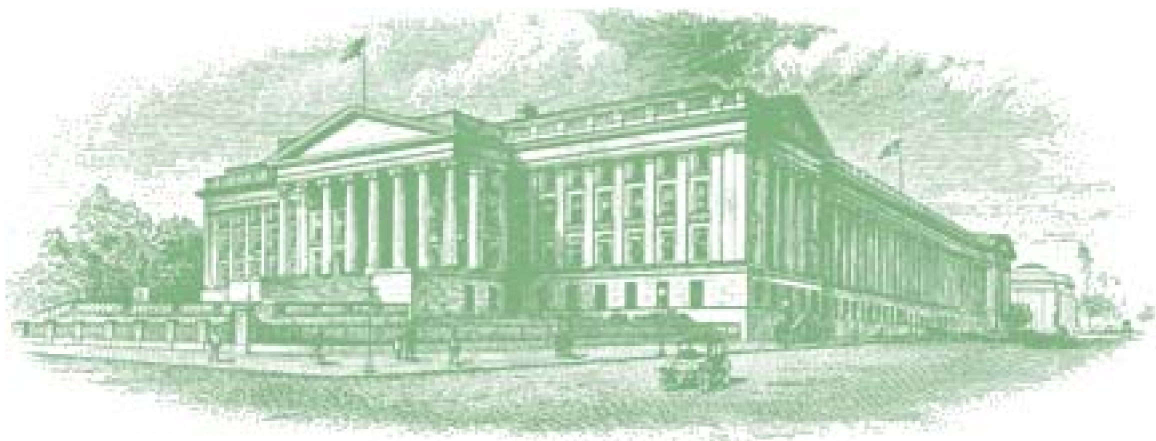
Audit Report



OIG-06-023

Audit of the Department of the Treasury Forfeiture Fund's Fiscal Years 2005 and 2004 Financial Statements

January 26, 2006

Office of Inspector General

Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

January 26, 2006

**MEMORANDUM FOR ERIC E. HAMPLE, DIRECTOR
TREASURY FORFEITURE FUND**

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

SUBJECT: Audit of the Department of the Treasury Forfeiture Fund's Fiscal Years 2005 and 2004 Financial Statements

I am pleased to transmit the attached audited Department of the Treasury Forfeiture Fund (TFF) financial statements for Fiscal Years 2005 and 2004. We contracted with the independent certified public accounting firm Gardiner, Kamya & Associates, PC (GKA), to audit the financial statements of TFF as of September 30, 2005 and 2004 and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements;* and the *GAO/PCIE Financial Audit Manual.*

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

- Independent Auditor's Report on Financial Statements;
- Independent Auditor's Report on Internal Control over Financial Reporting; and
- Independent Auditor's Report on Compliance with Laws and Regulations.

In its audit, GKA found that the financial statements were fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. However, the Independent Auditor's Report on Internal Control over Financial Reporting identified the following reportable conditions:

- The Organizational Structure does not Provide for Effective Chief Financial Officer (CFO) Function and Responsibilities; and
- Indirect Overhead Expenses of the National Seized Property Contractor are not Recorded and Accounted for by the Fund to the Line Item Level.

GKA reported the first condition above relating to TFF's organizational structure as a material weakness. In addition, GKA found no instances of reportable noncompliance with laws and regulations tested.

GKA also issued a management letter dated December 1, 2005 discussing other matters involving internal control over financial reporting and its operation that were identified during the audit but were not required to be included in the auditor's reports.

In connection with the contract, we reviewed GKA's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. GKA is responsible for the attached auditor's reports dated December 1, 2005 and the conclusions expressed in the reports. However, our review disclosed no instances where GKA did not comply, in all material respects, with generally accepted government auditing standards.

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

Attachment

GARDINER KAMYA
& ASSOCIATES, PC

CERTIFIED PUBLIC ACCOUNTANTS | MANAGEMENT CONSULTANTS

Treasury Forfeiture Fund
ACCOUNTABILITY REPORT
Fiscal Year 2005

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

1717 K STREET, NW SUITE 601
WASHINGTON, DC 20036
P 202 857 1777 F 202 857 1778
W WWW. GKACPA.COM

Message from the Director

I am pleased to present the fiscal year (FY) 2005 Accountability Report for the Treasury Forfeiture Fund. While highlighting the Treasury Forfeiture Fund's (the Fund's) financial and operational performance over the past year, this report also focuses on some of the significant investigative achievements of our participating bureaus this year. FY 2005 was another robust revenue year for the law enforcement bureaus participating in the Treasury Forfeiture Fund, with earned revenue during the year of over $300 million from all sources.

The continued high-impact performance of the Fund reflects the ongoing hard work of our law enforcement bureaus as well as Fund management's emphasis on major case initiatives, asset forfeiture program training and a focused approach regarding our performance measure which gauges revenue from high-impact cases. The mission of the Fund is to affirmatively influence the consistent and strategic use of asset forfeiture by our law enforcement bureaus to disrupt and dismantle criminal enterprise. It is our view that the greatest damage to criminal enterprise can be achieved through large forfeitures, hence we have set a target level of 75 percent of our currency forfeitures to be high impact forfeitures. Fund Management works through budgetary and policy means to emphasize high-impact cases, i.e., those cash forfeiture cases equal to or greater than $100,000 in value. For FY 2005, we exceeded our target significantly with 81 percent of our cash forfeiture revenue stemming from high-impact cases. This is a credit to our law enforcement bureaus and their dedication to the fight against crime.

During FY 2005, the Executive Office for Asset Forfeiture continued expanding its training programs, with conferences addressing the cutting edge of investigative and forfeiture innovative practices of our member agencies. We launched a new seminar series called International Issues in Investigation and Forfeiture with each seminar focusing on a specific geographic region of the world. Topics include trade-based money laundering, black market peso exchange, money services businesses, and tracing money off-shore. We conducted two final seminars in the series Technology Issues in Investigation and Forfeiture, which included a full day of hands-on specialized training. Our training strategy is aimed at fostering the cooperation between our participating agencies, as well as identifying and promoting their best investigative and forfeiture practices.

The Treasury Forfeiture Fund continued in its capacity as a multi-Departmental Fund in FY 2005, representing the interests of law enforcement components of the Departments of Treasury and Homeland Security. Our member bureaus include the Internal Revenue Service's Criminal Investigation (IRS- CI), the U.S. Secret Service, Immigration and Customs Enforcement (ICE), and Customs and Border Protection (CBP). The U.S. Coast Guard continues its close working relationship with the legacy Customs bureaus.

As we enter FY 2006, the Fund remains focused on support for strategic investigative initiatives that will have the greatest impact on national and international criminal enterprise including continued emphasis on training and investigative or operational initiatives that emphasize high impact cases.

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

Table of Contents

OVERVIEW

Profile of the Treasury Forfeiture Fund

The Treasury Forfeiture Fund (the Fund) is the receipt account for the deposit of non-tax forfeitures made pursuant to laws enforced or administered by law enforcement bureaus that participate in the Treasury Forfeiture Fund. The Fund was established in October of 1992 as the successor to the Forfeiture Fund of the United States Customs Service. The Fund is a "special receipt account." This means the Fund can provide money to other federal entities toward the accomplishment of a specific objective for which the recipient bureaus are authorized to spend money and toward other authorized expenses. The use of Fund resources is governed by law, policy and precedent as interpreted and implemented by the Department of the Treasury which manages the Fund. A key objective for management is the long-term viability of the Fund to ensure that there are ongoing resources to support member-bureau seizure and forfeiture activities well into the future. The emphasis of Fund management is on high impact cases that can do the most damage to criminal infrastructure.

The Treasury Forfeiture Fund continues in its capacity as a multi-Departmental Fund, representing the interests of law enforcement components of the Departments of Treasury and Homeland Security. Our member bureaus include the Internal Revenue Service's Criminal Investigation (IRS-CI), the U.S. Secret Service, Immigration and Customs Enforcement (ICE), and Customs and Border Protection (CBP). The U.S. Coast Guard continues its close working relationship with the legacy Customs bureaus and functions in a member-bureau capacity.

The Executive Office for Asset Forfeiture (EOAF), which provides management oversight of the Fund, falls under the auspices of the Under Secretary for Terrorism and Financial Crimes. EOAF's organizational structure includes the Fund Director, Legal Counsel, Assistant Director for Policy and Assistant Director for Operations. Functional responsibilities are delegated to various team leaders. EOAF is located in Washington, D.C., and currently has 20 full time equivalent positions.

Strategic Mission

The mission of the Treasury Forfeiture Fund is to affirmatively influence the consistent and strategic use of asset forfeiture by law enforcement bureaus that participate in the Treasury Forfeiture Fund to disrupt and dismantle criminal enterprises.

Strategic Vision

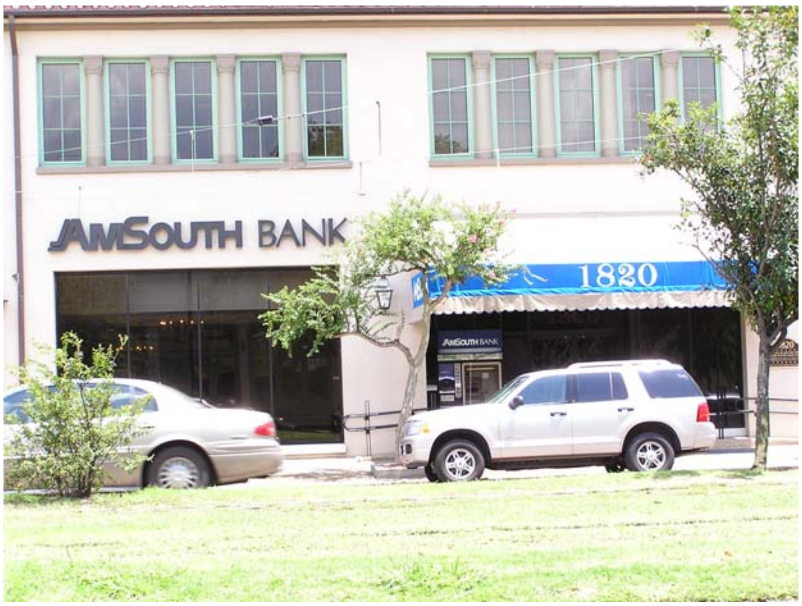
Fund management works to focus the asset forfeiture program on strategic cases and investigations that result in high-impact seizures. Management believes this approach incurs the greatest damage to criminal organizations while accomplishing the ultimate objective – to disrupt and dismantle criminal enterprises.

Case Highlights

The following case highlights are intended to give the reader an idea of the types of investigative cases worked by the Fund's law enforcement bureaus during FY 2005 that led to the seizure and forfeiture of assets. Such cases as those profiled below are consistent with the Strategic Mission and Vision of the Treasury Forfeiture Program, and that is to use asset forfeiture in high-impact cases to disrupt and dismantle criminal enterprise.

Internal Revenue Service, Department of the Treasury

AM South Bank – Deferred Prosecution Agreement - forfeits $40 million



AMSouth Bank forfeited $40 million as part of a Deferred Prosecution Agreement on charges of failure to report suspicious financial activity.

AmSouth Bancorporation and AMSouth Bank forfeited $40 million to the United States as part of a Deferred Prosecution Agreement on charges of failure to report suspicious financial activity. This is one of the largest forfeitures ever by a publicly traded bank. AmSouth has over 600 branches in the southeastern United States with over $45 billion dollars in assets. The investigation, conducted by IRS-CI, arose out of a grand jury investigation of Louis Hamric, Victor Nance and other individuals who were operating a Ponzi scheme in Mississippi. In this type of scheme, early investors are paid a "return" on their investment using monies obtained from later investors, thereby creating the appearance of a successful investment and in so doing, encouraging others to "invest" their money.

In this scheme, the "investment" was a Promissory Note, issued by Hamric and held in an AmSouth custodial trust account which either Hamric or Nance established for each victim of the scheme. AmSouth handled the administrative duties of the scheme by accepting "interest" payments from Hamric and depositing them into the various custodial accounts based on a spreadsheet provided by Nance. AmSouth also provided copies of the custodial trust account holders' bank statements to Hamric and Nance on a quarterly basis without the knowledge or consent of the account holders. Without the participation of AmSouth, the Hamric and Nance fraudulent scheme would not have succeeded in defrauding 60 investors of their savings.

Nance and Hamric have both pled guilty to money laundering charges. AmSouth had a duty to recognize the Hamric and Nance scheme as suspicious activity and had a duty to report this activity. Some of the Hamric promissory notes in these accounts promised to pay the investors as much as 25% per month. Although such a note is suspicious on its face, AmSouth did not question the terms or nature of any of these notes. The Suspicious Activity Report (SAR) that was ultimately filed reporting the Hamric matter mischaracterized the suspicious activity as check fraud and understated the amount involved in the fraud. Also, the SAR was filed nearly 2 years after the date that AMSouth initially detected or should have detected the suspicious activity. AmSouth also acknowledged its responsibility for initially failing to produce all documents relative to numerous grand jury subpoenas it received from the Grand Jury investigating the Hamric and Nance scheme.

Siracusa – Prime Bank Scheme – forfeits $990,540

Mr. Siracusa is an attorney, located in Williamsville, New York, and licensed to practice in New York. He became involved in Lotus Investigation and Heritage International, Inc., a Prime Bank Scheme operating out of Denver, Colorado. The investigation, conducted by IRS-CI, revealed that Siracusa falsely represented to investors that he and his associates had special connections to overseas banking transactions enabling the investors to participate in "prime bank" investments. Investors were told that in order to secure a bank commitment for each of the $100 million units for which they were soliciting fees, the investors would need to pay Lotus Investigation and Heritage International, Inc., a "commitment fee" of $100,000.

In order to assure the investors, they were falsely told that the fees would be wire transferred to escrow accounts set up and maintained by Siracusa at Midland Marine Bank in Buffalo, New York. Prospective investors were given the impression that the $100,000 "commitment fee" would not be released from the Midland Marine Escrow account until such time as Lotus Investigation and Heritage International, Inc. was able to deliver a bank purchase order for the $100 million units of prime bank notes which those fees were paid to secure. In addition, Siracusa represented to prospective investors that in the event of non-performance, a refund of the $100,000 commitment fees would be assured by a financial guarantee that a wealthy businessman had executed in favor of Lotus Investigation and Heritage International, Incorporated. In actuality, Siracusa knew that such guarantees were fraudulent.

Siracusa was also represented to prospective investors as an independent escrow agent with no ties to Lotus Investigation and Heritage International, Inc., when in truth he was the partner of the principal of Lotus Investigation and Heritage International, Inc. Siracusa and his partners in the scheme took the money from investors, and spent it for their own personal benefit. During this period, Siracusa caused wire transfers to be made to transfer over a million dollars to a Swiss bank account. Those moneys were eventually seized and forfeited from the Swiss Bank Account by the IRS-CI.

Michael and Gina Zapara – Tax Evasion and Bank Fraud – forfeit $3.5 million

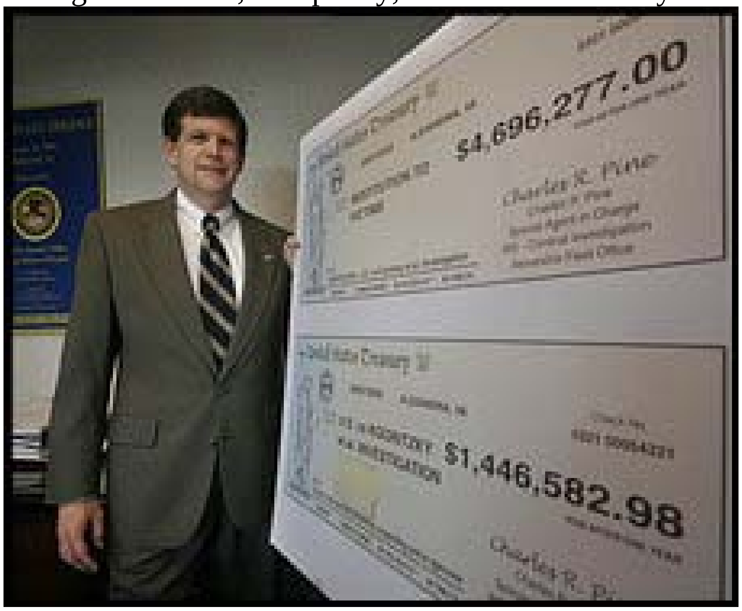
In December 1998, Michael and Gina Zapara were arrested on charges of tax evasion and bank fraud and pled guilty in 1999. Charges against the couple stemmed from the laundering of counterfeit and stolen check proceeds through bank accounts controlled by the Zaparas. The case was conducted by IRS-CI. Beginning in 1997, Michael Zapara began incorporating shell corporations naming himself, his wife or others as officers of the corporation. Gina Zapara acted as the stock transfer agent. The initial shareholders were the Zaparas, their co-conspirators and other individuals used by the Zaparas. Many times the Zaparas registered stock in the names of other individuals or entities, many of whom were unaware that their names were being used, but in actuality the Zaparas controlled the stock and benefited from its sale. Michael Zapara or individuals working with him then approached legitimate start-up companies requiring capital. Zapara would propose a merger of the publicly-traded shell corporation and the private corporation seeking capital. The merger allowed the private corporation to become public without the time and expense associated with an initial public offering. Following the merger, the Zaparas sold the stock they controlled, earning a profit. However, much of the stock was in the names of individuals other than the Zaparas. The Zaparas knowingly created and sold shares of stock represented by counterfeit stock certificates, thereby selling and trading in stock that did not in fact exist or which the Zaparas did not own. As part of their fraudulent stock scheme, the Zaparas issued stock certificates in the names of two of their own employees. When the employees confronted the Zaparas, the Zaparas lied to one employee and said they were setting up a nest egg for her; the other employee requested her stock certificates so the Zaparas fired her.

The Zaparas also submitted false statements to the SEC in furtherance of the scheme. The Zaparas opened and maintained numerous securities and financial accounts with financial institutions in the names of others. These accounts were used by the Zaparas to buy and sell securities and were instrumental in concealing and disguising the nature, source, location, control and ownership of the proceeds of the illegal stock scheme. IRS-CI agents analyzed numerous financial accounts and determined that the Zaparas had earned millions of dollars in fraud proceeds from the trading of the bogus securities. In February, the Zaparas purchased a $3.3 million house in Hawaii using the name of Aloha Associates, a sham entity created and controlled by the Zaparas. The $50,000 down payment came from the Zaparas attorney's attorney-client trust fund. The attorney admitted that the Zaparas had given him over $20 million to put in the trust fund and was instructed to disburse from it at their request. This money had no connection to any legitimate legal fees or services. The remainder of the purchase price was paid in the same method or was transferred from another sham entity, American Dream Company, which was also controlled by the Zaparas. The Zaparas made it appear that the money had been loaned to them by American Dream Company when in actuality, the "company" and the proceeds were the proceeds of the Zaparas' illegal scheme. IRS-CI seized and forfeited various luxury vehicles and the Zaparas forfeited $3.5 million to the government in lieu of the forfeiture of the real property in Hawaii.

Samuel G. Kooritzky – Conspiracy, Immigration Fraud – forfeits $2.3 Million and Co-Conspirator Forfeits $4 Million

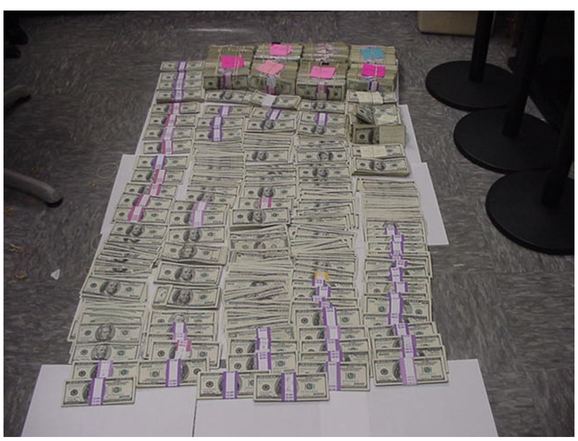
On September 20, 2004, a Final Order of Forfeiture was filed in which the Court ordered Defendants Ronald W. Bogardus to forfeit $4 million in illegal proceeds to the United States, Samuel G. Kooritzky to forfeit $2.3 million in illegal proceeds to the United States and Inderjeet Kaur to forfeit $80,000 in illegal proceeds to the United States. As part of the forfeiture order, the Court appointed a Receiver to identify and compensate the victims to whom restitution was due.

The investigation centered on Samuel G. Kooritzky, the head of a renowned immigration law firm, who was convicted on 57 counts of immigration fraud, visa fraud, conspiracy, money laundering and extortion, and sentenced to 127 months in prison, for conspiring in a massive fraud scheme in which illegal immigrants paid thousands of dollars to seek permission to work in the United States unaware that their applications were filled with false information and phony signatures. Mr. Kooritzky's co-conspirators, Ronald W. Bogardus, a Department of State employee, pled guilty to nine felony charges that resulted in a 97 month prison sentence. Mr. Bogardus was also charged with immigration fraud, conspiracy, extortion and money laundering.



U.S. Attorney Paul J. McNulty stands beside checks representing proceeds forfeited to the U.S. Government from the Kooritzky matter, an IRS-CI investigation. Asset sharing checks totaling $505,873 and $72,267, from the Treasury Forfeiture Fund, were presented to Fairfax and Arlington Counties of Virginia, respectively, for their roles in the investigation.

The charges against Kooritzky stemmed from his efforts to file fraudulent applications for alien employment certification with the United States Department of Labor on behalf of Northern Virginia businesses and local immigrants.

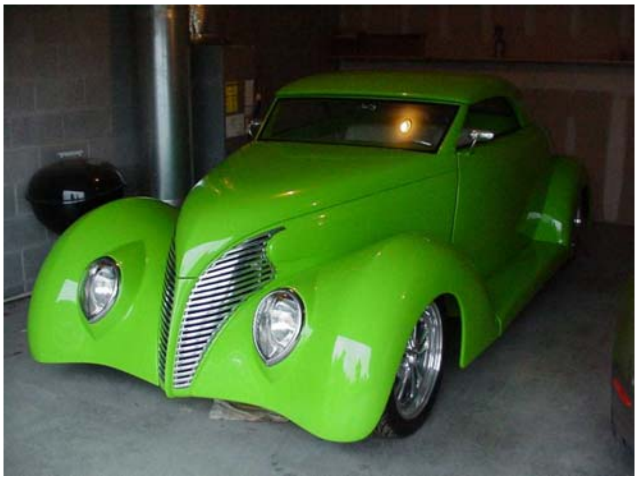


Federal officials seized more than $6 million in connection with the prosecution, including $1 million in cash found at the home of Kooritzky's associate, Ronald. W. Bogardus, an employee of the Federal Department of State when the crimes were committed.

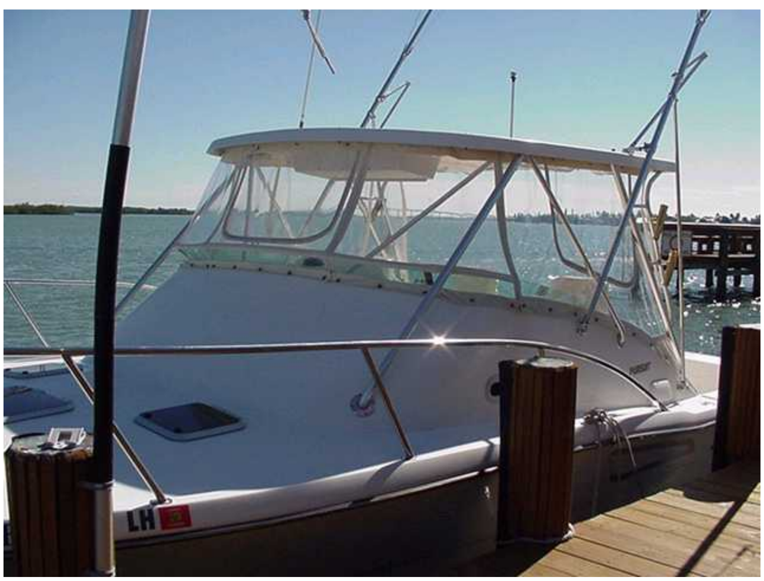
These applications sought to convince the Department of Labor that the businesses needed to hire the immigrants due to a lack of U.S. workers. If approved, the applications would have allowed the immigrants involved to apply for a green card to live and work in the United States. In practice, however, none of the businesses listed in the applications had authorized the applications. Rather, the applications contained a false job offer and the forged signature of a manger of the business in question. Kooritzky presented the applications as legitimate to the immigrants who then signed the applications. Kooritzky charged each immigrant between $7,000 and $20,000 per application. In total, Kooritzky and his associates filed over 2,700 fraudulent applications with the Department of Labor and (what was then) the Immigration and Naturalization Service and the Fairfax County Police Department.

Munoz (a.k.a. Reyes) – Narcotics - $525,000

Alex P. Munoz (also known as (a.k.a.) M.P. Reyes) was a major narcotics distributor in the Knoxville, Tennessee area. Working as a supplier to another major narcotics dealer in Knoxville, Munoz operated a drug ring over a five year period that netted him $11 million. Munoz trafficked both cocaine and crack cocaine from South Florida to Knoxville. Munoz would travel to Mexico to plan the cocaine shipments, then used 10 to 15 associates to transport the cocaine by car to Knoxville from Florida. Munoz laundered the proceeds and used the illegal monies to purchase a number of properties in Florida as well as expensive vehicles and boats.



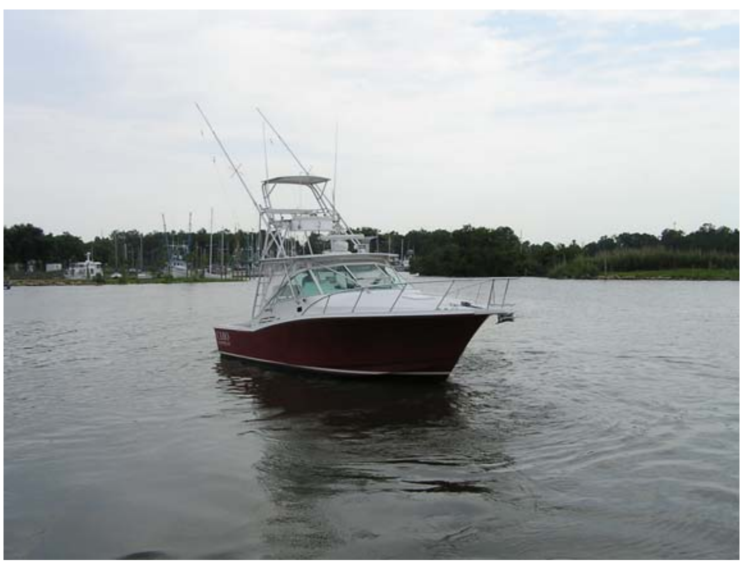
The pictures show just a few of the items forfeited as a result of the work of the IRS-CI in this case.



MacArthur – Bank Secrecy Act Violations – forfeits $1.4 million

Operation "Money Box" was conducted by the IRS Criminal Investigation Tampa Field Office and several local police departments in the area. The Suspicious Activity Report Review Team (SAR-RT) noted a pattern of suspicious Western Union transactions at Fast Check of Florida, Inc., (Fast Check). An analysis of the Western Union wire transfers that originated from Fast Check revealed that Western Union filed hundreds of SARs on transaction conducted at Fast Check. However, Fast Check was not filing a SARS on the same transactions. In August 2001, an investigation was initiated on: Fast Check; the owners, Allen G. MacArthur and Allen J. MacArthur; a Fast Check employee, Gromyko Brown; and narcotics traffickers Davatte King, Ishamel Cooper, and Wayne Richardson. The Western Union analysis coupled with the information gathered from intelligence sources and current and previous investigations revealed that King, Cooper and Richardson operated marijuana smuggling rings in the Orlando area. The California source of the marijuana sent the marijuana to locations in the Orlando area via United Parcel Service, United States Postal Service, Federal Express, Airborne, and couriers. The organization members received and sold the marijuana in Orlando and then wired the proceeds back to the California source via Western Union through one of Fast Check's twenty five central Florida locations.

Allen G. MacArthur owned and operated Fast Check of Florida, which offered check cashing and money transfer services throughout Orange County, Florida. MacArthur used the business to wire proceeds he knew or should have known were from illegal funds to California. MacArthur instructed his employees at Fast Check to be sure and get "a good tip" for helping individuals divide large amounts of currency into smaller amounts for wire transfers. Based on information received from a confidential source of information, an IRS undercover agent went into Fast Check and met with MacArthur about wiring $28,000 bundled into 4 stacks and stuffed in a gym bag. During that meeting, MacArthur commented that it looked like drug money and joked about the big "tip" they would receive for wiring the money. After the transaction was completed, neither MacArthur, nor any other Fast Check employee remitted a Currency Transaction Report (CTR) as required by law. During a second meeting with the undercover agent, MacArthur took another $28,000 in cash and agreed to "exchange small for large." In the money transmitting trade, that phrase means the person is requesting to exchange small denomination bills, usually five, ten and twenty dollar bills, for larger denomination bills, usually one hundred dollar bills. MacArthur also advised the undercover agent that he could buy $1,000 Money Orders, but warned "just don't buy too many, 'cause it shows up."



The 31 foot Cabo Yacht named "Fast Check," purchased with proceeds from the unlawful business, was seized for forfeiture to the Treasury Forfeiture Fund.

After the transaction, neither MacArthur, nor any other Fast Check employee, filed a CTR as required by law. In June 2003, IRS-CI agents served a search warrant at Main Fast Check and the Fast Check Corporate offices. During the search, evidence was discovered that proved MacArthur knew the requirements of the Bank Secrecy Act and the requirement to file CTRs after transactions such as those he had conducted with the undercover agent. MacArthur notified Western Union and the State of Florida that Fast Check was being sold on July 21, 2003, to CSC Financial Services. CSC

Financial Services paid $3,400,000 for Fast Check, approximately $2 million of which was used to satisfy Fast Check's existing debt. CSC Financial Services was to pay MacArthur $1.4 million in cash on January 1, 2004. However, on December 23, 2003, IRS-CI agents seized the cash pursuant to a federal seizure warrant. These funds were forfeited to the U.S. Government.

Sturman – Conspiracy, Bribery and Money Laundering – forfeits $675,000

Joseph Sturman was the owner of Victory White Metal Company in Cleveland, Ohio. Victory White has a division that is engaged in the business of buying and reselling materials and equipment used by municipal water and sewer transmission systems. Beginning in 1995, Sturman devised a scheme to pay bribes to a public official who was an employee of the City of Cleveland's Water Department in exchange for being permitted to overcharge the City of Cleveland's Water Department for goods and services provided or purportedly provided to it. The public official had purchasing authority for property to be bought with large amounts of City money. In exchange for the bribes, the public official permitted Victory White Metal to charge the City of Cleveland's Water Department grossly inflated prices on equipment, materials and supplies, whether they were received or not. The public official would then remit checks to Victory White Metal for the excessive prices being charged and Victory White Metal would deposit the criminally derived proceeds to its bank account. Victory White Metals would then kick back a portion of the excessive price to the City official, often by making cash payments to him, although they also gave him other things, including a $30,000 car. Based upon the analysis completed by IRS-CI special agents, the amount of excess fees charged to the City by Sturman's company was approximately $1,156,853. On May 17, 2004, Sturman pled guilty to conspiracy, bribery and money laundering. In addition, Sturman agreed to forfeit $675,000 to the United States, separate from restitution paid to the City of Cleveland.

Jamieson –Investment Fraud – forfeits home and possessions in tony Ottawa Hills

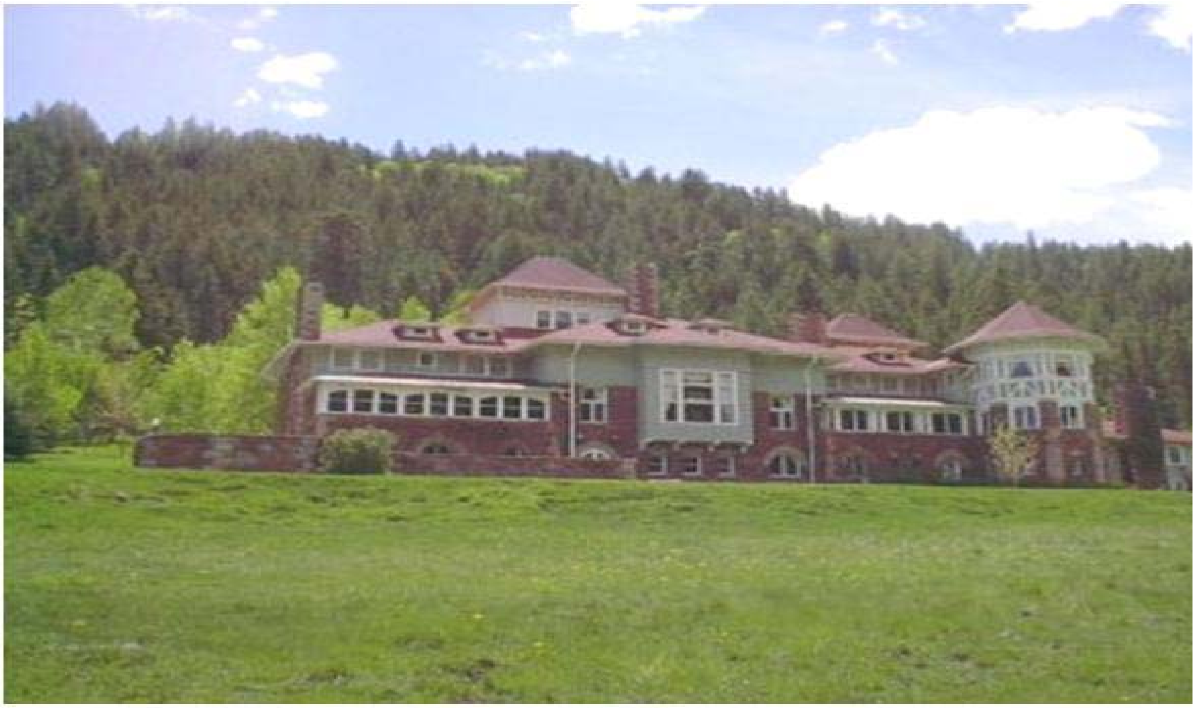
As reported by Gary Pakulski in the publication ***The Blade*** on October 26, 2004, an Ottawa Hills house, $25,000 grand piano, and University of Michigan athletic memorabilia were among items auctioned by the Federal Government in late 2004 to repay victims of a jailed Toledo investment executive. J. Richard Jamieson is serving 20 years for his role in an investment scheme that grew out of the AIDS epidemic. Nearly 3,000 people nationwide lost more than $92 million in the collapse four years ago of Jamieson's Liberte Capital Group LLC, which specialized in an unusual investment called *viatical settlements*. As the result, the Treasury Forfeiture Fund sold his house and an adjoining lot in a tony suburb that is home to some of metro Toledo's wealthiest citizens. The sale began at noon November 13, 2004 and the house at 4333 Forest View Drive, a 5,200 square foot residence, went on the market. Also on the block were personal possessions, furniture, household items and two vehicles. The house had five bedrooms, 6 ½ baths, three fireplaces, hardwood floors, a swimming pool and double garages for four cars.

Judge David Katz, U.S. District Court in Toledo, sentenced Jamieson last year, ordering him to forfeit his house and make restitution to his victims. Jamieson was convicted on 157 counts of mail fraud conspiracy and money laundering. Prosecutors said he defrauded investors and insurance companies through a scheme involving the sale of rights to collect death benefits from life insurance policies. Liberte Capital knowingly bought and then re-sold to investors rights for policies that were purchased by people who hid serious health problems when they originally obtained the coverage. Investors were not told of the fraud and their investments became worthless when insurers discovered the fraud and canceled the policies.

Update on the Sale of the Jamieson Residence

On November 13, 2004, the upscale Toledo (former) residence of J. Richard Jamieson was sold at auction by the Treasury Forfeiture Fund for just over $683,000.

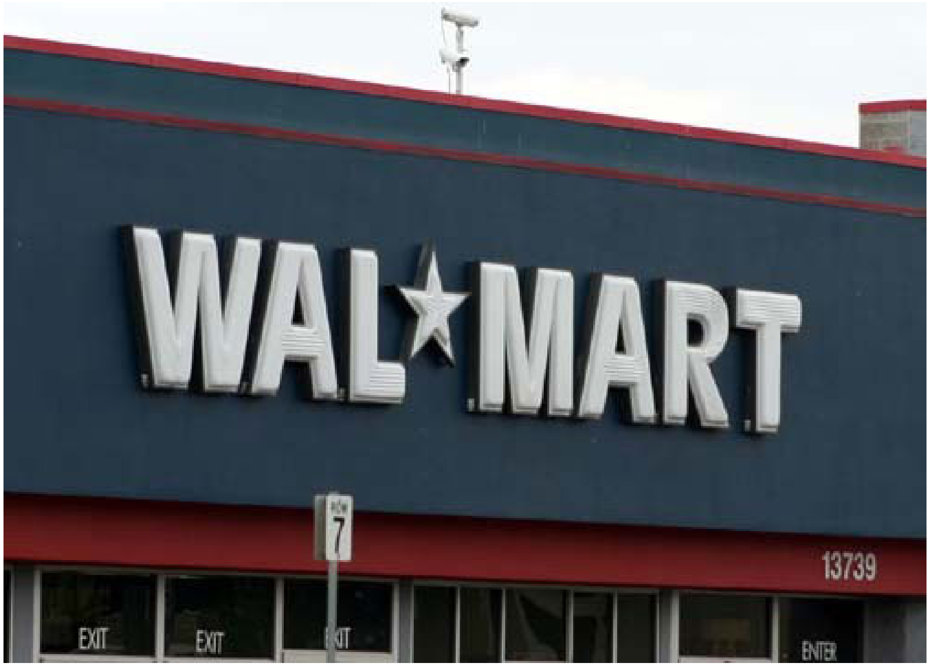
Update on the Historic Redstone Castle, Denver, Colorado



On March 19, 2005, the historic Redstone Castle properties were sold for $4.4 million. As a result of the properties being forfeited to the United States, a federal judge authorized the sale of the Redstone Castle, Carriage House, and Barn, along with an accompanying home at 410 Redstone Boulevard, in Redstone, Colorado. Built in 1897, the property formally known as Cleveholm Manor was home to John Cleveland Osgood, a coal baron and one of the nation's richest men at the turn of the 20th century. Located in the Colorado Rockies along the Crystal River, in the quaint town of Redstone, Colorado, the historic property has since had a number of different owners prior to it being seized by IRS-CI in March 2003.

Proceeds of the auction will be used to compensate victim losses resulting from a multi-million dollar investment fraud scheme indicted in Colorado in March of 2004. The fifty-seven count indictment charged seven people with committing federal crimes in connection with a fraudulent "high yield investment scheme." During the course of the investigation, authorities seized the Redstone Castle in Pitkin County, and a number of NASCAR race vehicles, as well as over $17,000,000 in cash from numerous bank accounts. The assets seized from the defendants were purchased from moneys obtained from the illegal scheme or represented proceeds from the scheme. In total, over 1,000 people were defrauded of approximately $56,000,000. Some of the investors' money was used to purchase the Redstone Castle properties.

ICE, Wal-Mart Reach $11 Million Settlement



An ICE investigation into the hiring of illegal aliens by contractors that provided cleaning services to Wal-Mart Stores, Inc., ended March 18, 2005, with a landmark $11 million civil settlement. In addition, 12 corporations that provided contract janitorial services to Wal-Mart stores agreed to forfeit an additional $4 million to the United States and agreed to enter corporate guilty pleas to criminal immigration charges. These amounts constitute the two most significant enforcement actions in the field of immigration employment sanctions since the laws were first enacted in 1986. The $11 million civil settlement alone is approximately four times larger than any other single payment received by the government in an illegal alien employment case.

Under the terms of the civil settlement, Wal-Mart agreed to the entry of a consent decree that:

- Directs Wal-Mart to make a payment of $11 million (civil settlement);
- Permanently enjoins Wal-Mart from knowingly hiring, recruiting and continuing to employ unauthorized alien workers;
- Directs Wal-Mart to establish a means to verify that independent contractors are also taking reasonable steps to comply with immigration laws;
- Directs Wal-Mart to provide, over the next 18 months, all of its store managers and future store managers with training regarding immigration employment laws while complying with pertinent anti-discrimination laws;
- Directors Wal-Mart to maintain its own pre-existing program of taking reasonable steps to ensure that Wal-Mart employees are authorized to work in the United States, while complying with pertinent anti-discrimination laws;
- Directs Wal-Mart to continue cooperation in the investigation of the alleged illegal employment.

The civil settlement does not entail any admission of wrongdoing by any party.

Michael Keith Ritter – Money Laundering – forfeits $1 Million

A Maui man who ran an elaborate multi-million dollar marijuana smuggling scheme was sentenced May 26, 2005, to two years in prison for money laundering and filing false income tax returns. In addition, Michael Keith Ritter, 56, forfeited $1 million in cash proceeds from his illegal ventures. Ritter's sentencing follows an investigation by ICE and the Internal Revenue Service that revealed he was responsible for importing massive loads of marijuana from Thailand into the United States from the late 1970s through the mid-1980s. Ritter pleaded guilty last year to money laundering, criminal forfeiture, fraud and making false statements in connection with those activities. Although the drug offenses occurred many years ago, Ritter continued to actively manage his foreign offshore trust fund accounts derived from unlawful proceeds. Court documents reveal that Ritter participated in at least a dozen ventures using boats to smuggle multi-ton loads of Thai marijuana to the West Coast, including a 1986 three-ton shipment that grossed more than $5 million. Ritter concealed these funds in foreign offshore trust fund accounts in Hong Kong and in the Isle of Man, filed U.S. tax returns without reporting all income, and failed to file reports for the foreign offshore trust funds he owned and controlled.

Former President of Pro Net Link Corporation – Stock Fraud -- forfeits 3 New York properties and $940,000 in cash

Jean Pierre Collardeau, the former president of Pro Net Link Corporation, was sentenced on July 8, 2005, to 50 months in federal prison for conspiring with at least 12 other individuals to engage in an elaborate scheme to defraud investors of more than $20 million. Collardeau, 63, was ordered to forfeit to the United States three New York housing units with a total estimated value in excess of $3 million and more than $940,000 in cash. The value of the forfeited properties and the cash will be made available to defrauded investors.

At his plea hearing in August 2004, Collardeau admitted that he conspired with others to create Pro Net Link (PNLK) as a public company, and agreed with them to issue millions of shares of PNLK stock in the names of co-conspirators in order to conceal their scheme from the investing public. Collardeau admitted that he secretly controlled millions of dollars worth of PNLK stock that was issued in the names of foreign nominees. Collardeau also admitted that he issued a large block of PNLK stock to a fictitious identity that was created in furtherance of the scheme. Collardeau admitted that these shares were then deposited into nominee accounts in Canada, which he and his conspirators controlled.

Collardeau admitted that in March 1998, he and others entered into an agreement with Irving Freiberg and Irving Stitsky to tout PNLK to the investing public in order to spark interest and greater demand for the company's stock. Freiberg and Stitsky were told by Collardeau along with others that they secretly controlled almost all of the free-trading PNLK stock held in nominee names in brokerage accounts in Canada. Collardeau admitted that in return for their promotion, Freiberg and Stitsky were to receive a significant percentage of the profits from the sale of PNLK stock through the nominee accounts. He also admitted this arrangement was concealed from the investing public through the creation and execution of a sham contract, wherein Freiberg and Stitsky purportedly were to receive only $50,000. Collardeau admitted that Freiberg and Stitsky ultimately received $5.8 million for their efforts.

Operation "Blowfish" nets Pamela Y. Hoffler-Riddick, Assistant Superintendent in Charge of 35 Schools, Prince George's County, Maryland , among others - $2 million seized

The information provided in this article comes from information published by ICE. However, also included is information published in a Washington Post article, dated October 17, 2005, by Nick Anderson. The title of the article is "Md. Ex-Educator Guilty of Money Laundering." That article also gives credit to an article published in the Virginia-Pilot newspaper, Hampton Roads for information source.

ICE Agents, leading a joint operation, dismantled a large-scale drug and money laundering organization that spanned much of the southeastern United States. As part of "Operation Blowfish," ICE agents arrested 36 individuals on drug and money laundering violations in Virginia, Maryland, Texas, Georgia, Kentucky and other states. The individuals are charged in a 324-count indictment issued in the Eastern District of Virginia on January 14, 2005. ICE worked on the two-year investigation with the Drug Enforcement Administration, the Internal Revenue Service and the Peninsula Narcotics Enforcement Task Force of Virginia, which is comprised of officers from the Hampton, Newport News and Poquoson Police Departments and the Virginia State Police. Also assisting in the investigation were officers from the Henrico County and City of Norfolk Police Departments.

According to the indictment, beginning in September 1996, the drug ring moved about $20 million in illicit drugs across several states, including Georgia, Kentucky, Missouri and Texas. The indictment charged members of the group with establishing fictitious businesses and laundering the illegal proceeds of the drug sales through bank accounts and credit unions. Some purchased real estate and some threatened people and carried firearms.

One of those arrested January 24, 2005, was Pamela Y. Hoffler-Riddick, an assistant superintendent in charge of 35 schools in Prince George's County, Maryland, arrested by ICE agents at her home in Rockville, Maryland, and charged with five counts of money laundering. Hoffler-Riddick allegedly used proceeds from laundering illegal drug money to pay off loans on two houses and a car. As reported on October 17, 2005 by the *Washington Post*'s Nick Anderson, on Friday, October 14, 2005, Ms. Hoffler-Riddick, 44, was found guilty of all five counts of money laundering by a jury in Norfolk, Virginia. According to the *Post* article, officials have stated that each of the counts on which she was convicted carries a maximum prison term of 20 years. The article also states that Hoffler-Riddick faces another trial on a charge of witness tampering.

Treasury Forfeiture Fund adds Oil Wells to Seized Inventory – Hindelang Money Laundering Case continues….

In what may be a first for federal law enforcement, in January 2005, ICE seized a U.S. oil company and its 43 oil wells in Pennsylvania in an ongoing money laundering investigation. The assets, which include numerous trusts and bank accounts in Europe, are valued at roughly $6.5 million, bringing the total amount seized in this ongoing money laundering investigation to more than $70 million. On January 21, 2005, ICE agents seized Shaboom Oil, Inc., its 43 operating oil wells and the mineral rights to approximately 1,100 acres of land in the Allegheny National Forest in northwest Pennsylvania. ICE agents also seized a Panama-based investment company that owns Shaboom Oil. In the principality of Monaco, ICE agents seized assets in numerous trusts and bank accounts.

The oil company, its oil fields and the other assets have all been linked to Paul Edward Hindelang, who operated one of the nation's largest marijuana smuggling operations in the late 1970's. In 1981, Hindelang pled guilty to importing roughly 250 tons of marijuana, and conspiring to import an additional 150,000 pounds of marijuana to Florida, Louisiana and other U.S. locations. As part of his plea agreement, Hindelang agreed to forfeit $640,000 to U.S. authorities, asserting this amount represented all of his illegally earned assets.

Several years later, ICE agents learned that Hindelang had hidden away millions of dollars worth of drug funds in overseas accounts. Working together with the Monroe County, Florida Sheriff's Office, ICE launched "Operation Cash Extraction," in 1992 to track down Hindelang's hidden funds. After years of investigative work, agents found many of his assets in a maze of offshore accounts and corporations in Switzerland, Panama, the Turks and Caicos Islands, the Netherlands Antilles, the Cayman Islands and other locations. In 1998, ICE agents seized $50 million from accounts tied to Hindelang. The agents continued their search and, in 1999, located additional drug proceeds in bank accounts in the Channel Islands and invested in a property in Colorado. ICE agents launched forfeiture proceedings and were ultimately able to recover approximately $15 million in assets that constituted illicit proceeds of drug sales. Last year, further investigation by ICE and the Monroe County Sheriff's Office turned up an additional $6.5 million worth of illicit assets in Monaco and the United States, including the above-referenced oil company and fields.

ICE Returns Stolen $2.7 Million to Nicaragua

On December 9, 2004, ICE Miami Special Agent in Charge Jesus Torres and United States Ambassador to Nicaragua, the Honorable Barbara C. Moore, presented the Republic of Nicaragua with a $2.7 million check to return funds that were embezzled from the treasury of Nicaragua and from there invested in South Florida. The repatriated funds stem from the seizure and forfeiture of eight certificates of deposit (CD's) and a luxury condominium in Key Biscayne, Florida, that were purchased with funds embezzled by former Nicaraguan President Arnoldo Aleman and Byron Jerez, Nicaragua's former tax commissioner. The ICE-led Foreign Corruption Task Force in Miami, in coordination with the ICE Asset Identification and Removal Group, conducted the two-year investigation that resulted in the seizure of U.S. assets traced to the diversion of embezzled Nicaraguan government funds.

> "This case illustrates ICE's commitment to curb political corruption around the globe. It also highlights our efforts to keep the proceeds of foreign corruption from ending up in the United States. Our goal is to find these illicit funds and return them to nations whose treasuries have been looted," said Special Agent Torres. "With today marking the first anniversary of the United Nations Convention Against Corruption, ICE is proud to play a key role in the fight against bribery, extortion and political corruption."

Both Aleman and Jerez have been convicted of various charges in Nicaragua relating to these embezzled funds and are serving sentences in Nicaragua.

Drug Dealer Must Forfeit $2.7 Million in Lottery Winnings

A Mexican national in Brownsville, Texas, who won a $5 million Texas Lottery jackpot is now being ordered to forfeit his winnings since his ticket was purchased with illegal drug monies. The Fifth Circuit Court of Appeals affirmed the convictions and substantial sentence of Jose Luis Betancourt for drug trafficking offenses, and the forfeiture of his interest in the December 11, 2002, Texas Lottery jackpot drawing. Betancourt, 52, a resident alien from Mexico residing in Brownsville, Texas, appealed the May 30, 2003, conviction for conspiracy and two counts of possession with intent to distribute cocaine. He also appealed the jury's June 2, 2003, verdict that Betancourt had purchased a winning lottery ticket with drug proceeds and must, therefore, forfeit his one-half interest in more than $5 million in Texas Lottery winnings.

Two days after the Texas Lottery Commission paid Betancourt approximately $5.5 million, representing the cash out proceeds from the Texas Lottery minus an amount withheld for federal income taxes, Betancourt delivered cocaine that led to his arrest and convictions. His arrest followed a long involvement in drug trafficking activities in the Brownsville, Texas, area.

In a written opinion, Judge Edith Brown Clement, writing for a three judge panel of the 5th Circuit Court of Appeals, concluded that there was sufficient evidence to show that Betancourt was the leader of a drug dealing organization that involved at least five persons. The panel also concluded that District Judge Hilda Tagle made a reasonable and conservative extrapolation of the evidence from the trial when she approximated the amount of cocaine Betancourt sold between May 2000 and his arrest in early 2003 at 102 kilograms (224 lbs.). The Court of Appeals found that Betancourt's sentence, a total of 292 months (24.3 years) in federal prison without parole, was "reasonable" under the Supreme Court's recent decision in United States v. Booker. In denying Betancourt's claim to the contrary, the appellate court found that he had failed to prove the District Court would have sentenced him to a lower sentence.

Federal law authorizes the government to seek to forfeit all property and proceeds obtained from drug trafficking and any monies or other property obtained with those proceeds. The Fifth Circuit agreed with the District Court's determination that Betancourt did not have any other source of income aside from selling cocaine. Accordingly, the Court of Appeals concluded that Betancourt's Texas Lottery proceeds of approximately $1.7 million, representing his interest in the total amount of the winnings, were correctly forfeited to the United States Government.

Woman Pleads Guilty to Operating Illegal Money Transfer Business that moved $15.5 Million Overseas - $273,627 seized

On September 13, 2005, Aissatou Pita Barry, 38, of Silver Spring, Maryland, pleaded guilty to operating an unlicensed money transmitting business in violation of 18 USC 1960. This case represents the first conviction in the District of Columbia under this federal statute. Barry is subject to up to five years of imprisonment, a $250,000 fine or both, when she is sentenced. The defendant admitted that she incorporated Guinex International, Inc., in the District of Columbia on August 16, 1999, with the stated purpose of transmitting money from the United States to various parts of the world. Since its inception, Guinex has conducted transactions on behalf of approximately 5,000 customers. Between October 26, 2001 and November 15, 2004, Guinex conducted more than 65,000 transactions for its customers. During this time period, Guinex received deposits from its customers in the form of cash, personal and traveler's checks, money orders and wire transfers, totaling more than $17 million. Guinex, in turn, transferred more than $15.5 million via wires to various overseas locations, including Guinea, Gambia, Senegal, Sierra Leone, Hong Kong, Singapore, China, the United Arab Emirates, Turkey, India, England and France, for further distribution to individuals who had been designated by Guinex customers in the United States.

Guinex generally charged a fee for its services of 10 percent of the total amount of money transferred. The defendant and other Guinex employees accepted cash and other deposits from customers at Guinex's office. Barry and other Guinex employees also provided customers with the numbers of various bank accounts controlled by the defendant and Guinex instructed customers that they could make deposits directly into those accounts. The defendant and other Guinex employees did not ask customers to provide any information about the source of the monies they were transmitting. The defendant admitted that she violated 18 USC 1960 by failing to obtain a license to operate a money transmission business in the District of Columbia, as required by D.C. law and by failing to register her business with the Secretary of the Treasury as required by federal law.

In connection with her plea, the defendant also acknowledged that a total of $273,627 seized by the government from various assets belonging to her and her company is property involved in, or is traceable to property involved in her operation of Guinex International Inc., as an unlicensed money transmitting business. The Court accordingly signed a preliminary order of forfeiture for those funds. The arrest and conviction of Barry is the latest enforcement action in ICE's nationwide crackdown on unlicensed money transmittal businesses. The USA Patriot Act, signed into law in October 2001, enhanced ICE's ability to combat the international movement of illicit funds through money transmittal businesses by amending Title 18 USC 1960. As a result of the change in the law, money transmittal businesses in the United States must be registered with the Treasury Department and be licensed by appropriate state authorities.

Since the enactment of the USA Patriot Act in 2001, ICE agents have aggressively targeted illegal money transmittal businesses and underground "hawalas" nationwide given the vulnerabilities they pose. ICE investigations into unlicensed money service businesses have resulted in the arrest of 155 individuals, 142 criminal indictments and the seizure of some $25.8 million since the Patriot Act became law.

Record-Setting Seven Ton Pot Seizure Found in Texas Trucks – Two Trucks seized

An ongoing multi-agency investigation headed by ICE led to the seizure of two semi-trucks loaded with 13,421 lbs. (nearly 7 tons) of marijuana and the arrest of one man on March 14, 2005. The investigation led ICE agents to a truck yard where they discovered 9,100 lbs. of marijuana inside one semi-truck. A search warrant obtained by ICE agents for a second truck resulted in seizing an additional 4,268 lbs. of marijuana.

> "The investigation resulted in one of the largest marijuana seizures in Houston, if not in the state of Texas," said Joseph R. Webber, ICE Special Agent in Charge in Houston.

The street value of the seizure is in excess of $6 million. The marijuana was discovered hidden inside the drywall compartments and flat bed liners of the trucks. ICE agents believed the drugs were linked to a large scale smuggling organization that distributed narcotics from the Houston area to other cities throughout the United States.

Cooperation with Federal Agencies Results in Substantial Equitable Shares Paid to State and Local Law Enforcement Agencies

ICE Shares $430,900 with Plattsburgh Police, New York

Officials from ICE presented a check for $430,909 to Plattsburgh Police Chief Desmond Racicot for the department's assistance in cracking a number of drug smuggling cases. The money is part of the proceeds seized during the investigation of illegal narcotics activity along the Canadian border north of Plattsburgh.

> "Having a Plattsburgh officer working with our federal agents brings invaluable expertise about local illegal activity and the community," Resident Agent in

> Charge Michael Bridgeman said. "Having a Plattsburgh detective working with ICE full time gives us immediate information and insight into suspicious activity at a local level."

In accepting the funds from the Treasury Forfeiture Fund, Plattsburgh Police Chief Desmond Racicot said that the proceeds would be used to fight crime in the community and to continue assisting state and federal agencies along the border.

> "Plattsburgh sits squarely on a major smuggling route into the United States," the Chief commented, "and it is the community's best interest to help keep drugs out of our schools and off our streets. By working with ICE and Homeland Security at the local level we also help stop smuggling into the interior of the country."

ICE's asset forfeiture program, initiated under the Comprehensive Crime Control Act of 1984, as a member agency of the Treasury Forfeiture Fund (TFF) since 1992, provides funding, provided by the Treasury Forfeiture Fund, to state and local law enforcement agencies that participate in ICE investigations that lead to seizures and forfeitures. The law allows the government to take illegal profits from crimes such as narcotics smuggling, money laundering, and fraud to name but a few. Bridgeman pointed out that the seizures allow the government to turn the table on the criminal organizations by using their own profits to enhance local enforcement efforts.

ICE Shares $279,435 with Iredell County Sheriff's Office and Statesville Police Department

In July 2005, ICE officials in North Carolina presented checks today totaling $279,435 to the Statesville Police Department and the Iredell County Sheriff's Office. The monies shared were from a seizure that was part of "Operation Tar Heel Gauntlet," an ICE investigative initiative that targeted bulk cash smuggling activities of drug trafficking and money laundering organizations that utilized the interstate highway system located within the middle and eastern judicial districts of North Carolina.

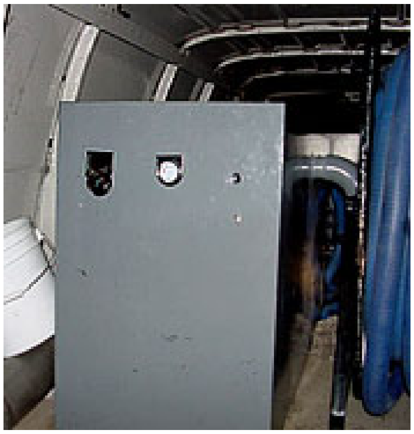
The $279,435 represents an equitable share of money seized during the course of a joint operation conducted by ICE, the Iredell County Sheriff's Office and the Statesville Police Department during several routine traffic stops. Luis Fernando Baldenegro-Villa was among the individuals stopped for routine traffic violations. Officers discovered that Baldenegro-Villa had hidden $410,962 in his vehicle. He subsequently pled guilty and was sentenced to 12 months in prison.

Another seizure resulted out of a vehicle stopped for displaying invalid tags. The driver, who provided inconsistent statements, consented to a search of the vehicle. The officers found bundles of money using special inspection devices. The driver denied knowledge of the currency and ICE seized it under 18 USC 981, drug proceeds.

Customs and Border Protection (CBP)

CBP Officers find 4 People in Dry Cleaning Tank - Smuggling

On May 8, 2005, a 20-year old Mexican man was arrested at the downtown port of entry, Calexico, after U.S. Customs and Border Protection (CBP) officers discovered four Mexican nationals, including one minor, hidden within a metal tank inside a carpet cleaning van the man was driving. A CBP officer conducting anti-terrorism inspections opened the rear doors of a white 1987 Dodge van and noticed a collection of hoses, buckets, carpet cleaning materials and a large metal tank. Peering inside one of the holes in the tank, the officer saw what appeared to be blue cloth and some human fingers. The vehicle and driver were escorted into the secondary inspection lot for a thorough examination. CBP officers subsequently found two adult males, an adult female and a 17-year old female hidden inside the large metal tank. All four were removed from the vehicle and identified as undocumented citizens of Mexico. The driver was arrested for the smuggling attempt.



CBP officers found two adult males, an adult female and a 17-year old female hidden inside this large metal dry cleaning tank aboard a truck.

CBP Officers Seize Cocaine Valued at $1.7 Million, Headed for Canada

CBP officers at the U.S. Highway 97 port of entry, Oroville, Washington, seized approximately 185 pounds of cocaine during an outbound truck examination in March 2005. The cocaine had an estimated street value of $1.7 million. Officers discovered the cocaine concealed under the bunk of the sleeper compartment in the cab of an 18 wheel truck destined for Canada. Examinations of the truck revealed cocaine-filled packages within two duffel bags and a cardboard box. The truck, trailer and cargo were also seized. One count of possession with intent to distribute over 5 kilograms of cocaine in violation of 21 USC 841(a)(1) was charged, which carries a penalty, if convicted, of not less than 10 years to life in prison, up to a $4 million fine, and not less than 5 years nor more than a life term of supervised release.

CBP Officers Rescue Screaming Woman Hidden in Running Sedan's Engine Compartment

In May 2005, a screaming woman hidden inside the engine compartment of a car was rescued by CBP officers after the vehicle entered the U.S. at the Calexico port of entry. Officers heard loud screaming coming from a late model Ford Grand Marquis as it approached the primary inspection booths. Several officers rushed to the vehicle and realized that the screaming was coming from the engine compartment. A CBP officer opened the hood and found a 40-year old Mexican female lying horizontally between the front grill and the radiator. Officers quickly pried off the front grill assembly of the car and removed the woman who complained of burns. The driver, a 60-year old male from Mexicali, Mexico, was arrested to face smuggling charges.

CBP Officers Seize 132 Pounds of Cocaine, 134 Pounds of Heroin in Coffee Cans

CBP officers at JFK International Airport seized approximately 134 pounds of heroin and 132 pounds of cocaine concealed in coffee cans, false-bottom suitcases and oversized wooden mortars. Four people were arrested. In June, CBP officers examined the luggage of a passenger, age 57, and uncovered approximately 8 pounds of heroin concealed in 4 cans of coffee and approximately 31 pounds of cocaine hidden in 3 oversized wooden mortars. Examinations of accompanying travelers' luggage revealed dozens more cans and mortars of cocaine.

CBP Officers Discover 55 Illegal Aliens Hidden in a Refrigerated Tractor-Trailer

In August 2005, CBP Border Patrol Agents assigned to a checkpoint near Winterhaven, California, arrested 55 illegal aliens hidden in a refrigerated tractor-trailer. A black semi truck pulling a refrigerated box trailer approached the westbound Interstate 8 checkpoint near Winterhaven, California. When the truck came to a stop, a Border Patrol Agent spoke to the driver whereupon the agent became suspicious and then asked for consent to open the small access port to view the contents of the trailer. The agent noticed clothing inside and then saw movement. The trailer doors were opened to reveal 55 illegal aliens, later determined to be from Mexico, hiding inside the trailer along with a load of lettuce. The trailer was refrigerated for hauling lettuce, not people, and the temperature inside was set to a frigid 37 degrees Fahrenheit.

> El Centro Sector Chief Patrol Agent McClafferty had this to say about the incident, "This event is an example of how smugglers, literally, treat the people in their trust like nothing more than a commodity…"

205 Pounds of Cocaine Seized in Tractor-Trailer Transporting Bank Equipment to Nashville

In August 2005, CBP Border Patrol Agents in Alamogordo, New Mexico seized $6.8 million in cocaine in two separate seizures at New Mexico checkpoints. Ten pounds of cocaine was seized from a 1997 Ford Expedition after a canine confirmed the agent's suspicion of the presence of contraband. The canine alerted on the passenger side of the vehicle where agents subsequently located four black bundles hidden in the dashboard area. The bundles weighted 10 pounds, with a street value of $328,000. Later, agents seized 205 pounds of cocaine in a tractor-trailer that was transporting band equipment to Nashville, Tennessee. The seizure was made after 70 cellophane bundles were located in the cargo area. The estimated street value of the cocaine seizure was $6.5 million.

Humanitarian Relief to Victims of Hurricane Katrina

Pictured are three of nine fully loaded tractor trailer trucks loaded with cartons of seized clothing for distribution to Hurricane Katrina victims. The goods were seized pursuant to trademark violations. CBP has authority pursuant to Title 19 of the U.S. Code to donate such items when the President declares a state of emergency.

A convoy of nine fully-loaded U.S. Customs and Border Protection (CBP) trucks made its way to San Antonio and the Reliant Astrodome complex on September 6, 2005, and delivered roughly 100,000 items of new clothing for use in the Hurricane Relief effort. The agency's field operations at Houston, Dallas, Laredo and El Paso loaded the trucks with hundreds of cartons of seized clothing and drove the goods to Houston over the period of two days.

Included in the shipments arriving in Houston were girls' and boys' jeans and summer shorts, women's slacks and blouses, men's jeans and polo shirts and lightweight jackets, and other seasonally appropriate clothing. CBP had seized the clothing for violations of U.S. trademark laws. Shipments also include much needed socks and shoes, dog food, toys for children and clean sheets and blankets.

CBP has authority (19 U.S.C. 1318, "Emergencies") to donate these items when the President declares a state of emergency. The value of these items was estimated at $2.3 million.

Photographs courtesy of Seizures and Penalties Division, CBP Headquarters Washington, DC

U. S. Secret Service

Operation Firewall

Major case funding provided by the Treasury Forfeiture Fund to the U.S. Secret Service contributed to the successful investigation, known as Operation Firewall, of broad-based international cyber crimes. On October 24, 2004, the United States Secret Service (USSS) arrested 30 individuals across the United States for credit card fraud, identity theft, computer fraud and conspiracy. These suspects were part of a multi-count indictment out of the District of New Jersey and were involved in a transnational cyber "organized crime" network that spanned around the world. In addition to the 30 arrests, 28 search warrants were served simultaneously across the United States. Internationally, 13 search warrants were served in 11 different countries in conjunction with this USSS led investigation.

This case began in July of 2003, when the USSS Newark Field Office initiated an investigation involving global credit card fraud and identity fraud. Although the catalyst for the case came from a more "traditional" crime of access device fraud, the case evolved into a very technical, transnational investigation. Much of the aforementioned criminal activity primarily occurred over the internet. After the initial act(s) of fraud, suspects would exchange contraband (i.e. counterfeit credit cards, counterfeit driver's licenses, etc.) This case, entitled Operation Firewall has developed into a multilateral effort involving 18 USSS domestic offices and 11 foreign countries. As the lead investigative office, the USSS Newark Field Office conducted a complex undercover operation involving the first ever wire tap on a computer network.

Beginning in 2000, several websites were created in an effort to expand the credit card and identification fraud. These websites not only shared information on how to commit such fraud, but also provided a forum to purchase such information. Illegally obtained credit card information (i.e. account numbers, pin numbers, etc.) and personal identification (either stolen or counterfeit) information was readily available on these types of sites. "Counterfeit Library" was one such site. In 2001, law enforcement and the hosting server were able to shut down the illegal website. Subsequently, "Counterfeit Library" morphed into a website called "Shadowcrew." This new website boasted 7,000 (approximately) users and was responsible for millions of dollars in fraud.

Since "Shadowcrew" was posted as an English language site, many users in Russia and the former Soviet Republic states experienced a language barrier. This communication problem led to the creation of a new website called "Carderplanet." Administrators from "Shadowcrew" embraced this new website, as they agreed the alliance would ultimately be profitable for both groups. Approved users were able to visit both websites, thereby creating an international organized crime network. In February 2003, a new website called "Darkprofits" emerged and appeared to have stolen "Shadowcrew's" complete database. "Shadowcrew" was later able to regain its online ability and slowly reestablish itself.

Operation Firewall identified Shadowcrew, Carderplanet and Darkprofits as three organized criminal groups dedicated to promoting malicious computer hacking, dissemination of stolen credit card numbers, compromised bank account information, stolen individual identifying information and the sale of such compromised information. This global USSS led investigation disrupted cyber crime (which is the initial forum for identity theft crimes, stolen and counterfeit credit cards, counterfeit documents, etc.) affecting financial infrastructure in the United States. This case alone has resulted in the prevention of hundreds of millions of dollars in possible fraud losses. The initial arrests and search warrants served domestically and internationally was merely phase one of this USSS led investigation. The USSS is currently being assisted by international law enforcement, particularly, Europol and Interpol. International assistance has come from Argentina, Belarus, Bulgaria, Canada, Estonia, Poland, Russia, Sweden, the Netherlands, Ukraine and the United Kingdom. Distinctively, Europol in The Hague and the National Hi-Tech Crimes Unit in the United Kingdom has been a continuous international law enforcement partner to the United States Secret Service.

A variety of assets, including cash, vehicles and jewelry, were seized for forfeiture in this matter.

U. S. Coast Guard

1,100 Pounds of Marijuana Hidden in 21 Foot Powerboat

In May 2005, two men were arrested after a team of CBP and U.S. Coast Guard officers found almost 1,100 pounds of marijuana hidden inside the men's 21-foot powerboat following a brief chase in San Diego coastal waters.

Nearly 1,100 pounds of marijuana found in this 21-foot powerboat in San Diego coastal waters.

The officers, on coastal patrol in a marked CBP marine interceptor, apprehended the U.S.-registered Searay after observing the vessel and its two occupants entering the U.S. from Mexico about eight miles offshore. After intercepting the vessel and demanding the occupants stop for boarding, the CBP boat chased the powerboat for about a quarter mile until it eventually stopped. The Coast Guard law enforcement officers boarded the vessel, took custody of the two men and found 73 wrapped packages of marijuana hidden in the boat's cabin and under the stern seats. The boat and narcotics were seized by CBP.

The Treasury Forfeiture Fund is a "special receipt account." Such accounts represent Federal fund collections earmarked by law for a specific purpose. The enabling legislation for the Treasury Forfeiture Fund (31 U.S.C. § 9703) defines those purposes for which Treasury forfeiture revenue may be used.

Once property or cash is seized, there is a forfeiture process. Upon forfeiture, seized currency, initially deposited into a suspense account, or holding account, is transferred to the Fund as forfeited revenue. Once forfeited, physical properties are sold and the proceeds are deposited into the Fund as forfeited revenue. It is this forfeiture revenue that comprises the budget authority for meeting expenses of running Treasury's forfeiture program.

Expenses of the Fund are set in a relative priority so that unavoidable, or "mandatory" costs are met first as a matter of policy. Expenses may not exceed revenue in the Fund. The Fund has several different spending authorities. Each of them is described below.

Mandatory Authority

The mandatory authority items are generally used to meet "business expenses" of the Fund, including expenses of storing and maintaining seized and forfeited assets, valid liens and mortgages, investigative expenses incurred in pursuing a seizure, information and inventory systems, and certain costs of local police agencies incurred in joint law enforcement operations. Following seizure, equitable shares are paid to state and local law enforcement agencies that contributed to the seizure activity at a level proportionate to their involvement.

It is a strategic goal of the Fund to emphasize and monitor high impact forfeitures. To make significant forfeitures requires longer, more in-depth investigations. To this end, Fund management emphasizes the use of mandatory funding authorities that fuel large case initiatives including Purchase of Evidence and Information, expenses associated with Joint Operations, Investigative Expenses Leading to Seizure, and Asset Identification and Removal Groups. In recent years, funding provided to computer forensic investigative tools has yielded high impact results.

Asset Identification and Removal Groups

Asset Identification and Removal Groups (AIRGs) help ensure that seizure operations are conducted in the right way, with maximum precision and efficiency. Again, in FY 2005, the Fund allocated $7.6 million in mandatory funding, including necessary travel, to the efforts of Immigration and Customs Enforcement, Department of Homeland Security AIRGs. The AIRG groups are comprised of special agents, auditors, accountants and contract data analysts who are specially trained to identify assets of criminal organizations. Today, there are 21 AIRGs located within ICE field offices throughout the United States. The personnel assigned to the groups receive special training at the Federal Law Enforcement Training Center to prepare them in the areas of asset identification, removal and forfeiture. The AIRGs are particularly valuable in international investigations, where criminal proceeds can be moved rapidly around the world. Their expertise in identifying and tracking these assets is critical to an effective seizure and forfeiture program. These groups assist their agencies in meeting their mandates. The results that they attain can be used as a tool to assist managers in assessing the strength and depth of criminal organizations and gauge their success in disrupting crime.

Treasury Computer Investigative Specialist Program, multi-bureau

An increasing number of investigations conducted by law enforcement bureaus participating in the Treasury Forfeiture Fund are in an electronic environment or contain electronic evidence. A key component of the bureaus' ability to perform their investigative mission in today's high-tech and rapidly changing environment is the Treasury Computer Investigative Specialist (CIS) Program. This joint initiative began in 1997 as a means of coordinating Treasury resources and leveraging assets. Since that time, it has developed into one of the premier computer forensics programs in the world, with over 400 special agents deployed throughout the United States and abroad. Some of the primary features of the program are:

- All computer forensic examiners are experienced criminal investigators (as opposed to other programs that have technicians conducting exams);
- Uniform basic and advanced computer forensic training (planned and delivered jointly by the three bureaus) that allows the bureaus to share CISs and technical resources on large cases;
- Each bureau's CISs are provided the same state-of-the-art equipment; and
- Continuous in-service training and equipment upgrades for CIS agents in the field maintains high skill-levels for all CISs.

In FY 2005, EOAF provided over $6.1 million to the CIS program, up from $5.7 million provided to the program in FY 2004. Since the inception of the program in 1997, the participating bureaus of the Treasury Forfeiture Fund have combined talents and resources to produce highly trained computer forensic agents capable of recovering digital evidence from stand alone and networked computer systems. Highly successful casework stemming from electronic evidence indicates that this is a sound investment for the Fund.

Payments for Remission and Mitigation and Innocent Owner/Victims

A long-standing policy of the Treasury Forfeiture Fund is to ensure that any innocent owners of property forfeited by the Fund receive restitution to the extent that policy and law provide for such restitution. A number of the law enforcement bureaus participating in the Fund become involved in cases in which there are victims of fraud that may range from private citizens to Trust Funds of the Federal Government. While the "net proceeds" to the Fund after restitution is paid may be quite small or, in some cases, nothing at all, it is imperative that the forfeiture sanction be applied to such cases to deter this type of crime and to recover as much of the property on behalf of victims as possible. In so doing, our law enforcement bureaus work not only to protect the citizenry but also the public welfare in terms of protecting federal resources from waste, fraud and abuse, i.e., when one of the "victims," is a Federal Trust Fund. In addition, Customs and Border Protection mitigates forfeitures in a number of instances and the Fund provides resources for those important law enforcement decisions. The Fund allocated over $25 million toward this expense category. The Jamieson Investment Fraud case described earlier is an excellent example of the use of asset forfeiture to find and return resources to victims of fraud.

General Property Contract

As noted in the Profile section of our Accountability Report, the Treasury Forfeiture Fund continued in its capacity as a multi-Departmental Fund in FY 2005, representing the interests of law enforcement components of the Departments of Treasury and Homeland Security. With enactment of the Homeland Security Act of 2002, Treasury's Federal Law Enforcement Training Center (FLETC) and Secret Service were moved to the Department of Homeland Security, and the Immigration and Naturalization Service (INS) was reorganized with Customs into two agencies: Customs and Border Protection (CBP) and Immigration and Customs Enforcement (ICE). The U.S. Coast Guard was also reorganized into the Department of Homeland Security and continues it close working relationship with the legacy Customs bureaus.

In the aftermath of the terrorist attacks on the United States, there was renewed Administration emphasis on border security that resulted in a large, rapidly escalating caseload including a seized car inventory that grew from a count of 3,000 at the beginning of FY 2004 to about 21,000 seized cars by the end of that fiscal year. Low-value cars not previously seized were being seized at an escalating rate and, in addition, destruction of low-value cars was delayed to post-forfeiture. Both actions marked a significant departure from standing operating policy of the Fund. As the result of this issue, and other matters, the national general property contract required funding in FY 2004 of $51.3 million as compared to $27.1 million allocated to the contract for FY 2003, nearly doubling the cost of the contract in less than a year's time.

This trend continued into FY 2005 although the peak had been reached in terms of on-hand car seizures. In order to contain costs to the Fund from the escalating low-value car inventory, Fund management established a limit to the resources that could be allocated by the Fund to the general seized property contract in FY 2005. Despite this change, however, Fund management allocated a near-record $50 million to the general seized property contract in FY 2005, and just under $8 million to the real property contract. The real property contract is managed by the Executive Office for Asset Forfeiture.

Equitable Sharing

Federal law enforcement bureaus participating in the Treasury Forfeiture Fund enjoy a continuing high level of critical support from state and local law enforcement agencies in the fight against crime. As evident in the investigative case narratives earlier in previous pages of this Accountability Report, federal and state and local law enforcement work side-by-side daily to stop criminals. Pursuant to a long-standing goal of the Treasury Forfeiture Fund to encourage state and local law enforcement to assist federal law enforcement, by policy, the Fund pays equitable shares to state and local law enforcement agencies that participated in a forfeiture of the Fund. The Fund also pays equitable shares to the Justice forfeiture fund and the Postal forfeiture fund for any role their federal law enforcement bureaus play in a forfeiture of our program.

In recognition of this ongoing high level of support, and consistent with expense projections tied to revenue deposits, Fund management allocated over $100 million for equitable sharing obligations in FY 2005. This compares to $93 million allocated for FY 2004; both being record-setting years for equitable sharing with our state and local law enforcement partners. The revenue for the two years is similar which explains the fairly similar level of sharing between the two years. State and local governments are required to use equitable shares for law enforcement purposes with certain limited exceptions and, as a result, their law enforcement programs and capability have benefited significantly from their cooperative efforts with federal law enforcement.

Training

Fund Management places significant emphasis on training as a mechanism for reinforcing the Fund's Mission, which is to affirmatively influence the consistent and strategic use of asset forfeiture by our law enforcement bureaus to disrupt and dismantle criminal enterprises. During FY 2005, the Executive Office for Asset Forfeiture continued expanding its training program, addressing cutting edge subjects of investigation and forfeiture and innovative practices of our member bureaus.

We launched a new seminar series on International Issues involved in Investigation and Forfeiture, with each seminar focusing on a specific geographic region of the world. The topics include trade-based money laundering, black market peso exchange, money services businesses and tracing money hidden off-shore. Among the speakers were law enforcement attaches from IRS-CI, ICE and the U.S. Secret Service stationed abroad. The first two seminars, one focusing on Central and South America and the Caribbean countries, and another one focusing on Asia, received very positive and enthusiastic reviews from the attendees. Each seminar was attended by over 100 Special Agents. Additionally, in conjunction with ICE, we offered a modified version of the seminar to an audience of 35 U.S. law enforcement attaches stationed in Europe. This seminar took place in The Hague in June 2005 and included additional subjects pertaining to European issues, such as Conducting Undercover Operations in the European Environment and a Europol Overview.

We also conducted two final seminars in the series "Technology Issues involved in Investigation and Forfeiture" developed in FY 2004. Each seminar was attended by 60 to 70 Special Agents and included two days of discussion and one full day of hands-on computer training.

Finally, we conducted a seminar for Executives, senior management officials, Special Agents in Charge (SACs) and Assistant Special Agents in Charge (ASACs) of IRS-CI and ICE. The seminar addressed a variety of management and policy issues such as the funding available for the bureaus' investigative and forfeiture activities, equitable sharing and general and real property contracts. This conference was held in Baltimore, Maryland in July 2005.

Secretary's Enforcement Fund

The Secretary's Enforcement Fund (SEF) is derived from equitable shares received from the Justice Department's forfeiture fund for work done by Treasury law enforcement bureaus leading to Justice forfeitures. SEF revenue is available for federal law enforcement purposes of any Treasury law enforcement organization or law enforcement bureau that participates in the Treasury Forfeiture Fund. In FY 2005, the Fund allocated $27.5 million in SEF spending to the law enforcement agencies, up from $11.7 million in FY 2004.

Major Case Initiatives, Immigration and Customs Enforcement, IRS-CI and U.S. Secret Service

Consistent with the Treasury Forfeiture Fund's goal of supporting major case initiatives, during FY 2005, substantial funding was allocated from the SEF to support bureaus' large scale investigations. This funding was used to continue to support undercover operations, and a variety of tasks including document analysis and translation for investigative and evidentiary purposes, Title III wiretaps, agent travel and specialized software and hardware.

Fleet Maintenance and Repairs and Special Purpose Vehicles, ICE and IRS-CI

Critical to the ongoing viability of our participating law enforcement bureaus are their vehicle fleets. The sum of $3.5 million was allocated to ICE and IRS-CI in support of the regular law enforcement fleet and for special purpose investigative vehicles.

National Money Laundering Coordination Center (MLCC), ICE

The Fund continued to provide financial support of just under $600,000 in SEF funding to the MLCC databases of ICE, and other critical databases used for case support for financial investigations at more than 170 field offices.

Cornerstone Financial Intelligence Unit, ICE

Funding of over $500,000 was provided to ICE to be used to establish a stand-alone unit capable of processing the increased intelligence flow to generate field investigations and seizures. The new unit will use an enhanced data mining tool to establish connections between conspirators that would otherwise go undetected using conventional investigative techniques.

Human Smuggling and Trafficking, ICE

Funding of nearly a quarter of a million dollars was provided to ICE to cover costs to support the Human Smuggling and Trafficking Center operated by the Departments of Homeland Security, State and Justice.

Undercover Storefront Operations and Enforcement Equipment, IRS-CI

IRS-CI operates undercover storefronts around the United States to develop and support undercover operations and undercover agents. Other funding was provided during FY 2005 to provide for investigative equipment required by IRS-CI to carry out is investigative and enforcement functions. This includes equipment utilized by agents in carrying out their duties on a daily basis in addition to specialized equipment used during surveillance, undercover operations, the execution of search warrants, and in other investigative circumstances. Due to budget constraints and competing needs for resources within this large law enforcement bureau, IRS-CI was unable to purchase replacement state-of-the-art evidence gathering devices or even raid gear and jackets. The Fund invested several million dollars in IRS-CI towards these critical needs.

Computer Forensic Investigative Capability, IRS-CI

Approximately $4.5 million in SEF funding was provided to IRS-CI to support: investigations related to illegal income, funds needed to stay current with advances in technology that ensures the ability to recover digital evidence in CI investigations, and funds to enhance the network capabilities required for digital evidence demands.

Computer Forensic Capability, U.S. Secret Service

Approximate $2 million in SEF funding was provided to the U.S. Secret Service to enhance and expand sophisticated computer forensics capabilities. No additional information about these capabilities can be provided without compromising investigative techniques of the bureau.

Other funding initiatives, various bureaus

Other funding initiatives were supported by SEF resources not described here in order to protect and preserve investigative techniques of the bureaus.

Super Surplus

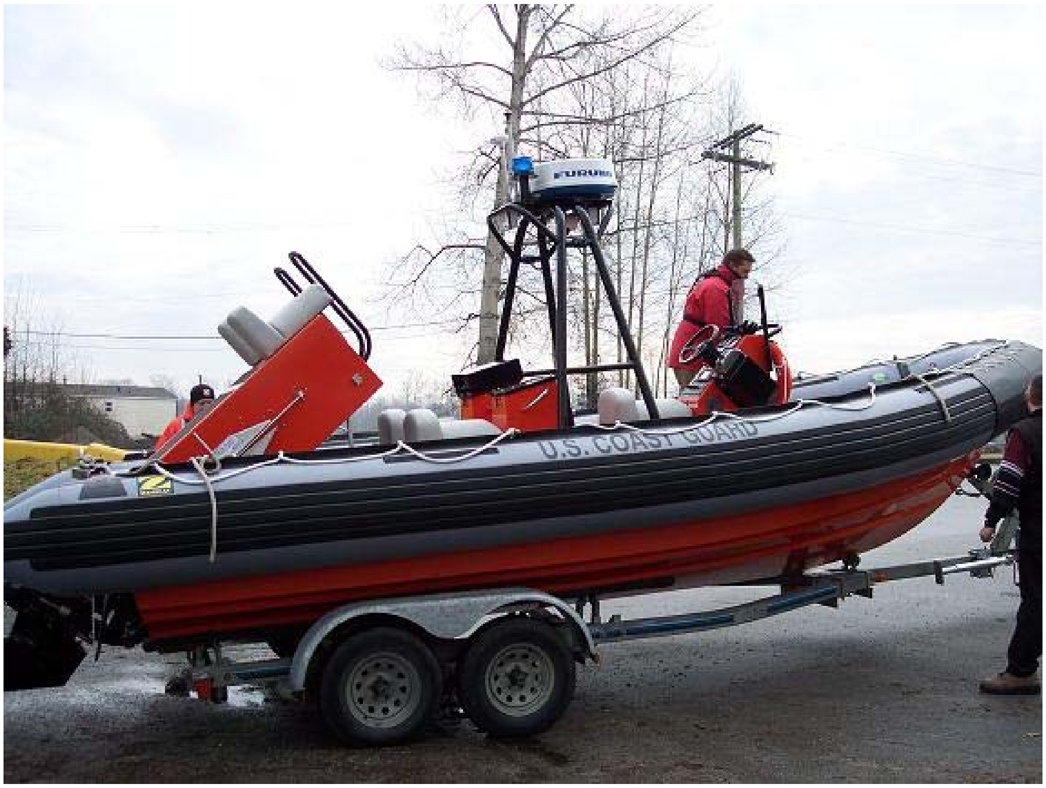
Super Surplus represents the remaining unobligated balance after an amount is reserved for Fund operations in the next fiscal year. Super Surplus can be used for any federal law enforcement purpose. The Fund allocated Super Surplus funds in the amount of just under $15 million for FY 2005, down from $23.1 million in FY 2004.

Computer Forensics, Various Bureaus

A growing percentage of the investigations that our agencies handle now center on computer evidence. It is critical for the law enforcement bureaus to protect the integrity of original computer evidence and be able to authenticate any evidence originating from an electronic source. Each of the law enforcement bureaus has a computer laboratory devoted to assessing the impact of technological change on methods for obtaining digital evidence, developing forensics procedures and standards, and providing technical assistance to the computer forensics examiners in the field. The funding provided for these initiatives has allowed the agencies to maintain or build laboratories and sustain their computer forensics programs. These forensic programs involve a significant amount of research and development that cannot be funded through the mandatory authority. The majority of Super Surplus allocations during FY 2005 are in support of these continuing critical investigative efforts.

Cutter Boats and Equipment, U.S. Coast Guard

Funds in the amount of $600,000 were authorized from the Super Surplus to allow the U.S. Coast Guard to replace six rigid hull inflatable boats that are near the end of their service life with six new Cutter Boats known as "Over the Horizon" boats used for the final leg of an open ocean interception and seizure.



Cutter Boats - "Over the Horizon" rigid hull inflatables used for final stage interdiction.

Over the Horizon boats underway.

The smaller, high-speed boats are kept aboard U.S. Coast Guard cutters in areas of high drug trafficking and are deployed for purposes of interdicting drug smuggling, “go-fast” vehicles.

Over $1 million in additional Super Surplus funding was provided to the U.S. Coast Guard for critical investigative needs including but not limited to funds to support satellite links, night vision capabilities and other investigative and training needs.

Strategic View

Fund management continues to focus on strategic cases and investigations that result in high-impact forfeitures. We believe this approach affects the greatest damage to criminal organizations while accomplishing the ultimate objective – to disrupt and dismantle criminal activity. To make significant forfeitures requires longer, more in-depth investigations. To this end, Fund management emphasizes the use of mandatory funding authorities that fuel large case initiatives including Purchase of Evidence and Information, expenses associated with Joint Operations, Investigative Expenses Leading to Seizure, Asset Identification and Removal teams and state-of-the-art Computer Forensics capability. In addition, the Fund continues to support at a record level the sharing of Federal forfeitures with the state and local and foreign governments that contributed to the successful seizure and forfeiture activity of the Fund. The Fund provided over $100 million toward equitable sharing expenses in FY 2005 alone, up from $93 million provided in FY 2004. These are critical resources afforded by policy of the Treasury Forfeiture Fund to protect and preserve the valuable working relationships between our federal law enforcement bureaus and the critically important state, local and foreign law enforcement agencies that work with them in an investigative capacity day-in and day-out.

Strategic Mission and Goal

The mission of the Treasury Forfeiture Fund is to affirmatively influence the consistent and strategic use of asset forfeiture by Treasury law enforcement bureaus to disrupt and dismantle criminal enterprises. The goal of the Treasury Forfeiture Fund is to support the Department of the Treasury's national asset forfeiture program in a manner that results in federal law enforcement's continued and effective use of asset forfeiture as a high-impact law enforcement sanction to disrupt and dismantle criminal activity. To achieve our mission and goal, the program must be administered in a fiscally responsible manner that seeks to minimize the administrative costs incurred, thereby maximizing the benefits for law enforcement and the society it protects.

Multi-Departmental Fund During FY 2005

The Treasury Forfeiture Fund continued in its capacity as a multi-Departmental Fund in FY 2005, representing the interests of law enforcement components of the Departments of Treasury and Homeland Security. As the result of the multi-Departmental status, FY 2005 brought some management challenges and the need to assess new policies of the reorganized bureaus against the broad management interests of the Treasury Forfeiture Fund which now encompass the concerns of more than one Department. In the midst of this period of growth and change, the Fund's family of law enforcement bureaus continued their hard work of federal law enforcement and the application of asset forfeiture as a sanction to bring criminals to justice.

FY 2005 was, like FY 2004, a robust revenue year for the Fund with regular revenue exceeding $300 million from all sources. As we closed FY 2005, Fund Management was pleased with our prior year efforts to support the Homeland Security Act through intensive and consuming transition endeavors and pleased with the evidence that we were successful in meeting our goals of a smooth transition. FY 2005 follows on the robust year of FY 2004 with regular revenue over $335 million in that year.

As we enter fiscal year 2006, the Fund remains focused on support for strategic investigative initiatives that will have the greatest impact on national and international criminal enterprise including valuable training and investigative expense funding which emphasizes high impact cases.

Performance Measure

In FY 2005, the Fund measured performance through the use of the following performance measure: Percent of forfeited cash proceeds resulting from high-impact cases. This measures the percentage of forfeited cash proceeds resulting from high-impact cases (those with currency seizures in excess of $100,000). Focusing on strategic cases and investigations which result in high-impact seizures will affect the greatest damage to criminal organizations while accomplishing the ultimate objective – to disrupt and dismantle criminal activity.

Results

The Fund performance measure and result for FY 2005 is as follows:

Performance Measure	FY 2004 Actual	FY 2005 Target	FY 2005 Actual
Percent of forfeited cash proceeds resulting from high-impact cases	84.0%	75%	81.0%

A target of 75 percent high-impact cases was set for FY 2005. This is a fixed target for the Fund, designed to afford our law enforcement bureaus the opportunity to undertake smaller seizure activity that is important to the overall federal law enforcement mission. The final percentage for FY 2005 was 81.0 percent, fully 6 percentage points above the target. This compares favorably with our FY 2004 achievement of 84 percent, also well beyond our target. This achievement remains excellent given the significant diversion of bureau law enforcement personnel to other than routine law enforcement involved with anti-terrorism and, in the latter part of the year, with Hurricane Katrina recovery efforts. FY 2005 was a robust revenue year and the results of our performance indicator point to the successful year of our dedicated law enforcement bureaus. This measure was put into effect in FY 2001.

This measure is calculated by dividing the total amount of forfeited cash proceeds from cases greater than $100,000 by the total amount of forfeited cash proceeds for all cases.

A Look Forward

Fund management will continue to work with our large and diverse array of federal law enforcement bureaus as they undertake increasingly sophisticated levels of effort to secure the financial and commercial markets of the nation and the world given the interdependence of financial systems. In addition, our bureaus support immigration enforcement that is designed to identify illegal smuggling to deter its impact on the nation's financial infrastructure and to ensure that human smugglers do not harm unsuspecting victims keen on seeking a new if illegal start in the United States. Emphasis will continue to be placed on ever-evolving state of the art investigative techniques, major case initiatives and training to support these areas of emphasis. This has and will continue to be the key to the growing success of the Treasury Forfeiture Fund.

Fund Management will continue to work with Customs and Border Protection to resolve issues related to the national general property contract, the costs for which escalated and accelerated at an alarming rate during FY 2004 and FY 2005. An enduring and primary goal of Fund Management is to manage the Treasury Forfeiture Fund in a manner that ensures its ongoing viability and ability to support all of our participating law enforcement bureaus into the future. We are confident that a satisfactory resolution of these issues will be accomplished on behalf of all bureaus.

We look forward to another successful year in FY 2006.

The following provides a brief explanation for each major section of the audited financial statements accompanying this report for the fiscal year ended September 30, 2005.

These statements have been prepared to disclose the financial position, results of operations and changes in net position pursuant to the requirements of the *Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994 (GMRA).* While the financial statements have been prepared from the books and records of the Fund in accordance with the formats prescribed by the Office of Management and Budget, the statements are different from the financial reports used to monitor and control budgetary resources that are prepared from the same books and records and are subsequently presented in federal budget documents. Therefore, it should be noted that direct comparisons are not possible between figures found in this report and similar financial figures found in the FY 2005 and FY 2004 *Appendix, Budget of the United States Government*. Further, the notes to the financial statements and the independent auditor's opinion and report on internal controls are also integral components to understanding fully the financial highlights of Fund operations described in this chapter.

Statements: Changes in Net Position

Follows are brief highlights from the Statements of Changes in Net Position for FY 2005 and 2004.

Net Position – End of Year. For FY 2005, the Net Position for the Fund at the end of the year, an indicator of the future capability to support ongoing operations of the Fund, totaled $255.3 million versus $194.1 million at the end of FY 2004. Both years closed with a strong and viable net position given that annual revenue totaled between $280 million and $320 million each year.

Total Gross Non-Exchange Revenues. This line item on the *Statements of Changes in Net Position* is the best indicator of regular "business-type" income of the account on an annual basis. Fund Management generally forecasts between $200 million and $250 million for the Fund from regular seizure and forfeiture activities of our participating bureaus. For FY 2005, the Fund closed with $313.5 million in Gross Non-Exchange Revenues versus a total for the FY 2004 closing of $289.2 million, an increase of 8.4 percent over FY 2004.

Proceeds from Participating with other Federal Agencies. This line item on the *Statements of Changes in Net Position* indicates revenue earned from the participation of Treasury Forfeiture Fund law enforcement bureaus in the seizures leading to forfeiture of bureaus that participate in the Department of Justice Assets Forfeiture Fund or with the forfeiture fund of the U.S. Postal Service (Postal Service). It is noted that this category of revenue is recognized when received on deposit by the Treasury Forfeiture Fund. Therefore, there is no accrual recorded on the Fund's financial statements for this category of revenue.

As of the close of FY 2005, Treasury Forfeiture Fund bureaus earned a total of $22.3 million in revenue from participation in the seizures leading to forfeiture of the Justice and Postal Service forfeiture funds as compared to a total of $22.7 million during FY 2004. Fund Management continues to work with the Department of Justice to identify the basis for delays associated with Reverse Asset Sharing payments to the Treasury Forfeiture Fund. This revenue affords Treasury Management significant funding flexibilities for our participating agencies as the authority is broad and not confined to funding program costs but can be used for any law enforcement purpose of our participating bureaus. Significant projects may be funded in FY 2006 if long-anticipated revenue is received early enough in the fiscal year.

Cost of Operations. For FY 2005, the Cost of Operations totaled $135.2 million, up from $122.1 million in FY 2004.

Investment Interest Income. The Fund is authorized to invest cash balances in Treasury securities. As of September 30, 2005, investments totaled $499.9 million, up from $455.1 million invested as of September 30, 2004. Given the increase in investment balances, investment income totaled $13.3 million in FY 2005 as compared to $4.6 million in FY 2004.

Equitable Sharing with State and Local Governments, and Foreign countries. Each year, the Fund pays tens of millions of dollars to state and local law enforcement agencies, and foreign governments, for their participation in seizures that lead to forfeitures of the Treasury Forfeiture Fund. State and local law enforcement agencies can use these resources to augment their law enforcement budgets to fight crime in their jurisdictions. Without these funds, budgets of the local municipalities would be taxed to provide these important resources or the need would go unmet. During FY 2005, the Fund shared a total of $75.7 million with state and local law enforcement agencies, and another $4.2 million with foreign countries. This compares with $98.7 million shared with state and local law enforcement agencies during FY 2004, and another $2.7 million with foreign countries in FY 2004.

Victim Restitution. During FY 2005, the Fund paid restitution to victims the amount of $2.1 million as compared with $0.4 million in FY 2004.

Summary of Statements of Changes in Net Position. FY 2005 represents a very successful year in high-impact cash forfeiture cases, with 81.0 percent of all cash forfeitures stemming from cases with a value of $100,000 or more, as compared with 84.0 percent in FY 2004. Along with a high water mark in forfeiture revenue for the year, the performance against this measure exceeded our target performance of 75 percent. The FY 2005 performance in forfeiture revenue earnings and high-impact cases is truly a credit to the dedicated law enforcement personnel of the Treasury Forfeiture Fund participating bureaus.

Statements: Net Cost

Costs of the Forfeiture Program – Intragovernmental. After revenue is applied toward policy mandates such as equitable sharing, shown in the Statements of Changes in Net Position as negative revenue or applied non-exchange revenue, the remaining financing supports the law enforcement activities of the Fund and pays for the storage of seized and forfeited property and sales associated with the disposition of forfeited property.

On the Statements of Net Cost, the Net Cost of Operations increased to $135.1 million in FY 2005, up from $122.1 million in FY 2004, attributable to increased asset management costs.

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

National Seized Property Contract. The largest single program cost of the Fund is the storage, maintenance and disposal of real and personal property. This function is performed by EG&G Technical Services, a private firm under multiple contracts to the Customs and Border Protection (CBP) component of the U.S. Department of Homeland Security (DHS). There is one contract for the custody and maintenance of real properties and a separate contract for general property of the program. Both of these contracts, at this time, are awarded to EG&G Technical Services. Fund management took action to move the Real Property Contract from the auspices of CBP to direct management by the Executive Office for Asset Forfeiture. In FY 2005, storage and maintenance expenses totaled just over $56.8 million, slightly down from $61.5 million in FY 2004.

Statements: Balance Sheet

Assets, Liabilities and Net Position

Total assets of the Fund increased in FY 2005 to $776.0 million, up from $697.7 million in FY 2004, an increase in asset value of nearly 11.2 percent. If seized currency, which is an asset in the custody of the government but not yet owned by the government, is backed out of both figures, the adjusted total assets of the Fund increased to $395.0 million in FY 2005, up from $324.3 million in FY 2004, an increase of 21.8 percent.

During FY 2005, total liabilities of the Fund increased to $520.7 million, up from 503.6 million in FY 2004, an increase of only 3.4 percent in overall liabilities pending at the end of the fiscal year. Likewise, if seized currency is backed out of both figures, the adjusted liability totals of the Fund increased to $139.7 million in FY 2005 from $130.2 million in FY 2004, an increase of 7.3 percent.

The Cumulative Results of Operations, i.e., retained earnings, increased at the end of FY 2005 to a total of $255.3 million, up from $194.1 million at the end of FY 2004.

Summary of Financial Highlights

Net Position. To summarize, Fund management concluded FY 2005 "in the black," with the necessary resources to commence the business of the asset forfeiture program for FY 2006. Fund management may declare some level of Super Surplus from FY 2005 operations although the estimate for this spending has not been finalized.

FY 2005 Audit. The Fund's independent auditors have given the FY 2005 financial statements an Unqualified Opinion. A Material Weakness was identified. Auditors concluded that TEOAF's organizational structure does not provide for effective Chief Financial Officer (CFO) function and responsibilities. This is the first time in several years that the Fund has incurred a Material Weakness. Fund management is reviewing this aspect of the auditor's findings and will work to ensure the most effective management structure for the Fund. In addition, a Reportable Condition remains regarding the recording of indirect overhead expenses of property to the line item level. This is a long-standing condition that Fund management has worked to resolve for the real property contract though the remedy has not been implemented by Customs and Border Protection as of the close of FY 2005. We have information that the EDP-related work required by our Executive Agent to correct the finding for the real property contract is underway and Fund management is hopeful that it will be implemented in time to cure the weakness for the Real Property Contract for FY 2006. Corrective action for general property cannot be taken pending award of a new general property contract which is actively underway at this time.

Financial and Program Performance -What is needed and planned. OMB Circular A-136, *Financial Reporting Requirements,* requires that agencies include an explanation of what needs to be done and what is being planned to improve financial or program performance. In that regard, Fund management provides the following information with regard to the remaining reportable condition identified by auditors in prior years' financial statement audit.

Material Weakness: In fiscal year 2005, the Auditors of the Fund's financial statements concluded that TEOAF's organizational structure does not provide for effective Chief Financial Officer (CFO) function and responsibilities. The Treasury Forfeiture Fund will reexamine its organizational structure and operating processes, particularly in the area of Financial Statement preparation, and will make the needed changes to ensure both the timely preparation of Financial Statements, as well as an effective program of internal controls.

Reportable Condition: In fiscal year 2005, the auditors of the Fund's financial statements reported one Reportable Condition associated with the Fund's internal controls: indirect asset specific expenses are not recorded and accounted for to the line item level by the Fund. This is a long-standing condition that Fund management has worked to resolve for the real property contract though the remedy has not been implemented by Customs and Border Protection as of the close of FY 2005.

Asset Specific Expenses: Fund Management will continue to work toward the capture of indirect asset specific expenses. The accounting system of the Real Property Contractor is capable of capturing and reporting both direct and indirect costs. However, to capture this data for the Fund's financial statements, Customs and Border Protection's SEACATS system requires additional programming. To date, this programming has not been completed though the contractor-proposed remedy has been identified for over three years. The award of the new general property contract has been delayed and until such time as the new contract provisions can be implemented, efforts to develop a methodology to distribute indirect overhead costs to general property will also be delayed. Management will continue to work with participating bureaus to improve the capture of all expense data to the asset level.

Look Forward. The Fund will reexamine its organizational structure and operating processes, particularly in the area of Financial Statement preparation, and will make the needed changes to ensure both the timely preparation of Financial Statements, as well as an effective program of internal controls. Efforts will continue to ensure that progress is made toward resolving the remaining second tier finding. Fund Management looks forward to another successful year in FY 2006.

Limitations of the Financial Statements. As required by OMB Circular A-136, Fund management makes the following statements regarding the limitations of the financial statements:

- The financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 USC § 3515(b).
- While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.
- The statement should be read with the realization that they are for a component of the U.S. government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

SECTION II

FINANCIAL STATEMENTS

gka
GARDINER KAMYA
& ASSOCIATES, PC

CERTIFIED PUBLIC ACCOUNTANTS | MANAGEMENT CONSULTANTS

Independent Auditor's Report on Financial Statements

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

We have audited the Principal Statements (balance sheets and the related statements of net cost, changes in net position, budgetary resources and financing, hereinafter referred to as "financial statements") of the Department of the Treasury Forfeiture Fund (the Fund) as of and for the years ended September 30, 2005 and 2004. These financial statements are the responsibility of Fund Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements.* Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Fund Management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of September 30, 2005 and 2004, and its net costs, changes in net position, budgetary resources, and the reconciliation of net costs to budgetary obligations, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued a report dated December 1, 2005, on our consideration of the Fund's internal control structure and a report dated December 1, 2005, on its compliance with laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards,* and these reports should be read in conjunction with this report in considering the results of our audits.

1717 K STREET, NW SUITE 601
WASHINGTON, DC 20036
P 202 857 1777 F 202 857 1778
W WWW. GKACPA.COM

Our audits were conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph of this report as a whole. The information presented in Fund Management's Overview of the Fund, the Required Supplemental Information, and Other Accompanying 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, OMB Circular A-136, *Financial Reporting Requirements,* or the *Treasury Forfeiture Fund Act of 1992.* We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

Castro, Lowe, Kennedy & Associates

December 1, 2005

Department of the Treasury Forfeiture Fund
BALANCE SHEETS
As of September 30, 2005 and 2004
(Dollars in Thousands)

	2005	2004
Assets:		
Intragovernmental :		
Fund balance with Treasury	$ 164,996	$ 146,527
Investments and related interest (Note 3)	499,885	455,142
Advances (Note 5)	143	12
Total Intragovernmental	665,024	601,681
Cash and other monetary assets (Note 6)	64,736	52,626
Accounts receivable	793	850
	65,529	53,476
Forfeited property (Note 7)		
Held for sale, net of mortgages, liens and claims	43,622	41,743
To be shared with federal, state or local, or foreign governments	1,789	820
Total forfeited property, net of mortgages, liens and claims	45,411	42,563
Total Assets	$ 775,964	$ 697,720
Liabilities:		
Intragovernmental:		
Distributions payable		
Other Federal agencies	$ 1,545	$ 748
Accounts payable	42,825	30,040
Total Intragovernmental	44,370	30,788
Seized currency and other monetary instruments (Note 9)	381,012	373,445
Distributions payable (Note 10)		
State and local agencies and foreign governments	44,120	50,385
Accounts payable	7,208	6,970
Deferred revenue from forfeited assets	43,947	42,029
Total Liabilities	520,657	503,617
Net Position:		
Cumulative results of operations (Note 11)	255,307	194,103
Total Liabilities and Net Position	$ 775,964	$ 697,720

The accompanying notes are an integral part of these financial statements

Department of the Treasury Forfeiture Fund
STATEMENTS OF NET COST
For the years ended September 30, 2005 and 2004
(Dollars in Thousands)

	2005	2004
Program:		
ENFORCEMENT		
Intragovernmental:		
Seizure investigative costs and asset management	$ 47,053	$ 34,170
Other asset related contract services	3	331
Awards to informer	-	141
Data systems, training and others	19,658	16,756
Super surplus (Note 13)	2,239	-
Secretary's enforcement fund (Note 14)	500	40
Total Intragovernmental	69,453	51,438
With the Public:		
National contract services seized property and other	56,851	61,524
Joint operations	8,850	9,172
Total with the Public	65,701	70,696
Net Cost of Operations	$ 135,154	$ 122,134

The accompanying notes are an integral part of these financial statements

Department of theTreasury Forfeiture Fund
STATEMENTS OF CHANGES IN NET POSITION
For the years ended September 30, 2005 and 2004
(Dollars in Thousands)

	2005	2004
Net Position - Beginning of year	$ 194,103	$ 177,231
Financing Sources (Non-Exchange Revenues):		
Intragovernmental		
Investment interest income	13,272	4,612
Public		
Forfeited currency and monetary instruments	209,139	228,905
Sales of forfeited property net of mortgages and claims	49,497	42,660
Proceeds from participating with other federal agencies	22,337	22,740
Value of property transferred in equitable sharing	6,992	6,237
Payments in lieu of forfeiture, net of refund (Note 19)	2,023	(51,756)
Reimbursed costs	6,815	4,220
Others	3,455	31,604
Total Gross Non-Exchange Revenues	313,530	289,222
Less: Equitable Sharing		
Intragovernmental		
Federal	(3,241)	(9,758)
Public		
State and local agencies	(75,684)	(98,667)
Foreign countries	(4,227)	(2,708)
Victim restitution	(2,086)	(437)
	(81,997)	(101,812)
Total Equitable Sharing	(85,238)	(111,570)
Total Non-Exchange Revenues, Net	228,292	177,652
Transfers-Out		
Intragovernmental		
Super surplus (Note 13)	(19,211)	(25,207)
Secretary's enforcement fund (Note 14)	(12,723)	(13,439)
Total Transfers-Out	(31,934)	(38,646)
Total Financing Sources- Net	196,358	139,006
Net Cost of Operations	(135,154)	(122,134)
Net Results of Operations	61,204	16,872
Net Position - End of Year	$ 255,307	$ 194,103

The accompanying notes are an integral part of these financial statements

Department of theTreasury Forfeiture Fund
STATEMENTS OF BUDGETARY RESOURCES
For the years ended September 30, 2005 and 2004
(Dollars in Thousands)

	2005	2004
Budgetary Resources:		
Budget authority	$ 320,870	$ 313,130
Unobligated balance- beginning of year	95,779	74,826
Spending authority from offsetting collections	-	154
Recoveries from prior year obligations	15,028	23,265
Total Budgetary Resources	$ 431,677	$ 411,375
Status of Budgetary Resources:		
Obligations incurred	$ 344,917	$ 315,596
Unobligated balances - available	86,760	95,779
Total Status of Budgetary Resources	431,677	411,375
Relationship of Obligations to Outlays:		
Obligated balance, net - beginning of year	176,382	172,651
Obligated balance, net - end of year		
Undelivered orders	164,066	89,450
Accounts payable	92,189	86,932
Outlays		
Disbursements	$ 250,017	$ 288,600
Less: Spending authority from offsetting collections	-	(154)
Net Outlays	$ 250,017	$ 288,446

The accompanying notes are an integral part of these financial statements

Department of theTreasury Forfeiture Fund
STATEMENTS OF FINANCING
For the years ended September 30, 2005 and 2004
(Dollars in Thousands)

	2005	2004
Resources Used to Finance Activities:		
Budgetary resources obligated		
Obligations incurred	$ 344,917	$ 315,596
Less: Spending authority from offsetting collections and recoveries	(15,028)	(23,419)
Net obligations	329,889	292,177
Other Resources		
Transfers - out	(31,934)	(38,646)
Total Resources Used to Finance Activities	297,955	253,531
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	(58,916)	47,910
Other resources or adjustments to net obligated resources that do not affect net cost of operations		
Mortgages and claims	(10,501)	(7,331)
Refunds	(8,146)	(60,406)
Equitable sharing (federal, state/local and foreign)	(83,152)	(111,133)
Victim restitution	(2,086)	(437)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(162,801)	(131,397)
Total Resources Used to Finance the Net Cost of Operations	135,154	122,134
Net Cost of Operations	$ 135,154	$ 122,134

The accompanying notes are an integral part of these financial statements

Note 1: Reporting Entity

The Department of the Treasury Forfeiture Fund (Treasury Forfeiture Fund or the Fund) was established by the Treasury Forfeiture Fund Act of 1992, Public Law 102-393 (the TFF Act), and is codified at 31 USC 9703. The Fund was created to consolidate all Treasury law enforcement bureaus under a single forfeiture fund program administered by the Department of the Treasury (Treasury). Treasury law enforcement bureaus fully participating in the Fund upon enactment of this legislation were the U.S. Customs Service (Customs); the Internal Revenue Service (IRS); the United States Secret Service (Secret Service); the Bureau of Alcohol, Tobacco and Firearms (ATF); the Financial Crimes Enforcement Network (FinCEN); and the Federal Law Enforcement Training Center (FLETC). FinCEN and FLETC contribute no revenue to the Fund and receive relatively few distributions from the Fund. The U.S. Coast Guard, formerly part of the Department of Transportation, now part of the Department of Homeland Security (DHS), also participates in the Fund. However, all Coast Guard seizures are treated as Customs seizures because the Coast Guard lacks seizure authority.

With enactment of the Homeland Security Act of 2002 (Homeland Security Act), law enforcement bureaus currently participating in the Fund are: the Internal Revenue Service - Criminal Investigation (IRS - CI) of Treasury, Customs and Border Protection (CBP), Immigration and Customs Enforcement (ICE) and the U.S. Secret Service (USSS) of DHS. The U.S. Coast Guard of DHS join these bureaus. The Fund continues in its capacity as a multi-Departmental Fund, representing the interests of law enforcement components of the Departments of Treasury and Homeland Security.

The Fund is a special fund that is accounted for under Treasury symbol number 20X5697. From this no-year account, expenses may be incurred consistent with 31 USC 9703, as amended. A portion of these expenses, referred to as discretionary expenses, are subject to annual appropriation limitations. Others, referred to as non-discretionary (mandatory) expenses, are limited only by the availability of resources in the Fund. Both expense categories are limited in total by the amount of revenue in the Fund. The Fund is managed by the Treasury's Executive Office for Asset Forfeiture (EOAF).

The mission of the Treasury Forfeiture Fund is to affirmatively influence the consistent and strategic use of asset forfeiture by law enforcement bureaus to disrupt and dismantle criminal enterprises. The goal of the Treasury Forfeiture Fund is to support the Treasury’s national asset forfeiture program in a manner that results in federal law enforcement’s continued and effective use of asset forfeiture as a high-impact law enforcement sanction to disrupt and dismantle criminal activity. Under a Memorandum of Understanding (MOU) with Treasury, CBP acts as the executive agent for certain operations of the Fund. Pursuant to that executive agency role, CBP’s National Finance Center (NFC) is responsible for accounting and financial reporting for the Fund, including timely and accurate reporting and compliance with Treasury, the Comptroller General and the Office of Management and Budget (OMB) regulations and reporting requirements.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The Fund began preparing audited financial statements in Fiscal Year 1993 as required by the Fund's enabling legislation 31 USC 9703(f)(2)(H), and the Chief Financial Officers Act of 1990. Beginning with the Fiscal Year 1996 report, the Government Management Reform Act of 1994 (GMRA) requires executive agencies, including the Treasury, to produce audited consolidated accountability reports and related footnotes for all activities and funds.

The financial statements have been prepared from the accounting records of the Fund in conformity with accounting principles generally accepted in the United States of America (GAAP) and specified by OMB in OMB Circular A-136, *Financial Reporting Requirements (OMB Circular A-136)*. GAAP for federal entities is prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is designated the official accounting standards setting body of the Federal Government by the American Institute of Certified Public Accountants.

Financial Statements Presented

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

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

Allowable Fund Expenses

The majority of the revenue recorded by the Fund is utilized for operating expenses or distributed to state and local law enforcement agencies, other federal agencies, and foreign governments, in accordance with the various laws and policies governing the operations and activities of the Fund. Under the TFF Act, the Fund is authorized to pay certain expenses using discretionary or mandatory funding authorities of the Fund.

Discretionary authorities include but may not be limited to: the payment of expenses for the purchase of awards for information or assistance leading to a civil or criminal forfeiture involving any law enforcement bureau participating in the Fund; purchase of evidence or information that meet the criteria set out in 31 USC 9703(a)(2)(B); payment for equipment for vessels, vehicles, or aircraft available for official use as described by 31 USC 9703(a)(2)(D) and (F); reimbursement of private persons for expenses incurred while cooperating with a Treasury law enforcement organization in investigations; publication of the availability of certain awards; and payment for training foreign law enforcement personnel with respect to seizure or forfeiture activities of the Fund. Discretionary expenses are subject to an annual, definite Congressional appropriation from revenue in the Fund.

Expenses from the mandatory authorities of the Fund include but are not limited to: all proper expenses of the seizure, including investigative costs and purchases of evidence and information leading to seizure, holding cost, security costs, etc., awards of compensation to informers under section 619 of the Tariff Act (19 USC 1619); satisfaction of liens against the forfeited property, and claims of parties with interest in forfeited property; expenses incurred by state and local law enforcement agencies in joint law enforcement operations with law enforcement agencies participating in the Fund; and equitable sharing payments made to state and local law enforcement agencies in recognition of their efforts in a Fund seizure leading to forfeiture. These mandatory expenses are paid pursuant to the permanent indefinite authorities of the Fund; are only limited by revenue in the Fund each year and do not require additional Congressional action for expenditure.

The Fund's expenses are either paid on a reimbursement basis or paid directly on behalf of a participating bureau. Reimbursable expenses are incurred by the respective bureaus participating in the Fund against their appropriation and then submitted to the Fund for reimbursement. The bureaus are reimbursed through Inter-Agency Transfers (SF-1081) or Intra-governmental Payments and Collection (IPAC) System. Certain expenses such as equitable sharing, liens, claims and state and local joint operations costs are paid directly from the Fund.

Further, the Fund is a component unit of the Treasury with participating bureaus in the DHS. As such, employees of both Departments may perform certain operational and administrative tasks related to the Fund. Payroll costs of employees directly involved in the security and maintenance of forfeited property are also recorded as expenses in the financial statements of the Fund (included in the line item “seizure investigative costs and asset management” in the statement of net cost.)

Revenue and Expense Recognition

Revenue from the forfeiture of property is deferred until the property is sold or transferred to a state, local or federal agency. Revenue is not recorded if the forfeited property is ultimately destroyed or cannot be legally sold.

Revenue from currency is recognized upon forfeiture. Payments in lieu of forfeiture (mitigated seizures) are recognized as revenue when the payment is received. Revenue received from participating with certain other federal agencies is recognized when the payment is received. Operating costs are recorded as expenses and related liabilities when goods are received or services are performed. Certain probable equitable sharing liabilities existing at year end are accrued based on estimates.

As provided for in the TFF Act, the Fund invests seized and forfeited currency that is not needed for current operations. Treasury’s Bureau of Public Debt invests the funds in obligations of, or guaranteed by, the United States Government. Interest is reported to the Fund and recorded monthly as revenue in the general ledger.

Equitable Sharing (Assets Distributed)

Forfeited property, currency, or proceeds from the sales of forfeited property may be shared with federal, state and local law enforcement agencies or foreign governments, which provided direct or indirect assistance in the related seizure. In addition, the Fund may transfer forfeited property to other federal agencies, which would benefit from the use of the item. A new class of asset distribution was established for victim restitution in 1995. These distributions include property and cash returned to victims of fraud and other illegal activity. Upon approval by Fund management to share or transfer the assets, both revenue from distributed forfeited assets and distributions are recognized for the net realizable value of the asset to be shared or transferred, thereby resulting in no gain or loss recognized. Revenue and /or expenses are recognized for property and currency, which are distributed to or shared with non-federal agencies, per SFFAS No. 7, *Accounting for Revenue and Other Financing Sources*.

Entity Assets

Entity assets are used to conduct the operations and activities of the Fund. Entity assets comprise intragovernmental and non-intragovernmental assets. Intragovernmental balances arise from transactions among federal agencies. These assets are claims of a federal entity against another federal entity. Entity assets consist of cash or other assets, which could be converted into cash to meet the Fund's current or future operational needs. Such other assets include investments of forfeited balances, accrued interest on seized balances, receivables, and forfeited property, which are held for sale or to be distributed.

- **Fund Balance with Treasury –** This represents amounts on deposit with Treasury.

- **Investments and Related Interest Receivable –** This includes forfeited cash held by the Fund and seized currency held in the Customs Suspense Account that had been invested in short term U.S. Government Securities.

- **Receivables –** Intragovernmental receivables principally represent monies due from the law enforcement agencies participating in the Fund. The values reported for other receivables are primarily funds due from the national seized property contractor for properties sold; the proceeds of which have not yet been deposited into the Fund.

  No allowance has been made for uncollectible amounts as the accounts recorded as a receivable at year end were considered to be fully collectible as of September 30, 2005 and 2004.

- **Advances –** This primarily represents cash transfers to Treasury or law enforcement bureaus participating in the Fund for orders to be delivered.

- **Cash and Other Monetary Assets –** This includes forfeited currency on hand not yet deposited, and forfeited currency held as evidence.

- **Forfeited Property and Currency –** Forfeited property and currency is recorded in the respective seized property and forfeited asset tracking systems at the estimated fair value at the time of seizure. However, based on historical sales experiences for the year, properties are adjusted to reflect the market value at the end of the fiscal year for financial statement reporting purposes. Direct and indirect holding costs are not capitalized for individual forfeited assets. Forfeited currency not deposited into the Fund is included as part of Entity Assets - Cash and Other Monetary Assets.

Further, mortgages and claims on forfeited assets are recognized as a valuation allowance and a reduction of deferred revenue from forfeited assets when the asset is forfeited. The allowance includes mortgages and claims on forfeited property held for sale and a minimal amount of claims on forfeited property previously sold. Mortgages and claims expenses are recognized when the related asset is sold and is reflected as a reduction of sales of forfeited property.

Additionally, SFFAS No. 3, *Accounting for Inventory and Related Property*, requires certain additional disclosures in the notes to the financial statements, including an analysis of changes in forfeited property and currency, for both carrying value and quantities, from that on hand at the beginning of the year to that on hand at the end of the year. These analyses are disclosed in Notes 8 and 9.

Non-entity Assets

Non-entity assets held by the Fund are not available for use by the Fund. Non-entity assets comprise intragovernmental and other assets. Intragovernmental balances arise from transactions among federal agencies. These assets are claims of a federal entity against another federal entity. Non-entity assets are not considered as financing sources (revenue) available to offset operating expenses, therefore, a corresponding liability is recorded and presented as governmental liabilities in the balance sheet to reflect the custodial/fiduciary nature of these activities.

- **Seized Currency and Property –** Seized Currency is defined as cash or monetary instruments that are readily convertible to cash on a dollar for dollar basis. OMB issued SFFAS No. 3 which requires that seized monetary instruments (cash and cash equivalents) be recognized as an asset in the financial statements and a liability be established in an amount equal to the seized asset value due to: (i) the fungible nature of monetary instruments, (ii) the high level of control that is necessary over these assets; and (iii) the possibility that these monies may be returned to their owner in lieu of forfeiture.

  Seized property is recorded at its appraised value at the time of seizure. The value is determined by the seizing entity and is usually based on a market analysis such as a third party appraisal, standard property value publications or bank statements. Seized property is not recognized as an asset in the financial statements, as transfer of ownership to the government has not occurred as of September 30. Accordingly, seized property other than monetary instruments are disclosed in the footnotes in accordance with SFFAS No. 3.

- **Investments –** This balance includes seized cash on deposit in the Fund's suspense account held by Treasury which has been invested in short term U.S. Government Securities.

- **Cash and Other Monetary Assets –** This balance represents the aggregate amount of the Fund's seized currency on deposit in the Fund's suspense account held by Treasury, seized cash on deposit held with other financial institutions, and, cash on hand in vaults held at field office locations.

Liabilities Covered by Budgetary Resources

Liabilities covered by budgetary resources represent liabilities incurred, which are covered by available budgetary resources. The components of such liabilities for the Fund are as follows:

- **Distributions Payable –** Distributions payable to federal and non-federal agencies is primarily related to equitable sharing payments and payments to be made by the Fund to the victims of fraud.

- **Accounts Payable –** Amounts reported in this category include accrued expenses authorized by the TFF Act (See "Allowable Fund Expenses") for which payment was pending at year end.

- **Seized Currency –** Amounts reported in this category represent the value of seized currency that is held by the Fund which equals the amount of seized currency reported as an asset.

- **Deferred Revenue from Forfeited Assets –** At year end, the Fund held forfeited assets, which had not yet been converted into cash through a sale. The amount reported here represents the value of these assets, net of mortgages and claims.

Liabilities Not Covered by Budgetary Resources

The Fund does not currently have liabilities not covered by available budgetary resources.

Net Position

The components of net position are classified as follows:

- **Retained Capital –** There is no cap on amounts that the Fund can carry forward into Fiscal Year 2006. The cap was removed by the Fiscal Year 1997 Omnibus Appropriations Act (PL 104-208).

- **Unliquidated Obligations –** This category represents the amount of undelivered purchase orders, contracts and equitable sharing requests which have been obligated with current budget resources or delivered purchase orders and contracts that have not been invoiced. An expense and liability are recognized and the corresponding obligations are reduced as goods are received or services are performed. A portion of the equitable sharing requests that were in final stages of approval are recognized as liabilities at year end. Prior experience with the nature of this account indicated that a substantial portion of these requests were certain liabilities at year end. Prior to Fiscal Year 1999, expenses and liabilities were recognized and the corresponding obligations reduced when final management approval for an equitable sharing request was given (See also Distributions Payable at Note 10).

- **Results of Operations –** This category represents the net difference, for the activity during the year, between: (i) financing sources including transfers, and revenues; and (ii) expenses.

Note 3: Investments and Related Interest

All investments are intragovernmental short-term (35 days or less) non-marketable par value federal debt securities issued by, and purchased through, Treasury's Bureau of the Public Debt. Investments are always purchased at a discount and are reported at acquisition cost (market value), net of discount. The discount is amortized into interest income over the term of the investment. The investments are always held to maturity. They are made from cash in the Fund and from seized currency held in the Customs Suspense Account. The Customs Suspense Account became the depository for seized cash for the Fund following enactment of the TFF Act. The investment, net, represents the required market value.

The following schedule presents the investments on hand as of September 30, 2005 and 2004, respectively (dollars in thousands):

Entity Assets

Description	***Cost***	***Unamortized Discount***	***Investment, Net***
September 30, 2005:			
Treasury Forfeiture Fund - 28 days 3.15% U.S. Treasury Bills	$ 178,565	$ (547)	$ 178,018
Interest Receivable –			
On entity investments			234
On non-entity investments			424
Total Investment, Net, and Interest Receivable			$ 178,676
September 30, 2004:			
Treasury Forfeiture Fund - 28 days 1.520% U.S. Treasury Bills	$ 125,820	$ (186)	$ 125,634
Interest Receivable –			
On entity investments			74
On non-entity investments			195
Total Investment, Net, and Interest Receivable			$ 125,903

Non-entity Assets

Description	***Cost***	***Unamortized Discount***	***Investment, Net***
September 30, 2005:			
Treasury Forfeiture Fund – Seized Currency Suspense Account 28 days 3.15% U.S. Treasury Bills	$ 322,196	$ (987)	$ 321,209
September 30, 2004:			
Treasury Forfeiture Fund – Seized Currency Suspense Account 28 days 1.520% U.S. Treasury Bills	$ 329,726	$ (487)	$ 329,239

Note 4: Intragovernmental and Other Non-Entity Assets

The following schedule presents the intragovernmental and other non-entity assets as of September 30, 2005 and 2004, respectively, (dollars in thousands):

	2005	**2004**
Intragovernmental Assets:		
Seized currency:		
Investments (Note 3)	$ 321,209	$ 329,239
Seized currency:		
Cash and other monetary assets (Note 6)	59,803	44,206
Total Non-Entity Assets	381,012	373,445
Total Entity Assets	394,952	324,275
Total Assets	$ 775,964	$ 697,720

Note 5: Advances

Advances amounted to $143 thousand and $12 thousand as of September 30, 2005 and 2004, respectively.

Note 6: Cash and Other Monetary Assets

Entity Assets

Cash and Other Monetary Assets held on hand included forfeited currency not yet deposited, as well as forfeited currency held as evidence, amounting to $4.9 million and $8.4 million as of

September 30, 2005 and 2004, respectively.

Non-Entity Assets

Cash and Other Monetary Assets included seized currency not yet deposited, as well as deposited seized currency which is not invested in order to pay remissions, amounting to $59.8 million and $44.2 million as of September 30, 2005 and 2004, respectively.

Note 7: Forfeited Property

The following summarizes the components of forfeited property (net), as of September 30, 2005 and 2004, respectively, (dollars in thousands):

	2005	**2004**
Held for Sale	$ 52,874	$ 42,943
To be shared with federal, state or local, or foreign government	1,789	820
Total forfeited property (Note 8)	54,663	43,763
Less: Allowance for mortgages and claims	(9,252)	(1,200)
Total forfeited property, net	$ 45,411	$ 42,563

Note 8: ***FY 2005 Analysis of Changes in Forfeited Property and Currency***

The following schedule presents the changes in the forfeited property and balances from October 1, 2004 to September 30, 2005.
(Dollar value is in thousasnds.)

	10/1/04 Financial Statement Balance		Adjustments		10/1/04 Carrying Value		Forfeitures		Deposits/Sales		Disposals/Transfers	
	Value	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**
Currency	$ 6,725	-	$ -	-	$ 6,725	-	$ 188,046	-	$ (201,069)	-	$ (12,491)	-
Other Monetary Instruments	1,695	-	-	-	1,695	-	8	-	(10)	-	-	-
Subtotal	8,420	-	-	-	8,420	-	188,054	-	(201,079)	-	(12,491)	-
Real Property	31,603	114	(12,245)	-	19,358	114	42,115	147	(29,575)	(126)	(2,175)	(10)
General Property	2,855	5,335	15,972	-	18,827	5,335	20,134	13,431	(9,747)	(2,263)	(7,705)	(932)
Vessels	566	32	282	-	848	32	2,511	104	(1,818)	(74)	(231)	(10)
Aircraft	103	2	72	-	175	2	561	5	(350)	(3)	(183)	(2)
Vehicles	8,636	8,686	5,378	-	14,014	8,686	38,373	26,887	(25,502)	(4,584)	(11,074)	(1,330)
Subtotal	43,763	14,169	9,459	-	53,222	14,169	103,694	40,574	(66,992)	(7,050)	(21,368)	(2,284)
Grand Total	$ 52,183	14,169	$ 9,459	-	$ 61,642	14,169	$ 291,748	40,574	$ (268,071)	(7,050)	$ (33,859)	(2,284)

	Victim Restitution		Destroyed		Other Adjustments		Value Change		2005 Carrying Value		Fair Market Value Adjustment		9/30/05 Financial Statement Balance	
	Value	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**
Currency	$ -		$ -		23,518	-	$ -	-	$ 4,729		$ -		$ 4,729	
Other Monetary Instruments	-	-	-	-	(1,489)	-	-	-	204	-	-	-	204	-
Subtotal	-	-	-	-	22,029	-	-	-	4,933	-	-	-	4,933	-
Real Property	-	-	-	-	2,385	13	18	-	32,126	138	7,243	-	39,369	138
General Property	-	-	(95)	(9,689)	404	197	(6,891)	-	14,927	6,079	(9,640)	-	5,287	6,079
Vessels	-	-	-	(23)	137	-	5	-	1,452	29	(706)	-	746	29
Aircraft	-	-	-	-	-	-	-	-	203	2	(56)	-	147	2
Vehicles	-	-		(25,431)	482	(90)	(1,705)	-	14,588	4,138	(5,474)	-	9,114	4,138
Subtotal	-	-	(95)	(35,143)	3,408	120	(8,573)	-	63,296	10,386	(8,633)	-	54,663	10,386
Grand Total	$ -	-	$ (95)	(35,143)	$ 25,437	120	$ (8,573)	-	$ 68,229	10,386	$ (8,633)	-	$ 59,596	10,386

Note 8 (Contd.): ***FY 2004 Analysis of Changes in Forfeited Property and Currency***

The following schedule presents the changes in the forfeited property and balances from October 1, 2003 to September 30, 2004.
(Dollar value is in thousasnds.)

	10/1/03 Financial Statement Balance		Adjustments		10/1/2003 Carrying Value		Forfeitures		Deposits/Sales		Disposals/Transfers	
	Value	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**
Currency	$ 6,853	-	$ -	-	$ 6,853	-	$ 159,420	-	$ (164,845)	-	$ (1,833)	-
Other Monetary Instruments	1,581	-	-	-	1,581	-	136	-	(23)	-	-	-
Subtotal	8,434	-	-	-	8,434	-	159,556	-	(164,868)	-	(1,833)	-
Real Property	23,025	99	(2,052)	-	20,973	99	18,783	96	(21,512)	(85)	(202)	(4)
General Property	7,043	4,080	27,254	-	34,297	4,080	21,469	10,862	(20,455)	(2,421)	(3,887)	(630)
Vessels	374	33	292	-	666	33	2,089	95	(2,062)	(78)	(183)	(8)
Aircraft	20	2	-	-	20	2	384	6	(133)	(4)	(96)	(2)
Vehicles	4,727	1,559	3,470	-	8,197	1,559	29,034	19,364	(15,324)	(2,270)	(6,471)	(642)
Subtotal	35,189	5,773	28,964	-	64,153	5,773	71,759	30,423	(59,486)	(4,858)	(10,839)	(1,286)
Grand Total	$ 43,623	5,773	$ 28,964	-	$ 72,587	5,773	$ 231,315	30,423	$ (224,354)	(4,858)	$ (12,672)	(1,286)

	Victim Restitution		Destroyed		Other Adjustments		Value Change		2004 Carrying Value		Fair Market Value Adjustment		9/30/04 Financial Statement Balance	
	Value	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**
Currency	$ -		$ -		$ 7,130	-	$ -	-	$ 6,725		$ -		$ 6,725	
Other Monetary Instruments	-	-	-	-	1	-	-	-	1,695	-	-	-	1,695	-
Subtotal	-	-	-	-	7,131	-	-	-	8,420	-	-	-	8,420	-
Real Property	-	-	-	-	1,442	8	(126)	-	19,358	114	12,245	-	31,603	114
General Property	-	-	(80)	(8,012)	(7,532)	1,456	(4,985)	-	18,827	5,335	(15,972)	-	2,855	5,335
Vessels	-	-	-	(11)	352	1	(14)	-	848	32	(282)	-	566	32
Aircraft	-	-	-	-	-	-	-	-	175	2	(72)	-	103	2
Vehicles	-	-	(67)	(9,316)	(346)	(9)	(1,009)	-	14,014	8,686	(5,378)	-	8,636	8,686
Subtotal	-	-	(147)	(17,339)	(6,084)	1,456	(6,134)	-	53,222	14,169	(9,459)	-	43,763	14,169
Grand Total	$ -	-	$ (147)	(17,339)	$ 1,047	1,456	$ (6,134)	-	$ 61,642	14,169	$ (9,459)	-	$ 52,183	14,169

Note 9: ***FY 2005 Analysis of Changes in Seized Property and Currency***

Seized property and currency result primarily from enforcement activities. Seized property is not legally owned by the Fund until judicially or administratively forfeited. Because of the fungible nature of currency and the high level of control necessary over these assets and the possibility that these monies may be returned to their owners in lieu of forfeiture, seized currency is reported as a custodial asset upon seizure. Seized property other than currency is reported as a custodial asset upon forfeiture. (Dollar value is in thousands.)

	9/30/04 Financial Statement Balance		Seizures		Remissions		Forfeitures		Adjustments		Value Changes		9/30/05 Financial Statement Balance	
	Value	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**
Currency	$ 371,969	-	$ 257,156	-	$ (51,382)	-	$ (188,046)	-	$ (9,843)	-	$ (589)	-	$ 379,265	-
Other Monetary Instruments	1,476	-	652	-	(326)	-	(8)	-	(47)	-	-	-	1,747	-
Subtotal	373,445	-	257,808	-	(51,708)	-	(188,054)	-	(9,890)	-	(589)	-	381,012	-
Real Property	234,725	581	122,458	225	(16,243)	(89)	(42,115)	(147)	(38,626)	57	974	-	261,173	627
General Property	187,362	10,432	177,847	21,696	(135,019)	(4,641)	(20,134)	(13,431)	(2,328)	(3,723)	(61,169)	-	146,559	10,333
Vessels	3,148	95	6,252	158	(2,073)	(46)	(2,511)	(104)	(365)	(6)	(101)	-	4,350	97
Aircraft	5,989	14	7,014	12	(6,987)	(10)	(561)	(5)	(29)	(3)	(1,272)	-	4,154	8
Vehicles	61,928	13,555	127,426	34,235	(74,958)	(9,032)	(38,373)	(26,887)	(4,235)	(1,580)	(10,767)	-	61,021	10,291
Subtotal	493,152	24,677	440,997	56,326	(235,280)	(13,818)	(103,694)	(40,574)	(45,583)	(5,255)	(72,335)	-	477,257	21,356
Grand Total	$ 866,597	24,677	$ 698,805	56,326	$ (286,988)	(13,818)	$ (291,748)	(40,574)	$ (55,473)	(5,255)	$ (72,924)	-	858,269	21,356

Note 9 (Contd.): ***FY 2004 Analysis of Changes in Seized Property and Currency***

Seized property and currency result primarily from enforcement activities. Seized property is not legally owned by the Fund until judicially or administratively forfeited. Because of the fungible nature of currency and the high level of control necessary over these assets and the possibility that these monies may be returned to their owners in lieu of forfeiture, seized currency is reported as a custodial asset upon seizure. Seized property other than currency is reported as a custodial asset upon forfeiture. (Dollar value is in thousands.)

	9/30/03 Financial Statement Balance		Seizures		Remissions		Forfeitures		Adjustments		Value Changes		9/30/04 Financial Statement Balance	
	Value	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**
Currency	$ 395,706	-	$ 254,451	-	$ (123,051)	-	$ (159,420)	-	$ 4,283	-	$ -	-	$ 371,969	-
Other Monetary Instruments	850	-	268	-	(362)	-	(136)	-	856	-	-	-	1,476	-
Subtotal	396,556	-	254,719	-	(123,413)	-	(159,556)	-	5,139	-	-	-	373,445	-
Real Property	96,331	293	143,081	292	(7,258)	(60)	(18,783)	(96)	21,353	152	1	-	234,725	581
General Property	151,771	9,992	296,201	18,861	(234,946)	(5,463)	(21,469)	(10,862)	(18,660)	(2,096)	14,465	-	187,362	10,432
Vessels	2,626	70	5,156	148	(1,900)	(31)	(2,089)	(95)	(432)	3	(213)	-	3,148	95
Aircraft	5,393	14	33,209	22	(31,248)	(16)	(384)	(6)	(981)	-	-	-	5,989	14
Vehicles	22,988	1,866	125,080	35,594	(54,949)	(4,421)	(29,034)	(19,364)	(736)	(120)	(1,421)	-	61,928	13,555
Subtotal	279,109	12,235	602,727	54,917	(330,301)	(9,991)	(71,759)	(30,423)	544	(2,061)	12,832	-	493,152	24,677
Grand Total	$ 675,665	12,235	$ 857,446	54,917	$ (453,714)	(9,991)	$ (231,315)	(30,423)	$ 5,683	(2,061)	$ 12,832	-	866,597	24,677

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

Distributions Payable (state and local agencies and foreign governments) amounted to $44.1 million and $50.4 million as of September 30, 2005 and 2004, respectively. Fund management recognizes as a liability a portion (based on the average of historical pay-out percentage) of the equitable sharing requests, that were approved or in final stages of approval on September 30, 2005 and 2004, respectively. Prior experience with the nature of this account indicated that a substantial portion of these requests were certain to be paid out by the Fund during the following fiscal year.

Note 11: Net Position

Cumulative Results

The following summarizes components of cumulative results as of and for the years ended September 30, 2005 and 2004, respectively, (dollars in thousands):

	2005	2004
Retained Capital	133,730	$ 111,691
Unliquidated Obligations	60,373	65,540
Results of Operations	61,204	16,872
	$ 255,307	$ 194,103

Unliquidated Obligations

The following summarizes the components of unliquidated obligations as of September 30, 2005 and 2004, respectively, (dollars in thousands):

	2005	2004
Discretionary	$ --	$ --
Equitable Sharing	37,087	50,386
Mandatory	23,286	15,154
	$60,373	$ 65,540

Note 12: Related Party Transactions

The Fund reimbursed agencies for the purchase of certain capital assets. These assets are reported by the participating agencies in their financial statements.

Note 13: Super Surplus

31 USC 9703 (g)(4)(B) allows for the expenditure, without fiscal year limitation, after the reservation of amounts needed to continue operations of the Fund. This “Super Surplus” balance may be used for law enforcement activities of any federal agency.

Amounts distributed to other federal agencies for law enforcement activities under "Super Surplus" requirements amounts to $21.5 million and $25.2 million in fiscal years 2005 and 2004, respectively.

Note 14: Secretary's Enforcement Fund

31 USC 9703 (b)(5) is another category of permanent indefinite authority. These funds are available to the Secretary, without further action by Congress and without fiscal year limitation, for federal law enforcement purposes of Treasury law enforcement organizations. The source of Section 9703(b)(5) funds is equitable sharing payments received from the Department of Justice and the U.S. Postal Service (USPS) representing Treasury's share of forfeiture proceeds from Justice and USPS cases.

Amounts distributed for federal law enforcement purposes of Treasury law enforcement organizations amounted to $13.2 million and $13.5 million in fiscal years 2005 and 2004, respectively.

Note 15: Commitments and Contingencies

A portion of the equitable sharing requests that were in final stages of approval are recognized as liabilities as of September 30 (See also Note 10, Distributions Payable).

In addition to the amounts estimated above, there are additional amounts, which may ultimately be shared, which are not identified at this time.

CONTINGENCIES

Possible claims of potential significance include the following:

1. The United States Court of Appeals for the Ninth Circuit ruled that it is unconstitutional to forfeit currency based upon a violation of a federal currency reporting statute. Accordingly, the court has ruled that in returning currency, the government must return the benefit that is received from holding the currency.

The interest to be returned will be payable out of the income of the Fund, and, at present, represents a possible claim of potential significance.

2. The Supreme Court has ruled that the government must return forfeited currency in those cases of individuals convicted for currency reporting violations who have had currency forfeited due to the violation. The amount of the currency that might be refunded will be payable from the Fund, and, at present, represents a possible claim of potential significance.

At present, it is not possible to determine the likelihood that the above claims will arise. Similarly, it is not possible to determine the value of such potential claims against the Fund.

Judgements and settlements of $2,500 or greater, resulting from litigation and claims against the Fund are satisfied from various claims and judgement funds maintained by Treasury.

Note 16: Disclosures Related to the Statements of Net Cost

Gross costs and earned revenue related to Law Enforcement Programs administered by the Fund are presented in Treasury's budget functional classification (in thousands) as set out below:

	2005	**2004**
Gross Costs	$ 135,154	$ 122,134
Earned Revenues	--	--
Net Costs	$ 135,154	$ 122,134

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

Note 17: Disclosures Related to the Statements of Budgetary Resources

The Fund's net amount of budgetary resources obligated for undelivered orders at the end of fiscal years 2005 and 2004 are $164.0 million and $89.5 million, respectively. This amount is fully covered by cash on hand in the Fund and Entity Investments. The Fund does not have borrowing or contract authority and, therefore, has no repayment requirements, financing sources for repayment, or other terms of borrowing authority. No adjustments were required during the reporting period to budgetary resources available at the beginning of the year. There are no legal arrangements, outside of normal government wide restrictions, specifically affecting the Fund's use of unobligated balances of budget authority.

Adjustments to budgetary resources available at the beginning of fiscal years 2005 and 2004 consist of the following (in thousands):

	2005	**2004**
Recoveries of Prior Year Obligations	$ 15,028	$ 23,265
Spending Authority from Offsetting Collections	--	154
Total	$ 15,028	$ 23,419

Recoveries of prior year obligations are the difference between amounts that Fund management obligated (including equitable sharing) and amounts subsequently approved for payment against those obligations.

Note 18: Dedicated Collections

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

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

The following summarizes Payments in Lieu of Forfeiture, Net of Refund as of September 30, 2005 and 2004, respectively, (dollars in thousands):

	2005	2004
Payments in Lieu of Forfeiture	$ 10,169	$ 8,650
Refunds	(8,146)	(60,406)
Total	$ 2,023	($51,756)

SECTION III

OTHER REPORTS

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GARDINER KAMYA
& ASSOCIATES, PC

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Independent Auditor's Report on Internal Control over Financial Reporting

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

We have audited the Principal Statements (balance sheets and the related statements of net cost, changes in net position, budgetary resources and financing, hereinafter referred to as "financial statements") of the Department of the Treasury Forfeiture Fund (the Fund) as of and for the year ended September 30, 2005, and have issued our report thereon dated December 1, 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, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

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

Our consideration of the internal control over financial reporting 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 that, in our judgment, could adversely affect the Fund's ability to initiate, record, process, and report financial data consistent with the assertions by Fund Management in the financial statements.

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 misstatement caused by error or fraud in amounts that would be material in relation to the financial statements 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 internal controls, misstatements due to error or fraud, may occur and not be detected.

1717 K STREET, NW SUITE 601
WASHINGTON, DC 20036
P 202 857 1777 F 202 857 1778
WWW.GKACPA.COM

However, we noted certain matters discussed in the following paragraphs involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

These reportable conditions, as defined above, are summarized below with further explanations and Fund Management's responses in **Exhibits I and II** of this report.

Material Weakness

The Organizational Structure does not Provide for Effective Chief Financial Officer (CFO) Function and Responsibilities

The Fund's organizational structure with respect to the CFO function is not clearly defined. In the Fund's organization chart dated March 3, 2005, the CFO/Financial Management Officer reports to the Assistant Director, Operations and does not appear to have responsibilities for functions that are typically within the purview of a CFO, such as financial operations and analysis, financial systems, budget formulation and execution. During the course of the audit, we also noted that, in different situations, different individuals have taken on the responsibilities of the CFO. For instance, the Director signed off as the Director and CFO for the Fund's FY 2005 Management Representation Letter dated November 7, 2005, provided to the Department for preparation of the Department's Consolidated Financial Statements and Performance and Accountability Report. In other correspondence during the audit, the Financial Management Officer signed off as the Acting CFO and Deputy CFO. The Fund needs to have an individual clearly designated and recognized as the CFO. This individual should be delegated authority over the customary functions stated above.

Reportable Condition

Indirect Overhead Expenses of the National Seized Property Contractor are not Recorded and Accounted for by the Fund to the Line Item Level. (Repeat Condition)

Indirect overhead expenses of the national seized property contractor are not recorded and accounted for by the Fund to the line item level. The Fund's Property Custodian incurs costs on behalf of the Fund from the time of seizure until the asset is ultimately disposed. Currently, only holding costs and direct selling costs related to general property are captured in the Seized Assets and Case Tracking System (SEACATS) at the line item level, but not the indirect costs.

Because the weakness impacts the control environment of the Fund and related lines of authority, and the condition can impact equitable sharing expenses of the Fund, these should be remedied.

We also noted other matters involving the internal control structure and its operation that we have reported to Fund Management in a separate letter dated December 1, 2005.

Finally, with respect to internal control related to performance measures reported in Section 1, "Overview," we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

This report is intended solely for the information and use of the Management of the Fund, the U.S. Department of the Treasury, OMB, the U.S. Congress, the Office of Inspector General and the Government Accountability Office and is not intended to be, and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Gardiner, Kamya & Associates

December 1, 2005

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GARDINER KAMYA
& ASSOCIATES, PC

CERTIFIED PUBLIC ACCOUNTANTS | MANAGEMENT CONSULTANTS

Independent Auditor's Report on Compliance with Laws and Regulations

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

We have audited the Principal Statements (balance sheets and the related statements of net cost, changes in net position, budgetary resources and financing, hereinafter referred to as "financial statements") of the Department of the Treasury Forfeiture Fund (the Fund) as of and for the year ended September 30, 2005, and have issued our report thereon dated December 1, 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, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the Fund is responsible for complying with laws and regulations applicable to the Fund. As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Fund.

The results of our tests of compliance disclosed no instances of noncompliance with laws and regulations discussed in the preceding paragraph exclusive of FFMIA, that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

Under FFMIA, we are required to report whether the Fund's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed no instances in which the Fund's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

1717 K STREET, NW SUITE 601
WASHINGTON, DC 20036
P 202 857 1777 F 202 857 1778
WWW. GKACPA.COM

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the Management of the Fund, the U.S. Department of the Treasury, OMB, the U.S. Congress, the Office of Inspector General, and the Government Accountability Office and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

December 1, 2005

EXHIBIT I

MATERIAL WEAKNESS

THE ORGANIZATIONAL STRUCTURE DOES NOT PROVIDE FOR EFFECTIVE CHIEF FINANCIAL OFFICER (CFO) FUNCTION AND RESPONSIBILITIES

The Fund's organizational structure with respect to the CFO function is not clearly defined. In the Fund's organization chart dated March 3, 2005, the CFO/Financial Management Officer reports to the Assistant Director, Operations and does not appear to have responsibilities for functions that are typically within the purview of a CFO, such as financial operations and analysis, financial systems, budget formulation and execution. During the course of the audit, we also noted that, in different situations, different individuals have taken on the responsibilities of the CFO. For instance, the Director signed off as the Director and CFO for the Fund's FY 2005 Management Representation Letter dated November 7, 2005, provided to the Department for preparation of the Department's Consolidated Financial Statements and Performance and Accountability Report. In other correspondence during the audit, the Financial Management Officer signed off as the Acting CFO and Deputy CFO. The Fund needs to have an individual clearly designated and recognized as the CFO. This individual should be delegated authority over the customary functions stated above.

Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control,* defines the control environment as the organizational structure and culture created by management and employees to sustain organizational support for effective internal control. Within the organizational structure, management must clearly: define areas of authority and responsibility; appropriately delegate the authority and responsibility throughout the agency; and establish a suitable hierarchy for reporting.

The role of the CFO should be the linchpin in an organization's plan to ensure the integrity of financial accounting and reporting. This includes providing for effective financial management systems, development of accounting policies and ensuring compliance with applicable internal control standards.

Role conflicts and ambiguities with respect to who has the authority and responsibility of the CFO for the Fund can adversely impact the Fund's operations and related financial reporting. For example, the FY 2005 and 2004, closing instructions for equitable sharing expenses, sent out by the Director, did not provide for an accrual for September expenses. As a result, $3.3 million and $7.6 million of equitable sharing expenses were not accrued at year end for FY 2005 and 2004, respectively. The Director and the CFO/Financial Management Officer did not realize that the closing instructions did not provide for a September accrual until after the FY 2005 year end which caused a delay in the completion of the FY 2005 audit. An effective CFO function would have provided for an accrual for September equitable sharing expenses to compensate for the closing instructions limitation and ensure that 12 months of activity was reported in the annual financial statements. If the role of the CFO and related lines of authority and responsibilities are not clarified, additional errors may occur in the future that may be material.

The current organizational structure (i) weakens the control environment in which the Fund operates; and (ii) undermines the objectives of a good internal control system to ensure effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

RECOMMENDATIONS

We recommend that:

(1) The Under Secretary (Terrorism and Financial Crimes) establishes an organizational structure for the Fund that clearly designates a CFO and assigns appropriate authority and responsibilities to the CFO.

(2) The Director of EOAF ensures that procedures are established to estimate September equitable sharing obligations for financial reporting purposes. This estimate can be based on an average of equitable sharing percentages for the eleven months preceding September. The estimate can be adjusted after year end for any significant difference from the official estimates received from the applicable bureaus in October.

MANAGEMENT RESPONSE

The Treasury Forfeiture Fund duly notes the aforementioned concerns and acknowledges that the auditors were not provided all of the required assistance and information according to the agreed upon schedules and timetables. Additionally, the management team did not always act as cohesively as it should have, particularly during the conduct of the audit. The Treasury Forfeiture Fund will reexamine its organizational structure and operating processes, particularly in the area of Financial Statement preparation, and will make the needed changes to ensure both the timely preparation of Financial Statements, as well as an effective program of internal controls.

The Fund will adopt the auditor's suggestion regarding the estimated obligations for equitable sharing obligations during the month of September.

EXHIBIT II

REPORTABLE CONDITION

INDIRECT OVERHEAD EXPENSES OF THE NATIONAL SEIZED PROPERTY CONTRACTOR ARE NOT RECORDED AND ACCOUNTED FOR BY THE FUND TO THE LINE ITEM LEVEL. (Repeat Condition)

Indirect overhead expenses of the national seized property contractor are not recorded and accounted for by the Fund to the line item level. The Fund's Property Custodian incurs costs on behalf of the Fund from the time of seizure until the asset is ultimately disposed. Currently, only holding costs and direct selling costs related to general and real property are captured in the Seized Assets and Case Tracking System (SEACATS) at the line item level, but not the indirect costs.

The Budget and Accounting Procedures Act of 1950, Section 3512, *Executive Agency's Accounting System* requires Federal agencies to establish an internal control which ensures the safeguarding of assets and the proper recording of revenues and expenditures. It is further reinforced by the Federal Manager's Financial Integrity Act of 1982 (FMFIA) which requires that internal accounting and administrative controls be established to provide reasonable assurances that revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets. Additionally, the Joint Financial Management Improvement Program's (JFMIP) Seized Property and Forfeited Assets Systems Requirements require seized property and forfeited assets systems to record costs incurred while the asset is in custody, and costs incurred in disposition activities.

The Fund relies on the Property Custodian for providing asset specific expenses information. Deficiencies in the system (SEACATS) that the Property Custodian uses preclude the capturing of certain expense information at the asset level. Currently, only holding costs and direct selling costs related to general and real property are captured in SEACATS at the line item level.

The Fund is unable to report total asset specific expenses in the inventory systems. Overhead costs of the general and real property contracts are not distributed to the line item level. The Fund's asset management function will deteriorate if the above conditions are allowed to continue, resulting ultimately in a lack of accountability over the assets of the Fund. This is because revenue associated with the asset may be overhead for purposes of equitable sharing, victim restitution and possibly other uses of the funds where the calculation will result in a distribution of all resources after expenses. If expenses are understated, the resulting distribution will be over-stated which can damage the long-term viability of the Fund if uncorrected and chronic in nature.

RECOMMENDATION

In view of the Fund's acknowledgement of this condition and SEACATS' inability to capture the required information, we make the following recommendations:

a. For all common support costs not directly traceable to individual seizures, an allocation process needs to be developed and implemented. Indirect costs will have to be applied to the individual seizures. Direct and indirect costs will have to be added together to provide total costs per seizure.

b. EOAF should vigorously pursue the enhancement of SEACATS system capabilities to record and report total expenses at the asset level.

MANAGEMENT RESPONSE

Management Assessment on Progress:

(1) Real Property Contract: Although the real property contract has been in place for four years, and resolution of this reportable condition is a specifically stated requirement for the contract, the condition remains open and unresolved. TFF Management took action to move the Real Property Contract from the auspices of Customs and Border Protection (CBP), Department of Homeland Security to direct management by the Executive Office for Asset Forfeiture. However, the problem remains because resolution of the issue requires software programming by CBP to implement the approved methodology for capturing the overhead expenses to the line item level for the real property contract. To date, CBP has not accomplished this initiative although the Fund provided resources to do so in the initial year the methodology was identified and approved.

(2) General Property Contract: The requirement to distribute contract overhead costs to the line item level is included in the Statement of Work for the general property contract now in process. TFF Management has taken action to move procurement of the general property contract to the auspices of the Executive Office for Asset Forfeiture. Until such time as a new contract can be awarded, resolution of the Reportable Condition for the general property contract will remain open.

Discussion/Background and Planned Action:

<u>Summary of Current Status:</u> Fund management concurs with the auditor's recommendation regarding the development and implementation of an allocation process for indirect costs. EOAF relies on a national seized property contractor (the contractor) to account for all costs related to the storage, maintenance and sale of seized and forfeited property. Currently, the real property contractor has proposed a methodology for identifying indirect costs to the line item level. CBP has not yet implemented the methodology through SEACATS. Implementation of an indirect cost methodology for general property will have to await the re-competition of the successor contract for general property, which is suspended at this time. The requirement is not a part of the current general property contractor's statement of work.

SECTION IV

REQUIRED SUPPLEMENTAL INFORMATION

TREASURY FORFEITURE FUND
Required Supplemental Information
(Required by OMB Circular A-136)
For the Years Ended September 30, 2005 and 2004
(Dollars in Thousands)

Intragovernmental Amounts – Assets (Dollars in thousands)

	2005			2004		
Partner Agency	Fund Balance with Treasury	Accounts Receivable/ Advances	Investments	Fund Balance with Treasury	Accounts Receivable /Advances	Investments
Departmental Offices	$--	$143	$ --	$--	$12	$ --
Bureau of Public Debt	--	--	$499,885	--	--	$455,142
Totals	$--	$143	$499,885	$--	$12	$455,142

Intragovernmental Amounts – Liabilities (Dollars in thousands)

	2005	2004
Partner Agency	Accounts Payable	Accounts Payable
Department of Justice	$18,820	$2,280
Departmental Offices	2,190	1,584
Department of Homeland Security	7,488	8,336
Internal Revenue Service	15,872	18,588
Totals	$44,370	$30,788

TREASURY FORFEITURE FUND
Required Supplemental Information
(Required by OMB Circular A-136)
For the Years Ended September 30, 2005 and 2004
(Dollars in Thousands)

Intra-Governmental Amounts – Revenues and Costs (Dollars in thousands)

	2005		2004	
Budget Functions	Cost to Generate Exchange Intragovernmental Revenue	Costs to Generate Non-Exchange Intragovernmental Revenue	Cost to Generate Exchange Intragovernmental Revenue	Costs to Generate Non-Exchange Intragovernmental Revenue
Administration of Justice	$ --	$ 69,453	$ --	$ 51,438

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

	2005		2004	
Partner Agency	In	Out	In	Out
Department of Justice	$--	$44	$--	$2,091
Department of Homeland Security	--	15,753	--	21,671
Department of Treasury	--	--	--	200
Internal Revenue Service	--	14,137	--	14,506
Financial Crimes Enforcement Network	--	2,000	--	178
Totals	$ --	$31,934	$ --	$38,646

SECTION V

OTHER ACCOMPANYING INFORMATION

(Unaudited)

TREASURY FORFEITURE FUND
Equitable Sharing Summarized by State and U.S. Territories
For the Year Ended September 30, 2005
(Dollars in Thousands)
(Unaudited)

State/U.S. Territories	Currency Value	Property Value
Alabama	$ 359	$ 14
Alaska	5	-
Arizona	5,836	423
Arkansas	-	-
California	4,729	117
Colorado	215	-
Connecticut	9	-
D.C. Washington	124	-
Delaware	11	-
Florida	5,070	984
Georgia	1,061	9
Guam	-	-
Hawaii	188	-
Idaho	713	33
Illinois	868	131
Indiana	669	201
Iowa	-	91
Kansas	18	8
Kentucky	1,438	22
Louisiana	172	16
Maine	25	16
Maryland	1,883	3
Massachusetts	656	7
Michigan	1,225	26
Minnesota	-	-
Mississippi	365	97
Missouri	32	-
Montana	80	-
Nebraska	20	-
Nevada	103	-
New Jersey	3,021	-
New Hampshire	-	-
New Mexico	101	16
New York	15,244	59
North Carolina	3,584	218
North Dakota	-	-
Ohio	554	20
Oklahoma	121	21
Oregon	674	246
Pennsylvania	586	124
Puerto Rico	1,839	-
Rhode Island	584	-
South Carolina	959	53
South Dakota	1	-
Tennessee	412	67
Texas	10,716	398
Utah	36	-
Subtotal carried forward	$64,306	$3,420

TREASURY FORFEITURE FUND
Equitable Sharing Summarized by State and U.S. Territories
For the Year Ended September 30, 2005
(Dollars in Thousands)
(Unaudited)

State/U.S. Territories	Currency Value	Property Value
Subtotal brought forward	$64,306	$3,420
Vermont	90	-
Virgin Islands	-	-
Virginia	3,801	76
Washington	547	28
West Virginia	373	-
Wisconsin	83	7
Wyoming	-	-
Totals	$69,200	$3,531

Summarized above are the currency and property values of assets forfeited and shared with state and local agencies and U.S. Territories participating in the seizure. This supplemental schedule is not a required part of the financial statement of the Department of the Treasury Forfeiture Fund. Information presented on this schedule represents assets physically transferred during the year and, therefore, does not agree with total assets shared with state and local agencies in the financial statements. In addition, the above numbers do not include the adjustment to present property distributed at net realizable value.

TREASURY FORFEITURE FUND
Uncontested Seizures of Currency and Monetary Instruments Valued Over $100,000, Taking More Than 120 Days from Seizure to Deposit in Fund
For the Year Ended September 30, 2005
(Dollars in Thousands)

31 U.S.C. 9703(f)(2)(E) requires the Secretary of the Treasury to report annually to Congress uncontested seizures of currency or proceeds of monetary instruments over $100,000, which were not deposited in the Department of the Treasury Forfeiture Fund within 120 days of the seizure date. There were no administrative seizures over $100,000 over 120 days old for all bureaus in FY 2005.

TREASURY FORFEITURE FUND
Analysis of Revenue and Expenses and Distributions
For the Year Ended September 30, 2005
(Dollars in Thousands)

Revenue, Expenses and Distributions by Asset Category:	Revenue	Expenses and Distributions
Vehicles	$17,296	$35,855
Vessels	4,805	45,684
Aircraft	4,805	14,718
General Property	15,375	145,002
Real Property	53,811	5,680
Currency and monetary instruments	236,085	85,238
	332,177	332,177
Less:		
Mortgages and claims	(10,501)	(10,501)
Refunds	(8,146)	(8,146)
Add:		
Excess of net revenues and financing sources over total program expenses	--	--
Total	$313,530	$313,530
Revenues, Transfers, Expenses and Distributions by Type of Disposition:		
Sales of property and forfeited currency and monetary instruments	240,124	63,113
Reimbursed storage costs	6,815	33,218
Assets shared with state and local agencies	75,684	75,685
Assets shared with other federal agencies	3,241	3,241
Assets shared with foreign countries	4,227	4,227
Victim Restitution	2,086	2,086
Destructions	--	39,861
Pending disposition	--	110,746
	332,177	332,177
Less:		
Mortgages and claims	(10,501)	(10,501)
Refunds	(8,146)	(8,146)
Add:		
Excess of net revenues and financing sources over total program expenses	--	--
Total	$313,530	$313,530

The revenue amount of $313,530 is from the Statement of Net Position. This supplemental schedule “Analysis of Revenues, Expenses and Distributions” is required under the Treasury Forfeiture Fund Act of 1992. Because the Fund does not have a cost accounting system, the method used does not provide reliable information in the analysis of revenue and expenses and distributions by type of disposition. The information is presented to comply with the requirements of the Treasury Forfeiture fund Act of 1992.

TREASURY FORFEITURE FUND
Information Required by 31 U.S.C. 9703(f)
For the Year Ended September 30, 2005
(Dollars in Thousands)

The Treasury Forfeiture Fund Act of 1992, 31 U.S.C. 9703(f), requires the Secretary of the Treasury to transmit to Congress, no later than February 1, of each year, certain information. The following summarizes the required information.

(1) A report on:

(A) The estimated total value of property forfeited with respect to which funds were not deposited in the Department of the Treasury Forfeiture Fund during the preceding fiscal year under any law enforced or administered by the Department of the Treasury law enforcement organizations of the United States Coast Guard, in the case of fiscal years beginning after 1993.

As reported in the audited financial statements, at September 30, 2005, the Fund had forfeited property held for sale of $43,622. The realized proceeds will be deposited in the Fund when the property is sold.

Upon seizure, currency and other monetary instruments not needed for evidence in judicial proceedings are deposited in a Customs and Border Protection suspense account. Upon forfeiture, it is transferred to the Treasury Forfeiture Fund. At September 30, 2005, there was $4,933 of forfeited currency and other monetary instruments that had not yet been transferred to the Fund. This is reported as a part of "Cash and Other Monetary Assets" in the audited financial statements.

(B) The estimated total value of all such property transferred to any state or local law enforcement agency.

The estimated total value of all such property transferred to any state or local law enforcement bureau is summarized by state and U.S. territories. Total currency transferred was $12,491 and total property transferred was $21,368 at appraised value.

(2) A report on:

(A) The balance of the Fund at the beginning of the preceding fiscal year.

The total net position of the Treasury Forfeiture Fund on September 30, 2004 which became the beginning balance for the Fund on October 1, 2004, as reported in the audited financial statements is $194,103.

(B) Liens and mortgages paid and the amount of money shared with federal, state, local and foreign law enforcement bureaus during the preceding fiscal year.

Mortgages and claims expense, as reported in the audited financial statements, was $10,501. The amount actually paid on a cash basis was not materially different.

(Dollars in Thousands)

The amount of forfeited currency and property shared with federal, and distributed to state, local and foreign law enforcement bureaus as reported in the audited financial statements was as follows:

State and local	$75,684
Foreign countries	4,227
Other federal agencies	3,241
Victim restitution	2,086

(C) The net amount realized from the operations of the Fund during the preceding fiscal year, the amount of seized cash being held as evidence, and the amount of money that has been carried over into the current fiscal year.

The net cost of operations of the Fund as shown in the audited financial statements is $135,154.

The amount of seized currency not on deposit in the Fund's suspense account at September 30, 2005, was $59,803. This amount includes some funds in the process of being deposited at yearend; cash seized in August or September 2005, that is pending determination of its evidentiary value from the U.S. Attorney; and the currency seized for forfeiture being held as evidence.

On a budgetary basis, unobligated balances as originally reported on the Office of Management and Budget Reports, SF-133, "Report on Budget Execution" was approximately $86,760 for fiscal year 2005.

(D) Any defendant's property not forfeited at the end of the preceding fiscal year, if the equity in such property is valued at $1 million or more.

The total approximate value of such property for the Treasury Forfeiture Fund, at estimated values determined by bureau and contractor's officials, and the number of seizures is as follows:

U.S. Customs Service	$78,003	25 seizures
IRS	242,629	78 seizures

(E) The total dollar value of uncontested seizures of monetary instruments having a value of over $100,000 which, or the proceeds of which, have not been deposited into the Fund within 120 days after the seizure, as of the end of the preceding fiscal year.

The total dollar value of such seizures is $0. This is also documented on page 74.

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

The total net position of the Fund at September 30, 2005, as reported in the audited financial statements is $255,307.

(G) The net amount, if any, of the excess unobligated amounts remaining in the Fund at the end of the preceding fiscal year and available to the Secretary for Federal law enforcement related purposes.

There is no cap on amounts that can be carried forward into Fiscal Year 2006 per the fiscal year 1997 Omnibus Appropriations Act (PL 104-208).

(H) A complete set of audited financial statements prepared in a manner consistent with the requirements of the Chief Financial Officers Act of 1990.

The audited financial statements, including the Independent Auditor's Report, is found in Section II.

(I) An analysis of income and expense showing revenue received or lost: (i) by property category (such as general property, vehicles, vessels, aircraft, cash, and real property); and (ii) by type of disposition (such as sale, remission, cancellation, placement into official use, sharing with state and local agencies, and destruction).

A separate schedule is presented on page 75.