Audit Report

OIG-07-027

Audit of the Department of the Treasury Forfeiture Fund's Fiscal Years 2006 and 2005 Financial Statements

January 25, 2007

Office of Inspector General

Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

January 25, 2007

MEMORANDUM FOR ERIC E. HAMPL, DIRECTOR
TREASURY FORFEITURE FUND

FROM: Joel A. Grover
Deputy Assistant Inspector General
for Financial Management and Information
Technology Audits

SUBJECT: Audit of the Department of the Treasury Forfeiture Fund's Fiscal Years 2006 and 2005 Financial Statements

I am pleased to transmit the attached audited Department of the Treasury Forfeiture Fund (TFF) financial statements for Fiscal Years 2006 and 2005. Under a contract monitored by the Office of Inspector General, Gardiner, Kamya & Associates, PC (GKA), an independent certified public accounting firm, performed an audit of the financial statements of TFF as of September 30, 2006 and 2005 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. 06-03, *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, GKA's Report on Internal Control over Financial Reporting identified the following reportable condition, which was not considered a material weakness:

- 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).

In addition, GKA found no instances of reportable noncompliance with laws and regulations tested.

GKA also issued a management letter dated October 31, 2006, discussing a matter involving internal control over financial reporting and its operation that was identified during the audit but was 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 October 31, 2006 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 2006

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

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Message from the Director

I am pleased to present the fiscal year (FY) 2006 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 2006 was another substantial revenue year for the law enforcement bureaus participating in the Treasury Forfeiture Fund, with earned revenue during the year of approximately $257 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, i.e., equal to or greater than $100,000. For FY 2006, we met a level of 73 percent of our cash forfeiture revenue stemming from high-impact cases. During FY 2006, the Executive Office for Asset Forfeiture continued its priority emphasis on training, with conferences addressing the cutting edge of investigative and forfeiture innovative practices of our member agencies specifically as these practices pertain to high-impact major case initiatives.

In the interest of evaluating investment strategies when considering member bureau requests for investigative resources, and given a reasonable passage of time since the high-impact strategy was implemented, Fund management undertook to review in a formal way the results of investments of prior years. In the spring of FY 2006, we awarded a contract for a study designed to assist Fund management in achieving a greater understanding of the effects of targeted funding of significant investigations on outcomes of such investigations in terms of prosecutions and forfeitures. The study will analyze cases supported by the Fund's Major Case funding initiative as well as the largest revenue-producing cases regardless of their funding sources in order to compare their outcomes and the nature of incurred expenses. The study will cover 5 years of investigations by member bureaus and is estimated to take approximately 18 months to complete. From this study, we hope to refine our methods for selecting case initiatives for funding and to establish a framework for tracking and evaluating major case initiatives as they evolve.

The Treasury Forfeiture Fund continued in its capacity as a multi-Departmental Fund in FY 2006, 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 2007, the Fund remains focused on training and investigative initiatives that emphasize high impact cases that do the greatest damage to criminal enterprise.

Eric E. Hampl

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

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Treasury Forfeiture Fund
FY 2006 Management 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 United States 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. 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 Intelligence. 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.

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 2006 that resulted in 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, which is to use asset forfeiture in high-impact cases to disrupt and dismantle criminal enterprises.

Internal Revenue Service, Criminal Investigations (IRS-CI)
Department of the Treasury

Manuel Marquez, Jose Miguel Battle, Jr., Julio Acuna, Luis DeVilliers, Sr., Cabrerizo and others – "The Corporation," various racketeering charges including illegal gambling, drug trafficking, other violations - $1.4 billion forfeiture verdict

"The Corporation" was a criminal organization structured as a hybrid between a modern business and the traditional Mafia organization. Only Cubans were allowed to function in command levels and the hierarchy was composed of all blood relations to, or close friends of, Jose Miguel Battle, Sr. (Battle). In the mid 1960's, "The Corporation" was established by Battle with the sponsorship of Santos Traficante, the Mafia Crime Boss of Florida, and began operations in New York City and Union City, New Jersey, operating under and paying tribute to the five American Mafia families.

"The Corporation" originally began operating in the area of illegal gambling lottery operations called "Bolita Numbers" or "Policy." "The Corporation" quickly began to make tens of millions of dollars annually, eventually expanding into illegal sports bookmaking and the operation of illegal traditional and video slot machines. By the early 1970's, "The Corporation" had become a major force in organized crime, expending its operations into South Florida and into the importation of cocaine. "The Corporation" later became involved in gambling, including lottery and bookmaking, arson, homicide, narcotics trafficking, and money laundering.

"The Corporation" was able to infiltrate legitimate businesses throughout South Florida and launder their ill-gotten gains via offshore shell corporations. Starting in the early 1980's, members of "The Corporation" deposited millions of dollars into offshore bank accounts located in Panama and Switzerland. The offshore shell corporations in these foreign countries were incorporated through the use of nominee members who acted as puppet owners. The shell corporations then "loaned" money to legitimate businesses and/or funded the purchase of property and the construction of multi-million dollar homes in South Florida.

In March 2004, members of "The Corporation" were indicted and arrested for Racketeer Influenced and Corrupt Organizations (RICO) and Illegal Gambling violations. Fourteen members plead guilty prior to the trial which started in January 2006 and lasted almost six months. Three additional members pled guilty during the trial including the "Godfather," Jose Miguel Battle, Sr. The three remaining defendants, Jose Miguel Battle, Jr., Manuel Marquez, and Julio Acuna were found guilty on July 26, 2006, of RICO Conspiracy which included acts of violence, illegal gambling, and money laundering.

In addition to the guilty verdict against the defendants, the jury returned a forfeiture verdict of $1.4 billion. This figure represents the estimated amount of ill-gotten gains achieved by the criminal organization while operating. The United States has already seized in excess of $20 million in currency and other assets including approximately $10 million from accounts in Switzerland.

Two properties at 199 Ocean Lane Drive, Key Biscayne, Florida, were forfeited by Jose Battle, Jr., for criminal racketeering activity associated with the long-running criminal syndicate known as “The Corporation.”

In addition, this luxury home in Florida was sold for $1.5 million and the proceeds forfeited to the Fund.

Operation Falling Star - Leader of Detroit Drug Conspiracy Pleads Guilty – Quasand Lewis Organization – forfeits $18.4 million to date

Quasand Lewis was the leader of a violent international marijuana organization responsible for the distribution of over 30,000 kilograms of marijuana in Detroit, Michigan. The marijuana was obtained from sources based in Mexico and Arizona and was transported by truck to Michigan. In July 2005, a federal grand jury in the Eastern District of Michigan returned an indictment charging Lewis and 23 other individuals with various drug trafficking and money laundering offenses. The defendants were charged with conspiracy to distribute marijuana and cocaine, and with money laundering, in the Detroit area and elsewhere, from 1994 through 2005. On April 10, 2006, Quasand Lewis pled guilty to charges of narcotics trafficking and money laundering.

Cash seized in Ohio from the Lewis narcotics organization.

The indictment also charged criminal forfeiture. In his plea agreement, Lewis agreed to the judicial forfeiture of more than $9.5 million in various assets, including his interest in real properties, motor vehicles, jewelry, bank accounts and cash. An additional $8.75 million currency was forfeited from the Quasand Lewis organization, including currency that was seized in Ohio, Oklahoma and Michigan. Total forfeitures, as of April 10, 2006, from the Quasand Lewis organization exceeded $18.4 million.

The investigation resulted in the successful prosecution of over 40 individuals for drug trafficking and money laundering including the leaders of a drug organization who were involved in a violent drug feud that is alleged to have resulted in at least 10 homicides in Detroit, from 2002 through 2004.

A Florida property, valued at approximately $650,000, forfeited in the Lewis case.

This was a joint investigation with Immigration and Customs Enforcement (ICE), the Drug Enforcement Administration (DEA), and numerous state and local law enforcement agencies.

German Bank HVB Admits Criminal Wrongdoing and Agrees to pay $29 million as part of Deferred Prosecution Agreement in Relation to Largest-Ever Tax Shelter Fraud – forfeits $6 million

In February 2006, German Bank Bayerische Hypo-Und Vereinsbank AG (HVB) admitted to criminal wrongdoing and agreed to pay $29,635,125 in fines, restitution and penalties, including a $6 million forfeiture, as part of an agreement to defer prosecution of the bank in relation to its participation in the implementation of fraudulent tax shelters devised by the accounting firm KPMG and others.

The felony Information filed on February 14, 2006 charged HVB with one count of conspiracy to defraud the IRS. It charged that, from 1996 through 2003, HVB together with KPMG and certain KPMG partners and employees participated in a scheme to defraud the IRS by devising, marketing and implementing fraudulent tax shelters. HVB's participation in the scheme stems from it's role in providing financing for fraudulent tax shelter transactions.

The Information focused on four tax shelters in which HVB participated, which, it was charged, generated in aggregate over $1.8 billion in phony losses reported on United States income tax returns, and the evasion of over $500 million in income taxes.

Christopher William Smith – Fraud – forfeits $387,250 and 17 exotic vehicles and other property valued at $1.5 million

Christopher William Smith (Smith) owned Xpress Pharmacy Direct (XPD), a large-scale online pharmacy business that was allegedly defrauding consumers and distributing prescriptions drugs, including controlled substances, without appropriate prescriptions in violation of a host of federal and state laws. XPD sold these drugs through a variety of websites. Smith, also controlled the telemarketing arm of XPD, Online Payment Solutions (OPS). Essentially, OPS was a call center used to solicit sales for XPD.

The investigation showed that Smith enlisted the help of a physician, Dr. Philip Mach, to use his name to issue purported prescriptions. Dr. Mach, licensed to practice in the state of New Jersey, was the sole physician to issue purported prescriptions for XPD customers throughout the United States. Other than the online questionnaire, Dr. Mach had essentially no contact with customers but from July 2004 through approximately May 2005, issued 72,000 prescriptions for XPD.

An investigation conducted by IRS-CI revealed that from March 2004 through May 2005, the defendants generated gross sales for prescription drugs containing the addictive painkiller hydrodone, a Schedule III controlled substance pursuant to the Controlled Substances Act, of over $20 million. This illicit income was allegedly laundered through nominee bank accounts.

Smith purchased numerous expensive assets with the proceeds of his illegal activities including a 2004 Mercedes Benz Maybach luxury automobile and other luxury vehicles. The IRS obtained a seizure warrant for all of the vehicles and other assets. The amount of $387,250 referenced in the case header, above, was a down payment Smith made on a British Aerospace Aircraft valued at $1.16 million to Griffin Title and Escrow Company. The deposit was seized and forfeited to the Treasury Forfeiture Fund. The Final Order of Forfeiture in this case was signed on June 14, 2006.

This was a joint investigation by the IRS-CI, FBI, FDA and
other federal and local law enforcement agencies

The 2004 Mercedes Benz “Maybach” luxury automobile, above, selling for over $300,000 new, and the 2000 Ford Excursion limousine, below, are just two of several luxury vehicles forfeited by Christopher William Smith pursuant to a Final Order of Forfeiture filed June 14, 2006.

2000 Ford Excursion Limousine forfeited to the Treasury Forfeiture Fund from Christopher William Smith pursuant to criminal charges including the unlawful distribution of prescription drugs including controlled substances.

The FY 2004 Lamborghini Murcielago, when new sold for $280,000, was also forfeited to the Treasury Forfeiture Fund by Christopher William Smith.   This vehicle hosts a V-12 (12 cylinder) engine, with 580 horsepower, and an advertised top speed of 205 miles per hour.

Reagan Wireless Corporation – Conspiracy to Commit Mail Fraud, Wire Fraud and Money Laundering – forfeits $5,000,000

Reagan Wireless Corporation (Reagan Wireless) operated a business in Pompano Beach, Florida that was purportedly recycling electronic components. Large radio companies executed contracts with Reagan Wireless to destroy cellular telephones, including irreparable and malfunctioning cellular telephones, older models no longer for sale, parts and equipment, circuit boards, etc., and were supposed to recycle the plastic parts of cellular telephones and equipment. Pursuant to the contract, the co-conspirators sent these large radio companies a Certificate of Destruction certifying that the cellular telephones, parts and equipment had, in fact, been destroyed, along with a videotape of the actual process of destruction. However, Reagan Wireless had sold them instead.

The $5,000,000 forfeiture is pursuant to a plea agreement between Reagan Wireless Corporation and the United States Attorneys Office whereby Reagan Wireless agreed to plead guilty to conspiracy to commit mail fraud, wire fraud and money laundering and forfeit $5,000,000 to the United States.

Dov Shellef and William Rubenstein – Scheme to Evade $1.9 Million in Taxes – forfeits $1,350,650

Dov Shellef was involved in a conspiracy to impair and defraud the Internal Revenue Service by engaging in a scheme to evade the payment of $1.9 million in excise taxes due on sales of an ozone-depleting chemical called thichlorotrifluoroethane, or CFC-113, commonly known as Freon. These chemicals are subject to a substantial excise tax of several dollars per pound which is imposed to discourage their use and to promote the transition to more ozone-friendly replacement products. CFC's, used primarily as refrigerants and industrial solvents, are subject to strict regulations under the Clean Air Act. Shellef and his partner, William Rubenstein, also defrauded Allied Signal by inducing Allied Signal to supply Shellef with the CFC-113 tax-free based on his representations that the product was to be sold for export. In order to conceal the fact that they were selling the product domestically, they removed references to the original manufacturer on the drums of CFC-113 and relabeled the product. In addition, they created false shipping documents stating that the product was being sold "For Export Only."

Ultimately, Shellef and Rubenstein were charged in a 91 count indictment for conspiracy to impair, impede and defeat the Internal Revenue Service, income tax evasion, wire fraud and money laundering. The indictment also sought the forfeiture from Shellef of over $1 million of funds involved in the money laundering offenses. In July 2005, a jury found the defendants guilty of 88 of the 91 counts, and in April 2006, an Amended Final Order of Forfeiture was entered in this case, which included forfeiture of $1,350,650, or substitute assets, and ordered Shellef to forfeit $550,000 deposited by the defendant with the United States District Court.

Seakhoung Ngo and Sekharith Be – Illegal Wire Transmitting Business and Structuring – forfeits $6 million in cash, gems and jewelry

In 2004, IRS-CI special agents executed a search warrant and numerous seizure warrants relating to an illegal Cambodian structuring/wire remitting/money laundering business in Stockton, California, operated by Seakhoung Ngo and Sekharith Be. Subsequently, Be, Ngo and others were indicted on money laundering charges in connection with coordinating the transfer of more than $21 million from

California and Texas bank accounts to the Canadia Bank in Cambodia and operating an illegal money transmitting business. Between June 2000 and May 2004, Be, Ngo and others structured, and conspired to structure, cash deposits involving millions of dollars by breaking the deposits into cash amounts less than $10,000 to avoid the federal currency transaction reporting (CTR) requirements. Thereafter, they wire transferred millions of dollars of alleged drug proceeds to the Canadia Bank in Phnom Penh, Cambodia. Canadia Bank is the largest private bank in Cambodia and holds approximately 25 percent of the country's bank deposits.

Be pled to operating an illegal wire transmitting business and structuring and was sentenced in September 2005 to 70 months in prison, fined $12,500 and ordered to forfeit his interest in various assets including currency, gems and jewelry. The seizure warrants netted approximately $6,000,000 from various accounts, including approximately $5.4 million from five interbank or correspondent accounts held by Canadia Bank. The seizures occurred under 18 USC 981(k), a provision enacted as part of the USA Patriot Act.

This was a joint investigation by the IRS-CI, FBI, DEA and the Department of Homeland Security with assistance from the Stockton, California Police Department.

David Tedder – Conspiring to Defraud the United States by Assisting a Wagering Enterprise, Money Laundering – forfeits approximately $2.8 million

A four year multi-jurisdictional undercover and financial investigation into a multi-million dollar illegal offshore sports bookmaking and sports handicapping telemarketing service in Wisconsin, Las Vegas, Florida and elsewhere ended with a jury conviction of David Tedder. Tedder used his law practice to help Gold Medal Sports (GMS) to conceal identities and income. GMS handled sports wagers from customers in the United States over the telephone lines and the Internet in excess of $400 million from 1996 to early 2000. Tedder was convicted of conspiring to defraud the United States by assisting a wagering enterprise plus three counts of money laundering. Tedder also was charged in a conspiracy to launder over $10 million in proceeds from GMS.

Tedder, acting as counsel for GMS owners, Duane Pede and Jeff D'Ambrosia, assisted GMS with various problems, including: 1) getting around a ban on gamblers sending money to GMS via Western Union; 2) creating shell corporations to hide GMS' ownership interest in other business entities and the owners' interest in GMS; 3) setting up offshore bank accounts in the Bahamas using false names; and 4) moving GMS profits from banks in the United States to offshore accounts beyond the reach of U.S. laws. Trial evidence showed that Tedder moved over $4 million in GMS profits from accounts in the United States to accounts in the Bahamas; convinced the GMS owners to invest $1.2 million in profits in an offshore bank owned by Tedder called Mariner's International Bank located in St. Vincent and the Grenadines, and other incriminating behavior.

Tedder created and operated a business called Clear Pay to move money between gamblers in the United States and GMS. The Attorney General of Florida had warned Western Union not to wire funds to GMS. Clear Pay offered a solution by preventing Western Union (and other intermediaries) from learning the funds' ultimate destination. Tedder also created Bahamian shell corporations, purportedly engaged in software development to help his clients hide their involvement, and wired the gambling business' profits to nominee accounts for which he was the custodian, and made other foreign investments with a patina of legitimacy.

GMS owners Pede and D'Ambrosia were caught, plead guilty and testified against Tedder. Tedder lost his license to practice law, is serving a sentence of 60 months imprisonment, has been fined more than $1 million and ordered to forfeit nearly $2.8 million.

Fernando Carmona –Conspiracy to Commit Money Laundering and Interstate Transportation in Aid of Racketeering Enterprises – forfeits $1 million

Fernando Carmona owned and operated Club Peek-a-Boo and the Adult Depot, adult entertainment businesses in Palm Beach County Florida, from approximately 1996 through May 2005. These businesses offered nude dancing and prostitution services to paying customers in violation of Florida statutes. Carmona pled guilty to conspiracy to commit money laundering and interstate transportation in aid of racketeering enterprises. Pursuant to his plea agreement, Carmona agreed to forfeit $1 million.

James Graf – Insurance Fraud – forfeits $1,079,790.66

James Graf was found guilty of federal fraud charges for bilking the customers of Employers Mutual LLC, a company that purported to provide health care coverage to more than 20,000 people across the United States, but left more than $20 million in unpaid claims for medical services when it was shut down. Graf, 44, was convicted of one count of conspiracy, five counts of mail fraud, 10 counts of misappropriation in connection with a health care benefit program, six counts of money laundering and one count of obstruction of justice.

Defendants in the case collected more than $14 million in premiums purportedly to provide health care coverage under Employers Mutual's plans. Graf misrepresented to insurance agents and the public that Employers Mutual was insured through one or more legitimate insurance companies. While pertinent state laws require an insurance company to obtain a certificate of authority before offering insurance coverage, Graf purported to operate Employers Mutual pursuant to the Employee Retirement Income Security Act (ERISA) of 1974. ERISA allows employers and certain organizations such as unions to offer health care coverage plans. Such plans may operate without the prior approval of the United States Department of Labor, the agency that regulates ERISA plans. Employers Mutual's claim of ERISA compliance shielded the scheme from the scrutiny of the California Department of Insurance, which previously had sanctioned Graf for running an unauthorized health insurance business.

This case was investigated by the Employee Benefits Security Administration of the United States Department of Labor, IRS-Criminal Investigation, the United States Postal Inspection Service and the California Department of Insurance, which received assistance from the California Department of Justice.

Horace Keith Farrish – Illegal Gambling – seizure pending forfeiture $5,324,722.80

This seizure is the result of coordinated efforts between IRS-CI and local law enforcement agencies in Maryland and Virginia. In January of 2004, local police detectives in Maryland began an undercover operation targeting alleged illegal gambling conducted at Trailways Truck Stop, Circus Restaurant, and Truck Stop Plaza located in Centreville, Maryland. The officers found and played illegal gaming devices (slot machines) at the locations and received winning tickets that they cashed in for $5 each. During the execution of warrants related to the case, the owner of Trailways stated that a collector for defendant Farrish came to the business on a weekly basis to open the machines, read the meter counter and remove the cash. The collector then met with the owner or one of his partners to review the information on the sheet and to divide the illegal proceeds.

Detectives from Virginia played similar slot machines controlled by Truck Stop Games, LCC in Virginia. Subsequently, police officers executed a search warrant at the Truck Stop Games LLC offices in Chester, Virginia. Analysis of the financial records by IRS- CI revealed that Truck Stop games maintained more than 500 machines at 110 locations on 15 states. Monthly profit and loss statements showed collections of $6.3 million for seven months between the years 2002 and 2003.

2001 Cessna aircraft seized in the Farrish investigation.

IRS- CI
Treasury Forfeiture Fund Weed and Seed Initiative

Treasury Forfeiture Fund Donates Forfeited Zorro Building to the City of Salisbury, Maryland for use as a Neighborhood Services Department and Police Substation

In March 2006, the Baltimore office of the Internal Revenue Service Criminal Investigations (IRS-CI) represented the Treasury Forfeiture Fund by presenting a forfeited property, the "Zorro Building" to the City of Salisbury, Maryland for use as a Neighborhood Services Department and Police Substation under the Treasury Department's participation in the federal Weed and Seed Program. The property was forfeited pursuant to a multi-jurisdictional task force case investigated by IRS-CI and DEA, with assistance from the FBI and the Wicomico, Dorchester and Somerset County Narcotics Task Forces of the Maryland State Police.

The investigation leading to forfeiture of the building was directed at Ronald Seldon, his mother, Yvonne Seldon, his girlfriend Edwina Harmon and Harmon's mother Sylvia Harmon. Plea agreements for these individuals reveal that between 1996 and 2003 Ronald Seldon conspired with numerous individuals to distribute cocaine and cocaine hydrochloride, primarily in Prince George's County and counties on the eastern shore of Maryland. During the course of the conspiracy, Ronald Seldon solicited Edwina Harmon, Sylvia Harmon and Yvonne Seldon to launder his drug proceeds through their various bank accounts, the purchase of vehicles, including two Mercedes Benz cars, and the purchase of various Maryland properties.

Throughout the course of the conspiracy, Ronald Seldon provided Edwina Harmon and Yvonne Seldon with large quantities of cash from his drug proceeds to pay for household bills, private education costs for the children of Edwina Harmon and Ronald Seldon, credit card purchases and other expenses relating to their properties and residences. The total amount of laundered funds was in excess of $1 million. In June 2004, Ronald Seldon was sentenced to 30 years in prison, Yvonne Seldon was sentenced to 24 months in prison, Edwina Harmon to 18 months in prison and Sylvia Harmon to 4 months home confinement. All defendants were ordered to forfeit interests in various automobiles, bank accounts, residences, jewelry and cash used in furtherance of their drug and money laundering activities or purchased with drug related proceeds.

The Weed and Seed Program is a federal forfeiture program that allows federally forfeited real properties to be transferred to state and local public agencies so that they can reclaim and rejuvenate embattled neighborhoods and communities. Weed and Seed uses a two-part strategy to combat violent crime and to provide social and economic support to communities where high crime rates and social ills are prevalent. The initiative is designed to "weed" violent criminals and drug dealers from the neighborhoods, and to prevent re-infestation of criminal activity by "seeding" the neighborhoods with public and private services, community-based policing and incentives for new businesses. Weed and Seed was founded on the premise that community organizations, social service providers, and criminal justice agencies must work together with community residents to regain control and revitalize crime-ridden and drug-plagued neighborhoods. The Weed and Seed initiative also encourages cooperation between federal and state and local law enforcement agencies.

The property located at 501 Church Street, Salisbury, Maryland was transferred to the City of Salisbury for use by the Salisbury Police Department to house the new Neighborhood Services Department and the Church Street police substation. The property lies in an area where a greater police presence will increase safety in the neighborhood.

Front row (left to right): Special Agent-in-Charge Rick Raven, IRS-CI; City Council President Michael Dunn, City of Salisbury. Back row (left to right): Supervisory Special Agent Teddy Perez, FBI; Assistant Special Agent-in-Charge Carl Kotowski, DEA; Special Agent Dave Rivello, FBI; Special Agent Tim Greene, IRS-CI.

March 9, 2006 - The Treasury Forfeiture Fund donates the Zorro Building to Salisbury, Maryland as part of the federal Weed and Seed initiative.

Photograph from *Asset Forfeiture News May/June 2006*, published by the Asset Forfeiture and Money Laundering Section, Criminal Division, U.S. Department of Justice

Trafigura AG – Entry of Goods by False Statement – forfeits $9,937,551.19

On May 25, 2006, as a result of an Oil for Food investigation conducted by Immigration and Customs Enforcement (ICE), the Southern District of Texas U.S. Attorneys Office filed a criminal Information charging Trafigura AG, a Swiss corporation, with two counts of violating 18 USC 542, entry of goods by false statement. The company was convicted of falsely representing to Houston area energy companies that a total of more than 500,000 barrels of imported Iraqi oil sold to them on two occasions in 2001 had been obtained in compliance with the Oil for Food Program.

As a result of a plea agreement, Trafigura AG was required to pay a criminal fine of $8 million and to forfeit $9,937,551.19, pursuant to 18 USC 982(a)(2)(B). In addition, Trafigura AG was required to pay civil penalties to the United States in the amount of $1.9 million executed through a written settlement agreement with the Office of Foreign Assets Control (OFAC), U.S. Department of the Treasury.

Operation Gilded Cage - Yon Suk Pang, Min Sung Kim – Immigration and Money Laundering Violations – forfeit more than $1 million

Two San Francisco women pleaded guilty to immigration and money laundering violations in June 2006 and agreed to forfeit more than $1 million in criminal proceeds for their role in running two area brothels uncovered during a multi-agency investigation known as Operation Gilded Cage.

Yon Suk Pang, 56, who owned the Suk Hee Oriental Massage Parlor in San Francisco, pleaded guilty to an alien harboring conspiracy and a money laundering conspiracy charge. As part of her plea agreement, Pang agreed to forfeit $1.2 million in proceeds from her criminal activities. The second defendant, Min Sunk Kim, 50, of Cupertino, pleaded guilty to alien harboring in connection with the operation of a second San Francisco brothel, the Golden Dragon Spa. As part of her plea agreement, Kim agreed to forfeit $70,000 in proceeds from her criminal activities.

In pleading guilty, Pang admitted that she employed foreign national females, typically from Korea, as prostitutes at the Suk Hee. The defendant acknowledged she obtained some of these women through brokers and paid the brokers for the debts the women incurred, which usually ranged from $10,000 to $15,000. Pang held the women's passports until they repaid those debts. It is estimated the between January 2003 and June 2005, Pang earned more than $1 million as a result of her ownership of the Suk Hee.

In her guilty plea, Kim admitted that, for an eight-year period beginning in 1997, she owned the Golden Dragon Spa with various partners. During that time, the Golden Dragon operated as a brothel and periodically employed illegal alien women from Korea to work as prostitutes. Kim admitted to concealing those women from immigration authorities by failing to report them as employees to the government. Prior to her arrest, it is estimated that Kim made $70,000 from operating the Golden Dragon.

The charges stem from a multi-agency investigation involving ICE, IRS-CI, the FBI, the San Francisco Police, and the State Department's Diplomatic Security Service.

Baltimore's Kawasaki sushi restaurants – Conspiracy to Commit Alien Harboring and Money Laundering – forfeit more than $1 million

In April, 2006, two operators of sushi restaurants agreed to forfeit more than $1 million in assets to the government and pleaded guilty to criminal charges of conspiracy to commit alien harboring and money laundering in connection with an illegal alien employment scheme. A third defendant pleaded guilty to the employment of illegal aliens. The ICE investigation found that the operators of the three Kawasaki restaurants in Baltimore exploited cheap, illegal labor to maximize profits in order to purchase new homes and luxury vehicles for themselves. Two of the defendants face sentences of up to 30 years in prison.

Four San Jose residents sentenced for role in operating area brothels – Alien Harboring, Money Laundering and Tax Violations – forfeit over $700,000

Four defendants linked to the operation of 10 brothels in the San Jose area that employed illegal alien woman from Asia as prostitutes were sentenced in May 2006 for alien harboring, money laundering, tax evasion, and conspiracy charges. Xiao Feng Shen pleaded guilty to conspiracy to harbor aliens and money laundering conspiracy. She was sentenced to 2 years in prison. Shen also agreed to forfeit more than $70,000 in funds tied to the investigation. Jia Jing Chu pleaded guilty to conspiracy to harbor aliens. She was sentenced to 18 months in prison, followed by 2 years of supervised release. Ai-Ching Chang pleaded guilty to conspiracy to harbor aliens and a money laundering conspiracy. She was sentenced to 30 months in prison and forfeited more than $56,000 tied to the investigation. Ming Sun pleaded guilty to conspiracy to harbor aliens and money laundering conspiracy. He was sentenced to 20 months in prison and forfeited more than $125,000 in funds tied to the investigation.

According to the plea agreements, Shen, Sun, Chu and Chang admitted that in 2004 and 2005, they employed women as prostitutes in rented residential locations that masqueraded as unlicensed massage parlors. The defendants further admitted that they rotated the women through the locations periodically and took measures, such as keeping the apartment curtains closed, to avoid attracting attention. The defendants provided the aliens with housing, transportation, supplies for use in the sex trade, and sources of income. The defendants admitted they kept a portion of the proceeds from the women's illicit earnings as their own income. The amount of funds forfeited in the case had exceeded $700,000 as of May 2006, including money from the defendants' bank accounts as well as other funds seized during search warrants.

This was a joint investigation with IRC-CI and the San Jose and San Mateo Police Departments, with assistance provided by the Department of Justice Civil Rights Division

Alliance Payment Technology – Telemarketing Fraud – forfeits over $635,000

Alliance Payment Technology (APT), a division of Intellipay Systems, Inc., an Ontario California business, forfeited over $635,000 in July 2006. The forfeited proceeds represent the hard-earned monies of victims throughout the United States defrauded by telemarketing companies who used APT as a payment processor.

APT provided processing services to hundreds of telemarketing companies in both the United States and Canada. During a federal investigation conducted by ICE, APT was discovered to have processed thousands of transactions for numerous questionable telemarketing companies. During the investigation, APT admitted knowledge of the illegal source of much of the money due to the high merchandise return rates for many of their telemarketing clients. Return rates are the percentage of requested cancellations or returns of orders placed by the consuming public to a company. In the banking industry, return rates in excess of 5% are clear warning signs of fraudulent activity. In APT's case, return rates varied from 50% to up to well over 80%, leading APT to realize that these particular telemarketing companies were engaged in high pressure or fraudulent practices.

The civil forfeiture action related to the $635,000 was ordered on July 12, 2006. The forfeited proceeds will be used by the Treasury Forfeiture Fund to make restitution to the victims of the telemarketing fraud.

Hossein Esfahani – Unlicensed Money Transmitting Business and Illegal Transfer of $4 million to Iran, an embargoed country – forfeits $481,800

Hossein Esfahani pled guilty in June to operating an unlicensed money transmitting business and illegally transferring almost $4 million to Iran, an embargoed country. In June 2005, Esfahani was indicted on 193 counts for operating an "Hawala" and illegally transmitting $3,918,000 to Iran between 2001 and 2005, in violation of Presidential orders issued under the International Emergency Economic Powers Act.

"Hawalas" are a form of alternative money-transmitting business, common in many Middle Eastern and African countries, through which funds can be transferred between parties based on ties of kinship and individual trust. There is not an immediate physical or electronic transfer of funds. Money changers, also known as "hawaladars," physically receive cash or funds in one country and then correspond with hawaladars in another country to dispense the identical amount minus fees or commissions to a designated bank account. These arrangements can be exploited by terrorist groups or other criminal organizations intending to transfer large sums of money across international borders undetected. Under the plea agreement, Esfahani is obligated to a forfeiture judgment of $481,800.

This was a joint ICE and FBI investigation.

Sheikh Mohammed Khurshan – Unlicensed Money Remitting Business, attempted Loan Fraud, Structuring – faces sentencing that includes a $400,000 forfeiture

In May 2006, Sheikh Mohammed Khurshan, a naturalized U.S. citizen from Bangladesh, pled guilty in the Eastern District of Pennsylvania to one count of operating an unlicensed money remitting business, one count of attempted loan fraud, and one count of structuring financial transactions. Khurshan was the president and owner of Medina Tax and Travel and the appointed accountant of the Majid Al-Jamia mosque in Philadelphia.

An ICE investigation revealed that Khurshan often structured deposits of cash in $9,000 increments every few days into local Philadelphia banks in order to evade federal $10,000 currency transactions reporting (CTR) requirements. When a pertinent account balance reached $20,000 to $40,000, Khurshan would conduct a large wire transfer depleting the account. Most of the funds were sent to a company in Singapore. Using these techniques, Khurshan transmitted more than $900,000 overseas, although he was not licensed in the state of Pennsylvania to operate a money transmittal business.

When sentenced, Khurshan faces a maximum sentence of 40 years in prison, 5 years supervised release, a fine of $1.5 million, and $400,000 in asset forfeiture.

Ko-Suen Moo – Covert Agent of People's Republic of China; Conspiracy to Broker and Export Defense Articles in Violation of Title 18, Obstruction and Bribery – forfeits $350,000

Ko-Suen Moo, of Taiwan, was sentenced July 24, 2006, on charges of being a covert agent of the People's Republic of China; conspiracy to broker and to export defense articles to the People's Republic of China, including one F-16 aircraft engine, Blackhawk helicopter engines, cruise missiles and air-to-air missiles; and bribery of a public official.

According to documents and statements made in court after his arrest on the underlying arms charges, Moo engaged in conversation with two inmates at the Federal Detention Center about his ability to bribe his way out of jail and obtain dismissal of the underlying arms charges. Specifically, Moo agreed to pay a bribe to an Assistant United States Attorney and a federal judge for his supposed release from custody and dismissal of the pending charges. Unbeknownst to Moo, however, the two inmates had contacted law enforcement and alerted them to this plan.

This separate obstruction investigation led to the return of a superseding indictment charging Moo with, among other things, bribery of a public official. Moo actually wire transferred $199,985 as part of a $500,000 payoff to an unnamed public official in anticipation of his supposed release and dismissal of the charges. Moo was sentenced to 78 months' imprisonment, a $1,000,000 fine, three years of supervised release, and ordered to forfeit his interest in approximately $350,000 that was seized during the investigation of this case.

Eric Pinno – Distribution and Possession with Intent to Distribute Cocaine – forfeits $442,338

Eric Pinno, age 41, of Pittsburgh, Pennsylvania was sentenced on August 1, 2006, to 12 years in prison, followed by 5 years of supervised release for conspiracy to distribute and possession with intent to distribute cocaine. Pinno will be ordered to forfeit $442,338 pursuant to this criminal activity. According to the facts presented at his guilty plea in June 2006, from 2004 through 2005, Steven Josephs supplied Eric Pinno with multiple kilograms of cocaine, which Pinno then distributed to buyers in the Pittsburg area. The cocaine was transported across the country from California to Maryland by individuals who drove tractor trailers and other vehicles. The drivers carried U.S. currency in the opposite direction from Maryland to California. During the conspiracy, Pinno distributed between 50 kilograms and 150 kilograms of cocaine. Law enforcement agents seized $442,338 in U.S. currency from Pinno during the course of the investigation. They also seized a handgun during a search of Pinno's house.

Pilar Navarro – Illegally Transporting U.S. Currency - $2 million seized

In October 2005, ICE agents seized more than $2 million and arrested and charged Pilar Navarro of Brownsville, Texas with illegally transporting U.S. currency. Navarro, 30, appeared in federal court on charges that he was driving a tractor-trailer and carrying two suitcases full of money. As he pulled over at a nearby residence in Santa Rosa, Texas, Cameron County Sheriff's deputies and ICE agents approached Navarro at the parked trailer. Navarro consented to a search of his vehicle. During the search, ICE special agents and sheriff's deputies discovered and seized more than $2 million in U.S. currency concealed inside two black suitcases.

Brownsville Texas - $2 million seized, hidden in two black suitcases in a trailer-truck. Driver charged with illegally transporting U.S. currency in accordance with the U.S. Patriot Act of 2001.

ICE Returns Prized Works of Art to Sweden

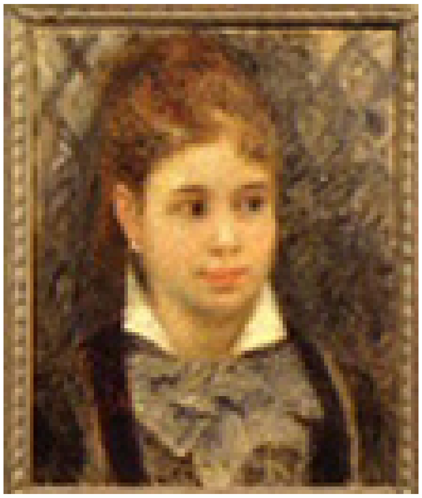
ICE and FBI Recover Stolen Renoir and Rembrandt Masterpieces

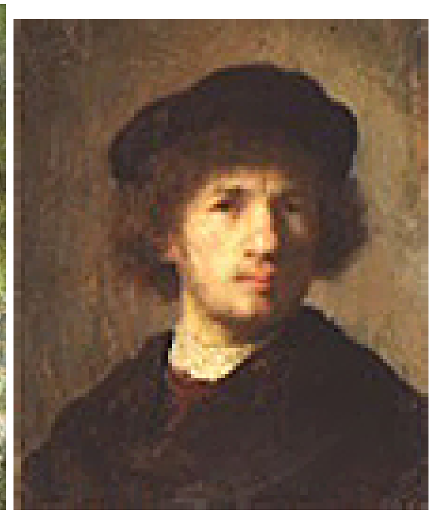
ICE and FBI agents, detectives from the Los Angeles County Sheriff's Department and the U.S. Attorneys Office in Los Angeles, members of the Organized Crime Task Force, working with investigators in Stockholm, Sweden and Copenhagen, Denmark, announced in September 2005, the recovery of major works of art that were stolen five years previously from a waterfront museum in Stockholm, Sweden.

Members of the Organized Crime Task Force launched an operation targeting the international theft ring responsible for the 2000 robbery from the Stockholm Museum. During the course of the investigation, they worked closely with law enforcement overseas including the Copenhagen City Police, the Danish National Police and the Stockholm County Police.

Renoir's "Young Parisian" was recovered in Los Angeles in early 2005 and authenticated by the Curator of the Getty Museum. Rembrandt's "Self Portrait," was recovered in September of the same year. The Stockholm County Police had previously recovered Renoir's "Conversation" in July 2001.

Apart from the high monetary value of the recovered works, estimated at $45 million, the paintings are also national treasures of Sweden.





On December 23, 2000, three armed bandits brandishing machine guns robbed the Swedish National Museum in Stockholm, Sweden, of three paintings: Auguste Renoir's "Young Parisian," and "Conversation;" and Rembrandt Harmensz van Rijn's "Self Portrait" (c. 1630). The robbers escaped with the paintings on a boat moored near the museum while employing distracting tactics, including tire spikes and diversionary car bombs in other parts of the city.

ICE Returns Forfeited Monies to Victims of Sweepstakes Fraud

Project Colt

Formed in the 1990s to combat telemarketing fraud in both countries, Project COLT includes the Royal Canadian Mounted Police, ICE, the FBI and the U.S. Postal Inspection Service, among other law enforcement and government agencies. The Project returns monies to victims of fraud.

Project Colt – Victims Bilked by Telemarketing Fraud – Get Some of their Money Back

1. U.S. Immigration and Customs Enforcement (ICE) special agents returned $5,000 to an elderly local resident in Helena, Montana on June 16, 2006, which was part of the money she was bilked out of by telemarketing con artists operating from Canada. The money was returned by a multi-agency joint U.S.- Canada initiative called Project COLT.

   The Helena woman was bilked out of more than $20,000 by the so-called Canadian lottery or sweepstakes scam. This scam occurs when con-artists telephone innocent victims to tell them they have won a lottery jackpot or other substantial prize. The caller tells the person that in order for the prize money to be released, they must first pay a Customs duty, a tax, or a fee. Typically, the "fee" is several thousand dollars. The so-called winners are then asked to send a check or to wire the fee to a bank account or foreign mailbox.

The con artist assures the victim that, once the fee has been received, the prize money will be released. These con artists are expert at pressuring their victims by telling them they only have a limited amount of time to send in the fee. If they miss the deadline, they are told, the winnings will be returned to the "jackpot." Often, the victims are given a phony award number and telephone number to contact lottery officials. Inevitably, the prize money never arrives.

2. In August 2003, ICE agents in Tucson returned $14,620 to a retired Army Brigadier General. The 86 year old Tucson resident had been victimized in a version of the long-running telemarketing scam.

3. In October 2005, ICE agents in Mountain Home, Idaho, returned $7,500 to a local resident, a retired Air Force veteran. He had been told that he had won a significant amount of money; all he needed to do was "pay tax on the winnings." The con artists said they would even send him a check for the taxes owed first, for which he could later reimburse them. The victim received the check, which looked genuine, and deposited it in his bank. He promptly mailed a reimbursement money order to the supposed Canadian officials con-artists only to be notified five days later that the scammers' check had bounced.

4. In January 2006, ICE agents in Cherokee Village, Arkansas, returned $16,000 to a 93-year old victim of the telemarketing scheme.

Customs and Border Protection (CBP)
Department of Homeland Security

CBP Officers Seize 1,600 Pounds of Marijuana Hidden behind Pallets of Tomatoes

CBP officers at the Mariposa Commercial Facility stopped an attempt to smuggle more than 1,600 pounds of marijuana hidden behind pallets of tomatoes in a tractor-trailer in March 2006. The officers, performing a routine screening of all incoming shipments, noticed discrepancies and decided to inspect the truck and contents. "Rocksey," a narcotics detector dog, alerted to the presence of narcotic odor. The pallets of tomatoes were removed from the trailer and bundles of marijuana were found hidden behind the pallets. A total of 67 bundles were found, weighing approximately 1, 641 pounds. Street value of the marijuana was estimated at $1.2 million.

The 2002 Volvo T3 tractor and trailer were seized along with the narcotics. The driver was turned over to ICE agents.

CBP Officers Discover $859,880 in Undeclared Currency, Forfeited

Early in calendar year 2006, CBP officers in San Ysidro were conducting a southbound operation on I-5, west of the port of entry. A vehicle was stopped and the occupants stated that they were headed to Mexico. They both stated that they were not carrying more than $10,000. During an x-ray of the vehicle, an abnormality was visible on both quarter panels of the vehicle. A total of 67 bundles were discovered and removed from the right and left quarter panels of the vehicle. The sum of $859,880 in various denominations was seized and on February 16, 2006, the currency was forfeited to the Treasury Forfeiture Fund.

CBP Officers Discover $218,377 in the Gas Tank, Forfeited

During a border inspection conducted in October 2005, fifteen vacuum-sealed bags containing $218,377 in U.S. currency were found in a vehicle gas tank and seized. On January 9, 2006, the currency was forfeited to the Treasury Forfeiture Fund.

CBP Officers Discover $439,665 in Undeclared Currency, Forfeited

In October 2005 at the Eagle Pass port of entry, a vehicle search revealed $439,665 in US currency in heat-sealed bags concealed within a speaker box located under the rear seat. On January 19, 2006, the currency was forfeited to the Treasury Forfeiture Fund.

U. S. Secret Service
Department of Homeland Security

Fugitives Rent Homes, Take over Identity of Real Owner, $239,856.72 seized

In a case that originated in 2004 from information received from a local Sheriff's Department, two subjects were identified as renting single family homes and taking over the identity of the true owner. In August 2004, in the Northern District of Georgia, arrest warrants were issued for the subjects for conspiracy, stolen identification documents, mail and wire fraud, money laundering and structuring, transport of scheme proceeds in interstate commerce and social security number fraud.

The subjects used elaborate schemes to avoid capture, including obtaining state-issued and counterfeit driver licenses and identifications in stolen identities, obtaining addresses in these stolen identities and using social security numbers of children. During the course of the investigation, a federal agent was able to identify several bank accounts used by both subjects to secure the funds they received during their criminal activity. Five bank accounts with a total of $239,856.72 in funds were seized and the investigation continues.

Owner of the Currency Exchange, LLC charged with Uttering Counterfeit and Money Laundering, $299,091 Seized

This case originated in August 2004 when officials from the U.S. Bureau of Engraving and Printing (BEP) contacted the Secret Service regarding the receipt of suspiciously high amounts of mutilated U.S. currency from a single source. BEP officials advised that an individual, owner of the Currency Exchange, LLC, had previously redeemed $2.8 million in mutilated currency. The subject subsequently presented an additional $424,993 in mutilated currency to the BEP for redemption.

Analysis by the Secret Service determined that $125,902 was counterfeit or non-redeemable. Further investigation tied the funds to a larger Peruvian narcotics money laundering operation. On December 21, 2005, Secret Service agents seized $299,091 from the subject and the Currency Exchange, LLC in New Orleans. The seizure was based on 18 USC 472, Uttering Counterfeit US Currency and 18 USC 1957, Money Laundering.

Hong Kong Shanghai Banking Corporation Employee Embezzling, $1,082,051 Seized

In March 2005, the Fraud Department Manager for the Hong Kong Shanghai Banking Corporation (HSBC) notified the Secret Service of an ongoing investigation regarding an HSBC employee. The manager advised that the subject was under suspicion for transferring approximately $2,013,500 from HSBC accounts into accounts under her control. The subject was arrested, interviewed, and admitted to embezzling the money from HSBC accounts into accounts controlled by her. As a result of her arrest and interview, the Secret Service seized assets totaling $1,082,051, consisting of bank accounts, investment funds, vehicles, furniture, paintings, jewelry and cash in lieu of a residence in Las Vegas.

Corporate Controller at Jabil Global Services - $200,000 worth of property seized and a *Lis Pendens* placed on his home for seizure

The Tampa Financial Crimes Task Force began investigating the corporate controller at Jabil Global Services (JGS), a subsidiary of Jabil Circuit, in March 2005. Jabil Circuit is the 5th largest Electronic Manufacturing Services (EMS) provider in the world with revenues of $7.5 billion in 2005. As the result of a corporate realignment, the subject was left with authority to write checks up to $50,000 on his signature alone. He allegedly created fictitious companies to which he wrote checks, requesting them through an accounting computer system that caused a wire to be sent between St. Petersburg, Florida and Alpharetta, Georgia (wire fraud.) Fortunately, each request was logged. The log revealed over 450 checks totaling in excess of $3.8 million. Further investigation determined that over 180 of the checks (over $1.75 million) were fraudulent.

The money was used by the subject to support a lavish lifestyle. Large payments were made toward the mortgage on his $500,000 home and several renovations were made to the property using Jabil company checks. In addition, he used company checks to pay off his 2004 350 Z Nissan sports-car, a 2004 Nissan Titan pickup truck, a 2004 Yamaha motor scooter, and he rebuilt a 1991 Nissan 300Z sports-car for his daughter. The task force obtained and executed a search and seizure warrant to the subject's home and storage unit. Using the receipts obtained from the various companies, the task force seized approximately $200,000 worth of property and placed a *lis pendens* on his house for seizure.

The U.S. Coast Guard continues its close working relationship with the legacy Customs bureaus and functions in a member-bureau capacity. Fund management is working to gain reimbursement of Coast Guard expenses incurred in regard to Department of Justice forfeitures as well. The Coast Guard maintains a close working relationship with the Drug Enforcement Administration (DEA) of the Department of Justice, assisting with drug boat interceptions on the high seas which are then turned over to the Department of Justice for prosecution.

Peruvian Fishing Vessel Ceci Seized with over 5 Tons of Cocaine Onboard

On July 28, 2006, the U.S. Coast Guard Cutter (CGC) HAMILTON seized over 10,300 pounds of cocaine from the Peruvian fishing vessel Ceci. The CGC HAMILTON launched its small boat with Coast Guard law enforcement personnel aboard to question the master on the nationality of the vessel and the purpose of its voyage. In the process of questioning, boarding team members noticed a large number of what appeared to be bales of contraband in plain view on the fantail of the Ceci. After the Peruvian government granted the Coast Guard permission to board and search the vessel, a sample bale was tested using a Narcotic Identification Kit that resulted in a positive test for cocaine. A total of 200 bales were seized and all 10 Ceci crew members were detained on the CGC HAMILTON until they were transferred to Peruvian law enforcement. Intelligence from the Ceci investigation later led to the arrest of 3 other suspected narcotics traffickers and the seizure of two other Peruvian fishing vessels.

Peruvian fishing vessel Ceci boarded by CGC HAMILTON.

200 bales of cocaine seized from the fishing vessel Ceci.

Costa Rican Flag Ship Princesa De Drake – Seized for Contraband Cocaine

In early December 2005, the fishing vessel Princesa De Drake was boarded by the U.S. Coast Guard in accordance with the U.S. and Costa Rican Bilateral Agreement. During the initial safety inspection, the boarding team found numerous burlap sacks in the aft and forward fish holds. There were 66.5 bales of cocaine on the vessel. The vessel was seized, along with the contraband and 8 personnel were detained.

Bales of cocaine seized from the Costa Rican fishing vessel Princesa De Drake following a Coast Guard boarding in December 2005.

The United States and Costa Rica signed a Bilateral Agreement which was ratified in October 1999 to help suppress the flow of illicit drugs through the coastal regions of Costa Rica. The accord commits the two countries to work together in a variety of ways to suppress drug trafficking by sea and air.

Drug trafficking is not only a problem for the United States. Consumption of drugs in Costa Rica, particularly crack cocaine, was rising sharply there in the late 1990s. Drug trafficking is also associated with money laundering and other corruption. Drugs such as cocaine are produced in South America and are transported through a zone that is six million square miles in size. The transit zone includes the Caribbean Sea, the Atlantic Ocean and the Eastern Pacific Ocean. The Interagency Assessment of Cocaine Movement (IACM) estimates that 90% of all cocaine departing South America travels towards the United States via non-commercial maritime conveyers, primarily via the Eastern Pacific and Eastern Caribbean Sea.

The U.S.-Costa Rica agreement provides for increased intelligence sharing and coordination in counter-drug activities. It permits Costa Rican law enforcement personnel to embark on U.S. vessels as “shipriders” and authorizes U.S. vessels to pursue suspected traffickers in Costa Rican territorial and international waters. Similarly, U.S. law enforcement personnel are permitted to be shipriders on Costa Rican vessels, to provide advice on pursuit and boarding of suspect vessels and to coordinate with U.S. elements. In exceptional “hot pursuit” situations, the agreement allows U.S. law enforcement vessels to pursue, stop and secure a suspect vessel while awaiting the arrival of Costa Rican authorities.

The Government of Costa Rica has primary jurisdiction over all suspects apprehended in its territorial waters, and assets seized in Costa Rican territory will be disposed of in accordance with the laws of Costa Rica. The United States has comprehensive bilateral maritime counter-drug agreements with the governments of other Caribbean nations including: Dominican Republic, Belize, Dominica, Nevi/St. Kitts, Antigua/Barbuda, St. Vincent/Grenadines, St. Lucia, Grenada and Trinidad and Tobago.

Ecuadorian Flag Ship Magallanes – Scuttled by Crew, Contraband and Evidence Seized

On December 11, 2005, the U.S. Coast Guard personnel attached to a U.S. Naval 567-foot Guided Missile Cruiser seized almost 15,000 pounds of cocaine from the 80-foot Ecuadorian fishing vessel Magallanes with seven people aboard. The government of Ecuador granted permission for the boarding, which revealed 5,900 bricks that tested positive for cocaine for a total of 14,990 pounds of contraband. The vessel stayed afloat long enough to rescue the crew and to remove the contraband and other evidence from the Magallanes before she sank.

Cocaine contraband seized by the U.S. Coast Guard from the Ecuadorian fishing vessel Magallanes.

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 as declared in the financial plan. 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. These authorities include the 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.

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 2006, the Fund allocated $18.2 million in SEF spending to the law enforcement agencies. The actual expense for FY 2006 was $25.6 million.

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 declared a Super Surplus in the amount of $31.15 million for FY 2006. The actual expense for FY 2006 was $19.1 million.

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 near-record levels 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 $85 million toward equitable sharing expenses in FY 2006, which although down from over $100 million provided in FY 2005 represents over 30 percent of the regular mandatory expense budget allocation. The actual expense for FY 2006 was $89.8 million. 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

The Treasury Forfeiture Fund continued in its capacity as a multi-Departmental Fund in FY 2006, representing the interests of law enforcement components of the Departments of Treasury and Homeland Security. As the result of the multi-Departmental status, FY 2006 included some continuing management challenges and the need to assess evolving policies of the reorganized bureaus against the broad management interests of the Treasury Forfeiture Fund. 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 2006 continued a pattern of robust revenue years with revenue from all sources exceeding $285 million. As we enter fiscal year 2007, 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 2006, 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 2006 is as follows:

Performance Measure	FY 2005 Actual	FY 2006 Target	FY 2006 Actual
Percent of forfeited cash proceeds resulting from high-impact cases	81.0%	75%	72.9%

A target of 75 percent high-impact cases was set for FY 2006. 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 2006 was 72.9 percent.

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.

Financial Statement Highlights

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, 2006.

These statements have been prepared to disclose the financial position of the Fund, and its net costs, changes in net position, budgetary resources, and the reconciliation of net costs to budgetary obligations 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. 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 2006 and 2005.

Net Position – End of Year. For FY 2006, 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 $236.8 million versus $255.3 million at the end of FY 2005. Both years closed with a strong and viable net position with annual revenue reaching past the forecasted $250 million program level 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 2006, the Fund closed with $257.2 million in Gross Non-Exchange Revenues as compared to FY 2005 with $313.5 million, a decrease of 18 percent from the FY 2005 level. An unusually large case during FY 2005 contributed to this difference.

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 2006, Treasury Forfeiture Fund bureaus earned a total of $14.1 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 $22.3 million during FY 2005. Fund Management continues to work with the Department of Justice to identify the basis for delays and/or downward adjustments to percentages 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 will continue to be funded in FY 2007 if anticipated revenue is received early enough in the fiscal year.

Net Cost of Operations. For FY 2006, the Net Cost of Operations totaled $141.3 million, slightly up from $135.2 million in FY 2005.

Investment Interest Income. The Fund is authorized to invest cash balances in Treasury securities. As of September 30, 2006, investments totaled $672.2 million, up from $499.9 million invested as of September 30, 2005. Given the increase in interest rates on Treasury securities over prior years, investment income totaled $26.8 million in FY 2006 as compared to $13.3 million in FY 2005.

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 2006, the Fund shared a total of $81.3 million with state and local law enforcement agencies, and over $0.7 million with foreign countries. This compares with $75.7 million shared with state and local law enforcement agencies during FY 2005, and another $4.2 million with foreign countries in FY 2005.

Victim Restitution. During FY 2006, the Fund paid restitution to victims in the amount of $1.3 million as compared with $2.1 million in FY 2005.

Summary of Statements of Changes in Net Position. The Fund closed with a strong net position in FY 2006. Management will continue to emphasize high-impact cases by participating law enforcement bureaus. The FY 2006 performance with forfeiture revenue earnings of over $285 million from all sources and a high rate of 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 – Intra-governmental. 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 $141.3 million in FY 2006, slightly up from $135.2 million in FY 2005.

Intra-governmental 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. One of the largest program costs of the Fund is the storage, maintenance and disposal of real and personal property. During FY 2006, this function was performed by EG&G Technical Services, a private firm under multiple contracts to CBP. There is one contract for the custody and maintenance of real properties and a separate contract for general property of the program. During the year, both of these contracts were 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. Similarly, in FY 2007, management will move the general property contract from CBP to management by the Executive Office for Asset Forfeiture in Main Treasury. The new general property contract was awarded early in FY 2007. In FY 2006, expenses for the national property contracts totaled just over $52.7 million, down from $56.9 million in FY 2005. This is partially attributable to the policy decision to restrict the amount of funding available for allocation to the general property contract administered by CBP.

Statements: Balance Sheet

Assets, Liabilities and Net Position

Total assets of the Fund increased in FY 2006 to $863.7 million, up from $776.0 million in FY 2005, an increase in asset value of nearly 11.3 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 $399.0 million in FY 2006, slightly up from $395.0 million in FY 2005. During FY 2006, total liabilities of the Fund increased to $626.9 million, up from $520.7 million in FY 2005.

The Cumulative Results of Operations, i.e., retained earnings, decreased slightly at the end of FY 2006 to a total of $236.8 million, down from $255.3 million at the end of FY 2005.

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.

Auditors' Findings

FY 2006 Audit. The Fund's independent auditors have given the FY 2006 financial statements an Unqualified Opinion and determined that there are no material weaknesses for the Fund's financial statements. The one material weakness identified for FY 2005 has been resolved. In addition, only one 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 2006. The new general property contract was recently awarded and corrective action can proceed to remedy this deficiency. Fund Management anticipates that this second tier condition will be resolved in FY 2007.

Reportable Condition: In fiscal year 2006, 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.

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 although the contractor-proposed remedy has been identified. The award of the new general property contract has been completed and corrective action can proceed to distribute indirect overhead costs to general property. Management will continue to work with participating bureaus to improve the capture of all expense data to the asset level.

Summary of Financial Statement Highlights

Net Position. To summarize, Fund management concluded FY 2006 "in the black," with the necessary resources to commence the business of the asset forfeiture program for FY 2007. Fund management does not expect to declare a Super Surplus from FY 2006 at this time until costs of the new general property contract and transition are better defined. However, this decision can change at any time during the fiscal year.

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 methods and global 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 terrorism initiatives 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 and law enforcement reach of the Treasury Forfeiture Fund.

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

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, 2006 and 2005. 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. 06-03, *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, 2006 and 2005, 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 October 31, 2006, on our consideration of the Fund's internal control over financial reporting and a report dated October 31, 2006, 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.

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.

Gardiner Kamya - Associates

October 31, 2006

Department of the Treasury Forfeiture Fund
BALANCE SHEETS
As of September 30, 2006 and 2005
(Dollars in Thousands)

	2006	2005
Assets:		
Intragovernmental :		
Fund balance with Treasury	$ 53,390	$ 164,996
Investments and related interest (Note 3)	672,180	499,885
Advances (Note 5)	166	143
Total Intragovernmental	725,736	665,024
Cash and other monetary assets (Note 6)	86,558	64,736
Accounts receivable	2,643	793
	89,201	65,529
Forfeited property (Note 7)		
Held for sale, net of mortgages, liens and claims	46,665	43,622
To be shared with federal, state or local, or foreign governments	2,060	1,789
Total forfeited property, net of mortgages, liens and claims	48,725	45,411
Total Assets	$ 863,662	$ 775,964
Liabilities:		
Intragovernmental:		
Distributions payable		
Other federal agencies	$ 1,969	$ 1,545
Accounts payable	28,489	42,825
Total Intragovernmental	30,458	44,370
Seized currency and other monetary instruments (Note 9)	464,615	381,012
Distributions payable (Note 10)		
State and local agencies and foreign governments	54,663	44,120
Accounts payable	26,328	7,208
Deferred revenue from forfeited assets	50,841	43,947
Total Liabilities	626,905	520,657
Net Position:		
Cumulative results of operations (Note 11)	236,757	255,307
Total Liabilities and Net Position	$ 863,662	$ 775,964

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, 2006 and 2005
(Dollars in Thousands)

	2006	2005
Program:		
ENFORCEMENT		
Intragovernmental:		
Seizure investigative costs and asset management	$ 54,939	$ 47,053
Other asset related contract services	2,066	3
Awards to informer	44	-
Data systems, training and others	22,960	19,658
Super surplus (Note 13)	-	2,239
Secretary's enforcement fund (Note 14)	-	500
Total Intragovernmental	80,009	69,453
With the Public:		
National contract services seized property and other	52,716	56,851
Joint operations	8,531	8,850
Total with the Public	61,247	65,701
Net Cost of Operations	$ 141,256	$ 135,154

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, 2006 and 2005
(Dollars in Thousands)

	2006	2005
Net Position - Beginning of year	$ 255,307	$ 194,103
Financing Sources (Non-Exchange Revenues):		
Intragovernmental		
Investment interest income	26,750	13,272
Public		
Forfeited currency and monetary instruments	167,919	209,139
Sales of forfeited property net of mortgages and claims	46,732	49,497
Proceeds from participating with other federal agencies	14,099	22,337
Value of property transferred in equitable sharing	1,696	6,992
Payments in lieu of forfeiture, net of refund (Note 19)	(9,045)	2,023
Reimbursed costs	7,324	6,815
Others	1,721	3,455
Total Gross Non-Exchange Revenues	257,196	313,530
Less: Equitable Sharing		
Intragovernmental		
Federal	(6,401)	(3,241)
Public		
State and local agencies	(81,311)	(75,684)
Foreign countries	(707)	(4,227)
Victim restitution	(1,346)	(2,086)
	(83,364)	(81,997)
Total Equitable Sharing	(89,765)	(85,238)
Total Non-Exchange Revenues, Net	167,431	228,292
Transfers-Out		
Intragovernmental		
Super surplus (Note 13)	(19,127)	(19,211)
Secretary's enforcement fund (Note 14)	(25,598)	(12,723)
Total Transfers-Out	(44,725)	(31,934)
Total Financing Sources- Net	122,706	196,358
Net Cost of Operations	(141,256)	(135,154)
Net Results of Operations	(18,550)	61,204
Net Position - End of Year	$ 236,757	$ 255,307

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, 2006 and 2005
(Dollars in Thousands)

	2006	2005
Budgetary Resources:		
Unobligated balance - beginning of year	$ 86,760	$ 95,779
Recoveries of prior year unpaid obligations	34,612	15,028
Budget authority	271,187	320,870
Total Budgetary Resources	$ 392,559	$ 431,677
Status of Budgetary Resources:		
Obligations incurred	$ 309,624	$ 344,917
Unobligated balances - available	82,935	86,760
Total Status of Budgetary Resources	$ 392,559	$ 431,677
Change in Obligated Balance:		
Obligated balance, net - beginning of year	$ 256,255	$ 176,382
Obligations incurred	309,624	344,917
Less: Gross outlays	(286,752)	(250,016)
Less: Recoveries of prior year unpaid obligations, actual	(34,612)	(15,028)
Obligated balance, net - end of year	$ 244,515	$ 256,255
Net Outlays	$ 286,752	$ 250,016

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, 2006 and 2005
(Dollars in Thousands)

	2006	2005
Resources Used to Finance Activities:		
Budgetary resources obligated		
Obligations incurred	$ 309,624	$ 344,917
Less: Spending authority from offsetting collections and recoveries	(34,612)	(15,028)
Net obligations	275,012	329,889
Other Resources		
Transfers - out	(44,725)	(31,934)
Total Resources Used to Finance Activities	230,287	297,955
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	28,869	(58,916)
Other resources or adjustments to net obligated resources that do not affect net cost of operations		
Mortgages and claims	(11,510)	(10,501)
Refunds	(16,625)	(8,146)
Equitable sharing (federal, state/local and foreign)	(88,419)	(83,152)
Victim restitution	(1,346)	(2,086)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(89,031)	(162,801)
Total Resources Used to Finance the Net Cost of Operations	141,256	135,154
Net Cost of Operations	$ 141,256	$ 135,154

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. The statement of budgetary resources for fiscal year 2005 has been reclassified to make it comparable to the fiscal year 2006 presentation.

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.

Earmarked Funds

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the Government's general revenues. In accordance with SFFAS 27, *Earmarked Funds,* all of the TFF's revenue meets this criteria and constitutes an earmarked fund.

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

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

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, 2006 and 2005.

- **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 seized and 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

2007. 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, 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 following schedule presents the investments on hand as of September 30, 2006 and 2005, respectively (dollars in thousands):

Entity Assets

Description	***Cost***	***Unamortized Discount***	***Investment, Net***
September 30, 2006:			
Treasury Forfeiture Fund - 28 days 4.65% U.S. Treasury Bills	$ 275,054	$ (994)	$ 274,060
Interest Receivable –			
On entity investments			320
On non-entity investments			463
Total Investment, Net, and Interest Receivable			$ 274,843
Fair Market Value			$ 274,468

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
Fair Market Value			$ 178,308

Non-entity Assets

Description	***Cost***	***Unamortized Discount***	***Investment, Net***
September 30, 2006:			
Treasury Forfeiture Fund – Seized Currency Suspense Account 28 days 4.65% U.S. Treasury Bills	$ 398,778	$ (1,441)	$ 397,337
Fair Market Value			$ 397,929
September 30, 2005:			
Treasury Forfeiture Fund – Seized Currency Suspense Account 28 days 3.15% U.S. Treasury Bills	$ 322,196	$ (987)	$ 321,209
Fair Market Value			$ 321,732

Note 4: Intragovernmental and Other Non-Entity Assets

The following schedule presents the intragovernmental and other non-entity assets as of September 30, 2006 and 2005, respectively, (dollars in thousands):

	2006	2005
Intragovernmental Assets:		
Seized currency:		
Investments (Note 3)	$ 397,337	$ 321,209
Seized currency:		
Cash and other monetary assets (Note 6)	67,278	59,803
Total Non-Entity Assets	464,615	381,012
Total Entity Assets	399,047	394,952
Total Assets	$ 863,662	$ 775,964

Note 5: Advances

Advances amounted to $166 thousand and $143 thousand as of September 30, 2006 and 2005, 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 $19.3 million and $4.9 million as of September 30, 2006 and 2005, 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 $67.3 million and $59.8 million as of September 30, 2006 and 2005, respectively.

Note 7: Forfeited Property

The following summarizes the components of forfeited property (net), as of September 30, 2006 and 2005, respectively, (dollars in thousands):

	2006	2005
Held for Sale	$ 52,645	$ 52,874
To be shared with federal, state or local, or foreign government	2,060	1,789
Total forfeited property (Note 8)	54,705	54,663
Less: Allowance for mortgages and claims	(5,980)	(9,252)
Total forfeited property, net	$ 48,725	$ 45,411

Note 8: ***FY 2006 Analysis of Changes in Forfeited Property and Currency***

The following schedule presents the changes in the forfeited property and balances from October 1, 2005 to September 30, 2006.
(Dollar value is in thousands.)

	10/1/05 Financial Statement Balance		Adjustments		10/1/05 Carrying Value		Forfeitures		Deposits/Sales		Disposals/Transfers	
	Value	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**
Currency	$ 4,729	-	$ -	-	$ 4,729	-	$ 160,549	-	$ (149,162)		$ (2,440)	
Other Monetary Instruments	204	-	-	-	204	-	111	-	(25)			
Subtotal	4,933	-	-	-	4,933	-	160,660	-	(149,187)	-	(2,440)	-
Real Property	39,369	138	(7,243)	-	32,126	138	22,297	94	(25,460)	(108)	(672)	(4)
General Property	5,287	6,079	9,640	-	14,927	6,079	9,639	11,311	(9,003)	(2,116)	(1,760)	(687)
Vessels	746	29	706	-	1,452	29	1,594	93	(1,132)	(43)	(997)	(6)
Aircraft	147	2	56	-	203	2	382	3	(212)	(3)	-	-
Vehicles	9,114	4,138	5,474	-	14,588	4,138	56,040	22,353	(39,300)	(10,283)	(12,294)	(1,414)
Subtotal	54,663	10,386	8,633	-	63,296	10,386	89,952	33,854	(75,107)	(12,553)	(15,723)	(2,111)
Grand Total	$ 59,596	10,386	$ 8,633	-	$ 68,229	10,386	$ 250,612	33,854	$ (224,294)	(12,553)	$ (18,163)	(2,111)

	Victim Restitution		Destroyed		Other Adjustments		Value Change		2006 Carrying Value		Fair Market Value Adjustment		9/30/06 Financial Statement Balance	
	Value	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**
Currency	$ -		$ -		5,321	-	$ -	-	$ 18,997		$ -		$ 18,997	
Other Monetary	-	-	-	-		-	-	-		-	-	-	-	-
Instruments	-	-	-	-	(7)	-	-	-	283	-	-	-	283	-
Subtotal	-	-	-	-	5,314	-	-	-	19,280	-	-	-	19,280	-
Real Property	-	-	-	-	3,775	21	(58)	-	32,008	141	8,304	-	40,312	141
General Property	-	-	(401)	(9,450)	557	980	(4,953)	-	9,006	6,117	(5,583)	-	3,423	6,117
Vessels	-	-	-	(37)	177	3	(10)	-	1,084	39	(372)	-	712	39
Aircraft	-	-	-	-	-	-	-	-	373	2	(132)	-	241	2
Vehicles	-	-	(12)	(11,568)	1,463	382	(1,299)	-	19,186	3,608	(9,169)	-	10,017	3,608
Subtotal	-	-	(413)	(21,055)	5,972	1,386	(6,320)	-	61,657	9,907	(6,952)	-	54,705	9,907
Grand Total	$ -	-	$ (413)	(21,055)	$ 11,286	1,386	$ (6,320)	-	$ 80,937	9,907	$ (6,952)	-	$ 73,985	9,907

Note 8 (Contd): ***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 thousands.)

	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 9: ***FY 2006 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.)

	9/30/05 Financial Statement Balance		Seizures		Remissions		Forfeitures		Adjustments		Value Changes		9/30/06 Financial Statement Balance	
	Value	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**
Currency	$ 379,265	-	$ 281,034		$ (73,584)		$ (160,549)		$ 25,899				$ 452,065	-
Other Monetary Instruments	1,747	-	362		(155)		(111)		10,707				12,550	-
Subtotal	381,012	-	281,396	-	(73,739)	-	(160,660)	-	36,606	-	-	-	464,615	-
Real Property	261,173	627	128,051	331	(24,696)	(112)	(22,297)	(94)	(62,885)	(51)	(876)		278,470	701
General Property	146,559	10,333	256,276	24,848	(126,788)	(4,615)	(9,639)	(11,311)	(3,557)	(4,579)	(25,718)		237,133	14,676
Vessels	4,350	97	6,071	151	(3,304)	(54)	(1,594)	(93)	(1,076)	(9)	(175)		4,272	92
Aircraft	4,154	8	4,538	15	(942)	(8)	(382)	(3)	(4,982)	(2)	1,375		3,761	10
Vehicles	61,021	10,291	126,171	27,271	(65,868)	(6,665)	(56,040)	(22,353)	(4,073)	(934)	(9,480)		51,731	7,610
Subtotal	477,257	21,356	521,107	52,616	(221,598)	(11,454)	(89,952)	(33,854)	(76,573)	(5,575)	(34,874)	-	575,367	23,089
Grand Total	$ 858,269	21,356	$ 802,503	52,616	$ (295,337)	(11,454)	$ (250,612)	(33,854)	$	(5,575)	$ (34,874)	-	1,039,982	23,089

(39,967)

Note 9 (Contd): ***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 10: Distributions Payable (state and local agencies and foreign governments)

Distributions Payable (state and local agencies and foreign governments) amounted to $54.7 million and $44.1 million as of September 30, 2006 and 2005, 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, 2006 and 2005, 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, 2006 and 2005, respectively, (dollars in thousands):

	2006	2005
Retained Capital	$ 119,551	$ 133,730
Unliquidated Obligations	135,756	60,373
Results of Operations	(18,550)	61,204
	$ 236,757	$ 255,307

Unliquidated Obligations

The following summarizes the components of unliquidated obligations as of September 30, 2006 and 2005, respectively, (dollars in thousands):

	2006	2005
Discretionary	$ --	$ --
Equitable Sharing	76,796	37,087
Mandatory	58,960	23,286
	$135,756	$ 60,373

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 $19.1 million and $21.5 million in fiscal years 2006 and 2005, respectively.

<u>Note 14: Secretary's Enforcement Fund</u>

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 $25.6 million and $13.2 million in fiscal years 2006 and 2005, respectively.

<u>Note 15: Commitments and Contingencies</u>

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:

	2006	2005
Gross Costs	$ 141,256	$ 135,154
Earned Revenues	--	--
Net Costs	$ 141,256	$ 135,154

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 at the end of fiscal years 2006 and 2005 are $244.5 million and $256.3 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 2006 and 2005 consist of the following (in thousands):

	2006	2005
Recoveries of Prior Year Obligations	$ 34,612	$ 15,028

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 Refunds as of September 30, 2006 and 2005, respectively, (dollars in thousands):

	2006	2005
Payments in Lieu of Forfeiture	$ 7,580	$ 10,169
Refunds	(16,625)	(8,146)
Total	($ 9,045)	$2,023

SECTION III

OTHER REPORTS

GARDINER KAMYA
& ASSOCIATES, PC

CERTIFIED PUBLIC ACCOUNTANTS | MANAGEMENT CONSULTANTS

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, 2006, and have issued our report thereon dated October 31, 2006. 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. 06-03, *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. 06-03 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 that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation in internal control, which could adversely affect the Fund's ability to meet the objectives of internal control.

Material weaknesses are reportable conditions in which design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error, fraud or noncompliance in amounts that would be material in relation to the financial statements being audited, or material to a performance measure or aggregation of related performance measures, 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 control, misstatements due to error or fraud may nevertheless occur and not be detected. We noted

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The reportable condition, as defined above, is summarized below with further explanations and Fund Management’s responses in **Exhibit I** of this report.

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 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 another matter involving the internal control and its operation that we have reported to Fund Management in a separate letter dated October 31, 2006.

****

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. 06-03. 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 Department of the Treasury 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.

October 31, 2006

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, 2006, and have issued our report thereon dated October 31, 2006. 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. 06-03, *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. 06-03, 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. 06-03.

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.

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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 Department of the Treasury 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.

October 31, 2006

EXHIBIT I

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. The Fund 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: 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 the procurement process. TFF Management has taken action to move procurement of the general property contract to the auspices of the Executive Office for Asset Forfeiture. Resolution of the Reportable Condition for the general property contract remains open for FY 2006.

Discussion/Background and Planned Action:

Summary of Current Status: 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 successor contract for general property. The requirement is not a part of the current general property contractor's statement of work.

EXHIBIT II

STATUS OF PRIOR YEAR FINDINGS

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

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.

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.

FY 2006 STATUS

(a) To clearly define and align the role of the CFO with the responsibilities for financial operations, financial systems, budget formulation and execution, the duties and responsibilities of a CFO have been assigned to the Assistant Director for Financial Management and Operations. The Assistant Director for Financial Management and Operations directly supervises and provides leadership and guidance to the Financial Management Officer, the Funding and Resources Team and the State and Local Operations team. The employees under the supervision and support of the Assistant Director for Financial Management and Operations perform a myriad of fiscal and budget related activities for the TFF such as: budget formulation, budget execution, financial management reporting, revenue collection, and establishing and monitoring internal financial management and accounting controls. The Assistant Director for Financial Management and Operations coordinates the activities of the financial staff in order to effectively and efficiently improve the overall fiscal management of the TFF. The current organizational structure strengthens the control environment in which the fund operates, and ensures effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

(b) The TFF has adopted the recommendation from the auditors regarding the estimated obligations for equitable sharing obligations during the month of September. The estimate was based on an average of equitable sharing percentages for the eleven months preceding September. The estimate is being adjusted after year end for any significant difference from the estimates received from the applicable bureaus in October.

This material weakness has been substantially addressed in FY 2006 and will not be repeated.

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

RECOMMENDATION

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

1. 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.

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

FY 2006 STATUS

(a) Real Property Contract: 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. The condition remains open and unresolved.

(b) 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 the procurement process. TFF Management has taken action to move procurement of the general property contract to the auspices of the Executive Office for Asset Forfeiture. Resolution of the Reportable Condition for the general property contract remains open for FY 2006.

This reportable condition is being repeated in FY 2006.

SECTION IV

REQUIRED SUPPLEMENTAL INFORMATION

Intragovernmental Amounts – Assets (Dollars in thousands)

	2006			2005		
Partner Agency	Fund Balance with Treasury	Accounts Receivable/ Advances	Investments	Fund Balance with Treasury	Accounts Receivable /Advances	Investments
Departmental Offices	$--	$166	$ --	$--	$143	$ --
Bureau of Public Debt	--	--	$672,180	--	--	$499,885
Totals	$ --	$166	$672,180	$--	$143	$499,885

Intragovernmental Amounts – Liabilities (Dollars in thousands)

	2006	2005
Partner Agency	Accounts Payable	Accounts Payable
Department of Justice	$12,582	$18,820
Departmental Offices	513	2,190
Department of Homeland Security	2,790	7,488
Internal Revenue Service	14,573	15,872
Totals	$30,458	$44,370

TREASURY FORFEITURE FUND
Required Supplemental Information
For the Years Ended September 30, 2006 and 2005
(Dollars in Thousands)

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

	2006		2005	
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	$ --	$ 80,009	$ --	$ 69,453

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

	2006		2005	
Partner Agency	In	Out	In	Out
Department of Justice	$--	$32	$--	$44
Department of Homeland Security	--	22,528	--	15,753
Department of Treasury	--	1,622	--	--
Internal Revenue Service	--	17,235	--	14,137
Financial Crimes Enforcement Network	--	2,300	--	2,000
Department of State	--	81	--	--
Department of Labor	--	97	--	--
Central Intelligence Agency	--	830	--	--
Totals	$ --	$44,725	$ --	$31,934

SECTION V

OTHER ACCOMPANYING INFORMATION

(Unaudited)

TREASURY FORFEITURE FUND
Equitable Sharing Summarized by State and U.S. Territories
For the Year Ended September 30, 2006
(Dollars in Thousands)
(Unaudited)

State/U.S. Territories	Currency Value	Property Value
Alabama	$ 4	$ -
Alaska	136	-
Arizona	190	136
Arkansas	-	-
California	771	309
Colorado	83	-
Connecticut	284	-
D.C. Washington	304	17
Delaware	4	-
Florida	7,978	2,499
Georgia	1,928	35
Guam	149	-
Hawaii	496	-
Idaho	31	-
Illinois	2,408	-
Indiana	263	110
Iowa	7	104
Kansas	9	-
Kentucky	254	-
Louisiana	1,330	68
Maine	70	-
Maryland	1,774	3
Massachusetts	204	37
Michigan	2,493	37
Minnesota	346	88
Mississippi	547	103
Missouri	194	35
Montana	-	-
Nebraska	12	-
Nevada	-	-
New Jersey	2,441	12
New Hampshire	19	36
New Mexico	2	1
New York	9,316	289
North Carolina	2,528	147
North Dakota	-	-
Ohio	117	-
Oklahoma	19	2
Oregon	494	34
Pennsylvania	3,206	32
Puerto Rico	4,083	127
Rhode Island	6	-
South Carolina	186	-
South Dakota	-	-
Tennessee	1,160	1,037
Texas	9,648	1,642
Utah	104	164
Subtotal carried forward	$55,598	$7,104

TREASURY FORFEITURE FUND
Equitable Sharing Summarized by State and U.S. Territories
For the Year Ended September 30, 2006
(Dollars in Thousands)
(Unaudited)

State/U.S. Territories	Currency Value	Property Value
Subtotal brought forward	$55,598	$7,104
Vermont	34	-
Virgin Islands	-	-
Virginia	2740	214
Washington	473	238
West Virginia	58	-
Wisconsin	93	6
Wyoming	-	-
Totals	$58,996	$ 7,562

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, 2006
(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 2006.

TREASURY FORFEITURE FUND
Analysis of Revenue and Expenses and Distributions
For the Year Ended September 30, 2006
(Dollars in Thousands)

	Revenue	Expenses and Distributions
Revenue, Expenses and Distributions by Asset Category:		
Vehicles	$13,782	$32,041
Vessels	3,828	40,824
Aircraft	3,828	13,152
General Property	12,250	129,578
Real Property	42,876	5,075
Currency and monetary instruments	208,767	64,661
	285,331	285,331
Less:		
Mortgages and claims	(11,510)	(11,510)
Refunds	(16,625)	(16,625)
Add:		
Excess of net revenues and financing sources over total program expenses	--	--
Total	$257,196	$257,196
Revenues, Transfers, Expenses and Distributions by Type of Disposition:		
Sales of property and forfeited currency and monetary instruments	188,242	54,212
Reimbursed storage costs	7,324	28,533
Assets shared with state and local agencies	81,311	81,311
Assets shared with other federal agencies	6,401	6,401
Assets shared with foreign countries	707	707
Victim Restitution	1,346	1,346
Destructions	--	34,240
Pending disposition	--	78,581
	285,331	285,331
Less:		
Mortgages and claims	(11,510)	(11,510)
Refunds	(16,625)	(16,625)
Add:		
Excess of net revenues and financing sources over total program expenses	--	--
Total	$257,196	$257,196

The revenue amount of $257,196 is from the Statement of Changes in 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, 2006
(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, 2006, the Fund had forfeited property held for sale of $46,665. 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 U.S. Customs Service (Customs) suspense account. Upon forfeiture, it is transferred to the Treasury Forfeiture Fund. At September 30, 2006, there was $19,280 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 $2,440 and total property transferred was $15,723 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, 2005 which became the beginning balance for the Fund on October 1, 2005, as reported in the audited financial statements is $255,307.

(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 $11,510. The amount actually paid on a cash basis was not materially different.

TREASURY FORFEITURE FUND
Information Required by 31 U.S.C. 9703(f)
For the Year Ended September 30, 2006
(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	$81,311
Foreign countries	707
Other federal agencies	6,401
Victim restitution	1,346

(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 $141,256.

The amount of seized currency not on deposit in the Fund's suspense account at September 30, 2006, was $67,278. This amount includes some funds in the process of being deposited at yearend; cash seized in August or September 2006 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 $82,935 for fiscal year 2006.

(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:

CBP	$75,154	26 seizures
IRS	265,166	97 seizures
U.S. Secret Service	3,036	2 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 70.

TREASURY FORFEITURE FUND
Information Required by 31 U.S.C. 9703(f)
For the Year Ended September 30, 2006
(Dollars in Thousands)

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

The total net position of the Fund at September 30, 2006, as reported in the audited financial statements is $236,757.

(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 2007 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 71.