DRUG ENFORCEMENT ADMINISTRATION ANNUAL FINANCIAL STATEMENTS FISCAL YEAR 2012

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

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January 2013

DRUG ENFORCEMENT ADMINISTRATION ANNUAL FINANCIAL STATEMENTS FISCAL YEAR 2012

OFFICE OF THE INSPECTOR GENERAL COMMENTARY AND SUMMARY

This audit report contains the Annual Financial Statements of the Drug Enforcement Administration (DEA) for the fiscal years (FY) ended September 30, 2012, and September 30, 2011. Under the direction of the Office of the Inspector General (OIG), KPMG performed the DEA's audit in accordance with auditing standards generally accepted in the United States of America. The audit resulted in an unqualified opinion on the FY 2012 financial statements. An unqualified opinion means that the financial statements present fairly, in all material respects, the financial position and the results of the entity's operations in conformity with U.S. generally accepted accounting principles. For FY 2011, the DEA also received an unqualified opinion on its financial statements (OIG Report No. 12-17).

KPMG also issued reports on internal control over financial reporting and on compliance and other matters. No instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards* were identified during the audit in the FY 2012 *Independent Auditors' Report on Compliance and Other Matters.* Additionally, DEA's tests disclosed no instances in which the DEA financial management systems did not substantially comply with the *Federal Financial Management Improvement Act of 1996*.

The OIG reviewed KPMG's reports and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an audit in accordance with *Government Auditing Standards*, was not intended to enable us to express, and we do not express, an opinion on the DEA's financial statements, conclusions about the effectiveness of internal control, conclusions on whether the DEA's financial management systems substantially complied with the *Federal Financial Management Improvement Act of 1996*, or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditors' reports dated November 5, 2012, and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG did not comply, in all material respects, with auditing standards generally accepted in the United States of America.

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MESSAGE FROM THE CHIEF FINANCIAL OFFICER

Fiscal year 2012 was another successful year for the Drug Enforcement Administration in financial management. For the fourteenth consecutive year, we received an unqualified ("clean") audit opinion on our consolidated financial statements. Furthermore, our financial statement audit report is completely free of any material weaknesses or significant deficiencies. These audit results are evidence of the hard work and collaboration among the 308 DEA offices world-wide and our commitment to sound financial management practices, especially in these challenging financial times.

We continued to make improvements in the area of obligation management to account for our obligations in a more timely and accurate manner. A major contributor to these improvements was the Obligation Management Module (OMM) which was implemented this year. Although not mandated, 91% of DEA allowance managers elected to use the automated module which ensures the complete and timely reconciliation of DEA obligations. Our ability to properly manage agency resources is key to the success of DEA's mission. As a result of our hard work DEA's auditors did not identify any significant findings related to the management of obligations.

I am also pleased to report that DEA did not receive any significant deficiencies this year. All issues identified last year in STRIDE reporting have been addressed and resolved. The collaborative efforts of the Office of Forensic Sciences, the Office of Information Systems and the Office of Finance resulted in successfully implementing changes to the reporting of year end balances.

On behalf of the Administrator and entire Executive Staff, I would like to thank the many talented and dedicated men and women in DEA who are responsible for this year's exceptional record. DEA's Senior Leadership is keenly aware of the pivotal role financial management plays in service to our Special Agents and other core personnel. In particular, I would like to congratulate the financial management staff in Headquarters and the field for their tireless efforts to maintain solid financial management practices, as evidenced by the outstanding results of this year's testing. I am privileged to be a part of this fine community of individuals and I consider this report a reflection of the outstanding service these dedicated people provide to DEA, day in and day out.

Frank M. Kalder
Chief Financial Officer
November 1, 2012

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Management's Discussion and Analysis

Unaudited

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MISSION AND ORGANIZATIONAL STRUCTURE

Mission

The mission of the Drug Enforcement Administration (DEA) is to enforce the controlled substances laws and regulations of the United States (U.S.) and bring to the criminal and civil justice system of the U.S., or any other competent jurisdiction, those organizations and principal members of organizations involved in the growing, manufacturing, or distribution of controlled substances appearing in or destined for illicit traffic in the U.S., including organizations that use drug trafficking proceeds to finance terror; and to recommend and support enforcement-related programs aimed at reducing the availability of and demand for illicit controlled substances on the domestic and international markets.

Organizational Structure of the DEA

The DEA is a component of the Department of Justice (DOJ). It is headed by an Administrator, who is appointed by the President and confirmed by the Senate. During fiscal year (FY) 2012, the DEA operated a total of 223 Domestic Offices, which consisted of 21 Domestic Field Divisions, through which 37 Domestic District Offices, 117 Resident Offices, and 48 Posts of Duty reported. The DEA also operated 85 Foreign Offices, which consisted of 67 Foreign Country Offices and 18 Resident Offices in 66 countries. Of the 85 Foreign Offices, nine offices reported through Domestic Field Divisions (seven through the Caribbean Field Division and two through the Miami Field Division).

The DEA's authorized positions for FY 2012 are 11,116 positions, including 5,314 Special Agents. The chart below provides a breakout of the DEA's staffing by position category and compares authorized positions to on-board strength at the end of FY 2012:

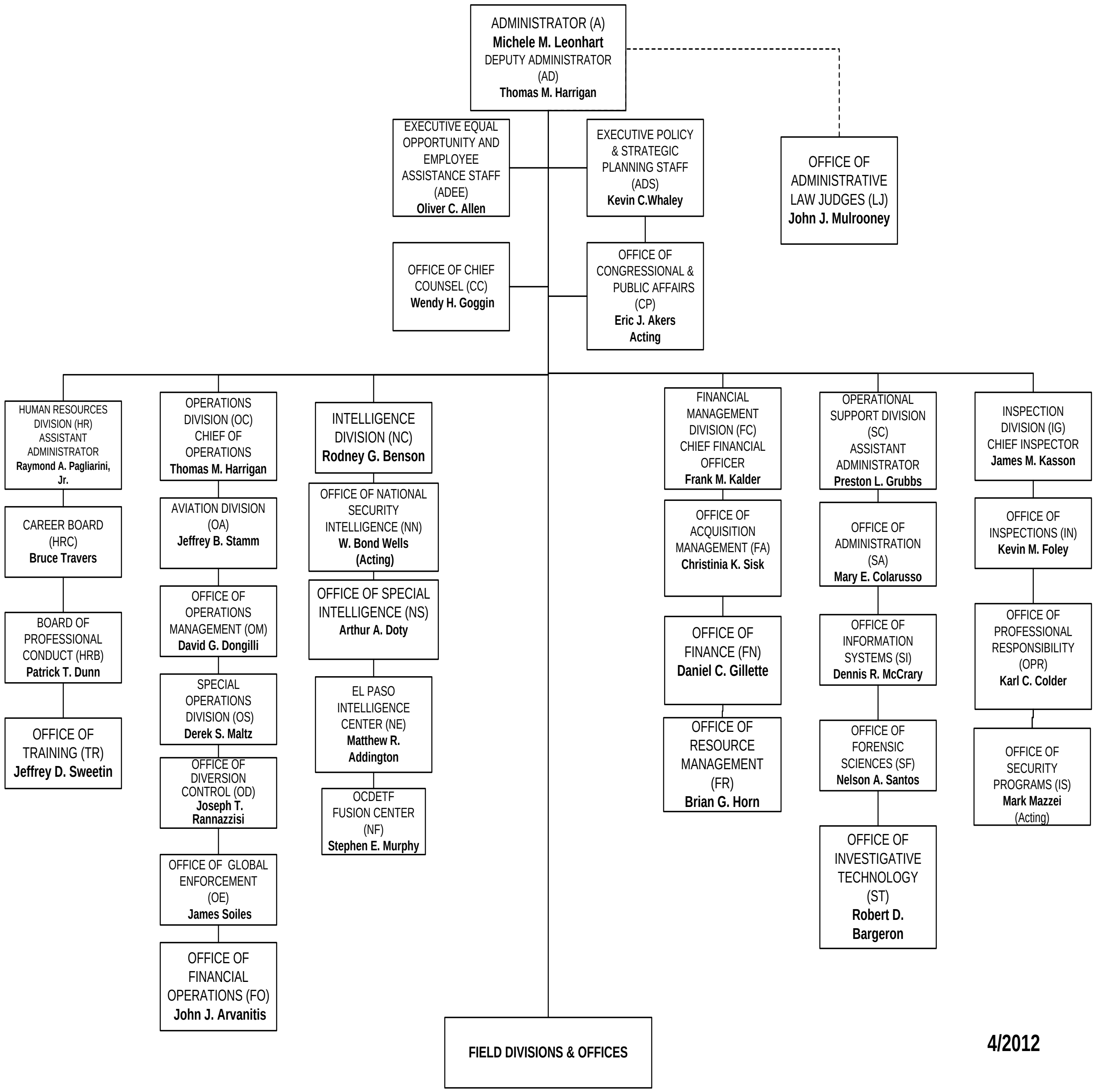
FY 2012 Staffing Data [1]

Position Category	Authorized Positions	On-Board Strength September 30, 2012[2]
Special Agent	5,314	4,890
Diversion Investigator	626	588
Intelligence Specialist	1,001	831
Chemist	356	297
Support[3]	3,819	3,055
TOTAL	11,116	9,661

[1] Includes 1,309 Organized Crime Drug Enforcement Task Force (OCDETF) Program reimbursable positions, one U.S. European Command (USEUCOM), one U.S. Northern Command (USNORTHCOM), one U.S. Africa Command (USAFRICOM), one U.S. Special Operations Command (USSOCOM), one Joint Narcotics Analysis Center (JNAC), and one National Maritime Intelligence Center (NMIC) reimbursable positions.
[2] Reflects on-board strength as of Pay Period 19, which ended September 22, 2012. Pay Period 19 is classified as the Final Pay Period for FY 2012 by the Office of Personnel Management (OPM) and DOJ.
[3] Support includes all Professional/Administrative and Technical/Clerical Positions and Employees.

The chart below depicts the Headquarters Offices that report to the Deputy Administrator and/or the Administrator:

Drug Enforcement Administration



FINANCIAL STRUCTURE

In FY 2012, the DEA had available funding in eight different annual, multi-year, and no-year appropriations. Generally, the DEA's annual appropriation provides for most, but not all, salaries and expenses and core program activities, while multi-year and no-year funding provides for a variety of specialized programs, activities, and functions.

PERFORMANCE INFORMATION

Resources

Under the DOJ Strategic Plan, the DEA's resources are devoted to the achievement of DOJ Strategic Goals 1, Prevent Terrorism and Promote the Nation's Security Consistent with the Rule of Law, and 2, Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law.

Table 1. Source of DEA Resources
(Dollars in Thousands)

Source	FY 2012	FY 2011	Change %
Earned Revenue:	$ 737,003	$ 722,910	2.0%
Budgetary Financing Sources:			
Appropriations Received	2,035,000	2,019,682	0.8%
Appropriations Transferred In/Out	27,254	71,029	(61.6)%
Other Adjustments	(10,000)	(4,039)	(147.6)%
Other Financing Sources:			
Transfers In/Out Without Reimbursement	(1,374)	14,358	(109.6)%
Imputed Financing From Costs Absorbed by Others	80,906	89,229	(9.3)%
Total	$ 2,868,789	$ 2,913,169	(1.5)%

Table 2. How DEA Resources are Spent
(Dollars in Thousands)

Strategic Goal (SG)	FY 2012	FY 2011	Change %
SG 1. Prevent Terrorism and Promote the Nation's Security Consistent with the Rule of Law			
Total Gross Cost	$ 111,714	$ 106,082	5.3%
Less: Total Earned Revenue	12,630	693	1722.5%
Total Net Cost of Operations	$ 99,084	$ 105,389	(6.1)%
SG 2. Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law			
Total Gross Cost	$ 2,837,798	$ 2,929,005	(3.1)%
Less: Total Earned Revenue	724,373	722,217	0.2%
Total Net Cost of Operations	$ 2,113,425	$ 2,206,788	(4.2)%

FY 2012 Financial Highlights

Strategic Goal 1, Prevent Terrorism and Promote the Nation's Security Consistent with the Rule of Law, includes the DEA's membership in the Intelligence Community (IC), a special investigations unit, support of counterterrorism intelligence inquiries, Afghanistan Foreign-deployed Advisory and Support Teams (FAST), and the DEA's enforcement operations in the Middle East, Central Asia, and Southwest Asia, such as Operation Containment. FY 2012 is the sixth year that the DEA is scoring resources as Strategic Goal 1. In FY 2012, Goal 1 net costs decreased by 6.1 percent. Each year, DEA receives a transfer from the Department of State to support operations in Afghanistan.

Strategic Goal 2, Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law includes the majority of the DEA's enforcement and regulatory activities. In FY 2012, Strategic Goal 2 net costs decreased by 4.2 percent.

Data Reliability and Validity

The DEA views data reliability and validity as critically important in the planning and assessment of our performance. As such, this document includes a discussion of data validation, verification, and any data limitations for each performance measure presented. Each Reporting Component ensures that data reported meets the following criteria:

> *At a minimum, performance data are considered reliable if transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management. Performance data need not be perfect to be reliable, particularly if the cost and effort to secure the best performance data possible will exceed the value of any data so obtained.*

In addition, the DEA was requested to ensure that data reported met the Office of Management and Budget (OMB) standards for data reliability as presented in OMB Circular No. A-11, *Preparation, Submission and Execution of the Budget*, Section 230.2 (f), *Relationships Between the Annual Program Performance Report, the Annual Performance Plan, and the Accountability Report*. Based on a review of the OMB standard, the DEA has determined that its performance data is reliable.

FY 2012 REPORT ON SELECTED RESULTS

STRATEGIC GOAL 1: Prevent Terrorism and Promote the Nation's Security Consistent with the Rule of Law – 4.5 percent of the DEA's Net Costs support this Goal.

PROGRAM:

Background/Program Objectives:

<u>**Intelligence and National Security**</u>

In recognition of the national security threat that illegal drugs pose to the U.S., the contributions that the DEA makes in the area of national security, and the continued mandate for increased intelligence sharing between law enforcement and intelligence agencies, DEA's Office of National Security Intelligence (ONSI) was designated a member of the Intelligence Community (IC) in February 2006.

The ONSI is a component of the DEA's Intelligence Division (NC) within the DEA Headquarters. ONSI directs and fulfills its responsibilities as a member of the IC while ensuring the separation of national intelligence and law enforcement information. ONSI's mission is to share information as widely as possible with IC partners while ensuring law enforcement investigations or civil liberties are not compromised. Through the efforts of the ONSI, the DEA fulfills the requirement to share intelligence mandated by the USA Patriot Act and the Attorney General's guidelines to share information. ONSI facilitates full and appropriate intelligence coordination and information sharing with the other members of the IC and homeland security elements to enhance U.S. efforts to reduce the supply of drugs, protect national security, and combat global terrorism.

The DEA collection management system, managed through the ONSI, plays a critical role in the facilitation of information sharing with the IC. The system includes Intelligence Analysts based at the DEA's headquarters and in the field who serve as the interface between the IC and the DEA's primary law enforcement mission. The collection management system provides the tool for satisfying internal DEA requirements as well as intelligence requirements from the law enforcement community, IC, and other information-sharing partners. The ONSI, through its Collection Requirements Unit, has developed and implemented methodologies for responding to IC requirements with information derived from law enforcement operations and investigations. These processes are designed to identify, gather, collate and disseminate information in response to identified requirements in a structured manner that will maximize the value of the information to the end user.

Another key component of DEA's information sharing strategy is its Reports Officers (RO). DEA's RO program is the primary mechanism for proactively providing DEA information with a national security nexus to the IC. This program produces sanitized reports of current national security related and drug-related investigative information that is shared with the intelligence community. The ROs systematically review investigative reports received by DEA Headquarters for information that may be lawfully disclosed to agencies within the IC or other law enforcement agencies. This information is passed in the form of Intelligence Information Reports (IIRs), DEA Analytic Reports (DARs) and Drug Intelligence Briefs (DIBs).

Performance Measure: Percentage of IC Requests for Information (RFIs) Provided by the Requested Deadline

FY 2003 Actual Performance	N/A, Measure first reported in FY 2009.
FY 2004 Actual Performance	N/A, Measure first reported in FY 2009.
FY 2005 Actual Performance	N/A, Measure first reported in FY 2009.
FY 2006 Actual Performance	N/A, Measure first reported in FY 2009.
FY 2007 Actual Performance	N/A, Measure first reported in FY 2009.
FY 2008 Actual Performance	N/A, Measure first reported in FY 2009.
FY 2009 Actual Performance	90%
FY 2010 Actual Performance	85%
FY 2011 Actual Performance	75%
FY 2012 Target	100%
FY 2012 Actual Performance	77%

Data Collection and Storage: As a result of receiving Requests for Information (RFIs) from a variety of sources, including the DEA, IC, and Law Enforcement (LE) partners, the ONSI researches information and develops products. These products are internally tracked through an MS Access database. The ONSI also uses a SIPERNET-based shared system (FORUM) for customer and field units to track the status of the RFIs. SIPERNET is the IT system DEA's classified infrastructure sits on, and provides the single point of connectivity between DEA office for rapid transmission of, and access to, classified investigative intelligence information. The ONSI does not maintain any databases of IC or LE partners' information. The answers to all RFIs are retained in a secure hard copy file section at the ONSI.

Data Validation and Verification: Each RFI is validated through the ONSI Collection Requirements Management System (CTMS) Unit.	
Data Limitations: None known at this time.	

Discussion of FY 2012 Results:

As of September 30, 2012, DEA provided 77 percent of IC RFIs by the requested deadline. Each year, DEA's target is to meet 100 percent of the requested deadlines; however, IC timelines are not sufficient for a proper response. The ONSI Collection Requirements Unit (NNCC) made significant improvements to its data base that tracks RFIs that come in from the IC. NNCC automated several collection management functions that will allow ONSI to provide accurate and timely performance measures to the IC.

Background/Program Objectives:

<u>Enforcement Operations in the Middle East, Central Asia, and Southwest Asia</u>

The DEA expanded its overseas presence to continue investigative efforts against organizations in the Middle East, Central Asia, and Southwest Asia region and pursue links to foreign terrorist organizations. The DEA implements administrative, diplomatic, and investigative measures to reduce the flow of drugs into world markets and dismantle drug-related terrorist activities. The DEA is currently engaging in proactive enforcement and intelligence gathering operations targeting the command and control structure of heroin trafficking organizations in the Afghanistan and Southwest Asia region.

Performance Measure: Disrupt or Dismantle Priority Target Organizations (PTOs) Linked to Consolidated Priority Organization Targets (CPOT) and Not Linked to CPOTs in the Middle East, Central Asia and Southwest Asia Regions

FY 2003 Actual Performance	N/A	Measure first reported in FY 2007.
FY 2004 Actual Performance	N/A	Measure first reported in FY 2007.
FY 2005 Actual Performance	N/A	Measure first reported in FY 2007.
FY 2006 Actual Performance	N/A	Measure first reported in FY 2007.
FY 2007 Actual Performance	4	PTOs Disrupted or Dismantled (1 Linked to CPOT/ 3 Not Linked to CPOT)
FY 2008 Actual Performance	8	PTOs Disrupted or Dismantled (2 Linked to CPOT/ 6 Not Linked to CPOT)
FY 2009 Actual Performance	12	PTOs Disrupted or Dismantled (6 Linked to CPOT/ 6 Not Linked to CPOT)
FY 2010 Actual Performance	10	PTOs Disrupted or Dismantled (1 Linked to CPOT/ 9 Not Linked to CPOT)
FY 2011 Actual Performance	23	PTOs Disrupted or Dismantled (0 Linked to CPOT/ 23 Not Linked to CPOT)
FY 2012 Target	N/A	DEA does not target its performance in these regions
FY 2012 Actual Performance	34	PTOs Disrupted or Dismantled (4 Linked to CPOT/ 30 Not Linked to CPOT)

Priority Target Organizations (PTOs)
Middle East, Central Asia, and Southwest Asia
Disrupted and Dismantled[1]

Fiscal Year	PTO Linkages	Non-OCDETF			Total		
		PTOs Disrupted	PTOs Dismantled	Total	PTOs Disrupted	PTOs Dismantled	Total
FY 2007 Actual	PTOs Linked to CPOT	0	1	1	0	1	1
	PTOs Not Linked to CPOT	1	2	3	1	2	3
	Total, FY 2007 Actual	1	3	4	1	3	4
FY 2008 Actual	PTOs Linked to CPOT	0	2	2	0	2	2
	PTOs Not Linked to CPOT	2	4	6	2	4	6
	Total, FY 2008 Actual	2	6	8	2	6	8
FY 2009 Actual	PTOs Linked to CPOT	5	1	6	5	1	6
	PTOs Not Linked to CPOT	4	2	6	4	2	6
	Total, FY 2009 Actual	9	3	12	9	3	12
FY 2010 Actual	PTOs Linked to CPOT	1	0	1	1	0	1
	PTOs Not Linked to CPOT	6	3	9	6	3	9
	Total, FY 2010 Actual	7	3	10	7	3	10
FY 2011 Actual	PTOs Linked to CPOT	0	0	0	0	0	0
	PTOs Not Linked to CPOT	20	3	23	20	3	23
	Total, FY 2011 Actual	20	3	23	20	3	23
FY 2012 Actual	PTOs Linked to CPOT	3	1	4	3	1	4
	PTOs Not Linked to CPOT	29	1	30	29	1	30
	Total, FY 2012 Actual	32	2	34	32	2	34

[1] Includes disruptions, closed (PTARRS status code E) and disruptions pending dismantlements (PTARRS status code D).

Data Definition: Disruption means impeding the normal and effective operation of the targeted organization, as indicated by changes in organizational leadership and/or changes in methods of operation, including, for example, financing, trafficking patterns, communications or drug production. Disruption Pending Dismantlement means impeding the normal and effective operation of the targeted organization, but continuing towards the organization's complete evisceration such that it is incapable of operating and/or reconstituting itself. Dismantlement means destroying the organization's leadership, financial base and supply network such that the organization is incapable of operating and/or reconstituting itself. The first CPOT List was issued in September 2002, and is updated semi-annually. The List identifies the most significant international drug trafficking and money laundering organizations and those primarily responsible for the Nation's drug supply. Enforcement agencies are focused on identifying links among disparate domestic drug trafficking and money laundering organizations and on making connections to their ultimate sources of supply. Investigators continually work up and across the supply chain, with the goal of disrupting and dismantling the entire network controlled by or supporting a given CPOT organization. An organization is considered "linked" to a CPOT, if credible evidence exists (i.e., from corroborated confidential source information, phone tolls, Title III intercepts, financial records, or other similar investigative means) of a nexus between the primary target of the investigation and a CPOT target. The nexus need not be a direct connection to the CPOT, so long as a valid connection exists to a verified associate or component of the CPOT organization.

Data Collection and Storage: Each Country Office Attaché or Special Agent in Charge (SAC) nominates PTOs in the Priority Target Activity Resource Reporting System (PTARRS) based on intelligence information. Headquarters staff ensures that PTOs are tracked and nominations are supported by data and information.

Data Validation and Verification: PTARRS provides its users with a means of electronically proposing, nominating, reviewing, editing, and tracking PTO investigations, including the PTO's eventual disruption and dismantlement. The roles in the electronic approval chain are as follows:

• Special Agent (SA) - The SA, Task Force Officer, or Diversion Investigator collects data on lead cases that will be proposed as PTOs. They can create, edit, update, and propose a PTO record.

• Group Supervisor (GS) – The GS/Country Attaché (CA) coordinates and plans the allocation of resources for a proposed PTO. The GS/CA can create, edit, update, propose, resubmit, and approve a PTO record. • Assistant Special Agent in Charge (ASAC) - The ASAC/Assistant Regional Director (ARD) reviews the PTO proposed and approved by the GS/CA, ensuring that all the necessary information meets the criteria for a PTO. The ASAC/ARD can also edit, update, resubmit, or approve a proposed PTO. • Special Agent in Charge (SAC) - The SAC/Regional Director (RD) reviews the proposed PTO from the ASAC/ARD and is the approving authority for the PTO. The SAC/RD can also edit, update, resubmit, or approve a proposed PTO. **Headquarters Responsibilities** • Operations Division (OC) – The Section Chief of the Data & Operational Accountability Section (OMD), or his designee, is the PTO Program Manager, and is responsible for the review of all newly approved PTO submissions and their assignment to the applicable OE or FO section. The PTO Program Manager may request that incomplete submissions be returned to the field for correction and resubmission. OMD is also responsible for tracking and reporting information in the PTO Program through PTARRS; and is the main point-of-contact for the PTO program and PTARRS related questions. • OMD will assign PTO's based on the nexus of the investigation to organizations located in specific geographic areas of the world, or to specific program areas. After assignment of a PTO, the appointed HQ section becomes the point-of-contact for that PTO and division/region personnel should advise appropriate HQ section personnel of all significant activities or requests for funding during the course of the investigation. The Staff Coordinator (SC) assigned to the PTO will initiate a validation process to include a review for completeness and confirmation of all related linkages (e.g., CPOTs.) In the unlikely event that the documentation submitted is insufficient to validate reported linkages the SC will coordinate with the submitting office to obtain the required information. • All PTO cases that are reported as disrupted or dismantled must be validated by OMD or the OCDETF Section (OMO). OMD will validate all non-OCDETF related PTO cases and OMO will validate all OCDETF related cases. These disruptions and dismantlements are reported to the Executive Office of OCDETF via memo by OMO.
Data Limitations: All statistics are limited by a lack of a relational link between case files and enforcement outputs (e.g., arrest, seizure, and work hour data). The link is inferred through data manipulation, but some areas are prone to error until all data systems are linked in a relational manner, and errors are prevented through data validation and referential integrity.

<u>Discussion of FY 2012 Enforcement Operations in the Middle East, Central Asia, and Southwest Asia Accomplishments</u>:

As of September 30, 2012, the DEA disrupted or dismantled 30 PTO investigations not linked to CPOT in the Middle East, Central Asia and Southwest Asia Regions.

The DEA is working to establish a permanent presence and develop strong relationships with its host nation law enforcement counterparts in countries located in this region. As there has been a link established between terrorists and drug trafficking organizations, the DEA is engaging in proactive drug enforcement and intelligence gathering operations with its host nation counterparts by targeting the command and control structure of heroin trafficking organizations operating in the Middle East, Central Asia, and Southwest Asia region. Through Operation Containment, (an intensive, multi-national program that attempts to place a security belt around Afghanistan to prevent processing chemicals from entering and opium and heroin from leaving the country), the DEA continued to work with countries from Central Asia, the Caucasus, Europe, and Russia to reduce the heroin flowing out of Afghanistan.

The DEA does not target its performance in these regions. Therefore, the DEA has not established targets for FY 2012 for disrupting and dismantling foreign PTOs linked and not linked to CPOT in the Middle East, Central Asia and Southwest Asia. This area of the world poses significant operational risks and challenges to DEA personnel, which makes it difficult to conduct enforcement operations on a consistent basis. The DEA cannot unilaterally investigate and arrest high-level drug traffickers in the foreign arena, so the DEA's success is contingent upon host nation law enforcement cooperation to include intelligence sharing and participation. Also, specific countries located in these regions currently lack self-sustaining counternarcotic police institutions and effective criminal justice systems to adequately address counter drug efforts. All of the abovementioned factors make it extremely challenging to project anticipated performance.

STRATEGIC GOAL 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law – 95.5 percent of the DEA's Net Costs support this Goal.

PROGRAM:

Background/Program Objectives:

International and Domestic Enforcement

The DEA is committed to bringing organizations involved in the growing, manufacturing, or distribution of controlled substances to the criminal and civil justice system of the U.S., or any other competent jurisdiction. To accomplish its mission, the DEA targets PTOs, which represent the major drug supply and money laundering organizations operating at the international, national, regional, and local levels that have a significant impact upon drug availability in the United States. Specifically, the Priority Targeting Program focuses on dismantling entire drug trafficking networks by targeting their leaders for arrest and prosecution, confiscating the profits that fund continuing drug operations, and eliminating international sources of supply. As entire drug trafficking networks from sources of supply to the distributors on the street are disrupted or dismantled, the availability of drugs within the United States will be reduced.

PTOs identified by the DEA's domestic field divisions and foreign country offices are tracked using the PTARRS, an Oracle database used to track operational progress and the resources used in the related investigations, (i.e., investigative work hours and direct case-related expenses). Through PTARRS, the DEA assesses and links PTOs to drug trafficking networks, which address the entire continuum of the drug conspiracy.

In its effort to target PTOs, the DEA is guided by key drug enforcement programs such as the Organized Crime Drug Enforcement Task Forces (OCDETF) program. Specifically, the DEA participated in approximately 85 percent and had the lead or co-lead in approximately 77 percent of all OCDETF investigations in FY 2012. The DEA, through the OCDETF program, targeted the drug trafficking organizations on the DOJ's FY 2012 CPOT list – the "Most Wanted" drug trafficking and money laundering organizations believed to be primarily responsible for the Nation's illicit drug supply.

The disruption or dismantlement of CPOT-linked organizations is primarily accomplished through multi-agency and multi-regional investigations directed by the DEA and the Federal Bureau of Investigation (FBI). These investigations focus on the development of intelligence-driven efforts to identify and target drug trafficking organizations that play a significant role in the production, transportation, distribution, and financial support of large scale drug trafficking operations. The DEA's ultimate objective is to dismantle these organizations so that reestablishment of the same criminal organization is impossible.

The DEA's current long-term objective is to maximize the Monetary Value of Currency, Property and Drugs Seized (Drug Trafficker Revenue Denied). Drug Trafficker Revenue Denied reflects the outcome of activities scored to DEA's International, Domestic and State and Local Decision Units. In FY 2005, the DEA established a five-year plan with annual milestones through FY 2009 to meet the challenge of crippling drug cartels so that they are unable to reconstitute their operations with new leadership. The DEA planned to continue increasing its asset and drug seizures until it achieved an annual goal of $3.0 billion in revenue denied to drug trafficking organizations through new domestic and international seizure strategies, which was reached and exceeded in FY 2009. Due to the difficult situation created by the current budget environment, the DEA's overall funding was reduced and the number of on-board Special Agents decreased in FY 2012. As a result, the DEA did not meet its ambitious target of $3.0 billion for Drug Trafficker Revenue Denied with $2.8 billion estimated as of September 30, 2012, representing a shortfall of 7 percent. Drug Trafficker Revenue Denied as of September 30th is an estimate as these data will be finalized on November 1, 2012.

Performance Measure: Disrupt or Dismantle International and Domestic PTOs Linked to CPOT Targets and Not Linked to CPOT Targets

FY 2003 Actual Performance	416 PTOs Disrupted or Dismantled (52 Linked to CPOT / 364 Not Linked to CPOT)
FY 2004 Actual Performance	674 PTOs Disrupted or Dismantled (159 Linked to CPOT / 515 Not Linked to CPOT)
FY 2005 Actual Performance	1,103 PTOs Disrupted or Dismantled (282 Linked to CPOT / 821 Not Linked to CPOT)
FY 2006 Actual Performance	1,244 PTOs Disrupted or Dismantled. (231 Linked to CPOT/ 1,013 Not Linked to CPOT)
FY 2007 Actual Performance	1,431 PTOs Disrupted or Dismantled. (194 Linked to CPOT/ 1,237 Not Linked to CPOT)
FY 2008 Actual Performance	2,087 PTOs Disrupted or Dismantled (334 Linked to CPOT / 1,753 Not Linked to CPOT)
FY 2009 Actual Performance	2,126 PTOs Disrupted or Dismantled (355 Linked to CPOT / 1,771 Not Linked to CPOT)
FY 2010 Revised Actual Performance	2,411 PTOs Disrupted or Dismantled (499 Linked to CPOT[1] / 1,912 Not Linked to CPOT)
FY 2011 Actual Performance	2,661 PTOs Disrupted or Dismantled (529 Linked to CPOT[2] / 2,132 Not Linked to CPOT)
FY 2012 Target	2,490 PTOs Disrupted or Dismantled (440 Linked to CPOT / 2,050 Not Linked to CPOT)
FY 2012 Actual Performance	2,745 PTOs Disrupted or Dismantled (519 Linked to CPOT / 2,226 Not Linked to CPOT)

[1] FY 2010: 499 consists of 171 Dismantlements and 328 Disruptions of PTOs linked to CPOT. These numbers are included in the table on page 14. These numbers represent DEA's portion of the actual performance reported in DOJ's Consolidated MD&A and Performance and Accountability Report. Since there may be some overlap in the disruptions and dismantlements reported by FBI and DEA, the numbers are deconflicted and consolidated to avoid double counting. Therefore it may not be possible to add DEA's and FBI's totals to arrive at DOJ's Consolidated Target/Actual.

[2] FY 2011: 529 consists of 168 Dismantlements and 361 Disruptions of PTOs linked to CPOT. These numbers are included in the table on page 14. These numbers represent DEA's portion of the actual performance reported in DOJ's Consolidated MD&A and Performance and Accountability Report. Since there may be some overlap in the disruptions and dismantlements reported by FBI and DEA, the numbers are deconflicted and consolidated to avoid double counting. Therefore it may not be possible to add DEA's and FBI's totals to arrive at DOJ's Consolidated Target/Actual.

International & Domestic Enforcement - Goal 2

Disrupted and Dismantled[1]

Fiscal Year	PTO Linkages	OCDETF PTOs Disrupted	OCDETF PTOs Dismantled	OCDETF Total	Non-OCDETF PTOs Disrupted	Non-OCDETF PTOs Dismantled	Non-OCDETF Total	Total PTOs Disrupted	Total PTOs Dismantled	Total Total
FY 2003 Actual	PTOs Linked to CPOT[2]	29	6	35	10	7	17	39	13	52
	PTOs Not Linked to CPOT	171	85	256	67	41	108	238	126	364
	Total, FY 2003 Actual	200	91	291	77	48	125	277	139	416
FY 2004 Actual	PTOs Linked to CPOT	102	20	122	32	5	37	134	25	159
	PTOs Not Linked to CPOT	204	125	329	121	65	186	325	190	515
	Total, FY 2004 Actual	306	145	451	153	70	223	459	215	674
FY 2005 Actual	PTOs Linked to CPOT	132	77	209	47	26	73	179	103	282
	PTOs Not Linked to CPOT	321	240	561	168	92	260	489	332	821
	Total, FY 2005 Actual	453	317	770	215	118	333	668	435	1,103
FY 2006 Actual	PTOs Linked to CPOT	102	48	150	52	29	81	154	77	231
	PTOs Not Linked to CPOT	406	243	649	214	150	364	620	393	1,013
	Total, FY 2006 Actual	508	291	799	266	179	445	774	470	1,244
FY 2007 Actual	PTOs Linked to CPOT	84	49	133	40	21	61	124	70	194
	PTOs Not Linked to CPOT	485	279	764	325	148	473	810	427	1,237
	Total, FY 2007 Actual	569	328	897	365	169	534	934	497	1,431
FY 2008 Actual	PTOs Linked to CPOT	166	52	218	84	32	116	250	84	334
	PTOs Not Linked to CPOT	737	315	1,052	475	226	701	1,212	541	1,753
	Total, FY 2008 Actual	903	367	1,270	559	258	817	1,462	625	2,087
FY 2009 Actual	PTOs Linked to CPOT	129	80	209	105	41	146	234	121	355
	PTOs Not Linked to CPOT	602	363	965	525	281	806	1,127	644	1,771
	Total, FY 2009 Actual	731	443	1,174	630	322	952	1,361	765	2,126
FY 2010 Actual	PTOs Linked to CPOT	178	110	288	150	61	211	328	171	499
	PTOs Not Linked to CPOT	550	386	936	625	351	976	1,175	737	1,912
	Total, FY 2010 Actual	728	496	1,224	775	412	1,187	1,503	908	2,411
FY 2011 Actual	PTOs Linked to CPOT	179	102	281	182	66	248	361	168	529
	PTOs Not Linked to CPOT	595	359	954	799	379	1,178	1,394	738	2,132
	Total, FY 2011 Actual	774	461	1,235	981	445	1,426	1,755	906	2,661
FY 2012 Target	PTOs Linked to CPOT	[3]	[3]	[3]	[3]	[3]	[3]	310	130	440
	PTOs Not Linked to CPOT	[3]	[3]	[3]	[3]	[3]	[3]	1,410	640	2,050
	Total, FY 2012 Target	[3]	[3]	[3]	[3]	[3]	[3]	1,720	770	2,490
FY 2012 Actual	PTOs Linked to CPOT	176	83	259	202	58	260	378	141	519
	PTOs Not Linked to CPOT	601	347	948	899	379	1,278	1,500	726	2,226
	Total, FY 2012 Actual	777	430	1,207	1,101	437	1,538	1,878	867	2,745

[1] Includes disruptions, closed (PTARRS status code E) and disruptions pending dismantlements (PTARRS status code D) Prior to FY 2003, DEA did not include disruptions pending dismantlements in its reported numbers of PTO disruptions

[2] Not all information concerning direct links between PTOs and CPOT targets is maintained in PTARRS The number of domestic PTOs linked to CPOT targets for FY 2002 and FY 2003 were identified by an analysis conducted at headquarters In October 2003, PTARRS began to track PTOs with direct links to CPOT targets, which are identified by the field and validated by headquarters

[3] For planning purposes and the establishment of targets, DEA does not differentiate between OCDETF and non-OCDETF investigations

Data Definition: Disruption means impeding the normal and effective operation of the targeted organization, as indicated by changes in organizational leadership and/or changes in methods of operation, including, for example, financing, trafficking patterns, communications or drug production. Disruption Pending Dismantlement means impeding the normal and effective operation of the targeted organization, but continuing towards the organization's complete evisceration such that it is incapable of operating and/or reconstituting itself. Dismantlement means destroying the organization's leadership, financial base and supply network such that the organization is incapable of operating and/or reconstituting itself. The first CPOT List was issued in September 2002, and is updated semi-annually. The List identifies the most significant international drug trafficking and money laundering organizations and those primarily responsible for the Nation's drug supply. Enforcement agencies are focused on identifying links among disparate domestic drug trafficking and money laundering organizations and on making connections to their ultimate sources of supply. Investigators continually work up and across the supply chain, with the goal of disrupting and dismantling the entire network controlled by or supporting a given CPOT organization. An organization is considered "linked" to a CPOT, if credible evidence exists (i.e., from corroborated confidential source information, phone tolls, Title III intercepts, financial records, or other similar investigative means) of a nexus between the primary target of the investigation and a CPOT target. The nexus need not be a direct connection to the CPOT, so long as a valid connection exists to a verified associate or component of the CPOT organization.
Data Collection and Storage: Each Country Office Attaché or Special Agent in Charge (SAC) nominates PTOs in PTARRS based on intelligence information. Headquarters staff ensures that PTOs are tracked and nominations are supported by data and information.
Data Validation and Verification: PTARRS provides its users with a means of electronically proposing, nominating, reviewing, editing, and tracking PTO investigations, including the PTO's eventual disruption and dismantlement. The roles in the electronic approval chain are as follows: • Special Agent (SA) - The SA, Task Force Officer, or Diversion Investigator collects data on lead cases that will be proposed as PTOs. They can create, edit, update, and propose a PTO record. • Group Supervisor (GS) – The GS/Country Attaché (CA) coordinates and plans the allocation of resources for a proposed PTO. The GS/CA can create, edit, update, propose, resubmit, and approve a PTO record. • Assistant Special Agent in Charge (ASAC) - The ASAC/Assistant Regional Director (ARD) reviews the PTO proposed and approved by the GS/CA, ensuring that all the necessary information meets the criteria for a PTO. The ASAC/ARD can also edit, update, resubmit, or approve a proposed PTO. • Special Agent in Charge (SAC) - The SAC/Regional Director (RD) reviews the proposed PTO from the ASAC/ARD and is the approving authority for the PTO. The SAC/RD can also edit, update, resubmit, or approve a proposed PTO. **Headquarters Responsibilities** • Operations Division (OC) – The Section Chief of the Data & Operational Accountability Section (OMD), or his designee, is the PTO Program Manager, and is responsible for the review of all newly approved PTO submissions and their assignment to the applicable OE or FO section. The PTO Program Manager may request that incomplete submissions be returned to the field for correction and resubmission. OMD is also responsible for tracking and reporting information in the PTO Program through PTARRS; and is the main point-of-contact for the PTO program and PTARRS related questions. • OMD will assign PTO's based on the nexus of the investigation to organizations located in specific geographic areas of the world, or to specific program areas. After assignment of a PTO, the appointed HQ section becomes the point-of-contact for that PTO and division/region personnel should advise appropriate HQ section personnel of all significant activities or requests for funding during the course of the investigation. The Staff Coordinator (SC) assigned to the PTO will initiate a validation process to include a review for completeness and confirmation of all related linkages (e.g., CPOTs.) In the unlikely event that the documentation submitted is insufficient to validate reported linkages the SC will coordinate with the submitting office to obtain the required information. • All PTO cases that are reported as disrupted or dismantled must be validated by OMD or OMO. OMD will validate all non-OCDETF related PTO cases and OMO will validate all OCDETF related cases. These disruptions and dismantlements are reported to the Executive Office of OCDETF via memo by OMO.
Data Limitations: All statistics are limited by a lack of a relational link between case files and enforcement outputs (e.g., arrest, seizure, and work hour data). The link is inferred through data manipulation, but some areas are prone to error until all data systems are linked in a relational manner, and errors are prevented through data validation and referential integrity.

Discussion of FY 2012 International and Domestic Enforcement Accomplishments:

As of September 30, 2012, the DEA disrupted or dismantled 2,745 PTOs, which is 10.2 percent above its FY 2012 target of 2,490. In the current budget environment, this performance is a testament to the DEA's commitment to its Priority Targeting Program, which targets the drug trafficking and/or money laundering organizations having a significant impact on drug availability within the United States. This includes PTOs with a direct connection to DOJ's CPOTs, which include the most significant international command and control organizations threatening the United States as identified by OCDETF member agencies.

Two recent, significant accomplishments in FY 2012 are as follows:

- *Operation Log Jam* was a DEA-initiated, multi-jurisdictional investigation that targeted a group of manufacturers, wholesalers, sub-distributors, and retail distributors involved in the illegal distribution of synthetic cannabinoids (commonly referred to as "Spice" or "K2") and synthetic cathinones (commonly referred to as "Bath Salts"). On July 25, 2012, more than 90 individuals were arrested and more than five million packets of finished designer synthetic drugs were seized in the first-ever, nationwide law enforcement action against the industry responsible for the production and sale of synthetic drugs. More than $36 million in cash was also seized.

- On August 20, 2012, the DEA seized $150 million in connection with a civil money laundering and forfeiture complaint filed in December 2011. This complaint alleged a massive, international scheme in which entities linked to Hezbollah, including the now defunct Lebanese Canadian Bank (LCB), used the U.S. financial system to launder narcotics trafficking and other criminal proceeds through West Africa and back into Lebanon. From approximately January 2007 to early 2011, at least $329 million was transferred by wire from LCB and other financial institutions to the U.S for the purchase of used cars that were then shipped to West Africa. Cash from the sale of the cars, along with the proceeds of narcotics trafficking, were funneled to Lebanon through Hezbollah-controlled money laundering channels.

Background/Program Objectives:

<u>National Gang Targeting, Enforcement and Coordination Center (GangTECC/OSG)</u>

DEA's ongoing efforts to combat violent drug trafficking organizations lead to the restoration of safer environments for citizens. In furtherance of this effort and in support of the Department's Violent Crime Initiatives, on August 3, 2010, DEA and DOJ's Criminal Division entered into a Memorandum of Understanding (MOU). Pursuant to the terms of the MOU, DEA agreed to establish a partnership with the GangTECC in order to enhance the combined abilities of the partner agencies to coordinate information and enforcement activities to disrupt and dismantle regional, national, and international gang threats. Specifically, DEA established an organizational partnership between its Special Operations Division (SOD) Operational Section for Gangs (OSG) and GangTECC to make SOD resources available to GangTECC in order to enhance GangTECC capabilities, coordinate existing GangTECC cases/operations, assist in the initiation of new GangTECC cases and initiatives, and enhance the investigations of regional, national, and international gang threats by providing operational intelligence and targeting support.

Performance Measure: NEW MEASURE: Percentage Increase in Gang Arrests Resulting from Coordination of Gang Investigations

FY 2003 Actual Performance	N/A	Measure first reported in FY 2012.
FY 2004 Actual Performance	N/A	Measure first reported in FY 2012.
FY 2005 Actual Performance	N/A	Measure first reported in FY 2012.
FY 2006 Actual Performance	N/A	Measure first reported in FY 2012.
FY 2007 Actual Performance	N/A	Measure first reported in FY 2012.
FY 2008 Actual Performance	N/A	Measure first reported in FY 2012.
FY 2009 Actual Performance	N/A	Measure first reported in FY 2012.
FY 2010 Actual Performance	N/A	Measure first reported in FY 2012.
FY 2011 Actual Performance	N/A	Measure first reported in FY 2012.
FY 2012 Target	2.0%	
FY 2012 Actual Performance	4.4%	

Data Definition: The Defendant Statistical System (DSS) is designated as the database of record for all arrest statistics and data. The Case Status System (CAST) is an automated on-line record-keeping system for entering, updating, and retrieving information on all DEA case files and general files. Every file opened since October 1, 1986 must have a CAST record. CAST also provides authorized users with file status statistics and case review scheduling.
Data Collection and Storage: Statistics associated with DEA's GangTECC activities are gathered and tracked by SOD using our DSS and CAST systems.
Data Validation and Verification: Data is reviewed by quarters. As a rule however, because our systems of record are dynamic, we do not go back and update those data because those statistics are obtained immediately after the reporting period closed.
Data Limitations: None known at this time.

Discussion of FY 2012 Results:

Addressing "Violent Crime" was one of the Attorney General's FY2012 Primary Goals, and the GangTECC/OSG Section at the Special Operations Division (SOD) has been fulfilling this priority goal. Since merging under the operational direction of SOD in FY2010, the GangTECC section within SOD has been successfully coordinating several high impact gang operations. After supporting only approximately 100 cases in three years prior to the SOD merger, under the operational direction of SOD, the GangTECC/OSG Section supported over 800 cases in just its first full year at SOD. Further, in FY2012 with a target of 2% increased arrests, SOD-supported gang cases (DEA) accounted for 891arrests which represented a 4.4% increase.

In addition, as part of the GangTECC/OSG mission of coordinating significant local impact cases, the section also conducts outreach to State and Locals, bringing them into the operations and providing support. During FY 2012, OSG conducted 34 outreach meetings throughout the country with Federal, State and Local law enforcement counterparts.

Background/Program Objectives:

<u>State and Local Assistance</u>

The DEA supports State and local law enforcement with methamphetamine-related assistance and training, which allows State and local agencies to better address the methamphetamine threat in their communities and reduce the impact that methamphetamine has on the quality of life for American citizens.

One of the most critical, specialized training programs offered by DEA to State and local law enforcement officers is in the area of Clandestine Laboratory Training. Often, it is the State and local police who first encounter the clandestine laboratories and must ensure that they are investigated, dismantled, and disposed of appropriately.

The DEA offers five clandestine laboratory training courses: State and Local Clandestine Laboratory Certification School (SALC), Clandestine Laboratory Site Safety School (SS), Clandestine Laboratory Tactical Training School (TAC), National Guard Clandestine Laboratory Safety Certification Course (NG), and a National Improvised Explosive Familiarization (NIEF) Program for State and Local Bomb Technicians. The NIEF program provides instruction to state and local participants on the similarities between clan labs and improvised explosives. It is sponsored by the Federal Bureau of Investigation with DEA Clan Lab Unit assistance.

Performance Measure: Total Number of State and Local Law Enforcement Officers Trained in Clandestine Laboratory Enforcement

FY 2003 Actual Performance	1,573
FY 2004 Actual Performance	1,029
FY 2005 Actual Performance	1,043
FY 2006 Actual Performance	1,077
FY 2007 Actual Performance	952
FY 2008 Actual Performance	968
FY 2009 Actual Performance	873
FY 2010 Actual Performance	1,306
FY 2011 Actual Performance	1,384
FY 2012 Target	950
FY 2012 Actual Performance	1,023

Data Collection and Storage: The DEA Training Academy receives quarterly training data from the field on training provided by Division Training Coordinators (DTC). The field data is combined with the data generated by the DEA's Training Academy for total training provided by the DEA. Data is tabulated quarterly based on the fiscal year.
Data Validation and Verification: Data is reviewed upon receipt, but only technical or unusual deviations are checked.
Data Limitations: None known at this time.

Discussion of FY 2012 State and Local Assistance Accomplishments:

As of September 30, 2012, DEA trained 1,023 State and local law enforcement officers in Clandestine Laboratories in FY 2012. The DEA Office of Training exceeded its target of training 950 State and local law enforcement officers in FY 2012 by 7.7 percent.

At the start of the second quarter of FY 2012, the DEA's Office of Training began to phase out conducting NEIF Awareness Training with the FBI because DEA received additional funding through the Community Oriented Policy Services (COPS) program to offer state and local clandestine laboratory training during FY 2012. This COPS funding is utilized to conduct state and local clan lab certification, tactical, site safety, and authorized central storage training for State and Local Law Enforcement Officers.

Background/Program Objectives:

Diversion Control

The DCP is responsible for carrying out a primary mission of the DEA: to enforce the Controlled Substances Act (CSA) and its regulations pertaining to pharmaceutical controlled substances and listed chemicals. The DCP actively monitors more than 1.3 million individuals and companies that are registered with the DEA to handle controlled substances or listed chemicals through a system of scheduling, quotas, recordkeeping, reporting, and security requirements.

The DCP implements an infrastructure of controls established through the CSA and ancillary regulations. This system balances the protection of public health and safety by preventing the diversion of controlled substances and listed chemicals while ensuring an adequate and uninterrupted supply for legitimate needs. The DCP conducts and facilitates domestic and international investigations; plans and allocates program resources; promulgates regulations; and conducts liaison with industry as well as federal, state, and local counterparts.

The Prescription Drug Abuse Problem

The diversion and abuse of pharmaceutical controlled substances has long been a problem, but these problems have become more acute in recent years. There are many factors contributing to the increased abuse of prescription drugs. Many mistakenly believe that abusing prescription drugs is safer than using illicit street drugs. Prescription drugs are easily obtainable from friends and family. Moreover, many people are not aware of the potentially serious consequences of using prescription drugs non-medically.

Over the last several years, national surveys have documented the fact that a significant number of Americans are abusing controlled substance prescription drugs for nonmedical purposes. According to the 2010 National Survey on Drug Use and Health (published in September 2011), 7 million Americans were current non-medical users of psychotherapeutic drugs. Of that number, 5.1 million Americans abused pain relievers. The survey also indicated that past-year abuse of prescription drugs was second only to marijuana. Prescription drugs also ranked just behind marijuana for initiation.

The Centers for Disease Control (CDC) reported that "the number of deaths involving prescription opioid analgesics increased from roughly 2,900 in 1999 to 7,500 in 2004, an increase of 158.6 percent in 5 years." The CDC also reported that unintentional poisoning deaths attributed to methadone increased from 786 in 1999 to 4,462 in 2005, a 467.7 percent change, and that unintentional poisoning deaths attributed to psychotherapeutic drugs increased from 671 in 1999 to 1,300 in 2004, a 93.7 percent change. According to the CDC, opioid analgesics were involved in almost 40 percent of all poisoning deaths in 2006.
DEA focuses the majority of its investigations on where the diversion occurs the most, at the pharmacy and practitioner level of the distribution chain. These investigations may include non-registrants or end users who are involved in large-scale diversion. Other forms of diversion may include, thefts and robberies from pharmacies, illegal Internet distribution organizations (individuals and organizations that operate over the Internet and prescribe and dispense controlled substances without a valid prescription), prescription fraud and doctor shopping.

According to the 2011 Substance Abuse and Mental Health Services Administration's National Survey on Drug Use and Health (NSDUH), more than six million Americans abuse prescription drugs. That same study revealed more than 70 percent of people abusing prescription pain relievers got them through friends or relatives, a statistic that includes raiding the family medicine cabinet.

On September 25, 2010, the DEA coordinated the National Take Back Day. Approximately 4,094 collection sites and 2,992 state and local law enforcement agencies participated in this first-ever nationwide program to remove potentially dangerous controlled substances from our nation's medicine cabinets. Approximately 121 tons of potentially dangerous drugs were collected during the one-day event. As stated by then Acting Administrator Michele M. Leonhart, "This effort symbolizes DEA's commitment to halting the disturbing rise in addiction caused by their misuse and abuse. Working together with our state and local partners, the medical community, anti-drug coalitions, and a concerned public, we will eliminate a major source of abused prescription drugs, and reduce the hazard they pose to our families and communities in a safe, legal, and environmentally sound way."

On April 29, 2011, DEA coordinated the second National Take Back Day. During this one-day event there were approximately 5,361 sites and 3,923 state and local law enforcement agencies participating nationwide. Approximately 188 tons of potentially dangerous drugs were collected for proper disposal.

On October 29, 2011, DEA coordinated a third National Take Back Day and Americans turned in more than 377,086 pounds (188.5 tons) of unwanted or expired medications for safe and proper disposal at the 5,327 take-back sites that were available in all 50 states and U.S. territories.

On April 28, 2012, DEA coordinated the fourth National Take Back Day and Americans turned in a record breaking 552,161 pounds (276 tons) of unwanted or expired medications at the 5,659 take-back sites that were available in all 50 states and U.S. territories.

On September 29, 2012, coordinated the fifth National Take Back Day and Americans turned in 488,395 pounds (244 tons) of prescription medications from members of the public.

When the results of the five Take Back Days are combined, the DEA, and its state, local, and tribal law-enforcement and community partners have removed more than 2 million pounds (1,018 tons) of medication from circulation.

All of the goals, strategies and initiatives supported by the DCP are intended to establish stronger standards of control, aid in preventing the diversion of pharmaceutical controlled substances and chemicals, and enhance public safety by building greater accountability and qualitative reporting requirements into its network of compliance indicators.

Performance Measure: Number of DCP Criminal Case Initiations

FY 2003 Actual Performance	N/A	Measure first reported in FY 2009.
FY 2004 Actual Performance	N/A	Measure first reported in FY 2009.
FY 2005 Actual Performance	N/A	Measure first reported in FY 2009.
FY 2006 Actual Performance	N/A	Measure first reported in FY 2009.
FY 2007 Actual Performance	N/A	Measure first reported in FY 2009.
FY 2008 Actual Performance	N/A	Measure first reported in FY 2009.
FY 2009 Actual Performance	627	
FY 2010 Actual Performance	1,011	
FY 2011 Actual Performance	1,900	
FY 2012 Target	2,291	
FY 2012 Actual Performance	2,079	

Data Definition: DCP criminal case initiations obtained from the DEA's Case Status Subsystem (CAST) records identified by diversion class codes 40 & 50 with fee fundable GDEP codes.
Data Collection and Storage: During the reporting quarter, the field offices input case data into CAST. The reporting of case information is available on a real time basis through SMARTS. CAST enables the DEA to maintain all of the historical and investigative information on all individuals and organizations investigated by the DEA.
Data Validation and Verification: The Diversion Investigator and/or Special Agent and the field office Group Supervisor (GS) are tasked to ensure that timely and accurate reporting is accomplished as the violator's or registrant's investigative status changes. The GS, the Diversion Program Manager (DPM) and the Assistant Special Agent in Charge (ASAC) have the ability to view the report of ingoing and completed investigation actions for their office/division at any time during the quarter or at the quarter's end, since the actions are in real-time.
Data Limitations: The enforceable longevity (duration) and the severity of the sanctions levied vary among violators, registrants types and jurisdictions. Because there is no adequate methodology for normalizing these data we have to rely on the field division's data validation and verification procedures. Therefore, while the DEA acknowledges this data limitation, it asserts that these data have "face" or intrinsic validity due to the quality controls in place. The DEA affirms that it will continue to proactively test and evaluate its validation and verification procedures in order to ensure the quality and reliability of its data.

Discussion of FY 2012 Diversion Control Program Accomplishments:

Over the past several years, the Diversion Control Program has been working diligently to address the growing problem of diversion and prescription drug abuse. Criminal entrepreneurs have, over the past few years, leveraged technology to advance their criminal schemes and reap huge profits while diverting millions of dosages of powerful pain relievers such as hydrocodone. One such method was the use of rogue Internet pharmacies. Investigations involving Internet pharmacies required the DEA to retool and retrain investigators. Most of these investigations involved several jurisdictions and involved voluminous amounts of electronic data. Compounding the problem was the fact that many of the laws under which investigators worked were written years prior to today's technological advances.

The DEA also developed and implemented the Distributor Initiative Program designed to educate and remind registrants of their regulatory and legal responsibilities. This program has been very successful and has moved the pharmaceutical industry to install new and enhanced measures to address their responsibilities and due diligence as registrants. Despite these efforts the prescription drug abuse problem continues to be a major problem. Many state and local law enforcement agencies have devoted limited, if any resources, in the area of pharmaceutical diversion. To effectively attack this problem, the DEA, beginning in FY 2009, began establishing Tactical Diversion Squads (TDS) across the United States to tackle the growing problem of diversion and prescription drug abuse. These TDS groups, which incorporate Special Agents, Diversion Investigators and state and local Task Force Officers, have begun to show very successful investigations. Some of these investigations have resulted in multi-million dollar seizures. As of the end of FY 2011, 39 of the anticipated 40 TDS groups were deployed and operational.

The result of all of the above improvements to the DCP has been the increase of the number of DCP criminal case initiations. The number of criminal cases initiated increased from 1,011 in FY 2010 to 1,900 in FY 2011. The FY 2011 target for criminal case initiated was 2,036. DEA fell short of its ambitious target by 7 percent. During FY 2011, DEA refined its methodology for identifying DCP criminal cases initiated. DEA previously only counted DCP cases that had a 2000 series case file number. DEA now includes non-2000 series case file numbers that have a fee fundable drug code assigned to them. The target for FY 2012 was 2,291 and the actual was 2,079. As the DCP continues to work to fully staff its TDS groups, DEA expects the target for criminal cases initiated to be met or exceeded.

Performance Measure: Number of DCP PTOs Disrupted / Dismantled

FY 2003 Actual Performance	25 / 17
FY 2004 Actual Performance	13 / 14
FY 2005 Actual Performance	29 / 20
FY 2006 Actual Performance	36 / 25
FY 2007 Actual Performance	67 / 35
FY 2008 Actual Performance	130 / 66
FY 2009 Actual Performance	114 / 110
FY 2010 Actual Performance	156 / 106
FY 2011 Actual Performance	187 / 159
FY 2012 Target	205 / 120
FY 2012 Actual Performance	219 / 156

Priority Target Organizations (PTOs)
Diversion
Disrupted and Dismantled[1]

Fiscal Year	PTO Linkages	OCDETF			Non-OCDETF			Total		
		PTOs Disrupted	PTOs Dismantled	Total	PTOs Disrupted	PTOs Dismantled	Total	PTOs Disrupted	PTOs Dismantled	Total
FY 2003 Actual	PTOs Linked to CPOT	-	-	-	-	-	-	-	-	-
	PTOs Not Linked to CPOT	15	14	29	10	3	13	25	17	42
	Total, FY 2003 Actual	15	14	29	10	3	13	25	17	42
FY 2004 Actual	PTOs Linked to CPOT	1	-	1	-	-	-	1	-	1
	PTOs Not Linked to CPOT	8	10	18	4	4	8	12	14	26
	Total, FY 2004 Actual	9	10	19	4	4	8	13	14	27
FY 2005 Actual	PTOs Linked to CPOT	1	-	1	-	-	-	1	-	1
	PTOs Not Linked to CPOT	17	13	30	11	7	18	28	20	48
	Total, FY 2005 Actual	18	13	31	11	7	18	29	20	49
FY 2006 Actual	PTOs Linked to CPOT	-	-	-	-	-	-	-	-	-
	PTOs Not Linked to CPOT	18	15	33	18	10	28	36	25	61
	Total, FY 2006 Actual	18	15	33	18	10	28	36	25	61
FY 2007 Actual	PTOs Linked to CPOT	-	-	-	-	-	-	-	-	-
	PTOs Not Linked to CPOT	30	14	44	37	21	58	67	35	102
	Total, FY 2007 Actual	30	14	44	37	21	58	67	35	102
FY 2008 Actual	PTOs Linked to CPOT	1	-	1	-	-	-	1	-	1
	PTOs Not Linked to CPOT	51	19	70	78	47	125	129	66	195
	Total, FY 2008 Actual	52	19	71	78	47	125	130	66	196
FY 2009 Actual	PTOs Linked to CPOT	1	1	2	1	-	1	2	1	3
	PTOs Not Linked to CPOT	37	34	71	75	75	150	112	109	221
	Total, FY 2009 Actual	38	35	73	76	75	151	114	110	224
FY 2010 Actual	PTOs Linked to CPOT	1	1	2	1	1	2	2	2	4
	PTOs Not Linked to CPOT	47	32	79	107	72	179	154	104	258
	Total, FY 2010 Actual	48	33	81	108	73	181	156	106	262
FY 2011 Actual	PTOs Linked to CPOT	2	7	9	1	1	2	3	8	11
	PTOs Not Linked to CPOT	53	34	87	131	117	248	184	151	335
	Total, FY 2011 Actual	55	41	96	132	118	250	187	159	346
FY 2012 Target	PTOs Linked to CPOT	[2]	[2]	[2]	[2]	[2]	[2]	-	-	-
	PTOs Not Linked to CPOT	[2]	[2]	[2]	[2]	[2]	[2]	205	120	325
	Total, FY 2012 Target	[2]	[2]	[2]	[2]	[2]	[2]	205	120	325
FY 2012 Actual	PTOs Linked to CPOT	5	-	5	-	-	-	5	-	5
	PTOs Not Linked to CPOT	55	39	94	159	117	276	214	156	370
	Total, FY 2012 Actual	60	39	99	159	117	276	219	156	375

[1] Includes disruptions, closed (PTARRS status code E) and disruptions pending dismantlements (PTARRS status code D) Prior to FY 2003, DEA did not include disruptions pending dismantlements in its reported numbers of PTO disruptions

[2] For planning purposes and the establishment of targets, DEA does not differentiate between OCDETF and non-OCDETF

Data Definition: Disruption means impeding the normal and effective operation of the targeted organization, as indicated by changes in organizational leadership and/or changes in methods of operation, including, for example, financing, trafficking patterns, communications or drug production. Disruption Pending Dismantlement means impeding the normal and effective operation of the targeted organization, but continuing towards the organization's complete evisceration such that it is incapable of operating and/or reconstituting itself. Dismantlement means destroying the organization's leadership, financial base and supply network such that the organization is incapable of operating and/or reconstituting itself. The first CPOT List was issued in September 2002, and is updated semi-annually. The List identifies the most significant international drug trafficking and money laundering organizations and those primarily responsible for the Nation's drug supply. Enforcement agencies are focused on identifying links among disparate domestic drug trafficking and money laundering organizations and on making connections to their ultimate sources of supply. Investigators continually work up and across the supply chain, with the goal of disrupting and dismantling the entire network controlled by or supporting a given CPOT organization. An organization is considered "linked" to a CPOT, if credible evidence exists (i.e., from corroborated confidential source information, phone tolls, Title III intercepts, financial records, or other similar investigative means) of a nexus between the primary target of the investigation and a CPOT target. The nexus need not be a direct connection to the CPOT, so long as a valid connection exists to a verified associate or component of the CPOT organization.
Data Collection and Storage: Each Country Office Attaché or Special Agent in Charge (SAC) nominates PTOs in PTARRS based on intelligence information. Headquarters staff ensures that PTOs are tracked and nominations are supported by data and information.
Data Validation and Verification: PTARRS provides a means of electronically validating and verifying PTO data through the following approval chain: * Case Agent - Through PTARRS, the Special Agent (SA) or Diversion Investigator (DI) begins the process by creating and proposing a PTO. * Group Supervisor (GS) – The GS reviews the PTO proposed by the SA/DI and approves it or sends it back to the SA/DI for additional information/clarification. * Assistant Special Agent in Charge (ASAC) - The ASAC reviews the PTO approved by the GS. If all of the necessary information included in the proposal meets the established criteria for a PTO, the ASAC approves the PTO. * SAC - The SAC reviews the PTO approved by the ASAC and provides a case assessment for, or against, the nomination of the PTO. Once nominated by the SAC, PTARRS generates and saves a unique identification number for the nominated PTO. * Headquarters – At Headquarters, PTOs nominated by the SAC are assigned to the appropriate section within DEA's Office of Global Enforcement (OE). Once assigned, the corresponding OE Staff Coordinator validates all information reported on the PTO nomination. The validation process includes a review of the PTO nomination for completeness, compliance with established criteria, and confirmation of all related case linkages, including links to CPOT targets. Staff Coordinators coordinate with DEA's Special Operations Division and Intelligence Division to ensure that available facts exist to support all case linkages. In the unlikely event the documentation submitted is insufficient to validate the reported links; the Staff Coordinator will coordinate with the submitting GS to obtain the required information.
Data Limitations: All statistics are limited by a lack of a relational link between case files and enforcement outputs (e.g., arrest, seizure, and work hour data). The link is inferred through data manipulation, but some areas are prone to error until all data systems are linked in a relational manner, and errors are prevented through data validation and referential integrity.

Discussion of FY 2012 Diversion Control Program Accomplishments:

FY 2011 PTO targets are 180/110 respectfully. The actual number of PTOs disrupted and dismantled in FY 2011 was 187/159 respectfully. As a result of DEA refining its methodology for identifying DCP PTOs during FY 2011, the actual disruptions/dismantlements exceeded the established targets significantly. When the FY 2011 targets were initially established, DEA only counted DCP PTOs that had a 2000 series case file number. DEA now includes non-2000 series case file numbers that have a fee fundable drug code assigned to them. The targets for FY 2012 are 205/120 respectfully. In FY 2012, DEA exceeded the FY 2012 target with actuals of 219/156 respectfully.

Performance Measure: Number of Administrative/Civil/Criminal Sanctions Imposed on Registrants/Applicants

FY 2003 Actual Performance	1,040
FY 2004 Actual Performance	1,122
FY 2005 Actual Performance	1,138
FY 2006 Actual Performance	1,212
FY 2007 Actual Performance	1,261
FY 2008 Actual Performance	1,601
FY 2009 Actual Performance	1,557
FY 2010 Actual Performance	1,519
FY 2011 Actual Performance	2,110
FY 2012 Target	1,802
FY 2012 Actual Performance	2,143

Data Definition: Consists of administrative code 1 (surrender for cause), code 2 (revocation), code 9 (suspension), code D (denial), code R (restriction), Letters of Admonition, Administrative Hearings, and Civil Fines. Registrants lose or forfeit the DEA Registration or are convicted of a drug felony. Registrants are permanently denied access to controlled substances pending a reversal of circumstances.
Data Collection and Storage: During the reporting quarter, the Diversion field offices change the status of a registrant's CSA II master record to reflect any regulatory investigative actions that are being conducted on the registrant. The reporting of the regulatory action by each field office is available on a real-time basis through the reporting system within CSA II as the investigative status changes. The regulatory investigative actions that are collected in a real-time environment are as follows: letters of admonition/MOU, civil fines, administrative hearings, orders to show cause, restricted records, suspensions, surrenders for cause, revocations, and applications denied. The CSA II enables the DEA to maintain all of the historical and investigative information on the DEA registrants. It also serves as the final repository for a majority of punitive (i.e., sanctions) actions levied against CSA violators.
Data Validation and Verification: The Diversion Investigator and the field office GS are tasked to ensure that timely and accurate reporting is accomplished as the registrants investigative status changes. Both GS and the DPM have the ability to view the report of ingoing and completed regulatory investigation actions for their office/division at any time during the quarter or at the quarter's end, since the actions are in real-time.
Data Limitations: The enforceable longevity (duration) and the severity of the sanctions levied vary among registrants types and jurisdictions. Because there is no adequate methodology for normalizing these data we have to rely on Diversion's data validation and verification procedures. Therefore, while the DEA acknowledges this data limitation, it asserts that these data have "face" or intrinsic validity due to the quality controls in place. Diversion affirms that it will continue to proactively test and evaluate its validation and verification procedures in order to ensure the quality and reliability of its data.

Discussion of FY 2012 Diversion Control Program Accomplishments:

As the DEA continues to focus on more complex, trafficking organizations and the financial entities that support them, the number of administrative/criminal sanctions will increase. The DEA's goal is to dismantle the organizations most responsible for the diversion of pharmaceuticals and precursor chemicals. In addition, collaborative enforcement efforts among Federal, State, and local law enforcement agencies and increases in Federal and State sponsored legislation that target and eliminate the methods previously exploited by diverters, have driven many of the most egregious elements out of the registrant populations. Between FY 2003 and 2010, the number of administrative/civil/criminal sanctions tracked by DEA have ranged from 1,040 (FY 2003) to 1,519 (FY 2010). In FY 2010, DEA combined all types of sanctions and established a new target for FY 2011 of 1,717. In FY 2011, the DEA reported 2,110 administrative/civil/criminal sanctions imposed on its registrants/applicants. The target for FY 2012 is 1,802 and the actual was 2,143.

ANALYSIS OF FINANCIAL STATEMENTS HIGHLIGHTS

Financial Statements

The DEA received an unqualified (“clean”) audit opinion from the independent public accounting firm of KPMG LLP on its FY 2012 financial statements provided on pages 39 and 40. This is the fourteenth consecutive year the DEA received a clean opinion. This unqualified audit opinion provides independent assurance to the public that the information presented in the DEA financial statements is fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.

The following sections provide a discussion and analysis of the financial statements and related information.

Statement of Net Cost

The Statement of Net Cost presents the DEA’s results of operations. The following table presents the total results of operations for the last four fiscal years.

Net (Cost)/Income (Dollars in Millions)								
	FY 2009		**FY 2010**		**FY 2011**		**FY 2012**	
Earned Revenue	$	593	$	678	$	723	$	737
Program Cost	$	(2,739)	$	(2,901)	$	(3,035)	$	(2,950)
Net (Cost)/Income	$	(2,146)	$	(2,223)	$	(2,312)	$	(2,213)

The Statement of Net Cost compares fees earned to cost incurred during a specific period of time.

Intragovernmental Revenues are predominately from reimbursable activity within the Department of Justice. Intragovernmental Revenues decreased by 7.1 percent from FY 2011 to FY 2012 from $523M to $486M, respectively. This reduction is due largely to a decrease in revenue recognized on FY 2011 and FY 2010 subscriber and accessories agreements with Justice Management Division.

Consolidated Balance Sheet

The Consolidated Balance sheet shows that the DEA’s assets as of September 30, 2012 were $1,201M, a net decrease of $38M from the FY 2011 balance of $1,239M.

Fund Balance with Treasury was $695M at September 30, 2012, a 1.0 percent decrease from the FY 2011 balance of $702M. Fund Balance with Treasury represents 57.9 percent of total assets.

Intragovernmental Accounts Receivable was $52M at September 30, 2012, an 18.2 percent increase from the FY 2011 balance of $44M due mostly to an increase in accounts receivable of $6.8M with the Department of State. Intragovernmental Accounts Receivable represents 4.3 percent of total assets.

General Property, Plant, and Equipment decreased 4.7 percent during FY 2012, from $401M to $382M. General Property, Plant and Equipment represent 31.8 percent of total assets.

Intragovernmental Liabilities were $86M at September 30, 2012, a 14.0 percent decrease from the FY 2011 balance of $100M. Intragovernmental liabilities represent 9.3 percent of total liabilities. A large portion of DEA's Intragovernmental Liabilities, 31.3 percent, consists of accounts payable with DOJ and GSA. The decrease is due primarily to a reduction in accounts payable with GSA and Department of Defense.

Liabilities with the public were $837M at September 30, 2012, a 7.3 percent increase from the FY 2011 balance of $780M. Liabilities with the public represent 90.7 percent of total liabilities. The increase is largely comprised of a 14.1 percent increase in Deferred Revenue due to a Diversion fee increase.

Statement of Budgetary Resources

Total budgetary resources for spending are primarily comprised of Congressional authority appropriated for current year use, as well as fee collections. The following table displays the DEA's total budgetary resources over the last four years, with the related percentage change over the previous year.

Budgetary Resources (Dollars in Millions)

	FY 2009	FY 2010	FY 2011	FY 2012
Budgetary Resources	$ 3,067	$ 3,276	$ 3,160	$ 3,144
Percentage Change	8.81%	6.81%	(3.53%)	(0.51%)

During FY 2012, the DEA's total budgetary resources available for spending decreased .51 percent from the amount available in FY 2011. DEA incurred a small rescission in FY 2012. The continued prioritization of limited resources and the stringent monitoring of the execution of the DEA's budget enable the DEA to maximize the use of limited resources. The DEA continues to manage its resources efficiently and effectively to support the mission of the agency.

Finally, Spending Authority from Offsetting Collections increased from FY 2011 to FY 2012 from $505M to $525M, as of September 30, 2012. These increases are primarily due to the increase of $16.2M in unfilled customer orders for a reimbursable agreement with the Department of State for activities in Afghanistan.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Management Controls Program in the DEA

The DEA remains committed to ensuring that funding allocated to combat drug trafficking is managed effectively and efficiently. The DEA continually evaluates its operations to improve management practices and the accuracy and soundness of the agency's financial data. In accordance with OMB Circular A-123 requirements, DEA performed a comprehensive risk assessment of the financial and acquisition performance of all 120 allowance managers' offices. The Inspection Division and Intelligence Division requested that one risk assessment be performed for all offices within their division. Accordingly, 6 offices were consolidated to their division level and a total of 114 risk assessments were performed. Based on the results of the risk assessments, we performed on-site reviews at 8 high risk offices, 31 desk reviews (7 extensive desk reviews and 24 standard desk reviews), and 75 self-certification reviews.

DEA conducted comprehensive on-site reviews at 8 offices, at which time key management controls were tested. The reviews analyzed source documentation, conducted employee interviews, performed transaction walk-throughs, and ensured compliance with the DEA's Financial and Acquisition Management Policy Manual (FAMPM), as well as applicable laws and regulations. The review process is part of DEA's management control program, which is designed to ensure that DEA's financial records, systems, and statements fairly present DEA's financial position and results of operation. At the conclusion of each review, the team briefed management on the results of the testing and discussed areas of concern as well as corrective action recommendations. DEA monitors and tracks all corrective action plans and ensure timely resolution of deficiencies. The DEA met all DOJ required A-123 deadlines, reporting dates, and requirements.

The Financial Management Division provided extensive training to emphasize the importance of internal controls, legal compliance with laws and regulations, as well as provide managers and staff with the most current and up-to-date financial management policies and procedures. The following training classes were offered:

1. The Field Division Accountants conducted 14 Unified Financial Management System (UFMS) classes within their respective Divisions. This method reduces the amount of travel that was necessary to train users across the country. A total of 43 individuals were trained.
2. Conducted 5 Operational Advance Holder classes. This class is for individuals in foreign offices who maintain an operational advance. Classes were taught via Video Teleconference (VTC) or WebEx internet application to reduce travel. A total of 19 individuals were trained.
3. Conducted Temporary Duty (TDY) Travel Voucher Preparation Training for 4 Basic Agent class and 1 Basic Diversion Investigator class. A total of 219 individuals were trained.
4. Conducted 3 Foreign Orientation Program (FOP) class for all new Permanent Change of Station (PCS) employees. Topics included: PCS travel voucher requirements; Relocation Income Tax Allowance; miscellaneous expense allowances; foreign payments and cash operations. A total of 153 individuals were trained.
5. Conducted 13 Imprest Fund Cashier classes. Classes were taught via

Video Teleconference (VTC) or WebEx internet application to reduce the amount of travel necessary to train cashiers across the country and in Foreign offices. A total of 85 individuals were trained.
6. Conducted 5 UFMS classes at DEA Headquarters. The training was geared for new users in the HQ commuting area. A total of 14 individuals were trained.
7. Conducted 14 Obligation Management Module (OMM) demonstrations for DEA personnel. This new online system allows for all participants in the Undelivered Orders reconciliation process to perform their tasks electronically. The 1.5 hour demonstration was provided live for HQ personnel and via VTC for those in the Field Divisions. A total of 249 individuals were trained.

Quarterly Status Report. As part of Departmental reporting requirements, the DEA prepares a Quarterly Status Report (QSR) that includes data on obligations, availability of funds, personnel, performance targets and results, workload targets and results, and progress on outstanding Federal Managers' Financial Integrity Act (FMFIA) findings. The QSR has resulted in the timely identification of problems and the resolution of identified deficiencies. In addition, the QSR has helped the DEA to meet the preparation, auditing, and submission deadlines for the annual financial statements.

Managerial Cost Accounting (MCA) System. The MCA provides the DEA with full cost information that is used to evaluate and report on operations, facilitate decision-making, and assess performance. Specifically, the MCA integrates DEA costs with DEA performance to show how the DEA resources are allocated to achieve its mission.

Federal Managers' Financial Integrity Act of 1982

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

Guidance for implementing FMFIA is provided through OMB Circular A-123. In addition to requiring agencies to provide an assurance statement on the effectiveness of programmatic internal controls and conformance with financial systems requirements, the Circular requires agencies to provide an assurance statement on the effectiveness of internal control over financial reporting. The Department requires components to provide both assurance statements in order to prepare the agency assurance statements.

Management of the DEA is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the FMFIA. For FY 2012, DEA assessed its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A123, *Management's Responsibility for Internal Control*, as required by Section 2 of the FMFIA. Based on the results of this assessment, DEA can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and its compliance with applicable laws and regulations as of June 30, 2012, was operating effectively. DEA also assessed whether its financial management systems conform to government-wide requirements. Based on the results of this assessment, DEA can provide reasonable assurance that there are no non-conformances that are required to be reported by Section 4 of the FMFIA.

Management of the DEA is also responsible for identifying, designing, operating, maintaining, and monitoring the existence of an appropriate system of internal control that enables DEA to report its financial information accurately to the Department and that meets the requirements of OMB Circular A-123, Appendix A. In accordance with *OMB Circular A-123 Implementation Plan*, the Department's Senior Assessment Team identified the business processes significant at the Departmental level and at the component level, which comprises a significant share of those processes. As required by the Department's *FY 2012 Guidance for Implementation of OMB Circular A-123*, DEA has documented significant business processes and tested key controls for those processes. Based on the results of the assessment, DEA can provide reasonable assurance that its internal control over financial reporting was operating effectively as of June 30, 2012, with the exception of one reportable condition in the area of sensitive payments. DEA identified instances when employees did not appropriately apply per diem reductions for meals provided by the government.

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 (FFMIA) was designed to improve federal financial and program managers' accountability, provide better information for decision-making, and improve the efficiency and effectiveness of federal programs. FFMIA requires agencies to have financial managements systems that substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger (USSGL) at the transaction level. Furthermore, the Act requires independent auditors to report on agency compliance with the three requirements in the financial statement audit report. The Federal Information Security Management Act (FISMA) states that to be substantially compliant with FFMIA, there are to be no significant deficiencies in information security policies, procedures, or practices.

During FY 2012, the DEA assessed its financial management systems for compliance with FFMIA and determined that they substantially comply with FFMIA. This determination is based on the results of testing performed in accordance with OMB Circular A-123, Appendix A. Consideration was also given to any issues identified during the DEA's financial statement audit.

Performance Management Scorecards

The DEA developed scorecards based on OMB's financial management indicators. The indicators include percentage of electronic payments to vendors, number of invoices paid on time, amount of late payment interest penalties, and travel and purchase card delinquency rates. The scorecards are issued quarterly to Special Agents in Charge (SACs) and Office Heads in 28 headquarters and division offices. The DEA makes on-line reports available, which allows SACs and Office Heads to track their office's progress and take corrective action as necessary to improve performance. At the end of FY 2012, 27 offices were "Green" on the Performance indicators. The percentage of invoices paid on-time improved from 99.37% (September 2011) to 99.72% (September 2012), resulting in an overall score of "Green".

For FY 2012, the DEA undertook an aggressive effort to work with offices to improve financial performance further by correcting identified deficiencies, with the goal of a “green” rating for all performance indicators. This effort led to the establishment of the DEA’s Financial Improvement Team (FITeam) Program. This program is designed to provide fiscal offices with the tools to achieve and sustain financial management performance improvements. Core service offerings available from the FITeam include: 1) fiscal process evaluation, improvement and implementation; 2) staffing and role assignment evaluation so that workload is distributed appropriately; 3) monitoring of financial transaction and other staff performance metrics. The FITeam also works with field offices through critical targeted strategic management discussions.

Legal Compliance

Under the FMFIA, DEA is required to submit its FY 2012 Assurance Statement and Sub-Certification as well as any subsequent updates to DOJ. On August 24, 2012, DEA submitted its Assurance Statement and Sub-Certification for the 9-month period of October 1, 2011 to June 30, 2012. DEA reported that its programs and administrative activities and financial systems meet the objectives of Sections 2 and 4 of the FMFIA, The reportable condition identified during the OMB Circular A-123, Appendix A assessment does not affect DEA’s ability to perform its mission and functions with efficiency and integrity.

On October 12, 2012, DEA submitted an Update to its FY 2012 Assurance Statement and Sub-Certification to DOJ for the remaining three months of the fiscal year (July 1, 2012 to September 30, 2012). For the period, DEA reported that its internal control is operating effectively, and were not aware of any additional reportable conditions or material weaknesses in the design or operation of internal control over financial reporting.

Improper Payments Elimination and Recovery Act (IPERA) and Circular A-123 Appendix C

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

In accordance with the Departmental approach for implementing IPERA, the DEA assessed its activities for susceptibility to significant improper payments. The DEA also conducted its payment recapture audit program in accordance with the Departmental approach. The DEA provided the results of both the risk assessment and payment recapture audit activities to the Department for the Department-level reporting in the FY 2012 Performance and Accountability Report.

The DEA has a robust compliance review process in place that is comprised of both internal and external reviews that are conducted at regular intervals in support of OMB's Circular No. A-136 and the Performance and Accountability Report. DEA's financial scorecard initiatives include monitoring payments daily and establishing a review process of all payment documents. Payments that have been entered into the UFMS with duplicate payment information are analyzed and flagged based on prior payment history. This oversight process makes it possible to identify and recoup improper payments in accordance with IPERA and the Prompt Payment Act. There are daily communications with all the DEA's offices to ensure that payment procedures are followed as outlined in the DEA's FAMPM. Furthermore, the DEA regularly provides written guidance and assistance to offices to ensure timely and error-free payment processing.

POSSIBLE FUTURE EFFECTS OF EXISTING EVENTS AND CONDITIONS

Factors and Future Trends Affecting the DEA's Goal Achievement

The challenges that impede progress towards achieving DEA's goals are complex and ever changing. Marketplace dynamics, global politics, technological developments, and criminal behavior are only a few factors that can impact law enforcement practices and pose challenges that demand attention. DEA faces the following potential obstacles to meeting its performance objectives in FY 2013:

External Challenges: A significant challenge confronting U.S. law enforcement is the diminishing ability to conduct lawful electronic intercepts on current and emerging technologies as domestic and foreign communications providers continue to offer an increasing variety of sophisticated services and features to U.S. customers. Failure to adequately address this problem will cripple law enforcement's ability to conduct lawful interception of communications and associated transactional data needed to solve serious drug crime.

- One of the most pressing resource challenges facing DEA is the availability of future funding for DEA's operations in Afghanistan. To support the U.S. Ambassador's Counternarcotics Strategy for Afghanistan, DEA increased is staffing from 13 to 82 permanent positions. However, DEA's direct appropriation was not increased to fund this enhanced presence. Instead, funding for this expansion has evolved into an interagency effort, an arrangement that has become inefficient and untenable. DEA is dedicated to continuing its operations at this expanded level, but doing so requires a reliable and dedicated source of funding.

- As DEA's law enforcement efforts improve, leaders of drug trafficking organizations are finding more sophisticated ways to insulate themselves from the criminal justice system. For example, they are using long and complex chains of delivery systems and state-of-the-art technology to keep their operations clandestine.

- DEA has utilized resources of the Community Oriented Policing Services (COPS) to provide assistance to state and local law enforcement for the cleanup of seized methamphetamine laboratories and to expand the Authorized Central Storage (ACS) Program to additional states.

- The smuggling, money remittance, and communications infrastructures utilized by international drug and chemical trafficking organizations will continue to provide an operational model that can be readily exploited by terrorist organizations.

- Source and transshipment regions such as Afghanistan and the continent of Africa continue to affect the world, and albeit indirectly, the United States. Even if only a limited quantity of these drugs reach the U.S., the proceeds sustain the drug trafficking and terrorist organizations, fuel the next round of drug production, and further corrupt and destabilize emerging economies and democracies.

- Corruption of foreign officials can stymie the DEA's efforts to affect international enforcement. Developing nations also face an inordinate amount of problems (including indebtedness, insurgency, corruption, and underdevelopment) in conjunction with drug production and trafficking.

- The globalization of the social, technical, and economic environments of the United States and other nations creates new venues for drug production, transportation, diversion, and money laundering techniques.

- Recently, efforts to legalize marijuana have increased. Keeping marijuana illegal reduces its availability and lessens willingness to use it. Legalizing marijuana would increase accessibility and encourage promotion and acceptance of drug use.

- Changes in laws could affect the closed system of distribution and allow distribution of foreign-sourced controlled substances.

- Continued growth in the abuse of legitimate controlled substances could replace or supplement illicit drugs. The increase in the abuse of prescription drugs is fueled by many factors, including the development and marketing of new pharmaceutical controlled substances, and ever-changing methods of diversion, such as rogue internet pharmacy schemes or rogue pain clinics. Just as illicit drug traffickers and organizations adapt to law enforcement methods, pharmaceutical traffickers adapt to and circumvent laws that attempt to stop the flow of controlled substance pharmaceuticals into the illicit market.

Internal Challenges:

- Addressing critical infrastructure requirements, including overcrowding at the El Paso Intelligence Center (EPIC).

- In FY 2011, the Attorney General established hiring caps for special agent and intelligence analyst positions, and eliminated the hiring of support staff except for a few high priority exemptions. These hiring caps remained in place throughout FY 2012 and have made it more difficult for DEA to manage its workforce. DEA must also be sure to enhance career development opportunities to ensure effective succession planning in the DEA's leadership, since 75 percent of DEA's Senior Executives are eligible for retirement at the end of FY 2012.

- It is important for DEA to maintain adequate resources for the Special Operations Division (SOD), EPIC, and the Document and Media Exploitation (DOMEX) and strategic intelligence functions transferred from the National Drug Intelligence Center (NDIC)[3]. This will facilitate complete and timely sharing of information and intelligence with law enforcement and IC partners.

- DEA is constantly working to strengthen existing partnerships and to build new ones with Federal, state, local, and international counterparts.

LIMITATIONS OF THE FINANCIAL STATEMENTS

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

While the statements have been prepared from the books and records of the DEA in accordance with U.S. generally accepted accounting principles for federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

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

[3] As directed by the Consolidated and Further Continuing Appropriations Act, 2012 (P.L. 112-55), the Department of Justice initiated the closure of NDIC in Johnstown, PA. Core NDIC functions have been reassigned to DEA's intelligence program. The Department authorized 57 new positions and associated resources for DEA to continue DOMEX and high-priority strategic intelligence reporting.

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Independent Auditors' Reports

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

Independent Auditors' Report on Financial Statements

Inspector General
U.S. Department of Justice

Administrator
Drug Enforcement Administration
U.S. Department of Justice

We have audited the accompanying consolidated balance sheets of the U.S. Department of Justice Drug Enforcement Administration (DEA) as of September 30, 2012 and 2011, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources and custodial activity (hereinafter referred to as "consolidated financial statements" or "basic financial statements") for the years then ended. These consolidated financial statements are the responsibility of the DEA's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the DEA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Justice Drug Enforcement Administration as of September 30, 2012 and 2011, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1.W to the consolidated financial statements, the DEA changed its presentation for reporting the combined statement of budgetary resources in fiscal year 2012, based on new reporting requirements under OMB Circular No. A-136, *Financial Reporting Requirements*. As a result, the DEA's combined statement of budgetary resources for fiscal year 2011 has been adjusted to conform to the current year presentation.

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

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

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 5, 2012, on our consideration of the DEA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

November 5, 2012

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

Independent Auditors' Report on Internal Control over Financial Reporting

Inspector General
U.S. Department of Justice

Administrator
Drug Enforcement Administration
U.S. Department of Justice

We have audited the consolidated balance sheets of the U.S. Department of Justice Drug Enforcement Administration (DEA) as of September 30, 2012 and 2011, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources and custodial activity (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated November 5, 2012. As discussed in Note 1.W to the consolidated financial statements, the DEA changed its presentation for reporting the combined statement of budgetary resources in fiscal year 2012, based on new reporting requirements under OMB Circular No. A-136, *Financial Reporting Requirements*.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The management of the DEA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our fiscal year 2012 audit, we considered the DEA's internal control over financial reporting by obtaining an understanding of the DEA's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DEA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the DEA's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the third paragraph of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2012 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

KPMG LLP

November 5, 2012

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

Independent Auditors' Report on Compliance and Other Matters

Inspector General
U.S. Department of Justice

Administrator
Drug Enforcement Administration
U.S. Department of Justice

We have audited the consolidated balance sheets of the U.S. Department of Justice Drug Enforcement Administration (DEA) as of September 30, 2012 and 2011, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources, and custodial activity (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated November 5, 2012. As discussed in Note 1.W to the consolidated financial statements, the DEA changed its presentation for reporting the combined statement of budgetary resources in fiscal year 2012, based on new reporting requirements under OMB Circular No. A-136, *Financial Reporting Requirements*.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The management of the DEA is responsible for complying with laws, regulations, and contracts applicable to the DEA. As part of obtaining reasonable assurance about whether the DEA's consolidated financial statements are free of material misstatement, we performed tests of the DEA's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the DEA. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed no instances in which the DEA's financial management systems did not substantially comply with the (1) federal financial management system requirements, (2) applicable federal accounting standards, and (3) application of the United States Government Standard General Ledger at the transaction level.

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

KPMG LLP

November 5, 2012

Principal Financial Statements and Related Notes

See Independent Auditors' Report on Financial Statements

U.S. Department of Justice
Drug Enforcement Administration
Consolidated Balance Sheets
As of September 30, 2012 and 2011

Dollars in Thousands		2012		2011
ASSETS (Note 2)				
Intragovernmental				
Fund Balance with U.S. Treasury (Note 3)	$	694,616	$	702,470
Accounts Receivable, Net (Note 5)		51,930		43,655
Other Assets (Note 9)		32,442		47,061
Total Intragovernmental		778,988		793,186
Cash and Monetary Assets (Note 4)		15,337		16,575
Accounts Receivable, Net (Note 5)		5,397		5,998
Inventory and Related Property, Net (Note 6)		7,588		7,506
General Property, Plant and Equipment, Net (Note 8)		381,780		401,220
Advances and Prepayments		12,030		14,700
Total Assets	**$**	**1,201,120**	**$**	**1,239,185**
LIABILITIES (Note 10)				
Intragovernmental				
Accounts Payable	$	35,216	$	46,943
Accrued Federal Employees' Compensation Act Liabilities		27,152		27,222
Custodial Liabilities (Note 19)		3,781		5,199
Other Liabilities (Note 13)		20,095		20,766
Total Intragovernmental		86,244		100,130
Accounts Payable		85,690		92,054
Actuarial Federal Employees' Compensation Act Liabilities		158,435		149,846
Accrued Payroll and Benefits		64,151		63,094
Accrued Annual and Compensatory Leave Liabilities		98,986		98,437
Deferred Revenue		409,396		358,742
Seized Cash and Monetary Instruments (Note 12)		450		440
Contingent Liabilities (Note 14)		8,968		7,754
Other Liabilities (Note 13)		10,555		9,720
Total Liabilities	**$**	**922,875**	**$**	**880,217**
NET POSITION				
Unexpended Appropriations - All Other Funds	$	499,366	$	503,763
Cumulative Results of Operations - Earmarked Funds (Note 15)		(285,887)		(232,162)
Cumulative Results of Operations - All Other Funds		64,766		87,367
Total Net Position	**$**	**278,245**	**$**	**358,968**
Total Liabilities and Net Position	**$**	**1,201,120**	**$**	**1,239,185**

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

U.S. Department of Justice
Drug Enforcement Administration
Consolidated Statements of Net Cost
For the Fiscal Years Ended September 30, 2012 and 2011

Dollars in Thousands

		Gross Costs			Less: Earned Revenues			Net Cost of
	FY	**Intra-governmental**	**With the Public**	**Total**	**Intra-governmental**	**With the Public**	**Total**	**Operations (Note 16)**
Goal 1	2012	$ 17,534	$ 94,180	$ 111,714	$ 12,630	$ -	$ 12,630	$ 99,084
	2011	$ 15,196	$ 90,886	$ 106,082	$ 687	$ 6	$ 693	$ 105,389
Goal 2	2012	892,256	1,945,542	2,837,798	473,274	251,099	724,373	2,113,425
	2011	907,038	2,021,967	2,929,005	521,896	200,321	722,217	2,206,788
Total	**2012**	**$ 909,790**	**$ 2,039,722**	**$ 2,949,512**	**$ 485,904**	**$ 251,099**	**$ 737,003**	**$ 2,212,509**
	2011	**$ 922,234**	**$ 2,112,853**	**$ 3,035,087**	**$ 522,583**	**$ 200,327**	**$ 722,910**	**$ 2,312,177**

Goal 1 Prevent Terrorism and Promote the Nation's Security Consistent with the Rule of Law
Goal 2 Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law

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

U.S. Department of Justice
Drug Enforcement Administration
Consolidated Statements of Changes in Net Position
For the Fiscal Year Ended September 30, 2012

Dollars in Thousands

	2012		
	Earmarked Funds	All Other Funds	Total
Unexpended Appropriations			
Beginning Balances	**$ -**	**$ 503,763**	**$ 503,763**
Budgetary Financing Sources			
Appropriations Received	-	2,035,000	2,035,000
Appropriations Transferred-In/Out	-	27,254	27,254
Other Adjustments	-	(10,000)	(10,000)
Appropriations Used	-	(2,056,651)	(2,056,651)
Total Budgetary Financing Sources	-	(4,397)	(4,397)
Unexpended Appropriations	**$ -**	**$ 499,366**	**$ 499,366**
Cumulative Results of Operations			
Beginning Balances	**$ (232,162)**	**$ 87,367**	**$ (144,795)**
Budgetary Financing Sources			
Appropriations Used	-	2,056,651	2,056,651
Other Financing Sources			
Transfers-In/Out Without Reimbursement	-	(1,374)	(1,374)
Imputed Financing from Costs Absorbed by Others (Note 17)	9,419	71,487	80,906
Total Financing Sources	9,419	2,126,764	2,136,183
Net Cost of Operations	(63,144)	(2,149,365)	(2,212,509)
Net Change	(53,725)	(22,601)	(76,326)
Cumulative Results of Operations	**$ (285,887)**	**$ 64,766**	**$ (221,121)**
Net Position	**$ (285,887)**	**$ 564,132**	**$ 278,245**

U.S. Department of Justice
Drug Enforcement Administration
Consolidated Statements of Changes in Net Position
For the Fiscal Year Ended September 30, 2011

Dollars in Thousands

	2011		
	Earmarked Funds	**All Other Funds**	**Total**
Unexpended Appropriations			
Beginning Balances	**$ -**	**$ 559,167**	**$ 559,167**
Budgetary Financing Sources			
Appropriations Received	-	2,019,682	2,019,682
Appropriations Transferred-In/Out	-	71,029	71,029
Other Adjustments	-	(4,039)	(4,039)
Appropriations Used	-	(2,142,076)	(2,142,076)
Total Budgetary Financing Sources	**-**	**(55,404)**	**(55,404)**
Unexpended Appropriations	**$ -**	**$ 503,763**	**$ 503,763**
Cumulative Results of Operations			
Beginning Balances	**$ (159,279)**	**$ 80,998**	**$ (78,281)**
Budgetary Financing Sources			
Appropriations Used	-	2,142,076	2,142,076
Other Financing Sources			
Transfers-In/Out Without Reimbursement	-	14,358	14,358
Imputed Financing from Costs Absorbed by Others (Note 17)	9,396	79,833	89,229
Total Financing Sources	**9,396**	**2,236,267**	**2,245,663**
Net Cost of Operations	**(82,279)**	**(2,229,898)**	**(2,312,177)**
Net Change	(72,883)	6,369	(66,514)
Cumulative Results of Operations	**$ (232,162)**	**$ 87,367**	**$ (144,795)**
Net Position	**$ (232,162)**	**$ 591,130**	**$ 358,968**

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

U.S. Department of Justice
Drug Enforcement Administration
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2012 and 2011

Dollars in Thousands	2012	2011
Budgetary Resources		
Unobligated Balance, Brought Forward, October 1	$ 158,292	$ 223,391
Recoveries of Prior Year Unpaid Obligations	114,289	102,053
Other Changes in Unobligated Balance	21	33,854
Unobligated Balance from Prior Year Budget Authority, Net	272,602	359,298
Appropriations (discretionary and mandatory)	2,346,455	2,295,492
Spending Authority from Offsetting Collections (discretionary and mandatory)	525,323	505,291
Total Budgetary Resources	**$ 3,144,380**	**$ 3,160,081**
Status of Budgetary Resources		
Obligations Incurred (Note 18)	2,976,982	3,001,789
Unobligated Balance, End of Period:		
Apportioned	127,526	118,503
Unapportioned	39,872	39,789
Total Unobligated Balance - End of Period	167,398	158,292
Total Status of Budgetary Resources	**$ 3,144,380**	**$ 3,160,081**
Change in Obligated Balance		
Obligated Balance, Net - Brought Forward, October 1		
Unpaid Obligations, Gross	$ 712,030	$ 777,043
Less: Uncollected Customer Payments from Federal Sources	157,357	181,976
Total Obligated Balance, Net - Brought Forward, October 1	554,673	595,067
Obligations Incurred	2,976,982	3,001,789
Less: Outlays, Gross	2,852,539	2,964,749
Change in Uncollected Customer Payments from Federal Sources	(28,576)	24,619
Less: Recoveries of Prior Year Unpaid Obligations	114,289	102,053
Obligated Balance, Net - End of Period		
Unpaid Obligations, Gross	722,184	712,030
Less: Uncollected Customer Payments from Federal Sources	185,933	157,357
Total Obligated Balance, Net - End of Period	**$ 536,251**	**$ 554,673**
Budgetary Authority and Outlays, Net		
Budget Authority, Gross (discretionary and mandatory)	2,871,778	2,800,783
Less: Actual Offsetting Collections (discretionary and mandatory)	496,747	529,910
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	(28,576)	24,619
Budget Authority, Net (discretionary and mandatory)	**$ 2,346,455**	**$ 2,295,492**
Outlays, Gross (discretionary and mandatory)	$ 2,852,539	$ 2,964,749
Less: Actual Offsetting Collections (discretionary and mandatory)	496,747	529,910
Outlays, Net (discretionary and mandatory)	2,355,792	2,434,839
Less: Distributed Offsetting Receipts	295,736	243,616
Agency Outlays, Net (discretionary and mandatory)	**$ 2,060,056**	**$ 2,191,223**

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

U.S. Department of Justice
Drug Enforcement Administration
Combined Statements of Custodial Activity
For the Fiscal Years Ended September 30, 2012 and 2011

Dollars in Thousands	2012	2011
Revenue Activity		
Sources of Cash Collections		
Fees and Licenses	$ 15,000	$ 15,000
Fines, Penalties and Restitution Payments - Civil	12,595	82,268
Total Cash Collections	27,595	97,268
Accrual Adjustments	(1,418)	3,617
Total Custodial Revenue	26,177	100,885
Disposition of Collections		
Transferred to Federal Agencies		
Department of the Treasury	(27,595)	(97,268)
(Increase)/Decrease in Amounts Yet to Be Transferred	1,418	(3,617)
Net Custodial Activity (Note 19)	$ -	$ -

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

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

Drug Enforcement Administration (DEA or the agency), a bureau within the Department of Justice (DOJ or the department), is the lead agency responsible for the development of overall federal drug enforcement strategy, programs, planning, and evaluations. The DEA was created on July 1, 1973, as a result of the Presidential Reorganization Plan No. 2 of 1973. The DEA's mission is to enforce the United States' controlled substances laws and regulations and to bring to justice individuals involved in the growing, manufacturing, or distribution of controlled substances appearing in or destined for illicit traffic in the U.S. The DEA is also responsible for recommending and supporting non-enforcement programs aimed at reducing the availability of illicit controlled substances in domestic and international markets.

B. Basis of Presentation

The accompanying financial statements were prepared to report the DEA's financial position, net cost of operations, changes in net position, budgetary resources, and custodial activity as of and for the years ended September 30, 2012 and 2011. These financial statements include the following funds which are under the DEA's control: appropriated annual, multi-year, and no-year Salary and Expense; appropriated no-year Construction; Diversion Control offsetting authority; and the Violent Crime Reduction Trust Fund. These financial statements represent the financial results of these funds. All DEA activities are conducted under Office of Management and Budget's (OMB) Budget Functional Classification code 750 – Administration of Justice.

These financial statements have been prepared from the books and records of the DEA in accordance with U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) and presentation guidelines in the OMB Circular A-136, *Financial Reporting Requirements.* These financial statements are different from the financial reports prepared pursuant to OMB directives which are used to monitor and control the use of the DEA's budgetary resources. To ensure that the DEA's financial statements are meaningful at the entity level and to enhance reporting consistency within the Department, Other Assets and Other Liabilities as defined by OMB Circular A-136 have been disaggregated on the balance sheet.

Note 1. Summary of Significant Accounting Policies (continued)

In OMB Circular A-136 Advances and Prepayments are considered Other Assets, and Accrued Federal Employees' Compensation Act (FECA) Liabilities, Custodial Liabilities, Accrued Payroll and Benefits, Contingent Liabilities, Accrued Annual and Compensatory Leave Liabilities, Deferred Revenue, and Seized Cash and Monetary Instruments are considered Other Liabilities.

C. Basis of Consolidation

The consolidated/combined financial statements include the accounts of the DEA. All significant proprietary intra-entity transactions and balances have been eliminated in consolidation. The Statements of Budgetary Resources and Statements of Custodial Activity are combined statements for FYs 2012 and 2011, and as such, intra-entity transactions have not been eliminated. The consolidated financial statements do not include centrally administered assets and liabilities of the Federal Government as a whole, such as General Services Administration (GSA) owned property and equipment and borrowings from the public by the U.S. Treasury, which may in part be attributable to the DEA.

D. Basis of Accounting

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

E. Non-Entity Assets

Included in the assets reported in the accompanying balance sheets are non-entity assets. Non-entity assets are assets held by the DEA but are not available for use by the DEA. All of the DEA's non-entity assets are with the public and consist primarily of seized monetary assets, cash generated from Attorney General Exempt Operations, and cash generated from Trafficker Directed Funds Activities. These assets cannot be used to satisfy the DEA's obligations.

Note 1. Summary of Significant Accounting Policies (continued)

F. Fund Balance with U.S. Treasury and Cash

Generally, the U. S. Treasury processes cash receipts and disbursements. The DEA's Fund Balance with the U.S. Treasury consists of appropriated funds that are available to pay current liabilities and finance authorized commitments. The DEA does not have disbursing authority. The DEA maintains a small amount of cash in commercial banks to facilitate the replenishment of the Agency's imprest funds.

G. Accounts Receivable

Accounts receivable result from amounts due from federal agencies, public organizations, or individuals. Receivables due from federal agencies consist of reimbursable agreements for services provided by the DEA and are considered to be fully collectible.

Receivables due from public organizations or individuals consist of refunds, restitutions, licensing fees, and civil monetary penalties. An allowance for uncollectible accounts is established for these receivables when it is more likely than not the receivables will not be totally collected. The allowance is measured based on analysis of both individual accounts and a group of accounts taken as a whole.

H. Inventory and Related Property

The DEA maintains an inventory of aviation parts and supplies in support of its aviation operations. The aviation inventory is valued at historical cost. Repairable parts are broken or expended parts that have been removed from DEA aircraft. Repairable parts are inoperable and may eventually be repaired, overhauled, discarded, or traded for "core" value against a new or rebuilt part. Repairable parts are valued at zero dollars.

Note 1. Summary of Significant Accounting Policies (continued)

I. General Property, Plant and Equipment

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 6, Accounting for Property, Plant, and Equipment and No. 10, Accounting for Internal Use Software, the DEA reports assets at historical cost or their estimated fair value if acquired through means other than purchase. The DEA capitalizes administrative and technical investigative equipment, vehicles, boats, and capital leases that have a total cost of $25 or greater. Buildings, construction-in-progress (CIP), leasehold improvements, and aircraft are capitalized when their total cost is $100 or greater. Land is capitalized regardless of the acquisition cost. Betterments that extend the useful life of an asset are also capitalized. The cost of minor enhancements resulting from ongoing systems maintenance is expensed in the period incurred. Also, the purchase of enhanced versions of software for a nominal charge are properly expensed in the period incurred. Internal use software is capitalized when the development cost or purchase price exceeds $500. Repairs and maintenance costs are expensed. Capitalized assets (other than land, CIP, and internal use software in development) are depreciated or amortized over useful lives ranging from 5 to 50 years using a straight-line method.

J. Advances and Prepayments

The DEA's advances and prepayments consist of funds disbursed to other federal agencies in advance of receipt of goods or services, advances to state and local entities that participate in the Domestic Cannabis Eradication and Suppression Program, and travel advances issued to federal employees. Travel advances are limited to meals and incidental expenses incurred by federal employees during official travel. Advances and prepayments are recorded as an asset and are expensed when the related goods or services are received. Advances and prepayments involving other Federal agencies are classified as Other Assets on the balance sheet (Note 9).

Note 1. Summary of Significant Accounting Policies (continued)

K. Forfeited and Seized Property

The DEA routinely seizes property as part of its law enforcement activities. All property seized for forfeiture is reported by the DOJ's Assets Forfeiture Fund, including property that has evidentiary value. As required by SFFAS No. 3, *Accounting for Inventory and Related Property,* seized monetary assets held for evidence by the DEA are recorded as assets with an offsetting liability. Non-monetary assets held for evidence are disclosed in a footnote to the financial statements at appraised or market value with the exception of firearms which are disclosed according to the number of firearms added, disposed, and on-hand. Firearms are held until they are no longer needed as evidence and then destroyed. DEA uses a one thousand dollar reporting threshold for seized property. Illegal drugs seized and held as evidence by the DEA have no legal value and are reported in the footnotes by quantity only. The analysis of drug evidence is presented in accordance with Federal Financial Accounting and Auditing Technical Release No. 4, *Reporting on Non-Valued Seized and Forfeited Property*. The DEA discloses drug evidence that is categorized in Schedules 1 through 5 of the Controlled Substances Act. Drugs are destroyed when they are no longer needed for evidence.

L. Liabilities

The DEA's liabilities consist of funds or other resources that are likely to be paid by the Agency as the result of a transaction or event that has already occurred. However, no liability can be paid absent proper budget authority. The federal government can accept liabilities for the DEA, when the Agency contractually acts in the sovereign capacity of the federal government. Accrued payroll and benefits are accrued based on the number of days in a pay period earned but not paid to employees at the end of the quarter.

Intragovernmental liabilities covered by budgetary resources consist of expenses incurred by other Federal agencies for goods or services performed by those agencies on behalf of DEA where the DEA has not yet paid them. These expenses are funded by the DEA under reimbursable agreements.

Note 1. Summary of Significant Accounting Policies (continued)

M. Contingencies and Commitments

The DEA is party to various administrative proceedings, legal actions, and claims. The balance sheet includes an estimated unfunded liability for those legal actions where management and the Chief Counsel consider adverse decisions "probable" and amounts are reasonably estimable. Legal actions where management and the Chief Counsel consider adverse decisions "probable" or "reasonably possible" and the amounts are reasonably estimable are disclosed in Note 14, *Contingencies and Commitments*. However, there are cases where amounts have not been accrued or disclosed because the amounts of the potential loss cannot be estimated or the likelihood of an unfavorable outcome is "remote". Reasonably possible losses are not recognized in the balance sheet. Settlements less than two thousand five hundred dollars are paid from the DEA's appropriations. The U.S. Treasury Judgment Fund may pay, on behalf of the DEA, amounts in excess of two thousand five hundred dollars.

N. Annual, Sick, and Other Leave

Annual and compensatory leave earned by the DEA employees but not yet used is recorded as an accrued liability. Each year, the liability is adjusted to reflect current pay rates. Any portion of the accrued leave for which funding is not currently available is recorded as an unfunded liability. Sick leave and other types of non-vested leave are expensed as used.

O. Interest on Late Payments

The Prompt Payment Act requires federal agencies to pay invoices owed to vendors for the purchase of goods or services within 30 days after the receipt of a proper invoice or after the acceptance of the goods or service, whichever is later. Payments made after this date must include an interest penalty.

Note 1. Summary of Significant Accounting Policies (continued)

P. Retirement Plans

On January 1, 1984, the Federal Employees' Retirement System (FERS) became effective pursuant to the Federal Employees' Retirement System Act. Employees hired after December 31, 1983 are automatically covered by FERS and Social Security.

Employees hired prior to January 1, 1984 can elect to join FERS and Social Security or remain in the Civil Service Retirement System (CSRS). For employees covered by CSRS the DEA contributes 7.0% of the employees' gross pay for regular and 7.5% for law enforcement officers' retirement. For employees covered by FERS, the DEA contributes 11.9% of employees' gross pay for regular and 26.3% for law enforcement officers' retirement. A primary feature of FERS is the Federal Thrift Savings Plan to which the DEA automatically contributes 1.0% of an employee's pay and matches the employee's contribution up to an additional 4.0%. The DEA also contributes the matching share of Social Security for FERS participants.

The accompanying financial statements report expenses incurred by the DEA for required contributions made to retirement plans administered by the Office of Personnel Management (OPM). In accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, the DEA recognizes an additional expense for Pension and Other Retirement Benefits incurred but not already covered by employee and DEA contributions. This expense will ultimately be paid by the OPM and is offset in the accompanying financial statements with an imputed financing source.

Note 1. Summary of Significant Accounting Policies (continued)

Q. Federal Employee Compensation Benefits

The FECA authorizes income and medical cost protection to covered federal civilian employees who are injured on the job or who have incurred a work-related occupational disease, and to beneficiaries of deceased employees whose death is attributable to a job-related injury or occupational disease. FECA benefit claims for the DEA employees are initially paid by the Department of Labor (DOL) and subsequently reimbursed by the DEA.

The DEA's FECA liability consists of two components: (1) unpaid bills and (2) an estimated future cost. Unpaid bills are claims paid by the DOL but not yet billed to or paid by the DEA. Estimated future costs are determined by applying actuarial procedures to anticipated future costs. The DOL is responsible for calculating the actuarial FECA liability for future compensation benefits for all federal agencies. These benefits include the liability for death, disability, medical, and miscellaneous costs for approved compensation cases. This liability is determined using a paid-losses extrapolation method calculated over a 37-year period. This method utilizes historical benefit payment patterns that relate to a specific period.

Projected annual benefit payments are discounted to present value. The resulting liability is then distributed by DOL to each benefiting agency. The DOJ calculates and distributes each bureau's respective portion of the total DOJ actuarial liability.

The actuarial FECA liability is recorded for financial reporting purposes only and is an extended estimate of future costs which will not be obligated against budgetary resources until the year in which the cost is actually paid by the DEA.

R. Intragovernmental Activity

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

Note 1. Summary of Significant Accounting Policies (continued)

S. Revenues and Other Financing Sources

The DEA's largest funding source is from congressional appropriations, which are used to support DEA's operations. The DEA also receives reimbursable funding from other federal agencies for services performed by the DEA on their behalf. Annual, multi-year, and no-year appropriations are used within statutory limitations for operating and capital expenditures. Appropriations are recognized as a financing source when related program or administrative expenses are incurred.

The DEA collects exchange revenue from several sources. The largest exchange revenue source for the DEA relates to the Diversion Control Program authorized by the Controlled Substances Act. This Act requires physicians, pharmacists, and chemical companies to be licensed with the DEA to manufacture and distribute certain controlled substances. The DEA charges a licensing fee for this service. Each fiscal year, federal statutes require $15 million of the total fees collected for the Diversion Control Program to be transferred to the U.S. Treasury. Diversion Control Program license fees received from public registrants are renewed annually or triennially. The unearned portion of the fees is recorded as deferred revenue in the accompanying financial statements.

Certain federal agencies pay expenses on behalf of the DEA where repayment is not required. These expenses are considered imputed financing and the DEA records them as both a financing source and expense.

In addition, Agency personnel participate with state and local government organizations in the DEA mission related law enforcement task forces. State and local governments look to the DEA for expertise in intelligence and investigative support. The DEA Agents also participate in joint investigations with a variety of other federal organizations such as the FBI, Assets Forfeiture Fund, Office of National Drug Control Policy, and the Organized Crime Drug Enforcement Task Force. Prices for the DEA participation in federal, state, and local law enforcement activities are established within the applicable reimbursable agreement.

Note 1. Summary of Significant Accounting Policies (continued)

The table below summarizes the type of revenue sources and the typical pricing policy for exchange revenue:

Revenue Source	Pricing Policy
Controlled Substances Act Licensing	Full Cost, OMB A-25
State and Local Task Force Participation	Direct Cost Only
Joint Intragovernmental Agency Investigations	Direct Cost Only
Assets Forfeiture Fund	Direct Cost Only

T. Earmarked Funds

The Statement of Federal Financial Accounting Standards No. 27, *Identifying and Reporting Earmarked Funds*, defines 'earmarked funds' as being 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. The three required criteria for an earmarked fund are:

1. A statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits or purposes;

2. Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and

3. A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Government's general revenues.

The Diversion Control Fee account is the only DEA fund meeting these criteria for reporting purposes.

Note 1. Summary of Significant Accounting Policies (continued)

U. Tax Exempt Status

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

V. Use of Estimates

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

W. Reclassifications

The FY 2011 financial statements were reclassified to conform to the FY 2012 Departmental financial statement presentation requirements. Changes to the presentation of the Combined and Combining Statements of Budgetary Resources were made, in accordance with guidance provided in OMB Circular A-136, "*Financial Reporting Requirements*" and as such, activity and balances reported on the FY2011 Combined and Combining Statement of Budgetary Resources have been reclassified to conform to the presentation in the current year. Certain other prior year amounts have also been reclassified to conform with the current year presentation. The reclassifications had no material effect on total assets, liabilities, net position, change in net position or budgetary resources as previously reported.

X. Subsequent Events

Subsequent events and transactions occurring after September 30, 2012 through the date of the auditors' opinion have been evaluated for potential recognition or disclosure in the financial statements. The date of the auditors' opinion also represents the date that the financial statements were available to be issued.

(Dollars in Thousands, Except as Noted)

Note 2. Non-Entity Assets

Non-entity assets are assets held by the DEA but are not available for use by the DEA. All of the DEA's non-entity assets are with the public.

As of September 30, 2012 and 2011

	2012	2011
With the Public		
Cash and Monetary Assets	$ 8,912	$ 10,143
Accounts Receivable, Net	3,737	5,152
Total With the Public	12,649	15,295
Total Non-Entity Assets	12,649	15,295
Total Entity Assets	1,188,471	1,223,890
Total Assets	$ 1,201,120	$ 1,239,185

(Dollars in Thousands, Except as Noted)

Note 3. Fund Balance with U. S. Treasury

The Fund Balance with U.S. Treasury reported on the consolidated balance sheets represents the undisbursed portion of all funds recorded in the DEA's general ledger as of each reporting period. The September 30, 2012 and 2011 balances include $7,491 and $4,532, respectively, of funds that are restricted for the purchase of official government vehicles.

Restricted unobligated funds consist of expired authority and holdings that were not transferred to Treasury but were unavailable for the DEA's use. Restricted unobligated funds are presented in the table below as Unobligated Balance-Unavailable. Restricted funds include the collections of fees in excess of amounts budgeted for administering the Diversion Control Program. These collections may not be used until authorized by Congress.

As of September 30, 2012 and 2011

	2012	2011
Fund Balances		
Special Funds	$ 109,201	$ 106,090
General Funds	585,415	596,380
Total Fund Balances with U.S. Treasury	$ 694,616	$ 702,470
Status of Fund Balances		
Unobligated Balance – Available	$ 127,526	$ 118,503
Unobligated Balance – Unavailable	39,872	39,789
Obligated Balance not yet Disbursed	536,251	554,673
Other Funds (With)/Without Budgetary Resources	(9,033)	(10,495)
Total Status of Fund Balances	$ 694,616	$ 702,470

Other Funds (With)/Without Budgetary Resources include clearing and deposit accounts, imprest fund cash and receipts.

(Dollars in Thousands, Except as Noted)

Note 4. Cash and Monetary Assets

As of September 30, 2012 and 2011

	2012	2011
Cash		
Undeposited Collections	$ 69	$ 48
Imprest Funds	6,364	6,393
Other Cash	8,454	9,694
Total Cash	14,887	16,135
Monetary Assets		
Seized Monetary Instruments	450	440
Total Monetary Assets	450	440
Total Cash and Monetary Assets	$ 15,337	$ 16,575

Other cash consists of funds used for special purposes.

(Dollars in Thousands, Except as Noted)

Note 5. Accounts Receivable, Net

As of September 30, 2012 and 2011

	2012	2011
Intragovernmental		
Accounts Receivable	$ 51,930	$ 43,655
Total Intragovernmental	51,930	43,655
With the Public		
Accounts Receivable	7,696	8,193
Allowance for Uncollectible Accounts	(2,299)	(2,195)
Total With the Public	5,397	5,998
Total Accounts Receivable, Net	$ 57,327	$ 49,653

Note 6. Inventory and Related Property, Net

As of September 30, 2012 and 2011

	2012	2011
Operating Materials and Supplies Held for Current Use	$ 7,588	$ 7,506

Note 7. Forfeited and Seized Property

Analysis of Change in Seized Property:

Seized property is acquired during the course of an investigation. This property is considered contraband, evidence of a crime, or subject to forfeiture. Seized property includes monetary instruments, real property, and tangible personal property of others. The DEA reports seized property at market value when seized.

Monetary seized property valued at $450 and $440 was held as evidence by the DEA on September 30, 2012 and 2011, respectively, and is included in Cash and Monetary Assets on the accompanying balance sheets (also refer to Note 4). The value of non-monetary property held as evidence is not reported in the accompanying consolidated balance sheets. Adjustments have been made to the beginning balances of seized property as a result of reconciling items from prior years.

The analysis of drug evidence is presented in accordance with Federal Financial Accounting and Auditing Technical Release No. 4, *Reporting on Non-Valued Seized and Forfeited Property*. Drug evidence, as presented on the following tables, consists of analyzed and bulk drugs. Analyzed drug evidence includes cocaine, heroin, marijuana and methamphetamine and represents actual laboratory tested classification and weight in kilograms (KG). Since enforcing the controlled substances laws and regulations of the United States is a primary mission of the DEA, the DEA reports all analyzed drug evidence regardless of seizure weight.

Bulk drug evidence is comprised of controlled substances housed by the DEA in secured storage facilities of which only a sample is taken for laboratory analysis. The actual bulk weight may vary from seizure weight due to changes in moisture content over time. Other primarily consists of substances, both controlled and non-controlled as defined per the Controlled Substances Act (CSA), other than those discussed above.

Unanalyzed drug evidence is qualitatively different from analyzed and bulk drug evidence because unanalyzed drug evidence includes the weight of packaging and drug categories are based on the determination of Special Agents instead of laboratory chemists. For these reasons, unanalyzed drug evidence is not reported by the DEA.

(Dollars in Thousands, Except as Noted)

Note 7. Forfeited and Seized Property (continued)

For the Fiscal Year Ended September 30, 2012

Seized Property Category		Beginning Balance	Adjustments**	Seizures	Disposals	Ending Balance
Seized for Evidence						
Seized Monetary Instruments	Value	$ 440	$ (5)	$ 182	$ 167	$ 450
Personal Property	Number	37	(16)	3	5	19
	Value	$ 158	$ (60)	$ 23	$ 46	$ 75
Non-Valued						
Firearms	Number	3,306	(174)	684	624	3,192
Drug Evidence						
Cocaine	KG	50,017	662	27,428	30,753	47,354
Heroin	KG	2,690	(50)	1,108	752	2,996
Marijuana	KG	14,118	(194)	4,557	4,614	13,867
Bulk Drug Evidence	KG	278,152	252	995,893	876,653	397,644
Methamphetamine	KG	6,411	21	3,250	1,856	7,826
Other	KG	23,683	(1,073)	3,902	5,656	20,856
Total Drug Evidence		375,071	(382)	1,036,138	920,284	490,543

For the Fiscal Year Ended September 30, 2011

Seized Property Category		Beginning Balance	Adjustments**	Seizures	Disposals	Ending Balance
Seized for Evidence						
Seized Monetary Instruments	Value	$ 447	$ 7	$ 207	$ 221	$ 440
Personal Property	Number	40	16	2	21	37
	Value	$ 274	$ (6)	$ 22	$ 132	$ 158
Non-Valued						
Firearms	Number	3,456	(163)	717	704	3,306
Drug Evidence						
Cocaine	KG	272,088	(222,263)	26,852	26,660	50,017
Heroin	KG	3,022	(570)	784	546	2,690
Marijuana	KG	16,071	(1,410)	6,258	6,801	14,118
Bulk Drug Evidence	KG	227,564	1,043	1,058,390	1,008,845	278,152
Methamphetamine	KG	7,141	(1,929)	2,565	1,366	6,411
Other	KG	45,430	(16,753)	3,423	8,417	23,683
Total Drug Evidence		571,316	(241,882)	1,098,272	1,052,635	375,071

**Adjustments include property status and valuation changes received after, but properly credited to, prior fiscal years. Valuation changes include updates and corrections to an asset's value recorded in a prior year. During FY 2011, DEA had access to better information that allowed the reporting of partial destructions of drugs held for evidence at the time of partial destruction rather than at the time the exhibit was fully destroyed. Therefore, DEA had recorded an adjustment in the FY 2011 "Adjustments" column of (242,925) kg to reflect the partial destruction of exhibits destroyed in prior years.

Note 7. Forfeited and Seized Property (continued)

Method of Disposition of Seized Property:

During FYs 2012 and 2011, $188 and $213 were returned to parties with a bonafide interest, and $25 and $140 were either released to a designated party or transferred to the appropriate federal entity under forfeiture or abandonment proceedings. Non-valued property was primarily disposed of through destruction.

(Dollars in Thousands, Except as Noted)

Note 8. General Property, Plant and Equipment, Net

As of September 30, 2012	Acquisition Cost	Accumulated Depreciation	Net Book Value	Useful Life
Land and Land Rights	$ 2,425	$ -	$ 2,425	N/A
Construction in Progress	3,467	-	3,467	N/A
Buildings, Improvements, and Renovations	88,211	36,759	51,452	50 yrs.
Aircraft	166,684	72,689	93,995	7-20 yrs.
Boats	2,265	1,403	862	18 yrs.
Vehicles	106,976	48,507	58,469	5 yrs.
Equipment	225,119	151,089	74,030	5 yrs.
Leasehold Improvements	232,028	176,616	55,412	5-13 yrs.
Internal Use Software	85,123	46,989	38,134	5-10 yrs.
Internal Use Software in Development	3,534	-	3,534	N/A
Total	$ 915,832	$ 534,052	$ 381,780	

As of September 30, 2011	Acquisition Cost	Accumulated Depreciation	Net Book Value	Useful Life
Land and Land Rights	$ 2,425	$ -	$ 2,425	N/A
Construction in Progress	6,902	-	6,902	N/A
Buildings, Improvements, and Renovations	88,078	30,676	57,402	50 yrs.
Aircraft	174,835	69,179	105,656	7-20 yrs.
Boats	2,265	1,282	983	18 yrs.
Vehicles	93,990	42,580	51,410	5 yrs.
Equipment	214,569	142,286	72,283	5 yrs.
Leasehold Improvements	211,416	158,290	53,126	5-13 yrs.
Internal Use Software	81,676	33,213	48,463	5-10 yrs.
Internal Use Software in Development	2,570	-	2,570	N/A
Total	$ 878,726	$ 477,506	$ 401,220	

The DEA purchased $31,894 and $35,924 in capitalized property from federal sources during FY 2012 and 2011, respectively. Purchases of capitalized property from the public totaled $51,244 and $50,112 during FY 2012 and 2011, respectively.

(Dollars in Thousands, Except as Noted)

Note 9. Other Assets

As of September 30, 2012 and 2011

	2012	2011
Intragovernmental		
Advances and Prepayments	$ 32,442	$ 47,061

Note 10. Liabilities not Covered by Budgetary Resources

As of September 30, 2012 and 2011

	2012	2011
Intragovernmental		
Accrued FECA Liabilities	$ 27,152	$ 27,222
Other Unfunded Employment Related Liabilities	40	164
Total Intragovernmental	27,192	27,386
With the Public		
Actuarial FECA Liabilities	158,435	149,846
Accrued Annual and Compensatory Leave Liabilities	98,986	98,437
Deferred Revenue	409,396	358,742
Contingent Liabilities (Note 14)	8,968	7,754
Total With the Public	675,785	614,779
Total Liabilities not Covered by Budgetary Resources	702,977	642,165
Total Liabilities Covered by Budgetary Resources	219,898	238,052
Total Liabilities	$ 922,875	$ 880,217

(Dollars in Thousands, Except as Noted)

Note 11. Leases

In the course of operations, the DEA obtains certain property through leasing arrangements. These leases may be capital leases or operating leases as defined by SFFAS No. 5, *Accounting for Liabilities of the Federal Government*. The DEA does not act as a lessor. The DEA does not currently have any capital leases.

Noncancelable Operating Leases

In addition to GSA office space, leased assets are primarily for computer workstations. Lease terms are generally one year with an option to renew between three and five years. Most leases with GSA are cancelable and may be terminated without incurring charges.

Future Noncancelable Operating Lease Payments

Fiscal Year	Land and Buildings
2013	$ 39,236
2014	39,767
2015	40,011
2016	40,197
2017	37,249
After 2017	233,558
Total Future Noncancelable Operating Lease Payments	$ 430,018

(Dollars in Thousands, Except as Noted)

Note 12. Seized Cash and Monetary Instruments

The seized monetary instruments represent liabilities for seized assets held by the DEA pending disposition. The DEA may seize monetary instruments as part of its investigations. Some seized monetary instruments are retained by the DEA and reported as evidence. Seized monetary instruments valued at $450 and $440 was held as evidence by the DEA on September 30, 2012 and 2011, respectively, and is included in Cash and Monetary Assets on the accompanying balance sheets. The DEA reports all of its monetary instruments held as evidence under the heading of seized cash and monetary instruments. None of the monetary instruments held as evidence or for safekeeping as reported in Note 7 is deposited.

Note 13. Other Liabilities

As of September 30, 2012 and 2011

	2012	2011
Intragovernmental		
Employer Contributions and Payroll Taxes Payable	$ 19,854	$ 19,035
Other Post-Employment Benefits Due and Payable	11	44
Other Unfunded Employment Related Liabilities	40	164
Advances from Others	116	1
Liability for Clearing Accounts	74	1,522
Total Intragovernmental	20,095	20,766
With the Public		
Other Accrued Liabilities	-	6
Liability for Nonfiduciary Deposit Funds and Undeposited Collections	2,072	-
Other Liabilities	8,483	9,714
Total With the Public	10,555	9,720
Total Other Liabilities	$ 30,650	$ 30,486

All other liabilities are current liabilities.

(Dollars in Thousands, Except as Noted)

Note 14. Contingencies and Commitments

The DEA is party to various administrative proceedings, legal actions, and claims. The balance sheet includes an estimated liability for those legal actions where management and the Chief Counsel consider adverse decisions "probable" and amounts are reasonably estimable.

		Estimated Range of Loss	
	Accrued Liabilities	Lower	Upper
As of September 30, 2012			
Probable	$ 8,968	$ 6,168	$ 8,968
Reasonably Possible		8,940	8,940
As of September 30, 2011			
Probable	$ 7,754	$ 7,754	$ 7,754
Reasonably Possible		3,708	3,708

Note 15. 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. Other financing sources include Transfer-In/Out without Reimbursement and Imputed Financing from Costs Absorbed by Others.

Public Law 102–395 established the Diversion Control Fee Account in 1993. Fees charged to private sector registrants by the DEA under the Diversion Control Program are set at a level that ensures the recovery of the full costs of operating this program. The program's purpose is to prevent, detect, and investigate the diversion of controlled substances from legitimate channels, while ensuring an adequate and uninterrupted supply of controlled substances required to meet legitimate needs. Strategic objectives include: (1) Identifying and targeting those responsible for the diversion of pharmaceutical controlled substances through traditional investigation and cyber crime initiatives to systematically disrupt and dismantle those entities involved in diversion schemes; (2) Supporting the registrant population with improved technology, including E-Commerce and customer support while maintaining cooperation, support, and assistance from the regulated industry; (3) Educating the public on the dangers of prescription drug abuse and taking proactive enforcement measures to combat emerging drug trends; and, (4) Ensuring an adequate and uninterrupted supply of controlled substances to meet medical and scientific needs.

The Diversion Control Fee Account is a separate account in the General Fund of the Treasury. Each fiscal year, offsetting receipts of $15 million are deposited in the Diversion Control Fee Account for the operation of the Diversion Control Program. These amounts remain available until expended and are refunded out of that account by the Secretary of the Treasury for reimbursement for expenses incurred in the operation of the Diversion Control Program. In order to sustain operations in both the first quarter (each fiscal year, federal statutes require $15 million of the total fees collected for the Diversion Control Program to be transferred to the U.S. Treasury) and in years where fees collected do not equal spending requirements, the Diversion Control Fee Account operates similarly to a revolving fund in that excess collections are carried over to the next fiscal year.

(Dollars in Thousands, Except as Noted)

Note 15. Earmarked Funds (continued)

As of September 30, 2012 and 2011	2012 Diversion Control Fee Account	2011 Diversion Control Fee Account
Balance Sheets		
Assets		
Fund Balance with U.S. Treasury	$ 107,051	$ 104,565
Other Assets	42,699	46,184
Total Assets	$ 149,750	$ 150,749
Liabilities		
Accounts Payable	$ 7,543	$ 6,923
Other Liabilities	428,094	375,988
Total Liabilities	$ 435,637	$ 382,911
Net Position		
Cumulative Results of Operations	$ (285,887)	$ (232,162)
Total Net Position	$ (285,887)	$ (232,162)
Total Liabilities and Net Position	$ 149,750	$ 150,749
For the Fiscal Years Ended September 30, 2012 and 2011		
Statements of Net Cost		
Gross Cost of Operations	$ 307,498	$ 277,514
Less: Earned Revenue	244,354	195,235
Net Cost of Operations	$ 63,144	$ 82,279
Statements of Changes in Net Position		
Net Position Beginning of Period	$ (232,162)	$ (159,279)
Other Financing Sources	9,419	9,396
Total Financing Sources	9,419	9,396
Net Cost of Operations	(63,144)	(82,279)
Net Change	(53,725)	(72,883)
Net Position End of Period	$ (285,887)	$ (232,162)

(Dollars in Thousands, Except as Noted)

Note 16. Net Cost of Operations by Suborganization

For the Fiscal Year Ended September 30, 2012

	Suborganizations		
	All Other	Diversion	Consolidated
Goal 1: Prevent Terrorism and Promote the Nation's Security with the Rule of Law			
Gross Cost	$ 111,714	$ -	$ 111,714
Less: Earned Revenue	12,630	-	12,630
Net Cost of Operations	99,084	-	99,084
Goal 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law			
Gross Cost	2,530,300	307,498	2,837,798
Less: Earned Revenue	480,019	244,354	724,373
Net Cost of Operations	2,050,281	63,144	2,113,425
Net Cost of Operations	$ 2,149,365	$ 63,144	$ 2,212,509

For the Fiscal Year Ended September 30, 2011

	Suborganizations		
	All Other	Diversion	Consolidated
Goal 1: Prevent Terrorism and Promote the Nation's Security with the Rule of Law			
Gross Cost	$ 106,082	$ -	$ 106,082
Less: Earned Revenue	693	-	693
Net Cost of Operations	105,389	-	105,389
Goal 2: Prevent Crime, Protect the Rights of the American People, and Enforce Federal Law			
Gross Cost	2,651,491	277,514	2,929,005
Less: Earned Revenue	526,982	195,235	722,217
Net Cost of Operations	2,124,509	82,279	2,206,788
Net Cost of Operations	$ 2,229,898	$ 82,279	$ 2,312,177

Note 17. Imputed Financing from Costs Absorbed by Others

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

SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, requires that employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS No. 5 requires OPM to provide cost factors necessary to calculate cost. OPM actuaries calculate the value of pension benefits expected to be paid in the future, and then determine the total funds to be contributed by and for covered employees, such that the amount calculated would be sufficient to fund the projected pension benefits. For employees covered by Civil Service Retirement System (CSRS), the cost factors are 29.8% of basic pay for regular, 50.9% for law enforcement officers, and 23.2% regular offset, and 45.2% law enforcement officers offset. For employees covered by Federal Employee Retirement System (FERS), the cost factors are 13.7% of basic pay for regular and 29.7% for law enforcement officers.

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

(Dollars in Thousands, Except as Noted)

Note 17. Imputed Financing from Costs Absorbed by Others (continued)

For the Fiscal Years Ended September 30, 2012 and 2011

	2012	2011
Imputed Inter-Departmental Financing		
Treasury Judgment Fund	$ 4,020	$ 3,814
Health Insurance	48,679	50,614
Life Insurance	198	198
Pension	28,009	34,603
Total Imputed Inter-Departmental	$ 80,906	$ 89,229

The U.S. Department of the Treasury makes payments for the Judgment Fund, while the OPM pays health insurance, life insurance, and pension amounts in excess of government and employee contributions.

Imputed Intra-Departmental Financing Sources as defined in SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, are the unreimbursed portion of the full costs of goods and services received by the DEA from a providing entity that is part of the Department. Recognition is required for those transactions determined to be material to the receiving entity. The determination of whether the cost is material requires considerable judgment based on the specific facts and circumstances of each type of good or service provided. SFFAS No. 4 also states that costs for broad and general support need not be recognized by the receiving entity, unless such services form a vital and integral part of the operations or output of the receiving entity. Costs are considered broad and general if they are provided to many, if not all, reporting components and not specifically related to the receiving entity’s output. The DEA currently does not record any Imputed Intra-Departmental Financing Sources.

(Dollars in Thousands, Except as Noted)

Note 18. Information Related to the Statement of Budgetary Resources

Apportionment Categories of Obligations Incurred:

The direct and reimbursable obligations under Categories A and B are reported in the table below. Apportionment categories are determined in accordance with the guidelines provided in Part 4 "Instructions on Budget Execution" of OMB Circular A-11 *Preparation, Submission and Execution of the Budget*. Category A represents resources apportioned for calendar quarters and Category B represents resources apportioned for other time periods or for activities, projects, objectives or for a combination thereof.

	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
For the Fiscal Year Ended September 30, 2012			
Obligations Apportioned Under			
Category A	$ 2,408,853	$ 495,406	$ 2,904,259
Category B	46,045	26,678	72,723
Total	$ 2,454,898	$ 522,084	$ 2,976,982
For the Fiscal Year Ended September 30, 2011			
Obligations Apportioned Under			
Category A	$ 2,400,410	$ 509,012	$ 2,909,422
Category B	92,367	-	92,367
Total	$ 2,492,777	$ 509,012	$ 3,001,789

Status of Undelivered Orders:

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

As of September 30, 2012 and 2011

	2012	2011
UDO Obligations Unpaid	$ 513,670	$ 486,168
UDO Obligations Prepaid/Advanced	43,292	60,885
Total UDO	$ 556,962	$ 547,053

Note 18. Information Related to the Statement of Budgetary Resources (continued)

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

The following table identifies known differences between the DEA's Statement of Budgetary Resources and the Budget of the United States. The reconciliation as of September 30, 2012 is not presented because the submission of the Budget of the United States Government (Budget) for FY 2014, which presents the execution of the FY 2012 Budget, occurs after publication of these financial statements. The Department of Justice Budget Appendix can be found on the OMB website (http://www.whitehouse.gov/omb/budget) and will be available in early February 2013.

For the Fiscal Year Ended September 30, 2011
(Dollars in Millions)

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources (SBR)	$ 3,160	$ 3,002	$ 244	$ 2,191
Funds not Reported in the Budget:				
Expired Funds	(46)	(11)	-	-
Appropriated Trust or Special Fund Receipts	-	-	-	244
Redistribution of Clearing Accounts and Miscellaneous Receipts	-	-	(1)	1
Other	-	-	-	(1)
Budget of the United States Government	$ 3,114	$ 2,991	$ 243	$ 2,435

In addition to the above, reconciliation with the SF-133, *Report on Budget Execution and Budgetary Resources*, was performed. This reconciliation confirmed that differences between the Statement of Budgetary Resources and the SF-133 are also the result of the adjustments identified above.

Note 19. Net Custodial Revenue Activity

For the fiscal periods ended September 30, 2012 and 2011, DEA collected $27,595 and $97,268, respectively. These collections include $15 million of the total fees collected for the cost of operation of the Diversion Control Program and civil monetary penalties related to violations of the Controlled Substances Act that were incidental to DEA's mission. Since DEA has no statutory authority to use these funds, DEA transmits them to the U.S. Treasury's General Fund. The DEA has a custodial liability for funds that have not yet been transmitted to the U.S. Treasury's General Fund. The September 30, 2012 and 2011 balances for custodial liabilities were $3,781 and $5,199, respectively.

(Dollars in Thousands, Except as Noted)

Note 20. Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing)

For the Fiscal Years Ended September 30, 2012 and 2011	2012	2011
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$ 2,976,982	$ 3,001,789
Less: Spending Authority from Offsetting Collections and Recoveries	639,612	607,344
Obligations Net of Offsetting Collections and Recoveries	2,337,370	2,394,445
Less: Offsetting Receipts	295,736	243,616
Net Obligations	2,041,634	2,150,829
Other Resources		
Transfers-In/Out Without Reimbursement	(1,374)	14,358
Imputed Financing from Costs Absorbed by Others (Note 17)	80,906	89,229
Net Other Resources Used to Finance Activities	79,532	103,587
Total Resources Used to Finance Activities	2,121,166	2,254,416
Resources Used to Finance Items not Part of the Net Cost of Operations		
Net Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not Yet Provided	10,515	20,755
Resources That Fund Expenses Recognized in Prior Periods (Note 21)	(194)	(171)
Resources That Finance the Acquisition of Assets	(83,138)	(86,036)
Other Resources or Adjustments to Net Obligated Resources That do not Affect Net Cost of Operations	18,001	(8,692)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(54,816)	(74,144)
Total Resources Used to Finance the Net Cost of Operations	$ 2,066,350	$ 2,180,272

(Dollars in Thousands, Except as Noted)

Note 20. Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing) (continued)

For the Fiscal Years Ended September 30, 2012 and 2011	2012	2011
Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period		
Components That Will Require or Generate Resources in Future Periods (Note 21)	$ 60,187	$ 55,997
Depreciation and Amortization	86,354	78,307
Other	(382)	(2,399)
Total Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period	146,159	131,905
Net Cost of Operations	$ 2,212,509	$ 2,312,177

(Dollars in Thousands, Except as Noted)

Note 21. Explanation of Differences Between Liabilities not Covered by Budgetary Resources and Components of Net Cost of Operations Requiring or Generating Resources in Future Periods

Liabilities that are not covered by realized budgetary resources and for which there is not certainty that budgetary authority will be realized, such as the enactment of an appropriation, are considered liabilities not covered by budgetary resources. These liabilities totaling $702,977 and $642,165 on September 30, 2012 and 2011, respectively, are discussed in Note 10, *Liabilities not Covered by Budgetary Resources.* Decreases in these liabilities result from current year budgetary resources that were used to fund expenses recognized in prior periods. Increases in these liabilities represent unfunded expenses that were recognized in the current period. These increases, along with the change in the portion of exchange revenue receivables from the public, which are not considered budgetary resources until collected, represent components of current period net cost of operations that will require or generate budgetary resources in future periods. The changes in liabilities not covered by budgetary resources and receivables generating resources in future periods are comprised of the following:

For the Fiscal Years Ended September 30, 2012 and 2011

	2012	2011
Resources that Fund Expenses Recognized in Prior Periods		
Decrease in Accrued Annual and Compensatory Leave	$ -	$ (171)
Other		
Decrease in Accrued FECA Liabilities	(70)	-
Decrease in Other Unfunded Employment Related Liabilities	(124)	-
Total Other	(194)	-
Total Resources that Fund Expenses Recognized in Prior Periods	$ (194)	$ (171)

	2012	2011
Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods		
Increase in Accrued Annual and Compensatory Leave Liabilities	$ 549	$ -
(Increase)/Decrease in Exchange Revenue Receivable from the Public	(819)	(62)
Other		
Increase in Actuarial FECA Liabilities	8,589	4,988
Increase in Accrued FECA Liabilities	-	571
Increase in Deferred Revenue	50,654	47,578
Increase in Contingent Liability	1,214	2,826
Increase in Other Unfunded Employment Related Liabilities	-	96
Total Other	60,457	56,059
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	$ 60,187	$ 55,997

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Required Supplementary Information

Unaudited

U.S. Department of Justice
Drug Enforcement Administration
Required Supplementary Information
Combining Statement of Budgetary Resources
For The Fiscal Year Ended September 30, 2012

Dollars in Thousands

	S&E	Violent Crime	Diversion	Construction	Total
Budgetary Resources					
Unobligated Balance, Brought Forward, October 1	$ 116,566	$ -	$ 41,726	$ -	$ 158,292
Recoveries of Prior Year Unpaid Obligations	103,867	-	10,422	-	114,289
Other Changes in Unobligated Balance	21	-	-	-	21
Unobligated Balance from Prior Year Budget Authority, Net	220,454	-	52,148	-	272,602
Appropriations (discretionary and mandatory)	2,042,232	-	294,223	10,000	2,346,455
Spending Authority from Offsetting Collections (discretionary and mandatory)	525,078	-	244	1	525,323
Total Budgetary Resources	**$ 2,787,764**	**$ -**	**$ 346,615**	**$ 10,001**	**$ 3,144,380**
Status of Budgetary Resources					
Obligations Incurred	2,672,986	-	293,996	10,000	2,976,982
Unobligated Balance, End of Period:					
Apportioned	74,906	-	52,619	1	127,526
Unapportioned	39,872	-	-	-	39,872
Total Unobligated Balance - End of Period	114,778	-	52,619	1	167,398
Total Status of Budgetary Resources	**$ 2,787,764**	**$ -**	**$ 346,615**	**$ 10,001**	**$ 3,144,380**
Change in Obligated Balance					
Obligated Balance, Net - Brought Forward, October 1					
Unpaid Obligations, Gross	$ 648,402	$ 591	$ 62,838	$ 199	$ 712,030
Less: Uncollected Customer Payments from Federal Sources	157,357	-	-	-	157,357
Total Obligated Balance, Net - Brought Forward, October 1	491,045	591	62,838	199	554,673
Obligations Incurred	2,672,986	-	293,996	10,000	2,976,982
Less: Outlays, Gross	2,560,280	254	291,981	24	2,852,539
Change in Uncollected Customer Payments from Federal Sources	(28,576)	-	-	-	(28,576)
Less: Recoveries of Prior Year Unpaid Obligations	103,867	-	10,422	-	114,289
Obligated Balance, Net - End of Period					
Unpaid Obligations, Gross	657,240	337	54,432	10,175	722,184
Less: Uncollected Customer Payments from Federal Sources	185,933	-	-	-	185,933
Total Obligated Balance, Net - End of Period	**$ 471,307**	**$ 337**	**$ 54,432**	**$ 10,175**	**$ 536,251**
Budgetary Authority and Outlays, Net					
Budget Authority, Gross (discretionary and mandatory)	2,567,310	-	294,467	10,001	2,871,778
Less: Actual Offsetting Collections (discretionary and mandatory)	496,502	-	244	1	496,747
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	(28 576)	-	-	-	(28 576)
Budget Authority, Net (discretionary and mandatory)	**$ 2,042,232**	**$ -**	**$ 294,223**	**$ 10,000**	**$ 2,346,455**
Outlays, Gross (discretionary and mandatory)	$ 2,560,280	$ 254	$ 291,981	$ 24	$ 2,852,539
Less: Actual Offsetting Collections (discretionary and mandatory)	496,502	-	244	1	496,747
Outlays, Net (discretionary and mandatory)	2,063,778	254	291,737	23	2,355,792
Less: Distributed Offsetting Receipts	1,513	-	294,223	-	295,736
Agency Outlays, Net (discretionary and mandatory)	**$ 2,062,265**	**$ 254**	**$ (2,486)**	**$ 23**	**$ 2,060,056**

U.S. Department of Justice
Drug Enforcement Administration
Required Supplementary Information
Combining Statement of Budgetary Resources
For The Fiscal Year Ended September 30, 2011

Dollars in Thousands	S&E	Violent Crime	Diversion	Construction	Total
Budgetary Resources					
Unobligated Balance, Brought Forward, October 1	$ 154,944	$ 251	$ 68,090	$ 106	$ 223,391
Recoveries of Prior Year Unpaid Obligations	88,123	-	13,930	-	102,053
Other Changes in Unobligated Balance	33,854	-	-	-	33,854
Unobligated Balance from Prior Year Budget Authority, Net	276,921	251	82,020	106	359,298
Appropriations (discretionary and mandatory)	2,052,818	-	242,674	-	2,295,492
Spending Authority from Offsetting Collections (discretionary and mandatory)	504,758	-	533	-	505,291
Total Budgetary Resources	**$ 2,834,497**	**$ 251**	**$ 325,227**	**$ 106**	**$ 3,160,081**
Status of Budgetary Resources					
Obligations Incurred	2,717,931	251	283,501	106	3,001,789
Unobligated Balance, End of Period:					
Apportioned	79,056	-	39,447	-	118,503
Unapportioned	37,510	-	2,279	-	39,789
Total Unobligated Balance - End of Period	116,566	-	41,726	-	158,292
Total Status of Budgetary Resources	**$ 2,834,497**	**$ 251**	**$ 325,227**	**$ 106**	**$ 3,160,081**
Change in Obligated Balance					
Obligated Balance, Net - Brought Forward, October 1					
Unpaid Obligations, Gross	$ 713,986	$ 5,267	$ 55,666	$ 2,124	$ 777,043
Less: Uncollected Customer Payments from Federal Sources	181,976	-	-	-	181,976
Total Obligated Balance, Net - Brought Forward, October 1	532,010	5,267	55,666	2,124	595,067
Obligations Incurred	2,717,931	251	283,501	106	3,001,789
Less: Outlays, Gross	2,695,393	4,926	262,399	2,031	2,964,749
Change in Uncollected Customer Payments from Federal Sources	24,619	-	-	-	24,619
Less: Recoveries of Prior Year Unpaid Obligations	88,123	-	13,930	-	102,053
Obligated Balance, Net - End of Period					
Unpaid Obligations, Gross	648,402	591	62,838	199	712,030
Less: Uncollected Customer Payments from Federal Sources	157,357	-	-	-	157,357
Total Obligated Balance, Net - End of Period	**$ 491,045**	**$ 591**	**$ 62,838**	**$ 199**	**$ 554,673**
Budgetary Authority and Outlays, Net					
Budget Authority, Gross (discretionary and mandatory)	2,557,576	-	243,207	-	2,800,783
Less: Actual Offsetting Collections (discretionary and mandatory)	529,376	-	534	-	529,910
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	24 619	-	-	-	24 619
Budget Authority, Net (discretionary and mandatory)	**$ 2,052,819**	**$ -**	**$ 242,673**	**$ -**	**$ 2,295,492**
Outlays, Gross (discretionary and mandatory)	$ 2,695,393	$ 4,926	$ 262,399	$ 2,031	$ 2,964,749
Less: Actual Offsetting Collections (discretionary and mandatory)	529,376	-	534	-	529,910
Outlays, Net (discretionary and mandatory)	2,166,017	4,926	261,865	2,031	2,434,839
Less: Distributed Offsetting Receipts	942	-	242,674	-	243,616
Agency Outlays, Net (discretionary and mandatory)	**$ 2,165,075**	**$ 4,926**	**$ 19,191**	**$ 2,031**	**$ 2,191,223**

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Other Accompanying Information

Unaudited

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U.S. Department of Justice
Drug Enforcement Administration
Other Accompanying Information
Combined Schedule of Spending
For the Fiscal Year Ended September 30, 2012
(Dollars in Thousands)

What Money is Available to Spend?			
Total Resources		$	3,144,380
Less: Amount Available but Not Agreed to Spent			127,526
Less: Amount Not Available to be Spent			39,872
Total Amounts Agreed to be Spent		**$**	**2,976,982**
How was the Money Spent?			
Personnel Compensation and Benefits			
11xx	Personnel Compensation	$	1,027,649
12xx	Personnel Benefits		418,741
21xx	Travel & Transportation of Persons		45,830
22xx	Transportation of Things		12,198
Other Program Related Expenses			
23xx	Rent, Communications, and Utilities		358,642
24xx	Printing and Reproduction		8,193
25xx	Other Services		777,383
26xx	Supplies and Materials		56,144
31xx	Equipment/IT Software		122,227
32xx	Leasehold Improvements		24,939
42xx	Insurance Claims and Indemnities		593
Total Spending			2,852,539
Amounts Remaining to be Spent			124,443
Total Amounts Agreed to be Spent		**$**	**2,976,982**