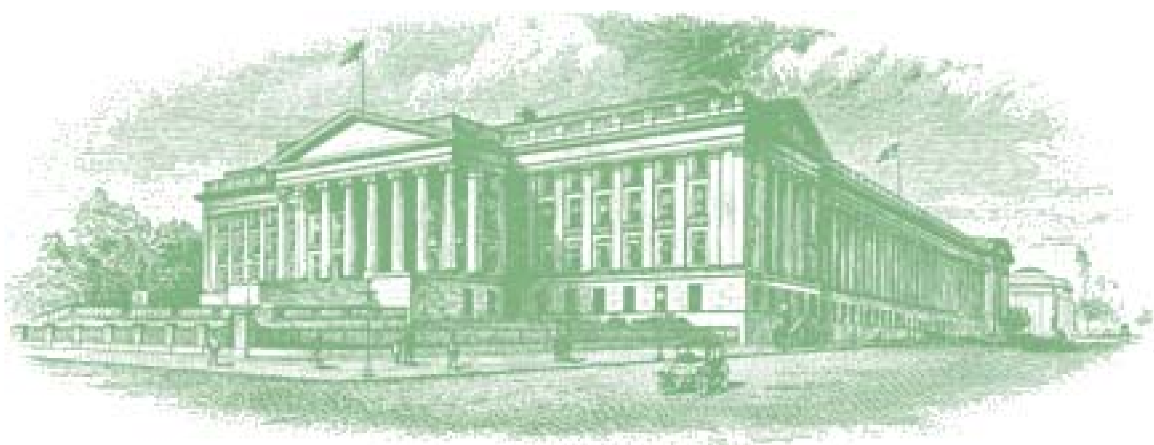
Audit Report



OIG-12-022

Management Letter for the Audit of the Department of the Treasury Forfeiture Fund's Fiscal Years 2011 and 2010 Financial Statements

December 6, 2011

Office of Inspector General

Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 6, 2011

MEMORANDUM FOR ERIC HAMPL, DIRECTOR
TREASURY FORFEITURE FUND

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Management Letter for the Audit of the Department of the Treasury Forfeiture Fund's Fiscal Years 2011 and 2010 Financial Statements

I am pleased to transmit the attached management letter in connection with the audit of the Department of the Treasury Forfeiture Fund's (TFF) Fiscal Years 2011 and 2010 financial statements. Under a contract monitored by the Office of Inspector General, GKA, P.C. (GKA), an independent certified public accounting firm, performed an audit of the TFF's financial statements as of September 30, 2011 and 2010, and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended; and the *GAO/PCIE Financial Audit Manual*.

As part of its audit, GKA issued and is responsible for the accompanying management letter that discusses matters involving internal control over financial reporting that were identified during the audit, but were not required to be included in the auditor's reports.

In connection with the contract, we reviewed GKA's letter and related documentation and inquired of its representatives. Our review disclosed no instances where GKA did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789, or a member of your staff may contact Catherine Yi, Manager, Financial Audits at (202) 927-5591.

Attachment

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TREASURY FORFEITURE FUND

MANAGEMENT LETTER
FISCAL YEAR 2011

October 31, 2011

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Certified Public Accountants
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Inspector General, U.S. Department of the Treasury, and the
Director, Treasury Forfeiture Fund

We have audited the Principal Statements (balance sheet and the related statements of net cost, changes in net position, and budgetary resources, hereinafter referred to as "financial statements") of the Department of the Treasury Forfeiture Fund (the Fund) as of and for the year ended September 30, 2011, and have issued an unqualified opinion thereon dated October 31, 2011. In planning and performing our audit of the financial statements of the Fund, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. We have not considered the internal control since the date of our report.

During our audit, we noted certain matters involving the internal control over financial reporting that is presented in this letter for your consideration. The comments and recommendations, all of which have been discussed with the appropriate members of Fund Management, are intended to improve the internal control over financial reporting. There were no management letter comments carried over from prior years.

Fund management's responses to our comments and recommendations have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective action described therein.

We appreciate the cooperation and courtesies extended to us. We will be pleased to meet with you or your staff at your convenience to furnish any additional information.

GKA, P.C.

October 31, 2011

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2011-1

VALUATION INFORMATION RECORDED IN THE APPRAISAL WORKSHEET AND THE INVENTORY SYSTEM IS NOT CONSISTENT

During the physical inventory observation of contractor held property and related review of seizure case files maintained by the individual bureaus, GKA noted instances where the estimated domestic value information on the appraisal worksheet was inconsistent with the financial value information recorded in the Seized Assets and Case Tracking System (SEACATS) used by the property contractor and provided on the count sheets.

In its examination of forty five (45) seizure case files for Fortress at Judson Art Warehouse (Vendor 1001297), Long Island, NY, GKA found three (3) instances where the estimated domestic value information on the appraisal worksheet in the seizure case files was different from that recorded in SEACATS. The values were subsequently adjusted by the Fund.

The details are as follows:

SEACATS Seizure Number	Line #	Description of Item	Qty	Unit of Measure	Financial Value per Count Sheet (SEACATS)	Amount per Appraisal Worksheet
2007100190005701	001	Indian Antiquities	10	EA	$ 1	$243,560
2007100190002001	001	Le Marche Painting	1	PC	$ 1	$ 75,000
2010100100040801	002	Iraq Glass-Remaining	18	EA	$ 5,057	$ 41,300

The Fund's Appraisal/Valuation Policies and Procedures were not consistently followed by the bureaus.

The Fund's Appraisal of Property Policy states that "all vessels and aircraft and certain other expensive or special items or vehicles will require an outside, third party professional appraisal or marine survey."

It further states that "if the appraisal is not available at the time the property is transferred to the contractor, action should be taken to obtain the appraised value as soon as possible and forward appraisal information to the service-wide contractor's appropriate office".

Each agency must have a policy in place that addresses reconciliation of differing appraisals at different points of custody.

Consistent information in appraisal worksheets and SEACATS (count sheets) in accordance with the Fund's Policies and Procedures is required to ensure effective property accountability and related financial reporting.

RECOMMENDATIONS

1. TFF management should continue to enforce its appraisal/valuation policies and procedures to ensure that the estimated domestic value information on the appraisal worksheet obtained for special items maintained in the seizure case files by the bureaus is consistent with the information recorded in SEACATS and provided on the count sheets.

2. TFF Management should continue to monitor the procedures in place to ensure that controls relating to the reconciliation of differing appraisals at different points of custody, are working effectively.

MANAGEMENT RESPONSE

TFF management agrees with the above recommendations and has been working with participant agencies and VSE to ensure effective property accountability and related financial reporting.

With regards to CBP Seizure 2010100100040801, where the count sheet value, $5,057, did not match the $41,300 appraisal value in the agency's file, TFF asserts that there were two line items in this seizure. Line item two of this seizure was appraised at $41,300. The majority of items in line item two were remitted back to the owner. The appraisal value (APV) of the items remitted was $36,243, leaving $5,057 for the appraisal value of the items retained. The $5,057 amount appearing on the count sheet represents that portion of the $41,300 that remains with the vendor/contractor.

With regards to CBP Seizures 2007100190005701 and 2007100190002001, TFF provides the following assessment and remedy. The count sheet values are generated from SEACATS. APV values of $1 are generated to the count sheets if there is no APV value reflected in SEACATS. Effective immediately TFF's Property Team will conduct periodic SEACATS searches for identified property with APV values of $1, provide that list to the affected agencies and VSE, and request that property appraisals are conducted, and/or that SEACATS is updated as needed.

2011-2

OBLIGATIONS FROM A PARTICIPATING BUREAU WERE NOT RECORDED BY THE FUND

During our test for completeness of recordation of obligations from the Fund's participating bureaus, we noted that some refund obligations from the Internal Revenue Service (IRS) were not recorded in the Fund's accounting system. Out of a sample of 45 items totaling $7.6 million selected from the IRS listing through June 30, 2011, five (11 percent) or $1.5million (20 percent) were not recorded by the Fund.

The bureaus submit obligations listings for all Fund Categories to the Executive Office for Asset Forfeiture (EOAF). These are approved by EOAF and submitted to the Customs and Border Protection (CBP) National Finance Center (NFC) in Indianapolis, the executive agent for certain operations of the Fund including accounting, for recording in the accounting system.

IRS had previously submitted refund obligations to EOAF, which were recorded by the Fund. Additional refund obligations for the same case were submitted with the April refund obligations to EOAF on May 24, 2011. However, this was not submitted to CBP NFC for recording because it was assumed by EOAF to be the same request.

Office of Management and Budget (OMB) Circular No. A-123, as revised, *Management's Responsibility for Internal Control,* requires transactions to be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events should be clear and readily available for examination.

This treatment is not consistent with the Fund's policy of ensuring that revenue and related expenses are matched in the contemporaneous year to avoid having revenue being deposited in one year and obligation and liquidation of expenses related to that revenue occurring in a subsequent year.

RECOMMENDATIONS

1. TFF Management should monitor the procedures in place to ensure the completeness of the recordation of obligations submitted by participating bureaus by performing frequent reconciliations between obligation listings received from the bureaus and the amounts recorded in the accounting system.

2. TFF management should enforce its policies and procedures to ensure that all valid obligations of the Fund are recorded in the accounting system in accordance with the matching principle.

MANAGEMENT RESPONSE

TFF management agrees with the above recommendations and will conduct the necessary reconciliations monthly to ensure that revenue and related expenses are matched in the same fiscal year. Currently the TFF keeps a monthly spreadsheet of obligations received from the agencies, which is reconciled to the 1260 Open Obligations Summary Report received from the NFC. In order to ensure all obligations received are entered onto the spreadsheet, TFF will request that the agencies conduct a quarterly reconciliation of the 1260 report as well, and affirm that all submitted obligations have posted. Additionally, TFF's Internal Control group will conduct a periodic reconciliation of requested obligations to the 1260 report.