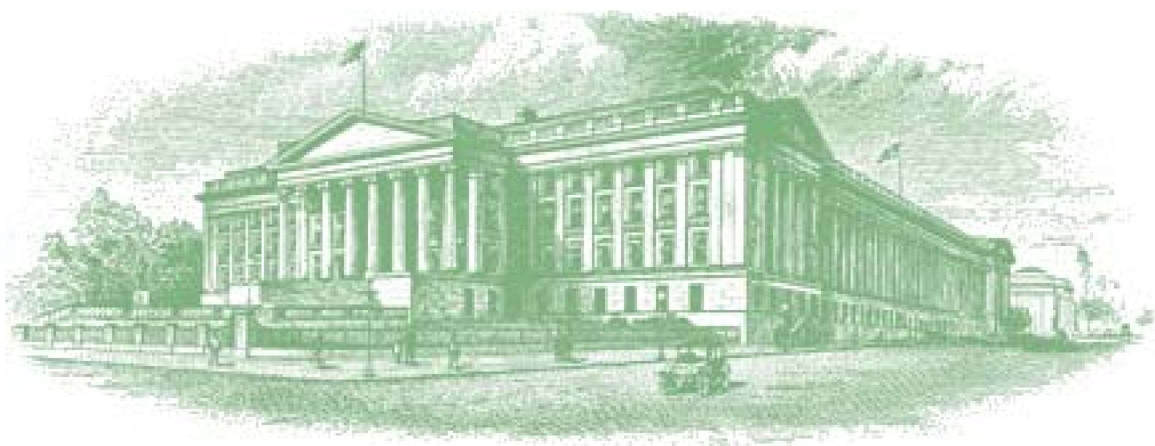
Audit Report



OIG-08-021

Management Letter for the Fiscal Year 2007 Audit of the Department of the Treasury Forfeiture Fund's Financial Statements

December 14, 2007

Office of Inspector General

Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 14, 2007

MEMORANDUM FOR ERIC HAMPL, DIRECTOR
TREASURY FORFEITURE FUND

FROM: Michael Fitzgerald /s/
Director, Financial Audits

SUBJECT: Management Letter For Fiscal Year 2007 Audit of the Department of the Treasury Forfeiture Fund's Financial Statements

I am pleased to transmit the attached management letter in connection with the audit of the Department of the Treasury Forfeiture Fund (TFF) Fiscal Year 2007 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 financial statements of TFF as of September 30, 2007 and for the year 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*; and the *GAO/PCIE Financial Audit Manual*.

As part of its audit, GKA issued and is responsible for the accompanying management letter that discusses other matters involving internal control over financial reporting and other operational matters that were identified during the audit, but were not required to be included in the audit 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 Susan L. Barron, Audit Manager, Financial Audits at (202) 927-5776.

Attachment

gka, P.C.

Certified Public Accountants | Management Consultants

TREASURY FORFEITURE FUND

MANAGEMENT LETTER
FISCAL YEAR 2007

November 6, 2007

Member of the American Institute of 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, 2007, and have issued an unqualified opinion thereon dated November 6, 2007. 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 we consider to be significant deficiencies under the standards established by the American Institute of Certified Public Accountants. The significant deficiencies are reported separately in our Report on Internal Control over Financial Reporting dated November 6, 2007.

We also noted certain matters involving the internal control over financial reporting and other operational matters that are presented in this letter for your consideration. These issues 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 or result in other operating efficiencies. There were no management letter comments carried over from prior years.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. Our aim, however, is to use our knowledge of the Fund gained during our audit to provide comments and suggestions we hope will be useful to you.

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

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.

November 6, 2007

MANAGEMENT LETTER
COMMENTS AND RECOMMENDATIONS
YEAR ENDED SEPTEMBER 30, 2007

1. CERTAIN UNITED STATES COAST GUARD REIMBURSEMENT REQUESTS WERE NOT BASED ON EXPENDITURES

An estimated amount of $250,000 of reimbursement requests submitted to the Fund for payment by the United States Coast Guard (USCG) in May 2007 was not based on certified expenditures but on obligations.

The Secretary of the Treasury's Guidelines for Seized and Forfeited Property, and subsequent issuances, require all reimbursements from the Fund to be based upon certification of actual expenditures by the requesting law enforcement organization.

The USCG based the billing on obligations instead of actual expenditures. Reimbursements based on obligations may cause incorrect accounting of disbursements of funds. The Treasury Executive Office for Asset Forfeiture may disburse funds for transactions for which it is not liable, causing financial loss to the Fund.

RECOMMENDATIONS

We recommend that Fund Management:

1. Continues to work with performing partners to improve the accounting, billing, and reporting process for reimbursable transactions.

2. Ensures that USCG submit billings for reimbursable transactions only upon incurring related expenditures.

MANAGEMENT RESPONSE

Fund Management and USCG will implement the following action plan to prevent a future occurrence:

1. The USCG's Treasury Liaison will address internal practices of Super Surplus Funds distribution through the implementation of documented and standardized practices. These practices will be communicated via internal memo to the affected offices. Additionally, the USCG will implement this new policy to address the internal practices of the mandatory funds distribution. This policy will be available via USCG intranet to ensure all affected units' understanding and compliance.

2. Specifically, the policy will require the requesting unit to submit both purchase requests and invoice documents prior to the approval of requests for both Mandatory and Super Surplus Funds. The USCG feels that through increased oversight, submission of documents, and enforcement of policy, future issues will be eliminated.

The Fund's response has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

2. CHAIN OF CUSTODY DOCUMENT NOT PROPERLY COMPLETED

In its examination of forty five (45) seizure case files for vehicles stored at Rod Robertson Enterprises, Inc., Texas, GKA found 29 instances where the chain of custody document (CBP Form 6051 – Custody Receipt for Seized Property and Evidence) did not bear the seizure number assigned to the seized item. Additionally, in another instance, for an IRS item stored at Arc Logistics, Inc., Texas, the chain of custody document for IRS (IRS Form 9573-Custody Receipt for Retained or Seized Property) did not have the seizure number.

The seizure number was not recorded on the chain of custody document. The Statement of Work for the general property contract, Section 2.2.3 – Receipt and Transfer states that "when transferring custody, a chain of custody document is required to be properly executed. In addition, the Contractor shall refer to the appendices for the unique requirements of USSS, IRS, ATF, CBP, Border Patrol, and OFAC."

A properly completed and executed official agency chain of custody document is required for all property transferred to the custody of the Contractor. The Contractor shall not add anything or write on the chain of custody document: except signature and quantity on the signature line.

An incomplete chain of custody document may defeat the purpose for which the form was meant to serve, and lead to a breakdown in property accountability. Additionally, the legal implications of a break in the chain of custody could be significant since this is necessary for any legal proceeding.

RECOMMENDATION

Fund Management should ensure that the responsible bureaus' official chain of custody document is properly completed and executed for all property transferred to the custody of the Contractor.

MANAGEMENT RESPONSE

Corrective actions are underway to address this recommendation. CBP has put in several internal controls that will ensure that all RRE files are updated with the seizure numbers.

The Fund's response has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

MANAGEMENT LETTER
COMMENT AND RECOMMENDATIONS
CORRECTED IN FISCAL YEAR 2007

TREASURY FORFEITURE FUND
MANAGEMENT LETTER COMMENT AND RECOMMENDATIONS
CORRECTED IN FISCAL YEAR 2007

UNTIMELY RECORDING OF SEIZED AND FORFEITED PROPERTY AND CURRENCY TRANSACTIONS BY THE U.S. SECRET SERVICE

In fiscal year 2006, certain amounts generated from the asset tracking system (FasTrak) and reported on the Analysis of Changes in Seized and Forfeited Property and Currency (the Rollforwards) by the U.S. Secret Service (Secret Service or USSS) did not agree with the corresponding transactions recorded in the Fund's accounting system. For instance, while the Fund accounted for and reported revenue of $5,693,648 from Secret Service forfeited currency (class code 971) in its accounting system, Secret Service reported $3,731,573 as deposits in FasTrak resulting in a difference of $1,962,075. Additionally, the Fund accounted for and reported seized currency in the suspense account (class code 733) of $13,131,656, however Secret Service recorded $12,093,122 as the total ending seized balance in FasTrak. Typically, the ending seized balance recorded in the inventory system should be higher than what is recorded in the suspense account because the inventory system's balance also includes seized currency on-hand and frozen bank accounts.

RECOMMENDATIONS

We recommend that the Fund ensure that:

(1) In the absence of system integration, Secret Service should update the asset tracking system on a timely basis to be in sync with the accounting system.

(2) Required Secret Service system enhancements should be made to be able to capture and report pertinent financial information related to the assets being tracked.

(3) Secret Service also improve on its reconciliation process and perform them more frequently than currently required – at the end of the third quarter and at year end. Resulting adjustments should be made in the asset tracking system so as to remain current.

FISCAL YEAR 2007 STATUS

During fiscal year 2007, USSS followed proper procedures for the reconciliation of the asset tracking system (FasTrak) and the Fund's accounting system (SAP), data entry, and communication of issues.

This management letter comment has been substantially addressed in FY 2007 and is considered closed.