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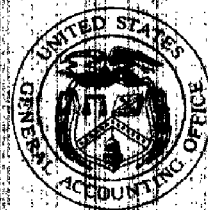
United States General Accounting Office

Report to the Commissioner
U.S. Customs Service

November 1993

**FINANCIAL
MANAGEMENT**

**Customs'
Accountability for
Seized Property and
Special Operation
Advances Was Weak**





United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-252376

November 22, 1993

The Honorable George J. Weise
Commissioner
U.S. Customs Service

Dear Mr. Weise:

This report presents the results of our review of the U.S. Customs Service's accountability and stewardship for currency, drugs, and property seized (seized property) in carrying out the agency's law enforcement program. It also addresses Customs' safeguards for controlling funds advanced to Customs agents for the law enforcement program's special operations. Customs' inventory records showed that \$823 million in property had been seized in fiscal year 1992, and that \$541 million of seized property was on hand as of September 30, 1992. At that time, Customs also reported outstanding special operation advances of \$19 million. Our review was performed as part of our audit of Customs' fiscal year 1992 financial statements pursuant to the Chief Financial Officers Act of 1990 (Public Law 101-576). Under the act, Customs is 1 of 10 pilot agencies required to prepare financial statements and have them audited. This is one of several reports on various aspects of Customs' operations resulting from our 1992 financial statement audit.

Our review showed that millions of dollars in cash and luxury items and tons of illegal drugs were vulnerable to theft and misappropriation because Customs did not adequately safeguard this property. Customs has devoted considerable attention to its seized property program activities, and policies and procedures have now been put in place to help ensure proper accountability and stewardship. However, the requirements were not always met. Customs often did not ensure (1) prompt transfer, deposit, or disposal of seized property, (2) proper processes to weigh, count, and test seized drugs, and (3) adequate facilities and sufficient access restrictions to protect stored items. These practices led to large quantities of cash and drugs being on hand for long periods, which increased risk of pilferage, misuse, and loss.

Also, Customs' inventory records to control and manage seized property and prepare agency financial reports were incomplete and inaccurate. These records (1) did not include large quantities of seized property, (2) showed incorrect location data for some items, (3) included erroneous values, such as those for counterfeit items, and (4) included transactions

recorded in the wrong period. Our analysis of fiscal year 1992 seizures showed that Customs' recorded amount of \$823 million was overstated by \$138 million because Customs included items of which it never took possession. Also, our analysis of over half of the recorded value of remaining fiscal year 1992 seizures showed these items to be overvalued by \$217 million, or 57 percent. Further, our analysis of about half of the recorded value of seized property on hand as of September 30, 1992, showed these items to be overvalued by \$113 million, or 44 percent.

As a result of our work and other problems Customs found, it made net adjustments of about \$281 million to its fiscal year 1992 seizures amount and net adjustments of \$52 million to its September 30, 1992, seized property inventory records. After the adjustments, Customs reported \$542 million in fiscal year 1992 seizures and an ending balance of \$489 million in seized property in its Principal Statements as of September 30, 1992. However, Customs did not identify and provide to us its support for the adjustments made.

Further, Customs did not adequately control millions of dollars in funds advanced to Customs agents for special operations or the sensitive documents related to these advances. The Office of Enforcement's field offices did not promptly or consistently report how advanced funds were spent, which hampered timely reconciliation between Customs' general ledger accounts and detailed records of advances. As a result, Customs' records of the outstanding advances and the related expense were incorrect and, at the end of fiscal year 1992, a net reduction of \$18 million was required to adjust the general ledger account balance for outstanding special operations advances to reduce its \$37 million balance before the adjustment to \$19 million.

We are recommending that Customs' top managers enforce existing policies and procedures for (1) safeguarding seized property, (2) maintaining accurate financial data on seized property inventory, and (3) controlling special operations advances and safeguarding related documents. We are also making a number of recommendations to strengthen these policies and procedures.

Our objectives were to assess the adequacy of (1) safeguards over property seized in carrying out Customs' law enforcement program, (2) financial data used to maintain accountability for this property, and (3) safeguards used to control funds advanced to Customs' agents for the law enforcement program's special operations. Our work was performed

at Customs' headquarters in Washington, D.C., and its National Finance Center (NFC) in Indianapolis, Indiana. We also performed audit work at the 13 Customs' districts with the largest reported dollar value of seizures in fiscal year 1992 and 2 smaller districts that had a large seized property transaction that year. Together, these districts accounted for 84 percent of the recorded value of Customs' fiscal year 1992 seizures. Further, we visited 20 facilities these districts operate, as well as 17 contractor facilities used to store some types of Customs' seized property. We conducted our review between April 1992 and May 1993 in accordance with generally accepted government auditing standards.

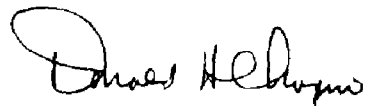
Appendix I contains detailed background on Customs' processes for controlling seized property and special operation advances; our objectives, scope, and methodology section; and a more detailed discussion of our findings, conclusions, and recommendations. In commenting on a draft of this report, Customs concurred with our recommendations, as discussed at the end of appendix I. Its written comments are reprinted in appendix II.

This report contains recommendations to you. As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on these recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations no later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Governmental Affairs; the House Committee on Government Operations; the House Committee on Ways and Means; the Subcommittee on Commerce, Consumer and Monetary Affairs, House Committee on Government Operations; and the Subcommittee on Oversight, House Committee on Ways and Means. We are also sending copies to the Secretary of the Treasury, the Director of the Office of Management and Budget, and other interested parties. Copies will be made available to others upon request.

This report was prepared under the direction of Gregory M. Holloway, Associate Director, Civil Audits, who may be reached on (202) 512-9510, if you or your staff have any questions. Other major contributors to this report are listed in appendix III.

Sincerely yours,



Donald H. Chapin
Assistant Comptroller General

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Abbreviations

ACS	Automated Commercial System
CPTS	Customs Property Tracking System
FASAB	Federal Accounting Standards Advisory Board
FDIC	Federal Deposit Insurance Corporation
FMFIA	Federal Managers' Financial Integrity Act
GAO	General Accounting Office
JFMIP	Joint Financial Management Improvement Program
NFC	National Finance Center
OMB	Office of Management and Budget
TECS II	Treasury Enforcement Communications System II

Customs' Accountability for Seized Property and Special Operation Advances Was Weak

The following sections provide greater detail on the way in which Customs' seized property and special operation advances processes work; our report objectives, scope, and methodology; our report findings, conclusions, recommendations; and agency comments.

Background

Customs, an agency of the Department of the Treasury, is responsible for collecting duties imposed by the Congress on imported goods, wares, and merchandise. Also, Customs is responsible for preventing the entry of illegal goods and contraband into the United States. Customs is authorized to seize property when reasonable cause exists to suggest that laws for which Customs has enforcement authority were violated. On occasion, Customs carries out its law enforcement activities along with other agencies, including the Drug Enforcement Administration and the U.S. Marshals Service.

The Assistant Commissioner for Management serves as Customs' Chief Financial Officer and is responsible for the development and implementation of accounting, budgeting, and financial control systems. Customs' accounting operations are centralized at the National Finance Center (NFC) in Indianapolis, Indiana, which performs the accounting function for Customs' headquarters and its 7 regions, 44 districts/areas, and 294 ports of entry across the U.S. and in about 20 foreign countries.

Property seizures result from operations and inspections performed by Customs' personnel in the Offices of (1) Enforcement, (2) Inspection and Control, and (3) Commercial Operations. Each of these offices is headed by an Assistant Commissioner.

Once property is seized, Customs' District Directors are responsible for its receipt, custody, appraisal, management, and disposition in accordance with applicable laws and regulations. The accountability and stewardship for Customs' seized property involves financial systems and controls to ensure that the property is adequately safeguarded and accurately recorded, valued, and reported. Customs also uses private contractors to store certain types of seized property, such as general merchandise, but not seized cash, drugs, arms, or ammunition.

Seized property is not owned by Customs but is held until a disposition decision is made either through an on-site evaluation process at the time of seizure, or through subsequent judicial or administrative proceedings. These proceedings can involve several steps before legal forfeiture occurs,

**Appendix I
Customs' Accountability for Seized Property
and Special Operation Advances Was Weak**

including initial forfeiture notifications, subpoenas, and hearings. A seized property disposition decision involves the return of property to its owner, or its forfeiture to the U.S. government for sale, destruction, retainment for official use, or distribution to other agencies. Table I.1 shows the category and number of seizures Customs recorded for fiscal year 1992.

Table I.1: Category and Number of Drug and Nondrug Seizures Recorded for Fiscal Year 1992

Category	Number of Seizures
Drug Seizures	
Heroin	938
Cocaine	2,141
Hashish	1,819
Marijuana	12,088
Opium	2,995
Barbiturates and LSD	2,268
Total drug seizures	22,249
Nondrug Seizures	
General property	15,518
Prohibited items	8,082
Vehicles	8,924
Monetary instruments	3,507
Weapons and ammunition	1,998
Real estate	215
Vessels	192
Aircraft	91
Total nondrug seizures	38,527
Total Seizures	60,776

Source: U.S. Customs Update 1992, issued by the U.S. Customs Service.

Seizing officers record seized property information in the Treasury Enforcement Communications System (TECS II), from which the data are automatically downloaded within 24 hours of supervisor approval to the Customs Property Tracking System (CPTS). Individual items of seized property are recorded in CPTS to assist in physical custody and tracking until disposal. Once seized property is forfeited, it is accounted for in the Customs Forfeiture Fund, which is audited annually by an independent external auditor and included in Customs' consolidated financial statements.

Customs' law enforcement activities also involve funds advanced by the Office of Enforcement to Customs' agents for special operations and maintenance of records of the amounts advanced. These advances are to be used for legitimate investigative reasons, such as payments to informants and for evidence. Effective accountability for special operation advances demands accurate records showing details of advances and general ledger summary records of amounts advanced, periodic reconciliations of these records, prompt reporting by agents of how advances were spent, and control of sensitive documents related to the advances.

Long-standing Problems in Controls Over Seized Property

Customs' seized property control problems have been long-standing. For example, in 1991 and 1992, in separate reports to three of Customs' seven regional Commissioners, the Treasury Inspector General reported on the need to strengthen controls over the security of seized property. Also, beginning in the mid-1980s, we reported problems involving Customs' controls over seized property and, in December 1992, we reported¹ that sustained oversight was needed to see these problems through to resolution.

Moreover, in a December 1992 report to the President and the Congress under the Federal Managers' Financial Integrity Act (FMFIA), the acting Secretary of the Treasury cited as a critical deficiency the need for stricter adherence to controls over Customs' seized property. The acting Secretary reported that, as a result of the lack of compliance with established controls, seized merchandise, narcotics, and currency were vulnerable to theft, loss, or misuse and that action to correct the problems was scheduled to be completed by April 1994.

To provide data for the acting Secretary's December 1992 FMFIA report, the former Commissioner of Customs described several seized property deficiencies which Customs identified through its internal control evaluations under the act. The former Commissioner reported that

- (1) seized drugs were not being properly tested or weighed,
- (2) independent physical inventories were not being performed, and
- (3) seized property was not held in adequate storage facilities.

¹Asset Forfeiture Programs (GAO/HR-93-17, December 1992).

Federal Agency System Requirements and Accounting Standards for Seized Property

In March 1993, the Joint Financial Management Improvement Program (JFMIP) issued federal financial management systems requirements for seized asset systems.² The requirements, which Customs will ultimately have to meet, present an overview of a seized asset system, such as Customs' CPTS. The overview describes the key elements of a well-designed and -operated seized property system and notes the importance of having sound policies, good internal controls, and adequate staff to effectively manage and dispose of seized assets.

As described by JFMIP's document, an agency's seized property system is to track the status of a seized asset from the time of seizure, through various processing steps, until final disposition of the asset. Once the property is seized, the system is to record an estimated value of the property in agency property records and track the asset's location. Further, the system is to interface with the agency's financing accounting system so that financial transactions are properly recorded. Additionally, the system is to provide reports which present information on the results of performance.

Customs will also eventually have to meet federal agency accounting standards for seized property, which will provide Customs a framework for useful and relevant financial reports on this property. Federal agency accounting standards for seized and forfeited property were proposed in a January 1993 exposure draft by the Federal Accounting Standards Advisory Board (FASAB).³ If finalized as currently proposed, these standards would establish requirements in areas such as the (1) recognition of seized property in property records, (2) valuation of the property, and (3) disclosure in financial reports of changes in seized property inventory, as shown by the value and number of seizures that were on hand at the beginning and end of the year, as well as seizure activity during the year.

Objectives, Scope, and Methodology

Our objectives were to assess the adequacy of (1) safeguards over property seized in carrying out Customs' law enforcement program, (2) financial data used to maintain accountability for this property, and

²JFMIP is a cooperative undertaking of the Office of Management and Budget (OMB), Department of the Treasury, General Accounting Office (GAO), and Office of Personnel Management to improve financial management practices throughout government.

³Federal accounting standards contained in Title 2 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies are being examined by FASAB. Established in October 1990, FASAB is composed of nine members, including representatives from GAO, OMB, and the Department of the Treasury. GAO and OMB may issue new standards based on FASAB recommendations. Like most federal agencies, the Department of the Treasury and Customs' policies call for following the accounting standards prescribed by Title 2.

(3) safeguards used to control funds advanced to Customs' agents for the law enforcement program's special operations.

To achieve the first two objectives, we obtained a preliminary understanding of seized property policies and procedures from Customs' (1) Seized Property Handbook (HB5200-04, September 1987), (2) directive for processing narcotic drug and controlled substance evidence (Directive 3290-001, October 9, 1991), and (3) other pertinent seized property guidance. Through on-site inspections, observations, and inquiries in four of Customs' largest districts, we determined and documented how these policies and procedures were implemented.

We then determined the 13 Customs' districts with the largest reported dollar value of seizures in fiscal year 1992 and identified 2 smaller districts that had large seized property transactions that year. Together, these districts accounted for 84 percent of the recorded value of Customs' fiscal year 1992 seizures.

We selected from Customs' CPTS inventory records 96 seizures with a reported individual value of over \$1.1 million. These transactions included 49 percent of the total recorded dollar value of Customs' fiscal year 1992 seizures and 48 percent of the September 30, 1992, seized property inventory value. We also extracted from Customs' CPTS inventory records those seizures for which Customs never took custody and, as such, should not have been recorded in the inventory records.

In addition, we selected 77 seizures, primarily involving drugs, that were not assigned a value. We randomly selected these seizures from the 28,789 fiscal year 1992 seizures and beginning inventory items of this type that occurred at 13 of the districts noted above.

We then determined how the districts we selected processed these transactions. In addition, based on a comparison of information in seizure case files to CPTS data, we determined whether the selected transactions were recorded in the proper period and accurately valued. We also determined through inspection the locations for 51 of the items we selected that were still on hand at the time of our visits. Additionally, we randomly selected a total of 252 items physically located at 20 facilities operated by Customs and 17 facilities operated by contractors and determined whether the items were recorded in CPTS records. At 6 facilities in the districts we visited, we also compared the weights indicated on 179 drug items on hand to CPTS information. At each of the Customs and

contractor facilities we visited, we assessed physical safeguards over seized property by observing the operations, completing a checklist, and interviewing responsible Customs and contractor officials.

We examined selected internal and external financial reports generated by Customs' financial management systems to determine whether the reports contained accurate and complete information. We assessed the reliability of Customs' financial systems information by comparing data among systems and with financial reports. To determine how CPTS data was used, we interviewed seizure custodians; Fines, Penalties, and Forfeiture Officers; district directors; and top headquarters managers.

We reviewed our previous reports pertinent to seized property, as well as reports of the Treasury Office of Inspector General. We also reviewed Treasury's FMFIA reports for fiscal years 1983 through 1992 and Customs' input to those reports.

To assess the adequacy of controls for special operation advances and documents, we identified the policies and procedures involved, observed them in operation, and discussed them with cognizant agency representatives. Also, we obtained detailed schedules of cash advances made for special operations, based on files maintained by the Office of Enforcement, and compared them to the appropriate general ledger account balances.

We discussed the weaknesses identified in our review with financial management officials at Customs' headquarters, NFC, and the districts and ports of entry we visited. Our work was performed at Customs' headquarters offices in Washington, D.C.; NFC in Indianapolis, Indiana; and the following Customs' districts:

- Charleston, SC;
- Houston, TX;
- Honolulu, HI;
- John F. Kennedy International Airport;
- Laredo, TX;
- Los Angeles, CA;
- Miami, FL;
- Newark Seaport;
- New York Seaport;
- Nogales, AZ;
- Norfolk, VA;

- San Diego, CA;
- San Francisco, CA;
- San Juan, PR; and
- Tampa, FL

We conducted our review between April 1992 and May 1993 in accordance with generally accepted government auditing standards.

Customs provided written comments on a draft of this report. These comments are summarized and evaluated at the end of this appendix and are reprinted in appendix II.

Seized Property Was Not Adequately Safeguarded

Customs did not exercise adequate accountability and stewardship over seized property for which it was responsible primarily because the policies and procedures the agency established to control seized property in its custody were not consistently and effectively implemented. Customs' problems in adequately safeguarding this property spanned key aspects of seized property operations, ranging from delayed transfers of confiscated property and its poor physical security to delayed deposits of funds or other weak disposition procedures. The instances we identified of breakdowns in the controls Customs established to safeguard seized property showed that this property is highly vulnerable to theft and loss.

Transfer, Deposit, and Disposal Procedures Were Weak

We identified problems involving the (1) transfer of property from seizing officers to seizure custodians, (2) deposit of cash in financial institutions, and (3) disposal of unneeded property. Strong accountability and stewardship for these key aspects of Customs' seized property operations are a first-line defense against theft and misuse.

Transfers Were Delayed

Seizing officers did not always meet Customs' prescribed timeframe for transferring seized property to a seizure custodian. When delays occur, the potential for loss or theft increases because the property is not tracked by a seizure custodian and safeguarded in a designated area. Customs' districts generally direct that seizing officers are to turn seized items over to a seizure custodian within 48 hours, or 2 days.

Of the 173 items we examined, 43 were not subject to these guidelines,⁴ and for 12 items we were unable to determine how long they were in the

⁴In 37 cases, the transactions we examined involved seizures where seized property was immediately transferred to another agency or to a multi-agency drug task force, and, in 6 cases, small quantities of drugs were immediately destroyed.

seizure officer's possession because the seizure custodian did not record the transfer date. Of the remaining 118 items, 66 were held by seizure officers longer than the 2-day maximum—the average transfer time was 35 days. The following examples demonstrate instances in which seized property was not transferred promptly.

- About one-half pound of heroin was held by a seizing officer from August 11, 1992, the date of seizure, until March 16, 1993, when we visited the district. The district's Fines, Penalties, and Forfeiture Officer and the seizing officer were unable to explain the reason for the delay in transferring this property to a seizure custodian.
- A seizure of almost 119,000 pairs of girl's cotton shorts were held in a public warehouse and not transferred to a seizure custodian for 289 days until completion of an investigation as to the merchandise's country of origin.

We were advised by seizing officers at several locations that various reasons contributed to transfer delays, including (1) district seizure custodians' vaults being inconveniently located a considerable distance from seizing areas, (2) a low priority being placed by seizing officers on transferring seized property, and (3) seized property being misclassified.

Large Amounts of Cash and Drugs Were on Hand

Cash was not deposited and seized drugs were not disposed of promptly. This resulted in Customs' district offices having large quantities of cash and drugs on hand, which required storage and safeguard from theft and misuse.

Customs' procedures require that cash and other monetary instruments, such as travelers and cashiers checks, be deposited in Treasury accounts within 7 days of a U.S. Attorney's determination that such cash and monetary instruments are not needed as evidence. For example, at one district, we noted that \$7.2 million in cash was seized on July 24, 1992, and the bulk of the cash, \$6.6 million, was deposited almost 5 months later, in December 1992, when the U.S. Attorney notified Customs that the cash was not needed as evidence. According to the district's Fines, Penalties, and Forfeitures Officer, the cash was not deposited earlier because it was being prepared for court proceedings. The remaining cash, \$579,000, continued to be held as evidence, as negotiated with the U.S. Attorney.

The amounts of cash and monetary instruments held at Customs' locations varied from small samples to large quantities held for long periods of time. In March 1993, at 9 of the districts included in our review, we found

\$4.7 million of seized cash and monetary instruments on hand from fiscal year 1992 and prior fiscal years' seizures. Of this cash, \$3.5 million had been held more than 1 year. Although a U.S. Attorney's litigative strategy for any seizure may dictate the retention of a large amount of cash, Customs could explore with U.S. Attorneys ways to reduce amounts on hand when those amounts are not needed for purposes of litigation.

Department of Justice procedures require Customs to keep threshold amounts⁵ of drugs for evidence in court proceedings and are intended to prevent the warehousing of large quantities of seized contraband drugs which are unnecessary for due process in criminal cases. Customs' directives provided that seized drugs exceeding the threshold amounts are to be destroyed 60 days after seizure unless directed otherwise by a U.S. Attorney.

However, we found large quantities of drugs, which far exceeded threshold amounts, on hand at 12 of the 15 districts included in our review. For example, one district seized 8.4 tons of marijuana in March 1988 and in May 1993, or over 5 years later, 1 ton was still being retained as evidence at the direction of the U.S. Attorney. Customs Directive 4200-05, Procedures for Narcotics Evidence Submission and Pretrial Destruction of Bulk Drug Evidence, establishes threshold amounts for a bulk marijuana seizure over 10 kilograms to be 1 kilogram plus 10 additional samples of about 5 grams each. Also, as of May 1993, this district had on hand at the direction of the U.S. Attorney, two fiscal year 1991 seizures of hashish with a combined weight of 3 tons. The threshold amount for a hashish seizure is 20 kilograms.

Customs' officials at the districts we visited advised us that, while they could not provide specific reasons in all cases, several factors contributed to delays in depositing cash or destroying drugs. In general, Customs' districts are required to carry out U.S. Attorney offices' instructions that cash and drugs be held as evidence, regardless of the amount involved or whether, for drugs, the threshold amounts are exceeded. Also, rather than aggressively pursuing information from U.S. Attorney offices on the outcome of drug cases, Customs waits until the offices notify it of case decisions, which can be long after a case has been decided. Further, officials told us that it is difficult for district offices to promptly destroy narcotics in some geographic areas due to a lack of local facilities or local environmental restrictions.

⁵Threshold amounts, such as 2 kilograms of heroin, were specified in Attorney General Order 1256-88, effective April 14, 1988.

Customs' directives provide for the photographing or videotaping of bulk quantities of drugs and cash as an alternative to holding large quantities as evidence. At the time of seizure, all of the cash or drugs seized is to be videotaped, after which the bulk of the seizure is to be deposited or destroyed. The tape is then held as evidence, substituting in court proceedings for exhibits of cash and drugs. However, we found only one district which, after consultation with the U.S. attorney, was using videotape. An increased use of videotapes to record seized property may be a technique other districts can use, in consultation with the U.S. Attorney, to free storage space and provide a more secure alternative to holding large quantities of seized property.

Financial Depositary Was Not Properly Collateralized

At least \$1.2 million of seized cash was deposited in a financial institution in accounts that were not Treasury accounts and for which the institution did not provide collateral. According to Treasury's Financial Manual, agencies are responsible for ensuring that public money is deposited only in Treasury-designated financial institutions. When an agency has statutory authority to hold public money outside of Treasury's accounts, Treasury requires that depositaries pledge eligible collateral for deposits in excess of the recognized deposit insurance limit. According to Customs' directives, seized cash is to be deposited directly into accounts Treasury maintains at approved local financial institutions. The failure to deposit seized cash to Treasury's accounts and the lack of proper collateral for deposits in financial institutions can result in losses to the government if the financial institutions fail.

While identification of the accounts districts used to deposit seized cash was beyond the scope of our work at the 15 districts we visited, we noted that one had not used deposit accounts designated by Treasury. That district deposited \$1.2 million of seized cash into 6 uncollateralized accounts at a local bank which was later taken over by the Federal Deposit Insurance Corporation (FDIC). The Fines, Penalties, and Forfeitures Officer at the Customs' district responsible for these accounts stated that they were used because the district was not aware of the Treasury requirements on establishing accounts with financial institutions. The dispute between Customs and FDIC is in litigation, with a potential loss to the government of about \$220,000.

On January 6, 1993, Customs Directive 099-5310-034, Safeguarding Funds Deposited at Financial Institutions, provided additional guidance to districts. It stated that Customs' officials responsible for public monies on deposit at financial institutions shall secure those monies in accordance

Requirements to Weigh and
Test Drugs Were Not Fully
Implemented

with legal requirements and the Treasury Financial Manual which stipulate that collateral be pledged by a financial institution for deposits in excess of the recognized deposit insurance limit.

Another key control aspect of Customs' seized property operations involves weighing and testing drugs, but in some cases Customs estimated drug weights and, in other cases, it did not test drugs immediately prior to destruction. When drug seizures are controlled based on estimated rather than actual weights, Customs cannot be assured that the entire quantity of drugs seized has been placed under prescribed safeguards. Further, when seized drugs are not tested before being destroyed, Customs cannot be assured that the destroyed drugs were the same type as those seized.

Problems such as these were discussed by the former Commissioner of Customs in a December 1992 report to the former acting Secretary of the Treasury prepared pursuant to the Federal Managers' Financial Integrity Act. On the basis of findings from Treasury's Inspector General audits of seized property programs at five Customs' districts, the former Commissioner reported that established seized property control procedures were not being complied with and specifically pinpointed as a control problem that narcotics seizures were not being properly tested and weighed.

According to Customs' Seized Property Custodian/Specialist Handbook, when seizing officers transfer drugs to seizure custodians, the latter are to verify the gross weight of the drugs they receive. However, seizure custodians in 4 of the 15 districts we visited advised us that drugs were not always weighed when transfers were received from seizing officers.

- In one case, a seizure of marijuana was recorded in CPTS at a weight of 6,000 pounds. The case file documentation stated that 3,900 pounds had been destroyed and we verified through weighing that 250 pounds was on hand as evidence, leaving 1,850 pounds unaccounted for. The District's seized property specialist stated that the 6,000 pounds was probably an estimate and the seizure had not been weighed as required at the time of receipt.
- For a seizure of 32 bales of hashish, CPTS showed an estimated weight of 632 kilograms, or 1,390 pounds, while the recorded on-hand quantity in a district's vault was 1,526 pounds. Thus, the difference, 136 pounds, was vulnerable to theft without detection. The district's Fines, Penalties, and Forfeitures Officer stated that the CPTS weight was probably an estimate and had not been updated after the seizure was weighed.

Seizing officers at several locations told us that estimated amounts were recorded because the locations either did not have scales or the scales were not large enough to accurately weigh large bales or containers of seized drugs. Seizure custodians told us that they generally attempted to accurately record drugs they received by subsequently updating CPTS to show actual weights. However, procedures require seizure custodians to contact seizing officers to also change TECS II data, which seizure custodians told us they did not always do because of other priorities.

Regarding testing, Customs' directives provide that, with certain exceptions, samples of drugs are to be field tested prior to destruction to ensure that the drugs are of the same type as those seized. Seizure custodians at 5 of the 15 districts we visited told us that in their districts, drugs were not sampled and tested immediately prior to destruction. These seizure custodians told us that drugs were not sampled and tested when packages being destroyed did not appear to have been tampered with, which is not consistent with Customs' directive. Also, we were told that samples were not taken and tested when Drug Enforcement Administration labs capable of testing the drugs were not conveniently located. However, under Customs' directive, it would be sufficient to field test drugs to be destroyed rather than send them to a lab.

Physical Security and Access Controls Were Inadequate

The large amount of drugs on hand at Customs' district offices makes it especially important that strict physical safeguards and limited access be maintained. However, we identified physical safeguard weaknesses at each of the 20 Customs' facilities used to store seized property that we visited. Further, at some facilities, Customs' agents were allowed to be alone when they had access to property stored in district vaults. These weaknesses could lead to loss, theft, or tampering of seized property.

According to Customs' directive for processing narcotic drug and controlled substance evidence, facilities for storing drugs are to be designed and constructed to prevent theft or tampering by force, stealth, or fraud, and to prevent damage or deterioration of the evidence. Further, Customs' storage facilities are to be continuously protected through an effective and operating detection system. Customs has prescribed the response time to an intrusion as not to exceed 2 minutes.

None of the 20 facilities we visited had security cameras in vaults to record activity and assist in the detection of shortages, which is a common

safeguard measure. At one location we were told by the seizure custodian that the vault alarm system, although wired to a local law enforcement facility, produced a response time well in excess of 2 minutes or no response at all.

At two locations, we observed that bulk quantities of drugs were stored in facilities where doors opened into public areas, common walls with non-Customs tenants were breachable, and motion detector alarm systems which could not remain activated during times when seizure custodians had access to vaults. One of these facilities was located in a residential area but was not surrounded by fencing. At another district, large quantities of drugs were vulnerable to theft because the drugs were stored in a vault where two breachable walls faced an unfenced parking lot and an open body of water.

We also observed that unaccompanied seizure custodians had access to the vaults at 14 of the 20 Customs seized property storage facilities we visited. At one district, this resulted in the conviction of a seizure custodian for drug theft. Also, at one location, we observed that unauthorized personnel had easy access to critical seizure case files and processing areas containing crucial data for adjudicating cases. In this instance, the Fines, Penalties, and Forfeiture Office's electronic security code door lock was activated only before and after business hours, although files were frequently unlocked and unattended throughout the day.

Customs had not established agencywide policies and procedures stipulating the number of custodians that must be present when vaults are entered. However, three of the districts we visited established a policy which required at least two custodians to be present when vaults are entered.

Financial Data Did Not Facilitate Accountability for Seized Property

Financial data in OPTS were incomplete and inaccurate because the system (1) did not include quantities of seized property inventory, (2) had incorrect data on property locations, (3) contained erroneous property values, and (4) included seizures and forfeiture transactions recorded in the wrong periods. Our analysis of fiscal year 1992 seizures showed that Customs' recorded amount of \$823 million was overstated by \$138 million because Customs included items for which it never took possession. Also, our analysis of over half of the remaining fiscal year 1992 seizures showed these items to be overvalued by \$217 million, or 57 percent. Further, our

analysis of about half of the recorded value of seized property on hand as of September 30, 1992, showed these items to be overvalued by \$133 million, or 44 percent.

As a result of our work and other problems Customs found, it made net adjustments of about \$281 million to its fiscal year 1992 seizures amount and net adjustments of \$52 million to its September 30, 1992, seized property inventory records. After the adjustments, Customs reported \$542 million in fiscal year 1992 seizures and an ending balance of \$489 million in seized property in its Principal Statements as of September 30, 1992. However, Customs did not identify and provide to us its support for the adjustments made.

Inaccurate and incomplete financial data affected the usefulness of financial reports and statistics Customs' managers relied on to manage and assess the performance of its seized property operations. In this regard, Customs will ultimately have to meet federal agency seized property system requirements issued by JFMIP in March 1993 and, when approved by OMB and GAO, new federal agency seized property accounting standards recommended by FASAB.

Records Omitted Large Quantities of Inventory

We found that CPTS information, which Customs uses to help control and provide financial information on seized property, did not provide a complete record of seized property inventory. In some cases, the records did not show tons of drugs that had been seized and were held in Customs' vaults. In other cases, the records showed more drugs than were on hand. Discrepancies between inventory records and actual property on hand increase the potential for loss or tampering without the agency's knowledge.

According to Customs' January 1989 ACS Customs Property Tracking System Handbook, CPTS is intended to provide a method of maintaining a current and historical record of property from the time of seizure to the time of disposition. Also, CPTS is designed to record complete information on all items obtained during a seizure. CPTS features include the capability to record data for both the total amount of drugs or property seized as well as the individual items seized.

Of the 179 items for which we compared the amounts of seized drugs on hand with CPTS information, we found 36 cases where CPTS had no record of drugs being present in district vaults. In addition, we found 49 instances

where drugs on hand were greater than amounts recorded in CPTS and 21 instances where drugs on hand were less than the amount recorded in CPTS. These discrepancies were primarily due to two factors. First, seizing officers and seizure custodians lacked a proper understanding of which items are to be accounted for in CPTS. For instance, even though CPTS is capable of separately tracking both drug samples and the bulk quantities of drugs seized, several seizure custodians told us that drug samples were not always distinguished or tracked separately from the bulk quantities of seized drugs. Thus, a sample can remain on hand but unrecorded in inventory records when the bulk of a seizure is destroyed.

Further, many seizure custodians told us that in some circumstances seizing officers did not understand what property is to be recorded during a seizure. For example, when a boat is seized, items found on the boat are to be recorded separately into TECS II which later downloads into CPTS. We found such a situation in one district which had not recorded but was holding (1) an Uzi gun barrel and three magazines, (2) a rifle, and (3) luggage which had previously contained seized drugs.

A second factor involves system-related problems. CPTS is designed to show the entire amount of a drug seizure as having been destroyed on the initial destruction date even though large bulk drug seizures may be destroyed over a period of time. Although seizure custodians may establish a new record in CPTS to separately track the amount of a seizure remaining on hand after initial destruction, the system does not automatically do this and new records were not always created. When such data on residual amounts are not specifically added to CPTS, seized drugs can remain on hand but not be in CPTS records for long periods. For example, Customs' records indicated that 7.4 tons of marijuana from one seizure were destroyed from May 12, 1991, through March 4, 1993. Although we observed 1 ton from this seizure remaining on hand as of March 1993, CPTS showed the entire amount as being destroyed on May 12, 1991.

Also, we found that when CPTS was implemented in May 1987, seized property items then on hand were not always recorded. At one district, we found 91 pounds of marijuana remaining from a May 1986 seizure that was not included in the CPTS September 30, 1992, inventory. At our request, Customs added these drugs to the CPTS inventory. The district's Fines, Penalties, and Forfeiture Officer told us that omission of the 91 pounds of marijuana was an oversight on the part of inexperienced seizure custodians who are to receive additional training.

**Location Data Were
Incorrect**

CPTS data was not always updated when seized property was moved to a different location or custody changed. Thus, Customs cannot be assured that it knows where the property is physically located, increasing the potential for loss or theft which would undermine the government's criminal prosecution of cases.

CPTS includes data elements for storage locations, showing whether seized property is with a seizure custodian, seizing officer, or storage contractor, and the date the property was transferred to each location. Customs' Seized Property Custodian/Specialist Handbook requires seizure custodians to update CPTS with current storage locations and the dates property was transferred to these locations.

Of the 303 transactions for which we attempted to verify location data, we found that 61 items, or 20 percent, were not at the locations recorded in CPTS, including the following examples.

- At one site, CPTS records showed that seizing officers held 19 pounds of heroin and 91 fruit cans containing opium, but we observed that these items were actually in a district's vault under custody of a seizure custodian.
- At two other sites, CPTS records showed that electronic munitions parts valued at \$2 million and 4 vehicles were in Customs' custody, but we observed them to be in the hands of contractors Customs hired to store certain types of seized property.

Seizure custodians at several sites advised us that their efforts to update CPTS location information were limited by workload and staff restraints.

**Property Values Were
Erroneous**

The value of property recorded in CPTS we tested was overstated by \$355 million because seizing officers and seizure custodians did not follow Customs' procedures for valuing items included in seized property records. CPTS data incorrectly included values that were (1) for counterfeit items or items that are prohibited for sale in the U.S.—\$202 million, (2) for items not in Customs' possession—\$138 million, and (3) initial estimates which were not updated when accurate assessments became available—\$15 million. Property value errors can result in inaccurate inventory data on reports used to develop performance indicators and manage seized property.

Regarding the first type of error, Customs procedures provide that no value is to be assigned to counterfeit items or to items prohibited for sale in the United States. Ten of the 96 transactions we examined had values erroneously assigned to these types of items. For example, values were assigned to

- counterfeit bonds (\$200 million),
- prohibited drug paraphernalia (\$24 million),
- counterfeit checks (\$7 million, which also were recorded twice, for a recorded value of \$14 million), and
- counterfeit designer watches (\$4 million).

The instances we identified of values assigned to counterfeit or prohibited items seized in fiscal year 1992 totaled \$202 million, representing 24 percent of the value of fiscal year 1992 seizures recorded by Customs. Several seizing officers and seizure custodians told us that these types of errors were attributable to seizing officers' inattention or lack of awareness of Customs' procedures.

Regarding items not in the possession of Customs, we found that Customs often assists the Drug Enforcement Administration, the U.S. Marshals Service, and others in seizing property but in these instances, the other entities typically take possession of the property. We extracted from CPTS inventory records \$138 million of seizures of which Customs never took custody and, as such, should not have been recorded in its inventory records. In its financial statements, Customs reduced its recorded fiscal year 1992 seizures by a net amount of \$281 million. However, as stated previously, Customs did not provide documentation of its adjustments; therefore, we were unable to verify whether the \$138 million overstatement we identified was included in the adjustments. When Customs' data on seized property activity include values for property in the possession of other agencies, information used by the Congress and others to oversee government-wide drug interdiction efforts can be overstated because data reported by the other agencies would have included values for the same seizures.

Regarding failure to update initial estimated values, we were told by several seizing officers and seizure custodians that, in some cases, the seizing officers may not be familiar with the value of an item and will enter an estimate into the inventory records. When this happens, Customs' procedures require seizing officers to subsequently request an official appraisal on such estimated values. Based on the appraisal, or if more

accurate valuation information becomes available, the ACS Customs Property Tracking Handbook requires the seizure custodian to update CPTS. Likewise, Customs' Directive 099-5240-001, Appraising Seized Property, requires the seizing officer to update TECS II. Seizing officers and seizure custodians told us that updating estimated values was a low priority. The transactions we examined showed that, even when more accurate valuations were obtained, they were sometimes placed in case files without notifying the seizure custodian. Of the 96 seizures which we examined that had been assigned a value, we found based on information in case files, 16 items with appraised values that, in total, were \$47 million less than the \$107 million recorded in CPTS. Of the \$47 million, \$15 million related to fiscal year 1992 seizures.

- One district's September 30, 1992, CPTS inventory was overvalued by 21 percent due to a seized stock portfolio valued at \$31 million, which the portfolio's trustee confirmed to us in writing had a value of \$22 million at the time of seizure.
- A seizing officer estimated that a seizure of jade and coral jewelry included 3,000 pieces valued at \$3.4 million. When officially counted and appraised, there were over 19,000 pieces of jewelry valued at \$389,000. Because the seizure custodian did not update CPTS records, Customs' inventory was overvalued by more than \$3 million and physical quantities were substantially understated.

Seizures and Forfeitures Recorded in the Wrong Periods

Customs' year-end seized property inventory was also not correct because seizure and forfeiture transactions were recorded in the wrong periods or not removed from inventory upon disposal. Fundamental principles of accounting, including the accounting requirements prescribed by Customs for preparing its financial statements, require that significant financial transactions are to be recorded and recognized in the period in which they occur.

We identified three conditions that created errors in the timing of transactions and affected Customs' fiscal year-end inventory data. First, transactions were not recorded because of processing delays. Second, some seized property was erroneously excluded from inventory because Customs recorded certain property as forfeited even though legal forfeiture proceedings had not been completed. Third, changes in the status of property, such as a change from seized to forfeited or returned to the owner, were not always entered into CPTS on a timely basis because

seizure custodians were not notified by Fines, Penalties, and Forfeiture Officers of such changes.

When transactions are recorded in the wrong period, such as in the following examples, accuracy of Customs' financial reports is reduced.

- One district's September 30, 1992, CPTS inventory included a commercial aircraft Customs valued at \$48 million (which the airline that owned the aircraft confirmed to us had a value of \$24 million) even though the airline had posted a letter of credit to cover potential fines and the aircraft was released on January 18, 1990, the date it was seized.
- On September 1, 1992, \$6.9 million of seized raw sugar was returned to its owner but remained in a district's September 30, 1992, inventory records, overstating the district's inventory by 44 percent.
- On September 18, 1992, \$1.4 million in cash was recorded as forfeited, though legal forfeiture did not occur until January 20, 1993.

Regarding the September 30, 1992, seized property inventory, we identified a net amount of \$57.2 million in seized property transactions recorded in the wrong period. Recording information on seized property promptly and in the proper period is important so that Customs' year-end balance of seized property inventory is correct and financial reports are reliable. Also, misstated seized property inventory quantities and valuations can distort performance statistics and mislead managers in their efforts to operate an efficient seized property operation.

Special Operation Advances and Documents Were Not Adequately Controlled

Customs' Office of Enforcement field offices did not account for cash advances used in special operations in a consistent and timely manner, as Customs' directives require. This resulted in incomplete data for management decisions and potential losses to the government. In addition, although sensitive documents supporting special operation transactions were required to be secured from unauthorized access and use, they were not adequately safeguarded. Failure to adequately protect these documents could (1) threaten the safety of informants and Customs' agents, (2) compromise important relationships with informants, and (3) undermine Customs' credibility.

Customs' directives require offices that have open cash advances to report to the NFC expenditures made from the advances so that accounting records properly reflect the status of funds. According to the directives, by the twelfth working day of each month, the Office of Enforcement is to

provide the NFC Appropriations Accounting Branch reports on monthly expenditures for all outstanding cash advances. NFC uses these expenditure reports to reduce outstanding advances recorded in Customs' general ledger and provide the Office of Enforcement month-end reports of each outstanding cash advance. Further, the Office of Enforcement is required to perform monthly reconciliations of outstanding advances between its field operations records and NFC's accounting records.

Customs' Office of Enforcement officials told us that the office has repeatedly stressed to its field offices the importance of filing expenditure reports promptly. Nonetheless, Customs' Program Management Staff stated that, unless specifically requested, the majority of Customs' field offices filed reports infrequently because this is considered to be an accounting function and of low priority.

Without consistent and timely reporting, NFC cannot properly record special operation advance account activity, and, thus, expenses will not be reflected in the proper fiscal years or included in year-end obligation and/or expenditure reports. In addition, late reporting for these advances hampered timely reconciliation between Customs' general ledger accounts and detailed records of advances. Based on an independent external auditor's examination of the Customs Forfeiture Fund's fiscal year 1992 financial statements, Customs reduced its \$37 million general ledger account balance for outstanding special operations advances to \$19 million as of September 30, 1992.

The independent external auditor recommended that Customs take certain actions to reduce the time spent and amount of adjustments made to special operation advances in preparing the year-end financial statements. These actions, which would also improve internal controls over outstanding advances, included (1) establishing Office of Enforcement procedures for following up with the district offices on a routine basis to determine the status of outstanding advances, (2) encouraging agents to submit necessary paperwork as soon as possible after payment has been made for information and evidence, and (3) establishing procedures wherein the Office of Enforcement and NFC would reconcile their advance outstanding balances on a routine basis to identify advances that should be removed from the general ledger.

Regarding sensitive documents supporting special operation transactions, Customs' directives specify that certain documents are to be sent to the NFC's Appropriations Branch to support special operation cash advances

and payments.⁶ These documents include (1) requests for cash advances, (2) payment vouchers, and (3) purchase receipts, which sometimes contain, or have attached, sensitive enforcement information, such as case histories, the names of informants, or details about ongoing operations.

To safeguard these documents, a Customs directive also states that documents related to payments to confidential sources are to be placed in double envelopes and sent via certified mail, return receipt requested. The inner envelope is to be marked "confidential," addressed to the NFC's Appropriation Accounting Branch Chief, and marked "to be opened by addressee only." In addition, this directive states that confidential documents are to be secured in a locked cabinet or safe.

However, a commercial accounts official at NFC stated that the Comptroller's Liaison Office in Washington, D.C., which makes wire transfers of funds authorized by the Office of Enforcement's supporting documents, did not follow policy and routinely sent sensitive documents in envelopes along with regular interoffice correspondence. This increased the possibility that sensitive documents would be routed to individuals who had no need for the information. For example, we were told of one instance where sensitive documents were erroneously delivered to a clerk in the NFC's Revenue Branch who was not involved in posting these transactions.

Further, at NFC, sensitive documents were routinely stored in an open filing cabinet, which was in an unlocked room, or were left unattended on a desk. Also, the filing cabinet used to store these documents was shared with other Customs staff and each staff member had his or her own set of keys. These documents were not filed until the transactions were recorded in the accounting records, which typically was several days after receipt. According to a Customs commercial accounts official, sensitive documents were not secured in a locked cabinet or a safe because of a lack of filing space dedicated to sensitive documents and a low priority given to filing these documents.

Conclusions

The theft from Customs and subsequent unscrupulous use of contraband (such as illegal narcotics), firearms, explosives, and other potentially dangerous property that might stem from unresolved control problems could result in danger to the general public. Nonetheless, internal control

⁶In most cases, detailed information about special operations is unnecessary for accounting purposes, but the signatures to authorize NFC advances or payments are often included among the detailed documents.

weaknesses were evident across the spectrum of seized property operations from the time of seizure until disposal. Although Customs has recognized the problem as serious and had control procedures in place, the agency's oversight has not ensured that the procedures were followed and that managers were held accountable for control breakdowns. Further, Customs' inventory records and financial reports used to manage the seized property program were inaccurate and incomplete. Again, existing policies and procedures were not followed or effectively enforced by management.

Strengthening financial systems and controls for seized property will not be easy and may require innovative approaches to resolve long-standing problems. However, overcoming these problems would strengthen Customs' accountability and stewardship for seized property in its custody and position the agency to fully meet JFMP's new seized asset systems requirements and, when approved by OMB and GAO, the seized property accounting standards for federal agencies recommended by FASAB. In addition, reliable seized property information would be useful, for example, to monitor progress in meeting objectives, analyze trends, measure performance, detect situations requiring corrective actions, and communicate planning decisions.

In addition, Customs' accountability and control over special operation advances and documents related to the advances were weak. The total amount of special operation funds advanced is large and the documents contained highly sensitive information which required special accounting and safeguard procedures that were not followed. Control weaknesses in this area could result in serious compromises to agents' and informants' security as well as increased risk of fraud and misuse of funds.

Recommendations

We recommend that the Commissioner of Customs direct the Assistant Commissioners for the Offices of (1) Enforcement, (2) Inspection and Control, (3) Commercial Operations, and (4) Management (the Chief Financial Officer), in consultation with each other and other program officials, to

- enforce existing policies and procedures for (1) safeguarding seized property, (2) maintaining accurate financial data on seized property inventory, and (3) controlling special operations advances and safeguarding related documents, and

- report to the Commissioner on progress to enforce these policies and procedures.

Further, we recommend that the Commissioner of Customs direct

- the Assistant Commissioner for Enforcement to work with the Office of the U.S. Attorney to develop guidelines on the amount of monetary instruments, particularly cash, to be held as evidence;
- the district directors to work with the U.S. Attorneys in their districts to expand the use of videotaped evidence as an alternative to holding large quantities of seized cash and drugs at Customs' facilities;
- the Assistant Commissioner for Commercial Operations to require that at least two seizure custodians be present when accessing seized property in district vaults; and
- the Chief Financial Officer to (1) improve CPTS information so that all seized property, especially cash and drugs, are timely and accurately reflected in Customs' inventory records and financial reports and (2) require that the independent external auditor's recommendations to improve accounting and control over special operation advances be promptly and fully implemented.

Agency Comments and Our Evaluation

In commenting on a draft of this report, Customs agreed with our recommendations and discussed corrective actions that it has implemented or planned. Regarding the enforcement of policies and procedures, Customs stated that it planned to (1) remind personnel to comply with existing directives, (2) upgrade or construct improved storage facilities to safeguard seized property, (3) redesign its seized property system in 1994, and (4) complete a 100-percent inventory of seized property. Customs also stated that it has issued directives to improve internal controls over special operations. Regarding the development of guidelines for monetary instruments, particularly cash, held as evidence and the expanded use of videotaping large quantities of cash and drugs for court proceedings, Customs stated that it will continue to work with the U.S. Attorney to minimize the amounts of cash and drugs needed to be held as evidence.

While Customs generally agreed with our recommendation that at least two seizure custodians be present when accessing seized property in district vaults, it pointed out that some districts had only one seizure custodian. Customs stated that it could assign vault duty to another Customs officer at those districts that do not have two seizure custodians.

Appendix I
Customs' Accountability for Seized Property
and Special Operation Advances Was Weak

This action would result in improved vault access controls. Regarding the improvement of CPTS information and the improvement of controls over special operation advances, Customs stated that it (1) improved CPTS during 1993 to identify seized property turned over to other agencies, (2) intends to redesign the seized property system in 1994, (3) purchased scales for all districts during 1993 to accurately weigh seized drugs, and (4) issued policies and procedures to reconcile, report, review, and audit special operation advances in accordance with the external auditor's recommendations.

While these efforts appear to address the specific areas of weakness identified in our report, it is critical that they be properly implemented. If these planned improvements are successfully implemented, they should help correct the control weaknesses we identified and significantly reduce the related risk of error and fraud.

Comments From the U.S. Customs Service



THE COMMISSIONER OF CUSTOMS

WASHINGTON, D.C.

September 23, 1993

Mr. Donald H. Chapin
Assistant Comptroller General
U.S. General Accounting Office
441 G Street, NW.
Washington, D.C. 20548

Dear Mr. Chapin:

The Customs Service appreciates the opportunity to review and comment on the General Accounting Office draft report on Customs' seized property and special operations. Customs agrees with the recommendations in the draft report and is committed to resolving the reported issues timely, and as such, I am pleased to inform you that some of the recommendations have already been implemented. Plans addressing the remaining issues identified in the draft report have been developed. The following are Customs comments on the recommendations.

RECOMMENDATIONS

- Enforce existing policies and procedures for (1) safeguarding seized property, (2) maintaining accurate financial data on seized property inventory, and (3) controlling special operations advances and safeguarding related documents, and report to the Commissioner on progress to enforce these policies and procedures.

Agree. Managers and supervisors will be reminded of the necessity for ensuring compliance with all policies and procedures and will be required to re-emphasize and enforce compliance of the policies and procedures with all personnel.

Customs recognizes the importance of safeguarding its seized property and is in the process of physically upgrading existing facilities and constructing new facilities. Customs will explore the feasibility of obtaining video systems for all storage facilities.

Customs also recognizes the importance of maintaining accurate financial data on seized property inventory. Customs will implement a redesigned seized property system in January 1994 and intends to subsequently complete a 100%

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inventory to ensure the identification of the seized property population and verify the financial data. The redesigned system will also eliminate the system problems mentioned in the report. Additional reconciliation procedures between the contractor held seized property system and Customs seized property system were developed during FY 1993.

Since completion of the GAO audit, Customs has issued a directive establishing the policies and procedures for the reporting of appropriated monies for undercover operations and requires an audit of undercover operations on a bi-yearly basis. Additional procedures were implemented requiring quarterly reconciliations of special operations advances to the general ledger. A reconciliation of electronic funds transfer information to Customs monthly reports of expenditures for undercover operations is also presently underway. Customs modified its procedures effective December 1992 to ensure documents containing sensitive information that support wire transfers are no longer forwarded from Washington, D.C., to the NFC. Customs has also desensitized the copy of the documents supporting special operation transactions submitted to the NFC.

- Direct the Assistant Commissioner for Enforcement to work with the Office of the U.S. Attorney to develop guidelines on the amount of monetary instruments, particularly cash, to be held as evidence.

Agree. Customs will continue to work with the Office of the U.S. Attorney to ensure only minimal amounts of monetary instruments are held as evidence.

- Direct the District Directors, in consultation with their respective U.S. Attorney offices, to expand the use of videotaped evidence as an alternative to holding large quantities of seized cash and drugs at Customs' facilities.

Agree. Customs District Directors and Special Agents will work with the U.S. Attorneys office to expand the use of videotaped evidence as an alternative to holding large quantities of seized cash and drugs.

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- Direct the Assistant Commissioner for Commercial Operations to require that at least two seizure custodians be present when accessing seized property in district vaults.

Generally Agree. Customs does not have two seizure custodians in each of its Districts and would require an additional 33 FTE positions and appropriate additional funding to comply with the recommendation. However, a Customs officer can be assigned vault duty, as necessary, in those Districts that do not have two seizure custodians.

- Direct the Chief Financial Officer to (1) improve CPTS information so that all seized property, especially cash and drugs, are timely and accurately reflected in Customs' inventory records and financial reports, and (2) require that the independent external auditor's recommendations to improve accounting and control over special operation advances be promptly and fully implemented.

Agree. Customs made improvements to CPTS during FY 1993 to identify those items seized through a cooperative effort between Customs and another agency where the seized asset is turned over to the other agency for property management and case prosecution. These seizures will continue to be recorded in CPTS for operational purposes, however, the coding will allow Customs to appropriately report seizure activity in which Customs was responsible for the management of the seized assets and case prosecution. Customs will implement in January 1994 a redesigned CPTS that will eliminate the system problems mentioned in the report. CPTS weight information should also improve with the FY 1993 acquisition of scales for all Customs Districts.

Customs implemented the recommendations made by the independent external auditor for special operation advances during FY 1993 with the issuance of policies and procedures for the reporting of appropriated monies for undercover operations and requiring an audit of undercover operations on a bi-yearly basis. A reconciliation of the electronic funds transfer information with the monthly reports of expenditures for undercover

Appendix II
Comments From the U.S. Customs Service

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operations is underway and quarterly reviews of special operations advances were implemented for the quarter-ending March 31, 1993.

If any additional information is needed your staff may contact Judy Starling at (317) 298-1568.

Sincerely,



George J. Weise
Commissioner

Major Contributors to This Report

Accounting and Information Management Division, Washington, D.C.

Gary T. Engel, Senior Assistant Director
Wilfred B. Holloway, Assistant Director for Design and Methodology
Roger R. Stoltz, Assistant Director
J. Lawrence Malenich, Assignment Manager
Gwendolyn M. Adekun, Auditor-in-Charge

Atlanta Regional Office

Shawkat Ahmed, Project Manager
Rathi Bandari, Auditor-in-Charge
Sharon S. Kittrell, Staff Auditor
Kim M. Rogers, Staff Auditor

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