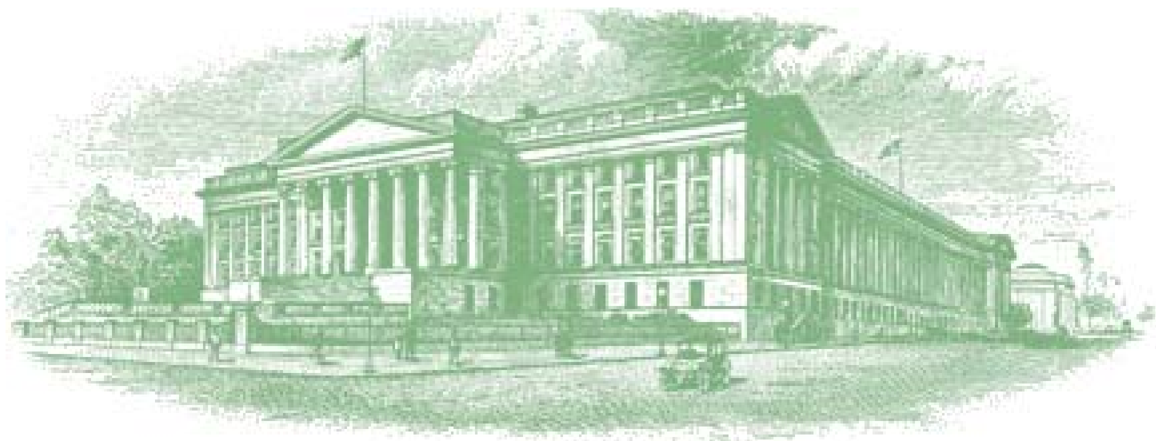
Audit Report



OIG-07-028

Management Letter for the Fiscal Year 2006 Audit of the Department of the Treasury Forfeiture Fund's Financial Statements

January 25, 2007

Office of Inspector General

Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

January 25, 2007

**MEMORANDUM FOR ERIC E. HAMPL, DIRECTOR
TREASURY FORFEITURE FUND**

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

SUBJECT: Management Letter for the Fiscal Year 2006 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 Treasury Forfeiture Fund's (TFF) Fiscal Year 2006 financial statements. Under a contract monitored by the Office of Inspector General, Gardiner, Kamya & Associates, PC (GKA), an independent certified public accounting firm, performed an audit of the financial statements of TFF as of September 30, 2006 and 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. 06-03, *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 a certain matter that was identified during the audit, which was 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) 927-5400, or a member of your staff may contact Mike Fitzgerald, Director, Financial Audits at (202) 927-5789.

Attachment

GARDINER KAMYA
& ASSOCIATES, PC

CERTIFIED PUBLIC ACCOUNTANTS | MANAGEMENT CONSULTANTS

TREASURY FORFEITURE FUND

MANAGEMENT LETTER
FISCAL YEAR 2006

October 31, 2006

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Gardiner Kamya & Associates, PC

Certified Public Accountants | Management Consultants

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

We have audited the Principal Statements (balance sheets and the related statements of net cost, changes in net position, budgetary resources and financing, hereinafter referred to as “financial statements”) of the Department of the Treasury Forfeiture Fund (the Fund) as of and for the years ended September 30, 2006 and 2005, and have issued an unqualified opinion thereon dated October 31, 2006. 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 a certain matter involving the internal control over financial reporting that we consider to be a reportable condition under the standards established by the American Institute of Certified Public Accountants. The reportable condition is reported separately in our Report on Internal Control over Financial Reporting dated October 31, 2006.

We also noted a certain matter involving the internal control over financial reporting and other operational matters that are presented in this letter for your consideration. This issue 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.

Gardiner Kamya-Associates

October 31, 2006

MANAGEMENT LETTER
COMMENT AND RECOMMENDATIONS
YEAR ENDED SEPTEMBER 30, 2006

Untimely Recording of Seized and Forfeited Property and Currency Transactions by the U.S. Secret Service.

Condition

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.

Criteria

Statement of Federal Financial Accounting Standards Number 3 (SFFAS No. 3), *Accounting for Inventory and Related Property*, requires seized and forfeited property and currency to be accounted for in property management records so that reliable financial and statistical reports may be prepared. Specifically, SFFAS No. 3 requires the preparation of an analysis of changes in seized and forfeited property and currency including the dollar value and number of seized property and currency that are: (i) on hand at the beginning of the year; (ii) seized during the year; (iii) disposed of during the year and the method of disposition; and (iv) on hand at the end of the year.

Cause

Secret Service did not update its asset tracking system on a timely basis to ensure consistent, accurate, and complete financial reporting. FasTrak needs a version update that is integrated with the financial accounting system.

Effect

The status of seized and forfeited property and currency reported at year end was not presented accurately in FasTrak, resulting in adjustments to ending balances included in the notes and/or financial statements.

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.

Management Response

The USSS represented to the Fund that they will adopt the auditor's recommendations and will implement the following measures to ensure the accurate reporting of the status of seized and forfeited property and currency:

(1) USSS will review policy and manpower issues. USSS will increase resources in the Financial Management Office, and will work closely with the Treasury Executive Office of Asset Forfeiture (TEOAF) to educate personnel.

USSS will focus on the proper procedures for reconciliation of the asset tracking system (FasTrak) and the Fund's accounting system (SAP), data entry, and communication of issues.

(2) As appropriate, the USSS will identify FasTrak enhancements and financial upgrades, needed to properly capture and report pertinent financial information related to the assets being tracked.

(3) USSS will provide monthly reconciliations of FasTrak and the Fund's accounting system to the Fund for review. This will serve to ensure that FasTrak accurately reflects current data.

MANAGEMENT LETTER
COMMENT AND RECOMMENDATIONS
CORRECTED IN FISCAL YEAR 2006

TREASURY FORFEITURE FUND
MANAGEMENT LETTER COMMENT AND RECOMMENDATIONS
CORRECTED IN FISCAL YEAR 2006

Untimely and Incorrect Submission of Certain Bureau Reimbursement Transactions to the Fund

Condition

The Fund's expenses are either paid on a reimbursement basis or paid directly on behalf of a participating bureau. Reimbursable expenses are incurred by the respective bureaus participating in the Fund against their appropriation and then submitted to the Fund for reimbursement. There were notable delays in submitting obligating documents and related reimbursement billings to the Fund from Internal Revenue Service - Criminal Investigation (IRS-CI). For the year ended September 30, 2005, from a total of $30,722,714 obligated against four financial plan line items, $15,161,825 or 49% was submitted to the Fund on September 26, 2005.

Additionally, estimated amounts of $500,000 of reimbursement requests submitted to the Fund for payment in May and September were not based on certified expenditures but on obligations.

Recommendations

We recommend the following:

(1) Fund Management continues to work with performing partners to improve the accounting, billing, and reporting process for reimbursable transactions.

(2) Performing partners should endeavor to submit bills for reimbursable transactions in a timely manner so as to facilitate efficient and effective accounting for the Fund.

Fiscal Year 2006 Status

During fiscal year 2006, IRS-CI complied with the monthly billing requirements, centralized the billing process under Warrants and Forfeitures and perfected the disbursement process to validate every payment within the IRS' official accounting system prior to seeking reimbursement from TEOAF.

This management letter comment has been substantially addressed in FY 2006 and will not be repeated.