Audit Report

OIG-06-024

Management Letter for Fiscal Year 2005 Audit of the Treasury Forfeiture Fund's Financial Statements

January 26, 2006

Office of Inspector General

Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

January 26, 2006

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

FROM: William H. Pugh, William H. Pugh
Deputy Assistant Inspector General
for Financial Management and Information
Technology Audits

SUBJECT: Management Letter for Fiscal Year 2005 Audit 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 (FY) 2005 financial statements. We contracted with the independent certified public accounting firm Gardiner, Kamya & Associates, PC (GKA) to audit TFF's financial statements for FY 2005. 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. 01-02, *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 2005

December 1, 2005

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GARDINER KAMYA
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CERTIFIED PUBLIC ACCOUNTANTS | MANAGEMENT CONSULTANTS

Management
Treasury Forfeiture Fund
Washington, D.C.

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, 2005 and 2004, and have issued an unqualified opinion thereon dated December 1, 2005. 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 reportable conditions under the standards established by the American Institute of Certified Public Accountants. The reportable conditions are reported separately in our Report on Internal Control over Financial Reporting dated December 1, 2005.

We also noted a certain matter involving the internal control over financial reporting and other operational matters that are presented in this report 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. We realize that due to the complex nature of many of the issues and the lead time required to correct the situations noted, it is not practical to implement most of our recommendations at one time or in a short period of time.

This report is intended solely for the information and use of the TFF's management, others within the organization, and the U.S. Department of the Treasury Office of the Inspector General, and is not intended to be and should not be used by anyone other than these specified parties.

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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.

December 1, 2005

MANAGEMENT LETTER
COMMENT AND RECOMMENDATIONS

Untimely and Incorrect Submission of Certain Agency 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.

Criteria

The Memorandum of Understanding (MOU) between the Fund and IRS stipulates that reimbursement requests should be submitted as frequently as once each month and that each reimbursement request constitutes a certification by IRS that funds were utilized for authorized purposes. The MOU also stipulates that cumulative spending in each subcategory should not exceed the limits of the financial plan.

The Secretary of the Treasury's Guidelines for Seized and Forfeited Property requires all payments from the Fund to be based upon certification of actual expenditures by the requesting Treasury law enforcement organization. Payments are not to be made based upon estimated obligations.

Cause

Even though IRS-CI incurred certain expenses including travel expenses through out the year, they were brought to the attention of the office responsible for billing the Fund in mid September.

IRS-CI based the erroneous billing on contract amounts instead of actual billings and in certain cases, on advances to its vendors toward certain purchases including the payment of rent. Budget funding from the Fund supported these advances. IRS-CI erroneously treated these advances as reimbursable expenses from the Fund even though expense recognition had not occurred.

Effect

Delays in submitting agency reimbursement requests to the Fund can affect the reporting responsibilities of the Fund including timely and accurate reporting and compliance with Treasury, the Comptroller General and the Office of Management and Budget (OMB) regulations and reporting requirements. It also impacts on the effective and efficient management of the program.

Reimbursements based on obligations and incorrect claim line representations may cause incorrect accounting of the disbursements of funds. The Treasury Executive Office for Asset Forfeiture (TEOAF) may disburse funds for transactions for which it is not liable, causing financial loss to the Fund.

Recommendation

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.

Management Response

Fund Management concurs with GKA's findings and recommendations pertaining to the IRS-CI's billing submissions and the isolated billing errors. IRS-CI has made numerous attempts during the past few years to provide timely billing submissions however we recognize that those efforts were not fully successful.

IRS-CI has reviewed their processes and have determined that they can meet the monthly submission requirement. IRS-CI will continue to work with performing partners implementing safeguards to improve the accounting, billing, and reporting process for reimbursable transactions.

IRS-CI has established rigid timelines and reporting requirements on the project managers field offices and procurement officials to assure that all information is available to prepare the TEOAF monthly submissions. The process will be monitored by the executive staff.

The verification of qualifying expenses has been centralized within the Warrants and Forfeiture Section. The Warrants and Forfeiture Section will collect all asset forfeiture related financial information from the field offices, program managers and procurement officers. The collected information will be matched to computerized accounting information to verify payment and receipt of services. Warrants and Forfeitures will be responsible for all aspects of the billing submissions to TEAOF and the Director of Warrants and Forfeitures will certify accuracy.