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GAO/GGD-91-127

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GAO

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

General Government Division

B-242351

September 25, 1991

The Honorable John Glenn
Chairman, Committee on Governmental Affairs
United States Senate

The Honorable Joseph R. Biden, Jr.
Chairman, Committee on the Judiciary
United States Senate

The Honorable Lloyd Bentsen
Chairman, Committee on Finance
United States Senate

The Honorable John Conyers, Jr.
Chairman, Committee on Government Operations
House of Representatives

The Honorable Jack Brooks
Chairman, Committee on the Judiciary
House of Representatives

The Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
House of Representatives

The Honorable Charles E. Schumer
Chairman, Subcommittee on Crime and Criminal Justice
Committee on the Judiciary
House of Representatives

The Honorable William J. Hughes
Chairman, Subcommittee on Intellectual Property and Judicial Administration
Committee on the Judiciary
House of Representatives

The Honorable J.J. Pickle, Chairman
The Honorable Dick Schulze, Ranking Minority Member
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

This is another in a series of reports addressing various aspects of the asset forfeiture programs of the Department of Justice and the U.S. Customs Service.[1] Both programs deal with hundreds of millions of dollars of seized property annually and have been identified by their agencies as having internal control problems. Generally, this report focuses on the adequacy of Customs' controls over the sales of its forfeited property. This work was done in response to a request from the Subcommittee on Oversight, House Committee on Ways and Means, and as part of our overall assessment of Justice's and Customs' seized property programs under the Comptroller General's high-risk initiative.

Earlier this year we recommended, for economy and efficiency purposes, that noncash assets seized by Justice and Customs be consolidated under the U.S. Marshals Service for postseizure management and disposition.[2] That consolidation has not yet occurred. But the issues discussed in this report are central to ensuring adequate control over sales of forfeited property regardless of who is responsible for making those sales.

Customs uses a contractor to manage and dispose of its seized property inventory nationwide. As part of its responsibilities, the contractor procures, mostly through subcontracts, custodial services from vendors throughout the United States. During the period August 1985 to August 1990, Northrop Worldwide Aircraft Services, Inc., performed those services. In September 1990, E. G. & G. Dynatrend, under contract, assumed those responsibilities.

[1] Earlier reports were titled Asset Forfeiture: Legislation Needed to Improve Cash Processing and Financial Reporting (GAO/GGD-90-94, June 19, 1990); Asset Forfeiture: Need for Stronger Marshals Service Oversight of Commercial Real Property (GAO/GGD-91-82, May 31, 1991); and Asset Forfeiture: Noncash Property Should be Consolidated Under the Marshals Service (GAO/GGD-91-97, June 28, 1991).

[2] Testimony before the Subcommittee on Intellectual Property and Judicial Administration, House Committee on the Judiciary, on Asset Forfeiture: Opportunities to Improve Program Administration (GAO/T-GGD-91-16, Mar. 13, 1991); testimony before the Senate Committee on Governmental Affairs on Asset Forfeiture: Opportunities for Savings Through Program Consolidation (GAO/T-GGD-91-22, Apr. 24, 1991); and in a report titled Asset Forfeiture: Noncash Property Should Be Consolidated Under the Marshals Service (GAO/GGD-91-97, June 28, 1991).

This report specifically addresses contractor compliance with the Internal Revenue Code reporting requirements on cash sales of more than $10,000. To help the Internal Revenue Service (IRS) identify individuals with large cash incomes, Congress, in 1984, established a reporting requirement covering cash sales for more than $10,000. This requirement was established to help ensure that tax revenues were not being lost from unreported cash incomes. Subsequently, in 1988, Congress extended use of this information to other federal agencies as a means of identifying individuals who may be laundering money.[3]

This report also addresses the adequacy of controls Customs has in place to ensure that its sales of forfeited property are "arm's length" transactions—i.e., forfeited property is not being sold to prohibited parties. Prohibited parties include Customs, contractor, and subcontractor employees having control over the property being sold. Such purchases are prohibited either by regulation or contractual provisions. We also address whether forfeited property is being sold back to violators of Customs laws. Although not prohibited, such sales could reduce the deterrent value of the forfeiture program.

Our objectives, scope, and methodology are discussed in detail in appendix I.

Background

The U.S. Customs Service, a bureau of the Department of the Treasury, annually seizes thousands of properties—cars, boats, planes, textiles, electronics, etc.—as a result of its law enforcement activities. Through forfeiture, Customs ultimately takes title to seized property not returned to owners. Once forfeited, property may be placed into official use, shared with state and local law enforcement groups participating in the seizure, transferred to another government agency, destroyed, or sold. Forfeiture thus deprives individuals of the assets used in or gained from criminal activities.

Property designated for sale is generally sold at public auction. Table 1 shows the type, number, and selling prices of forfeited property sold for the period June 1, 1987, through December 31, 1989.

[3]Money laundering is the process by which criminals, particularly drug traffickers, transform the profits of their illegal activities, without paying taxes on them, into capital for legitimate investment.

Table 1: Forfeited Property Sold June 1, 1987, Through December 31, 1989

Property category	Number of properties sold	Total selling price	Average selling price
Vehicles	5,833	**$5,871,752**	$1,007
Vessels	391	**7,478,008**	19,125
Aircraft	95	**3,879,793**	40,840
General and other property	7,495	**6,947,090**	927
Total	**13,814**	**$24,176,643**	**$1,750**

Customs also acquires title to millions of dollars of property that has been abandoned or is unclaimed by importers or consignees. Whenever entry of imported merchandise (1) is not made within the time permitted by law, (2) is incomplete because of the failure to pay the estimated duties, or (3) in the opinion of the district director lacks proper documentation or has not been correctly or legally invoiced, the merchandise is taken into Customs custody and sent to a bonded warehouse or public storage facility. If the importer or consignee does not comply with relevant regulations within 1 year, the property is to be considered unclaimed and abandoned to the government. Such property—commonly known as general order merchandise—can be many things, including vehicles, jewelry, carpets, clothing, liquor, toys, furniture, and electronic equipment. Since 1987, the Customs contractor selling forfeited property has also sold general order merchandise. General order merchandise and forfeited properties are accounted for separately. Sales of general order merchandise totaled $14.8 million during fiscal years 1989 and 1990.

By nature and method of operation, Customs sales of forfeited property and general order merchandise are highly vulnerable to fraud, waste, and abuse. Customs employees have knowledge of the property they seize. Contractor employees determine when and where the property will be sold and advertise the property for sale. They could limit the number of interested buyers through misleading advertising or by offering the property for sale in locations with few interested bidders. Subcontractor employees also have direct control over the appearance of and access to property they store and maintain prior to sale. They could degrade the appearance of the property or impede prospective bidders' access to inspect the property.

To try to address these inherent problems and overcome any appearances of improprieties, the Department of the Treasury issued regulations prohibiting employees from either directly or indirectly bidding on or purchasing any property that is seized by, under the control of, or sold under the direction of the employee's bureau. Customs also issued a notice extending this provision to employees' family members. Family members were defined as the spouse, child, or blood relative residing within the employee's household. The Customs management contract awarded in August 1985 also stated that contractor personnel and their subcontractor personnel or other agents were not allowed to bid at auction on property under their control. The contractor also included provisions in its subcontracts prohibiting subcontractor employees and family members from directly purchasing property under the subcontractor's control or acting as an agent for any other person.

As of April 1991, Customs had not performed any audits or tests to determine if forfeited property was being sold to prohibited parties. In enforcing these prohibitions, Customs relied mostly on passive measures, e.g., prohibition notices in sales brochures and certifications on bidder registration forms. Individuals must complete and sign the bidder registration form to receive a bidder number. By signing the form (which requires information such as name, address, Social Security number, etc.), individuals certified that they were not "an employee of the U.S. Government prohibited from bidding on property/merchandise by policy, regulation, statute, or contract," "an employee, agent or subcontractor of (the management contractor)," or "a family member of an employee or subcontractor of (the management contractor)." The contractor requires a positive identification, such as a driver's license, to verify the individual's identity and also relies on the observations of its on-site personnel to determine if ineligible individuals were attempting to bid.

For the time period covered by our review, Customs generally required that payments for purchases of forfeited property and general order merchandise be made by cash or cashier's check. In addition to cash and cashier's checks, Customs officials told us that they now accept credit cards, traveler's checks, and money orders. Section 6050I of the Internal Revenue Code requires that any person engaged in a trade or business must report to IRS all cash transactions involving more than $10,000. The one-page information return, IRS Form 8300, identifies the individual from whom the cash was received by name, address, and Social Security number; describes the transaction; and, if applicable, names the person for whom the transaction was conducted if the individual who paid cash was acting on someone's behalf. Congress established this reporting requirement in 1984 to help IRS identify taxpayers with large, possibly unreported cash incomes. Failure to comply with the reporting requirement may result in both criminal and civil penalties. In 1988, Congress added section 6103(i)(8) of the Internal Revenue Code, allowing IRS to disclose the information filed under section 6050I of the Internal Revenue Code to any federal agency that requires such disclosure for the administration of federal criminal statutes not related to tax administration. Section 6103(i)(8) was added to assist in the federal government's effort to identify individuals laundering proceeds from drug-related crimes.

Results in Brief

Our review of Customs' auction sales revealed numerous instances where cash sales of more than $10,000 were not reported to IRS. Specifically, we found 104 cash transactions totaling about $2.4 million that took place during fiscal years 1989 and 1990 that were not reported.

Customs' previous management contractor, Northrop Worldwide Aircraft Services, Inc., did not file the IRS returns associated with these cash transactions because Northrop officials believed Northrop was not subject to the reporting requirement. IRS, however, maintains that Northrop was subject to the reporting requirement and should have filed the appropriate cash transaction returns. According to Customs officials, the current management contractor, E. G. & G. Dynatrend, is filing the required returns.

Customs' previous management contractor did not maintain complete records for each sales transaction. This hampered our ability to fully test for prohibited purchases. About 28 percent of the records we reviewed were missing key sales data such as purchaser's name, street address, or city. Testing done on 3,675 sales transaction records that contained sufficient information for our tests showed that most purchases appeared to be proper. We identified only 26 possible prohibited purchases. Two purchases may have been made for Customs employees, and 24 purchases may have been made by subcontractors or their employees. We could not confirm from available records that these purchases were, in fact, prohibited. We asked Customs' Office of Internal Affairs to follow up on the 26 possibly prohibited purchases to determine whether they violated regulatory or contractual prohibitions and to take appropriate action if they did. According to Customs officials, the current management contractor is capturing more complete sales information.

We found only one instance in which an individual purchased, at public auction, the property—a low-value vehicle—that had been seized from him. Other limited tests, designed to determine whether purchases had been made by persons acting as agents for individuals from whom the property had been seized, identified no transactions of this type. We also found no indications of multiple seizures of the same property.

Large Cash Payments Were Not Reported to IRS

Our review of Customs' auction sales revealed that cash sales for more than $10,000 had not been reported to IRS. During fiscal years 1989 and 1990, Northrop held 368 public auctions with revenues totaling $39 million. Cash payments, as recorded in Customs' Seized Property Management System, totaled about $14 million, or 35 percent of the revenue at all sales. For this 2-year period, we identified 259 instances in which Customs' management information system indicated that individual buyers made cash payments over $10,000, totaling about $7 million, at auctions.

Using the bidder numbers from the Seized Property Management System for auctions during fiscal years 1989 and 1990, we obtained bidder registration documents and records that indicated the method of payment. The registration documents provided the names and addresses of the purchasers. However, our review of the payment records disclosed that there had been incorrect coding of both the amount of purchases and the method of payment. These records showed that 155 of the 259 cases involved cash payments under $10,000, although the purchases were for more than $10,000. The remainder of the purchase amounts were paid by cashier's checks, wire transfers, traveler's checks, or credit cards. Cash payments over $10,000 had occurred in 104 of the 259 cases.

The 104 cash payments over $10,000 totaled about $2.4 million, with individual payments ranging between $10,000 and $151,480. Seven individuals had made cash payments over $10,000 at more than one auction. One of the 7 individuals made cash payments of over $10,000 at 12 auctions, paying a total of about $394,000. Many of the cash purchases involved a large number of small bills. For example, one individual paid $62,000 for a vessel using 3,100 $20 bills.

Officials at Northrop told us that they were aware of the IRS reporting requirement but believed Northrop was exempt from it and had said so in a letter to an IRS field office in March 1990. The officials said they believed Northrop was exempt because it did not (1) operate a retail establishment, (2) conduct auctions as a trade or business, or (3) derive its income from selling property or merchandise. IRS headquarters officials, however, told us that even though Northrop was not paid a commission based on sales proceeds, it was paid for disposing of property and was, therefore, subject to the reporting requirement.

In May 1990, Customs awarded a new contract providing for, among other things, disposal of forfeited property and general order merchandise. The new contractor took over these functions in September 1990. Customs' Seizure and Penalties Division officials told us that they had told their new contractor about the IRS reporting requirement and that the new contractor told them it began filing the required returns in October 1990, after its first sale in which cash payments exceeding $10,000 were received. Also, according to Customs officials, cumulative sales records are now maintained and information returns are filed by the new contractor whenever cash sales at an auction to any one buyer exceed $10,000.

On June 7, 1991, we provided IRS the information, including names and addresses, on the cash payments exceeding $10,000 that we identified. IRS officials told us that the information would be used in their income reporting and money laundering analysis programs.

Many Sales Transaction Records Were Missing Data on Buyers

Incomplete sales transaction records precluded us from fully testing all sales transactions in our sample for prohibited purchases. Our testing methodology was dependent upon obtaining records of transactions that contained, among other things, key information such as the name, street address, and city of the individual making the purchase. The sales transaction records we obtained—primarily the Notice of Award—were completed and maintained by the previous management contractor. Our review of 4,276 of these records showed that essential data were sometimes missing. For example, the sales transaction records did not contain key items of information to completely identify the buyers for 1,216, or 28 percent, of the 4,276 records. Of these 1,216 records, 674 lacked 1 key item, 299 lacked 2 key items, and 243 lacked all 3 key items.

Although the previous management contractor failed to maintain complete records, the current management contractor has made efforts to resolve purchaser documentation problems by using an automated system for capturing sales data. For a sale we attended in fiscal year 1991, the current management contractor provided us with an automated record, prepared during the sale, containing complete property, purchaser, and payment data. The current management contractor told us that any missing data could be identified at the sale, both when the registration form was completed by the bidder and during computer input. The current contractor said that the bidder could be asked, while still on-site, to provide missing information.

Testing Showed Most Purchases Appeared to Be Proper

For 3,675 records tested, we identified 26 purchases that were, or may have been, made directly or indirectly by Customs or subcontractor employees. With one exception, these were generally one-time purchases. We did not find that any Northrop employees purchased property. In the exception case, we found that one individual purchased property stored by two subcontractors that had employed him. The individual purchased 10 vessels for prices ranging from $4,000 to $66,000 and 1 boat trailer for $1,550. In total, the individual made 11 purchases and paid $283,000 for property Customs valued at $428,650. Because records Customs obtained for us from the previous management contractor did not show the dates of employment for this individual, we could not conclusively determine whether the purchases were prohibited under contractual provisions. Following are summaries of the other 15 possibly prohibited purchases:

- Two vehicles were purchased by two individuals listing the same address as Customs employees. One vehicle was 3 years old, and the other was 12 years old.
- Nine purchases were made by six individuals who listed addresses that matched subcontractor addresses. The individuals purchased nine vehicles, varying in age from 1 to 11 years, for $17,550.
- One vessel, valued at $12,000, was purchased for $14,000 by the teenaged daughter of a subcontractor employee. Customs investigated this sale in response to a complaint received 18 months later. After reviewing the voice recording of the auction, Customs concluded that there had been active bidding for the vessel. On this basis, and because the sale had occurred 18 months previously, Customs decided not to take any further action.
- Three purchases totaling 3,870 pounds of shrimp were made by one subcontractor for $18,885.

More information on these purchases is in appendix II. We provided Customs' Office of Internal Affairs with details on these purchases on June 7, 1991, for appropriate verification and further action, if warranted.

Violators of Customs Laws or Regulations Were Not Purchasing Forfeited Property

Our tests of 3,532 sales records that included names of the purchasers identified only 1 instance in which property had been sold back to violators of Customs laws or regulations. We tested for direct purchases by violators by comparing the names of purchasers shown on the sales records with the names of violators maintained in another Customs database. The one instance we found was of a violator purchasing back a relatively old vehicle that had been seized from him. Selling forfeited property to violators is not prohibited. However, such sales could reduce the deterrent value of the forfeiture program.

Indirect purchases, such as those by a relative with a name or address different from the violator, or those made through an agent, are difficult to identify. Without any complaint or information from third parties, testing for indirect purchases would require extensive investigative effort. For property requiring some type of registration, such as vehicles and vessels, it is possible to obtain names of registered owners to match against the names of violators. We did a limited test on 26 out of 251 vessels in our database that had been seized and sold in Florida. We selected these vessels because the sales records included registration numbers. We had the Coast Guard and the Bureau of Vessel Titling and Registration, Florida Department of Natural Resources, check the registration numbers against their records. These agencies identified 32 individuals and 3 businesses that had been registered owners of the 26 vessels.

We tested the names of the 32 individuals against the database of violators maintained by Customs. We also tested the names and addresses of the registered owners against our database of Customs, contractor, and subcontractor employees to identify indirect purchases by prohibited parties. No matches were found.

It was not practical for us to test for subsequent registrations of the approximately 2,000 vehicles in our database because of the number of states in which they may have been registered. To test for recycling (seizure, forfeiture, sale, and reseizure) of vehicles, however, we compared the vehicle identification numbers, obtained from the sales records, for 1,338 vehicles that had been initially seized in Arizona, California, and Texas. These vehicles, which represented about 68 percent of the approximately 2,000 vehicles in our database, were selected because they were in areas where illegal drug transportation is high. Our test was designed to determine whether Customs had seized the same vehicle more than once. No such occurrences were identified.

Conclusions

Cash sales for more than $10,000 at Customs auctions were not being reported to IRS by the previous management contractor. We identified 104 such sales during fiscal years 1989 and 1990 totaling about $2.4 million. The reporting requirement was designed to help ensure that large cash incomes were being reported to IRS and to curtail money laundering. Record keeping was also poor, making it difficult for us to reconstruct the specifics concerning such sales. Customs officials assured us that the current management contractor is capturing complete property, purchaser, and payment data in an automated format and has been reporting cash payments exceeding $10,000 to IRS since taking over the contract in September 1990.

No widespread instances of potentially prohibited purchases were identified in our review of controls Customs uses to ensure that its employees and those of its management contractor and subcontractors do not purchase forfeited property and general order merchandise. Information on 26 possible prohibited purchases was provided to Customs' Office of Internal Affairs for followup. However, the absence of key buyer identification information on sales transaction records maintained by the previous management contractor prevented us from fully testing 28 percent of the purchases at the auctions included in our analysis. More importantly, the absence of complete readily available information on buyers reduced Customs' and the management contractor's basis for evaluating essentially passive controls over purchasers of the forfeited property and general order merchandise. The procedures implemented by the current management contractor appeared to provide a better basis for ensuring the collection of complete data in the future.

With one exception, which involved a low-value vehicle, we found no indication that violators were purchasing property that had been seized from them.

Agency Comments and Our Evaluation

The Commissioner of Customs, on behalf of the Secretary of the Treasury, and Northrop Worldwide Aircraft Services, Inc., provided written comments on a draft of this report. Their comments are included as appendixes III and IV, respectively. Additionally, IRS headquarters officials informally told us they had no objections to any of the material in the report.

In her comments, the Commissioner of Customs asked that we make a number of minor technical refinements and include some additional information showing where Customs had made other improvements to the controls discussed in this report. All of the requested changes were made.

Northrop's comments, however, were generally not as favorable. Northrop expressed concern that we had mischaracterized the overall condition of their records and had concluded, without sufficient evidence, that the new contractor was maintaining better records. Northrop also stated it did not report cash sales of more than $10,000 to IRS because of an exemption.

Discussions with a Northrop official indicated that they were aware a large number of Notices of Award records were missing key sales data such as purchaser's name, street address, or city. According to that official, it would have been an inefficient use of staff to completely fill out each Notice of Award since the information existed in other sales records, such as bidder registration forms. Northrop, however, was unable to do the research necessary to locate the missing data we needed for our review because the company was undergoing personnel reductions and phasing out its Customs operation.

We chose to use the Notice of Award as the principal document for our work because (1) that document provided for capturing the information needed for our tests and (2) Northrop's procedural manual provided for filling out the document. Our resources were also limited, and it did not seem prudent for us to try to locate the missing data ourselves since Northrop officials agreed that many of the Notice of Award documents were missing key sales data.

Northrop also expressed concern that we had concluded, without sufficient evidence, the new contractor was maintaining better records. As stated in the report, our review of records maintained by the new contractor was limited to records produced from one major auction in Miami in October 1990. Our review of those records showed them to contain complete property, purchaser, and payment data. However, because our review of the new contractor's records was limited to one auction, we took no position on the overall condition of the records maintained by the new contractor. Rather, we reported (1) our observations on the records reviewed and (2) that, according to Customs officials, the new contractor was maintaining better records overall.

Northrop agreed with our finding that it did not report cash transaction sales of $10,000 or more to IRS because of an exemption. We did not say that Northrop was exempt from the reporting requirement. We said that (1) Northrop believed it was exempt and (2) IRS headquarters officials told us that Northrop was subject to the reporting requirement and should have been making the required reports on all cash transactions over $10,000.

In addition to the above comments, Northrop provided us with a marked up copy of the draft report suggesting certain changes. Each of those suggested changes was evaluated, and changes were made to the report as appropriate.

We will provide copies of this report to the Secretary of the Treasury; the Commissioner of Customs; and Mr. Glen Warren, Manager, Financial Planning and Analysis, Northrop Worldwide Aircraft Services, Inc. We will also provide copies to other parties upon request.

The major contributors to this report are listed in appendix V. If you have any questions about this report, please call me on (202) 275-8387.

J. William Gadsby

J. William Gadsby
Director, Federal
Management Issues

Contents

Abbreviation

IRS	Internal Revenue Service

Objectives, Scope, and Methodology

This work was done in response to a request from the Subcommittee on Oversight, House Committee on Ways and Means, and as part of our overall assessment of Justice's and Customs' seized property programs under the Comptroller General's high-risk initiative. Additionally, we are required by the Anti-Drug Abuse Act of 1988 to annually audit Justice's and Customs' asset forfeiture funds.

Our objectives were to assess whether Customs and contractor internal controls over sales of forfeited property and general order merchandise (1) precluded purchases by prohibited parties or (2) frustrated the intent of forfeiture by selling property back to violators. Additionally, we reviewed compliance with the IRS reporting requirement on cash sales over $10,000. To identify the key internal controls, we interviewed appropriate Customs, IRS, Treasury, and contractor officials and reviewed the applicable statutes, regulations, policies, and contractual provisions. The bulk of our work involved substantive tests of internal controls over sales of forfeited property. Because automated records were not available, we used sales transaction records—primarily the Notice of Award—for the 379 auctions Customs held nationwide from June 1, 1986, through December 1988 to develop a database on buyers at 248 auctions in the 11 Customs districts having the most auctions. The districts included were Nogales, Ariz.; Los Angeles; San Diego; Miami; New Orleans; Buffalo; San Juan, P. R.; Dallas, El Paso, and Laredo, Tex.; and Seattle. These districts accounted for 4,276 sales, or 65 percent of all sales during the period covered.

We used Notice of Award information to record purchase data into 4,276 computer records because these documents should have contained all data elements needed for our tests. The data elements included such descriptive information as the purchaser's name, street address, and city; the property seizure number and item description; vehicle and vessel identification numbers; and the name of the subcontractor that stored the property. As we entered purchase data, we found that many of the documents were missing information. We asked the previous management contractor to review bidder registration documents and provide the data missing from the sales records. The management contractor told us that because of the effort involved, they were able to research only a small portion of the records. After entering the additional information provided, we had 3,532 records that contained purchaser names. However, for some of our tests, such as address matches, we were able to use up to 3,675 records because they contained at least one of the key data elements, i.e., purchaser's name, street address, or city of residence.

We determined whether Customs' sales of seized property were arms-length transactions by testing the data to identify direct and indirect prohibited purchases. To test for direct purchases, we compared buyer names and addressees obtained from sales transaction records with names and, where available, addresses of Customs, previous management contractor, and judgmentally selected subcontractor employees. Indirect purchases—using a friend, business associate, etc., to make the purchase for the prohibited buyer—are much more difficult to detect because these relationships may not appear on any Customs or management contractor record systems. To test for indirect purchases, we compared all purchaser addresses, regardless of the purchaser's name, to addresses of employees. We also identified, through Dun & Bradstreet national directories, business associates of volume buyers. We tested these against all employee names to determine whether the employees were associated with the buyers. Further, we identified and compared names of registered owners of vessels purchased in volume by two purchasers with employee names to determine whether indirect purchases had been made in this manner.

To determine whether individuals purchased property that had been seized from them, we compared all buyer names and the names of the registered owners of the vessels that had been seized and sold in Florida with a database of violators of Customs regulations and with registration records maintained by the Coast Guard and the Bureau of Vessel Titling and Registration of the Florida Department of Natural Resources. We also compared vehicle identification numbers to determine whether vehicles had been seized, sold, and then seized again.

We tested compliance with IRS' reporting requirement on cash payments over $10,000. To do this we searched, on-line, Customs' Seized Property Management System database for fiscal years 1989 and 1990 to identify cash payments in excess of $10,000. In addition, we extracted sale and bidder number data for bidders spending more than $10,000 in cash at one sale. Using the bidder number, we obtained from the former management contractor's files relevant bidder registration forms from which we extracted purchasers' names and addresses.

Our work was done between June 1990 and December 1990 in accordance with generally accepted government auditing standards.

Purchases of Customs Seized Property Possibly Made by Customs and Subcontractor Employees

During our review, we found that 26 sales were possibly prohibited under Treasury regulations. The property involved was estimated by Customs to be worth $474,450 and was sold for $337,310. Tables II.1, II.2, and II.3 list the 26 sales by the type of purchaser.

Table II.1: Possible Indirect Purchases by Customs Employees

Sale date	Property description	Sale price	Customs' estimated value
11/22/86	1983 Ford pickup	$3,025	unknown
03/07/87	1975 GMC Sprint	850	unknown
Total		**$3,875**	

Table II.2: Volume Purchases Possibly Made by One Subcontractor Employee

Sale date	Property description	Sale price	Customs' estimated value
02/18/87	1986 fishing vessel	$66,000	$65,000
06/24/87	38 ft. sailing vessel	4,000	15,000
09/23/87	45 ft. fishing vessel	53,500	44,000
09/23/87	53 ft. sailing vessel	59,000	150,000
11/18/87	23 ft. sailing vessel	4,250	21,000
11/18/87	27 ft. fishing vessel	15,000	24,000
11/18/87	31 ft. boat trailer	1,550	3,900
05/25/88	43 ft. crew boat	21,000	28,000
09/28/88	35 ft. sailing vessel	7,700	22,000
03/23/88	42 ft. fishing vessel	24,000	15,750
09/23/87	38 ft. fishing vessel	27,000	40,000
Total		**$283,000**	**$428,650**

Table II.3: Purchases Possibly Made by Other Subcontractor Employees

Sale date	Property description	Sale price	Customs' estimated value
11/05/86	62 ft. freighter	$14,000	$12,000
10/08/87	1985 Chevrolet Citation	3,050	7,200
10/08/87	1985 Chevrolet Citation	3,350	7,200
10/08/87	1986 Dodge Adventurer	3,700	8,000
08/20/87	1980 Volkswagen Caribe	1,350	1,900
08/20/87	1984 Ford pickup	2,700	6,000
04/16/87	1978 Chevrolet pickup	1,600	unknown
07/22/86	1975 Dodge Monaco	100	unknown
12/17/87	1976 Pontiac	450	500
04/13/88	1981 Volkswagen Beetle	1,250	3,000
03/04/87	1900 lbs. shrimp	7,885	unknown
07/30/87	985 lbs. shrimp	5,500	unknown
07/30/87	985 lbs. shrimp	5,500	unknown
Total		**$50,435**	**$45,800**

Comments From the U.S. Customs Service

THE COMMISSIONER OF CUSTOMS

July 31, 1991

WASHINGTON, D.C.
CO:T:S:O RAS

Dear Mr. Fogel:

Your letter of June 26, 1991, addressed to Secretary Brady, and accompanying draft report entitled Asset Forfeiture: Customs has Improved Its Controls Over Sales of Forfeited Property has been referred to my staff for comments and reply.

The Assistant Secretary (Enforcement) asked us to include the following comments:

Now on p. 3.

Page 4: Correct the definition of money laundering in footnote 3.

Now on p. 4.

Page 7: Correct the definition of general vs. general order property.

Now on p. 8.

Page 13: The report should reflect specific steps now taken to collect Form 8300 (Report of Cash Payments over $10,000) information; and, to prevent Customs employees and contractors from bidding. Specific information should be collected regarding current practices.

Now on p. 8.

Page 14: Report should include how current contractor collects sales data.

Customs Seizures & Penalties Division, Office of Trade Operations, provided the following comments:

Now on p. 3.

Page 6: Please insert the words "transferred to another government agency" after the words "participating in the seizure" (third sentence of last paragraph).

Now on p. 4.

Page 7: Please insert the words "or is unclaimed" after abandoned in the second sentence of the second paragraph.

Now on p. 4.

Page 8: The issue of the contractor deliberately impeding sales by the tactics described remains possible and calls for funding to increase attendance and audits of auctions.

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On the same page, please cite Section 127.1 correctly regarding whether merchandise taken into Customs custody is considered general order. Merchandise is considered general order when taken into the District Director's custody only if it meets conditions 1 - 4; and contingent on the District Director's discretion.

Now on p. 5.

Page 10: Customs now accepts all forms of payment for purchase of forfeited and abandoned property. The contractor has been advised of this policy and, in turn, has advised its field offices.

In general, we are pleased to have received such a favorable report and would like to extend our appreciation for this useful study.

If there are further questions regarding this matter, please refer them to the Seizures & Penalties Division at (202) 566-5435.

Sincerely,

Carol Hallett

Carol Hallett
Commissioner

Mr. Richard L. Fogel
Assistant Comptroller General
U.S. General Accounting Office
Washington, D.C. 20548

Comments From Northrop Worldwide Aircraft Services, Inc.

NORTHROP

Northrop Worldwide Aircraft Services, Inc.
A Subsidiary of Northrop Corporation
P.O. Box 108
Lawton, Oklahoma 73502-0108
Telephone 405 353-2733

July 16, 1991

Mr. Richard L. Fogel
Assistant Comptroller General
U.S. General Accounting Office
1717 H Street NW
Washington, DC 20006

Dear Mr. Fogel:

We appreciate the opportunity to comment on the draft GAO report titled "Asset Forfeiture: Customs Reports Improved Controls Over Sales of Forfeited Property". Mr. Roy Hooks discussed with Messrs. Lively and Tehas our concerns about the accuracy of some report statements and the incorrect impressions some syntax would likely generate. Both were receptive to our providing a marked up copy of the report to reflect our opinions and position.

There are four major claims in the report.

1. Evidence showed most purchases were proper.

   We concur.

2. Northrop did not keep accurate and complete records.

   We strongly disagree.

3. Northrop did not report cash sales of $10,000 or more to the IRS because of an exemption.

   We agree.

4. The new Contractor is maintaining better records.

   GAO has not performed an investigation to determine this. The statement is based on hearsay.

Our comments on the enclosed copy are provided solely in the interest of fair and accurate reporting of our performance. We are prepared to prove our claims.

Mr. Richard L. Fogel
July 16, 1991
Page 2

Thank you again for the opportunity to contribute to the report. Please call if you need further information or clarification.

Sincerely,

Glen Warren
Manager, Financial
Planning and Analysis

Attachment

Copy w/attachments:

Rodger Lively
U.S. General Accounting Office
1717 H Street NW
Room 44002
Washington, DC 20006

Vernon L. Tehas
U.S. General Accounting Office
1445 Ross Avenue
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