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ASSET FORFEITURE

Historical Perspective on Asset Forfeiture Issues

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Asset Forfeiture: Historical Perspective on Asset Forfeiture Issues

Summary

Enforcement actions resulted in the value of the Departments of Justice's and the Treasury's seized property inventories growing from a reported $33 million in 1979 to almost $2 billion in 1994. In January 1990, the Comptroller General identified seized and forfeited assets as a high-risk area because it had been characterized by mismanagement and internal control weaknesses.

In June 1991, GAO recommended consolidating the management and disposition of all noncash seized properties. It reported that estimated program administration costs could be reduced 11 percent annually if Justice and the U.S. Customs Service consolidated the postseizure management and disposition of such items and that consolidation would likely result in lower contractor costs due to economies of scale. According to Justice and Treasury, the 1992 legislation that established a separate Treasury fund complicated the potential for consolidation. There are no plans for consolidation of asset management disposition functions. GAO still sees areas of possible duplication between the two funds and programs and accordingly believes that consolidation makes sense.

In March 1993, the Justice Office of Inspector General (OIG) reported mismanagement by contractors hired by the Marshals Service to maintain and dispose of property, resulting in excessive costs and lost revenues of almost $2.8 million in six districts reviewed by the OIG. The OIG reported that $2.5 million of the excessive costs and lost revenue resulted from a lack of effective Marshals Service oversight of real property management contracts. In March 1994, OIG reported that the Marshals Service was not disposing of forfeited property expeditiously, allowing property to deteriorate, thus resulting in lost revenue when it was sold. The Marshals Service has initiated various actions to address these problems.

GAO's fiscal year 1992 and 1993 and Treasury OIG's fiscal year 1994 financial statement audits of Customs revealed inadequate safeguards over, and incomplete and inaccurate accounting and reporting of, seized property. Customs is taking steps to address these problems; however, these efforts are in various stages of development. As GAO reported, while Customs' efforts are commendable, it must establish and implement additional policies and procedures, such as periodically summarizing and assessing the results of its seizure efforts, and make significant enhancements to its seized property tracking system. In addition, a significant and sustained effort by Customs management would help to ensure that established policies and procedures and planned improvements are properly implemented.

Statement

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the asset forfeiture programs of the Departments of Justice and the Treasury. I will provide a historical perspective on the programs, including why we identified the programs as "high-risk;" problems that were identified; and efforts to fix the problems, including unresolved issues.

As asset forfeiture programs grew in the 1980s, we found that property was not being properly cared for after it was seized, which resulted in lost revenue to the government when the property was sold. Much has been accomplished in this area since the 1980s. However, some significant problems remain with seized property management. Also, Justice and Treasury continue to operate two similar but separate seized asset management and disposal programs despite legislation requiring them to develop and maintain a joint plan to coordinate and consolidate postseizure administration of certain properties.[1] Further, Treasury is in the process of establishing a separate asset tracking system but plans to continue to share information with Justice's system.

My testimony updates our high-risk report on asset forfeiture programs through discussions with agency officials.[2] We discussed this statement with Justice and Treasury officials and incorporated their views where appropriate.

Background

Asset forfeiture programs were intended to (1) punish and deter criminal activity by depriving criminals of property used or acquired through illegal activities and (2) make seized property available as assets to strengthen law enforcement. Seized and forfeited property include businesses, cash, bank accounts, automobiles, boats, airplanes, jewelry, art objects, and real estate. Justice and Treasury also seized thousands of tons of illegal drugs and counterfeit items that have no resale value to the federal government. These latter items are typically held by the agencies until they are approved for destruction or, in the case of some counterfeit items that Treasury seized, for donation to charity. The Marshals Service and the U.S. Customs Service are responsible for holding and maintaining real and tangible personal property seized by participating agencies within Justice and Treasury, respectively, for disposition.

[1]The Anti-Drug Abuse Act of 1988, Public Law No. 100-690, Section 6078(a), 21 U.S.C. 887 (1988).

[2]High-Risk Series: Asset Forfeiture Programs (GAO/HR-95-7, Feb. 1995).

An example of a business that the Marshals Service seized and continues to operate is the Bicycle Club, a card casino in Bell Gardens, California. The Marshals Service seized the Club in April 1990 and continues to hold it today. According to the Marshals Service, in August 1994, it accepted an offer to buy the Club: however, the prospective buyer was not able to secure financing. The Club's net income has declined from $23.1 million in 1993, to $19.3 million in 1994, to $14.0 million in 1995.[3] It uses a trustee to manage its interest in the Club. The current trustee was appointed in 1993 and was paid about $322,500 ($210,000 in salary and $112,500 in bonus) last year. His compensation is higher than any federal employee.

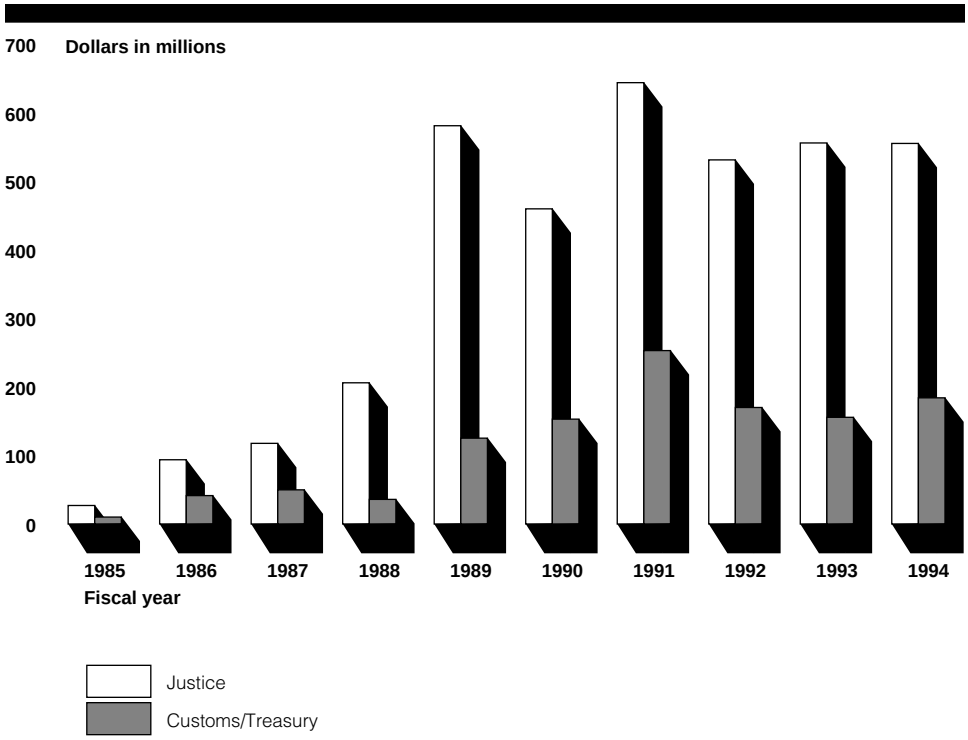
Although the government has had forfeiture authority for over 200 years, it was rarely utilized as a law enforcement tool until the 1980s. The Comprehensive Crime Control Act of 1984 expanded forfeiture authority and established asset forfeiture funds within Justice and Customs to hold the proceeds of forfeitures and to finance program-related expenses (for example, property management expenses) and certain law enforcement activities, such as the payment of rewards for information related to asset seizure and training directly related to the asset forfeiture programs.

Until recently, Treasury law enforcement agencies other than Customs—i.e., the Bureau of Alcohol, Tobacco and Firearms; the Criminal Investigation Division of the Internal Revenue Service (IRS); and the U.S. Secret Service—participated in the Justice Asset Forfeiture Fund. In October 1992, Congress created the Treasury Forfeiture Fund to supersede the Customs Forfeiture Fund.[4] Treasury agencies that previously participated in the Justice Fund began making deposits into the Treasury Fund in October 1993. Figure 1 shows the two funds' receipts through fiscal year 1994.

[3]We have not audited the Bicycle Club.

[4]Treasury Forfeiture Fund Act of 1992, Public Law No. 102-393, 31 U.S.C. 9703 (1992).

Figure 1: Forfeiture Fund Receipts, Fiscal Years 1985 Through 1994



Source: Department of Justice, Department of the Treasury, and U.S. Customs Service.

These funds have always collected more than the allowable expenses that could be charged against them.[5] However, some seized property may result in a negative cash flow (i.e., associated costs exceed associated revenue). Year-end surpluses in the Justice Fund historically have been used for law enforcement purposes, such as building prisons or funding special activities through the Office of National Drug Control Policy (ONDCP). Year-end surpluses in the Customs Fund were transferred to the general fund of the Treasury. Beginning with fiscal year 1994 and through fiscal year 1997, a portion of the year-end surpluses in the Treasury Fund are to be transferred to ONDCP. Surpluses remaining in the fund after transfer are available to the Secretary of the Treasury for any law enforcement activity of a federal agency.

[5]Allowable expenses exclude certain costs, such as salaries and benefits of seizing agents, which are borne by the seizing agency.

Asset forfeiture legislation authorizes Justice and Treasury to share forfeiture proceeds with state and local law enforcement agencies and foreign governments that participate in law enforcement efforts leading to seizure and forfeiture of property and cash. From fiscal years 1986 through 1994, Justice and Treasury shared over $1.4 billion and $394 million, respectively, in forfeited property and cash with over 3,000 state and local law enforcement agencies.

While improvements have been made in the areas of seized property management and management information systems, Justice and Treasury Offices of the Inspector General (OIG) and we reported that problems remain (see related GAO products). Therefore, we continue to classify the programs as high-risk.

Asset Forfeiture Programs Identified as High-Risk

In January 1990, the Comptroller General identified seized and forfeited assets as a high-risk area because it had been characterized by mismanagement and internal control weaknesses. More specifically, the programs

- had experienced enormous growth in seized assets inventories as reported by Justice and Customs (from $33 million in 1979 to $1.4 billion in 1989 and was almost $2 billion in 1994);
- had a history of debilitating internal control problems leading to mismanagement of seized cash; inaccurate reporting on financial results of program operations; and an inability to maximize revenues on hundreds of millions of dollars' worth of seized cars, boats, airplanes, and real estate; and
- had a lack of U.S. Attorneys and Marshals Service staffs who were sufficiently knowledgeable and experienced in real property law and management to adequately deal with the many complex issues that routinely arise in the transfer of title for forfeited properties.

Status and Continuing Concerns

In February 1995, we reported on the status of the asset forfeiture programs and progress made. The following sections describe the key continuing concerns.

Seized Property Management Problems Remain

Problems persisted with the Marshals Service's maintenance and disposal of seized and forfeited property, according to Justice OIG reports. In March 1993, OIG reported (93-10) mismanagement by the Marshals Service in maintaining and disposing of property, resulting in excessive costs and

lost revenues of almost $2.8 million in six districts reviewed by OIG.[6] The OIG also said that $2.5 million of the excessive costs and lost revenue resulted from a lack of effective Marshals Service oversight of real property management. In one district, the Marshals Service sold seized property for $5.3 million, of which it received $1.3 million as a down payment and an interest bearing note of $4 million. The prospective buyer of the seized real property later defaulted. When the district resold the property for $2.5 million, it applied the proceeds to the note which left $1.75 million balance due. Since the original buyer was in bankruptcy, the balance may or may not be received. In addition, the OIG also reported that the Marshals Service failed to detect improper payments for property taxes, attorney fees, and title insurance. The OIG said that these deficiencies occurred primarily because oversight by the Marshals Service was lacking and its guidance was fragmented in several documents.

In March 1994, the OIG reported (94-14) that the Marshals Service was not disposing of forfeited property expeditiously, allowing property to deteriorate, thus resulting in lost revenue when it was sold. The Marshals Service has initiated various actions to address these problems, such as revising procurement policies, conducting contract management reviews at certain districts, and providing additional training to seized assets management staff, according to the Inspector General.

The Justice OIG in its fiscal year 1994 audit of the Justice asset forfeiture program (95-24A, July 1995) reported that there were no closing procedures in place at fiscal year-end designed to ensure that all forfeited property was recorded in the property management system for the Justice Fund. Further, the estimated value of forfeited property may not include all possible liens and claims of innocent third parties.

Our fiscal year 1992 and 1993 and Treasury's fiscal year 1994 financial statement audits of Customs revealed inadequate safeguards over, and incomplete and inaccurate accounting and reporting of, seized property. Customs is taking steps to address these problems; however, these efforts are in various stages of development.

Customs conducted its first nationwide physical inventory of seized property—including drugs, currency, and counterfeit items—in February 1994. As a result of this inventory, Customs was able to identify and correct many significant errors in the recorded quantities and values of seized property. This effort was also intended to establish an accurate

[6]The Marshals Service has 94 districts.

baseline for monitoring and reporting activity that results from Customs' enforcement efforts. However, as we previously reported, some Customs locations did not effectively perform all of the inventory procedures. Subsequently, the Treasury OIG reported in its Management Letter for the Audit of Customs' Fiscal Year 1994 Financial Statements (OIG-95-130, Sept. 29, 1995) that Customs performed another inventory in September 1994. While less severe than the problems found in the February 1994 inventory, this second inventory also identified significant errors in recorded quantities and values of seized property.

Customs also had undertaken significant efforts to strengthen safeguards at its storage locations. Specifically, it had performed a study and evaluation of the adequacy of its physical safeguards over seized property and currency at 21 medium- to high-volume storage facilities. In addition, Customs constructed new facilities in two districts and had plans for renovation at other facilities. However, OIG reported in its audit of Customs' fiscal year 1994 financial statements that controls in place for ensuring the integrity and safety of stored narcotics were not consistently followed or were not effective. Also, narcotics and other property used in undercover operations were not adequately safeguarded.

In our February 1995 report, we stated that while its efforts are commendable, Customs must establish and implement additional policies and procedures, such as periodically summarizing and assessing the results of its seizure efforts and making significant enhancements to its seized property tracking system to ensure proper accountability for and stewardship over seized property. In addition, a significant and sustained effort by Customs management would help to ensure that established policies and procedures and planned improvements are properly implemented. Otherwise, Customs' ability to report reliable financial information and effectively carry out its seizure program will continue to be diminished. Also, tons of illegal drugs and millions of dollars in currency and other property will remain vulnerable to theft and misappropriation.

Property Management Consolidation Efforts Unsuccessful

In addressing the issue of duplication of effort, one of the provisions of the Anti-Drug Abuse Act of 1988 required the Attorney General and the Secretary of the Treasury to develop and maintain a joint plan to coordinate and consolidate postseizure administration of property seized for drug-related offenses. In June 1991, we recommended consolidating the management and disposition of all noncash seized properties, designating the Marshals Service as the custodian. We estimated program

administration costs could be reduced 11 percent annually if Justice and Customs consolidated the postseizure management and disposition of such items. We estimated the savings on the basis of fewer positions being needed if both programs were combined into one. We also reported that consolidation would likely result in lower contractor costs due to economies of scale. Independently operating in the same areas may result in higher prices paid for services than under a consolidated program, which may be able to obtain lower vendor prices because of a higher volume of activity. We found this to be true in six locations.[7]

The Marshals Service and Customs entered into a memorandum of understanding in October 1992 for a 1-year small scale pilot consolidation project whereby the Marshals Service managed and disposed of Customs' real property and Customs managed and disposed of vessels for the Marshals Service at four districts. A total of 52 properties were involved in the pilot project, which dissolved at the end of the 1-year period. In a November 28, 1994, letter, the Marshals Service reported the costs and proceeds associated with the assets in the pilot project. However, the report did not contain a comparison of what costs would have been had the assets not been consolidated. Hence, there was no way to determine the effectiveness of the pilot project from the information provided.

According to Justice and Treasury, the 1988 Act indicated Congress' policy choice that the executive branch conduct its asset forfeited-related management and disposition operations in a unified manner. However, no changes in existing statutory authorities were enacted to facilitate compliance with the policy. According to Justice, three Treasury bureaus joined the Justice asset forfeiture program, which consolidated federal management and disposal of most assets seized for judicial forfeiture. Justice believes that, because of extensive communication between itself and Treasury, a formal joint plan to achieve consolidation was not necessary.[8] Justice added that complete consolidation had been impractical due to the continuance of a separate Customs Fund and a separate method of accomplishing asset management and disposal.

According to both departments, the 1992 Act, which established the Treasury Fund, complicated the potential for consolidation. Treasury said

[7]San Diego and Calexico/El Centro, California; Yuma, Arizona; and McAllen, Laredo, and El Paso, Texas.

[8]21 U.S.C. 887 provides that: "The Attorney General and the Secretary of the Treasury shall take such action as may be necessary to develop and maintain a joint plan to coordinate and consolidate post-seizure administration of property seized under this subchapter, subchapter II of this chapter, or provisions of the customs laws relating to controlled substances."

its fund would provide parallel leadership, policy, and management structures for its forfeiture activities. Since the creation of the Treasury Fund, all Treasury bureaus have joined Customs in establishing a separate, but consolidated, Treasury property management and disposal program, while continuing with each agency's separate and unique seizure and forfeiture authorities. On the basis of the 1992 Act and the differences in the two methods of accomplishing property management and disposal, Justice does not believe the development of a formal plan is necessary or practical. Accordingly, there are no plans for consolidation of asset management and disposition functions.

We still believe that consolidation of asset management and disposition functions makes sense and is still required even with the passage of the 1992 Act. Both agencies seize similar types of property that is generally located in the same geographic areas. However, under the current operating structure, each agency maintains a separate and distinct program for managing and disposing of its property. Justice, through the Marshals Service, contracts directly with multiple vendors for management services. Treasury, through the Customs Service, has a single nationwide contractor that provides custodial services either directly or through subcontracts with other vendors. Further, our June 1991 report stated that costs could be reduced through consolidation. Neither Justice nor Treasury has developed cost data to show whether benefits could or could not be realized. In addition, the 1988 statute clearly requires the Attorney General and the Secretary of the Treasury to develop and maintain a joint plan. The statute permits the parties to determine what action should be taken to carry out the statutory mandate. More recently, the House Appropriations Committee stated in its July 19, 1995, report that "the consolidation of asset management and disposition functions of Justice and Treasury could address duplication and provide cost savings to the management and disposal process." The report added that the Committee expects Justice to review the feasibility of consolidating contract vendors for both the Marshals Service and Treasury agencies.[9]

Duplicate Asset Forfeiture Funds and Programs

We see areas of possible duplication between the two funds and programs that extend beyond property management and disposition activities, to include forfeiture fund administration and management. The Treasury Fund structure essentially mirrors that of the Justice Fund. Both funds have their own management, operations staff, custodial agencies (Customs and Marshals Service), and contractors to maintain and dispose of

[9]Departments of Commerce, Justice, and State, The Judiciary, and Related Agencies Appropriations Bill, Fiscal Year 1996, H.R. Rep. No. 104-196, 104th Cong., 1st Sess. 20 (1995).

property. Although, the funds worked closely together to develop policies that minimize variations in forfeiture procedures and operations, the existence of two separate funds has the potential for unnecessary duplication. For example, each department recently issued its own set of very similar program guidance.

Justice and Treasury were pursuing consolidation of asset tracking systems. Both departments had agreed to develop, implement, manage, operate, enhance, and support a Consolidated Asset Tracking System (CATS). CATS was intended to be the primary automated system for asset tracking and management used by all agencies participating in both the Justice and Treasury asset forfeiture programs. However, Treasury now believes a separate system is needed in order for it to meet federal government financial reporting requirements. CATS was developed prior to the issuance of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 3 (FASAB No. 3) which requires the reporting of certain seized property information. For example, the statement requires federal agencies' financial statements to include an analysis of change in seized property during the year, such as the dollar value and number of seized properties that are (1) on hand at the beginning of the year, (2) seized during the year, (3) disposed of during the year, and (4) on hand at the end of the year.

Customs pointed out that both the Treasury OIG and we reported that Customs did not have a sufficient system to account for seized property from seizure until final disposition. Accordingly, Treasury authorized Customs to develop a system for all Treasury agencies—Seized Asset and Case Tracking System (SEACATS). While Treasury recognized that CATS could be modified to meet the financial reporting requirements, it believes that developing a new system to meet the requirements would be preferable. For example, on July 5, 1995, IRS informed Justice that CATS does not address its needs and requirements and any future participation will depend on whether or not an electronic bridge can be established between IRS' tracking system and CATS.

Improved Guidance for the Use of Shared Assets

Continuing the consolidation theme, in July 1992, we concluded that because state and local law enforcement agencies often see the Justice and Customs asset sharing programs as one, the programs should have the same guidelines, with the same interpretations of appropriate asset use.[10] Officials in some state and local agencies found the guidance vague and

[10]Asset Forfeiture: Improved Guidance Needed for Use of Shared Assets (GAO/GGD-92-115, July 16, 1992).

confusing, with Justice and Customs allowing different uses of shared proceeds despite having similar program policies. We recommended that Justice and Customs issue joint guidelines for asset sharing with clear, specific definitions for concepts such as "law enforcement purposes" and "supplanting of resources."

To date, joint guidelines have not been issued. However, Treasury and Justice issued separate sets of revised and mutually agreeable asset-sharing guidance in October 1993 and March 1994, respectively. The clarified guidance is intended to significantly reduce state and local law enforcement agency confusion about appropriate uses of shared assets and should lead to fewer improper uses of assets.

Further Action Needed

As we have reported, Justice and Treasury have made many improvements to their asset forfeiture programs over the years. However, enhancements to seized property tracking systems and development and implementation of additional policies and procedures are needed to help ensure adequate accountability and stewardship over seized property. In addition, continued oversight will be required to ensure that existing policies and procedures and planned improvement efforts are properly implemented. The Subcommittee's hearing today demonstrates the need for active oversight in the area of asset forfeiture. We will continue to monitor seized property management activities.

Possible duplication of resources within the two forfeiture funds and programs is of particular interest in light of budget constraints. Therefore, we continue to believe that Justice and Treasury should aggressively pursue options for efficiency gains through consolidation.

Mr. Chairman, this concludes my prepared statement. My colleagues and I would be pleased to answer any questions.

Related GAO Products

High-Risk Series: Asset Forfeiture Programs (GAO/HR-95-7, Feb. 1995).

Financial Audits: CFO Implementation at IRS and Customs (GAO/T-AIMD-94-164, July 28, 1994).

Restitution, Fines, and Forfeiture: Issues for Further Review and Oversight (GAO/T-GGD-94-178, June 28, 1994).

Financial Audit: Examination of Customs' Fiscal Year 1993 Financial Statements (GAO/AIMD-94-119, June 15, 1994).

Financial Management: Customs' Accountability for Seized Property and Special Operation Advances Was Weak (GAO/AIMD-94-6, Nov. 22, 1993).

Financial Management: First Financial Audits of IRS and Customs Revealed Serious Problems (GAO/T-AIMD-93-3, Aug. 4, 1993).

Financial Audit: Examination of Customs' Fiscal Year 1992 Financial Statements (GAO/AIMD-93-3, June 30, 1993).

High-Risk Series: Asset Forfeiture Programs (GAO/HR-93-17, Dec. 6, 1992).

Tax Administration: IRS's Management of Seized Assets (GAO/T-GGD-92-65, Sept. 24, 1992).

Asset Forfeiture: Improved Guidance Needed for Use of Shared Assets (GAO/GGD-92-115, July 16, 1992).

Asset Forfeiture: U.S. Marshals Service Internal Control Weaknesses Over Cash Distributions (GAO/GGD-92-59, May 8, 1992).

Asset Forfeiture: Customs Reports Improved Controls Over Sales of Forfeited Property (GAO/GGD-91-127, Sept. 25, 1991).

Asset Forfeiture: Noncash Property Should Be Consolidated Under the Marshals Service (GAO/GGD-91-97, June 28, 1991).

Asset Forfeiture: Need for Stronger Marshals Service Oversight of Commercial Real Property (GAO/GGD-91-82, May 31, 1991).

Asset Forfeiture: Opportunities for Savings Through Program Consolidation (GAO/T-GGD-91-22, Apr. 25, 1991).

Asset Forfeiture: Opportunities to Improve Program Administration (GAO/T-GGD-91-16, Mar. 13, 1991).

Oversight Hearings on Asset Forfeiture Programs (GAO/T-GGD-90-56, July 24, 1990).

Asset Forfeiture: Legislation Needed to Improve Cash Processing and Financial Reporting (GAO/GGD-90-94, June 19, 1990). Asset Forfeiture: Helping Finance the War on Drugs (GAO/GGD-90-01VR, Oct. 1989).

Profitability of Customs Forfeiture Program Can Be Enhanced (GAO/T-GGD-90-1, Oct. 10, 1989).

Asset Forfeiture: An Update (GAO/T-GGD-89-17, Apr. 24, 1989).

Asset Forfeiture Programs: Progress and Problems (GAO/T-GGD-88-41, June 23, 1988).

Asset Forfeiture Programs: Corrective Actions Underway But Additional Improvements Needed (GAO/T-GGD-88-16, Mar. 4, 1988).

Seized Conveyances: Justice and Customs Correction of Previous Conveyance Management Problems (GAO/GGD-88-30, Feb. 3, 1988).

Real Property Seizure and Disposal Program Improvements Needed (GAO/T-GGD-87-28, Sept. 25, 1987).

Asset Forfeiture Funds: Changes Needed to Enhance Congressional Oversight (GAO/T-GGD-87-27, Sept. 25, 1987).

Millions of Dollars in Seized Cash Can Be Deposited Faster (GAO/T-GGD-87-7, Mar. 13, 1987).

Drug Enforcement Administration's Use of Forfeited Personal Property (GAO/GGD-87-20, Dec. 10, 1986).

Customs' Management of Seized and Forfeited Cars, Boats, and Planes (Testimony, Apr. 3, 1986).

Improved Management Processes Would Enhance Justice's Operations (GAO/GGD-86-12, Mar. 14, 1986).

Better Care and Disposal of Seized Cars, Boats, and Planes Should Save Money and Benefit Law Enforcement (GAO/PLRD-83-94, July 15, 1983).

Asset Forfeiture: A Seldom Used Tool in Combatting Drug Trafficking (GAO/GGD-81-51, Apr. 10, 1981).

Drugs, Firearms, Currency, and Other Property Seized by Law Enforcement Agencies: Too Much Held Too Long (GAO/GGD-76-105, May 31, 1977).

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