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STATEMENT OF
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BEFORE THE
COMMITTEE ON THE BUDGET
UNITED STATES SENATE
ON
CUSTOMS' MANAGEMENT OF
SEIZED AND FORFEITED CARS, BOATS, AND PLANES

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Mr. Chairman and Members of the Committee:

We are pleased to be here to participate in hearings on Customs' management of seized and forfeited cars, boats, and planes. As you know, the General Accounting Office has conducted prior work on the subject of asset seizure and forfeiture. In July 1983, we issued a report entitled Better Care and Disposal of Seized Cars, Boats, and Planes Should Save Money and Benefit Law Enforcement (GAO/PLRD-83-89, dated July 15, 1983) which discussed our finding that seized conveyances often devalue rapidly after seizure, primarily because of the lengthy forfeiture process and inadequate storage, maintenance, and protection. We recently issued a report entitled Improved Management Processes Would Enhance Justice's Operations (GAO/GGD-86-12, dated March 14, 1986) which, among other things, contains our observations relating to the Department of Justice's management of seized and forfeited assets. We also performed a brief review last year at your request relating to Customs' management of seized boats stored on the Miami River and testified on that subject before you here in Miami on October 14, 1985.

On November 22, 1985, you requested us to follow up and expand our work on seized boats in Miami to determine if cars, boats, and planes seized and stored by Customs in Miami and other locations were being disposed of in a timely manner. To assist us in our investigation, you asked Customs to provide information on each seized car, boat, and plane (conveyances) disposed of or stored by Customs' district offices during

fiscal year 1985. We reviewed the information provided to you by Customs and identified three district offices that had a large number of seized conveyances on hand or disposed of during fiscal year 1985--Miami, Florida (5026); Tampa, Florida (833); and Laredo, Texas (843). We visited those locations and (1) reviewed the processes that were used to dispose of forfeited conveyances, (2) analyzed case files where conveyances were forfeited and delays occurred in the disposal process, and (3) visited sites where seized conveyances were stored.

I would like to emphasize that because of time constraints, we focused on judgmentally selected cases which appeared to have delays in the disposal process, and, when possible, determined the reasons for and effects of the delays. Thus, while we observed shortcomings in the process for disposing of some forfeited conveyances in Miami, Tampa, and Laredo, we cannot generalize from our observations to an overall evaluation of the forfeiture management process in those three locations or in the Customs Service as a whole. Nevertheless, the General Accounting Office's standards for internal controls in the federal government require federal agencies to ensure that all assets are safeguarded against waste, loss, unauthorized use, and misappropriation.

TIME FRAMES FOR OBTAINING
AUTHORIZATION TO DISPOSE
OF CONVEYANCES

Customs has established time frames for completing the administrative work required for obtaining authorization to

dispose of seized and forfeited conveyances. If the conveyance is to be kept by Customs for official use, the administrative work, which involves obtaining Customs Headquarter's approval, should take 18 working days. If the conveyance is not to be kept by Customs, but is to be transferred to another federal agency or sold at auction, the General Services Administration gets involved in the process and the work should, according to Customs, take 78 working days. Physically disposing of the conveyance once the administrative requirements are met depends on the acceptance by a government agency or the frequency of auctions.

OBSERVATIONS RELATING TO CUSTOMS'
MANAGEMENT OF SEIZED AND FORFEITED
CONVEYANCES

Our limited audit work indicates that Customs is not in compliance with internal control standards in Miami, Tampa, and, to a lesser degree, Laredo. We believe that the shortcomings we observed are of sufficient importance to warrant prompt and continuing attention by Customs' management. Customs has already remedied some of these shortcomings as a result of concerns raised during your October 1985 hearings and during the audit work represented by this testimony. As I will discuss in a minute, we did not observe all of these shortcomings in each of the three locations we visited. Nevertheless, in the course of our review, we observed that:

- Forms used to track and monitor the status of individual seized and forfeited conveyances were not always filled out promptly.

--Authorization forms for disposal of forfeited conveyances were not always returned to the district offices from Customs' headquarters or regional office in a timely manner.

--Authorization forms for disposal that were received by district offices were not always acted on by the district offices in a timely manner.

--Some case files on seized conveyances were misplaced or lost.

--Seized conveyances transferred to Customs' operating groups for their use were not promptly disposed of.

We believe these shortcomings might not have occurred if Customs had maintained an effective follow-up system to track the progress of the seized conveyances through the forfeiture and disposal process.

Before I go on to describe what happens when these shortcomings occur, I would like to compare what we observed at the three locations that we visited. In Miami, we observed all of the shortcomings listed above. In Tampa, we observed many of the same shortcomings but fewer cases where forfeited conveyances were not promptly disposed of. We observed some of these shortcomings in Laredo, but the results of the shortcomings do not appear to be nearly as significant as in Miami and Tampa. Because these hearings are being held here in Florida, I will confine my testimony to our observations in Miami and Tampa.

As I have previously mentioned, our focus was on identifying and examining cases where Customs could have disposed of seized conveyances in a more timely manner and, if possible, on determining the reasons for and effects of the delay. In Miami and Tampa combined, we examined 72 cases where Customs could have disposed of seized conveyances more promptly. As a result of the delays, Customs incurred unnecessary costs in storing and maintaining the conveyances and missed opportunities to obtain a higher return from the sale of the assets.

I would like to discuss a few cases which illustrate the shortcomings in internal controls that we observed. The first case involves the lack of timeliness in filling out Customs Forms 42, which are used to report forfeited property and property subject to judicial forfeiture for screening and utilization by Customs and other government agencies. The conveyance (a vessel) has no name that we are aware of, but its number is FL6833EA.

In this case (the pertinent information is included in appendix I), Customs did not promptly prepare and file a Form 42, which should have been completed within 10 days of July 20, 1982 (the date the case was sent to the U.S. Attorney for judicial forfeiture). There was no follow-up system to detect the oversight. As a result, this vessel (appraised at \$7,430 at the time of seizure) was kept in storage and not disposed of for about 2 years longer than necessary (from August 1983 to October 1985). Although we were not able to determine the loss of

potential revenue to the government, it appears that about 2 years' worth of storage and maintenance costs and depreciation could have been avoided if Customs had promptly filed the Form 42. The vessel is scheduled for disposal at the April 1986 auction.

The second case demonstrates what happens when the Customs district office requests authorization to dispose of a conveyance but does not receive the authorization from Customs Headquarters in a timely manner. The name of the boat is the Gregory. (Pertinent information relating to this vessel is included in appendix II.)

In this case, the Customs district office requested authorization to dispose of the boat on February 4, 1980, but did not receive the authorization to dispose of it from Customs Headquarters until December 6, 1984, nearly 5 years later. The appraised value of this vessel was \$459,510 at the time of seizure. Although we were not able to determine the loss of potential revenue to the government, it appears that the boat could have been disposed of in 1980 or 1981 and that the subsequent 4 to 5 years of storage and maintenance costs and depreciation would not have occurred.

The third case demonstrates what can happen when the district office receives the authorization to dispose of an asset but fails to take action in a timely manner. The name of the boat is the Capt. Otis II. (Pertinent information about this boat is included in appendix III.)

A Customs official told us that the authorization to dispose of the boat was received by the district office on October 29, 1982, but was filed without action being initiated for disposal. The error was uncovered in July 1985 and action was taken to auction the boat. The appraised value of this boat was \$68,000 at the time of seizure and it sold for \$3,100. Again, we could not determine the potential loss of revenue to the government, but we believe that nearly 3 years' worth of storage and maintenance costs and depreciation could have been avoided.

The fourth case demonstrates what can happen when the district office loses the case file. The name of the boat is the Premo Donna. (Pertinent information relating to this vessel is included in appendix IV.)

Customs was unable to reconstruct this case. A Customs official told us that neither the Regional Counsel nor the Chief Counsel who are involved in the forfeiture process have files on this boat. No one could find whether the Form 42 was ever prepared. When this was discovered, the District Director administratively forfeited the boat and issued a destruction order. A district official told us the boat (appraised at \$54,675 at the time of seizure) is to be destroyed as soon as possible. Again, we could not determine the potential loss of revenue to the government caused by Customs' inaction, but it appears that Customs could have, at least, avoided some storage costs and some depreciation of the boat.

The fifth case demonstrates what can happen when a conveyance is disposed of by transferring it to Customs for its use only to learn later that the conveyance is not needed or wanted. The number of the seized aircraft is N8470C. (Pertinent information relating to the case is included in appendix V.)

In this case, the Customs district office transferred the aircraft (valued at \$37,250 at the time of seizure) to one of the Customs' air branches and forwarded the release papers to Customs Headquarters on February 23, 1983. The air branch, however, never accepted the aircraft. A district office official told us that the district office learned in November 1985 that the aircraft was never accepted and requested a second authorization for disposition on November 5, 1985. The aircraft is scheduled to be auctioned in April 1986. Again, we could not determine the loss of potential revenue to the government, but we believe that nearly 3 years' worth of storage and maintenance costs and depreciation could have been avoided.

OTHER OBSERVATIONS

We also observed two other areas of concern. First, we observed a number of cases in which Customs incurred a loss when a seized conveyance was disposed of. Our primary purpose in presenting the following list of cases is to indicate the potential magnitude of the overall costs involved in storage, maintenance, and depreciation from the time a conveyance is seized to when it is ultimately forfeited and finally disposed

of. An unknown portion of these costs may be attributable to valid delays occurring prior to the actual forfeiture of the seized conveyance. However, in our judgment, Customs management should explore the possibility of initiating disposal procedures earlier when the potential cost to the government becomes clearly in excess of any foreseeable revenues which could be realized when the conveyance is disposed of. As shown below, Customs incurred about \$256,000 in expenses to store and maintain nine vessels with an appraisal value totalling about \$1.2 million at the time of seizure. Subsequently, Customs received a total of about \$76,000 from the sale of the vessels--about \$180,000 less than the expenses incurred.

Examples of Some Seized Conveyances
Which Resulted in Monetary Losses to Customs

<u>Name of boat</u>	<u>Appraised value at time of seizure</u>	<u>Selling price</u>	<u>Direct Cost incurred by Customs (storage, etc)</u>	<u>Excess of direct cost over sales price</u>
Anna	\$275,000	\$ 7,000	\$63,735	(\$56,735)
Questar	44,000	9,000	19,916	(10,916)
Eidsvag	50,000	9,500	34,965	(25,465)
Capt. Romie	19,760	1,000	27,992	(26,992)
Capt. Otis II	68,000	3,100	20,845	(17,745)
Gregory	459,510	22,000	44,037	(22,037)
FL3861DL	35,200	12,100	12,825	(725)
Sand Bar III	250,000	11,354	15,783	(4,429)
King Snapper	40,000	1,000	15,783	(14,783)
Total	<u>\$1,241,470</u>	<u>\$76,054</u>	<u>\$255,881</u>	<u>(\$179,827)</u>

Second, we observed a number of shortcomings relating to Customs' housekeeping practices and procedures. The system used

to process and keep track of seized assets was a manual system at the Miami District Office. When we visited the office in February, we observed that there was no charge-out system for files. This required employees to spend time searching for needed case files. The staff used cardboard boxes as filing cabinets for many of the case files because of the lack of standard filing cabinets and the lack of storage space.

The storage room that the Miami District Office used to secure seized cocaine, marijuana, and weapons had no sign-in/sign-out system for monitoring who entered and left the room. The room was in disarray. We observed about 343 pounds of cocaine stored in plastic bags on pallets, rather than in sealed containers as required by Customs regulations. Marijuana from one seizure was not properly identified relating it to a particular case, and marijuana from other seizures had spilled on the floor. Seized weapons were stored in a large canvas hamper.

The storage room at the Tampa District Office was neater. We found, however, that about \$5,000 had been stored in a safe since 1981, even though it should have been processed in accordance with Customs regulations for disposal of cash.

ACTIONS TAKEN BY CUSTOMS

Customs has taken corrective actions based on concerns raised at your October 1985 hearings in Miami and our current work. At the time we performed our work relating to boats stored on the Miami River in 1985, there were 145 boats on the

River. At the October 1985 hearings, Customs promised action. Customs has informed us that 88 of the boats have been disposed of, 38 boats have been forfeited and are scheduled for disposal, and 19 boats are currently being processed.

We have also been informed that a system is being established to follow cases through the forfeiture and disposal process which is independent of the case files. If properly designed and implemented, such a system should provide Customs with tighter control over seized conveyances and the ability to promptly follow up on those cases that do not move through the system quickly.

I would like to add at this point that Customs has entered into a contract for \$44 million over 4 years (if all options are exercised) with Northrop Worldwide Aircraft Services, Inc., to provide for the management of seized assets, including conveyances. Although this will not relieve Customs of its responsibility to ensure that assets are safeguarded against loss, it should help correct many of the shortcomings we identified.

The storage room has been cleaned up and the cocaine and marijuana have been disposed of. A log has been established to identify who enters and leaves the storage room. Finally, we were informed by a Customs official that the \$5,000 that was stored in Tampa is being processed in accordance with Customs regulations for disposal of cash.

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In summary, Customs has the responsibility to establish internal controls which ensure that seized assets are safeguarded against waste and loss. We observed that Customs management of seized conveyances in the Miami and Tampa district offices had some shortcomings in internal controls and that some conveyances could have been disposed of in a more timely manner. If Customs had disposed of these conveyances more promptly, it could have avoided storage, maintenance, and depreciation costs and possibly could have realized increased net revenues from the sale of some conveyances. In 1983, we pointed out that Customs had problems in this area. At that time, Customs stated that it was developing an automated system that would provide information that could be used to control and monitor seized conveyances. Tests of the system were scheduled to begin late in 1983. These developments have not materialized. We were also told by Customs in 1983 that a separate but similar system was already in use in Miami, where the largest number of conveyances are seized.

In October 1985, we pointed out that weaknesses existed in the system Customs used to manage boats stored on the Miami River. Customs has reacted appropriately by disposing of most of the boats and taking definitive action to dispose of the rest.

In recent months, we have looked more closely at Customs' management of some seized and forfeited conveyances at three

district offices and have observed shortcomings in internal controls. These shortcomings have caused delays in the disposal of forfeited conveyances and have resulted in the government incurring excess storage and maintenance costs and reduced revenues from sales of forfeited conveyances. We have also observed other shortcomings in Customs management practices. I would like to emphasize that Customs has been very responsive to our comments and suggestions for improvement.

In our judgment, the Northrop contract could help but this does not relieve Customs of its responsibility to properly manage the seized property program. The difference between Customs having a good system for storing and disposing of seized conveyances and having a bad system is the emphasis given to the process by Customs' management. It remains to be seen whether Customs management will continue to give this matter the emphasis it has recently received and continues to deserve.

Mr. Chairman, this completes my prepared remarks. My colleagues and I will be happy to answer any questions you may have.

EXAMPLE OF A CASE WHERE CUSTOMS FORM 42 WAS NOT
FILLED OUT IN A TIMELY MANNER

Name/number of conveyance:	FL6833EA	
Date seized:	2/14/82	
Date forfeited:	8/26/83	
Authorization for disposition requested by the Customs district office:	10/26/85	
Authorization for disposition received by the Customs district office:	1/28/86	
Appraised value at time of seizure:		\$7,430
Current appraised value:		\$4,458
Direct costs incurred by Customs to date (storage, etc.):		\$5,584

EXAMPLE OF A CASE WHERE AUTHORIZATION TO DISPOSE
OF CONVEYANCE WAS NOT RECEIVED IN A TIMELY MANNER

Name/number of conveyance:	Gregory	
Date seized:	12/14/79	
Date forfeited:	4/30/80	
Authorization for disposition requested by Customs district office:	2/4/80	
Authorization for disposition received by Customs district office:	12/6/84	
Date of disposal:	1/16/85	
Appraised value at time of seizure:	\$459,510	
Selling price:		\$22,000
Direct costs incurred by Customs (storage, etc.):		44,037
Excess of direct costs to Customs over selling price:		(\$22,037)

EXAMPLE OF A CASE WHERE THE DISTRICT OFFICE RECEIVED
DISPOSAL AUTHORIZATION, BUT ACTION WAS NOT TAKEN
IN A TIMELY MANNER

Name/number of conveyance:	Capt. Otis II
Date seized:	10/31/81
Date forfeited:	3/27/84
Authorization for disposition requested by Customs district office:	5/12/82
Authorization for disposition received by Customs district office:	10/29/82
Date of Disposal:	10/9/85
Appraised value at time of seizure:	\$68,000
Selling price:	\$3,100
Direct costs incurred by Customs (storage, etc.):	20,845
Excess of Customs direct costs over selling price:	(\$17,745)

EXAMPLE OF A CASE WHERE THE DISTRICT OFFICE
LOST THE CASE FILE

Name/number of conveyance: Premo Donna

Date seized: 9/11/77

Date forfeited: 10/29/85

Authorization for disposition requested
by Customs district office: Unknown

Authorization for disposition received
by Customs district office: Unknown

Appraised value at time of seizure: \$54,675

Current appraised value (no salvage value) 0

Direct cost incurred by Customs to date
(storage, etc.): \$22,775

EXAMPLE OF A CASE WHERE TRANSFERRING A CONVEYANCE TO
CUSTOMS AIR BRANCH RESULTED IN A DELAY IN DISPOSAL

Name/number of conveyance:	N8470C	
Date seized:	1/18/81	
Date forfeited:	11/9/81	
Authorization for disposition requested by Customs district office	10/23/82	
Authorization for disposition received by Customs district office:	12/27/82	
Released to Customs air branch:	2/23/83	
District office recognized that air branch did not accept conveyance and initiated disposition action:	11/5/85	
Appraised value at time of seizure:		\$37,250
Current appraised value:		0
Direct costs incurred by Customs (storage, etc.):		\$3,701