REVIEW OF CONTRACT PERFORMANCE RELATED TO SEIZED AND FORFEITED PROPERTY

OIG-00-121 **SEPTEMBER 8, 2000**

Office of Inspector General

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United States Department of the Treasury

OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 8, 2000

MEMORANDUM FOR RAYMOND W. KELLY, COMMISSIONER
UNITED STATES CUSTOMS SERVICE

RAYMOND M. DINEEN, DIRECTOR
EXECUTIVE OFFICE FOR ASSET FORFEITURE

FROM: Dennis S. Schindel
Assistant Inspector General for Audit

SUBJECT: Review of Contract Performance Related to Seized and Forfeited Property

This memorandum transmits the subject final audit report. Our objective in conducting this review was to determine how effectively contracted services were being provided with regard to seized and forfeited property.

Based on our review, we are making eight recommendations that address the following conditions: (1) the estimated inventory value of general property was overstated, (2) contract requirements for property insurance were out of date, (3) forfeited property was not always offered for sale within 63 days of receipt of a disposition order, (4) performance award fee criteria was not always applicable, (5) seizing agencies were not always timely entering seized property information into the Seized Asset and Case Tracking System, and (6) contractor invoices could be reviewed more thoroughly.

With regard to the first recommendation listed above, we estimate that by adjusting the inventory value of general property, it may be possible to reduce insurance premiums by as much as $402,000 annually. Please be advised we are recording this amount as potential funds put to better use in the Inventory, Tracking and Closure (ITC) System. We

will also include the amount in the Office of Inspector General Semiannual Report to the Congress. U. S. Customs Service (Customs) and Executive Office for Asset Forfeiture (EOAF) management are responsible for recording the actual amount of funds put to better use as a result of the audit in the ITC System.

In commenting on the draft report, Customs and EOAF officials generally agreed with our findings and recommendations. They disagreed with recommendations that called for (1) modifying contract insurance requirements (Recommendation 1), and (2) clarifying or more strictly complying with performance evaluation plan criteria (Recommendation 7). However, they provided other alternative actions that satisfied the intent of these two recommendations. We incorporated other comments into the report as appropriate. The complete text of Customs and EOAF's responses are presented in Appendixes 2 and 3, respectively.

We appreciate the courtesies and cooperation provided to our auditors during the audit. If you wish to discuss this report, please contact me at (202) 927-5400, or have a member of your staff contact Barry L. Savill, Director, Program Audits, at (202) 283-0151.

Attachment

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OVERVIEW

This audit, which was initiated in accordance with the *Office of Audit Annual Plan For Fiscal Year (FY) 1999*, was one of two Office of Inspector General (OIG) reviews conducted regarding seized and forfeited assets. A second review (OIG-99-016), for which a separate report has been issued, was conducted to determine whether internal controls were in place to properly account for and effectively manage asset forfeiture funds.

This report presents the results of the OIG's audit work concerning contract performance related to seized and forfeited property. Our audit objective was to determine how effectively contracted services were being provided with regard to seized and forfeited property. Our review also included follow-up work on prior audit recommendations with regard to the seized property auction process. Our audit work was performed from January through May 1999.

Based on our review, we are making eight recommendations that address the following conditions: (1) the estimated inventory value of general property was overstated, (2) contract requirements for property insurance were out of date, (3) forfeited property was not always offered for sale within 63 days of receipt of a disposition order, (4) performance award fee criteria was not always applicable, (5) seizing agencies were not always timely entering seized property information into the Seized Asset and Case Tracking System (SEACATS), and (6) contractor invoices could be reviewed more thoroughly. With regard to the first item listed above, we estimate that by adjusting the inventory value of general property, it may be possible to reduce insurance premiums by as much as $402,000 annually.

Our review also found that: Contract modifications were prepared and processed in accordance with

Federal Acquisition Regulation (FAR) requirements, internal controls were adequate to safeguard property and ensure proceeds of sale were recorded and accounted for properly, real property sold in Calendar Year 1998 was properly processed and proceeds from the sales were deposited timely into Treasury's account, and contract requirements did not present an inherent conflict of interest for the contractor.

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BACKGROUND

Public Law 102-393, Treasury Forfeiture Fund Act of 1992, established the Department of the Treasury (Treasury) Forfeiture Fund (Fund). As a result of this law, Treasury established the Executive Office for Asset Forfeiture (EOAF) to consolidate all Treasury law enforcement bureaus under a single forfeiture fund program.

In addition to other responsibilities, EOAF was tasked with implementing Treasury policy decisions with regard to seized or forfeited property. This task included: (1) developing and implementing automated systems to track assets from seizure to disposition; (2) operating and managing programs designed to handle the transportation, custody, and sale or disposition of assets; and (3) entering into and administering contracts for the management of assets.

Under a memorandum of understanding, EOAF made the United States Customs Service (Customs) its Executive Agent for securing property management services for seized and forfeited property. As the Executive Agent, Customs, in FY 1996, entered into the second in a series of contracts for the transportation, storage, maintenance, and disposal of seized and forfeited property. This second contract, which was addressed by this review, was a *Cost Plus Award Fee* type contract that provided for a transition, base, and four 1-year option periods at an estimated cost of about $89.8 million. With modifications (36 in total), the cost increased by about $21.4 million during the first 4 years of the contract.

Customs also implemented the SEACATS in November 1996 to serve as a single repository for all inventory and case information related to seized and forfeited property within Treasury. Through a module within SEACATS, the seized property contractor records and manages all valued seized and forfeited property on behalf of all Treasury law enforcement bureaus.

According to the contractor, in FY 1998:

- an average of 2,600 transactions were performed a month involving five categories (aircraft, vessels, real property, vehicles, and general property) of seized and forfeited property;

- about 11,600 line items valued at about $337 million were maintained; and

- over 13,000 line items valued at approximately $54 million were sold at 388 sales.

For FY 1998, the Fund's independent auditors issued three audit reports. The reports addressed the Fund's financial statements, compliance with laws and regulations, and internal controls. Although the Fund received an unqualified opinion on its financial statements, the reports cited four material internal control weaknesses, six reportable conditions, and one instance of noncompliance with applicable laws and regulations. Many of these deficiencies concerned the accuracy and reliability of seized and forfeited property data and related transactions.

Although our review identified weaknesses similar to those reported by the independent auditors, to avoid duplicate reporting we chose not to address those previously reported weaknesses. This report, therefore, focused on other activities with regard to contract monitoring, contract requirements, and contractor performance. Specifically, our review examined the following areas:

Property Valuation
Property Insurance
Sale of Real Property
Award Fee Process
Property Accountability
Certification of Vendor Invoices
Assignment of Contract Monitoring Responsibilities
Contract Requirements/Modifications

Auction Process
Disposition of Property (Other Than Real Property)
Conflict of Interest

At the conclusion of our work in the 11 areas listed above, a determination was made that no additional review effort was necessary.

OBJECTIVES, SCOPE AND METHODOLOGY

The objective of this review was to determine how effectively contracted services were being provided with regard to valued seized and forfeited property. We also followed up on previous audit recommendations concerning the contractor's auction process to determine whether the recommendations were implemented and working as intended.

To accomplish our overall objective, we conducted on-site work from January through May 1999. We interviewed key personnel involved in the management of seized and forfeited property at Customs' Headquarters and select field offices. We also interviewed personnel from the Internal Revenue Service (IRS) and the contractor. We reviewed relevant legislation, prior OIG and United States General Accounting Office (GAO) audit reports, and relevant Treasury and bureau policies and procedures regarding seized and forfeited property. In addition, we visited Customs facilities in: Newark, New Jersey; New York, New York; Indianapolis, Indiana; and Washington, D.C. We also visited the contractor's facilities in Edison, New Jersey, and Fairfax, Virginia.

To assess the role of the Contracting Officer (CO) and the Contracting Officer's Technical Representative (COTR) in monitoring the performance of the seized and forfeited property contract, we: obtained information concerning assignment of contract administration responsibilities, assessed the CO and COTR's roles in monitoring the performance of this contract, identified the types of reports the contractor furnished to the CO and COTR, and reviewed the award fee process for the fourth quarter of FY 1998.

To evaluate contract (Tc-96-001) requirements, we: obtained and reviewed the contract and all 36 modifications, assessed whether the modifications were within the scope of the contract, analyzed the contract Statement of Work (SOW), and reviewed

contract requirements to determine whether the contractor was required to perform functions or provided services that constituted a conflict of interest.

To assess the contractor's performance, we: conducted a physical inventory on February 3, 1999, of 57 line items statistically selected from a population of 1,199 items stored at the contractor's facility at Edison, New Jersey; reviewed seized and general order merchandise records maintained by the contractor for 88 items sold during the January 8, 1998, auction at Edison, New Jersey; assessed the adequacy of the Government and contractor's system for estimating the value of seized property; issued and analyzed responses to customer satisfaction questionnaires; observed the February 4, 1999, auction of seized and forfeited property at the contractor's facility in Edison, New Jersey; and reviewed select financial transactions that occurred between January 1998 and February 1999.

The Treasury Office of Inspector General for Tax Administration assisted us in obtaining seized and forfeited property information maintained by the IRS.

Our work was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, and included such tests as were deemed necessary.

AUDIT RESULTS

Our audit found that: (1) the inventory value of general property was overstated, (2) contract requirements for property insurance were out of date, (3) forfeited property was not always offered for sale within 63 days of receipt of a disposition order, (4) performance award fee criteria was not always applicable, (5) seizing agencies were not always timely entering seized property information into the SEACATS, and (6) contractor invoices could be reviewed more thoroughly. With regard to the first item listed above, we estimate that by adjusting the inventory value of general property, it may be possible to reduce insurance premiums by as much as $402,000 annually.

Our audit also found that: contract modifications were prepared and processed in accordance with the FAR requirements, internal controls were adequate to safeguard property and ensure proceeds of sale were recorded and accounted for properly, real property sold in Calendar Year 1998 was properly processed and proceeds from the sales were deposited timely into Treasury's account, and contract requirements did not present an inherent conflict of interest for the contractor.

Details and recommended actions are provided in the following sections.

Valuation of Seized Property

The estimated value of seized general property was overstated. As a result, insurance premiums for general property in the custody of the contractor may be reduced by as much as $402,000 annually. In conducting our review, we learned that several factors affect the appraised value of seized property, including the type of commodity, the appraiser's experience, and when the appraisal was performed.

Discussion

The seized and forfeited property contract, SOW, Section 3.13, Appraisal, provides that the appraised value (APV) of seized property is the responsibility of the seizing agency.

According to contract personnel, the contractor maintains an insurance policy on general property. The premiums for this insurance policy are based on the APV reported by the seizing agencies for all general property in the contractor's custody. We were also informed that the annual insurance premiums for all categories of general property were about $502,500 for an average monthly inventory valued at $170 million.

To determine the validity of the APV inventory values established by the seizing agencies, we selected 30 items from the January 8, 1998, auction of seized property at the contractor's Edison Sales Center. Our review showed that the Government routinely received less than 26 percent of the APV assigned by the seizing agency. We also learned from Customs Accounting Services Division (ASD) personnel that, for financial reporting purposes, the seized property inventory had to be adjusted annually to more accurately reflect the market value.

For the last 3 FYs, the general property inventory was adjusted downward by about 80 percent. These adjustments were the results of studies performed by Customs and the Fund's independent public accountant, which showed that the APV for general property was overstated. Thus, if the general property inventory was reduced by about 80 percent to more accurately reflect its realizable value, then it may be possible to reduce insurance premiums by about 80 percent, or as much as $402,000 annually.

Recommendation

1. Customs should modify contract insurance requirements for general property. The modification should require the contractor to adjust the general property APV, for insurance purposes, based on the inventory adjustments used for financial statement reporting.

Management Response and OIG Comment

Both Customs and EOAF raised concerns with regard to the legal aspects of adjusting the APV, the OIG's consideration of "risk" in estimating insurance savings, and the categories (i.e., aircraft, vessels, general property) of property covered by the insurance premiums. Despite these concerns, Customs stated that it had already modified two sections of the contract that pertained to property insurance and was in the process of evaluating property insurance coverage to find the most cost effective approach.

Although Customs and EOAF raised concerns about this finding, the actions taken or underway by Customs generally meet the intent of our recommendation. In addition, to dispel some of Customs and EOAF's concerns, this finding and recommendation did not contemplate Customs changing the APV recorded in SEACATS. Therefore, the legal concerns raised by Customs and EOAF do not appear to be valid. Second, we did not consider "risk" in estimating insurance savings because the insurance rates used by the contractor were fixed rates per dollar value of property. Thus, "risk" was not a factor that we needed to consider. Third, according to the contractor, our insurance calculations did not include all categories of property. For example, vessel and aircraft were not categories of property included in our estimate. Further, the $502,500 cited in our report as the annual insurance premium for all general property was provided by the contractor's risk manager. The risk manager was responsible for all property insurance matters, including insurance premium payments.

Consequently, we still believe Customs should consider, along with other approaches identified in its insurance evaluation process, adjusting the general property APV, for insurance purposes only, to more accurately reflect fair market value.

Property Insurance

Our review indicated that Customs had not revised contract requirements for property insurance that were out of date. This condition occurred because an agreement between contractor and Customs personnel regarding the method for obtaining insurance was not properly authorized by the CO. As a result, the contractor was not in compliance with the property insurance requirements set forth in the contract.

Discussion

The seized and forfeited property contract, Section H.15, Other Required Insurance, provides for the types and minimum amounts of insurance the contractor is required to procure and maintain during the performance period of the contract. This section requires the contractor to provide insurance for the categories of property listed. For most categories (i.e., aircraft, vessels, vehicles, general property, and real property) the contract requires insurance only on individual property items with an appraised value in excess of an established minimum value. For example, aircraft with an appraised value of $150,000 or greater are required to be insured.

Section H.15 also requires the contractor to furnish to the CO a plan or methodology for obtaining required insurance. Furthermore, the contractor is required to notify the CO prior to canceling or making any material change to an insurance policy that adversely affects the interest of the Government.

Our review, however, indicated that the contractor did not procure insurance on individual property items at or above the minimum appraised value listed in the

contract. Instead, the contractor procured insurance for all property items within a category. For example, the contractor insured all aircraft with a combined value up to $20 million. When the combined value exceeded $20 million, additional insurance would be obtained at an additional cost.

We were informed that contractor and Customs personnel verbally agreed to the current method of procuring property insurance. Contractor and Customs personnel also informed us that the current method of insuring property was more cost effective, provided better coverage, and reduced the Government's risk of loss in case of damage. We found no indication, however, that the CO formally authorized the current method of procuring property insurance.

Without the CO's authorization, the contractor's actions were not in compliance with the property insurance requirements set forth in the contract. We did not attempt to verify the contractor and Customs' claim that the insurance method currently being employed by the contractor was the most cost effective. Our reasoning was that management needed to first decide what level, if any, the Government should self insure before a proper analysis could be made.

Recommendations

2. Customs should remind its personnel of the importance of not entering into informal agreements with the contractor.

3. Customs should either modify the contract to come into alignment with current business practice or require the contractor to comply with existing insurance requirements.

Management Response and OIG Comment

Customs and EOAF agreed with both recommendations. In its response to

Recommendation 2, Customs stated that a policy memorandum was issued March 16, 2000, concerning tasking authority for the contractor. With regard to Recommendation 3, Customs stated that, among other things, Section H.15 of the contract has been revised to clarify the insurance requirements and the contractor is currently complying with existing insurance requirements. The actions planned or taken by Customs to implement the two recommendations as discussed in its response are considered by the OIG to be responsive.

Seized Property Sales – Other Than Real Property

The contractor did not always offer forfeited property for sale within 63 days of receipt of a disposition order as required by the contract SOW. This condition existed because the SOW (1) did not provide for cut-off dates for accepting disposition orders before the sale date, and (2) prohibited the contractor from selling forfeited property during the last 3 weeks of the FY. Based on information provided to us, the 63-day requirement was not based on empirical data and, therefore, may be unrealistic. This condition was previously reported in September 1996 by Customs' Regulatory Audit Division in audit report 032-96-SZO-004.

Discussion

The seized and forfeited property contract, SOW, Section 3.7, Seized Property Disposition, states that the seizing law enforcement agency will maintain authority over all seized property it transfers to the contractor. The contractor is to maintain seized property until its disposition is directed by the seizing agency. Further, the seizing agency affects disposition by providing the contractor with a signed disposition order, which shows the manner of disposition.

After receipt of the disposition order, the contractor has 63 calendar days to offer the forfeited property for sale. Moreover, the contractor is generally prohibited

from selling forfeited property during the last 3 weeks of the FY.

To assess whether the contractor was complying with the 63-day sales requirement, we selected 46 line items valued at $167,320 from 22 lots of property sold at the contractor's facility in Edison, New Jersey, on January 8, 1998, for review. Our review indicted that only 2 line items were offered for sale within the 63-day requirement. In analyzing the information gathered, we identified two factors that directly influenced the contractor's ability to meet the SOW sales requirement.

First, the SOW did not provide for cut-off dates for accepting disposition orders before the sale date. Cut-off dates are, however, necessary to meet other contractor related sales requirements. For instance, the contractor is required by the SOW to provide the seizing agencies with a formal sales plan and catalogs describing the items to be sold 5 workdays prior to the sale. To meet this requirement, the contractor must analyze available property and establish appropriate sales lots; schedule, market, and advertise the sale; and respond to public inquires concerning the time, place, and nature of the sale.

The second factor concerned the SOW requirement that prohibited the contractor from selling forfeited property during the last 3 weeks of the FY. An analysis of available sales information disclosed that the contractor generally scheduled public auctions, at the contractor's Edison Sale Center, 63 days apart. However, sales scheduled immediately after the end of the FY were as much as 77 days after the last scheduled sale. Consequently, the effective sales period could be as much as 112 days or almost twice the required 63-day requirement when coupled with a cut-off period of 4 to 5 weeks for the receipt of disposition orders.

Recommendations

4. Customs should revise its SOW to include a provision for establishing disposition order cut-off dates for placing property in an auction sale.

5. Customs should provide clarification with respect to the 63-day sale requirement described in the SOW. Customs should consider requiring forfeited property, excluded from an auction sale because the corresponding disposition order was received after the cut-off date, to be offered for sale no later than the date of the next cycle auction.

Management Response and OIG Comment

In responding to the draft report, Customs and EOAF concurred with both recommendations. Customs indicted that the issue of cut-off dates would be addressed with the award of a new contract. In the meantime, Customs would monitor the sale of forfeited property to ensure that it is sold as soon as possible after the property has been forfeited. The OIG agrees with the actions being taken.

Performance Award Fee

Our review found that Customs had not revised contract criteria used to determine performance award fees that were no longer applicable. In addition, Customs' award fee evaluation process raised concerns about how consistently established criteria was applied. As a result, Customs could not, or did not, properly evaluate 9 of the 19 performance elements used to determine the contractors' award fee. Award fees paid to the contractor, therefore, may not be an accurate reflection of the contractor's performance. This condition was due, in part, to the implementation of a new management information system (SEACATS) that did not produce the required reports.

Discussion

The seized and forfeited property contract, Section H.21, Payment of Award Fee, states that the Government shall evaluate the contractor's performance quarterly to determine the award fee earned by the contractor. A Fee Determining Official determines the amount of the award fee earned by the contractor. The Quarterly Performance Evaluation Plan provides the criteria to be used by the Fee Determining Official for the 19 performance areas evaluated. The Fee Determining Official is also responsible for removing from the evaluation any item or event that was not reasonably under the control of the contractor (e.g., natural disasters).

Management reports that were to be used, under the old management information system, to evaluate the contractor's performance in 6 of the 19 areas were no longer available from SEACATS. Customs, therefore, provided the contractor the maximum score in each of these six areas. This meant the contractor automatically received 23.5 percent of the award fee. Based on the last modification to this contract, the award fee pool totaled $6,675,526; 23.5 percent of the award fee pool is $1,568,749.[1]

Our review of Customs' evaluation process also raised concerns about how consistently award fee criteria was applied in three additional performance areas. For instance, our review indicated that management reports and adverse incidents were not always used in accordance with established evaluation criteria in determining the contractor's score.

In discussing the evaluation criteria and how the criteria was applied, we were informed that (1) one management report was not always available, (2) the adverse incident was not a repeat deficiency, and/or (3) the adverse incident did not result in a loss to the

[1] It should be noted the contractor would most likely have earned a large percentage of this amount based on the contractor's documented performance in other areas evaluated.

Government. While we recognize that even the most objective evaluation criteria are open to some interpretation, we believe the interpretation applied to the criteria with regard to the three areas in question was too liberal. (Details were provided to Customs.)

Recommendations

6. Customs should identify alternative criteria or methods for evaluating the contractor's performance for the six areas where management reports are no longer available.

7. Customs should clarify Quarterly Performance Evaluation Plan criteria or more strictly comply with stated criteria.

Management Response and OIG Comment

Customs and EOAF concurred with Recommendation 6. According to Customs, two new reports are now being programmed and should be in production by the end of this fiscal year. Customs also stated the contractor is currently inputting data to SEACATS and once this process has been completed it will be used for the award fee.

EOAF concurred with Recommendation 7. Customs stated it would reemphasize and clarify the performance criteria to those individuals involved in the award fee process and this will meet with the intent of our recommendation.

While we are encouraged by Customs' plan to reemphasize and clarify the performance evaluation criteria to those individuals involved in the evaluation process, we are concerned that this action alone may not correct the conditions cited. We are concerned because our review found no evidence that information from the one missing management report was considered by Customs. In addition, evaluation criteria for the three performance elements questioned by our report were very specific for determining the contractor's score. We, therefore, believe the

applicable criteria needs to be changed or strictly adhered to.

Certification of Contractor Invoices

Reviews of contractor invoices were not sufficiently thorough. Our review indicates that this condition may be attributed to the COTR and Deputy Contracting Officer's Technical Representatives (DCOTR) not receiving detailed billing information prior to approving summary invoices. Another factor communicated to us by Customs management was the lack of personnel to audit supporting contractor charges. As a result, errors associated with the $20 million plus of costs expected to be billed under this contract for FY 1999 could go undetected.

Discussion

GAO's *Policy and Procedures Manual For Guidance of Federal Agencies*; Title 7; Fiscal Guidance, states that effective control over disbursements requires the preaudit and approval of invoices before they are certified for payment. The principal objectives of the preaudit of an invoice are, in part, to determine whether: (1) quantities, prices, and amounts are accurate; (2) computations are correct; (3) goods received or services performed were in accordance with the agreement; and (4) proposed payment under the appropriation or fund involved is legal. Accountability for public funds generally rests with the certifying officer who certifies invoices for payment.

The Department of the Treasury, *Contracting Officer's Technical Representatives Handbook* (TD P 76-01.D), states that COTRs are responsible for reviewing and approving invoices on contracts. The Handbook also provides that the COTR will receive instructions regarding his/her involvement in the review and approval of invoices and vouchers from the CO.

To evaluate Customs process for certifying contractor invoices, we selected 11 summary invoices submitted by the contractor in January 1999 for review. We

found that all 11 invoices were original documents, approved by the COTR, and certified for payment by the CO.

An examination of the COTR and DCOTRs Designation letters showed that they were responsible for "Reviewing contractor's invoices ..., and certifying acceptance." These Designation letters did not, however, specifically make the COTR or DCOTRs responsible for reviewing the supporting detail charges. We also learned that neither the CO or COTR routinely reviewed the detailed listing of supporting charges that the contractor submitted with the summary invoice. We, therefore, selected four invoices totaling about $1.3 million to review the supporting charges.

Because we were unable to reconcile the supporting detail to the summary costs billed, we requested assistance from our Contract and Procurement Audit group. Although their examination of costs billed under this contract did not lead to any significant questioned costs, the lack of consistent invoice review by Customs could result in material errors going undetected. (Due to the proprietary nature of the information obtained in conducting audits of the two contractor's invoices, details are not included in this report. Details are, however, contained in two limited distribution audit reports (OIG-99-096 and OIG-99-099).

Recommendation

8. Customs should review the detailed charges submitted by the contractor in support of the summary invoices. This review should provide reasonable assurance that "preaudit" objectives delineated in GAO's *Policy and Procedures Manual For Guidance of Federal Agencies* are met prior to certifying the contractor's invoices for payment.

Management Response and OIG Comment

Customs and EOAF's response expressed agreement with this recommendation. Customs responded that it planned to develop a procedure for reviewing the detailed charges that support the summary invoices submitted by the contractor. Customs also indicated it was seeking the OIG's advice in implementing this recommendation. The OIG considers the actions planned by Customs responsive to the recommendation. In addition, we are available for any additional discussions Customs wishes to have with regard to the implementation of this recommendation.

Property Accountability

We were able to account for all 69 seized property items selected for inventory at the contractor's warehouse in Edison, New Jersey. Our review, however, disclosed that two property items had not been entered into the property records (SEACATS) by the seizing agencies.

Discussion

The seized and forfeited property contract, SOW, Section 3.5, Physical Accountability, provides that the contractor is to maintain strict accountability of all seized property in its custody.

To assess the contractor's accountability over seized property, we statistically selected 57 of 1,199 seized items from the SEACATS' listing entitled "Contractor Held Property Management System" dated December 31, 1998. In addition, we conducted spot inventories of 12 randomly selected items stored in the contractor's warehouse and matched the items to the property records.

Overall, we found the contractor's warehouse to be exceptionally clean and well organized at the time of our inventory. We also found that location and item numbers were well marked in large bold type, which allowed us to find the items quickly and easily.

Specifically, of the 57 items statistically selected, we found no discrepancies in the count quantity. Due to timing differences between the property listing and our physical inventory, however, 12 of the 57 items were no longer at the contractor's warehouse. These 12 items had been sold, remitted, destroyed, or transferred. Nevertheless, we were able to examine documentation that permitted us to verify the quantity and disposition of these items.

For the 12 items randomly selected for spot inventory, we found no discrepancies in the count quantities for 10 items. We were unable to find the remaining two items on the SEACATS' property listing. We were informed that the seizing agency was responsible for initially entering property information into SEACATS. Since the independent accounting firm reported similar accuracy and reliability problems with SEACATS data in its 1997 and 1998 financial statement audit reports on the Treasury Forfeiture Fund and made recommendations that should correct the noted condition, this report does not contain a recommendation with regard to this matter.

Contract Monitoring and Administration

The COTR and DCOTRs duties associated with the seized and forfeited property contract were assigned in accordance with established Treasury policies and procedures.

Discussion

The Department of the Treasury, *Contracting Officer's Technical Representatives Handbook* (TD P 76-01.D), delineates the duties that the CO may require of the COTR. This Handbook states that the COTR is nominated in writing by the requirements generating organization and notified by a letter signed by the CO. The COTR acknowledges the nomination by signing and returning a copy of the notification/designation letter. This letter is to be tailored specifically for each contract. If sub-COTRs are necessary, they will be

appointed by the CO, with their authorities and duties included in the letter of appointment of the COTR.

To determine whether duties associated with monitoring contractor performance and contract administration were properly assigned, we reviewed the contract, designation and appointment letters, and training certificates. Our review found that the COTR and DCOTRs were designated in writing in the contract schedule and by individual letter. Letters of designation were properly constructed and contained detailed listings of the responsibilities and limitations for each person so designated. Letters of appointment were issued as required. In addition, we noted that the COTR and DCOTRs met or exceeded required procurement training. For example, both DCOTRs had obtained Masters of Procurement degrees from accredited training schools. Consequently, we found no operational deficiencies in this area.

Contract Modifications

Customs prepared and processed all 36 modifications to the seized and forfeited property contract in accordance with prescribed FAR policies and procedures.

Discussion

FAR, Part 43, Contract Modifications, provides guidelines for preparing and processing contract modifications. According to Section 43.102, only COs acting within the scope of their authority are empowered to execute contract modifications on behalf of the Government.

Contract clause 52.243-2, Changes - Cost Reimbursement, permits the CO to make modifications, in designated areas, within the scope of the contract. These modifications are accomplished by issuing written change orders on Standard Form 30, Amendment of Solicitation/Modification of Contract.

To determine whether the 36 contract modifications were properly prepared and processed, we obtained and reviewed all 36 modifications to contract Tc-96-001. Our review indicated that all modifications were in accordance with FAR requirements. Specifically, we found that all modifications were (1) within the scope of the contract, (2) executed by a CO, and (3) accomplished on Standard Form 30.

Seized Property Auction

Internal controls implemented by the contractor during the February 4, 1999, auction of seized property and general order merchandise were adequate to safeguard Government property and ensure proceeds of sale were recorded and accounted for properly. In addition, the contractor had strengthened internal controls with regard to five prior audit recommendations related to the auction process.

Discussion

The seized and forfeited property contract, SOW, Section 3.7.3, Sales and Marketing, states that the contractor shall arrange and conduct public auctions of seized property designated for sale by the seizing agency.

To assess management controls over the auction and receipt process, we observed the public auction conducted by the contractor at its Edison, New Jersey facility on February 4, 1999. In addition, we conducted follow-up work on five prior audit recommendations with respect to the auction process.

Based on our observations, we noted the following internal controls were in place and functioning:

- Buyers could not bid until they completed a *Bidder Registration Form (5077)*;
- Each buyer was given a "Bidder Number" that identified the buyer;

- All sales activities were recorded on videotape;
- Two Sales Control Log clerks recorded bidder number and bid amounts to ensure accuracy of information;
- Periodic announcements were made during the course of the auction to ensure buyers made the necessary deposit or paid in full;
- Four separate cash counts were performed to verify that the correct amount was received from each buyer;
- A three-part document was used to provide the buyer a receipt and to record the entry into the accounting records; and
- Property was not released to a buyer until proper identification was obtained.

In observing these internal controls, we also confirmed that the contractor had implemented five recommendations contained in a June 13, 1997, audit report. The report was issued by an independent accounting firm and it concerned internal control weaknesses in the contractor's Edison, New Jersey auction process.

Disposition of Real Property

All real property sold in Calendar Year 1998 at the contractor's Edison, New Jersey facility was properly processed and proceeds from the sales were deposited timely into Treasury's account.

Discussion

The seized and forfeited property contract, SOW, Section 3.8, Real Property, states that the contractor shall provide assistance and property management services for seized real property. When requested, the

contractor is responsible for providing or obtaining property management services from licensed professionals. These services include, but are not limited to, pre-seizure analysis, appraisals, and title searches.

During Calendar Year 1998, the contractor sold four pieces of real property at its Edison, New Jersey facility. To assess how well the contractor processed these properties, we reviewed file documentation and verified that proceeds from the sales were received and deposited timely into Treasury's account.

Our review showed that: (1) all real property was appraised by an outside independent appraiser prior to sale; (2) Custody Receipts, Disposition Orders, Property Appraisals, Title Insurance Certificates, Lead-based Testing Survey Reports, when required, and Inventory of Property and Contents were on file; and (3) proceeds from the sales were deposited by the contractor within 3 business days. We also verified that Customs ASD properly posted in the accounting records the proceeds deposited by the contractor.

Conflict of Interest

In performing our review of the seized and forfeited property contract, we found no contract requirements that would present an inherent conflict of interest for the contractor. Our review indicated that the contract provided for adequate separation of duties. For instance, the contractor did not receive any form of remuneration, award fee, or bonus based on the sale of assets above an appraised value established by the contractor.

Discussion

FAR, Part 3, Improper Business Practices and Personal Conflicts of Interest, provides that Government business shall be conducted in a manner above reproach. This part also provides that transactions relating to the expenditure of public funds require the

highest degree of public trust. The general rule is to strictly avoid any conflict of interest.

FAR, Subpart 9.5, states that each individual contracting situation should be examined on the basis of its particular facts and the nature of the contract. The exercise of common sense, good judgement, and sound discretion is required in deciding whether a significant potential conflict exists.

Conflict of interest situations that would be prohibited would include a situation where the contractor would be allowed to participate substantially in a matter that would affect the contractor's financial interest.

We reviewed the seized and forfeited property contract and its 36 modifications to determine whether contract requirements inadvertently presented a conflict of interest for the contractor. In addition to a general review of the contract, we performed a more focused review of the contract requirements pertaining to the methods and procedures prescribed for (1) paying or rewarding the contractor for services provided, (2) establishing appraised and/or fair market value for property items, and (3) disposing of items in the custody of the contractor.

Our review showed that this was a *Cost Plus Award Fee* contract. Other than reimbursements for incurred cost, the contractor received only a quarterly fee based on objectively measured performance criteria. The contractor did not receive other types of remuneration, award, or bonus. Thus, the contract provided for adequate separation of duties and the contractor was not in a position to manipulate information that would lead to personal gain by the contractor.

SCHEDULE OF POTENTIAL FUNDS PUT TO BETTER USE

"Funds put to better use" are amounts which could be used more efficiently if management implements an action recommended in an OIG audit report. The following potential "funds put to better use" amount will be recorded in the Inventory, Tracking and Closure system (ITC) upon issuance of our final report. The amount will also be included in the OIG Semiannual Report to the Congress.

Recommendation Number	Potential Funds Put to Better Use Amount
1	$402,000

The potential "funds put to better use" for the above recommendation related to cost savings for insurance premiums that might be achieved annually by management by adjusting the inventory value of seized general property.

It is the responsibility of Customs and EOAF management to record in the ITC the actual amount of "funds put to better use" realized as a result of the actions taken in response to the recommendation.

MANAGEMENT RESPONSE

U.S. Customs Service

Memorandum

DATE: APR 25 2000

FILE: AUD-1-OP BAB

MEMORANDUM FOR DENNIS SCHINDEL
ASSISTANT INSPECTOR GENERAL

FROM: Director,
Office of Planning

SUBJECT: Review of Contract Performance Related to Seized and Forfeited Property

Thank you for providing us with a copy of your draft report entitled "Review of Contract Performance Related to Seized and Forfeited Property" and the opportunity to discuss the issues in this report.

Customs had taken a number of steps to address the issues identified during your review. These steps, and additional on-going actions, are outlined in the attached document, as are Customs comments on this draft report. On-going discussion with the OIG audit team has resulted in Customs making several changes to our original comments. I would appreciate the substitution of this document for our original correspondence related to this draft report.

We have determined that the information in the audit does not warrant protection under the Freedom of Information Act.

If you have any questions regarding the attached comments, please have a members of your staff contact Ms. Brenda Brockman at (202)927-1507.

William F. Riley

TRADITION
★
SERVICE
★
HONOR

Attachment

MANAGEMENT RESPONSE

The following addresses the eight (8) recommendations identified in the draft report on the Review of Contract Performance Related to Seized and Forfeited Property:

Recommendation 1: Customs should modify contract insurance requirements for general property. The modification should require the Contractor to adjust the general property APV, for insurance purposes, based on the inventory adjustments used for financial statement reporting.

While we do not concur with this recommendation, we do plan to work with the Treasury Executive Office for Asset Forfeiture and legal counsel to reassess the issue of insurance coverage. Once completed, we will take whatever action has been deemed appropriate. Additionally, we take exception to your conclusion that the "estimated value of (USCS) seized property was overstated" during the period under review.

Discussion:

The audit report states that the insurance premiums were about $502,500, and the average monthly inventory was valued at $170 million. Customs records show that during the time of your audit, the figures were $452,484 for insurance premiums, and $227,412, 660 for the monthly inventory. These insurance premiums represent coverage of all of the general property, vehicles, aircraft, vessels, and real property held by the contractor.

Adjusting the general property APV for insurance purposes, based on the inventory adjustments used for financial reporting, is not applicable considering the current valuation process now in effect. Financial adjustments are based on the historical selling price of forfeited general property that may have been held by the contractor for several years.

Customs has a liability to protect seized property until forfeited and /or proven to be counterfeit. Any adjustments to the APV and FMV cannot be accomplished before the investigation. APV's are not based on what the Government is going to get at sale time. In light of the high percentage of seizures that result in the remittance of property, the government has a duty to protect and preserve seized property.

Customs does recognize and agree that there are a number of factors that may cause the disparity between "appraised value" and "sales price." Import Specialists, who are responsible for determining the "domestic value" of most seized property, must be able to defend their appraised values in court, if necessary. Therefore, Customs has, for the sake of uniformity, and in an effort to attain realistic values for seized property,

MANAGEMENT RESPONSE

instructed Import Specialists and Seizing Officers to use the "domestic value" in determining appraised values, keeping in mind that merchandise sold at auction is sold in "as is" condition.

The term "domestic value," which is determined in accordance with Section 606, Tariff Act 1930, as amended, (19 U.S.C.1606), is defined in section 162.43 (a) of Customs regulations 19CFR 162.43 (a), as "the price at which such or similar property is freely offered for sale at the time and place of appraisement, in the same quantity or quantities as seized, and in the ordinary course of trade." In the cases of seized aircraft and vessels, the contract requires that qualified appraisers be obtained, and for seized vehicles, the Regional NADA Official Used Car Guide (Blue Book) wholesale value will be used instead of the retail value.

Customs, Treasury Executive Office for Asset Forfeiture and legal counsel have been studying the insurance issue since the initial contract award in 1985, and have made significant changes to effect cost savings. Customs continues to evaluate insurance coverage in order to find the most cost-effective approach. For example, the following changes have already been made regarding insurance:

On September 28, 1999, Customs issued Modfication 45, for the purposes of clarifying two areas: (1) Section 3.13.2, Fair Market Value, was modified to address that upon receipt and posting of a pending destruction status to a property, the contractor shall change the FMV of the affected property to reflect a value of $1 and (2) Section H.15, Other Insurance Requirements, was modified to state that property will be insured based on the Fair Market Value of the commodity.

Recommendation 2: Customs should remind its personnel of the importance of not entering into informal agreements with the Contractor.

We are in total agreement that USCS personnel should not enter into informal agreements with the contractor. Therefore, we will reiterate the requirement that USCS personnel not enter into any type of informal agreements with the contractor. This will be accomplished by means of scheduled training, seminars and technical meetings held with the seized property contractor and other agencies. Additionally, to effectively address this issue, we have issued a policy memorandum reiterating this policy to all COTRs, deputy field COTRs, and others with tasking authority for the contractor. This policy memorandum was issued on March 16, 2000.

MANAGEMENT RESPONSE

Recommendation 3: Customs should either modify the contract to come into alignment with current business practice or require the Contractor to comply with existing insurance requirements.

We concur with this recommendation. The contractor is currently complying with the existing insurance requirements. Please be advised that Customs is researching insurance requirements for seized property. We are currently in the process of seeking information from other federal agencies involved in the management of seized property. This effort is being coordinated with our Office of Chief Counsel and the Executive Office for Asset Forfeiture. Once completed, the results of this research will be evaluated. Section H.15 of the existing seized property contract has been revised to clarify the insurance requirements. This was accomplished in Modification Number 50 of the contract effective on February 17, 2000.

Recommendation 4: Customs should revise its SOW to include a provision for establishing disposition order cut-off dates for placing property in an auction sale.

Recommendation 5: Customs should provide clarification with respect to the 63-day sale requirement described in the SOW. Customs should consider requiring seized property, excluded from an auction sale because the corresponding disposition order was received after the cut-off date, to be offered for sale no later than the next cycle auction.

Recommendations number four and five are interrelated. We concur with both of these recommendations. Please be advised that we are currently in the process of recompeting the seized property contract and this issue will be addressed in conjunction with the awarding of the new contract. In the meantime Customs will monitor the sale of forfeited property to ensure that it is sold as soon as possible after the property has been forfeited.

Discussion:

Customs is in the process of changing the SOW to change the 63-day requirement for sale and the issue will be negotiated with the contractor. We believe this will remove any ambiguity and still allow the government the flexibility to get forfeited property into sale as soon as possible. Additionally, we are currently discussing changes to the contract language and procedures to address such commodities as jewelry and coins as "specialty items." This designation would thereby eliminate these items from the 63-day sale requirement and allow time for adequate marketing activities.

MANAGEMENT RESPONSE

Recommendation 6: Customs should identify alternative criteria or methods for evaluating the Contractor's performance for the six areas where management reports are no longer available.

We concur with this recommendation. Two new reports are now being programmed by OIT and should be in production by the end of this fiscal year.

Discussion

We recognize the weakness of the evaluation of the six areas where criteria was not calculated because of lack of data. This was caused by the initial SEACATS implementation, and the ongoing process for the final, fully functional version which will provide the required two reports. The contractor is currently inputting backlog data into the system and once this process has been completed it will be used for the award fee.

Although we concur with your recommendation, it does not take into consideration the contract period of performance. We are currently in the second quarter award fee evaluation period of the final option year. Changes of this magnitude require several rounds of negotiations with the contractor. Consideration will be given to the Quarterly Performance Evaluation Plan during the preparation of the solicitations for the recompetition of the seized property contract.

Recommendation 7: Customs should clarify Quarterly Performance Evaluation Plan criteria or more strictly comply with the stated criteria.

Customs will reemphasize and clarify criteria to all those involved in the award fee process to ensure continued compliance with the plan. All USCS evaluation determinations are based on documentation or rational subjective criteria. We feel that the criteria used in the evaluation process are consistent with the award fee evaluation plan. Specific data is gathered for each situation and thoroughly documents. The policy in place allows for the contractor and Government to meet and discuss the findings and provide responses to areas identified as deficiencies. However, Customs will take the opportunity to reemphasize and clarify criteria to all those involved in the award fee process.

MANAGEMENT RESPONSE

Recommendation 8: Customs should review the detailed charges submitted by the Contractor in support of the summary invoices. This review should provide reasonable assurances that "preaudit" objectives delineated in GAO's Policy and Procedures Manual For Guidance of Federal Agencies are met prior to certifying the Contractor's invoices for payment.

We are in general concurrence with this recommendation. However, your draft report does not appear to identify any specific instances and/or list any significant questionable costs or findings where inadequate review of contractor invoices has occurred. In addition, the two audits OIG-99-096 and OIG-99-099, listed in the report were audits of two public vouchers submitted by the contractor. These reports did not disclose any significant questionable costs. With this understanding, we would appreciate the Inspector General's advice and suggestions as to what type of internal audit mechanism could be realistically implemented and in addition, advise if we should be pursuing a refund against the contractor for any material errors in invoice processing.

Discussion:

Customs recognizes that the reconciliation process would be time-consuming, tedious, and complex to review all detailed charges submitted by the contractor, and at the same time execute timely payment to the contractor. The public vouchers Standard Form 1034, Public Vouchers for Purchases and Services Other Than Personnel, are certified for provisional payment and are subject to later audit. However, Customs does perform preaudit reviews of invoices prior to certifying for payment to identify that the computations are correct, the goods or services performed were in accordance with the agreement and the payment under the appropriation or fund involved is legal. In addition, to ensure that all aspects of the seized property contract functions in a cost-effective manner, members of Seizures and Penalties, the Procurement Division, Accounts Services Division (ASD), and EOAF routinely monitor contractor's operations, evaluate and negotiate individual seizure costs, and conduct oversight travel to contractor field locations. Additionally, the Defense Contract Audit Agency (DCAA) regularly audits the contract. Customs agrees that procedures for reviewing contractor billings must be initiated to provide for thorough testing of the validity and accuracy of contractor billed costs, and to determine allowability, allocability and reasonableness.

Custom believes that third party auditors periodically reviewing contractors billing statements may be the best resolution, and will pursue the possibility of acquiring a public accounting firm to conduct financial audits of the contractor in the future. We plan to coordinate with your office and EOAF, to develop a procedure for a review of the detailed changes submitted by the contractor in support of the summary invoices.

MANAGEMENT RESPONSE

General/Other:

Property Accountability, we were able to account for all 69 seized property items selected for inventory at the Contractor's warehouse in Edison, New Jersey. Our review, however, disclosed that two property items had not been entered into the property records (SEACATS) by the seizing agencies.

During the time of the audit, other agencies were encountering some problems with entering data into SEACATS. This resulted in a joint policy decision by Customs and EAOF which transferred the responsibility for data input to the seized property contractor. This policy should eliminate any discrepancies between the physical count and SEACATS. In addition, based on your finding, we believe the SEACATS database, which tracks approximately 11,000 line items, is an accurate reflection of the seized property in the custody of the USCS.

The report states in page two paragraph two, "Many of these deficiencies concerned the accuracy and reliability of seized and forfeited property data and related transactions."

We recommend that after the word transactions the following be added, "...used before the end of the year reconciliation."

The report repeatedly states that Customs sells or auctions "seized" property. For example on page 10 of the report, it states, "The contractor did not always offer seized property for sale within 63 days..."

Customs and/or other Treasury agencies do not sell seized property. The sale of property occurs only when the property has been forfeited. This distinction needs to be clear in the report.

MANAGEMENT RESPONSE

DEPARTMENT OF THE TREASURY
OFFICE OF THE UNDER SECRETARY FOR ENFORCEMENT

EXECUTIVE OFFICE FOR ASSET FORFEITURE
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JAN 31 2000

MEMORANDUM FOR DENNIS S. SCHINDEL
ASSISTANT INSPECTOR GENERAL FOR AUDIT

Raymond M. Dineen

FROM: RAYMOND M. DINEEN
ACTING DIRECTOR

SUBJECT: Response to recommendations presented in "Draft Report of Contract Performance Related to Seized and Forfeited Property".

The purpose of this memorandum to provide a response to the recommendations that your office put forth within a draft audit report titled *Review of Contract Performance Related to Seized and Forfeited Property.*

This draft report contains the detailed findings of an audit your office conducted of the Department of Treasury's national seized property contract, which is funded and overseen by this office. However, as our executive agent the U.S. Customs Service is responsible for contract administration, and, since many of the findings relate specifically to Customs' administration of the contract, we will defer to Customs for a response to those findings. We have limited our detailed responses to those recommendations that we do not concur with. With regard to those recommendations that we do concur with, this office has already been in communication with the U.S. Customs Service, specifically, Seizures and Penalties Division and the Office of Procurement, to identify the appropriate corrective action and timelines for accomplishment. The timelines and details of the corrective action to be taken will be provided to your office in the Customs' response to this same draft audit report.

We appreciate the opportunity to provide comments and insight on the findings of this audit report prior to it being placed into final form and released for public information. Should you have any questions or concerns regarding the responses attached, please do not hesitate to contact me at 202-622-9600.

Attachment

CC: Director, Seizures & Penalties, USCS

MANAGEMENT RESPONSE

EOAF responses to draft audit report "*Review of Contract Performance Related to Seized and Forfeited Property*"

Valuation of Seized Property

Finding #1. The estimated value of seized property was overstated. As a result, insurance premiums for general property in the custody of the Contractor may be overstated by as much as $402,000 annually.

Recommendation 1: Customs should modify contract insurance requirements for general property. The modification should require the Contractor to adjust the general property APV, for insurance purposes, based on the inventory adjustments used for financial statement reporting.

EOAF Response

We do not concur with this preliminary finding as written in your draft report.

Discussion:

The Executive Office for Asset Forfeiture (EOAF) does not see any relevance between this finding and the stated objective of the audit review, which was "to determine how effectively contracted services were being provided with regard to valued seized and forfeited property." We believe the discussion surrounding this finding is technically outside the scope of the audit. However, we believe a brief response is necessary to address this finding. First, the seizing agencies are generally responsible for assigning an appraised value to all seized merchandise at the time of seizure. This requirement is dictated by laws and regulations which govern the administrative and judicial forfeiture processes followed by Federal law enforcement agencies. The aforementioned laws and regulations establish legal requirements that supercede accounting issues, and any subsequent adjustments to value do not invalidate the original values assigned at the time of seizure. The appraised values serve multiple purposes including establishing jurisdiction over cases and what amounts successful claimants might be entitled to receive when seized property is lost, stolen or destroyed prior to the completion of forfeiture proceedings. Liability to claimants is based on the appraised value at the time of seizure, and the government must ensure that the full, appraised value is protected against loss, theft or destruction until property is forfeited. Second, with regard to potential savings in annual insurance premiums, we believe the reasoning employed to arrive at the estimated savings is flawed because it does not consider the "risks" associated with storage of the various categories of property. Risk factors are common commercial criteria used in determining insurance premiums.

MANAGEMENT RESPONSE

Property Insurance

Finding #2: Our review indicated that Customs had not revised contract requirements for property insurance that were out of date.

Recommendation 2: Customs should remind its personnel of the importance of not entering into informal agreements with the Contractor.

Recommendation 3: Customs should either modify the contract to come into alignment with current business practice or require the Contractor to comply with existing insurance requirements.

EOAF Response:

We concur with this preliminary finding and have coordinated with Customs on corrective action.

Discussion:

It is our understanding that Customs will initiate negotiations with the contractor to modify the current contract to mirror the current business practice. Please refer to the formal Customs response for action to be taken and timeframes for implementation.

Seized Property Sales – Other Than Real Property

Finding # 3: The Contractor did not always offer seized property for sale within 63 days of receipt of a disposition order as required by the contract SOW.

Recommendation 4: Customs should revise its SOW to include a provision for establishing disposition order cut-off dates for placing property in an auction sale.

Recommendation 5: Customs should provide clarification with respect to the 63-day sale requirement described in the SOW. Customs should consider requiring seized property, excluded from an auction sale because the corresponding disposition order was received after the cut-off date, to be offered for sale no later than the next cycle auction.

EOAF Response:

Preliminary recommendations number four and five are interrelated. We concur with this preliminary finding and have coordinated with Customs on corrective action.

Discussion:

It is our understanding that Customs will initiate negotiations with the contractor to identify a realistic performance measure to eliminate the 63-day requirement. This

MANAGEMENT RESPONSE

modification will be implemented prior to the end of the current contract. Please refer to the formal Customs response for action to be taken and timeframes for implementation.

Performance Award Fee

Finding # 4: Our review indicated that Customs had not revised contract criteria used to determine performance award fees that were no longer applicable.

Recommendation 6: Customs should identify alternative criteria or methods for evaluating the Contractor's performance for the six areas where management reports are no longer available.

Recommendation 7: Customs should clarify Quality Performance Evaluation Plan criteria or more strictly comply with the stated criteria.

EOAF Response:

We concur with this preliminary finding and have coordinated with Customs on corrective action.

Discussion:

It is our understanding that Customs will take appropriate action to ensure the creation of the reports with SEACATS. Please refer to the formal Customs response for action to be taken and timeframes for implementation.

Certification of Invoices

Finding # 5: Reviews of Contractor invoices were not sufficiently thorough.

Recommendation 8: Customs should review the detailed charges submitted by the Contractor in support of the summary invoices. This review should provide reasonable assurances that "preaudit" objectives delineated in GAO's Policy and Procedures Manual for Guidance of Federal Agencies are met prior to certifying the Contractor's invoices for payment.

EOAF Response:

We concur with this preliminary finding and have coordinated with Customs on corrective action.

MANAGEMENT RESPONSE

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Discussion:

Customs has identified the possible need for the use of an independent auditor to review the detailed charges supporting the summary invoices. This office will coordinate with Customs to review this matter. Should a determination be made based upon this review to hire an auditor to perform this function, EOAF will consider providing funding to support this effort. Please refer to the formal Customs response for action to be taken and timeframes for implementation.

MAJOR CONTRIBUTORS TO THIS REPORT

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