

**DOCUMENT RESUME**

04617 - [P0024922]

**Weaknesses in the Drug Enforcement Administration's Financial Management System. FGMSD-77-74; B-183363. December 27, 1977. 2 pp. + 2 enclosures (6 pp.).**

**Report to Peter B. Bensinger, Administrator, Drug Enforcement Administration; by D. L. Scantlebury, Director, Financial and General Management Studies Div.**

**Issue Area: Accounting and Financial Reporting (2400);  
Accounting and Financial Reporting: Internal Controls over Receipts and Disbursements (2810).**

**Contact: Financial and General Management Studies Div.**

**Budget Function: Miscellaneous: Financial Management and Information Systems (1002).**

**Organization Concerned: Department of Justice.**

**Authority: 31 U.S.C. 66a. 7 GAO 12.2. 7 GAO 11:1. 7 GAO 25.6. 7 GAO 24.8. 7 GAO 17.1.**

A questionnaire survey was conducted to evaluate the procedures and controls of revenue and expenditure transactions of the Drug Enforcement Administration. The questionnaire covered the system of internal controls over collections, disbursements, imprest funds, and obligations. Findings/Conclusions: Responses indicated potential weaknesses in the financial management system. The agency needs to: improve controls over the disposition of seized and recovered funds, improve control of collections, have headquarters acknowledge receipt of collections, periodically review outstanding travel advances, segregate duties of cashiers, explain missed discounts in writing, and adequately support estimates of obligations. Although corrective actions were taken or promised in most cases, followup on these actions was suggested to determine whether the corrective actions were adequate. (Author/HTW)



UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

DEC 27 1977

DIVISION OF FINANCIAL AND  
GENERAL MANAGEMENT STUDIES

04617 B-183363

Mr. Peter Bensinger, Administrator  
Drug Enforcement Administration  
Department of Justice

Dear Mr. Bensinger:

This report contains the results of a questionnaire survey to evaluate the procedures and controls of revenue and expenditure transactions of the Drug Enforcement Administration. The work was done pursuant to our responsibilities set forth in the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Designed to identify potential problem areas, the questionnaire covered the system of internal controls over collections, disbursements, imprest funds, and obligations. To obtain responses, we primarily interviewed and talked with responsible officials at headquarters and at 13 regional office accounting stations. These responses indicated some potential weaknesses in the financial management system of the Drug Enforcement Administration. We tested selected transactions and limited our work to identifying weaknesses in the internal control system. We did not determine the extent of weaknesses nor the precise corrective action needed.

We discussed our survey results with responsible headquarters and regional accounting station officials, and in most instances they initiated or promised corrective action. We are informing you of the identified weaknesses to help you in discharging your responsibilities under 31 U.S.C. 66a, which requires agency heads to provide effective control over and accountability for all funds under their responsibility.

Our observations of the identified system weaknesses are included in enclosure I; the locations of the weaknesses are in enclosure II. Generally, the agency needs to

- improve controls over the disposition of seized and recovered funds,
- improve control of collections,

FGMSD-77-74  
(90606)

B- 183363

- have headquarters acknowledge receipt of collections,
- periodically review outstanding travel advances,
- segregate duties of cashiers,
- explain missed discounts in writing, and
- adequately support estimates of obligations.

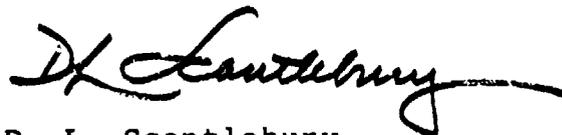
Although corrective actions were taken or promised in most cases, we suggest you follow up on these actions to determine whether they were adequate. We also suggest that you request the Department's internal audit staff to periodically audit the financial management of the accounting stations to insure the continuance of good financial management.

Because action had either been taken or promised to correct noted system deficiencies at the Division of Financial Management and the accounting stations, we are not making any formal recommendations at this time. We would, however, appreciate your informing us in writing of the corrective actions taken.

We appreciated the courtesies and cooperation extended to us by your staff.

A copy of this report is also being sent to the Director, Internal Audit Staff, Department of Justice.

Sincerely yours,



D. L. Scantlebury  
Director

Enclosures - 2

GAO OBSERVATIONS ON QUESTIONNAIRE RESPONSES AT  
DRUG ENFORCEMENT ADMINISTRATION HEADQUARTERS  
AND 13 REGIONAL ACCOUNTING STATIONS

NEED TO IMPROVE CONTROLS OVER THE  
DISPOSITION OF SEIZED AND RECOVERED FUNDS

The GAO Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 12.2) states that agencies shall deposit collections daily.

The Drug Enforcement Administration (DEA), however, has no guidelines specifying how soon after an arrest agents should turn in seized and recovered funds for safekeeping. Furthermore, no guidelines exist requiring periodic reviews of the court cases to determine their current status and to insure timely transmission of these funds to headquarters for deposit. As a result, 10 regional offices had about \$3.8 million of seized and recovered funds on hand on December 31, 1976, and some of this money has been lying idle for years.

These funds are normally used as evidence and safeguarded by a custodian, either a cashier or subcashier, until the funds are released by the court. If no appeal is pending or the funds have not been claimed, the cognizant agent or, if the agent is no longer employed, the administrative officer remits the funds to headquarters for deposit. This process can take years. For example, one DEA regional accounting station had \$500 on hand since November 1964.

Because of the excessive periods that funds are held, the possibility for fraudulent disposition, misuse, or misplacement is present. Much of the older evidence is kept in manila envelopes, tattered and torn from age and handling. In addition to the risks, the Department of the Treasury cannot use these Federal funds since they are not deposited in the Treasury.

Regional officials agreed that, after the disposition of a case, they would take the necessary steps to insure timely transmission of recovered and unclaimed seized funds to headquarters for deposit. Headquarters officials informed us that funds obtained from individuals whose cases

had not been heard in court cannot be deposited without the U.S. attorney's permission, since the attorney may want to use these funds as evidence.

Headquarters officials agreed to explore the idea of having regional offices deposit funds in nearby Treasury depositories rather than mailing them to headquarters for deposit. If necessary, the regional offices could inform headquarters of their deposits by sending it deposit slip copies. Local deposits would provide the Treasury with Federal funds sooner and would reduce the need for the Treasury to borrow funds to finance Government operations.

In an earlier May 31, 1977, GAO report, "Drugs, Firearms, Currency, and Other Property Seized by Law Enforcement Agencies: Too Much Held Too Long" (GGD-76-105), we concluded that:

"\* \* \*the Federal Government, private individuals, and institutions could realize additional interest if recovered and seized money were deposited in the U.S. Treasury interest-bearing accounts or returned sooner to its rightful owner rather than stored in vaults and safe deposit boxes. Recovered buy money could be made available for reuse by the agency. Evidence needs could be met with serial numbers and photocopies of the actual money provided the courts and attorneys concur with the substitution."

In replying to that report, the Department of Justice generally agreed with GAO's conclusions and recommendations regarding evidence substitutions and sample quantities of funds for use as evidence. The Department believes, however, that it may sometimes be difficult to obtain the complete concurrence of the U.S. attorney, courts, and defendant's attorney because of tactical or other considerations. The Department further stated that it does not object to using sample quantities of seized funds or a substitute when a full and unequivocal stipulation by a defendant's attorney has been submitted and when the courts clearly understand and concur that the substituted evidence accurately represented the entire seizure.

NEED TO IMPROVE CONTROL OF COLLECTIONS

The GAO Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 11.1) requires that agencies maintain proper records and adequate physical controls over collections. A mailroom log of collections is one way to help insure that all receipts are properly accounted for.

Collections received through the mail include checks for (1) the sale of seized vehicles, (2) repayment of travel advances, and (3) payments for damages to Federal vehicles. These collections were not recorded, logged in, or controlled in the mailrooms at headquarters and at 9 of the 13 regional accounting stations. Without a mailroom log, control over receipts is weakened. The accounting station officials agreed to improve controls over collections.

NEED FOR HEADQUARTERS TO  
ACKNOWLEDGE RECEIPT OF COLLECTIONS

DEA headquarters does not acknowledge receipt of checks mailed from the regions for the sale of seized vehicles because it is not required by DEA procedures. Headquarters does, however, acknowledge receipt for other funds mailed from the regions.

Acknowledgment of collections by headquarters is especially important because the regional offices are not maintaining mailroom logs to record collections. Without acknowledging receipt of collections, it is questionable whether DEA is properly controlling and accounting for them.

The revenue from the sale of seized vehicles is significant and should be controlled. In one regional accounting station, for example, we noted that the revenue from the sale of seized vehicles for a 15-month period was about \$320,000.

Headquarters officials agreed to acknowledge receipt in the future.

NEED FOR PERIODIC REVIEW OF  
OUTSTANDING TRAVEL ADVANCES

According to the GAO Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 25.6), agency accounting systems shall include procedures for periodic reviews

and analyses of outstanding travel advances. All advances determined to be in excess of the immediate needs of the travelers are to be promptly recovered.

At three regional accounting stations, we noted that unusually large travel advances were permitted to remain outstanding for extended periods without periodic review. On September 30, 1976, 82 employees at one station had a combined total in outstanding travel advances of about \$55,700. Fifteen of these employees had about \$37,900, or 68 percent of the funds. Because of the lack of periodic review and analysis of outstanding travel advances, there was no assurance that employees had not received and retained travel advances in excess of their needs.

DEA regional officials agreed to periodically review travel advances and to hold them to the minimum necessary.

#### NEED TO SEGREGATE DUTIES OF CASHIERS

The DEA Accounting Manual provides that cashiers will not be tasked with additional or collateral duties that may interfere with the primary function of an imprest fund cashier. DEA's principal cashiers and subcashiers, however, are also the custodians of seized and recovered funds and are responsible for holding, controlling, and processing receipts for these funds.

Duties of the imprest fund cashier and the custodian of seized and recovered funds should be segregated to prevent the possible misuse of cash receipts and its concealment in the accounting records. DEA regional officials agreed that the consolidation of duties compromises good internal control of funds and agreed to separate these responsibilities.

#### NEED TO EXPLAIN MISSED DISCOUNTS IN WRITING

The GAO Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 24.8) requires that (1) procedures be established for insuring that invoices are processed promptly so that payment may be made within the time prescribed and (2) failures to take discounts be fully explained on the appropriate document.

At six regional accounting stations, we found that explanations were not provided on invoices for not taking discounts offered by vendors. We were unable to determine the number and amount of discounts lost because this information was not readily available. According to regional accounting station officials, the number and amount of discounts lost are relatively small. Considering the short time required to explain why discounts were not taken, we still believe that explanations should be provided. These explanations can help managers and independent reviewers evaluate procedures to assure that available discounts are taken.

Regional officials generally agreed to require that employees explain on invoices the reasons for not taking discounts.

NEED TO ADEQUATELY SUPPORT  
ESTIMATES OF OBLIGATIONS

As required by the GAO Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 17.1), the basis for and computation of an estimated obligation shall be shown on the obligating document. This is necessary so that appropriate adjustments can be made later if it is disclosed that the obligation was estimated incorrectly by a significant amount.

At DEA headquarters and five regional accounting stations, we found the basis for estimating obligations was not shown on the obligating document. Agencies are responsible for maintaining proper fund controls to insure that obligations and expenditures do not exceed the amounts authorized. DEA can improve its fund controls by requiring employees to show the basis for estimating and computing obligations on the obligating documents.

Regional officials agreed to have employees show the basis for estimating and computing obligations on obligating documents.

**SUMMARY OF OBSERVATIONS AT DRUG ENFORCEMENT ADMINISTRATION HEADQUARTERS  
AND 13 REGIONAL OFFICE ACCOUNTING STATIONS**

ACCOUNTING STATIONS

	BALTIMORE	BOSTON	CHICAGO	DALLAS	DENVER	DETROIT	KANSAS CITY	LOS ANGELES	MIAMI	NEW ORLEANS	NEW YORK	PHILADELPHIA	SEATTLE	HEADQUARTERS
<u>WEAKNESSES NOTED</u>														
NEED TO IMPROVE CONTROLS OVER THE DISPOSITION OF SEIZED AND RECOVERED MONIES	X	X	X	X	X	X	X	X	X	X	X	X	X	X
NEED TO IMPROVE CONTROL OF COLLECTIONS	X	X	X	X	X	X	X	X	X	X	X	X	X	X
NEED FOR HEADQUARTERS TO ACKNOWLEDGE RECEIPT OF COLLECTIONS			X						X					X
NEED FOR PERIODIC REVIEW OF OUTSTANDING TRAVEL ADVANCES		X				X				X				
NEED TO SEGREGATE DUTIES OF CASHIERS	X	X		X	X	X	X					X		
NEED TO EXPLAIN MISSED DISCOUNTS IN WRITING		X	X	X	X		X	X						
NEED TO ADEQUATELY SUPPORT ESTIMATES OF OBLIGATIONS		X	X		X									X