



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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GENERAL GOVERNMENT  
DIVISION

December 16, 1974



The Honorable Vernon D. Acree  
Commissioner of Customs

Dear Commissioner Acree:

The U.S. Customs Service employs warehouse officers to maintain physical custody of goods in bonded warehouses. We reviewed the necessity of having warehouse officers in view of the inventory document controls maintained at the customhouse and the periodic physical inventories performed by Customs on goods in bonded warehouses. The existing procedures for centrally controlling bonded goods at the customhouse, together with the bond protection of the Customs duties and the periodic physical inventory checks, are adequate for protecting Government revenues without having a warehouse officer present.

BACKGROUND

At the time of our review, there were 299 full-time and 78 part-time warehouse officers nationwide. Their salaries are reimbursed by warehouse proprietors for both normal and overtime hours. The annual charge for warehouse officer services is about \$4 million per year exclusive of overtime pay.

Title 19 U.S.C. 1555 (June 17, 1930) describes the responsibilities of warehouse officers as follows:

"\* \* \* Except as otherwise provided in this chapter, bonded warehouses shall be used solely for the storage of imported merchandise and shall be placed in charge of a proper officer of the customs, who, together with the proprietor thereof, shall have joint custody of all merchandise stored in the warehouse; and all labor on the merchandise so stored shall be performed by the owner or proprietor of the warehouse, under supervision of the officer of the customs in charge of the same, at the expense of the owner or proprietor.\* \* \*"

To carry out these responsibilities, some warehouse officers are stationed full time at a single warehouse, while others cover several warehouses, being present only for entries and withdrawals. The warehouse officer is charged with verifying the receipt of bonded goods into warehouses, maintaining joint custody with the warehouse proprietor of the goods in the warehouses, and releasing the goods when the

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Customs duty is paid or when a duty-free withdrawal or a transfer in bond is authorized. He also maintains a ledger sheet for each entry, showing the quantity of goods received, the quantity of goods withdrawn, and the balance on hand. The ledger sheet is forwarded to the Customs' district office for centralized control when the goods are totally withdrawn.

In addition to the physical control provided by the warehouse officer, central control of bonded goods is maintained at the District Office through (1) delivery tickets, prepared by Customs inspectors when goods enter the country and verified by warehouse proprietors upon delivery, and (2) warehouse withdrawal forms, which require verification by both Customs and the proprietors. The Customs Manual requires that these documents be maintained in warehouse entry accounts in the Customs District Office and that these accounts show quantity balances remaining in the warehouses for each entry.

The Customs Manual also requires that an unannounced inventory of merchandise in bonded warehouses be made at least annually. The result of the inventory is to be checked with the balances in the warehouse entry accounts and "appropriate action"--generally, in the event of shortages, the collection of the duties due--is to be taken if any discrepancy is found.

We reviewed several inventories performed during the first half of 1974 in Customs' Boston District. We could not evaluate the adequacy of the inventories, however, because the inventory reports did not indicate if any discrepancies had been found. The Chief Warehouse Officer in the Boston District told us that the results of the physical inventories were checked against the balances shown in the warehouse officer's ledger, the warehouse proprietor's ledger, and the warehouse entry account maintained in the customhouse. He also advised us that discrepancies were corrected by the payment of additional duties, when warranted, and the correction of the appropriate inventory record.

The warehouse proprietor is additionally responsible for the physical custody of goods in his warehouse. The duties and taxes due on these goods are secured by two bonds:

- A warehouse entry bond, which is posted by the importer or his broker, and must be sufficient to cover the duties on the merchandise.
- A warehouse proprietor's bond, which is posted by the warehouse proprietor to cover duties if bonded goods are damaged or stolen while in his possession.

## BONDED WAREHOUSE SUPERVISION

On June 11, 1974, the Director, Inspection and Control Division (I and C), requested Customs' Chief Counsel to interpret title 19 U.S.C. 1646(a) (as added Aug. 8, 1953) to determine congressional intent in requiring full-time supervision of bonded merchandise by warehouse officers. Title 19 U.S.C. 1646(a) provides:

"Wherever in this chapter any action or thing is required to be done or maintained under the supervision of customs officers, such supervision may be direct and continuous or by occasional verification as may be required by regulations of the Secretary of the Treasury, or, in the absence of such regulations for a particular case, as the principal customs officer concerned shall direct."  
(Emphasis added.)

On July 29, 1974, the Chief Counsel notified the Director, in part, as follows:

"We concur with your opinion that 19 U.S.C. 1646(a), would allow a lesser degree of Customs supervision\* \* \*. However, we do believe that section 1646(a) does require at least a minimal amount of supervision and that regulations should be promulgated under that section." (Emphasis added.)

On August 23, 1974, the Director requested the Regulations Division to formulate new regulations for supervising bonded warehouses. In his letter, the Director suggested "a general definition of minimum Customs supervision of bonded warehouses," which included:

- Required physical supervision upon the entry of merchandise into a bonded warehouse.
- District director discretion as to whether withdrawals require physical supervision.
- Quarterly inventories, at least, of selected bonded merchandise.

We discussed this general definition with officials in the I and C Division to determine why they made these suggestions. They said that these were their preliminary thoughts, intended to induce action by the Regulations Division. The actual extent of the supervision to be included in the regulations would result from discussions between the I and C Division and the Regulations Division. As of December 1, 1974, the

Regulations Division was drafting revised regulations based on the I and C Director's suggestions.

### CONCLUSIONS

We concur in the Chief Counsel's decision that Customs has authority to determine whether full-time warehouse officers are needed at bonded warehouses on a full-time basis. We do not believe, however, that the recommendations made by the Director, I and C, to the Regulations Division go far enough in reducing the warehouse officer's supervision over bonded goods. Specifically, the presence of centralized document controls, the double bonding of warehoused goods, and the initiation of periodic unannounced physical inventory checks of goods eliminate the need for any physical supervision of bonded warehouses.

The use of periodic physical inventories is consistent with and satisfies the supervision requirements in 19 U.S.C. 1646(a). However, improvements may be needed in the Boston District's physical inventory procedures. Because the physical inventories will serve as Customs' primary control over goods in bonded warehouses, following the elimination of the warehouse officer function, it is important that adequate inventory procedures exist and that the results of the inventories be properly documented. Specifically, the inventory reports should indicate the results of the physical inventories, including any discrepancies and any adjusting entries made to inventory ledgers.

### RECOMMENDATIONS

We recommend that you eliminate the warehouse officer function and rely on the use of periodic physical inventories and centralized document control, in conjunction with the warehouse entry and warehouse proprietor's bonds, to protect Government revenues on goods in bonded warehouses. Customs representatives have told us that they would like to retain the option of assigning Customs personnel to warehouses where there have been frequent and significant discrepancies between the physical inventory and the central inventory record. Although we have no objection to this, we do recommend that the regulations governing supervision of bonded warehouses specify who can assign Customs personnel to full-time warehouse supervision, under what circumstances, and for how long.

In addition, the adequacy of Customs control over goods in bonded warehouses will depend on the adequacy of the inventory procedures. We therefore recommend that you include strict inventory procedures in the

regulations and assure yourself that these procedures are being properly implemented, both before eliminating the warehouse officers and periodically thereafter.

We are grateful for the cooperation afforded our representatives during this review. We would be pleased to discuss any aspect of the report with you or your staff.

We are sending a copy of this report to the Secretary of the Treasury.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'O. Gene Abston', written in a cursive style.

O. Gene Abston  
Assistant Director