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FINANCIAL AUDIT

Examination of Customs' Fiscal Year 1993 Financial Statements

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Comptroller General
of the United States

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To the President of the Senate and the
Speaker of the House of Representatives

This report presents the results of our efforts to audit the Principal Financial Statements of the U.S. Customs Service for fiscal year 1993. These statements represent the second year of Customs' implementation of the financial statement reporting requirements of the Chief Financial Officers Act of 1990 (Public Law 101-576). As part of our work, we also evaluated Customs' internal controls and its compliance with laws and regulations related to the financial statements.

During fiscal year 1993, Customs took several meaningful steps toward addressing recommendations resulting from our efforts to audit the fiscal year 1992 statements. Most importantly, Customs began a program intended to reliably measure compliance with trade laws, developed a methodology for accurately reporting its $900 million in accounts receivable and, for the first time, conducted a nationwide inventory of its seized assets.

More substantial improvements will be needed to develop meaningful and reliable financial management information and establish a sound internal control structure. Consequently, we are unable to express an opinion on Customs' fiscal year 1993 Principal Financial Statements. The "Significant Matters" section of this report identifies Customs' serious financial management and control problems and describes the adverse impact of these problems on Customs' ability to effectively carry out its trade and enforcement missions. Our report also describes the status of Customs' actions to correct the problems and contains recommendations to help Customs continue its efforts to resolve these long-standing and difficult problems and strengthen its financial management operations.

We are sending copies of this report to the Commissioner of Customs, the Secretary of the Treasury, the Director of the Office of Management and Budget, the Chairmen and Ranking Minority Members of the Senate Committee on Governmental Affairs and the House Committee on Government Operations, and other interested congressional committees. Copies will be made available to others upon request.

This report was prepared under the direction of Gregory M. Holloway, Director, Civil Audits, who may be reached on (202) 512-9510. Other major contributors are listed in appendix IV.

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Comptroller General
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Abbreviations

ACS	Automated Commercial System
ADP	automated data processing
AMS	Automated Manifest System
AUO	Administratively Uncontrollable Overtime
CFO	Chief Financial Officer
CPTS	Customs Property Tracking System
FMFIA	Federal Managers' Financial Integrity Act
FTZ	foreign trade zone
NAFTA	North American Free Trade Agreement
OMB	Office of Management and Budget
TECS	Treasury Enforcement Communications System

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To the Commissioner of the U.S. Customs Service

In accordance with the Chief Financial Officers (CFO) Act of 1990, the U.S. Customs Service prepared the accompanying Principal Financial Statements for the fiscal years ended September 30, 1993 and 1992. In accordance with the CFO Act, we elected to perform an audit of these statements and related internal controls, as we did for fiscal year 1992. Based on our efforts to audit Customs' fiscal year 1992 Principal Financial Statements, we issued six reports containing 54 recommendations for improving Customs' financial management and internal controls. Appendix II lists these reports and identifies the status of the recommendations contained in them.

In response to these reports, Customs' officials expressed their commitment to developing meaningful and reliable financial management information and in establishing a sound internal control structure. During fiscal year 1993, Customs took several important steps toward addressing recommendations from our reports on the fiscal year 1992 statements.

- Customs began a program intended to reliably measure the trade community's compliance with trade laws based on inspections of statistically valid random samples of imported goods and related import documents. In 1993, Customs tested goods from five industries—automobile, automated data processing, fiberboard, telecommunications, and steel—and found that, in several cases, compliance rates were much lower than it previously assumed. Because these tests covered relatively few commodities and were limited to selected ports and covered only 45-60 day periods, the results cannot be used to estimate overall compliance for the year. However, Customs expanded the scope of the program during fiscal year 1994 to cover other aspects of the import process, including tests of manifest and bill of lading accuracy and completeness, and even broader national coverage is planned for fiscal year 1995.
- Customs developed and applied a methodology for accurately reporting its $900 million in accounts receivable. In addition, the agency reorganized its debt collection unit, formalized its collection procedures, and aggressively pursued collection of delinquent receivables—especially the $165 million in receivables that was more than 3 years old. According to Customs, this effort resulted in collections of $31.6 million.

- Customs conducted the first nationwide physical inventory of its seized assets, which include firearms, thousands of pounds of illegal narcotics, millions of dollars in cash, and various types of other goods. Customs studied and evaluated the adequacy of its physical safeguards over seized property and currency at 21 medium-to high-volume storage facilities. Further, it constructed new facilities in two districts and developed plans for renovations at other facilities.
- Customs conducted a comprehensive physical inventory of equipment recorded in its Property Information Management System, which accounts for approximately 83 percent of the recorded value of property, and initiated monthly reconciliations between its accounting and logistical records.

Customs fully cooperated with us during our fiscal year 1993 audit and has continued its progress towards developing reliable information. For instance, the Commissioner met with us monthly to respond to our findings and to obtain prompt advice on how to correct the problems. Acting on our findings, the Commissioner has initiated steps, including hiring a qualified CFO, to establish a financial management leadership team to help correct Customs' major weaknesses.

These actions are significant, but more substantial changes and progress are needed if Customs' management and other users of its financial statements and other financial reports are to have the reliable information they need to make informed decisions. For instance, more reliable information could assist Customs and the Congress in assessing whether there could be significant benefits from expanding resources provided by the Congress commensurate with the continuing growth in imports.

We found that serious and pervasive weaknesses in key internal controls and systems have diminished Customs' ability to report reliable financial information and effectively carry out its mission. Specifically, for fiscal year 1993, these weaknesses affected Customs' ability to

- reasonably ensure that carriers, importers, and their agents complied with laws intended to ensure fair trade practices and protect the American people from unsafe and illegal imported goods;
- control, manage, and report the results of its enforcement efforts, including accountability and stewardship over the tons of illegal drugs and millions of dollars of cash and property seized or used in its enforcement efforts;
- adequately control the use and reporting of its operating funds; and

- adequately protect the sensitive data maintained in its automated systems from unauthorized access and modification.

These problems are the result of years of inadequate financial management leadership that have led to deficient financial management systems that do not facilitate financial reporting and control. Most will require long-term efforts to effectively plan and implement solutions that will address the long-standing root causes. The Commissioner of Customs has expressed a strong personal commitment to resolving these problems and recognizes that a significant and sustained effort by Customs' management will be required.

Summary of Results

In the short period of time that has elapsed since we reported the results of our work for fiscal year 1992, Customs was unable to resolve all the critical problems we identified. Consequently, the following results of our audit of the fiscal year 1993 statements are basically the same as those reported for fiscal year 1992.

- We were unable to express an opinion on the reliability of Customs' fiscal year 1993 and 1992 Principal Financial Statements because of the lack of reliable financial information, inadequate financial systems and processes, and an ineffective internal control structure. Further, we concluded that important financial management information reported in fiscal years 1993 and 1992 by Customs internally for management purposes and externally to the Congress, the Office of Management and Budget (OMB), and others was also based on incomplete or unreliable data.
- In our opinion, internal controls were not properly designed and implemented to effectively safeguard assets, provide a reasonable basis for determining material compliance with laws governing the use of budget authority and other relevant laws and regulations, and assure that there were no material misstatements in the Principal Financial Statements.
- We were also unable to give any assurance on the reliability of the information contained in the Overview to the Principal Statements, because a significant amount of this information came from many of the same financial management systems and was subject to the same poor internal control structure. The section of the statements entitled "Supplemental Financial Management Information" contained only a listing of Customs' reportable funds and no financial data.
- Our tests for compliance with selected provisions of laws and regulations disclosed no material instances of noncompliance.

The following sections of this report provide details on the unique control environment in which Customs operates and on the specific control issues we identified. The section entitled, "Complex Control Environment and Mission," provides perspective on the broad scope of Customs' mission and the high-risk nature of its operations. This section is followed by the "Significant Matters" section which identifies critical control weaknesses in four areas: trade compliance, enforcement, administrative operations, which includes financial reporting, and computer security; and describes actions being taken by Customs to correct weaknesses, promote better financial management, and strengthen its controls.

Complex Control Environment and Mission

Customs operates in an extremely challenging environment. Its diverse mission includes collecting duties, taxes, and fees on imports; enforcing laws intended to prevent unfair trade practices; and protecting public health by interdicting narcotics and other hazardous goods before they enter the country. Customs is also the initial source of information for trade statistics on imports used in monitoring and formulating trade policy.

Customs is responsible for monitoring a tremendous volume of import activity—for fiscal year 1993, Customs reported that approximately $550 billion of merchandise consisting of over 800 commodity classifications was imported and that it processed over 27 million import entries and 450 million passengers. Customs also reported that it searched 282,600 passengers and over a million containers for contraband.

In addition to monitoring passengers and cargo at ports of entry, Customs maintains a deterrent to narcotics smuggling through its air and marine interdiction program and an active investigative program that conducted over 100 individual undercover operations during fiscal year 1993. Through this investigative program, Customs also combats money laundering.

As a result of Customs' investigative and inspection programs, it annually reports seizures of property, including thousands of pounds of drugs and millions of dollars of currency. In many instances, Customs is responsible for taking possession of the seized items and processing the related cases. However, sometimes, other agencies participating in the seizure with Customs carry out these responsibilities.

Customs efforts are supported by an extensive network of automated systems that must be protected from unauthorized access and modification. Maintaining the security of these systems is especially challenging because they are used by thousands of Customs' and other agencies' employees and trade community members to transmit, maintain, and report data. The security of these systems is critical because they incorporate many of the trade and enforcement controls that Customs has instituted and because they contain a great deal of sensitive information.

External conditions greatly affect Customs' control environment. The volume of imports has more than doubled between 1980 and 1993, from $253 billion to $550 billion, making it impractical for Customs to observe and inspect all shipments. Also, federal laws allow importers to transfer goods from their original ports of entry to other locations within the United States prior to the assessment of duties. This increases the risk of trade violations because it is not practical for Customs to closely monitor the movement of goods within the United States to ensure that they are not unloaded, substituted, or augmented in transit. Recent trade agreements, such as the North American Free Trade Agreement (NAFTA), also have increased the number and complexity of trade provisions that Customs is to enforce. Further, U.S. and foreign businesses have become more interdependent, and Customs faces increased pressure to facilitate and avoid obstructing the movement of goods across international borders.

The growth in imports is likely to continue, outpacing any growth in Customs' resources and forcing Customs to further reduce its monitoring of carriers, importers, and their agents in its enforcement of trade laws. At the same time, this growth offers increased opportunities for smuggling and other illegal trade practices. Finally, criminal organizations that smuggle narcotics and launder the proceeds generated by smuggling and trade fraud continue to develop more sophisticated means of concealing such activities.

Another challenge facing Customs is that many of its financial systems were developed years ago primarily to meet program administration objectives and were not designed to provide the reliable financial information needed to effectively and efficiently manage and report on an operation its size. Consequently, efforts to retrieve this information are labor intensive and error prone. Also, over the last few years, Customs has experienced frequent turnover in its top financial management positions.

Further, Customs' operations are decentralized and involve a complex field structure consisting of offices located throughout the United States and in many foreign countries. This structure includes about 19,000 employees located at Customs' Washington, D.C., headquarters, its National Data Center in Virginia, its National Finance and National Logistics Centers in Indianapolis, 7 regional offices, 44 district offices, 300 ports of entry, 29 Special Agent in Charge offices, and 131 Special Agent Enforcement offices.

Because Customs operates in an inherently high-risk control environment, it is imperative that Customs have well-designed and properly implemented internal control and financial reporting structures to enable it to report reliable financial management information and efficiently and effectively accomplish its mission. Such structures should include a risk assessment process which (1) targets high-risk cargo and passengers and (2) includes representative selections for cargo and passenger inspections that allow Customs to estimate compliance and more effectively apply its resources to the areas of highest risk.

Policies and procedures also should be in place to reasonably ensure that

- all imported goods are declared on manifests and entry documents,
- only those goods that have been approved for release actually enter U.S. commerce,
- the applicable duties and taxes are assessed and collected on goods that are transported between ports prior to the goods' release,
- fines and penalties are assessed and paid, and
- only valid refunds of duties are paid.

In addition, Customs' financial management systems and controls should ensure that property and illegal drugs seized by Customs or used in its undercover operations are adequately accounted for and safeguarded, that data maintained in its automated systems are protected from unauthorized access and modification, and that reliable financial information can be reported on a timely basis.

Significant Matters

Our audit identified widespread deficiencies in Customs' internal controls and hundreds of millions of dollars in financial statement errors. Because the impact of the control weaknesses go far beyond the reliability of Customs' financial statements, we expanded our work to determine the effect of these weaknesses on Customs' mission related operations in addition to their impact on the statements. We found that although Customs had many programs in place to inspect imported cargo, examine related documentation, and investigate and take action against illegal activities, such as drug smuggling, many critical controls were not adequate to reasonably ensure that Customs was fulfilling its mission. Specifically, Customs had not implemented controls, systems, and processes to reasonably ensure

- overall compliance with trade laws and that duties, taxes, and fees on imports were properly assessed and collected, and refunds of such amounts were valid;
- that property and illegal drugs seized by Customs or used in its undercover operations were adequately safeguarded from loss, misuse, or theft and accurately recorded, valued, and reported;
- that all financial activity that occurred during the year was completely and accurately summarized in the core financial system, properly supported, and reported in a timely manner; and
- that sensitive data maintained in its automated systems were adequately protected from unauthorized access and modification.

Major Improvements Needed to Strengthen Customs' Ability to Ensure Compliance With Trade Laws

Customs' programs for inspecting goods entering the United States did not provide reasonable assurance that carriers, importers, and their agents complied with laws intended to ensure fair trade practices and protect the American people from unsafe and illegal imported goods. As a result, revenue owed to the federal government may not have been identified and quotas and other legal restrictions may have been violated. Moreover, trade statistics, which are an important economic measure and play a significant role in the negotiation of trade agreements, may not be reliable. Our tests of revenue transactions showed that the $21.6 billion that Customs reported as custodial revenues for fiscal year 1993 was reliable and properly classified among duties, taxes, fees, and other types of collections. However, Customs cannot be reasonably assured that this figure includes all of the revenues that it should have collected during that year.

This lack of assurance stems from several factors. Most importantly, Customs did not have a means to reliably measure overall compliance with trade laws and, thereby, determine the effectiveness of this part of its operations. Specific areas of weak control that we identified were Customs' inability to

- reasonably ensure that all imported goods were declared on manifests and entry documents,
- reasonably ensure that only those goods that had been approved for release actually entered U.S. commerce,
- monitor the disposition of goods that were moved to other ports or to warehouses or foreign trade zones prior to assessment of duties, and
- verify the appropriateness of duty refunds, referred to as drawbacks.

These deficiencies were substantially the same as those we reported for fiscal year 1992. Customs has taken some steps to address them, but more time is needed to determine the effectiveness of these measures. For example, during fiscal year 1993, Customs successfully piloted a compliance measurement program on a very limited basis and expects to have a broad-based compliance measurement program in place by the start of fiscal year 1995. However, implementation of new procedures intended to improve Customs' monitoring of goods transferred among ports was slowed due to software coding errors. Also, improved controls over refunds of duties are not likely to be implemented for several years because they are being developed as part of a much broader, multi-year system development effort.

Efforts to Measure Compliance Began in Fiscal Year 1993

As it did in fiscal year 1992, Customs focused its fiscal year 1993 inspection efforts on high-risk shipments in an effort to release low-risk shipments as expeditiously as possible. The criteria for selecting these shipments were based primarily on Customs' experience in identifying violators. For example, shipments for first-time importers and previous violators were likely to be inspected. However, as a result of these procedures, most shipments were not inspected at all—according to Customs, about 92 percent of imported cargo was released without examination during fiscal year 1993. And, because the shipments selected did not constitute a representative sample of all shipments, the results of the related inspections could not be used to estimate overall compliance with trade laws.

In response to our September 1992 report,[1] Customs began developing a compliance measurement program during fiscal year 1993 and began tests of representative samples of imported goods in April of that year. From April through September 1993, these tests were applied to five types of goods at a few large ports of entry for 45- to 60-day periods. For each test,

[1]Customs Service: Trade Enforcement Activities Impaired by Management Problems (GAO/GGD-92-123, September 24, 1992).

Customs randomly selected line items of goods identified on importers' entry documents and then examined the related goods and supporting documentation to determine if compliance requirements were met; for example, to determine if the goods had been properly marked and reported. Although some of the goods were found to be highly compliant with the specific requirements of trade laws and regulations, some types of goods, such as auto parts, were determined to be much less compliant than Customs had previously assumed.

Because of their limited coverage, the results of these tests cannot be used to estimate overall compliance for fiscal year 1993. However, they were useful in demonstrating to Customs the value of accurately measuring compliance rather than relying on perceptions of compliance. Also, they provided Customs a means of refining its sampling and testing methodology and served as a means of training Customs personnel at the district and port level for future testing efforts.

Customs' compliance measurement tests were expanded during fiscal year 1994 to other aspects of the entry process, including tests of manifest completeness. Some of these efforts were under way or had not yet begun at the close of our review in April 1994. During fiscal year 1995, Customs plans to begin nationwide, year-long tests of all major categories of goods. If these tests are carried out successfully, they should provide objective data that will help Customs ensure that it is making the best use of its limited inspection and audit resources. In addition, the results will allow Customs to determine to what extent it is assessing and collecting all of the revenue due on imports entering the United States.

Controls Over the Completeness of Manifests Were Weak

As we reported for fiscal year 1992, Customs has no agencywide requirements for observing the unloading of carriers and determining that manifests are complete. As a result, Customs did not have reasonable assurance that it was aware of all goods arriving at ports of entry and entering U.S. commerce. At the 12 ports we visited to discuss and test the processing of imported goods, we found that shipments generally were not counted and compared to the manifest unless they were being searched for narcotics or other illegal goods.[2] These searches, referred to as landed quantity verifications, were performed by the districts' Contraband Enforcement Teams at the discretion of each Customs district.

[2]At one seaport, officials told us that bulk shipments, such as oil arriving in oil tankers, were routinely measured and tested.

According to Customs officials in five districts and documentation obtained during our visits to these districts, it was not uncommon for Customs personnel to find unmanifested cargo containers and containers with no seals or with broken seals. For example, an inspector's notes on a May 1993 landed quantity verification at the port of Boston listed four containers that were unloaded but were not documented on the manifest and one that was not sealed. According to the inspector's notes, these containers were set aside and held for further inspection and a seal was placed on the unsealed container. The reports we obtained showed that similar discrepancies were found during landed quantity verifications in other districts.

Districts also performed audits of selected carrier manifests, referred to as carrier post audits. Reports from these audits for fiscal year 1993 identified numerous discrepancies between the carriers' manifests and the importers' entry documents. However, because these audits were conducted months after the carrier's arrival, they would not have identified goods that had purposely been omitted from both the manifest and related entry documents.

For fiscal year 1992, we recommended that Customs develop a strategy for inspecting a random sample of carriers that could be used to help ensure that cargo delivered was completely identified on related manifests. During early fiscal year 1994, Customs developed a plan to perform such tests on a random sample of carriers at nine ports of entry. This test was under way at the close of our review in April 1994.

Controls Over Releases at Ports of Entry Were Weak

For fiscal year 1993, we examined Customs' controls over the release of goods more closely than we had for fiscal year 1992, and we identified serious weaknesses in Customs' ability to ensure that carriers released only goods that Customs had approved for release. These weaknesses, especially in combination with the weak controls over manifest completeness, increased the risk that unassessed dutiable or illegal goods could be entering U.S. commerce undetected by Customs.

Most importantly, Customs was not taking advantage of the capabilities of its Automated Manifest System (AMS) for monitoring the release of goods. AMS, which is part of Customs' larger Automated Commercial System (ACS) and is under the direction of Customs' Office of Inspection and Control, allows carriers to submit their manifests electronically as a series of bill of lading records. According to Customs, during fiscal year 1993, AMS received and maintained manifest data for about 77 percent of sea bills of lading and about 19 percent of air bills. AMS provides port personnel advance notice of goods that are about to arrive, a means of notifying carriers electronically when goods have been approved for release, and a means of identifying goods that have not been released by the system.

If goods are to be immediately entered into U.S. commerce, an importer or its agent files with Customs an "entry/immediate delivery" form, which describes the goods to be released. Customs may review these documents and may choose to inspect the related goods before approving their release. Many shipments that Customs has determined present a low risk of violating trade laws are approved for release in AMS automatically when AMS matches data reported on manifests and entry documents. In other cases, Customs inspectors indicate that the goods have been approved for release by entering approval into AMS or by stamping, and sometimes signing, the paper entry form. Carriers may turn goods over to importers or their agents when either AMS shows that release has been approved or a stamped or signed entry form is presented. According to Customs directives, carriers using AMS are also required to verify that the goods have been released in AMS. Accordingly, when Customs inspectors approve release from an AMS participant on a paper entry form, they are also to enter approval data into AMS.

By keeping release data in AMS accurate, Customs could use the system to readily identify and investigate those shipments that have not been released in AMS after the prescribed period. However, we found that AMS was not fulfilling this control function because information in AMS was unreliable, erroneously showing many items had not been approved for release when supporting documents showed otherwise. In addition, Customs was not investigating discrepancies, such as shipments that AMS indicated had not been released after a reasonable period.

We reviewed 88 judgmentally selected AMS bills of lading and found that 26 had not been properly accounted for in the system. Although the carriers had the documentation to support Customs' authorization for release of these shipments, this information was not accurately reflected in AMS. In 14 cases, AMS did not indicate Customs' authorization for release. In 11 cases, AMS' record of quantities reported on the manifest and quantities released did not match. In two cases, including one of those mentioned above, AMS showed that the goods were being held by Customs, when actually they had been released.

Our tests showed that these discrepancies occurred because (1) Customs personnel either did not enter release information into AMS or entered it twice or (2) carriers, brokers, and Customs personnel entered inconsistent or erroneous quantities into AMS. For example, for one of the bills of lading we tested, a carrier identified a shipment on its manifest as consisting of 2 pallets of goods, while the broker reported the same shipment on entry documents as 120 cartons of goods, resulting in a discrepancy in AMS. In another instance, Customs personnel entered release information for the same merchandise twice, creating a double count of the quantities released. Customs had not investigated the discrepancies associated with the items we reviewed until prompted to do so by our audit, which took place between 5 months and 14 months after the goods had arrived at the ports.

For the shipments that are not reported through AMS, Customs has no means of routinely monitoring release. In these cases, Customs relied on carrier post audits to examine manifests and entry documents and determine if goods were properly reported and released. Customs does not maintain statistics on the percentage of AMS or non-AMS shipments subject to carrier post audits. However, reports submitted to Customs headquarters from district offices show that post audits have discovered numerous instances where goods had been released without Customs' approval.

Customs Did Not Adequately Monitor Goods Moved to Other Ports Prior to Their Release

In addition to weaknesses in controls over goods immediately released into commerce, weaknesses in Customs' ability to monitor goods that were moved to other locations prior to their release continued in fiscal year 1993. The most serious control weaknesses we identified were related to Customs' ability to effectively monitor shipments of goods transported among ports prior to the goods' release. Customs does not have nationwide statistics on the percentage of such transfers; but, at two of the busiest locations, officials told us that over half of the goods unladen were transferred to other ports prior to being exported or released. The difficulties in monitoring such shipments, referred to as in-bond transfers, and the lack of an effective monitoring system increased the risk that goods could have been diverted before duties and taxes were assessed and that goods that were supposed to be exported remained in the United States without Customs' knowledge.

Under the provisions of the United States Code, Title 19, Sections 1552 and 1553, an importer may transport foreign merchandise (1) from the initial

U.S. port of entry (port of origin) to another port (port of destination) where duties and taxes are paid when the merchandise is released into the commerce of the United States or (2) through the United States for exportation to another foreign country without the payment of duty. This allows importers to delay the payment of duties and taxes until the merchandise reaches its ultimate destination or to bypass the payment of duties and taxes when exporting foreign merchandise. It is Customs' responsibility to monitor the movement and disposition of such shipments in order to ensure that the applicable duties and taxes are collected at the port of destination or that the merchandise is exported. However, such monitoring is difficult because, once trucks and rail cars have entered the United States, it is not practical for Customs to observe their movements to ensure that cargo is not unloaded, substituted, or augmented before arriving at the destination port.

For fiscal year 1992, we reported that the system designed to monitor in-bond transfers was of limited effectiveness because Customs personnel did not consistently (1) record departure and arrival data and (2) investigate overdue shipments to determine what had happened to the related goods. We found that the same control problems existed during fiscal year 1993 and that controls in one area had been weakened.

As part of our review of a judgmentally selected sample of bills of lading, we traced the movement of in-bond transfers related to 69 bills of lading and discussed in-bond procedures at 12 ports. Because some shipments were divided, the 69 bills of lading we reviewed involved 87 in-bond transfers. Of these 87 transfers, we found that departure, arrival, or export data were incomplete for 26, because either Customs personnel or carriers had not entered complete data. As a result, Customs could not readily determine the disposition of the related merchandise. Only after reviewing related documentation maintained by Customs and the carriers and questioning Customs personnel were we able to determine that each of these had arrived at its destination and that those released into U.S. commerce had been reported to Customs.

Further, officials at 3 of the 12 ports we visited told us that they did not investigate and resolve overdue shipments, resulting from manually submitted in-bond data, because the related reports were unreliable and time-consuming to resolve. Resolution of overdue shipments entailed contacting the carrier and the destination port for information regarding the status of the shipment, verifying delivery documents and records, and issuing warning letters or assessing fines when appropriate. An official at one port told us that the volume of overdue shipments and the time required to resolve them was overwhelming, in part because the report does not identify the carrier, thus requiring Customs personnel to retrieve supporting hard copy documentation to obtain this information.

Officials at three ports told us that they only investigated and resolved a sample of overdue shipments because complete resolution was not practical due to the volume of items on the reports. At one port, officials said that, although each of their reports averaged about 175 overdue shipments, they only resolved a sample of 20 shipments on each report. A local memorandum issued by officials at this port stated that even resolving a sample of only 20 shipments was not cost-effective due to the effort needed to retrieve and research documents. At another port, Customs personnel told us that they attempted to investigate only about a 5 percent sample of an average 200 to 300 overdue shipments listed on the reports, after which they designated the rest as resolved regardless of whether or not delivery of the merchandise had been verified.

The difficulty in resolving and monitoring the resolution of overdue shipments was made even more difficult when, in April 1993, Customs changed its cumulative monthly report on overdue shipments to a weekly, noncumulative report. According to a Customs headquarters official and a planning memorandum sent to Customs regional offices, this change was made so that each Customs location could resolve the entire report on a weekly basis, thus reducing the backlog of overdue in-bond shipments prior to elimination of a manual segment of the in-bond system. However, because overdue shipments appear on the report only once, the report is not useful for monitoring the disposition of shipments that remain unresolved after a week has elapsed. This increases the risk that some overdue shipments may never be investigated and resolved.

As planned, Customs began implementing revised procedures for monitoring in-bond transfers in October 1993; but as of April 1994, much of the planned revision had not been completed due to software coding errors. The revision is to eventually allow brokers to electronically transmit in-bond data regardless of whether the importing carrier is automated or not and ultimately eliminate the separate processing of manually submitted data. In-bond transfers for which data are submitted manually are processed and monitored separately from transfers for which data are electronically submitted. However, because the system for monitoring manually submitted transfers provides incomplete information, personnel still must rely substantially on hard copy documents.

Customs has recognized that, although complete implementation of its improved in-bond monitoring procedures will help, it will not fully address the difficulties in controlling in-bond transfers. At the close of our review, Customs was planning compliance measurement tests that would help determine the level of violations that actually occur for in-bond transfers. Also, an In-Bond Task Force had been appointed and was considering more fundamental changes to the processing of in-bond transfers which may impact implementation of the revised procedures. Such changes, including consideration of modifications to legal provisions that allow in-bond transfers, may be appropriate since the cost of monitoring such transfers and the risk of violations are likely to grow as international trade increases.

Inadequate and Inconsistent Controls Over Goods Held in Warehouses and Foreign Trade Zones

An importer may choose to store imported goods in a bonded warehouse or transfer them to a foreign trade zone (FTZ) before releasing them into U.S. commerce and paying the related duties. Bonded warehouses are facilities, regulated by Customs, that may be operated by independent warehousing firms or by importers. According to Customs records, about 1,400 bonded warehouses were in operation nationwide during fiscal year 1993, and the duties on merchandise withdrawn from them accounted for about 1.5 percent of the duties that Customs collected during fiscal year 1993. Foreign trade zones are geographic areas, designated in accordance with the Foreign Trade Zone Act, to which merchants may bring domestic or foreign merchandise for storage, exhibition, manipulation, manufacturing, assembly, or other processing. According to the most recent information available, in fiscal year 1992, 298 foreign trade zones were in operation, and they received imported merchandise valued at about $20 billion.

For fiscal year 1992, we reported that Customs did not adequately monitor goods held in warehouses and FTZs because it did not require district offices to maintain readily available records of warehouse and FTZ inventories or adequately enforce its requirements for spot checks of these facilities. We found that the same conditions existed during fiscal year 1993. As a result, such releases may not have been completely and promptly reported to Customs and related revenues may have been delayed or lost. Control weaknesses regarding warehouses and FTZs are discussed in greater detail in our report on Customs' fiscal year 1992 controls over revenue.[3]

[3] Financial Management: Control Weaknesses Limited Customs' Ability to Ensure That Duties Were Properly Assessed (GAO/AIMD-94-38, March 7, 1994).

For fiscal year 1992, we recommended that Customs require district offices to (1) maintain perpetual inventory records of goods held in bonded warehouses and FTZs and (2) emphasize to district offices the importance of spot checks of bonded warehouses and monitor this activity to ensure that districts comply with headquarters directives. Customs agreed to oversee the performance of spot checks, but questioned the need for maintaining inventory records in light of its other priorities.

As of the close of our review in April 1994, Customs officials told us that they were planning a compliance measurement test of warehouse operations for fiscal year 1995 to determine the level of violations that occur in this area. If this test is conducted in a way that provides a reliable measure of compliance, its results will be an important factor in considering the necessity of strengthening Customs' controls over warehouses. For this reason, we believe that it is appropriate for Customs to delay implementation of our recommendation that it maintain a perpetual inventory of imported goods held in warehouses until the results of the compliance measurement test are known.

Customs has not developed any specific plans for testing compliance at FTZs or for strengthening controls over FTZs. Therefore, we believe that our previous recommendations regarding FTZs are still valid and that Customs should begin implementing them.

Controls Over Drawback Payments Remained Weak

The control weaknesses related to drawbacks that we identified for fiscal year 1992 continued in fiscal year 1993. Drawbacks are refunds of duties and taxes paid on imported goods that are subsequently exported or destroyed.

Customs could not reliably detect and prevent duplicate and excessive drawbacks because its automated system could not link drawback claims to related import entries or maintain a cumulative record of the amount of duty refunded and goods exported or destroyed for each entry. As a result, Customs processed about 49,000 drawback claims, totaling approximately $482 million, during fiscal year 1993 using manual procedures that were ineffective, in part because one drawback claim could involve scores of individual entries. In addition, these deficiencies in Customs' accounting for drawback payments precluded us from determining if all such payments made during fiscal year 1993 were appropriate.

Customs reviews and verifies drawback claims before they are finalized, a process referred to as liquidation. However, based on our review of drawback claims and discussions with staff responsible for processing such claims, we determined that liquidators generally select a judgmental sample of the entry summaries from the total summaries indicated on the drawback claim for review. In general, the sample selected by liquidators was not representative of the entire drawback claim.

We reviewed a representative sample of 55 drawback claims, of which 41 had been liquidated. For 17 of these liquidated claims, we found no evidence that Customs personnel reviewing the claims had reviewed any of the related entry summaries prior to liquidation of the drawback claim. In addition, we could not determine if 11 of the remaining 24 claims had been adequately reviewed because Customs had deleted information from its automated records indicating which import entries had been requested for review.

Also, Customs did not consistently maintain information needed to ensure that accelerated payments were made only to approved claimants. About 80 percent of the amount Customs refunds as drawbacks is paid before Customs reviews the claim. Customs regulations limit accelerated payment to claimants who are not delinquent or otherwise remiss in transactions with Customs and who have surety bond coverage that is adequate to protect Customs if it is determined that the refund was inappropriate. However, we found that files for 6 of the 24 accelerated payments we reviewed did not contain Customs-required documentation stating that the claimant had been approved for such payments. Control weaknesses regarding drawbacks are discussed in greater detail in our report on Customs' fiscal year 1992 controls over revenue.[4]

Customs has acknowledged that weaknesses in controls over drawback payments exist but delayed action to correct them until passage of the Customs Modernization and Informed Compliance Act in late 1993 which included statutory changes to the drawback law. In our report for fiscal year 1992, we recommended that Customs develop a means to automatically (1) verify drawback claims and (2) obtain historical information on drawback claimants and bond sufficiency. As of April 1994, Customs was in the process of revising drawback regulations to reflect changes resulting from the new law and planned to design new automated capabilities to address control weaknesses. However, the new regulations

[4]Financial Management: Control Weaknesses Limited Customs' Ability to Ensure That Duties Were Properly Assessed (GAO/AIMD-94-38, March 7, 1994).

are not expected to be implemented until fiscal year 1995, and the other improvements will take even longer because they require automation of drawback processing, an effort that is planned as part of a much larger, multi-year effort to redesign Customs primary computerized system, the Automated Commercial System.

For fiscal year 1992, we also recommended that until Customs develops a means of automatically verifying claims, Customs should require that liquidators use representative sampling procedures for reviewing drawbacks that relate to multiple entry summaries. Although Customs agreed with this recommendation, as of April 1994, Customs planned to issue this guidance as part of its other revisions to Customs regulations in fiscal year 1995. In our evaluation of Customs' comments on that recommendation, we suggested that Customs consider issuing a memo immediately providing guidance on approving drawback claims rather than delaying until issuance of the larger revision. We believe that such an approach would still be appropriate.

Much Greater Accountability Needed for Seizure and Undercover Efforts

One of Customs' primary responsibilities is preventing the entry of illegal goods into the United States, including counterfeit items, goods that violate trademark regulations, and other contraband. Customs is authorized to seize property when reasonable cause exists to suggest that laws for which Customs has enforcement authority were violated. The seizure of property and illegal drugs is one of the more significant results of many of Customs' enforcement efforts. Customs also undertakes authorized undercover operations to apprehend high-level criminals and disrupt illegal activities. On occasion, Customs carries out its law enforcement efforts with other agencies, including the Drug Enforcement Administration and the U.S. Marshals Service.

During fiscal year 1993, Customs reported over 20,000 narcotics seizures, 10,129 arrests, and 5,619 convictions resulting from its enforcement efforts. Table 1 shows a summary of the fiscal year 1993 narcotic seizures.

Table 1: Narcotics Seized in Fiscal Year 1993

Type of drug	Number of seizures	Pounds seized (unless otherwise noted)
Marijuana	10,961	507,249
Cocaine	2,182	175,318
Hashish	1,529	26,089
Heroin	1,010	2,955
Opium	2,426	2,129
Morphine	11	20
Other	2,747	17,864,966[a]

[a]Tablets.

The accountability and stewardship for the millions of dollars in cash and property and the tons of drugs that Customs annually seizes involve financial systems and controls to ensure that these items are adequately safeguarded and accurately recorded, valued, and reported. The dollar value and quantity of seized property and the weight of illegal drugs are used as performance measures for Customs' enforcement efforts by Customs management, the Congress, and others.

Customs primarily uses two systems to account for and manage its enforcement activities: (1) the Treasury Enforcement Communications System (TECS II), which is an enforcement database of operations that contains information on the results of cases (e.g., arrests, convictions, and seizures) and (2) the Customs Property Tracking System (CPTS), which is an inventory system to help control and provide financial information for the seized property that result from its enforcement efforts. In addition, Customs has established policies and procedures designed to ensure that seized property is transferred promptly to seizure custodians, weighed, counted, and stored in designated locations until authorized for disposition.

Our review showed that Customs' accounting records to control, manage, and report the results of its enforcement efforts were incomplete and inaccurate. These records included

- incorrect and unaccounted for quantities of drugs and other property,
- incorrect location data for some seized items,
- erroneous seized property values, and
- seizures where Customs participated in the seizure with other agencies, but did not take possession of the property.

In addition, the records did not include amounts of drugs and currency that are used in Customs' undercover operations and contained inaccuracies regarding advances and statistical information related to these operations.

Until these accounting records are corrected and the proper controls and management emphasis put in place, Customs will not be able to report reliable information on these activities to Customs' management and to the appropriate congressional oversight committees. In addition, Customs will not be able to properly assess the effectiveness of its enforcement efforts, provide reliable information in its annual financial statements, and meaningfully implement the Government Performance and Results Act.

The system that Customs uses to report seizure activities lists all seizures in which Customs plays a role, regardless of whether Customs takes possession of the property seized. Consequently, Customs' reporting of seizures to the Congress and others who oversee governmentwide drug interdiction efforts is likely to include values and quantities for seizures held by other agencies and, therefore, be overstated.

Customs did not exercise adequate accountability and stewardship over tons of illegal drugs and millions of dollars of cash and property seized or used in its enforcement efforts primarily because the policies and procedures the agency established to control such items were not consistently and effectively implemented. In many cases, Customs did not properly weigh and count seized drugs and protect stored items, including large quantities of drugs, by restricting access. In addition, in some instances, Customs did not adequately monitor controlled deliveries.[5] These problems have reduced the impact of Customs' enforcement efforts and led to the loss and theft of property and hundreds of pounds of drugs. Customs is taking steps to correct these weaknesses, but more changes are needed to shore up the controls in this area and to ensure that the Congress and Customs' management has reliable information.

[5]Controlled deliveries are authorized operations designed to retain the custody and control of the drugs until arrests are effected. In such instances, an item that has been seized by Customs is allowed to continue on its way, under the surveillance of a Customs agent. This is done with the anticipation that other violators will be arrested and/or more items will be seized. The seized item is either delivered by the original person from which it was seized, as a result of an agreement, or by an undercover Customs agent.

Financial Data Did Not Facilitate Accountability for Enforcement Efforts

The results of our fiscal year 1992 efforts to assess Customs' internal controls showed that its inventory records used to control and manage seized property and prepare agency financial reports were incomplete and inaccurate.[6] Although Customs has taken steps to address some of our recommendations from that audit, many of the problems reported for fiscal year 1992 persisted in fiscal year 1993. CPTS and TECS II do not provide detailed financial and tracking information on enforcement activity, and Customs' personnel often input erroneous data into the systems. In addition, we found that Customs' accounting records contained inaccurate and incomplete information relating to its undercover operations.

According to Customs' January 1989 ACS Customs Property Tracking System Handbook, CPTS is intended to provide a method of maintaining a current and historical record of property from the time of seizure to the time of disposition. However, we found that Customs was unable to effectively extract a detailed financial history of its seizure activities from CPTS because the system was not functioning as intended. As a result, Customs was unable to reliably summarize and assess the results of such enforcement efforts for any period of time. Customs attempted to manually retrieve this information for fiscal year 1992 but its efforts were labor intensive and error prone. We found that the reported fiscal year 1992 seizure activity amounts were significantly incorrect and incomplete. For fiscal year 1993, Customs did not attempt to report such information because of its systems limitations.

An important step in establishing accountability is determining the actual quantities of items on hand. In response to a recommendation made during our audit for fiscal year 1993, Customs conducted its first-ever nationwide physical inventory of seized property, drugs, and currency in February 1994. This significant effort, which was conducted by approximately 200 Customs employees at over 100 storage facilities located throughout the United States, was intended to establish an accurate baseline for monitoring and reporting seizure activity that results from Customs' enforcement efforts. As a result of this inventory, Customs was able to identify and correct many significant errors in the recorded quantities and values of seized property.

In some cases, the records did not show thousands of pounds of drugs that had been seized and were held in Customs' vaults. In other instances, the

[6] *Financial Management: Customs' Accountability For Seized Property and Special Operation Advances Was Weak* (GAO/AIMD-94-6, November 22, 1993).

records showed thousands of pounds of drugs more than were on hand. Discrepancies between inventory records and actual property on hand increase the potential for loss or tampering without the agency's knowledge. Table 2 shows a summary of the changes made to CPTS, resulting from Customs physical inventory, because of instances where (1) CPTS records showed that no drugs were being held but drugs were discovered during the physical inventory and (2) CPTS records showed that drugs were being held but no drugs were found.

Table 2: Selected Changes Made to CPTS to Correct Recordkeeping Discrepancies

Type of drug	Number of districts involved	Changes made to CPTS	
		Pounds added	Pounds deleted
Cocaine	11		
	17	2,620	51,676
Heroin	12		
	9	167	409
Marijuana	16		
	20	9,181	65,804
Hashish	5		
	11	12	728
Opium	4		
	4	50	26

Customs' initial efforts to resolve identified discrepancies showed thousands of pounds of drugs as missing. However, subsequent labor-intensive procedures, involving the review of over 100 case files, resulted in all but 86 pounds of drugs being accounted for by Customs as having been destroyed or transferred to another agency or to a different Customs location prior to the inventory date. In several cases, we found that the transfers were made more than 2 years ago, but the related records had not been updated.

These discrepancies were primarily due to the following problems involving inaccurate data entry to CPTS.

- Seizing officers and seizure custodians lacked a proper understanding of which items are to be accounted for in CPTS. For instance, even though CPTS is capable of separately tracking both drug samples[7] and bulk quantities of drugs seized, drug samples were not always distinguished or

[7]Customs' directives provide that, with certain exceptions, samples of seized drugs are to be tested for type and purity. In some instances, the samples are sent to a laboratory and on return are held for evidence for judicial proceedings. The bulk amount remaining from the original quantity seized is kept in storage until its destruction is authorized.

tracked separately from the bulk quantities of seized drugs. Thus, a sample can remain on hand but unrecorded in inventory records when the bulk of a seizure is destroyed.

- Seizure custodians did not always establish a new record in CPTS to separately track the amount of a seizure remaining after a partial destruction. CPTS is designed to show the entire amount of a drug seizure as having been destroyed on the initial destruction date. However, local environmental restrictions at some districts result in large bulk seizures being destroyed over a period of time. In such instances, seizure custodians must establish a new record for the remaining portion of the drugs in CPTS because the system does not automatically do this. Otherwise, seized drugs will remain on hand but not be recorded in CPTS records.
- Seizure custodians did not always update CPTS data when seized drugs were transferred to another agency, destroyed, or moved to a different location.

Customs officials stated that these data entry problems were typically due to a low priority being placed on accurately updating CPTS because of workload and staff restraints and that a higher priority is now being placed on properly performing these procedures.

The value of property recorded in CPTS as of the date of Customs' nationwide physical inventory was overstated by millions of dollars primarily because

- seizing officers and seizure custodians did not always follow Customs' procedures for valuing items in seized property records, including items prohibited for sale in the United States for which no value is to be recorded,
- counterfeit items, which have no resale value to Customs, were assigned values in CPTS, and
- disposals of seized property were not promptly recorded in CPTS.

As of the date of the physical inventory, counterfeit items and items prohibited for sale in the United states were recorded in CPTS at a total value of $20.3 million. In addition, CPTS data incorrectly included items not in Customs' possession valued at $27.4 million and initial estimates of values that were overstated by $15.7 million because the values had not been adjusted when accurate assessments became available. Property value errors can result in inaccurate inventory data on reports used to develop performance indicators and manage seized property.

Customs officials told us that, except for errors relating to counterfeit items, these types of errors were primarily attributable to seizing officers' inattention to or lack of awareness of Customs' procedures. Regarding seized counterfeit items, Customs officials told us that until the administrative or judicial proceeding relating to the seizure has been completed, counterfeit items held at contractor locations are required to be insured. Nevertheless, counterfeit items have no resale value to Customs and, therefore, should be valued at zero in Customs' financial statements. Regarding failure to update initial estimated values, we found that even when appraisals or more accurate valuation information became available, such information was typically placed in the case files, but CPTS was not updated. Seizing officers and seizure custodians told us that updating estimated values was a low priority.

For fiscal year 1992, we found that Customs' inventory records were not always promptly updated for transfers of seized property to other agencies and forfeitures. Similar discrepancies were identified as a result of Customs' February 1994 physical inventory.

We found numerous fiscal year 1993 seizures of property and drugs included in the inventory records that were actually seized by, or transferred upon seizure to, another agency. When Customs' data on seized property activity include values for property and quantities of drugs in the possession of other agencies, information used by the Congress and others to oversee governmentwide drug interdiction efforts can be overstated because data reported by the other agencies would likely include values and quantities for the same seizures. This problem was exemplified during a 1992 Customs' budget hearing for fiscal year 1993 before the House Subcommittee on Appropriations. In a footnote to statistics presented as part of the hearing that showed Customs' percentage of federal agency narcotics seizures, Customs acknowledged that the seizure quantities presented were incorrect due to significant double-counting among agencies.

This problem has been partially addressed by the Department of Justice, which has recognized that multiple reporting of narcotics seizures was a problem common to all federal law enforcement agencies. Justice, through the El Paso Intelligence Center, issues a unique Federal Drug Identification Number to each federal agency seizure. This number identifies the seizing agency and the amount of drugs seized in order to provide an accurate measurement of federal drug seizures. The system, however, is external to Customs, and Customs does not take these data into consideration when reporting its own seizure activities.

Although the recent physical inventory resulted in Customs identifying and correcting many significant errors in the recorded values of seized property, we found that some Customs' locations did not effectively perform the inventory procedures designed to ensure that all estimated values were properly updated and that counterfeit or prohibited items were not assigned a value. As a result, seized property balances reported as of the physical inventory date in the notes to Customs' financial statements included erroneous values. For example, the originally estimated value of $490,090 for 335 cartons of t-shirts was included in the balance because CPTS had not been adjusted to the appraised value of $147,527. Also, $123,590 for counterfeit brand-name leather handbags was included in the balance even though such items are to be valued at zero.

In addition to inaccuracies in the seized property records, we found that the accounting records contained inaccurate and incomplete information relating to undercover operations. The highly sensitive nature of Customs' undercover operations often makes it impractical for the activity of these operations to be routinely reported in detail in the central accounting records maintained by Customs. As a result, only the advances made by Customs to these operations, summary information on the use of these funds, and cash balances from operational proceeds held at fiscal year-end are maintained in the accounting records.

For fiscal year 1992, we reported that advances made to undercover operations were not reliably accounted for primarily because related transactions were not promptly recorded in the accounting records. Our fiscal year 1993 audit showed that, despite Customs' implementation of a quarterly reconciliation process for advances, amounts relating to the use of funds advanced continued to be inaccurately reported.

Specifically, we found that 69 percent of the 83 advances outstanding as of September 30, 1993, that we selected for testing at nine locations were inaccurately recorded. For example, $2.2 million in unspent advances had been erroneously expensed, $2 million in advances had been returned prior to the fiscal year end but the recorded outstanding advance amount had not been reduced, and $.8 million in advances had been charged to the wrong location or expended prior to year end as far back as 1988, but the recorded outstanding advance amount had not been reduced.

Also, in three of the eight undercover operations we tested, some amounts of drugs or currency were not reliably accounted for. For example, we found an undercover operation which held up to 287 kilograms (631 pounds) of high-purity cocaine in a safe over a period of 8 months awaiting controlled deliveries. This holding had not been reported in Customs' accounting records nor in its monthly reports. For two other undercover operations, we found a total of $31,600 of unrecorded cash which had been recovered by Customs agents and held in safes as evidence. Over half of this cash was from two advances of appropriated funds totaling $482,000, all of which had been expensed in Customs' accounting records. The recovered portion had not been recorded because, according to Customs agents, recording such information was a low priority.

Further, monthly reports containing summary statistical information on undercover operations were incomplete and inaccurate. Of the undercover operations that we tested, seven accumulated statistics on arrests, indictments, convictions, and seizures. Of these, we found inaccuracies in the 1993 Monthly Status and Financial Reports for all of them. For example, the 1993 monthly reports for an undercover operation showed 3,866 pounds of cocaine seized; however, supporting case file documentation indicated that 13,910 pounds of cocaine were seized. In another instance, agents for an undercover operation could not support the amounts of indictments that were reported in the 1993 monthly reports. The agents told us that they derived the figures from the arrests for the period because they presumed that an indictment occurred for each arrest. These inaccuracies, which distort performance results reported to Customs management and the Congress, were primarily due to such information often being based on estimates and at times not recorded promptly or not recorded at all because agents place recording such information as a low priority.

This lack of accountability combined with the inherently risky nature of these operations make them prone to unauthorized or illegal activity occurring and going undetected or making detected illegal activity difficult to prosecute. For example, we found that $300,000 of proceeds from an undercover operation had been invested in two stock brokerage accounts in the name of U.S. Customs since February 1993. The funds were invested primarily in stocks, with about $100,000 held in an account authorized for speculative investment. A Customs group supervisor told us that the accounts were opened for the purpose of earning a higher rate of return than was otherwise available for the operation's commercial accounts, and had been approved by the Office of Enforcement. However, district personnel were unable to provide written documentation supporting this assertion. Subsequent to our inquiries, a Customs official told us that the two accounts were transferred back to the operation's commercial accounts.

In addition to the risk cited above, accurate information on undercover operations is needed to support internal management decisions and congressional oversight.

Drugs and Property Seized or Used in Enforcement Efforts Were Not Adequately Safeguarded

Our review showed that tons of illegal drugs and millions of dollars of cash and property were vulnerable to theft and misappropriation because Customs did not adequately safeguard this property. Customs' problems in adequately safeguarding drugs and property seized or used in its enforcement efforts spanned key aspects of the seized property and undercover operations, including inadequate monitoring of controlled deliveries and poor physical security. These weaknesses showed that this property is vulnerable to theft and loss and have actually led to the loss and theft of property and hundreds of pounds of drugs.

As we reported for fiscal year 1992, many of Customs' district offices held large quantities of drugs, which required storage and safeguard from theft and misuse. As of the inventory date, February 11, 1994, the 15 districts we visited held an average of 24,000 pounds of drugs. Of these, 9 districts held over 10,000 pounds of drugs, with the largest amount at one district totaling about 106,000 pounds. This condition makes it especially important that strict physical safeguards and limited access be maintained.

Acting on a recommendation made in our audit report for fiscal year 1992, Customs has taken steps towards addressing its storage facility safeguarding problems. However, for fiscal year 1993, we identified physical safeguard weaknesses at 20 of the 21 facilities we visited. Also, at 16 of these facilities, unaccompanied seizure custodians had access to the vaults. In addition, Customs had not established effective agencywide policies and procedures stipulating how storage containers that hold seized drugs must be sealed in order to deter unauthorized access into the storage containers and to enable detection of such actions.

Department of Justice procedures require Customs to keep threshold amounts[8] of drugs for evidence in court proceedings and are intended to

[8]Threshold amounts such as 2 kilograms (4.4 pounds) of heroin, were specified in Attorney General Order 1256-88, effective April 14, 1988.

prevent the warehousing of large quantities of seized drugs which are unnecessary for due process in criminal cases. However, one of the primary reasons given by Customs officials for the large amounts of drugs being held was that, in general, Customs' districts are required to carry out U.S. Attorney offices' instructions that drugs be held as evidence, regardless of whether the threshold amounts are exceeded. A second reason given was that local environmental restrictions in some geographic areas make it difficult for district offices to promptly destroy narcotics.

Over the past several years, drugs and property have occasionally been stolen from Customs storage facilities. For example, in fiscal year 1993, Customs had 162 kilograms (356 pounds) of cocaine stolen from one of its storage facilities. Customs officials stated that the thief cut the alarm transmission line and entered the facility through an improperly secured skylight in the roof. This case shows, as we pointed out for fiscal year 1992, the risks associated with Customs' practice of storing large quantities of narcotics in facilities that do not provide adequate security.

Customs has undertaken significant improvement efforts to strengthen safeguards at its storage locations. Specifically, it has performed a study and evaluation of the adequacy of its physical safeguards over seized property and currency at 21 medium-to-high volume storage facilities. In addition, Customs constructed new facilities in two districts and has plans for renovations at other facilities.

In conducting our seized property inventory testing for our audits of Customs' fiscal year 1992 and 1993 financial statements, we found numerous discrepancies between the quantities of drugs recorded in CPTS and the quantities actually in Customs' possession. Customs officials stated, on several occasions, that the differences were due to seizing officers estimating amounts as opposed to weighing items at the point of seizure and Customs then not updating the recorded estimated amounts when true weights were ultimately established. Customs stated that, due to logistical considerations, it was often not feasible to weigh the items at the point of seizure. Instead, the drugs were supposed to be weighed when they were transferred to the custody of the seizure custodians. However, we found that the estimates were often not corrected when true weights were ultimately determined.

When seized drugs are controlled based on estimated rather than actual weights, Customs cannot be assured that the entire quantity of drugs has been placed under prescribed safeguards, thus creating opportunities for items to be misappropriated or stolen without detection. Seizure custodians at several locations told us that estimated weights were not always corrected because (1) in previous years, not all of the Customs locations had scales or the scales were not large enough to accurately weigh large bales or containers of seized drugs and (2) updating CPTS to show actual weights was a low priority. During fiscal year 1993, Customs bought and installed scales for such locations.

Table 3 shows a summary of the discrepancies in drug quantities identified and corrected by Customs during the physical inventory reconciliation process. Customs' primary explanation for the differences was that the enforcement officer's original entry to the records was an estimate and CPTS was not subsequently corrected for the true weight.

Table 3: Summary of Discrepancies in Drug Quantities Identified During Customs' February 1994 Physical Inventory of Seized Assets

Type of drug	Number of districts with discrepancies	Pounds inventoried	Pounds per CPTS	Difference
Cocaine	15	25,181	41,860	(16,679)
Hashish	2	6,117	6,009	108
Heroin	9	228	187	41
Marijuana	18	68,217	73,221	(5,004)
Opium	2	151	43	97
Total		**99,894**	**121,332**	**(21,438)**

Note: Drugs classified as "other" and "unknown" (e.g., LSD) and quantities that could not be converted into pounds (e.g., boxes) were not included in the summary.

In addition to the control weaknesses over the safeguarding of drugs held in Customs' storage locations, drugs used in undercover operations were also not adequately safeguarded. In some instances, drugs have been inadvertently lost because of inadequate surveillance procedures being performed during controlled deliveries. Such occurrences, which can endanger the public, are not routinely accounted for and reported by Customs.

We discovered a few instances of quantities of drugs being lost during controlled deliveries, all of which Customs officials stated were inadvertent. Customs officials attributed the following two examples involving the loss of large quantities of drugs to poor surveillance.

- One region of Customs, as part of a controlled delivery, lost 150 out of 300 kilograms (660 pounds) of cocaine that had been seized. This case is currently under grand jury investigation. Customs accounting records did not show the activity relating to these seized drugs. In its accounting records, 300 kilograms were entered and subsequently deleted—we determined this through reviewing the enforcement case file and not from entries in the accounting records—and the 300 kilograms were re-entered under a different seizure number giving the appearance that they were not related.
- Another region of Customs lost 100 kilograms (220 pounds) of cocaine as part of a controlled delivery. This case is currently being investigated by the Treasury Inspector General. An Inspector General official stated that it is unclear whether the cocaine lost in this operation had ever been seized or whether it was a shipment of drugs that was under Customs' surveillance—not seized—when it was lost. We could not find this activity in Customs' seizures records at all.

Financial Reporting and Administrative Control Improvements Needed to Overcome Inadequate Systems and Staff Resources

In addition to the improvement efforts related to trade compliance and seized assets, which were discussed earlier in this report, Customs has made progress in five key areas to address deficiencies in its ability to develop reliable financial statements and accurately account for its administrative operations. However, Customs must still overcome many fundamental problems that impair its ability to produce reliable financial information for internal and external reports.

For Customs to prepare financial statements as mandated by the CFO Act, many accounting adjustments totaling billions of dollars were required, some of which could not be supported. Also, Customs personnel had to create several ad hoc routines that were labor-intensive and sometimes resulted in incomplete and erroneous financial information. At the root of these problems are (1) financial management systems that were poorly designed or not designed to report financial results and performance information and (2) limited resources devoted to Customs' CFO leadership team and an ineffective CFO structure. A sustained commitment by the Commissioner and other senior managers will be required to develop the systems and staff structure needed to efficiently produce reliable statements on an ongoing basis.

Improvements During Fiscal Year 1993

During fiscal year 1993, Customs undertook several efforts to better report and manage its accounts receivables and insure itself against future losses.

In addition, it made improvements related to its accountability over fixed assets, reporting on the use of its budgetary resources, and internal controls assessments required by the Federal Managers' Financial Integrity Act (FMFIA).

Accounts Receivable and Debt Collection Improvements

To more accurately report its fiscal year 1993 accounts receivable balance, Customs developed accounting policies for defining valid accounts receivable and developed a reliable methodology for determining the collectibility of its receivables. This was a time-consuming effort that involved careful consideration of the types of receivables Customs accounts for and how to fairly report them, as well as the sources of data available for developing reliable balances. As a result of this effort, the accounts receivable balance that Customs reported for September 30, 1993, was much more reliable than that reported for September 30, 1992. In addition, Customs is now in a better position to develop accurate and comparable accounts receivable data for fiscal year 1994 and future years.

To better manage its receivables, Customs reorganized its debt collection unit to optimize staff resources, formalized its collection procedures, and made an effort to reduce the number of old receivables. Customs investigated about 42,000 bills totaling approximately $165 million that were more than 3 years old. As a result, Customs reported that as of September 30, 1993, it cancelled $62.3 million due to court judgments or because the receivables were determined to be erroneous, wrote off $22.8 million that it determined were uncollectible, and collected $31.6 million. The remaining balance was either being pursued or was awaiting final determination regarding its collectibility.

Customs also took steps to reduce losses due to insufficient surety bonds. Customs requires trade participants to obtain surety bonds to ensure that Customs will be paid in the event that they cannot pay amounts that they owe to Customs. In testing receivables, we reviewed a representative sample of 184 receivables for supplemental duties[9] valued at $14.7 million that existed as of September 30, 1993, and found that 89 were fully or partially uncollectible because the debtor could not pay and the surety bonds either were insufficient or had expired. For 68 of the 89, the bond amount did not cover the entire amount due, resulting in $4.9 million of the total receivable amount that we tested that was uncollectible. For 21, the bond had expired, resulting in $1.7 million that was uncollectible. In addition, 11 of the 184 supplemental duty receivables tested were

[9]Supplemental duties are assessed when Customs reviews import documents and determines that an importer owes more duties than were originally paid.

unsecured because the importer had not obtained a bond, as required by Customs regulations, and, as a result, $507,000 was uncollectible. However, about half of the receivables that we tested were more than 3 years old, and, therefore, the related bonds had been established several years ago.

To reduce future losses due to inadequate bond coverage, Customs implemented an automated bond liability module in ACS at the beginning of fiscal year 1993. Customs' new bond liability module provides information on annual importer and broker activity that allows Customs personnel to annually reassess the sufficiency of each importer/broker bond. If bonds are reassessed annually as planned, this effort should reduce losses due to bond insufficiency in the future. However, for fiscal year 1993, we found that many bonds were still not sufficient to cover all of the amounts due to Customs, and, as a result, Customs was unnecessarily exposed to the potential loss of revenue.

We reviewed activity associated with a representative sample of 150 bonds that were active during fiscal year 1993 and found that, for 8 percent, amounts due to Customs exceeded the bond amount at some time during the term of the bond. Similarly, we found that for the 24 accelerated drawback claims that we reviewed, 3 of the claimants had exceeded their bond coverage at least once during fiscal year 1993. In addition, we reviewed the files for all bonds in the four largest bond activity categories and determined that approximately 3 percent did not even meet the minimum bond amount prescribed by Customs.

Customs officials told us that, in addition to implementation of the new bond liability module, Customs' Deputy Assistant Commissioner for the Office of Management appointed a task force, in early fiscal year 1994, to review the entire bonding process and recommend improvements. The task force's report and recommendations were not available for our review as of April 1994. However, we believe that this comprehensive review is a worthwhile step in improving Customs' controls over bond sufficiency.

Other Improvements

Customs took several steps to improve accountability over its fixed assets. It conducted a comprehensive physical inventory of equipment recorded in its Property Information Management System, which accounts for approximately 85 percent of the recorded value of property, and initiated monthly reconciliations between its accounting records and its logistical records, which identify where fixed assets are located. These reconciliations were intended to help ensure that all activity was recorded in both sets of records. However, because the two systems were not integrated, Customs had to rely on time-consuming manual reconciliation processes, and it could not fully reconcile the two systems as of September 30, 1993. Customs also conducted a comprehensive study of replacement costs for all property categories, which enabled a projection of the timing and expected cost of replacing such items. Also, consistent with the National Performance Review recommendations, Customs initiated a study of vehicle fleet utilization. Preliminary results of this study indicate that Customs' fleet of 6,444 owned and leased vehicles may exceed its estimated needs by as much as 1,200 vehicles, or 19 percent. As a result, Customs is developing a strategy to reduce excess capacity.

Further, Customs produced a Consolidated Statement of Budgetary Resources and Actual Expenses for fiscal year 1993 in the format required by OMB. While this represents an improvement over the fiscal year 1992 disclosure, for fiscal year 1993, Customs was unable to report $1.6 billion of its costs by budget program. In addition, there were discrepancies between the total amount of actual program expenses reported in this statement and the total amount of operating expenses reported on the Consolidated Statement of Operations and Changes in Operating Net Position. Customs subsequently made revisions to eliminate this discrepancy, and these amounts are equal on the statements accompanying this report. However, we did not verify the propriety of the changes because our fieldwork had been completed when the revised budgetary statement was provided to us.

Finally, Customs instituted a comprehensive Federal Managers' Financial Integrity Act training program and began conducting mid-year reviews of all current material weaknesses to ensure that corrective actions are on-target and effective.

Core Financial Systems Do Not Readily and Reliably Provide Needed Financial Information

As we reported for fiscal year 1992, Customs' core financial systems, which include its general ledger and related subsidiary ledgers, were incomplete and included amounts that were in error or could not be supported. It took Customs almost 6 months to "close out" its general ledger and finalize its year-end financial statements for fiscal years 1992 and 1993. This occurred because Customs' core financial systems did not include all activity (transactions) that occurred during the period, and they were not designed to properly summarize data as needed for the statements. As a result, special computer programs had to be developed to extract needed information, some data had to be manually compiled, and many adjustments had to be made after the reporting date.

Many of these difficulties stemmed from systems that were not integrated because of the lack of an effective overall systems development strategy at the time the systems were developed. For example, as we reported in September 1992, to speed implementation, many subsidiary systems were developed simultaneously with insufficient attention to whether data from these multiple systems could be efficiently exchanged or summarized. This inability to support financial reporting was further exacerbated by many of the systems being designed primarily to monitor program activity with insufficient emphasis on financial reporting. However, problems also occurred because Customs' day-to-day processes and internal controls did not effectively and promptly identify discrepancies which required investigation and adjustments to the accounting records.

As a result of the lack of integrated systems and ineffective processes and controls, amounts summarized in Customs' general ledger did not include complete and accurate information on its fund balance with Treasury, accounts receivable, aircraft parts inventory, fixed assets, accounts payable, and net position. Specifically, for fiscal year 1993, we found the following problems.

- Customs had not resolved a $32 million backlog of unreconciled differences between its records of cash receipts and Treasury's records of Customs' cash receipts, even though at least 6 months had elapsed since the differences were recorded. Of this amount, $16 million was over 1 year old, and $4.4 million of the total was over 5 years old. As a result, Customs' custodial revenues may be understated and other accounts may be misstated.
- Customs had not effectively resolved over $43 million of unidentified interagency charges that had been recorded in a suspense account for at least 6 months. Although Customs made an accounting adjustment to report these charges as operating expenses in its financial statements, these charges were not adequately researched to determine if they were even properly chargeable to Customs. Our subsequent analysis of $39 million of these charges showed that Customs' adjustment included $6.8 million of erroneous charges and $3.6 million in credits to Customs that should have been credited to another agency.
- The major accounts receivable categories were not routinely recorded in the general ledger, and, as a result, a labor-intensive effort was required to determine what was owed to Customs as of September 30, 1993. For

example, to develop a balance for its largest category of receivables—over $750 million, or 80 percent of the balance at September 30, 1993—Customs had to go through extensive ad hoc and manual routines to identify and retrieve from its Automated Commercial System (ACS) all unpaid items where goods were released prior to fiscal year-end. Similar procedures had to be performed for its other major categories of receivables to determine what was owed. Also, because it was unsure of the reliability of the receivables data retrieved, Customs had to perform detailed tests to ensure that identified amounts were correct.

- Although Customs was eventually able to provide balances for its major receivables, it could not provide a summary of the transactions that accounted for the change in the accounts receivable balance between the beginning and the end of the fiscal year. Such information would include, at a minimum, for each major category of Customs' accounts receivable (1) total new receivables, (2) total collections of receivables, and (3) the total amount written off as uncollectible.
- Customs could not support $54 million of amounts recorded as due from other agencies under interagency agreements because it did not follow the procedures it had developed to monitor detailed accounts receivable activity. For example, Customs did not reconcile its interagency agreement register—which provides a detailed list of outstanding interagency agreements and tracks receivable activity—to the central accounting records.
- Customs aircraft parts inventory records were not reliable for managing and reporting purposes because Customs and its contractor, who is responsible for maintaining the inventory, could not fully account for all activity that occurred during the year.
- The fixed asset balance that Customs reported on its financial statements excluded a significant portion of such assets because Customs had not maintained records of their historical cost. These omitted assets were estimated by Customs to be valued at about $300 million or 36 percent of the value of fixed assets recorded; however, Customs had insufficient support for this amount. After a few unsuccessful attempts to determine these assets' values, Customs decided to exclude these unsupported amounts from the summary balance reported, rather than report an unreliable amount. We concurred with this decision.
- To determine the amount of accounts payable to report on its financial statements, Customs performed an extensive review of payments made between October 1, 1993, and January 13, 1994, to identify what goods and services paid for during that time were received prior to fiscal year-end and thus should have been included in accounts payable and the related expense accounts. This approach was extremely labor-intensive and slow.

Accounts payable could not be readily determined based on year-end account balances because existing systems do not record these transactions in a timely manner. Because of limitations in Customs' automated receiving report system, accounts payable are recorded only when both the acquired goods or services and related invoices have been received, as opposed to when the goods or services were received, whether the invoice was received or not. Invoices were sometimes received months after the goods or services and, therefore, the related accounts payable were likewise recorded months later. This problem also resulted in Customs' operating expense accounts being understated and budgetary accounts for undelivered orders—sometimes referred to as unliquidated obligations—being overstated by $26 million at September 30, 1993.

- In addition to the $26 million of net adjustments to record accounts payable, unliquidated obligations required further reductions totaling $107 million to correct intergovernmental accounts, adjust advances, cancel unspent "M" account balances, and deobligate unneeded balances. We identified $21 million of unliquidated obligations which should be deobligated and returned to the U.S. Treasury. The need for Customs to deobligate unneeded obligations was also reported by us last year.[10] Customs' Director of Contract Administration stated that staff were in the process of a detailed review and outside confirmation of unliquidated obligations in order to determine the amounts to be billed or deobligated.
- Because Customs recorded unsupported amounts in many of its accounts at year-end, rather than recording transactions throughout the year, the resulting balances were not reliable. For example, Customs did not routinely account for appropriations as they were expended and simply calculated the amount needed to make the statement of operations balance based on the amount of operating expenses not covered by offsetting collections or other sources. In addition, for fiscal year 1993, Customs artificially adjusted, or forced, many large amounts so that its statements would balance. For example, about $100 million of unidentified cash sources were included in the statement of cash flows and over $122 million of unidentified net increases were made to operating net position.

Customs plans to address some of the problems stemming from unintegrated systems as part of a long-term system redesign project

[10]Financial Management: Customs' Accounting for Budgetary Resources Was Inadequate (GAO/AIMD-94-23, December 14, 1993).

intended to encompass the reengineering of Customs' business practices and allow Customs to better comply with new laws and regulations, including the CFO Act. Initial planning for the project, commonly referred to as "ACS Redesign," began in February 1993. Specific objectives include integrating information systems and maximizing electronic interaction among federal entities and trade participants. As of April 1994, the project was still in the relatively early stages of development, with most efforts to date focusing on identifying user needs. Until improved systems are available, it is important that Customs carefully analyze and review all of the information developed for its financial statements so that errors can be minimized.

However, ACS Redesign will not directly address problems such as delays in resolving unreconciled differences. In addition, the redesign scope does not cover procurement-related problems, such as accounts payable inaccuracies. The Commissioner recognizes these problems and stated in a February 1994 letter to us that Customs will take appropriate action. The Commissioner noted that Customs is currently prohibited from pursuing procurement-related system enhancements pending a Department of the Treasury study of a departmentwide procurement system.

Improvements Needed in CFO Leadership and CFO Structure

While some progress in improving financial management has been made, a qualified CFO leadership team is needed to correct the major financial management problems Customs faces. Customs' officials stated that financial management historically has held a lower priority than what was viewed as the more urgent needs of its program operations—trade compliance and contraband interdiction. As a result, in addition to the lack of financial management considerations in system development that was previously mentioned, the personnel assigned to the CFO function and the CFO leadership team had little or no experience in developing the types of financial statements required by the CFO Act. This problem is not unique to Customs since the CFO Act has only been in place for 3-1/2 years and most federal agencies did not prepare comprehensive financial statements prior to the act.

The current team has worked hard to implement improvements during fiscal year 1993, but Customs has not dedicated sufficient resources to developing complete and reliable financial statements that can be used by Customs' management, the Congress, and others to make informed decisions. Sound financial management is and will become even more critical for assessing Customs' performance.

The Commissioner of Customs has recognized that Customs still faces major challenges in the financial management area and that a sustained effort will be critical to achieving sound financial management at Customs. In this regard, the Commissioner and the Deputy Commissioner have demonstrated the vision and dedication to strengthening the CFO leadership group. For example, Customs is currently seeking a CFO with the experience and expertise to provide the leadership needed. However, while this is an appropriate starting point, it will also take a sound support team consisting of an appropriate number of skilled professionals to produce an effective CFO structure.

Customs has about 190 staff at its national finance center in Indianapolis, Indiana, and another 86 in headquarters in Washington, D.C., that are under its CFO. However, responsibility for compiling, testing, and consolidating the data needed for its financial statements has primarily been charged to a core of approximately 8 professionals detailed full-time to the effort, assisted by another 19 people on a temporary basis. Although these people are dedicated and hardworking, this level of resources cannot address the complexities of implementing the CFO Act for an organization the size of Customs. The size and the magnitude of the financial management problems facing Customs will require dedication of significantly more staff than are currently assigned. Whether this deficiency can be filled through existing personnel or will require outside hiring is unknown.

Other Management Issues

Other operational matters came to our attention that did not affect our ability to opine on the financial statements but that merit management's attention because they represent potential areas of waste or abuse within Customs' operations. These items were identified as part of our audit procedures that were designed to understand the reasonableness of reported amounts based on the nature of Customs operation. The following provides a list of the more significant issues we identified.

- Customs exercises inadequate oversight over the contractor that manages its aircraft parts inventory. Customs' minimal involvement in the acquisition, receipt, issuance, and inventorying of aircraft parts increases the potential for inventory to be stolen, destroyed, or temporarily diverted without detection. Further, Customs' reimbursements of more than $42 million to the contractor could include costs for services that were never actually rendered because the responsible Customs official approved payments without verifying the validity of the charges by comparing them to the goods or services received.

Customs officials told us that they rely on the audit oversight efforts of the Defense Contract Audit Agency to detect invalid charges. Although such audits may provide some assurance to Customs, this does not relieve it of its contract oversight responsibilities. In addition, as a result of our inquiries over the increasing inventory amounts, the contractor performed a study of Customs' "stock"—which consists principally of all parts other than engines and radar-related items—inventory levels and found that approximately 95 percent of the stock inventory was suspected to be in excess of program needs. This 95 percent excess was for about $35 million or 33 percent of Customs' overall inventory. The contractor did not evaluate whether similar excesses existed for other items such as engines and radar equipment parts.

Customs has taken steps towards addressing these problems and preventing further accumulation of excess parts. As a result of this study, Customs is proceeding with implementation of a centralized inventory management plan to address the stock problem. This plan includes implementing centralized inventory management and control, establishing automated maximum stock levels based on an analysis of past usage, and preparing lists of suspected overstocked items to determine if retention is justified.

- Customs maintains centralized property records for all equipment with a value greater than $300 and records these amounts as assets in the general ledger. However, about 92 percent of these equipment items have a value less than the $5,000 threshold used by Customs and many other federal agencies for financial reporting of fixed assets. Consequently, detailed reviews of invoices and adjustments of accounting records are required to reclassify property transactions that should have been recorded as expenses. In addition, maintaining detailed records and performing reconciliation procedures for these small dollar items—which represented only 15 percent of the recorded value of equipment as of September 30, 1993—was a labor-intensive effort.
- Customs' procurement process is delayed by cumbersome contract reviews and approvals. Based on a sample of 32 contracts awarded during fiscal year 1993, it took an average of 334 days—with a high of 791 days and a low of 112—to process and award a contract. In this regard, the National Performance Review found that federal procurement systems

rely on rigid rules and procedures, extensive paperwork, detailed design specifications, and multiple inspections and audits.

In Customs' case, we found the following examples: a $1.5 million minimum ($39 million maximum) contract took 708 days to award, partly due to an 8-month delay in Customs' internal legal review; approval of the justification for other than full and open competition contributed to a $105,200 contract taking over 6 months to be approved; and a $4 million contract was awarded 5 months after agreement with the vendor was reached due in part to Customs' internal reviews and Treasury Department review. Some of the procedures that Customs follows are stipulated by the Federal Acquisition Regulations and are not within Customs' control to change. However, Customs and Treasury are in the process of reviewing Customs' own procurement procedures in an attempt to identify opportunities for streamlining the process.

- Due to systems limitations, invoices for 87 percent of the dollars Customs paid to vendors were processed manually, which is cumbersome and increases opportunities for error. In addition, manual processing can be slow and consume staff resources that could be used elsewhere.
- Customs paid $46 million in "administratively uncontrollable overtime" (AUO) to 3700 enforcement personnel during fiscal year 1993. Over 90 percent received the maximum 25 percent of base pay. We found that for 23 of 25 employees in our random sample of AUO recipients, Customs could not locate the required certification from the employees' supervisors regarding time worked. One employee had no documentation for overtime worked. In addition, a Customs Office of Human Resources official told us that their records did not show that AUO payments were made to two of the AUO recipients in our sample.
- Customs paid personnel compensation and benefits of almost $1.2 billion to over 19,000 employees. We tested a representative sample of 92 payroll checks and found that (1) thrift savings, life insurance, and health insurance deduction authorizations were missing for 18 employees, or 20 percent of the sample we tested and (2) deductions differed from the rates documented on the authorization forms provided to us for another 9 employees, or 10 percent of our sample. According to Customs officials, the authorization documents were apparently never filed after the computer records were updated. In addition, we found 13 payroll checks were issued without proper approval or current authorization of pay. This missing documentation was attributed to backlogs in filing authorization of pay forms.

These examples highlight some of the ways that reliable financial management information can assist program managers and others in assessing Customs' performance and in identifying areas in Customs' operations that need to be evaluated.

Controls Over Access to Computer Programs and Data Were Ineffective

Customs' controls to prevent or detect unauthorized access and intentional or inadvertent unauthorized modifications to critical and sensitive data and computer programs were ineffective. Customs officials stated that a major contributing factor to this situation is that their primary concern has been to enhance customer service and expedite systems development efforts and that, as a result, system security has received less attention. Specifically, we found that

- thousands of internal and external users had inappropriate access to critically sensitive production programs and data files because Customs had improperly implemented off-the-shelf access control software,
- some elements of Customs' data communications were inadequately protected from unauthorized access,
- formal procedures had not been established for analyzing and investigating apparent computer security violations, and
- no mechanism for routine independent assessments of Customs' information management security program had been implemented.

Also, although Customs has conducted a series of studies regarding recovery of its mainframe and telecommunications environment in the event of a disaster, a comprehensive disaster recovery plan had not been developed.

These system security problems compound the weaknesses previously discussed in this report and jeopardize the security and reliability of the operations that are central to Customs' mission, including the systems and criteria used to monitor the payment of duties, fees, and taxes; identify high-risk import shipments; and account for seized goods and drugs and law enforcement operations. In addition, they could result in inappropriate disclosure of sensitive importer information.

These weaknesses are especially disturbing because most of them were identified and reported to Customs in a 1989 risk assessment. According to the responsible officials, some corrective actions were taken in response to that assessment, and Customs, believing that the weaknesses had been adequately addressed, certified, in 1992, that Customs' three sensitive systems conformed to federal computer security guidelines. Such certifications are required every 3 years by OMB Circular A-130 to support accreditation of federal systems containing sensitive information. However, our findings show that the weaknesses we identified were not adequately addressed. Therefore, in our opinion, Customs' accreditation of its sensitive systems, which was based on these certifications, is not valid.

Because of their very sensitive nature, we plan to report our detailed findings and recommendations regarding the security of Customs' automated systems separately in a letter with limited distribution. We discussed the weaknesses informally with Customs' top management and, during the course of the review, worked with Customs technical staff to identify corrective actions for specific deficiencies. In addition, Customs' management has expressed its commitment to correct all deficiencies and has requested our assistance in evaluating planned corrective actions as they are established.

Conclusions

The second financial audit at Customs showed that most of the serious financial management problems that existed during fiscal year 1992 still existed during fiscal year 1993. The audit also showed that most of these problems had a significant detrimental effect on the efficiency and effectiveness of Customs' mission-related programs as well as on the reliability of its financial statements. Internal controls were not designed and implemented to effectively ensure compliance with trade laws, safeguard assets, or provide useful and reliable information needed to manage Customs operations.

Customs took several significant steps to improve its internal control structure and its ability to report more reliable financial information for fiscal year 1993. However, many of its efforts to correct identified deficiencies are in the early stages of development and are not likely to be implemented for several years. As a result, it will take a significant and sustained commitment by Customs' management to build on efforts now under way to develop new systems and institute effective controls. In these cases, it is important that Customs take interim steps to address its weaknesses so that it can fulfill the reporting requirements of the CFO Act and minimize opportunities for violations of trade laws without undue delay.

Recommendations

We reaffirm the recommendations resulting from our audit of Customs' fiscal year 1992 financial statements regarding Customs' controls over (1) the movement and disposition of imported goods, (2) approval of drawback claims, (3) seized assets, (4) property and weapons, (5) use of and accounting for its operating funds, and (6) reporting under FMFIA. These recommendations and the status of Customs' responses are summarized in appendix II. In addition, we are making the following new recommendations as a result of our review of Customs' internal controls during fiscal year 1993.

We recommend that the Commissioner direct the Assistant Commissioner for Inspection and Control to

- require personnel at ports of entry to maintain accurate and up-to-date data in AMS and to routinely investigate all shipments that have not been released by the end of a prescribed period and
- distribute written guidance emphasizing to district offices the importance of maintaining accurate data on in-bond shipments and monitor the districts to ensure they comply with headquarters directives requiring the entry of in-bond departure and arrival data and the resolution of overdue shipments.

We recommend that the Commissioner of Customs direct the Chief Financial Officer, in conjunction with the Assistant Commissioner for Enforcement and other appropriate officials, to develop and maintain an appropriately secure accounting system to record all of the essential activity that occurs in undercover operations.

We recommend that the Commissioner direct the Chief Financial Officer in conjunction with other appropriate officials to

- promptly review all reconciliations of budget clearing accounts and suspense accounts, verify that all discrepancies are fully researched and properly resolved, and identify and propose for write-off any unreconcilable amounts;
- where Customs has the authority to do so, eliminate any unnecessary procurement reviews identified in Customs' assessment of such processes;
- monitor implementation of the policies and procedures identified in Customs' centralized inventory management plan to ensure that aircraft parts inventory levels do not exceed program needs;
- develop procedures to account for annual changes to aircraft materials and parts inventory records;

- determine the relative costs and benefits of using the Property Information Management System to maintain accountability only for items with a value over $5,000 and consider delegating record-keeping responsibility for small value items to field personnel. Appropriate centralized controls, such as monitoring levels of repairs and maintenance expense and conducting periodic inventories, should still be maintained. In addition, the distinction between asset purchases and expense items should occur when the item is requested and the local property officer checks for availability, not by accounting personnel after the invoice is received.
- complete the study of utilization and distribution of Customs' vehicle fleet and coordinate with the General Services Administration to dispose of excess assets and implement a policy to ensure effective use of vehicles retained;
- review, in conjunction with the Director of Human Resources and the Office of Enforcement, administratively uncontrollable overtime charges to ensure that ongoing payments at the maximum rate are justified; and
- review and update documentation supporting personnel pay rates and deductions and institute procedures to ensure that such documentation is maintained on a current basis.

Further, we recommend that the Commissioner evaluate the technical proficiency and experience of existing staff under the CFO to determine specific staff needs for effectively addressing Customs' financial management problems.

Agency Comments and Our Evaluation

In commenting on a draft of this report, Customs agreed with our recommendations and stated that it plans to take action in every area noted in the report. Customs also discussed corrective actions that it has implemented or planned, most of which are identified in this report. In addition, Customs stated that it recently established (1) an executive-level CFO Steering Committee and CFO Working Group to address its financial management problems and (2) a task force to evaluate the way in which it manages and conducts its undercover operations.

While the efforts described in Customs' comments appear to be designed to address specific areas of weaknesses identified in our report, it is critical that they be properly implemented. As stated previously, most of these improvements involve long-term efforts that will require a significant and sustained commitment by Customs' management.

In closing, we commend the Customs Service for its second-year effort to develop reliable financial statements. We believe that although a great many challenges still remain, Customs' progress to date represents a significant contribution toward the CFO Act's ultimate goal of improving financial management throughout the federal government.

Charles A. Bowsher
Comptroller General
of the United States

April 22, 1994

Financial Statements

Overview of Financial Entity

Message from the Commissioner

The U.S. Customs Service is responsible for enforcing laws and regulations governing international traffic and trade. In doing so, Customs provides a broad spectrum of commercial, enforcement, and inspection services to the American public. Customs also serves as an intermediary in a global trading system that is rapidly changing. The globalization of the economy, the proliferation of trade agreements, and the continuing drug threat defines where Customs will be focusing its efforts to perform its mission in the future.

The Chief Financial Officer's (CFO) Act of 1990, placed new emphasis on government-wide efforts to promote better financial management in this era of change and re-engineering. Customs efforts to implement CFO requirements have added impetus to the far-ranging financial management improvements begun at Customs in the last several years. The integrity and accuracy of Customs financial systems and the adequacy of the procedures in place to assure responsibility and accountability for public funds remain high priorities.

This is the second Annual CFO Report with accompanying comprehensive financial statements. This report provides an overview of our mission, goals and accomplishments as well as areas that need improvement. Recent efforts focused on the continuing aggressive collection of debt, implementation of a new core accounting system, minimizing late payments, and improving the accounting for fixed asset inventories. Additionally, we have greatly expanded the scope and intensity of efforts to improve management and internal controls within Customs.

Customs employees made significant contributions to enable us to accomplish our mission more effectively during Fiscal Year 1993. Together, we are seeking to maximize compliance with U.S. trade law by instituting programs to increase voluntary compliance, improving automated targeting, and enhancing facilitation of trade. We have developed a new comprehensive outbound enforcement program that includes automated targeting, non-intrusive inspections, and a vigorous investigation program. In response to increased smuggler sophistication, our employees are improving port of entry narcotic detection, strengthening the deterrent to smuggling between ports of entry, and have enlisted the support of the trade community in combating smuggling.

I am proud of Customs overall mission accomplishments and our efforts to create an atmosphere of improved financial management. Although I realize that our efforts have yielded substantial financial management improvements, I recognize that we still need to intensify our efforts in this area. I believe this Annual CFO Report is an excellent vehicle to communicate our continued progress and commitment in these areas.

George J. Weise
Commissioner of Customs

Mission and Goals of the United States Customs Service

Background

The U.S. Customs Service (Customs) is the oldest federal agency. The work of Customs—inspecting cargo to determine admissibility and assessing duty—was one of the original functions of the federal government and the primary source of its revenue. Despite the growth in world trade, the emergence of new threats to America's public health, and the impact of technology on import processing, Customs is still dedicated to ensuring that trade across our borders is in compliance with U.S. laws and regulations.

Customs does its work through three major programs:

Trade and Tariff—The collection of duty from imported merchandise, the determination of admissibility, the maintenance of trade statistics and the provision of services to the trade community.

Inspection and Control—The inspection of passengers, cargo and conveyances to identify smuggled contraband and other violations.

Enforcement—The investigation of all violations of Customs and related laws, and the interdiction of contraband through land, sea and air operations.

These three programs work together to achieve the mission of Customs.

Mission and Goals

The mission of the U.S. Customs Service can be traced to the Constitutional Convention of 1787 which first delegated to the central government the power to collect taxes on imports and to regulate commerce. Since that time, Congress has added other responsibilities to the original mission of Customs because of its unique position at the nation's borders. In recent times, Customs has helped American industry compete in a global economy by enforcing laws intended to prevent unfair trading practices and has protected public health by interdicting narcotics and hazardous goods before they enter the country.

The demands of the future will present new challenges for Customs. In meeting these challenges, Customs role as the nation's principal border agency will remain constant as it has since 1789. The mission of Customs is to ensure that all goods entering and exiting the United States do so in accordance with all laws and regulations, and includes:

Import Trade

Mission: (1) Assessing and collecting revenues in the form of duties, taxes and fees on imported merchandise; (2) enforcing U.S. laws intended to prevent illegal trade practices; and (3) regulating the movement of persons, carriers, merchandise and commodities between the U.S. and other nations while facilitating legitimate trade.

Goal: Maximize trade compliance through a balanced program of informed compliance, targeted enforcement actions and the facilitation of complying cargo.

Narcotics and Money Laundering

Mission: (1) Interdicting narcotics and other contraband; and (2) protecting the American public and environment from prohibited hazardous and noxious products.

Goal: (1) Interdict narcotics and dismantle the smuggling organizations; and (2) identify, disrupt and dismantle the systems and organizations that launder the proceeds generated by smuggling, trade fraud and export violations.

Export Trade

Mission: Enforcing certain provisions of the export control laws of the United States.

Goal: Maximize compliance with export control laws and regulations of the U.S. while maintaining facilitation.

In achieving these goals, Customs interacts with many customers. Customs works with the trade community of brokers and importers in moving over $550 billion of imports into American commerce. About 450 million travelers also pass through Customs when entering this country. Customs is committed to improving the level of service to these customers while achieving its mission.

Size and Scope of Operations

Customs processes all imports, passengers and conveyances entering this country to collect duties and to ensure compliance with over 600 laws intended to protect domestic industry, public health and environmental quality.

The explosive growth of world trade in recent years—and expectation for faster growth in the future—highlight the importance of Customs mission. With the growth of trade, the unimpeded flow of commerce across the Nation's borders becomes more critical to the health of the U.S. economy. However, with this growth comes increased opportunities for illegal trade practices that may damage domestic industry and for the smuggling of contraband that threatens public health and safety.

Consider Customs workload:

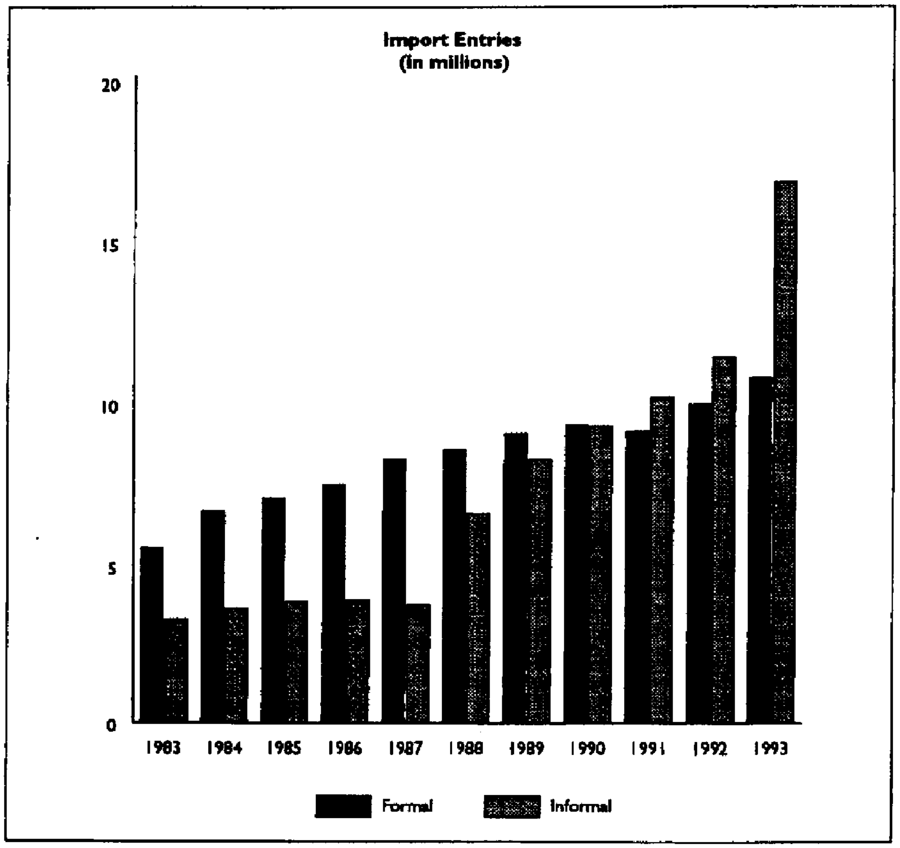


Table I Import Entries, FY 1983—FY 1993

During 1993, approximately $550 billion of merchandise was imported into the United States. Customs processed over 27 million import entries; targeting potential trade law violations for inspection; determining admissibility and compliance with various trade agreements; assessing duty and maintaining trade statistics. In 1993, Customs collected over $21 billion in duties, excise taxes and fees.

Over 451 million passengers entered the U.S. in 1993. Customs is responsible for collecting duties on the traveler's foreign purchases, enforcing agricultural, public safety and health provisions of other agencies, and intercepting any traveler who may be carrying contraband.

Also, during FY 1993, Customs modified its procedures and trained its workforce to accommodate the North American Free Trade Agreement (NAFTA) which became effective in January 1994. NAFTA creates new challenges for Customs. The Agreement immediately eliminated tariffs on most goods originating in Mexico, and will phase out all tariffs on Mexican goods within 15 years. It also mandates strict compliance with country-of-origin requirements

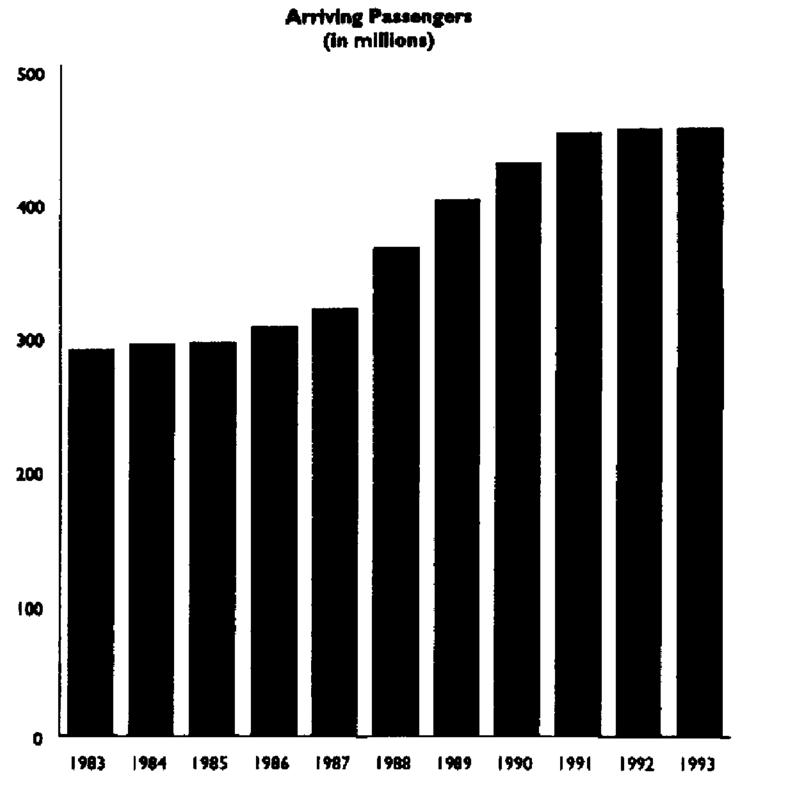


Table 2 Arriving Passengers, FY 1983—FY 1993

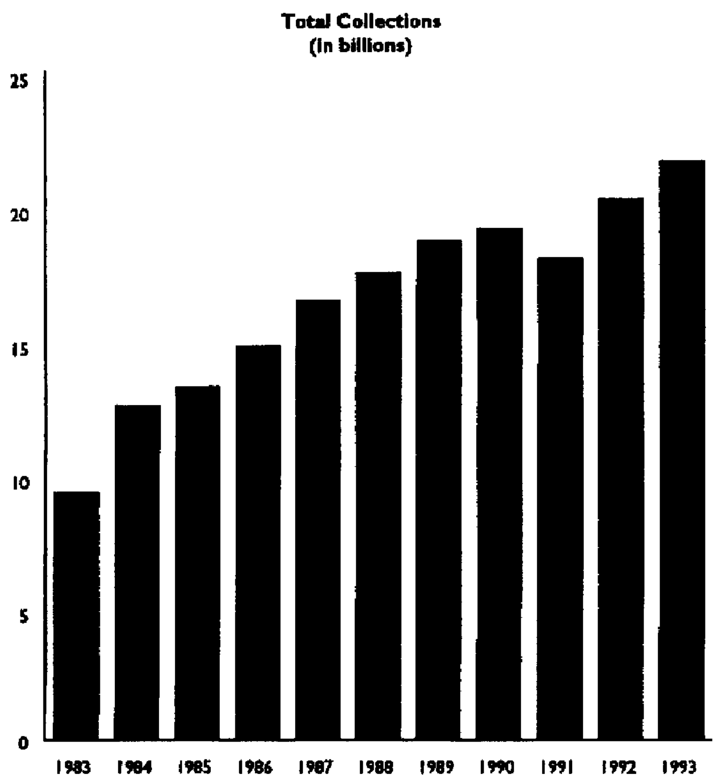


Table 3 Total Collections, FY 1983—FY 1993

and the protection of intellectual property rights. As the NAFTA is created, Customs must continue to improve its systems for effectively enforcing trade law and facilitating commerce. The accomplishments presented in this annual report describe Customs progress in preparing for these challenges.

Source	Amount (millions)
Customs Duties	$19,132
Excise Taxes	1,179
User Fees	1,153
Fines and Penalties	57
Other Receipts	44
Total	**$21,564**

Table 4 Collections by Source, FY 1993

Program Performance

Import Trade

In the future, the growing complexity of international trade and developments in modern technology will heighten the challenge that Customs faces as protector of the nation's borders. Unless counteracted, predatory and unfair trade practices will increasingly place lawful importers, domestic industry and the American public at risk. In addition, the high speed movement of goods and the electronic exchange of data and funds will continue to revolutionize the way that corporations conduct business and create new avenues for evading our nation's trade laws.

To meet this challenge, Customs implemented in FY 1993 a comprehensive strategy that integrates all aspects of the organization in enforcing U.S. trade laws. This strategy focuses Customs efforts on a small number of clearly defined violations of trade law. The goal of this strategy is to maximize the compliance of imports with U.S. trade law. It has three major components:

- Increasing the level of voluntary compliance;
- Improving the targeting of trade law violations through the refinement of Customs automated systems and the collection of intelligence; and
- Facilitating the movement of cargo that is known to be in compliance.

Voluntary Compliance

Customs does not currently have the capability to reliably measure the level of compliance of all imports. However, Customs is developing the ability to routinely examine randomly selected samples of import entries. This practice will provide information that will enhance Customs ability to target non-compliance.

Although limited to a small number of ports and only nine of the over 800 commodity classifications, compliance data is beginning to reveal that Customs is relatively effective in collecting the correct amount of duty owed to the Treasury. However, other violations concerning the proper classification of merchandise, country-of-origin marking, and accuracy of trade statistics appear to occur with greater frequency. These violations affect Customs ability to ensure compliance with trade agreements and generate accurate trade data—both of which are vital in formulating trade policy in the new global economy. The measurement of compliance will be incorporated in all ports and across all commodity classifications, ultimately yielding a national measure of trade compliance.

Results of Compliance Measurement Studies

Commodity	Overall Compliance	Revenue Compliance	Trade Data Compliance
Automobiles	96.4% - 99.0%	99.9%	99.9%
Trucks	87.5% - 95.1%	99.9%	99.9%
Auto Parts	61.6% - 67.8%	99.1%	90.8%
Computers	64.0% - 77.2%	99.9%	83.7%
ADP Peripherals	74.4% - 82.2%	96.7%	96.8%
ADP Parts	64.4% - 73.4%	38.0%	81.1%
Fiberboard	62.7% - 72.5%	92.5%	74.3%
Telephone Equipment	73.5% - 80.3%	95.9%	82.7%
Steel Pipe	76.9% - 89.5%	99.9%	87.3%

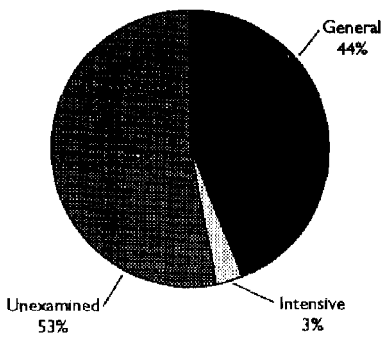
Chief Financial Officer's Annual Report—1993

Targeting of Trade Law Violations

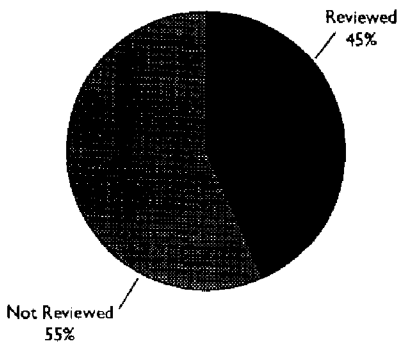
The huge volume of imports prevents Customs from inspecting all imported cargo and reviewing all import documentation. Customs selectivity process compares the attributes of imported goods against national and local criteria to target both cargo and documentation for more intensive review by Customs inspectors and import specialists. In FY 1993, Customs inspectors conducted examinations of about 8 percent of all imported cargo. Import Specialists reviewed about 45 percent of all entry summary documentation for misclassification and duty assessment errors.

By refining its automated systems and incorporating intelligence data into the selection criteria, Customs is becoming more effective in targeting shipments that contain potential trade law violations. In FY 1993, Customs performed fewer intensive cargo examinations than in previous years; but these exams yielded a higher number of discrepancies. This measure indicates a reduction in the impediment that Customs imposes on the flow of commerce and an increase in the efficiency with which inspectional resources are deployed.

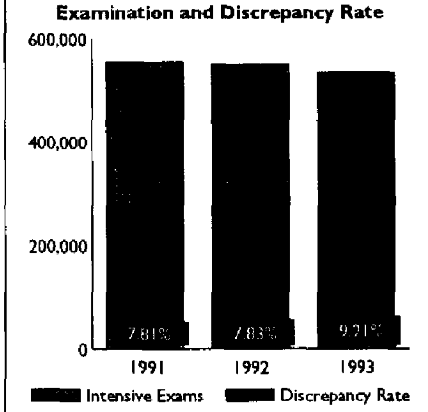
1993 Cargo Examinations



1993 Entry Summary Reviews



Examination and Discrepancy Rate



Merchandise Seizures and Penalties

	1991	1992	1993
Merchandise Seizures	n/a*	$206M	$257M
Penalties Collected	$7.9M	$7.6M	$10.5M

* Definition changes since 1992 make comparisons to 1991 impossible.

Customs seizes cargo and imposes penalties when cargo contains a violation of law. In most cases, these enforcement actions are the result of examinations. Although the number of intensive examinations has dropped, the value of seizures and penalties has increased over FY 1992 levels.

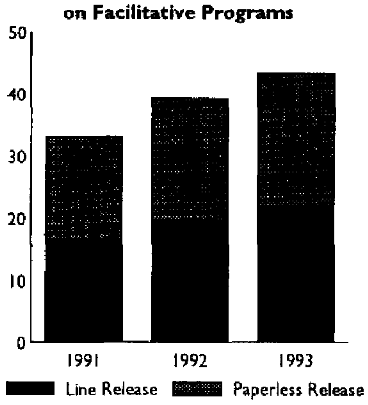
The number of seizures resulting from the violation of intellectual property rights has increased almost 60 percent over FY 1992 levels corresponding to the growing threat of copyright and trademark violations as more foreign-produced merchandise competes in the American market.

As part of this comprehensive approach to trade enforcement, Customs has focused more of its investigative activities on criminal organizations involved in trade fraud. In one recent case involving quota, transhipment and undervaluation fraud from a single country-of-origin, 34 companies have been accepted for criminal prosecution and 18 companies and individuals were charged with Customs violations. As a result of this investigation, 32 U.S. importers have tendered over $4.5 million in payments to Customs.

Facilitation of Cargo

Customs has continued to expand those programs that promote the unimpeded flow of trade that is in compliance with U.S. law. "Line Release" and "Paperless Release" are automated systems designed to expedite the release of high-volume, low-risk cargo. In FY 1993, over 40 percent of all automated entries processed by Customs were released through these facilitative programs.

Percent of All Automated Entries on Facilitative Programs



During FY 1993, Customs has initiated the Pre-Import Review Program (PIRP). This program facilitates the movement of merchandise because it ensures acceptance at each of the importation phases. It provides importers with the certainty needed for the classification of goods prior to their importation. As part of the program, Customs offers the opportunity to be pre-approved for expedited entry and paperless processing.

Narcotics Interdiction

Customs contributes to the Federal effort to reduce the national dependency on illegal narcotics by seizing this contraband while in transit into the U.S. when it is at maximum purity and in substantial quantities.

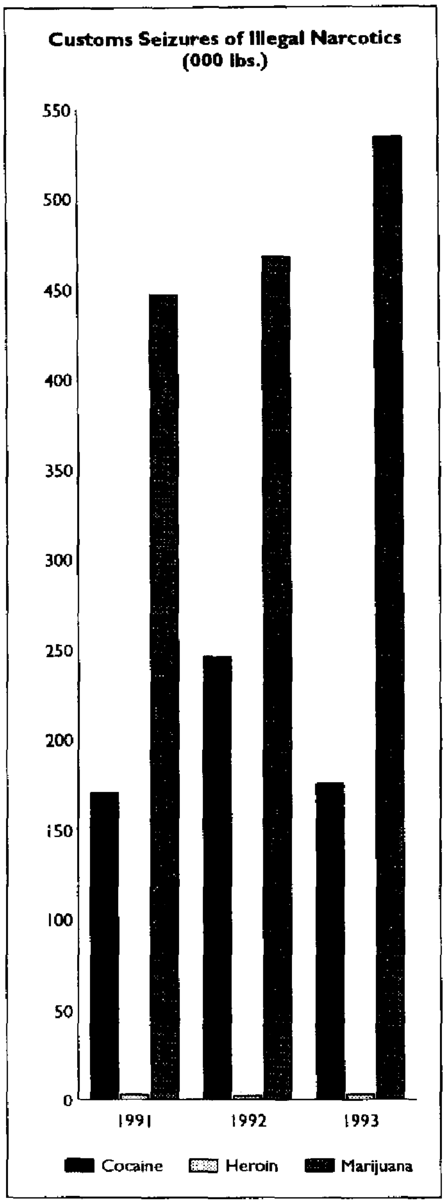
U.S. consumption of cocaine during FY 1992 was estimated by the RAND Corporation to be 651,000 pounds. Although no estimates are available for

FY 1993, trends suggest that consumption was slightly above FY 1992 levels. During FY 1993, Customs interdiction efforts seized 175,000 pounds of cocaine. This represents a 28 percent reduction from the previous year. By contrast, Customs seizures of heroin and marijuana have increased substantially.

The downturn in cocaine seizures is believed to be the result of increased sophistication of the smugglers in concealing narcotics in manufactured commercial products. To respond to this threat, Customs has redoubled its efforts by focusing on three areas of emphasis:

- Improving the detection of concealed narcotics at the port of entry;
- Strengthening the deterrent to smuggling between the ports of entry; and
- Enlisting the support of the trade community in combating smuggling.

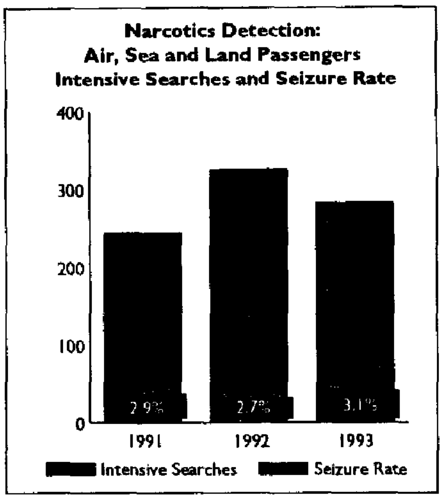
To date, this strategy appears to be producing positive results. Seizures of cocaine during FY 1994 are currently ahead of FY 1993 levels.



At the Ports of Entry

By better incorporating outside-source intelligence into the targeting process, the analysis of advance information and more widespread use of detection technology and detector dogs, Customs efficiency in detecting smuggled narcotics has increased over FY 1992 levels.

During FY 1993, Customs searched a smaller number of arriving passengers than the preceding year—and these searches were more productive in detecting smuggled narcotics. Of the 451 million air, sea and land passengers entering the U.S. in FY 93, 282,600 were searched by Customs to find contraband; 3.1 percent of those searches resulted in a narcotics seizure.



During FY 1993, Customs also improved its ability to target large loads of concealed narcotics in commercial cargo. The seizure of these loads, which generally exceed 500 pounds of cocaine, have the greatest impact on the smuggling organization. During FY 1993, 64,800 pounds of cocaine were seized in commercial cargo—a 12 percent increase in the amount seized—although only 9 percent more containers were examined.

Narcotics Detection: Commercial Cargo	1992	1993
Containers Arrived	7.8 million	8.40 million
Containers Examined	1.05 million	1.14 million
Cocaine Seized	57,700 lbs.	64,800 lbs.

Between the Ports

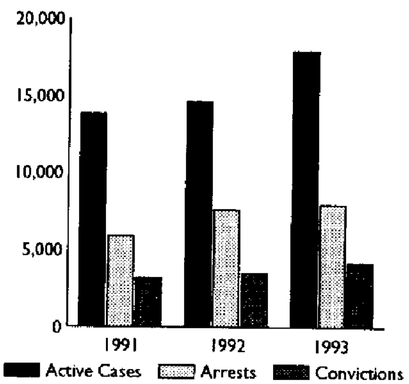
Customs maintains a deterrent to narcotics smuggling between the ports through its air and marine interdiction program and an active investigative program aimed at disrupting the smuggling organization.

The threat posed by the air smuggling of narcotics is estimated through an analysis of air traffic patterns and local interdiction actions. The deterrent provided by the air program is calculated as the extent to which that threat has been reduced from 1982 levels, the year of the program's initiation. In FY 1993, that threat was estimated to be at 26 percent of baseline 1982 level. This is a slight increase over the 1991 level of 25 percent.

Customs investigative activity is aimed at disrupting the criminal organizations that smuggle narcotics. During FY 1993, Customs agents worked 17,800 active narcotics cases. This investigative activity produced more arrests and convictions than the preceding year. More important, however, is Customs emphasis on the small number of impact cases that represent those investigations focused at the higher levels of the smuggling organization. The execution of these cases will have the most debilitating effect on the criminal organization. Reflecting this increased focus, Customs reduced the number of "Impact" cases in FY 1993 to 252 (from 292 in FY 1992) by more stringently considering the probable outcome of these cases.

One example of a successful Impact case completed in FY 1993 is the investigation of a major narcotics smuggling organization operating in several Southwestern states with links to Europe, Canada and Mexico with direct ties to the Colombian cartels. This organization was responsible for the illegal importation of over 27 tons of cocaine in the U.S. during the past 5 years, with plans in place to import larger amounts in the future. As a result of Customs

Narcotics Investigations



investigation, the organization has been completely dismantled, several major co-conspirators have been arrested and assets valued at almost $5 million have been seized.

Support of the Trade Community

During FY 1993, Customs enlisted the support of the trade community in the effort to deter smuggling. Through the CARRIER INITIATIVE program, Customs provides incentives for carriers to strengthen their security procedures at the originating location to detect concealed narcotics in conveyances. Through this program, Customs often receives notification when the carrier suspects concealed narcotics aboard a U.S. bound conveyance. During FY 1993, about 10 percent of the cocaine seized in air cargo was the result of information supplied by the trade community through this program.

Career Initiative Program	1991	1992	1993
Carrier personnel trained	747	675	876
Referrals to Customs	40	65	83
Resulting seizures			
Cocaine (lbs)	234	903	1,103
Marijuana (lbs)	453	618	6,971

Money Laundering

The Customs Service has established the goal of dismantling the criminal organizations that launder the proceeds generated by smuggling, trade fraud and export violations. Targeting the financial activities of the smuggling organization is one of the most effective ways to disrupt smuggling. Customs is the Treasury Department's agent in combatting money laundering abroad and assists other nations in developing anti-money-laundering programs.

During FY 1993, Customs seized $134 million in smuggled monetary instruments and secured the forfeiture/seizure of $356 million in illegally-gained assets. As a point of comparison, the Office of the National Director of Drug Control Policy estimates that about $30 billion in narcotics-related criminal proceeds were laundered in the U.S. in FY 1992.

Money Laundering Seizures, Forfeitures and Arrests

	1991	1992	1993
Money Seized	$206M	$194M	$134M
Assets Forfeited/Seized	$ 92M	$280M	$356M
Arrests	1,050	1,075	1,175

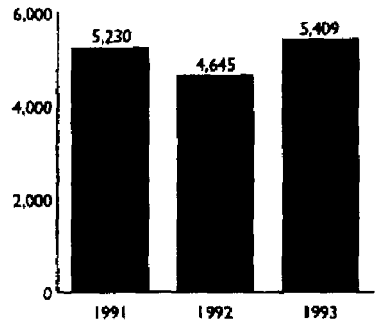
During the past fiscal year, Customs has strengthened its ability to combat money laundering through an approach that emphasizes:

- An investigative program aimed at the highest level of the money laundering organizations;
- A nationwide asset removal program; and
- International training to combat a world-wide problem.

Investigative Program

Customs inventory of active money laundering cases grew during FY 1993, as did the number of arrests and convictions associated with money laundering. But, as with narcotics investigations, Customs continued to focus a growing portion of its investigative resources on those small number of cases that will have the greatest impact on money laundering and the smuggling activity that it supports.

Active Money Laundering Cases



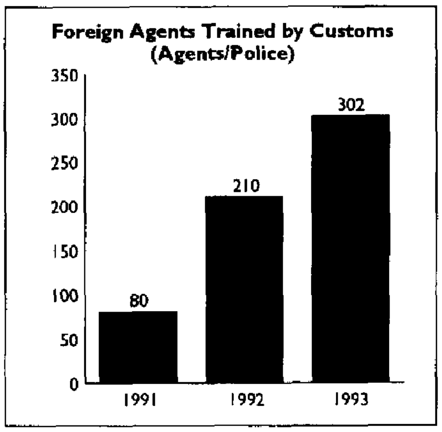
The potential magnitude of the Impact cases is best highlighted by the recently completed investigation concerning $800 million in money laundering involving a single Japanese criminal organization. That case resulted in Customs seizure of over $63 million in illegally-obtained assets.

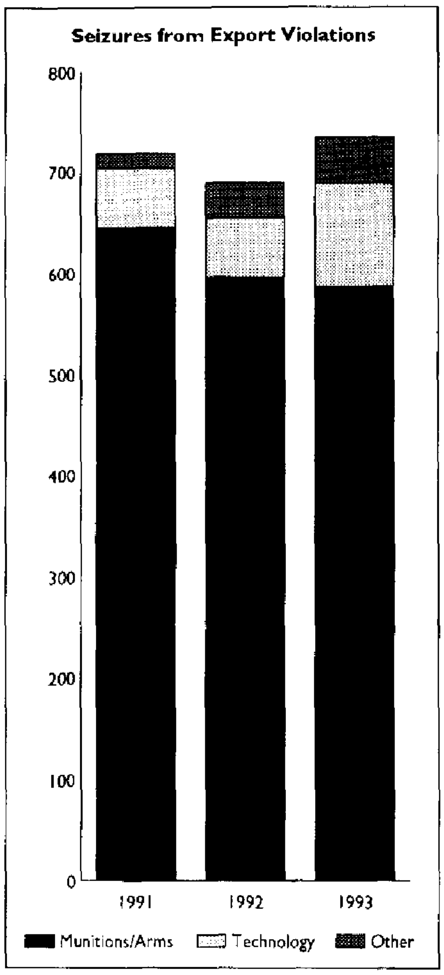
Asset Removal Program

During FY 1993, Customs prototyped an asset removal concept that assists Customs agents in identifying the full range of the violator's illegally-gained assets before an enforcement action is initiated. By increasing the impact of asset forfeiture, this technique enhances the overall productivity of Customs investigative activity. This technique will be implemented on a nationwide basis during FY 1994.

International Training

Money laundering is a global problem. By providing training sessions with Customs foreign counterparts, Customs has developed solid working relationships that have improved the flow of intelligence between international agencies and increased Customs effectiveness.





Outbound Enforcement

Because of its position at the border, Customs is responsible for enforcing U.S. laws governing exports. Customs enforces trade sanctions in support of U.S. foreign policy and prevents the outbound shipment of weapons of mass destruction, technology critical to the national interest and chemicals used in production of illegal narcotics. Customs also collects export statistics and fees for the maintenance of U.S. harbors.

During FY 1993, Customs intercepted over 730 shipments containing cargo in violation of U.S. export control laws and arrested 255 individual violators. There are no reliable estimates of the total amount of export violations against which to compare these numbers. Nonetheless, the number of seizures represents a general increase over preceding years.

During FY 1993, Customs formulated a strategy defining its approach to outbound enforcement. In previous years, Customs had undertaken a number of activities enforcing its outbound mission. But, FY 1993 was the first year in which Customs formulated a comprehensive program of outbound enforcement. This program includes the development of automated systems to permit the targeting of suspect outbound shipments, to install techniques to permit the non-intrusive inspection of outbound shipments, and to undertake a vigorous investigative program. Significant progress was made in each of these areas during FY 1993.

Automated Systems

During FY 1993, Customs completed the pilot test of the prototype Automated Export System (AES) in Charleston, South Carolina. This pilot provided insight into the complexity of designing a system that will serve the multiple purposes of collecting export reporting requirements for other government agencies, ensuring the uniform collection of harbor maintenance fees, the targeting of suspect shipments while at the same time facilitating the free flow of legitimate commerce. The knowledge gained during the Charleston prototype is being incorporated into the concept of the new AES that will begin design in FY 1994.

Inspection of Outbound Shipments

Customs began to deploy currency-detecting dogs to inspect outbound shipments in high-threat ports during FY 1993.

Investigative Program

The inventory of cases involving export violations being worked by Customs agents grew during FY 1993, although the number of arrests and convictions declined 20 percent. As in the other areas, Customs continued to refine its investigative program on that small number of cases that will have the greatest impact on the export violators. During FY 1993, Customs maintained 71 active Impact cases. In one case, Customs officials identified over 60,000 rounds of ammunition and 31 handguns concealed in vats of honey bound for Yemen.

Outbound Investigations

	1991	1992	1993
Active cases	2,891	2,408	2,895
Arrests	153	313	255
Convictions	133	212	185

Customer Service

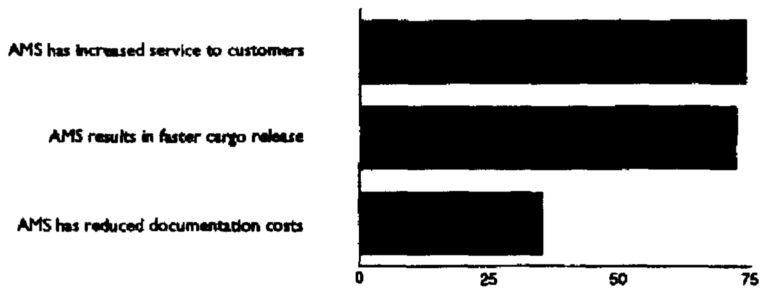
In achieving its mission, Customs interacts with two general types of customers. The trade community (comprised of customhouse brokers, importers, shippers and port authorities) are intermediaries responsible for moving cargo through Customs and into American commerce. The second, the traveling public, is inspected by Customs when entering this country through airports, land border crossings and seaports. Customs conducts surveys of these two types of customers to assess their perceptions of the quality of service.

The Trade Community

Customs interaction with the trade community is primarily through the automated systems that process import documentation, target suspect cargo for examination and assess duty.

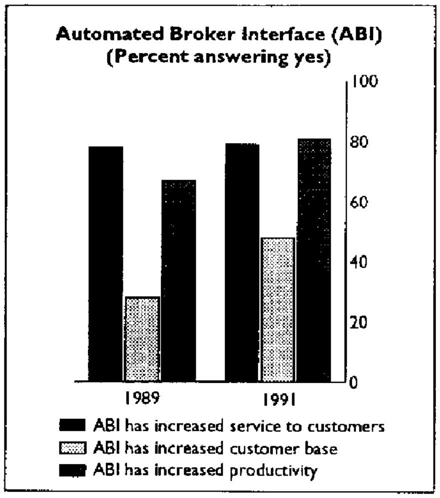
Shippers, port authorities and import service centers file cargo manifest information with Customs prior to arrival to secure release of cargo into American commerce. Customs uses this information to target suspect shipments. Manifest information is transmitted to Customs through the Automated Manifest System (AMS) for over 33 percent of all entries. A survey of AMS users in 1991 found the following levels of satisfaction:

Automated Manifest System (AMS)
(Percent agreeing strongly)



Although the survey shows high levels of satisfaction, a significant portion (48%) of the brokers indicated that they had not yet recovered the investment that they had made to establish the electronic linkage with Customs.

Customhouse brokers file entry summary documentation with Customs for the payment of import duties. Most brokers have automated interfaces with Customs; over 95 percent of all import entries are received from brokers in automated form. Two surveys of these brokers, conducted in 1989 and 1991, found the following levels of satisfaction:

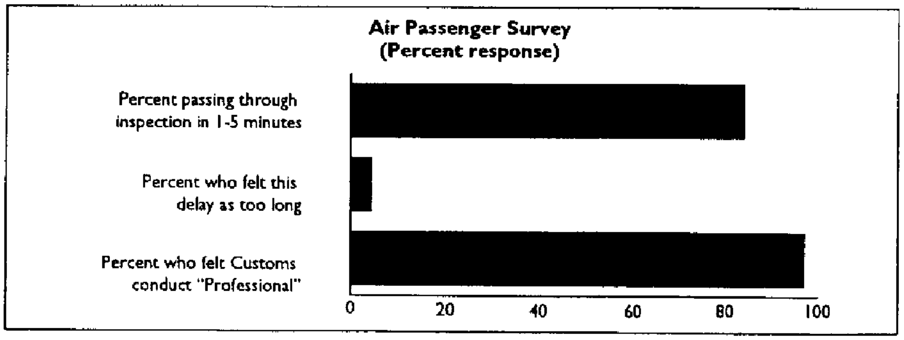


Although the survey results indicate relatively high, and increasing, levels of satisfaction with their interface with Customs, a majority of brokers (59% in 1991) had not yet recovered their investment in automated technology to establish this interface.

The Traveling Public

In 1993, 47 million passengers passed through Customs at America's international airports. A survey of air travelers at three major airports in August 1993, revealed the following level of satisfaction with the Customs inspection process:

Although these results are limited to three airports during a 1 month period, they suggest that the air traveler feels that the Customs inspection process is courteously conducted and unobtrusive. The more interesting finding, however, was that a significant portion of the travelers (44-72%) felt that the inspection process was perhaps too brief. Similarly, a fair number of travelers (21-33%) suggested that the current inspection process may not be an adequate deterrent to smuggling. Currently, Customs is expanding the use of this survey to more airports to obtain a broader cross-section of travelers' reactions and a better understanding of how travelers perceive the Customs inspection process.



Resources and Organization

The Resources of Customs

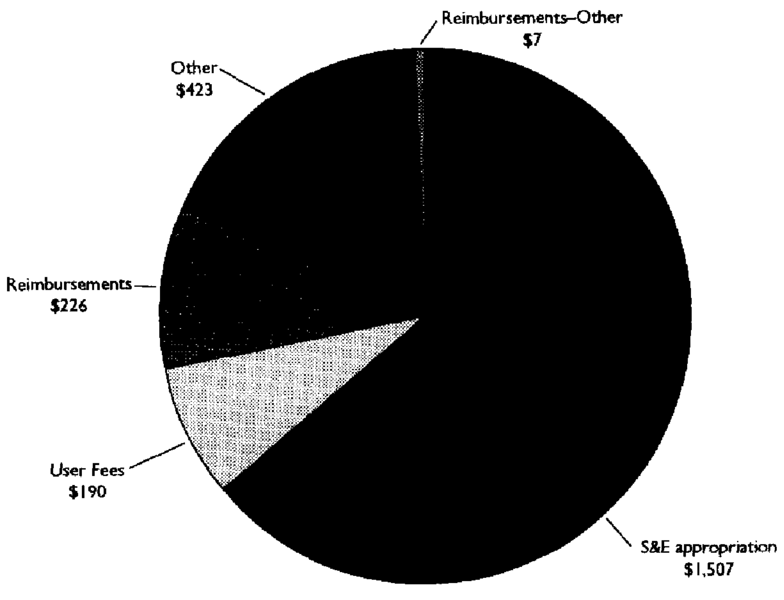
Total funding from all sources for Customs operations was $2.353 billion in FY 1993. Funding was provided through nine different appropriations and included new direct authority, transfers, available unobligated balances, recoveries of prior year obligations and reimbursements to appropriations. For FY 1993, Salaries and Expense appropriation funds were $1,923 million including $190 million in user fees collected and approximately $226 million in reimbursements. Funding for all other activities, including those associated with the air and marine interdiction operations, was $430 million including $7 million in reimbursements.

Direct obligations of $1.497 billion incurred in the salaries and expense appropriation is presented in terms of three program activities:

Tariff and Trade—The collection of duties from imported merchandise, the determination of admissibility, the reporting of trade statistics and the provision of service to the trade community. In FY 1993, Tariff and Trade represented $317.8 million or about 21 percent of Customs S&E appropriation.

Inspection and Control—The inspection of passengers, cargo and conveyances to identify smuggled contraband and other violations is the core activity of this program. In FY 1993,

Sources and Amounts of Funding (in millions)

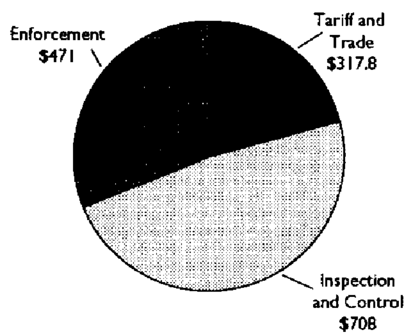


Total: $2,353M

Inspection and Control represented $708.0 million or about 48 percent of Customs S&E appropriation.

Enforcement—Customs enforcement activities cover investigation of all violations of Customs and related laws and the interdiction of contraband through land, sea and air operations. Enforcement also provides research and development support and strategic/tactical intelligence to the other operational areas of Customs. In FY 1993, the enforcement activity represented $471.0 million or about 31 percent of Customs S&E appropriation.

Salaries and Expense Appropriation (in millions)

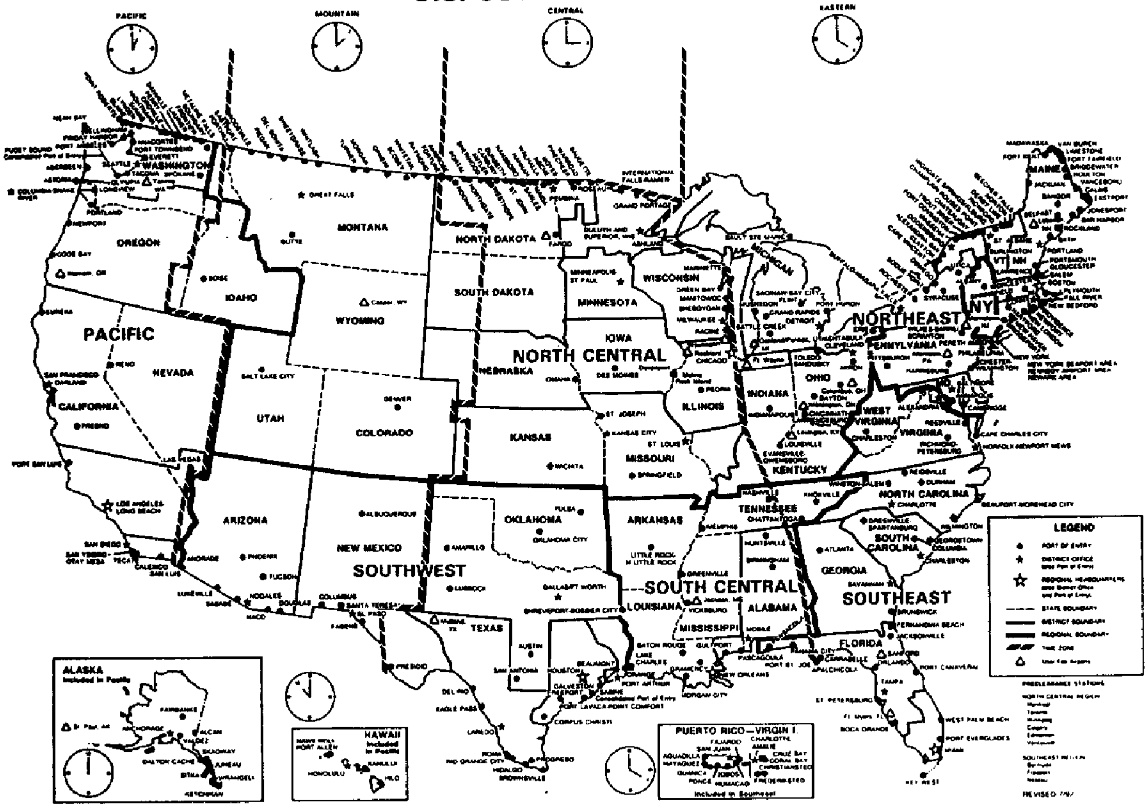


The Organization of Customs

Customs employed approximately 19,000 individuals to perform its mission during FY 1993. Employees are located in the Headquarters Office in Washington; 7 Regional Offices, which are responsible for overseeing the operations of 44 District/Area offices and 300 ports of entry; 29 Special Agent in Charge Offices overseeing the operation of 131 Special Agent Enforcement Offices; 24 foreign offices and 7 Field Laboratory locations.

- Customs employees at the port of entry (located at seaports, airports and land border crossings) are responsible for the inspection of cargo, conveyances and passengers, accepting entry documents, and the release of merchandise into general commerce.
- Customs District or Area offices supervise all Customs activities in the District or Area, review import documentation and ensuring the proper assessment of all duties, assessing fines and penalties in compliance with Customs and other Federal regulations.
- Special Agent in Charge Offices manage investigations within their areas and bring cases to the U.S. Attorney relating to the violation of Customs laws. Special Agent in Charge Offices report directly to the Assistant Commissioner (Enforcement) in Headquarters.
- The Regional Commissioners and Special Agents in Charge represent and act for the Commissioner of Customs, and are responsible for implementation of all policies and programs established by the Commissioner within their geographical area of responsibility.
- Customs Headquarters in Washington houses the Commissioner, Chief Counsel, and Assistant Commissioners who are functional heads for enforcement, commercial operations, inspection and control, management and information systems, public affairs and organizational effectiveness. Headquarters establishes all policies for the operation of the Customs Service, and issues all legal commercial rulings for the importing community. Headquarters is also responsible for providing centralized administrative support to all Customs field locations.

U.S. CUSTOMS SERVICE



Financial Highlights and Analysis of Financial Performance

During FY 1993, Customs collected $21.6 billion as a custodian for other federal agencies and governments. Duties collected accounted for 89 percent of the $21.6 billion; excise taxes represented 5 percent. Of this revenue, 99 percent was returned to the Treasury, state, local, and other federal agencies and other governments.

Total operating expenses were approximately $1.8 billion. Personnel compensation and benefits totalled approximately $1.2 billion or 64 percent of the total operating expenses. Approximately $4.9 million of unfunded annual leave costs were included in the personnel compensation and benefits expense. Contractual service expenses were approximately $181 million or 10 percent of total operating expenses.

Custodial assets account for approximately $1.1 billion or approximately 44 percent of the total assets of Customs. Custodial receivables of approximately $914 million primarily represent receivables relating to duties ($765 million or 84 percent). Overall, custodial assets represent those assets that will be distributed to Treasury, other federal agencies and other governments.

Operating assets account for approximately $1.4 billion or 56 percent of the total assets of Customs. Operating assets consist primarily of fund balances with Treasury and cash (approximately $662 million or 26 percent of total assets) and property, plant and equipment (approximately $519 million or 20 percent of total assets).

Analysis of Financial Performance

In FY 1993, efforts were undertaken to improve financial management and ensure compliance with sound financial practices. Areas in which efforts were focused related to the continued aggressive collecting of accounts receivable, implementing a new core accounting system, minimizing amounts paid in late payment interest, and reconciling property, plant and equipment activity.

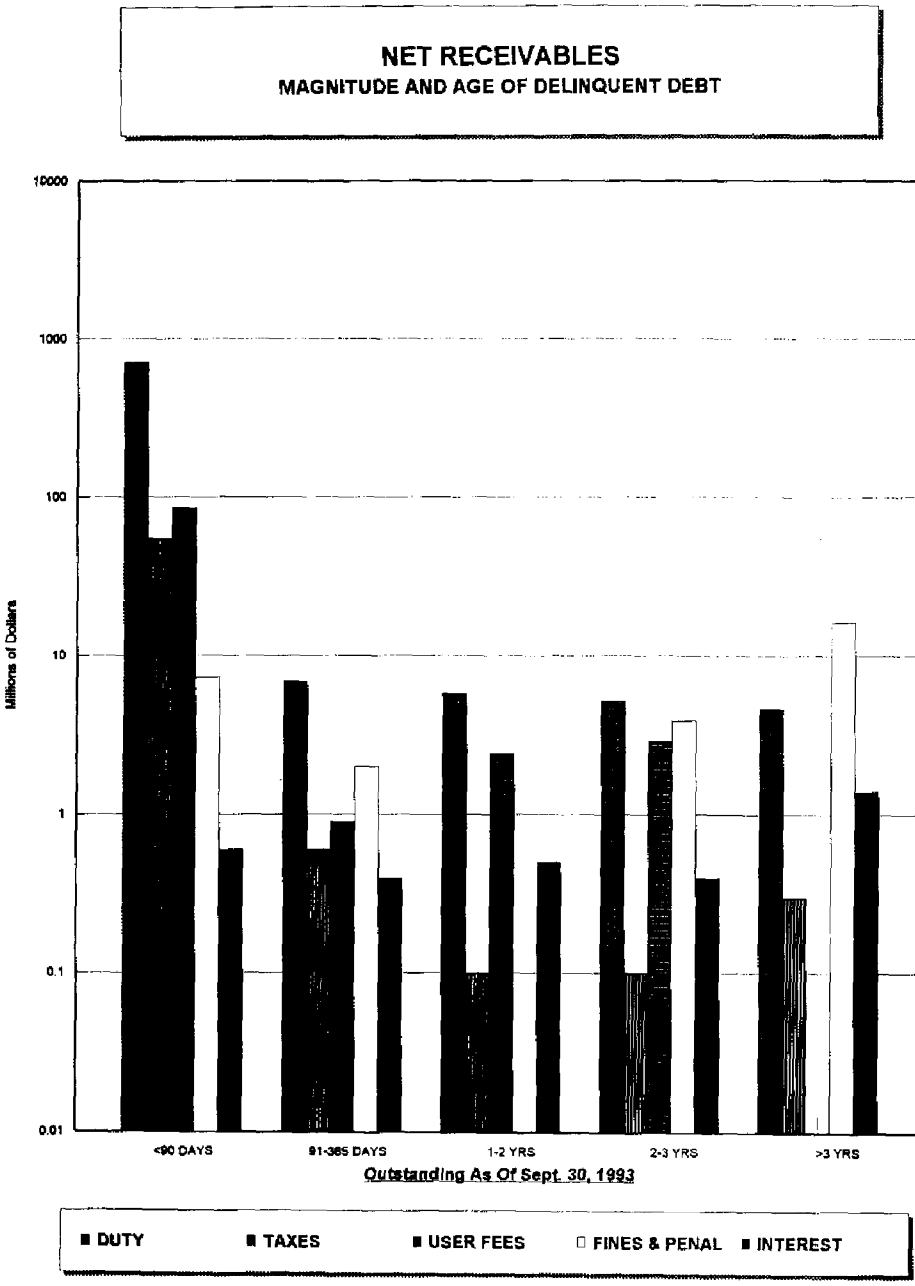
Improved Management of Delinquent Debt

In FY 1992, Customs formally established a central Accounts Receivable Department to collect delinquent debt (debt over 90 days) relating to duties, excise taxes, reimbursable and miscellaneous receivables. An automated debt collection module was developed in the Customs Automated Commercial System and implemented on December 1, 1993. This system provides Customs with on-line information to identify delinquent debt and assist in the collection of the debt. The Accounts Receivable Department continued their efforts in FY 1993 to verify the accuracy of individual receivable accounts, initiate efforts to resolve the debt focusing on direct contact with the debtor and surety collection efforts, and monitor bankruptcy activity. Collection actions for all other receivables are initiated in Customs field offices. The following chart shows an aging of Customs custodial accounts receivables (net) at September 30, 1993.

Financial Highlights
(in thousands)

	1993	1992
Custodial revenue collected	$21,564,375	$20,156,684
Allocation of custodial revenue collected	$21,526,267	$20,037,142
Total operating expenses	$ 1,820,748	$ 1,736,325
Total personnel compensation and benefits expense	$ 1,164,579	$ 1,060,294
Personnel compensation as a percent of total operating expenses	64%	61%
Total invested capital (inventories, property, plant and equipment)	$ 625,634	$ 769,809
Total custodial future funding requirements	$ 142,334	$ 34,444
Total operating future funding requirements	$ 111,500	$ 108,695

Chief Financial Officer's Annual Report—1993



Accounts receivable recorded in the greater than one year categories are comprised of debts for which Customs is currently involved in litigation of the debt, bankruptcy cases or the debt is in the approval process for write-off. Accounts receivable recorded in the less than 90 day aged category include accrual amounts equalling $764 million for which collection was received as of November 1, 1993. These duty, tax and fee amounts are for goods and merchandise from foreign countries that were released into the United States prior to October 1, 1993, and for which payment was not received until after September 30, 1993.

Reducing Late Payment Interest

Customs exceeded the Department of the Treasury standard relating to the late payment of invoices in FY 1993. The Treasury acceptable frequency rate for incurring prompt payment interest is 2 percent. Customs had a frequency rating of 6.39 percent paying $199,992 in late payment interest. This compares with a frequency rate of 2.46 percent and interest payments of $120,981 in FY 1992.

The increase was caused directly by the implementation of Customs new core accounting system in October 1992, and the subsequent period for conversion of data, adaptation of procedures and familiarization. The first two quarters of FY 1993, resulted in an average frequency rate of 10.06 percent with late payments of $155,533. The frequency rate and late payments made during the last two quarters of FY 1993, reduced substantially to an average of 2.72 percent and $44,459, respectively.

Usage of Electronic Funds Transfer

Customs usage of EFT is limited to payroll direct deposit activity. Customs made EFT payroll payments to an average of 17,883 individuals each pay period during fiscal year 1993, compared to an average of 20,021 individuals during FY 1992. The percentage of employees utilizing direct deposit remained constant at 84 percent from fiscal year 1992 and increased from the 79 percent reported for FY 1991. Customs is currently evaluating the possible usage of EFT for its commercial invoices, travel and duty related payments.

Reconciled Property and Accounting Systems

During FY 1993, Customs reconciled $284 million of property activity, representing the gross activity between the general ledger and its property management systems. The monthly reconciliation procedures developed during FY 1992 were continued during FY 1993. In addition, Customs converted a portion of its reconciliation process to fit the data requirements of the new general ledger system. As a result of the reconciliation effort, Customs was able to identify and resolve approximately $80 million of erroneous entries to the general ledger system, and identified approximately $6.5 million of property that required proper recording in the property system.

Financial Statements

The financial statements presented as part of this total package present the financial position, results of operations and cash flows of the U. S. Customs Service for the years ended September 30, 1993 and 1992, pursuant to the requirements of the Chief Financial Officer's Act of 1990. It should be noted that the financial statements differ from the financial reports used to monitor and control budgetary resources. Also, the financial statements should be reviewed with the realization that they are for a sovereign entity, e.g., unfunded liabilities reported in the financial statements cannot be liquidated without the enactment of an appropriation and payments of all liabilities, other than for contracts, can be abrogated by the sovereign entity.

FMFIA Program Summary

Description of Customs FMFIA Program

Under the Federal Managers' Financial Integrity Act (FMFIA), a government-wide system for reviewing management controls and conformance with Comptroller General standards was implemented through OMB Circulars A-123 and A-127. More recently, the Chief Financial Officers (CFO) Act re-emphasized the requirement originally stated in A-127, that Federal agencies develop and maintain integrated agency accounting and financial management systems, including financial reporting and internal controls.

Customs is continually working to improve the agency's Management Controls Program. Regular evaluations of controls at both Headquarters and regional levels are being conducted in accordance with OMB guidelines. Coordination of both Section 2 (program controls) and Section 4 (accounting systems) of the FMFIA is vested in the Management Controls Division, which is part of the Office of the Comptroller, Office of Management.

FY 1993 Review Findings

Customs FY 1993 FMFIA review process leading to the Annual FMFIA Report and Assurance Letter brought out significant new findings, based on the CFO's audit conducted by GAO, as well as the FMFIA, Section 4 reviews of fiscal and administrative systems, and other internal FMFIA reviews, program reviews, and audits conducted within Customs.

The CFO review process identified weaknesses considered material by GAO in a number of areas. These included problems in ensuring adequate reporting and accounting for revenues (accounts receivable issues), the lack of integration of financial systems and related problems with data integrity, inadequacies in property management and particularly management of seized property, problems in accounting for receipt of goods and services and deobligation of funds no longer needed for contracts, and lack of adequate review of data input into the Fines, Penalties, and Forfeitures module of the Automated Commercial System (ACS). The CFO audit also pointed to continuing problems in the controls over administration of Customs Drawback and In-Bond Programs. Finally, the CFO audit also reported deficiencies in Customs FMFIA review process for identifying and correcting control weaknesses in its programs. These deficiencies were consistent with Customs internal assessment and recommended improvements were consistent with the improvements already underway. The major criticism was that Customs managers were not well trained to perform adequate reviews of their controls and, as a consequence, the reviews of program controls had not revealed, through FY 1992, the presence or true extent of material deficiencies.

Customs Section 4 reviews of fiscal and administrative systems and other internal FMFIA reviews also identified new material problems in property management, the quality and accuracy of data in seized property accounting systems, and in the collections and liquidation processes. The internal Customs reviews found that lack of compliance with established procedures played an important role in many of the deficiencies identified by both CFO and Customs reviews in FY 1993.

The number of material weaknesses reported by Customs increased to 16 in its 1993 FMFIA Annual Report and the report is more comprehensive in its treatment of actual or potential deficiencies than in previous years. While the identification of a number of these deficiencies may be traced to the in-depth analysis performed in the CFO audit, credit must also be given to the expanded and more rigorous reviews of Customs systems done in the FMFIA, Section 4 process, and to Customs coordination with GAO, the Office of the Inspector General, and the Department to assure that all relevant review results are reported.

Summary of FMFIA Accomplishments

- It was reported in FY 1989, that Customs financial management system was not in conformance with the Comptroller General's standards. Since that time, Customs has been more aggressive in identifying and pursuing completion of material weaknesses and actions to improve controls in Customs and began to build over time a more effective structure and process for implementing the FMFIA Program.

- Customs initiated several efforts to standardize and improve regional management control review programs including an automated reporting and review system for compliance reviews. In addition, work is progressing to standardize critical checklists used by the regions to do these reviews.
- A major effort was begun to raise management awareness of problems through production of management control "red flag" reports from existing records in Customs ACS and early warning reports from financial and administrative systems. Some reports are in production and others are under development.
- Management control training has been revised and training efforts intensified. A management control review course was developed to provide managers the tools and concepts needed to do effective reviews of controls in their programs. Initial training sessions took place in FY 1993 and more courses were scheduled for FY 1994.
- More aggressive follow-up has been instituted to ensure effectiveness of corrective actions. A validation process for correction of material deficiencies has been developed that identifies validation criteria, validation methodologies, and coordinates validation efforts of Customs offices with those of external organizations.
- Customs has instituted training in Business Process Improvement (BPI) as a way of promoting a better understanding of work processes and procedures among managers and other staff and providing them the capability to redesign these processes where appropriate.
- Customs has implemented formal end-of-year operating procedures, and daily monitoring of the status of resources at the end of the year.
- Customs enhanced its financial management organization in preparation for fully implementing the CFO Act by reorganizing its financial management organization and filling vacancies with highly qualified management and staff.
- Customs has familiarized its managers with techniques for developing, selecting, and utilizing performance indicators in evaluating their programs, as required under the CFO Act.
- Initiatives are underway to enhance extensive parts of the ACS and to further develop the Asset Information Management System. The resulting improved systems will improve controls over accounting, cost information, and reconciliation activities.

Issues and Concerns

Quality of Reviews

The adequacy and quality of both program procedural reviews and compliance reviews performed by Customs staff continue to be of concern. It is important that program staff have the training or skills to analyze program processes and procedures or grasp the relevance of management controls in assuring mission accomplishment. The management control review course and training video developed by Customs are intended to enhance the quality of these reviews.

Design of Control Processes

The assurance of effective controls is based upon an understanding of the work processes involved in implementing a program and how design or redesign of those work processes will affect the desired control. Customs initiative to train staff in process mapping is designed specifically to heighten the awareness of the inter-relationships between work processes, control, and expected results or quality of products.

National Performance Review Conclusions

This emphasis on understanding the relationship between management control and work processes and systems is consonant with the findings and recommendations of the National Performance Review (NPR). The NPR recommends a systems redesign approach to simplify and streamline internal controls, encourage innovation, and eliminate excessive internal regulations and reporting burdens. It also favors giving greater priority to evaluation and redesign of systems and processes to achieve greater effectiveness and efficiency than to merely auditing compliance with established controls.

Compliance Issues

Although new thinking on management controls places more emphasis on adequacy of process or procedures rather than compliance issues, Customs has found in its review processes that lack of compliance continues to be a major factor in determining the efficacy of its existing controls. Deficiencies in Customs accounting, financial data integrity, property management, collections, entry liquidations, and other processes were often due as much to failure of staff to follow established procedures as to inadequacies in the systems or procedures governing the work processes. The correction of these problems must involve management initiatives to communicate and reinforce the importance of correctly executing instructions and guidance for mission accomplishment. Otherwise, improvements in work processes or systems will not achieve desired results.

Unresolved Deficiencies

High Risk Areas

Inadequate Collections/Accounting Systems for Revenues on Imports: The elements of this high risk area involve automated systems as well as the procedures through which entries are processed and collections are made and deposited. It reflects a general concern regarding effective collection and accounting for revenues and receivables and having good cost information for management purposes. There is also a concern that subsidiary systems do not provide accurate data on financially related matters.

The corrective action plan for this high risk area includes a wide range of interrelated initiatives which will span the next five years. These include planning and initiation of Customs Automated Revenue Accounting (CARA) project which enhance revenue accounting capabilities and the quality and accuracy of data transmitted to the General Ledger on revenues. It also includes improving the accessibility of data in ACS for use in General Ledger accounts through the ACS Financial Core project, and a major redesign and improvement of the ACS system itself through the FACET project. Cost accumulation capabilities are also to be improved through implementation of new cost models and project cost accounting. The process for liquidating entries is to be made more effective through streamlined procedures. An integrated financial accounting and reporting system is planned by October 1, 1997.

Controls over Obligated and Unobligated Balances for Customs Operations and Maintenance (O&M) Account: Customs has experienced problems in determining actual O&M account balances due to inadequacies in tracking obligations and expenditures associated with interagency agreements and related contracts.

Corrective actions to address these problems have been taken. In the summer of 1992, Customs hired the accounting firm of KPMG Peat Marwick to review the account balances of the air/marine program, and they completed a review and issued a draft report with recommendations. Recommendations of Treasury's own study team were coordinated with the Peat Marwick recommendations and corrective actions were implemented to improve the account's internal controls. The Inspector General has contracted a review of the effectiveness of these efforts and a draft report has been issued. The question of whether corrective action to date has addressed the materiality of the original deficiency is now being decided through consultation with the Department based upon validation findings.

Other Material Weaknesses

At the beginning of FY 1993, Customs completed action to better manage the allocation of expenditures for inspectors' overtime and to reconcile property values recorded in both Customs property management system (PIMS) and its old accounting system (CAMIS). The actions taken in both cases have been overtaken by events, however, as Congress has significantly changed the inspectors' overtime system and CAMIS has been succeeded by a new core accounting system (a new material weakness has also been identified in the property management area which partly involves reconciliation issues again).

Customs thus carried over into FY 1994 seven weaknesses. These were related to difficulties in:

(1) Properly aging accounts receivable for reporting purposes;

(2) ensuring correct and timely liquidation of entries;

(3) assuring that trade enforcement efforts are effective and efficient through a coherent Trade Enforcement Strategy;

(4) effecting improved compliance with existing controls over seized property;

(5) making appropriate adjustments of accounts receivable to reflect deferred tax payments and delayed payments of Harbor Maintenance Fees in FY 1992; and

(6) putting in place an adequate cost accumulation mechanism at Customs. The seventh (discussed as a high risk area above) related to a need for improved tracking of obligations and expenditures associated with interagency agreements, permitting easier determination of correct balances for the Operations and Maintenance Account.

Nine new weaknesses were reported in Customs 1993 FMFIA Annual Report. The first six were:

(1) Lack of adequate controls in Customs In-Bond Program;

(2) deficiencies in controls over Customs Drawback process;

(3) deficiencies in Customs Property Management System;

(4) inaccurate estimation of accounts payable due to delays in reporting receipt of goods/services and failure to timely deobligate funds no longer needed for contracts;

(5) Customs collections procedures not being followed by field units; and

(6) data in Seized Property Accounting systems are unreliable.

The other three all relate to Customs second high risk area described above (collections/accounting systems for revenues). They were:

(1) Financial systems do not provide complete and accurate information.

(2) Accounts receivable are not properly identified and accounted for.

(3) Data in Customs FP&F files are inaccurate due to systems deficiencies and lack of supervision over data input.

Financial Management Systems Initiatives

Plans for Financial Management Systems Improvements

Customs financial systems plans are in two major areas. These are:

- Financial systems
- Revenue systems

Financial Systems

Customs prior core financial system, CAMIS was purchased off-the-shelf, customized and installed in 1980. In recent years, it became apparent that the system had several shortcomings, including not meeting the JFMIP requirements and Customs increasing requirements. In addition, through FMFIA reviews and GAO audits, Customs financial systems were found to have significant deficiencies.

Customs determined that CAMIS should be replaced due to the problems mentioned above and the fact it was nearing the end of its system life cycle. As a result of this decision, the Asset Information Management System (AIMS) project was begun. AIMS is a broad based project to improve the quality and effectiveness of financial management, accounting and budgeting systems, practices and procedures. It will provide Customs with a financial system that will resolve FMFIA deficiencies and meet JFMIP Core Requirements as well as modernizing and streamlining Customs administrative systems and procedures.

The objective of the AIMS project is two-fold:

(1) To implement a modern financial system which corrects current deficiencies and is compliant with federal financial systems requirements.

(2) To integrate and upgrade ancillary administrative systems.

The first goal was met in Phase I of the AIMS project. A new core financial system was implemented on October 1, 1992. Customs used off-the-shelf software for the core system and made only essential changes to the vendor package. The system operates in Customs current computer operational environment, in addition to being upgradeable to the DB2 relational database technology should Customs decide to do so. Customs current ancillary systems were interfaced into the core system and only essential changes to the systems were made.

The second goal will be met in Phase II of the AIMS project. Customs plans to integrate the ancillary systems into the core system to update the core on-line, reduce redundant files and minimize reconciliation efforts. In addition, Customs plans to expand and enhance all ancillary systems to add increased functionality, streamline systems and procedures, move towards a more paperless environment and provide timely, reliable information useful in effective resource management.

In both phases of the AIMS project, Customs intends to use off-the-shelf software where appropriate. Customs also intends to work with other Treasury agencies to share system related work efforts. The possibility of taking the lead in developing Treasury-wide systems will be evaluated.

Revenue Systems

The ACS was developed with operational needs as the major concern and at a time when Customs financial programs were regionalized. Most of the financial related aspects of ACS are among the older parts of the system. ACS does not fully support the JFMIP requirements or the audit requirements of the CFO legislation. GAO's report of financial management in Customs points out that the financial systems do not adequately account for and control resources.

Customs determined there is a need to improve the automated revenue programs and systems due to the problems mentioned above. As a result of this decision, CARA was begun, in which Customs intends to redesign and enhance the financial aspects of ACS through a long term effort.

The goals of the CARA project are to:

- Provide better control over Customs collections.
- Bring revenue systems into compliance with GAO, CFO and JFMIP requirements.

Software enhancements will be custom developed and will be part of Customs overall redesign of the ACS system. There are no known off-the-shelf software packages available to meet Customs unique commercial operations and revenue requirements. Software will be developed following standard life cycle development procedures. This includes: analysis, user requirements, functional requirements, system design, programming, system testing, documentation and training.

The overall redesign of ACS, of which CARA is the financial portion, is comprised of three projects: the Future Automated Commercial Environment Team (FACET), the Selectivity Redesign project and the CARA project.

Current Status of Financial Management Systems

The first goal of the AIMS project was met in Phase I, where a new core financial system was implemented on schedule October 1, 1992. The second goal will be met in Phase II of the project. Some Phase II projects were completed in Fiscal Year 1993 and others are now underway. Highlights of AIMS and other Customs major systems projects this fiscal year are presented in the following paragraphs.

Implementation of the New Core Financial System

After analyzing the options, Customs concluded to use off-the-shelf software for the core system. The Federal Financial System (FFS), developed by American Management Systems, was selected.

- This supports Customs and the government's goal of using off-the-shelf software to the extent possible.
- FFS is fully compliant with JFMIP Core Financial System Requirements and GAO accounting requirements.
- FFS provides system generated external reports to meet Treasury and OMB requirements.
- FFS modernizes Customs processing by providing on-line edit and update.
- Customs worked with the vendor to configure FFS and develop interfaces to ancillary systems.
- The core system was implemented on the scheduled date of October 1, 1992.
- Customs completed the full annual cycle with the successful closing of FY 1993 on December 1, 1993.

Improved Reports Capabilities

As part of the AIMS project, Customs recognized the need to place additional focus on reports from the new system.

- Customs and the software vendor developed an easy to use, automated reports system known as the Reports Management System (RMS).
- RMS provides users with reliable and timely information from the AIMS system.
- All essential reports were implemented in the first quarter of FY 1993.
- Advanced ad hoc capabilities were implemented in November 1993.
- Reports for the Project Cost Accounting System were also implemented in November 1993.

Cost Accounting

Also as part of the AIMS project, Customs will be developing a cost accounting system, which it currently does not have.

- This will resolve a current, long standing FMFIA deficiency.
- A labor distribution system was custom developed and implemented in April 1992, as part of the Treasury-wide initiative to convert to the Agriculture payroll system.

- Customs implemented a project cost accounting system on October 1, 1993, utilizing off-the-shelf software (the FFS Project Cost Accounting System). It provides project budgeting and costing, plus tracks reimbursable agreements, receivables, obligations, and expenditures at the detail level.
- Customs developed requirements for cost accumulation and distribution and began a limited test on October 1, 1993. The test results will be evaluated and a plan with milestones for full Customs implementation will be developed. Currently it is estimated the earliest the full system would be available is FY 1995.

Funds Control

As part of the implementation of the Project Cost Accounting System, Customs enhanced the automated funds control functions of the core financial system.

- In October 1993, implemented on-line funds control edits in the ancillary systems at the project level.
- Also in October 1993, implemented on-line edits in the ancillary systems at the appropriation and quarterly apportionment level.

Relocation Processing

As part of the second phase of AIMS, Customs plans to implement PRIME, a PC-based relocation processing system developed for the Internal Revenue Service (IRS) by American Management Systems.

- PRIME is used to record authorization, advances and vouchers related to relocations, and to prepare the required tax forms for employees who relocate. PRIME interfaces data to the core financial system nightly.
- Customs implemented PRIME in January 1994.
- Customs works with the IRS and the vendor to share costs and ensure the same software is usable by both agencies.

Annual Financial Statements

Customs was one of the pilot agencies undergoing financial statement audits of the FY 1992 financial statements.

- Requirements identified by Customs audit team and the outside auditors were addressed to the extent possible when the new core system was implemented October 1, 1992.
- Customs intends to meet all requirements in the second phase of the AIMS project.
- When final report requirements are published by OMB, they will be integrated into FFS by the vendor and Customs will implement the upgrade when it is available.

Automated Travel

In August 1993, Customs implemented a modification to its custom developed automated travel system (CATS) to include temporary duty travel in the U.S. possessions.

Other AIMS Projects

Other projects under the second phase of AIMS were initiated in FY 1993, but are not yet implemented. Some of the major projects are:

- Electronic Data Interchange (EDI)—Customs is now developing an EDI strategy, which will include Business Process Redesign (BPR), Joint Application Development (JAD) sessions and conferences with vendors.
- Bankcard—Customs has implemented a program of using bankcards for small purchases and is now custom developing an automated system to support the various processes and interface data to the core financial system.
- Budget Execution—Customs is modifying its custom developed automated Budget Execution System to accommodate changes required by the October 1993 consolidation of all Treasury forfeiture fund operations under one Treasury office.

- Automated Receiving—Customs is modifying its custom developed Automated Receiving Report System (ARRS) to automatically pay invoices less than $2,500. Invoices will be statistically sampled after payment for correctness and receipt of goods.

Revenue Systems Improvement

Customs, through the CARA project, will improve the automated revenue programs and systems by redesigning and enhancing the financial aspects of the ACS. This is being done as part of Customs overall redesign of ACS which is comprised of three projects: FACET, the Selectivity Redesign project and the CARA project.

The CARA project:

- Brings Customs revenue systems into compliance with GAO, CFO and JFMIP requirements.
- Provides better control over Customs collections.
- Provides for better measures of performance in the collections and receivables areas.
- Was initiated in the last quarter of FY 1992 and has been divided into 25 revenue related subsystems.
- Completed its data gathering in December 1993; the results are now being analyzed using BPR software.

A prototype of one subsystem (deposit processing) through all phases is now being performed. This includes the analysis through BPR and code generation using a Computer Aided Software Engineering (CASE) tool. During FY 94, Customs to complete the BPR analysis and input of functional specifications into the CASE tool for the following subsystems:

- Automated Clearing House
- Banking Lockbox
- Cash Link
- Debit Vouchers
- Electronic Funds Transfer
- Harbor Maintenance Fee
- Mail Entry
- PC Cash Register Related Subsystems
  - — Credit/Debit Card
  - — Miscellaneous Collections
  - — Serially Numbered Forms-Decals

ACS Financial Core

As part of the CARA project, Customs initiated the ACS Financial Core project in order to make short term improvements and address issues identified in the audit of the FY 92 financial statements. Requirements are now being developed and implementation is expected to begin in late FY 1994. The ACS Financial Core project includes:

- Modifying the current ACS/AIMS interface to ensure receivable, collection and disbursement data originating from revenue activities is properly recorded in the AIMS general ledger.
- Providing a method of tracking the integrity of data between the ACS and AIMS data and reference files.
- Providing a means to automatically produce and provide approval for the SF-220 Schedule 9, Report on Accounts Receivable and Loans Due from the Public.
- Providing the ability to automatically estimate the collectibility of accounts receivable for financial reporting purposes.

Consolidated Statements of Financial Position

Chief Financial Officer's Annual Report—1993

Department of the Treasury, United States Customs Services

Consolidated Statements of Financial Position as of September 30, 1993 and 1992

(Dollars in Thousands)

	1993	1992
Custodial assets		
Undistributed funds with Treasury (Note 5)	$ 133,289	$ 213,706
Receivables, net of uncollectible amounts of $226,800 and $72,687 (Note 2)	914,268	827,895
Forfeited property and currency (Note 3)	—	74,257
Other	2,807	6,050
Seized property and currency (Note 4)	—	—
Total custodial assets to be distributed	1,050,364	1,121,908
Fund balance with Treasury - refunds and drawbacks (Note 5)	60,842	9
Total custodial assets	1,111,206	1,121,917
Operating assets		
Financial resources		
Fund balances with Treasury and cash (Note 5)	661,690	687,005
Receivables from reimbursable services and user fees, net of uncollectible amounts of $668 and $7,789 (Note 6)	42,003	44,493
Intragovernmental receivables	71,021	71,910
Other receivables	1,120	
Non-financial resources		
Advances	18,336	19,828
Aircraft and marine parts and materials	106,901	60,191
Property, plant and equipment (Note 7):		
Aircraft	389,248	349,322
Other	129,485	360,296
Total operating assets	1,419,804	1,593,045
Total assets	**$ 2,531,010**	**$ 2,714,962**

The accompanying notes to the consolidated financial statements are an intergral part of this statement.

Department of the Treasury, United States Customs Services
Consolidated Statements of Financial Position as of September 30, 1993 and 1992
(Dollars in Thousands)

	1993	1992
Custodial liabilities		
Custodial assets to be distributed	$ 1,050,364	$ 1,121,908
Accrued refunds and drawbacks (Note 8)	73,977	34,443
Trade litigation payable (Note 11)	68,357	—
Capital lease obligation	—	1
Total custodial liabilities	$ 1,192,698	$ 1,156,352
Custodial net position (Note 9)		
No-year appropriations	60,842	9
Future funding requirements	(142,334)	(34,444)
Total custodial net position	(81,492)	(34,435)
Total custodial liabilities and net position	1,111,206	1,121,917
Operating liabilities		
Funded operating liabilities:		
Accounts payable	87,843	73,413
Accrued payroll and benefits	39,394	81,442
Intragovernmental liabilities	19,465	8,079
Other	11,142	11,700
Total funded operating liabilities	157,844	174,634
Unfunded operating liabilities:		
Accrued annual leave	72,740	67,839
Capital lease obligations (Note 10)	9,579	16,993
Accrued workers' compensation	29,110	23,863
Other	71	—
Total unfunded operating liabilities	111,500	108,695
Commitments and Contingencies (Note 11)	—	—
Total operating liabilities	269,344	283,329
Operating net position (Note 14)		
Authorized retained capital (Note 1)	—	238
Appropriated funds with Treasury:		
Unliquidated obligations	290,494	361,444
No-year and other appropriations	92,236	68,735
Reserve for advances and prepayments	13,463	7,726
Invested capital:		
Aircraft and marine parts and materials	106,901	60,191
Property, plant and equipment	518,733	709,618
Cumulative results of operations	240,133	210,459
Future funding requirements	(111,500)	(108,695)
Total operating net position	1,150,460	1,309,716
Total operating liabilities and net position	1,419,804	1,593,045
Total liabilities and net position	**$ 2,531,010**	**$ 2,714,962**

The accompanying notes to the consolidated financial statements are an intergral part of this statement.

Consolidated Statements of Operations and Changes in Operating Net Position

Chief Financial Officer's Annual Report—1993

Department of the Treasury, United States Customs Service

Consolidated Statements of Operations and Changes in Operating Net Position for the years ended September 30, 1993 and 1992

(Dollars in Thousands)

	1993	1992
Custodial activities		
Revenues collected:		
Duties	$ 19,131,936	$ 18,311,802
Excise taxes	1,178,680	1,081,670
User fees	1,152,874	533,308
Forfeited property and currency	—	166,033
Fines and penalties	56,660	42,608
Interest and others	44,225	21,263
Total revenues collected	21,564,375	20,156,684
Allocations of revenues collected:		
Department of the Treasury (Note 12)	21,352,231	19,898,819
Department of Agriculture (Note 12)	47,802	40,891
Other Federal agencies and other Governments	126,234	97,432
Total allocations of revenues collected	21,526,267	20,037,142
Net revenues collected (Note 13)	38,108	119,542
No-year appropriations expended for refunds and drawbacks	919,470	775,325
Refunds and drawbacks expense	919,470	775,325
Net revenues collected and available to offset funded operating expenses	38,108	119,542
Operating activities		
Financing sources:		
Appropriations expended for operations	1,447,064	1,335,156
Reimbursable services and user fees retained	348,925	307,072
Other	646	—
Total financing sources	1,796,635	1,642,228
Operating expenses		
Personnel compensation and benefits	1,164,579	1,060,294
Travel and transportation	41,620	50,677
Rent, communications and utilities	184,293	155,942
Printing and reproduction	3,714	5,250
Purchases of evidence and information	4,489	49,659
Contractual services	180,543	260,502
Repairs and maintenance	206,373	108,258
Interest and other	35,137	45,743
Total operating expenses	1,820,748	1,736,325
Less unfunded operating expenses	19,584	15,793
Total funded operating expenses	1,801,164	1,720,532
Excess of financing sources over funded operating expenses	33,579	41,238
Operating net position, beginning of period	1,309,716	1,237,912
Other changes in operating net position (Note 14)	(192,835)	30,566
Operating net position, end of period	**$ 1,150,460**	**$ 1,309,716**

The accompanying notes to the consolidated financial statements are an intergral part of this statement.

Consolidated Statements of Cash Flows

Department of the Treasury, United States Customs Services

Consolidated Statements of Cash Flows for the years ended September 30, 1993 and 1992

(Dollars in Thousands)

	1993 Custodial	1993 Operating	1992 Custodial	1992 Operating
Cash flows from operating activities				
Excess of financing sources over funded operating expenses	$ —	$ 33,579	$ —	$ 41,238
Adjustments affecting cash flows from operating activities:				
Appropriations expensed	(919,470)	(1,447,064)	(775,325)	(1,355,564)
Decrease (increase) in custodial and operating receivables	(86,373)	2,259	(135,031)	28,331
Decrease in forfeited property and currency	74,257	—	17,295	—
Decrease (increase) in aircraft and marine parts and materials	—	(46,710)	—	20,408
Decrease (increase) in advances	—	(9,575)	(1,052)	13,972
Decrease in custodial assets to be distributed	(71,544)	—	(2,090)	—
Increase in trade litigation payable	68,357	—	—	—
Increase (decrease) in funded operating liabilities	—	(8,874)	—	39,019
Increase in accrued refunds and drawbacks	39,534	—	—	—
Other, net	3,242	2,805	—	11,912
Unidentified differences[a]	413	99,522	—	
Net cash used by operating activities	(891,584)	(1,374,058)	(896,203)	(1,200,684)
Cash flows from investing activities				
Purchases of invested capital	—	(63,592)	—	(204,772)
Net cash used by investing activities	—	(63,592)	—	(204,772)
Cash flows from financing activities				
Appropriations (current warrants)	872,000	1,472,559	742,298	1,456,409
Return of "M" year funds to Treasury	—	(29,663)	—	(5,334)
Payments on capital lease obligations	—	(9,327)	—	(10,754)
Transfer to the Treasury Forfeiture Fund (Note 1)	—	(21,234)	—	—
Net cash provided by financing activities	872,000	1,412,335	742,298	1,440,321
Net (decrease) increase in cash and cash equivalents	(19,584)	(25,315)	(153,905)	34,865
Cash and cash equivalents, beginning of period	213,715	687,005	367,620	652,140
Cash and cash equivalents, end of period	**$194,131**	**$661,690**	**$213,715**	**$687,005**

a. The amounts shown as unidentified differences indicate that Customs was unable to fully account for the changes in cash between fiscal years 1992 and 1993. Customs plans to continue to resolve identifiable differences to enable it to prepare the 1994 statement without such an adjustment.

The accompanying notes to the consolidated financial statements are an intergral part of this statement.

Consolidated Statement of Budgetary Resources and Actual Expenses

Chief Financial Officer's Annual Report—1993

Department of the Treasury, United States Customs Service

Consolidated Statement of Budgetary Resources and Actual Expenses for the year ended September 30, 1993

(Dollars in Thousands)

Program Name(s)	BUDGETARY RESOURCES Resources	Obligations Direct	Reimbursed	ACTUAL EXPENSES SF-133 Basis[b]	Accrual Basis[c]
Inspection and Control	$ 984,777	$ 707,977	$ 113,980	$ 715,571	$ —
Enforcement	536,471	470,989	55,342	512,678	—
Tariff and Trade	401,288	317,839	56,917	314,348	—
Total Salaries & Expenses	1,922,536	1,496,805	226,239	1,542,597	1,614,297[d]
Operation & Maintenance Air and Marine Interdiction Programs	181,888	112,538	(1,314)	84,436	151,546
Operation and Maintenance, P-3 Drug Interdiction Programs	28,000	24,481	—	11,338	14,666
Customs Facilities, Construction Improvements & Related Expenses	35,950	10,157	—	1,502	1,643
Air and Marine Interdiction Programs, Procurement	34,695	16,811	7,780	1,794	2,278
Puerto Rico Trust Fund	135,344	126,752[a]	297	125,327	24,126
Services at Small Airports	1,764	835	—	849	790
Refunds Erroneous Collections and Budget Clearing Expenses	—	—	—	—	2,160
Refunds, Transfers & Expenses; Unclaimed & Abandoned Goods	12,856	8,086	—	8,080	9,241
Totals	**$2,353,033**	**$1,796,465**	**$ 233,002**	**$1,775,923**	**$1,820,748**

Budget Reconciliation	SF-133 Basis	Accrual Basis
A. Total Expenses	$ 1,775,923	$ 1,820,748
B. Add: Capital Acquisitions	142,903	63,592
C. Less: Expense Not Covered By Available Budgetary Resources		
(1) Unfunded Annual Leave Expense	—	4,901
(2) Other Unfunded Expenses	—	14,683
D. Accrued Expenditures	1,918,826	1,864,756
E. Less Reimbursements	115,991	161,798
F. Accrued Expenditures, Direct	**$ 1,802,835**	**$1,702,958**

a. Includes $101,306 transferred to Puerto Rico under 48 USC 740.

b. Customs uses the accrual basis of accounting to record its operations; however, Treasury requires agencies to close their books in early November prior to submission of the Year-end Closing Statement. This column represents amounts reported to the Department of the Treasury on Customs SF-133, Report on Budget Execution.

c. Amounts shown in this column reflect adjustments for additional accounts receivable and accounts payable that were not recorded prior to closing the books.

d. Customs cannot report its Salaries and Expense appropriation activity by program as sufficient cost data was not obtained during Customs efforts to identify year-end accruals.

The accompanying notes to the consolidated financial statements are an intergral part of this statement.

Notes to Consolidated Financial Statements

Department of the Treasury
United States Customs Service

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Basis of Presentation

The Chief Financial Officers Act of 1990 (CFO Act) requires executive agencies of the Federal government to prepare and have audited financial statements and related footnotes for all agency activities and funds. The financial statements are prepared in conformity with applicable generally accepted accounting standards and principles for Federal entities, as well as Office of Management and Budget (OMB) Bulletin No. 94-01 which defines the form and content of financial statements of executive departments and agencies. These standards, principles and other guidance used to prepare such financial statements are a comprehensive basis of accounting other than generally accepted accounting principles. Certain modifications and variations to the principles and guidelines described above have been made to the accompanying financial statements in order to more clearly present the financial position and results of operations of U.S. Customs Service (Customs).

The accompanying consolidated financial statements include the accounts of all funds under Customs' control or which Customs' activities impact, consisting of thirty-four (34) custodial funds and nine (9) operating funds. All inter-fund balances and transactions have been eliminated.

Reporting Entity

Customs, with headquarters in Washington, D.C., was created in 1789 and is now a part of the Department of the Treasury (Treasury). Customs is primarily responsible for administering the U.S. Trade Program and the U.S. Narcotics Enforcement Program. Customs primary responsibilities include: (1) enforcing the laws governing the flow of merchandise or commerce across the borders of the United States; (2) assessing and collecting duties, excise taxes, user fees, fines, and penalties due on imported and other goods and services; and (3) enforcing drug-related and other laws and regulations of the United States on behalf of Federal agencies and/or in conjunction with various state, local and other Federal agencies and foreign countries.

Currently, Customs is second only to the Internal Revenue Service in the collection of revenues for the Federal government. Similar to other Federal agencies, funding for Customs operations is provided principally through annual congressional appropriations.

Consolidated Financial Statements Presented

Substantially all of the revenues collected by Customs are remitted to the Treasury. Treasury further distributes these revenues to other Federal Agencies in accordance with various laws and regulations. Customs remits the remaining revenue (generally less than 2 percent of revenues collected) to various other Federal agencies, State and Local Agencies and other Governments (i.e., Puerto Rico, Virgin Islands). These activities reflect the custodial/fiduciary responsibilities that Customs, as an agency of the Federal government, has been authorized by law to enforce.

The financing sources to cover the operating and other costs incurred from the activities described above are provided principally through congressional appropriations on an annual, multi-year, and a no-year basis. Accordingly, operating costs incurred and, therefore, recorded as expenses are offset by an equal amount of appropriated funds that are recorded as financing sources.

The form and content of the Consolidated Statement of Financial Position, as suggested by OMB Bulletin No. 94-01, has been adjusted to present custodial assets to be distributed (and an offsetting liability) for revenues collected or to be collected but not yet distributed to the various entities expected to receive these funds. Principally all of these revenues are not considered as financing sources (revenues) available for the operations of Customs.

To more accurately present the results of its principal activities (i.e., custodial/fiduciary responsibilities) and the funding of such, Customs has presented for 1993 and 1992, "Consolidated Statements of Operations and Changes in Operating Net Position". The form and content of the statement, as suggested by OMB Bulletin No. 94-01, has been modified to present custodial activities separately from the operating activities of Customs. The custodial activities represent the fiducial responsibilities of Customs in contrast to the opeating activities where the financing sources are provided principally through congressional appropriations.

Revenue and Expense Recognition

Revenue generated from Customs' custodial activities is recognized when the cash is collected. The significant types of revenues collected, related expenses and a description of these include:

- Duties: amounts collected on imported goods;
- User fees: fees associated with services performed by Customs agents or other officials within port authority, for the harbor maintenance and other miscellaneous fee programs;
- Excise taxes: taxes collected on imported distilled spirits and liquor;
- Fines and penalties: amounts collected for violations of laws and regulations;
- Forfeited currency and property: revenue collected from forfeited currency, sales and distributions of forfeited property, and payments in lieu of forfeiture as a result of Customs' criminal and other investigations; and,
- Refunds and Drawbacks: refunds include payments to importers for overpayments, duplicate payments, etc., made by them. Drawbacks are payments to importers and other claimants for a portion (up to 99 percent) of the initial duties and taxes collected on imported goods typically where the goods are subsequently exported to foreign markets.

Customs allocates custodial revenues collected to other government agencies based on established laws and regulations. Generally, amounts returned to Treasury are further distributed to other federal agencies, as required by law, to fund specific programs or other operating activities. For example, Customs collects user fees for the Department of Agriculture and transfers these fees directly to Agriculture. Whereas 30 percent of duty collections collected by Customs are remitted to Treasury who subsequently disburses these funds to Agriculture under 7 U.S.C. 612c.

Financing sources from appropriations expended relating to refunds and drawbacks and operating activity are recorded as revenue when the related cost is incurred and recorded as an expense. Operating revenues from reimbursable services and user fees to be retained (19 U.S.C. 58C) are recorded as earned when the service is provided.

Expenditures for operating costs are recorded as expenses when goods are received, inventory used, or the services are incurred.

Custodial Assets and Liabilities

Custodial assets consist principally of undistributed funds with Treasury and receivables which are to be distributed primarily to the Treasury, other Federal agencies, and other governments. Because substantially all of the custodial assets are not considered financing sources (revenues) available to offset operating expenses of Customs, a corresponding liability is recorded and presented as "Custodial Assets to be Distributed" in the Consolidated Statement of Financial Position to reflect the custodial nature of Customs' activities.

Customs receives annual increases to its no-year appropriation balance with Treasury to fund refunds and drawbacks of duties and taxes paid during the fiscal year. Accrued refunds and drawbacks in excess of these appropriated funds are unfunded and are included as "future funding requirements" within Custodial Net Position.

The presentation of custodial assets, liabilities and net position in a separate, self-balancing set of accounts ensures that financial and nonfinancial resources of Customs present only those resources which will be consumed in current or future operating cycles while the custodial categories contain resources relating to Customs' custodial/fiduciary activities.

Custodial Undistributed Funds with Treasury

Undistributed funds with Treasury represents custodial monies to be distributed to various Federal agencies. The monies held represent the timing differences between when the monies are received and identified to the specific revenue type and when the distribution of the funds occurs.

Custodial Receivables

Receivables included as a component of custodial assets consist of duties, user fees, excise taxes, fines and penalties and interest which have been billed or accrued and remain uncollected as of September 30, 1993. These receivables are net of amounts deemed uncollectible which were judgmentally determined by considering the debtors current ability to pay, the debtors payment record and willingness to pay, and the probable recovery of amounts from secondary sources, such as sureties, and a detailed review of aged balances.

Forfeited Property and Currency

Forfeited property and currency reported in 1992 were generated from the forfeiture of currency and other monetary instruments and real and personal property seized by Customs under the Tariff and Trade Act of 1984 and the Anti-Drug Abuse Act of 1988. Forfeited property was recorded at estimated net realizable value based on historical sales experiences.

Proceeds from these activities, net of authorized administrative and enforcement expenses allowed by the Tariff and Trade Act and the Anti-Drug Abuse Act, amounts allocated to state, local and other federal agencies, $15 million retained for future funding needs, unliquidated obligations and reserve for advances and prepayments at the end of each fiscal year, were recorded as custodial assets to be distributed for payment to the general fund of the Treasury. As of September 30, 1992, the remaining $238 thousand balance that, by law was not remitted, was considered as "Authorized Retained Capital", the net of which was presented as a separate component of operating net position in the Consolidated Statement of Financial Position.

In October 1992, the Treasury Forfeiture Fund Act of 1992 (Section 638 of P.L. 102-393) established the Department of the Treasury Forfeiture Fund (the Treasury Forfeiture Fund). The Treasury Forfeiture Fund succeeds the Customs Forfeiture Fund. All fiscal year 1992 amounts presented in the accompanying financial statements are those previously reported for the Customs Forfeiture Fund. Beginning October 1, 1992, activity formerly reported in Customs Forfeiture Fund is reported in the Treasury Forfeiture Fund and is not included in Customs' annual financial statements.

Seized Property and Currency

Seized property and currency result principally from enforcement activities. These items are not considered assets of Customs, however, Customs does have a stewardship responsibility until the disposition of the seized item is determined, i.e., judicially or administratively forfeited or returned to the entity from which it was seized.

Operating Fund Balances with Treasury and Cash

Operating Fund balances with Treasury are the amounts remaining as of fiscal year-end from which Customs is authorized to make expenditures and pay liabilities resulting from operational activity.

Cash Equivalents

For the purpose of the Consolidated Statement of Cash Flows, cash includes: custodial undistributed funds with Treasury, a custodial fund balance with Treasury and operating fund balances with Treasury and cash.

Receivables from Reimbursable Services and User Fees

Receivables from reimbursable services and user fees represent amounts due from various parties for services performed which Customs, by law, has the right to collect.

Intragovernmental Receivables and Liabilities

Intragovernmental receivables and liabilities represent amounts due from or to various other Federal agencies under contractual agreements or other arrangements for services or other activities performed for or by Customs.

Advances

A reserve for advances, a separate component of Customs consolidated operating net position, is increased (credited) for the amount of appropriated funds spent, but not yet obligated. These funds consist principally of advances to agents for use in conducting certain investigative operations. Upon incurrence of the related expenses and, therefore, the recording of an operating expense, the related reserve for advances is decreased and appropriations expended for operations, a financing source, is increased.

Aircraft and Marine Parts and Materials

Aircraft and marine parts and materials are stated at the most recent purchase cost which approximates replacement cost. This method does not approximate acquisition cost, consequently, the reporting of these items is not in accordance with generally accepted accounting principles. As of September 30, 1993, aircraft and marine parts and materials consist principally of material and supplies held for future consumption. Invested capital, a separate component of Customs' operating net position is increased (credited) for an amount equivalent to the cost of the inventory with a corresponding decrease (debit) to Customs' appropriated funds. When ultimately used in Customs' operations, an operating expense (reducing inventory) and a financing source (reducing invested capital) equal to the cost of this inventory are recorded.

Property, Plant and Equipment

Purchased property, plant and equipment and transferred property from other Federal agencies with a value of $5,000 or greater is capitalized and recorded as an asset. The invested capital account is increased (credited) for an amount equivalent to the capitalized cost of the purchased asset with a corresponding decrease (debit) to Customs' appropriated funds.

Upon legal transfer or donation of property, plant or equipment and receiving approval for disposal, the asset and corresponding invested capital account balance is removed from the Consolidated Statement of Financial Position.

Expenditures for normal repairs and maintenance are charged to expense as incurred. Expenditures greater than $5,000 for improving or rebuilding an existing asset that extends its useful life are capitalized.

Depreciation expense and amortization is not recorded because it does not provide meaningful information to the management of Customs and most other Federal agencies in determining capital expenditures needs.

Funded and Unfunded Operating Liabilities

Funded operating liabilities are those liabilities incurred for which Congress has appropriated funds during the current or prior fiscal year. Unfunded operating liabilities result from goods or services received in the current or prior periods in excess of available Congressional appropriated amounts. The liquidation of the unfunded liabilities are dependent on future Congressional appropriations. The expenses associated with these unfunded operating liabilities are recorded as operating expenses in the Consolidated Statement of Operations and Changes in Operating Net Position. The unfunded expenses are deducted from total operating expenses to arrive at total funded operating expenses.

Total unfunded operating liabilities in the Consolidated Statement of Financial Position agrees to the total of Future Funding Requirements presented as a separate component and as a reduction of Customs' operating net position.

Accrued Annual, Sick and Other Leave and Compensatory Time

Annual leave and compensatory time is accrued as an expense when earned. To the extent current or prior year appropriations are not available to fund annual leave and compensatory time earned but not taken, funding will be obtained from future funding sources. The accrual is presented as a component of unfunded operating liabilities in the Consolidated Statement of Financial Position and is adjusted for changes in compensation rates and reduced for annual leave taken. Sick and other types of leave are expensed as taken and are not accrued when earned.

Retirement Plans

The majority of Customs' employees participate in the Civil Service Retirement System (CSRS), to which Customs makes matching contributions equal to seven percent (7%) of pay, or seven and a half percent (7.5%) for those personnel classified as law enforcement agents. Customs does not report CSRS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to retirement plans as the accounting for and reporting of such amounts is the responsibility of the Office of Personnel Management.

On January 1, 1987, the Federal Employee Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, can elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which Customs automatically contributes one percent of pay and matches any employee contributions up to an additional four percent of pay. For most employees hired after December 31, 1983, Customs also contributes the employer's matching share for Social Security.

Contributions of $99 million and $82 million were made for fiscal year 1993 and 1992, respectively, related to these plans.

Appropriated Funds with Treasury

Appropriated funds with Treasury represents the amount of Customs' unexpended spending authority as of fiscal year end, that is unliquidated or is unobligated and has not lapsed, been rescinded, or been withdrawn.

Consolidated Statement of Budgetary Resources and Actual Expenses

The Consolidated Statement of Budgetary Resources and Actual Expenses provides a comparison of Customs current fiscal year transactions reported on Customs "Report on Budget Execution" (SF-133), and expenses reported on Customs Consolidated Statement of Operations and Changes in Operating Net Position. Accrual basis expenses by program for the salaries and expense fund are not shown as Customs was unable to determine such amounts.

Comparative Presentation

This is the second year in which Customs management prepared financial statements in accordance with the provisions of the CFO Act. Comparative financial statements are presented in order to provide a better understanding of and the significant trends in the financial position and results of operation of Customs. The auditors disclaimed an opinion on Customs' fiscal year 1992 financial statements. The amounts reported on the fiscal year 1992 financial statements have not been restated or adjusted to reflect any prior period or subsequent events. Customs has modified the presentation of fiscal year 1993 Statement of Budgetary Resources and Actual Expenses from the Statement of Reconciliation to Budget presented in fiscal year 1992. However, Customs elected not to prepare a fiscal year 1992 Statement of Budgetary Resources and Actual Expenses in the same format as was done for the fiscal year 1993 activity.

2. Custodial Receivables

Custodial receivables as of September 30, 1993, and 1992, consist of the following (in thousands):

	1993			1992		
Receivable Category	Federal	Non-Federal	Total	Federal	Non-Federal	Total
Duties	$ 321	$ 765,043	$ 765,364	$ 1,801	$ 748,400	$ 750,201
Excise Taxes	—	55,973	55,973	—	69,434	69,434
User Fees	—	92,162	92,162	—	54,515	54,515
Fines/Penalties	—	208,440	208,440	—	26,070	26,070
Interest	15	19,102	19,117	—	—	—
Other	—	12	12	—	362	362
Totals	336	1,140,732	1,141,068	1,801	898,781	900,582
Less Amounts deemed uncollectible	(—)	(226,800)	(226,800)	(—)	(72,687)	(72,687)
Net Receivables	**$ 336**	**$913,932**	**$914,268**	**$ 1,801**	**$826,094**	**$827,895**

In the fiscal year 1992 Consolidated Statements, Customs included interest receivable amounts in the corresponding receivable category (i.e. duties) instead of as a separate component of accounts receivable. Customs elected not to restate the fiscal year 1992 disclosure to separately disclose interest receivable amounts.

An aging of custodial receivables as of September 30, 1993, is as follows (in thousands):

	AGED PERIOD					
	<= 90 days	91 days-1 Year	1-2 Years	2-3 Years	3+ Years	Total
Duties	$ 713,476	$ 11,188	$ 8,704	$ 6,985	$ 25,011	$ 765,364
Excise Taxes	54,839	645	77	60	352	55,973
User Fees	85,594	1,013	2,533	3,017	5	92,162
Fines/Penalties	88,554	31,633	16,640	36,823	34,790	208,440
Interest	615	1,073	1,603	1,422	14,404	19,117
Other	12	—	—	—	—	12
Totals	943,090	45,552	29,557	48,307	74,562	1,141,068
Less Amounts deemed uncollectible	(82,382)	(35,688)	(20,868)	(35,871)	(51,991)	(226,800)
Net Receivables	**$860,708**	**$ 9,864**	**$ 8,689**	**$ 12,436**	**$ 22,571**	**$914,268**

Accounts receivables recorded in the less than 90 day aged category include accrued amounts equalling $764 million for which collection was received as of November 1, 1993. Customs assesses importers duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. At the time importers bring merchandise into the United States, they are required to file Customs entry documents which disclose the merchandise imported value. Within 10 working days after Customs releases the merchandise into U.S. commerce, the importer is to submit an entry summary document with payment of estimated duties, taxes, and fees. A receivable was recorded for 408,347 entries for which merchandise was released into commerce prior to or on September 30, 1993, for which payment was not received as of September 30, 1993. There was an additional 3,075 entries for merchandise released into commerce, but a receivable amount could not be determined because the entry summary documentation describing the type, quantity and value of the merchandise has not been received from the importers. It is Customs policy to track and demand payment of unpaid estimated duties, taxes and fees receivable amounts by establishing liquidated damage cases which generally result in a fines and penalties type receivable. As of September 30, 1993, Customs established liquidated damage cases for 2,827 of the 3,075 released entries.

In addition to the above reporting and related payments, import specialists review selected entry summaries to determine whether importer's estimates of duties, taxes and fees were accurate or whether additional (supplemental) amounts are owed and should be billed. Customs regulations allow the importer 90 days from the bill date in which to file a protest challenging the assessment of supplemental duties, taxes and fees. Consequently, supplemental accounts receivable balances are only recorded on outstanding claims when the 90-day protest period elapses or when a protest decision has been rendered in Customs favor.

Receivable amounts recorded above do not include unliquidated entries related to Vessel/ Aircraft Foreign Repair or Equipment Purchases (vessel repair entries). Regulations state that the liability for the declaration, entry and payment of duties accrues at the time of the first arrival of the vessel in a port of the U.S., however, payment of the duty is not due until liquidation of the entry. Liquidation results in billing of the amounts due, and these amounts can be protested. Thus, receivable amounts are recorded when the protest period elapses or when a protest decision has been rendered in Customs favor. There were 1,000 vessel repair entries remaining unliquidated at September 30, 1993, with an estimated receivable balance of approximately $27 million. The duties were estimated based on actual subsequent liquidated amounts or an average liquidation amount based on historical data for the past four years.

Customs recorded a duty receivable of approximately $11 million for "actual loss of duties" owed which were tracked as part of valid (nonpetitionable) fines and penalties cases because the related entries had reached final liquidation. Normally, actual loss of duties results from a misclassification or undervaluation of merchandise imported into the U.S. and is discovered as part of an audit of the importer by Customs' Office of Regulatory Audit. As a result of the audit, a penalty is assessed for violation of Customs laws and regulations. The penalty is usually not mitigated (relief granted) until the outstanding loss of duties are paid. Customs identified an additional $94 million which was not recorded as a duty receivable as of September 30, 1993, but is being tracked by Customs as part of the outstanding fines and penalty cases as stated below.

When a violation of import/export law is discovered, a fine or penalty case is established. Customs assesses a liquidated damage or penalty for these cases to the maximum extent of the law. The importer or surety then has the option after receipt of the notice of assessment to petition that assessment. The importer or surety is allowed 60 days to file such petition for relief or make payment of the assessed amount. If a petition is received and Customs determines there are extenuating circumstances such as an incorrect assessment which warrants mitigation, relief is granted as prescribed by Customs mitigation guidelines and directives. Customs had 3,085 receivables related to fines and penalty cases for the period ended September 30, 1993. Customs was tracking an additional 17,528 cases for which a receivable was not established because (1) the petition period had not expired; or (2) Customs had not reached agreement (relief granted or denied or court settlement) with the importer or surety as to the amount of damages (fines) or penalties owed.

3. Forfeited Property and Currency

The Customs Forfeiture Fund was established by the Tariff and Trade Act of 1984 and re-established in 1988 by the Anti-Drug Abuse Act. Seized and forfeited currency and any proceeds beyond the expenses of seizure and forfeiture of merchandise were deposited into this account to fund certain administrative and enforcement expenses. Customs transferred all funds and obligations of the Fund to the Treasury-wide asset forfeiture fund established for all Treasury law enforcement organizations and the U.S. Coast Guard created by the Treasury Forfeiture Fund Act of 1992 (Public Law 102-583). That law required that, beginning with fiscal year 1993, Customs deposit into the Treasury Forfeiture Fund all currency forfeited and all proceeds from forfeiture under any law enforced or administered by Customs. During fiscal year 1993, Customs acted as the executive agent on behalf of the Department of Treasury for handling Treasury Forfeiture Fund transactions and performed all duties necessary to support the day-to-day operation of the Treasury Forfeiture Fund. However, all decisions regarding the disposition of forfeited assets along with the incurrence of administrative and enforcement expenses of the Fund must be approved by the Fund's management and not Customs.

Funds and obligations transferred to the Treasury Forfeiture Fund in fiscal year 1993 were as follows (in thousands):

	Amount
Total assets	$129,525
Total liabilities	105,140
Total equity	24,385

During the fiscal year 1993, Customs contributed to the Treasury Forfeiture Fund the following forfeited currency and property which was seized by Customs and subsequently forfeited (in thousands):

	Amount
Currency and other monetary instruments	$112,957
Property	
General property	17,854
Real property	13,813
Vessels	3,760
Aircraft	6,815
Vehicles	4,694
	159,893
Less	
Mortgages and claims	(2,039)
Refunds	(2,215)
Total	**$155,639**

Forfeited currency and property as of September 30, 1992, consisted of the following (in thousands):

	Amount
Currency and other monetary instruments	$ 63,272
Property	
General property	2,709
Real property	4,200
Vessels	934
Aircraft	1,410
Vehicles	1,732
	10,985
Total	**$74,257**

The estimated value of destroyed forfeited property was approximately $18 million for fiscal year 1992. The estimated value is determined by management and the outside contractor. Property destroyed consisted primarily of drugs and drug paraphernalia, and general property, such as illegal weapons and counterfeit merchandise. It is Customs' policy to not value drugs and drug paraphernalia as they will not be released into commerce or resold.

4. Seized Property and Currency

Customs did not have reliable records of the volume or assessed value of seized property and currency on-hand nor the value of additions, mitigations, forfeitures and other activity during fiscal years 1993 and 1992. Therefore, seizure activity for these fiscal years is not presented. In an effort to improve the reliability of the records, Customs conducted a complete inventory of seized currency and property as of February 11, 1994. This inventory should establish a baseline from which to establish procedures for proper valuation and accountability of seized currency and property in the future. The amounts contained in the following schedule are based on the physical inventory as of February 11, 1994.

Seized property and currency as of February 11, 1994, consists of the following (in thousands):

	Amount
Currency and other monetary instruments	$ 69,814
General property	153,297
Real property	24,146
Vessels	5,914
Aircraft	7,028
Vehicles	8,426
Total seized property and currency	**$268,625**

Seized property and currency result principally from Customs' criminal investigations and passenger/cargo processing. These assets include contraband and counterfeit/prohibited items such as drugs and weapons that have no recorded value and are not legally owned by Customs until judicially or administratively forfeited and, accordingly, are not reflected as custodial assets in the Statement of Financial Position. Customs has fiduciary responsibility for these assets upon seizure. Substantially all seized property, except drugs and weapons, is managed and maintained under a contract with an unrelated entity, and is disclosed at a value estimated by Customs' officials or, in some cases, an independent appraiser. Seized currency is either deposited or stored in a vault in a financial institution or stored in a vault or safe at Customs offices.

5. Funds with Treasury and Cash

Funds with Treasury and cash as of September 30, 1993 and 1992, consist of the following (in thousands):

	1993	1992
Custodial Assets:		
Undistributed funds	$100,658	$150,071
Other - suspense[a]	25,471	63,635[a]
- budget clearing account	7,160	—
Total undistributed funds with Treasury	**$133,289**	**$213,706**
Fund balance with Treasury - refunds and drawbacks	**$ 60,842**	**$ 9**
Operating Assets/Agency Financial Resources:		
Fund balances with Treasury and Cash		
1993	$131,926	$ —
1992	32,270	97,235
1991	45,831	54,551
1990	16,873	18,434
1989	21,781	21,564
Multi-year	3,925	11,975
No-year	394,430	443,117
Merged-year	—	31,418
Other	10,739	3,926
Imprest cash balances	3,915	4,785
Total fund balances with Treasury and cash	**$661,690**	**$687,005**

(a) The suspense and budget clearing accounts were reported at a combined amount in fiscal year 1992.

Custodial funds in Customs suspense and budget clearing accounts are generally funds held by Customs that may or may not result in custodial revenue. Items in the suspense account typically include: (1) amounts held by Customs collected from bankrupt entities; (these amounts will be re-distributed according to final determination of bankruptcy procedures), (2) offers made by an importer/broker who violated a law or regulation and is attempting to mitigate the penalty or fine amount; the offer will become revenue if accepted or be refunded to the importer/broker if rejected) and (3) cash held by Customs from an importer/broker in lieu of the importer/broker filing a surety bond; (these amounts are returned to the importer/broker when the importing activity ceases, net of any amounts owed relating to duty, taxes or fees.) Customs is in the process of reviewing the items in the suspense account and reclassifying them to appropriate general ledger accounts. The items comprising the September 30, 1993, suspense account balance have not yet been identified for reclassification.

Amounts in Customs budget clearing account generally represent custodial revenue received, however, the amounts received were not accompanied by sufficient documentation to identify the specific revenue classification, i.e., duty, tax, fee, etc. Upon proper identification of the amount received the funds are reclassified appropriately and revenue recognized.

6. Receivables from Reimbursable Services and User Fees, Net

Receivables from reimbursable services and user fees, net as of September 30, 1993, and 1992, consist of the following (in thousands):

	1993			1992		
	Federal	Non-Federal	Total	Federal	Non-Federal	Total
Reimbursable Services	$ 75	$ 1,135	$ 1,210	$ 77	$ 4,267	$ 4,344
User Fees	—	41,461	41,461	—	47,938	47,938
Subtotal	75	$ 42,596	$ 42,671	$ 77	$ 52,205	$ 52,282
Less amounts deemed uncollectible	—	668	668	—	7,789	7,789
Receivables from reimbursable services and user fees, net	**$ 75**	**$ 41,928**	**$ 42,003**	**$ 77**	**$ 44,416**	**$ 44,493**

The amounts deemed uncollectible for fiscal year 1992 were based on prior years collection efforts. The fiscal year 1993 amount was based on a statistical sample of selected receivables to determine collectibility based on various factors including the debtors current ability to pay.

Receivables from reimbursable services are amounts of money to be collected for commodities, work, or services provided to another government agency or to a private party-in-interest, which by law can be credited to the appropriation accounts from which the related expenses or costs were paid.

User fees are collected for inspectional processing of air and sea passengers, and processing of loaded railroad cars. Receivables accrue for these airline and vessel fees on a quarterly basis, and for railroad fees on a monthly basis. Payment is due 30 days subsequent to the end of the quarter for airline and vessel fees, or 60 days subsequent to the end of the month for railroad fees.

7. Property, Plant and Equipment

Property, plant and equipment as of September 30, 1993, and 1992, and an analysis of the changes for Fiscal Year 1993, are as follows (in thousands):

Category	Balance September 30, 1992[a]		Additions		Deletions		Adjustments[b]		Balance September 30, 1993[c]	
	Units	Value	Units	Value	Units	Value	Units	Value	Units	Value
Aircraft	113	$ 349,322	11	$ 42,254	(5)	$ (6,910)[e]	—	$ 4,582[f]	119	$ 389,248
Other Property										
Vehicles Purchased										
After 1989	1,145	12,544	174	5,032	(31)	(326)[e]	—	0	1,288	17,250
ADP Mainframes	199	62,396	9	808	(34)	(4,267)[e]	—	0	172	58,937
All Other Equipment										
Land	40	74	—	—	—	—	—	(74)	40	—
Buildings & Structures	74	41,943	—	—	—	—	—	(41,943)	74	—
Leasehold Improvements										
To land owned by others	47	—	9	1,206[d]	—	—	—	(1,206)	56	—
To leased office space	105	2,327	117	1,700	—	—	—	—	222	4,027
All Other Vehicles[h]	4,888	58,914	218	2,765[d]	(442)	(4,519)[e]	—	(57,160)	4,664	—
Vessels	281	22,545	47	2,900[d]	(25)	(1,285)[e]	—	(24,160)	303	—
Other	5,210	103,655	802	11,299[d]	(191)	(3,414)[e]	—	(111,540)	5,821	—
Capitalized Leased Assets	392	49,572	19	260	(1)	(12)	—	—	410	49,820
Construction in Progress	1	8,978	—	16,546[d]	(1)	(16,546)	—	(8,978)	—	—
Total Other Property	12,382	$ 362,948	1,395	$ 42,516	(727)	($30,369)	—	($245,061)	13,050	$ 130,034
Total Property, Plant and Equipment	12,495	$712,270	1,406	$ 84,770	(732)	($37,279)	—	($240,479)	13,169	$519,282
Custodial Assets	—	$ 2,652							134	$ 549
Operating Assets	—	709,618							13,035	518,733
Total	$12,495[i]	$712,270							13,169	$519,282

a. Amounts reported for September 30, 1992, include costs for all property, plant and equipment as recorded in Customs property accountability records as of that date. Many of these recorded costs were not accurate or complete and lacked adequate supporting documentation (i.e., invoices). These amounts do not include the following items omitted from the fiscal year 1992 financial statements:

Leasehold Improvements to Land	$36,573
All Other Vehicles	5,350
Vessels	1,240
Other Equipment (including ADP mainframes)	14,776

b. The adjustments (except for aircraft) represent a decrease that could not be supported by documentation.

c. Customs determined that it was not cost beneficial to research the documentation to support those property, plant and equipment items that show an adjusted balance of $0 as of September 30, 1993. The balances reported for September 30, 1993, include only those items for which cost information is adequately documented.

d. These items represent additions of property for which supporting cost documentation was unavailable.

e. These items represent deletions of property for which supporting cost documentation was unavailable.

f. This adjustment is required to adjust the beginning balance of aircraft to values stated in property accountability records.

g. Customs spent $17 million to complete and place an aircraft unit in operation.

h. These vehicles were acquired through means other than purchase from GSA after fiscal year 1990, including purchase, forfeiture, transfer and donation.

i. The units of property, plant and equipment were not classified as custodial or operating assets at September 30, 1992.

Computer Software Costs—Prior to September 30, 1993, Customs expended an estimated $182 million to develop computer software. Customs has elected to expense these costs rather than capitalize these costs as most businesses expense all costs of developing software, and it has been concluded by the American Institute of Certified Public Accountants that this predominant practice is not improper. Customs is unable to support the estimated costs and is developing procedures to account for in-house software development costs for all ongoing activities.

An aging of property, plant and equipment (in number of units) as of September 30, 1993, is as follows:

Category	1993	1992	1991	1990	1989 and Prior	Total
Aircraft	7	3	9	—	100	119
Other Property						
All Vehicles	168[b]	440	894	640	3,810	5,952
ADP Mainframe	7	59	40	2	64	172
Land	—	—	1	—	39	40
Buildings and Structures	—	—	1	3	70	74
Vessels	26	26	12	5	234	303
Other [a]	454	670	775	587	2,824	5,310
Capitalized Leased Assets	19	89	98	92	112	410
	681	1,287	1,830	1,329	7,253	12,380
Custodial Assets	1	5	7	14	107	134
Operating Assets	680	1,282	1,823	1,315	7,146	12,246
	681	1,287	1,830	1,329	7,253	12,380

Customs replacement policy is based on model years (rather than acquisition year) to determine year in which the asset will be replaced. Therefore, the quantities shown for fiscal year 1993 will not agree with the additions for the year.

This schedule excludes 278 items of leasehold improvements since the useful life of the improvements are dependent upon terms of each lease.

Customs policy for the estimated useful lives of the major assets is:

Asset Class	Useful Life (in years)
Aircraft	10
Vehicles	6
Vessels	10
ADP Mainframe	5
Other Equipment	5
Buildings, Structures and Facilities	30
Capitalized Leased Assets	5

a. This line excludes 382 items located at the Serv-air facility (aging information for these items is not available) valued at $4 million and 129 items located at the Loral Defense Systems Facility in Arizona valued at $30 million (Customs does not intend to replace these items in the future.)

b. Data for 1993 also includes model year 1994 vehicles.

The estimated life and replacement cost by category of property, plant and equipment as of September 30, 1993, is as follows:

Estimated Replacement Costs (in thousands)

Category	1994		1995		1996		1997 and thereafter		Total	
	Units	Value	Units	Value	Units	Value	Units	Value	Units	Value
Aircraft	77	$ 519,842[a]	6	$ 32,441	5	$ 32,249	31	$ 199,893	119	$ 784,425
Other Property										
Vehicles	2,987	50,338	823	12,453	640	9,048	1,502	22,813	5,952	94,652
ADP Mainframes	64	5,731	2	961	40	10,263	66	17,503	172	34,459
Land	—	—	—	—	—	—	40	1,547	40	1,547
Buildings and Structures	—	—	—	—	—	—	74	20,958	74	20,958
Vessels	86	16,187	37	6,651	25	2,559	155	17,336	303	42,733
Other[b]	2,824	61,649	587	7,673	775	13,280	1,124	17,285	5,310	99,886
Capitalized Leased Assets	112	18,793	92	18,059	98	4,852	108	8,186	410	49,889
	6,150	$672,540	1,547	$78,237	1,583	$72,251	3,100	$305,521	12,380	$1,128,540

The above schedule was prepared using estimated 1993 replacement costs which assumes that the assets will be replaced at the end of their estimated useful life at 1993 fiscal year end prices. Replacement cost is the amount Customs would have to pay to replace the productive capacity of the asset. Assets that continue to be used beyond their estimated useful lives (i.e., a 10 year life on aircraft) are included in the 1994 column.

In addition, as of September 30, 1993, Customs had a total of 32 aircraft on loan from the Department of Defense valued at an estimated replacement cost of $140 million.

a. Although this chart implies that Customs will replace $519,842 million in aircraft during FY 1994, Customs can only replace aircraft when specific funding has been provided by Congress. No funding for aircraft purchases was provided by Congress for FY 1994.

b. These items exclude 382 items located at the Serv-air facility since replacement cost data was unavailable. It also excludes 129 units of idle property at the Loral Defense Systems Facility in Arizona. These 129 items were transferred from the Air Force during 1992, and had an estimated value of $30 million per Air Force's transfer documents. These items will not be replaced by the Customs Service and will be scheduled for transfer to other agencies in the future.

8. Accrued Refunds and Drawbacks

Refunds include payments to importers/exporters for overpayments, duplicate payments, etc., made by the importers/exporters, while drawbacks are payments to claimants for a portion of duties and taxes collected on imported goods where typically the goods are subsequently exported to a foreign market. Drawbacks consist of two types: accelerated and non-accelerated. Accelerated drawbacks are where the amount paid to claimants who, based on Customs' experience, have consistently complied with Customs' requirements. These claimants receive payment within three weeks after filing. As of September 30, 1993, the liability for accelerated drawbacks and refund claims filed but not paid was approximately $74 million. This liability has been recorded on the Consolidated Statement of Financial Position. Non-accelerated drawbacks occur when the approval to apply for an accelerated drawback has not been granted. In the non-accelerated situation, the claimant has three years to file the claim. Non-accelerated drawbacks are paid after Customs verifies and approves the claim. Customs is not able to predict the dollar volume of the non-accelerated refunds and drawbacks. Any required payments are made in the normal course of business and are paid from the congressional appropriation specifically received for refunds and drawbacks.

9. Changes in Custodial Net Position

Changes in custodial net position for the year ended September 30, 1993 consisted of the following (in thousands):

	No-Year Appropriations	Future Funding Requirements
Balance October 1, 1992	$ 9	($34,444)
Appropriations for fiscal year 1993	872,000	—
Appropriations disbursed for refunds and drawbacks-fiscal year 1993	(811,167)	—
Net change in unfunded refunds and drawbacks	—	(39,533)
Net change in unfunded trade litigation payable	—	(68,357)
Balance September 30, 1993	**$60,842**	**$(142,334)**

10. Leases

Operating Lease Obligations

Customs leases various facilities and equipment under leases accounted for as operating leases. Lease expense under these arrangements totaled $105 million and $108 million for the years ended September 30, 1993, and 1992, respectively. Assets held under these leases consist primarily of offices, warehouses, vehicles and other equipment.

Much of the office space occupied by Customs is either owned by the Federal government or is leased by the General Services Administration from commercial sources. In either case, the space is assigned to Customs by GSA based upon current needs. Customs is not committed to continue to pay rent to GSA beyond the period occupied. However, it is expected that Customs will continue to occupy and lease office space from GSA in future years, and that the lease charges will be adjusted annually to reflect operating costs incurred by GSA. Lease expense paid to GSA during fiscal years 1993 and 1992 were $102 million and $99 million, respectively.

As of September 30, 1993, future minimum lease commitments under noncancellable operating leases for equipment are as follows (in thousands):

Fiscal Year	Amount
1994	$ 117
1995	55
1996 and thereafter	15
Total future minimum lease commitments	**$ 187**

Capital Lease Obligations

Customs has a number of capital lease agreements primarily involving mainframe computer equipment and other office equipment. All assets acquired under the capital lease agreements have been capitalized and the related obligations are reflected in the accompanying financial statements based upon the present value of the future minimum lease payments. As of September 30, 1993, the aggregate acquisition costs of the mainframe computer equipment and other office equipment still subject to lease payments are $20 million. These capitalized items are included in the total capitalized leased asset amount of $49.8 million. Certain leases are cancelable upon certain funding conditions.

Future minimum lease payments under the capitalized leases and the present value of the minimum lease obligation as of September 30, 1993, are as follows (in thousands):

Fiscal Year	Amount
1994	$ 4,987
1995	3,915
1996	1,856
1997 and thereafter	443
Total future minimum lease payments	$11,201
Less: Imputed interest	(1,622)
Total net present value of capital lease obligation	**$ 9,579**

Substantially, all of the net present value of capital lease obligations is expected to be funded from future sources and is presented as a component of unfunded operating liabilities on the Consolidated Statement of Financial Position.

11. Commitments and Contingencies:

Customs is a party to various administrative proceedings, legal actions, and claims brought by or against it. Any financial unfavorable court decisions will be funded from an appropriation within the Department of Justice or from the Customs appropriation for refunds and drawbacks except as noted in the following paragraphs. In the opinion of Customs' management and legal counsel, the ultimate resolution of these proceedings, actions, and claims will not materially affect the financial position or results of operation of Customs.

At September 30, 1993, Customs legal counsel was processing over 450 actions against Customs, totalling over $210 million. Customs counsel has identified approximately $1 million as a probable liability, approximately $76 million as a remote liability, and the remaining cases totalling approximately $138 million as still in process. Additionally, there are cases filed against Customs relating to trade litigation with a probable liability of approximately $68 million, a possible liability of approximately $42 million, and a remote liability of approximately $2 million. These amounts are to be funded by Customs Refund and Drawback appropriation and those amounts deemed probable of liability are presented as a component of custodial liabilities on the Consolidated Statement of Financial Position and Refunds and Drawbacks Expense on Consolidated Statement of Operations.

In July 1992, legal action was brought against Customs for eligibility of overtime compensation for certain grades of employees. Customs has agreed in principal to the claim and is in the process of determining the amount of compensation to be paid. The debt is worth approximately $80 million dollars. The claim will be fully funded by the Department of Justice Judgement Fund.

Custom is generally liable to the Department of Defense for damage or loss to aircraft on loan to Customs from the Department of Defense and has incurred such costs in the past. Customs currently has 32 loaned aircraft valued at $140 million.

Public Law 101-510, enacted November 5, 1990, requires federal agencies to automatically cancel obligated balances on appropriated funds after specific future time periods, even though the agency remains contingently liable for payment of valid contractor invoices under contracts signed in the year of obligations. Customs paid out a negligible amount in fiscal year 1993 funds for prior year obligations that were cancelled. Customs estimates obligations related to cancelled appropriations that will be paid out of future appropriations will not exceed $1 million.

An independent review of Customs' Operations and Maintenance program identified a possible refund owed to the Air Force relating to the construction of an aerostat. Customs legal counsel is still evaluating the review recommendations and is unable at this time to reasonably estimate the likelihood of Customs having to pay this refund.

12. Allocations of Revenues Collected to Treasury and Agriculture

Customs collects duties, taxes and fees for other government agencies and subsequently transfers the funds to Treasury for further distribution based on various laws. In fiscal year 1993, Customs collected approximately $6.4 billion which was transferred to Treasury and subsequently authorized to other agencies. Of the $6.4 billion, $5.8 billion was transferred to the Department of Agriculture and $588 million was made available to the Corps of Engineers. In addition, $48 million of user fees was collected by Customs for the Department of Agriculture. Since the $48 million was remitted to the Department of Agriculture directly by Customs, this amount is separately shown as an allocation of revenues on the Consolidated Statement of Operations and Changes in Operating Net Position.

B. Net Revenues

Customs is authorized by 48 USC 739 and 740 to collect duties, taxes and fees for Puerto Rico. This law allows Customs to retain the costs of collecting these amounts before returning any excess to Puerto Rico. Customs is also authorized by 48 USC 1406h to collect all duties, taxes, and fees for the Virgin Islands. This law also permits Customs to retain the costs of collecting these amounts before returning any excess to the Virgin Islands.

H. Changes in Operating Net Position

Changes in operating net position for the year ended September 30, 1993, consisted of the following (in thousands):

	Authorized Retained Capital	Unliquidated Obligations	No-Year and Other Appropriations	Reserve for Advances	Total Invested Capital	Cumulative Results of Operations	Future Funding Requirements	Total
	Appropriated Funds with Treasury							
Balances as of October 1, 1992	$ 238	$361,444	$ 68,735	$ 7,726	$769,809	$210,459	$(108,695)	$1,309,716
Excess of financing sources over funded operating expenses	—	—	—	—	—	33,579	—	33,579
	238	341,444	68,735	7,726	769,809	244,038	(108,695)	1,343,295
Appropriations for fiscal year 1993	—	—	1,472,559	—	—	—	—	1,472,559
Appropriations expended for operations	—	—	(1,447,064)	—	(19,172)	—	—	(1,466,236)
Appropriations and other amounts expended for invested capital	—	—	(167,431)	—	150,652	—	16,779	—
Net change for 1993	—	(54,529)	165,437	13,463	2,103	(3,905)	—	122,569[a]
Disposals of invested capital	—	—	—	—	(277,758)[b]	—	—	(277,758)
Future funding requirements expended	—	—	—	—	—	—	(19,584)	(19,584)
Transferred to Treasury Forfeiture Fund	(238)	(16,421)	—	(7,724)	—	—	—	(24,385)
Total other changes	(238)	(70,950)	23,501	5,737	(144,175)	(3,905)	(2,805)	(192,833)
Balances as of September 30, 1993	$ —	$290,494	$ 92,236	$13,463	$625,634	$240,133	$(111,500)	$1,150,460

a. The balances included in the net change for 1993 can not be supported and were derived to make the Operating Net Position accounts balance.

b. Disposals of Invested Capital include those amounts for disposed equipment and a decrease of $245 million for the value of property in which supporting documentation for recorded costs was insufficient or unavailable.

Supplemental Financial and Management Information

Supplemental Financial and Management Information

REPORTABLE FUNDS

CUSTODIAL FUNDS

General Fund Receipt Accounts

Budget Clearing Account

Proceeds of Sale, Personal Property
U.S. Customs Service

Deposit in Transit Differences (Suspense)

General Fund Proprietary Receipts
Not Otherwise Classified
All other (Charges for Testing, Inspecting & Grading)
Department of Health & Human Services

Overtime Service
Federal Communications Commission

General Fund Proprietary Interest
Not Otherwise Classified

Fines, Penalties, and Forfeitures
Not Otherwise Classified
(Department of Health & Human Resources)

Duties on Imports

General Fund Proprietary Receipts
Not Otherwise Classified, All Other
U.S. Customs Service

Excise Taxes

Miscellaneous Taxes
Not Otherwise Classified

Contributions to Conscience Fund

Fines, Penalties & Forfeitures
Agriculture Laws

Fines, Penalties & Forfeitures
Customs, Commerce and Antitrust Laws

Forfeitures of Unclaimed Money and Property

Fines, Penalties, and Forfeitures
Not Otherwise Classified

Overtime Service, Marine Inspection and Navigation, Treasury, Transportation

Customs User Fee Account

Fines, Penalties, and Forfeitures
Immigration and Labor Laws

General Fund Proprietary Receipts
Not Otherwise Classified, All Other
(Consumer Product Safety Commission)

Other Repayments of Investment and Recoveries

Fines, Penalties, and Forfeitures
Not Otherwise Classified
Department of Justice

General Funds

Refunds & Drawbacks
U.S. Customs Service
Indefinite

Deposit Funds

Suspense, Public Debt
Government Accounts Series

Duties Collected for the Virgin Islands
Government, U.S. Customs Service
Treasury Department

Suspense
U.S. Customs Service

Return of Deposits to Secure Payment of Fines and Passage Money
Immigration and Naturalization Service

Assessments on Imports of Beef and Pork Products
Agriculture Marketing Service

Special Funds

Customs Forfeiture Fund

Refunds, Transfers and Expenses of Operation
Puerto Rico, U.S. Customs Service

Refunds, Transfers and Expenses of Operation
Virgin Islands, U.S. Customs Service

Payments from Forfeited Assets
U.S. Customs Service

Customs Merchandise Processing Fee
U.S. Customs Service

30% of Customs Duties, on Wool
Reimbursement for Costs of National
Wool Act

Import Duties on Arms and Ammunition

Immigration User Fees

Agricultural Quarantine Inspection User
Fees Account, Animal and Plant Health
Inspection Service

Trust Funds

Harbor Maintenance Trust Fund

Refunds, Transfers and Expenses
Unclaimed, Abandoned, and Seized Goods
U.S. Customs Service

AGENCY FUNDS

General Fund Receipt Accounts

Unavailable Check Cancellations and
Overpayments (Suspense)

Undistributed and Letter of Credit
Differences (Suspense)

General Funds

Salaries and Expenses
U.S. Customs Service

Operation and Maintenance, Facilities
and Construction
U.S. Customs Service

Operation and Maintenance, Air
Interdiction Program
U.S. Customs Service

Air and Marine Interdiction Programs
Procurement

Special Funds

Customs Services at Small Airports

Customs User Fees Account
U.S. Customs Service

Objectives, Scope, and Methodology

Management has the responsibility for

- preparing the Principal Financial Statements in conformity with applicable accounting principles,
- establishing and maintaining internal controls and systems to provide reasonable assurance that the broad control objectives of FMFIA are met, and
- complying with applicable laws and regulations.

In undertaking our audit of Customs, we planned to conduct an audit of its Principal Financial Statements and of internal controls over safeguarding of assets, assuring material compliance with budget authority and with laws and regulations we considered relevant, and assuring that there were no material misstatements in the Principal Financial Statements. To assist in the review of controls over access to computer programs and data, we contracted with the public accounting firm of Price Waterhouse and a systems consulting company, Janus, Inc. We determined the scope of the contractors' work, monitored their progress at all key points, and reviewed the related workpapers to ensure that the resulting findings were adequately supported. We also planned to test Customs' compliance with laws and regulations we considered relevant. But, we did not plan to evaluate all internal controls relevant to operating objectives as broadly defined in FMFIA.

As stated previously, we were unable to obtain reasonable assurance about whether the Principal Financial Statements are reliable (free of material misstatement and presented fairly in conformity with applicable accounting principles).

We were able to evaluate internal controls in the following areas:

- revenue transactions (including cash receipts and refund and drawback payments);
- treasury funds;
- accounts receivable;
- expenditures;
- seized assets;
- property, equipment,and inventory;
- budget; and
- computer general controls.

We also obtained an understanding of internal controls over the reliability of performance measures reported in the Overview and Supplemental sections of Customs' report and assessed whether information in the Overview and Supplemental sections was materially consistent with the information in the Principal Financial Statements.

We tested compliance with selected provisions of the following laws and regulations:

- Antideficiency Act;
- Chief Financial Officers Act of 1990 (Public Law 101-576);
- Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255);
- National Defense Authorization Act for Fiscal Year 1991 (Public Law 101-510);
- Fair Labor Standards Act of 1938;
- Civil Service Retirement Act of 1930;
- Civil Service Reform Act of 1978 (Public Law 95-454);
- Federal Employees' Compensation Act;
- Federal Employees' Group Life Insurance act of 1980 (Public Law 96-427);
- Federal Employees' Health Benefits Act of 1959 (Public Law 86-382);
- Prompt Payment Act (Public Law 97-177);
- Federal Acquisition Regulations;
- Title 19, United States Code; and
- Title 19, Code of Federal Regulations.

Except for the limitations on the scope of our work described in this report, our work was done in accordance with generally accepted government auditing standards and OMB Bulletin 93-06, "Audit Requirements for Federal Financial Statements."

Status of Fiscal Year 1992 Financial Audit Recommendations

The results of our efforts to audit Customs' fiscal year 1992 principal financial statements were presented in our report entitled Financial Audit: Examination of Customs' Fiscal Year 1992 Financial Statements (GAO/AIMD-93-3, June 30, 1993). The significant matters identified in that report and recommendations to correct the internal control problems were detailed in the six internal control reports listed below.

We determined the status of the following recommendations based on our audit work at Customs during fiscal year 1993 and on our discussions with Customs officials. Our assessments of Customs' actions for the most significant recommendations are discussed under the significant matters section of this report. However, we have not fully assessed the appropriateness or effectiveness of all of the responses identified in the following table.

Reports/Recommendations	Action complete	Action in progress	Action in planning or planning complete	No specific action planned
Financial Management: Control Weaknesses Limited Customs' Ability to Ensure That Duties Were Properly Assessed (GAO/AIMD-94-38, March 7, 1994)				
Develop and implement a strategy for inspecting cargo from both high- and low-risk carriers to help provide reasonable assurance that all cargo delivered is accurately and completely identified on manifests and entry documents. Carriers undergoing such inspections should be randomly selected to ensure that they are representative of all carriers.		X		
Obtain reliable data on carriers' use of the Automated Manifest System as a percentage of all manifest submissions so that expanded use of the system can be more accurately monitored.			X	
Consider requiring all documents, including manifests, to identify goods in a uniform manner, such as through the use of harmonized tariff codes.				X

(continued)

Reports/Recommendations	Action complete	Action in progress	Action in planning or planning complete	No specific action planned
Monitor implementation of the new procedures for accounting for in-bond transfers to ensure that they address the weaknesses that have been identified. In conjunction with this effort, provide personnel involved in maintaining data on in-bond transfers with clear and detailed guidance and adequate training on complying with the new procedures.		X		
Require district offices to maintain perpetual inventory records of goods held in bonded warehouses and FTZs that they are responsible for overseeing.				X
Enhance ACS so that the district offices could use this system to maintain perpetual records of merchandise quantities at each warehouse and FTZ.				X
Emphasize to district offices the importance of spot checks of bonded warehouses and monitor this activity to ensure that districts comply with headquarters directives.			X	
Require district offices to periodically spot check all FTZs that have not been audited or surveyed for over a year.			X	
Provide more detailed guidance on the use of spot check worksheets so that they will capture complete information on these inspections.			X	
Develop a means of automatically entering information needed to verify drawback claims into ACS so that liquidators can use the system to automatically verify drawback claims.			X	
Until a means of automatically entering information needed to verify drawback claims into ACS is implemented, require that liquidators use representative sampling procedures for reviewing drawbacks that relate to multiple entry summaries.			X	
Enhance ACS so that historical information on drawback claimants such as accelerated claim privileges, excessive claims previously filed, overdue receivables, and regulatory audit results, are available to liquidators in a national database.			X	

(continued)

Reports/Recommendations	Action complete	Action in progress	Action in planning or planning complete	No specific action planned
Once ACS is enhanced so that historical information on drawback claimants is available to liquidators in a national database, require that liquidators review this database to ensure that special privileges such as accelerated drawback payments are granted only to claimants who have consistently complied with Customs' claim filing requirements.			X	
Enhance the bond liability module to monitor the sufficiency of bonds posted for drawback transactions, including the ability to alert liquidators when coverage is exceeded.		X		
Financial Management: Customs Lacks Adequate Accountability Over Its Property and Weapons (GAO/AIMD-94-1, October 18, 1993)				
Complete the integration of property and accounting systems as planned.		X		
Conduct physical inventories of capitalized property items other than equipment every 3 years as required.		X		
Modify the procedures for periodic inventories of equipment to require that all capitalized equipment is counted.	X			
Train local property officers and other employees involved in the physical inventory process.	X			
Revise the responsibilities and duties of local property officers to provide adequate separation of duties.	X			
Develop procedures for accurately and adequately documenting equipment values recorded in PIMS by (1) requiring appropriate references to source documents in each property file in PIMS, (2) reviewing procurement documents for those items with estimated values and entering corrections, and (3) properly identifying property items not in use or damaged.	(1) X (3) X			(2) X [a]
Oversee Customs efforts for ensuring that the costs of ongoing ADP software development efforts are properly recorded and are complete and accurate.		X		
Monitor steps being taken in response to the IG's report, including the design of the new WICS, for addressing identified system deficiencies.		X		

(continued)

Reports/Recommendations	Action complete	Action in progress	Action in planning or planning complete	No specific action planned
Develop and implement procedures for effectively performing annual physical inventories of weapons at field locations, properly resolving discrepancies, and appropriately adjusting inventory records.		X		
Financial Management: Customs Did Not Adequately Account for or Control Its Accounts Receivable (GAO/AIMD-94-5, November 8, 1993)				
Develop policies and procedures to record and report all substantiated accounts receivable at a gross amount. The procedures should also provide a detailed methodology for deriving the accounts receivable balance, including a description of the relevant sources of needed data.	X			
Require Customs' personnel to review fines and penalties assessments recorded in ACS and correct any inaccuracies before transfer to the redesigned system.			X	
Require supervisory personnel to review the work of staff responsible for updating and changing information in ACS to ensure that all assessments are accurately and completely recorded.			X	
Develop and maintain an integrated accounting system that can capture accurate and reliable information on all types of assessments (including duties, taxes, fines, and penalties) from assessment through collection of any related amounts.			X	
Modify Customs' methodology for assessing the collectibility of its receivables based on the asset and liability standard recommended by FASAB and recently approved by GAO, OMB, and Treasury by analyzing individual debtor accounts to assess their ability to pay, basing group analyses on categories of assessments with similar collection risk characteristics, and considering current and forecast economic conditions, as well as historical collection data, in analyses of groups of assessments.	X			

(continued)

Reports/Recommendations	Action complete	Action in progress	Action in planning or planning complete	No specific action planned
Use statistical sampling to analyze collectibility of accounts on a group basis, in addition to separately analyzing individual accounts. Such sampling should consider factors that are essential for estimating the level of losses, such as historical loss experience, recent economic events, and current and forecast economic conditions.	X			
Include a separate allowance amount relating to billed fines and penalties cases in Customs' allowance for uncollectible accounts balance.	X			
Implement procedures to ensure that entry summaries are reviewed and liquidated within 1 year or provide documentation why this time frame cannot be met for specific cases.			X	
Monitor Customs' efforts to resolve protested supplemental duty cases in a timely manner.			X	
Require that supporting documents, such as the entry summary and surety bond, are maintained in the field offices for all outstanding receivables until they are collected.			X	
Use all debt collection tools available to Customs, such as sanctioning importers and personally contacting debtors who are delinquent in paying their bills.		X		
Develop performance indicators to measure the effectiveness of Customs' fines and penalties program.				X
Financial Management: Customs' Accountability for Seized Property and Special Operation Advances Was Weak (GAO/AIMD-94-6, November 22, 1993)				
Enforce existing policies and procedures for (1) safeguarding seized property, (2) maintaining accurate financial data on seized property inventory, and (3) controlling special operations advances and safeguarding related documents.		(1) X (2) X (3) X [b]		
Report to the Commissioner on progress to enforce these policies and procedures.		X		
Work with the Office of the U.S. Attorney to develop guidelines on the amount of monetary instruments, particularly cash, to be held as evidence.			X	

(continued)

Reports/Recommendations	Action complete	Action in progress	Action in planning or planning complete	No specific action planned
Expand the use of videotaped evidence as an alternative to holding large quantities of seized cash and drugs at Customs' facilities.				X
Require that at least two seizure custodians be present when accessing seized property in district vaults.		X[c]		
Improve CPTS information so that all seized property, especially cash and drugs, are timely and accurately reflected in Customs' inventory records and financial reports.		X		
Require that the independent external auditors' recommendations to improve accounting and control over special operation advances be promptly and fully implemented.		X		
Financial Management: Customs' Accounting for Budgetary Resources Was Inadequate (GAO/AIMD-94-23, December 14, 1993)				
Revise Customs' systems and procedures to properly account for the receipt of goods and services. Specifically, (1) modify the accounting systems for ARRS transactions to automatically liquidate obligations and post related entries in the proprietary accounts immediately upon receipt of goods and services, (2) develop and implement a mechanism for non-ARRS transactions to acknowledge and transmit receiving data and use such data to post appropriate budgetary and proprietary accounting entries, and (3) expand the use of the Report on Obligations, as a short-term measure, by instructing program office personnel to review the report and notify the National Finance Center when goods and services have been received.	(3) X		(1) X (2) X	
Clarify guidance on the coding of obligating documents for goods or services obtained for Customs' use under interagency agreements to require that they be classified by the types of goods or services ordered.	X			
Amend the recently approved procedures for processing interagency agreements for the Operations and Maintenance Fund to require that a budgetary receivable be recorded to offset related obligations. Also, these amended procedures should be applied to all interagency agreements to help ensure that they are properly recorded in the future.	X			

(continued)

Reports/Recommendations	Action complete	Action in progress	Action in planning or planning complete	No specific action planned
Review all outstanding intragovernmental receivables as of September 30, 1992, in order to confirm that they are valid receivables and adjust the balances to correct any misstatements.		X		
Review all interagency agreements in order to identify the unliquidated obligations amount for agreements in which no budgetary receivable has been recognized and then record a budgetary receivable equal to the amount of unliquidated obligations.		X		
Review the documentation and accounts for all interagency agreements in order to identify recorded earned reimbursements which exceed amounts expended and adjust earned reimbursements to equal amounts expended.		X		
Financial Management: Customs' Self-Assessment of Its Internal Controls and Accounting Systems Is Inadequate (GAO/AIMD-94-8, October 27, 1993)				
Develop guidance for assessing control risk in Customs' operations.	X			
Develop adequate tools to perform FMFIA reviews.		X		
Implement a comprehensive FMFIA training program to be attended by all staff involved in performing FMFIA reviews.	X			
Review corrective action plans to ensure that they address the underlying cause of the problem.		X		
Promptly test the effectiveness of corrective actions implemented to ensure that the weaknesses are corrected before they are removed from Customs' FMFIA assurance letter.			X	
Have the Management Controls Division obtain and systematically review the detailed results of the agency's self- assessments for accuracy and completeness.			X	

(Table notes on next page)

[a]While action was initiated for purchased assets, a policy and methodology for valuing forfeited and transferred assets still needs to be developed.

[b]Procedures for controlling special operations advances and safeguarding related documents have been implemented, but they are weak and further improvements are needed to adequately complete action on this recommendation.

[c]In response to this recommendation last year, Customs pointed out that some districts had only one seizure custodian, but stated that it could assign vault duty to another Customs officer at those districts that do not have two seizure custodians. While the Commissioner of Customs directed the Assistant Commissioner of Commercial Operations to require that appropriate personnel be present while accessing seized property and district vaults, Customs does not have controls in place to ensure that this directive is being followed.

Comments From the U.S. Customs Service

THE COMMISSIONER OF CUSTOMS

June 2, 1994

WASHINGTON, D.C.

Mr. Gene L. Dodaro
Assistant Comptroller General
Accounting and Information Management
General Accounting Office
Washington, D.C. 20548

Dear Mr. Dodaro: Gene

Thank you for the opportunity to comment on your draft report entitled Financial Audit: Examination of Customs' Fiscal Year 1993 Financial Statements.

We find that the report fairly represents the status of implementation of the Chief Financial Officers' Act during FY 93. We also appreciate the constructive approach GAO has used to help Customs identify solutions to serious financial management concerns and develop a blueprint for sound management of resources in the future.

Customs took GAO's FY 92 reports on financial management and internal controls as a call to action. As you point out in your report, the changes needed to address systemic problems will require long-term efforts. However, as you also note, there is a strong commitment in the Customs Service to meaningful improvement. This commitment extends from my personal resolution to bring about the necessary change, through all Customs executives and managers. To build on this commitment, we have instituted an extensive educational program for our executive management, field managers and employees, designed to help them understand the requirements of the CFO Act and its relationship to their operational responsibilities.

In addition to hiring a highly qualified Chief Financial Officer, who will report directly to me, I have also recently established an executive level CFO Steering Committee. The Committee's charter is to oversee the improvements in our financial and operational systems which are necessary to integrate CFO requirements into our daily operations, provide reliable and accurate financial information and ensure effective internal controls. The Steering Committee is supported by a CFO Working Group, composed of representatives from field and Headquarters offices, which is conducting the in-depth analyses to understand the root causes of problems, and recommend solutions to the Steering Committee.

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Several new and promising initiatives are now in progress in Customs, many of which you note in your report: we have embarked on an ambitious program to measure trade compliance, and we are expanding that program in FY 95; we are undertaking a number of major reviews of long-standing problem areas, including in-bond shipments, seized property and undercover operations; we continue to make significant progress in reporting and managing accounts receivable and fixed assets.

As we pursue these long-term changes, we intend to build on the partnership between GAO and Customs that has developed over the last year. Our constructive relationship has been a key element in establishing the framework for important improvements. For example, we have already called upon GAO auditors to advise and assist the CFO Working Group and the task forces established to study and address our most serious problems. Their knowledge and help have been invaluable. We propose to continue this arrangement, and seek GAO's advice to the Steering Committee, the Working Group and our new Chief Financial Officer, as we move forward in the implementation of the many changes now underway.

We are in general agreement with the recommendations for FY 93, and will continue our efforts to respond to GAO's recommendations for both FY 92 and FY 93. Although we plan to take action in every area noted in the draft report, a few areas warrant specific comment:

- Undercover operations. A task force comprised of experts from inside and outside of the Service has recently been appointed to examine the way in which Customs manages and conducts its undercover operations. The task force's work is expected to be completed by September and will include a review of the accounting system. We agree in concept with GAO's recommendation to develop a secure accounting systems for undercover operations, but plan to defer a final decision on the specifics of such a system until the task force finishes its work.

- Budget clearing and suspense accounts. Customs has developed plans for reconciling and reducing the backlog of amounts posted to the budget clearing account (BCA) and suspense accounts. After all offices have identified the reason an amount was posted to the BCA or suspense account, amounts that can be removed from these accounts will be posted to the appropriate collection account or be refunded. Action will also be taken to propose for write-off any identified unreconcilable amounts. A review will be conducted to

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identify why items are posted to the BCA or suspense account to determine if procedural changes or system enhancements can reduce the number of initial postings. Guidance will also be issued to identify the transactions that would be appropriate to post to the BCA or suspense account to ensure that the two accounts are being used properly.

- Streamlining procurement reviews. Both Customs and Treasury have taken a number of actions since the end of FY 93 to streamline the procurement process. These include elimination of certain reviews by the Department as well as the Customs Procurement Review Board, reducing legal review requirements, and using business process improvement techniques, reducing lead times dramatically for small purchases and major ADP contracts. We plan to continue applying these techniques to bring about further improvements.

- Seized property. Customs has worked closely with GAO over the last several months to address accountability and stewardship over seized property. As noted in the report, Customs undertook the first nationwide 100 percent physical inventory of all seized assets, including currency, narcotics and merchandise. We intend to maintain this baseline through monthly reconciliations of inventory records and conducting an end-of-year inventory in September 1994. Recognizing the need for long-term and systemic improvements, I have recently commissioned a senior management, multi-discipline task force to review the seized property program in its entirety.

- Drawback payments. Overall, Customs agrees with GAO's observations and previous recommendations regarding the drawback program. We also recognize the validity of GAO's concerns that the implementation of policy changes and long-term modifications to the automated drawback system may require an extended time period, and that other remedial actions are necessary in the near term. Therefore, by the end of FY 94 we intend to implement representative sampling procedures for reviewing drawback claims. This methodology will be used until such time as the drawback process is fully automated. Concurrently, we are expediting the automation of critical aspects of the program as identified by GAO, i.e., decrementing import entries, tracking bond sufficiency, and verification of approval for accelerated drawback payments.

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- Controls over foreign trade zones (FTZs). While Customs does not plan on conducting any compliance measurements of FTZs in the near future, we do plan to reemphasize compliance with existing control mechanisms, i.e., annual risk assessment and spot checks. Following the compliance measurement test of warehouse operations, its results will be evaluated to determine applicability and usefulness in FTZs.

- Manifest Accuracy and Closure. Customs is developing and implementing compliance measurement tests of manifest and bill of lading information. The first tests in the vessel environment began November 1993. It is anticipated that in FY 95 nationwide compliance measurements for both vessel and air carriers will be performed. In the interim, the Assistant Commissioner for Inspection and Control will remind all regions of the importance of maintaining accurate and up-to-date data in the Automated Manifest System and routinely investigating all shipments that have not been released by the end of the lay order period. In addition, Customs is currently consulting with representatives of the trade community to determine their interest in forming a joint task force to address manifest improvement.

- Technical proficiency of CFO staff. Customs is actively recruiting for additional staff to supplement current resources dedicated to CFO activities. The recruitment is targeted to candidates with strong accounting backgrounds, many of whom will be Certified Public Accountants. At least 12 new employees are being hired, with the first half on-board by the end of FY 94; the second group will be hired during FY 95. In addition, with the appointment of a new Chief Financial Officer, we plan to review the entire Customs organization for CFO Act implementation, including field responsibilities. We also intend to seek GAO advice and assistance as we pursue this and other initiatives.

In closing, I would like to reiterate both my commitment to improved financial management in the Customs Service, and my appreciation to GAO and its auditors for their constructive help as we move forward. We look forward to continuing our close and cooperative working relationship.

Sincerely,

George

George J. Weise
Commissioner

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