

**REPORT ON AUDIT  
OF  
HEADQUARTERS OFFICE  
OF  
BUREAU OF CUSTOMS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 1954**

**UNITED STATES GENERAL ACCOUNTING OFFICE  
DIVISION OF AUDITS**

UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON 25

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DIVISION OF AUDITS

B-118617

Mr. Ralph Kelly  
Commissioner of Customs  
Treasury Department

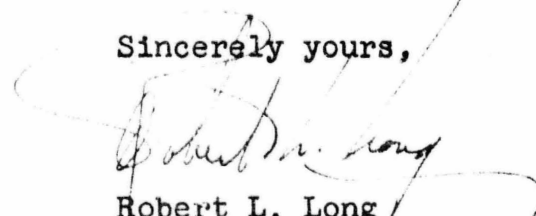
Dear Mr. Kelly:

The Division of Audits, General Accounting Office, has made an audit of the headquarters office of the Bureau of Customs for the fiscal year ended June 30, 1954. Our observations on deficiencies and weaknesses in procedures and internal control and on certain other matters are included in the accompanying report.

As you know, a report relating to the headquarters office based on our audit for the period January 1, 1952, through June 30, 1953, was submitted to you on October 28, 1954. No reply to the matters dealt with in that report has yet been received.

We will be pleased to discuss the comments in the accompanying report in greater detail with you or members of your staff and will appreciate being informed as to any action taken in connection with our recommendations.

Sincerely yours,



Robert L. Long  
Director of Audits

Enclosure

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REVIEW OF ACTIVITIES  
OF DIVISION OF CLASSIFICATION, ENTRY, AND VALUE  
AND DIVISION OF DRAWBACKS, PENALTIES, AND QUOTAS

The Bureau of Customs headquarters organization includes three separate legal divisions, in addition to the Office of Chief Counsel. Two of these divisions, the Division of Classification, Entry, and Value and the Division of Drawbacks, Penalties, and Quotas, are designed to provide specialization in certain phases of customs operations under the Tariff Act.

Our examination of the activities of these divisions disclosed that the degree of specialization achieved delays the processing of matters referred to the Bureau headquarters for decision. In some instances a problem will have to be handled by several legal sections before a decision can be reached. A large part of the work of these divisions involves purely matters of administration, such as furnishing information to the public on the entry of merchandise as a result of inquiries received, routine approval of actions recommended by the collectors, and maintenance of records on importations subject to quota restrictions. In many cases replies to



inquiries require correspondence with field offices before answers can be determined. Many of the actions referred to these divisions by the collectors appeared to be of a nature that could be settled by the field offices.

We believe savings can be effected in these divisions if the scope of the work performed by the legal assistants were broadened and if the routine work in connection with the answering of inquiries and approving actions of the collectors were decentralized to the collection districts, thereby making possible a reduction in the present combined staffs of 52 personnel whose annual salaries aggregate \$313,215.

Our findings with regard to the above matters are as follows:

DIVISION OF CLASSIFICATION, ENTRY, AND VALUE

Routine inquiries received from the importing public

Bureau of Customs Circular Letter No. X-60, dated May 5, 1954, reiterates the Bureau's policy of actively encouraging the importing public to visit Customs field offices to discuss their problems and obtain advice on customs matters.

Our examination disclosed that a large number of public inquiries are addressed to the Bureau headquarters and that about 72 percent of these inquiries are for general information regarding the entry and classification of merchandise. Instead of referring these inquiries to the Customs field offices, this division of specialists devotes a substantial amount of its time to furnishing the information requested.

We believe the large number of routine inquiries received by the Bureau headquarters indicates that knowledge on the part of the importing public concerning the Bureau's policy of encouraging visits to the Customs field offices is not as widespread as it should be. We feel that if the importing public were adequately informed of such policy, a substantial number of inquiries now received in the Bureau headquarters would be addressed to the Customs field offices where they could be readily decided.

We therefore recommend that the Customs Regulations be amended to provide public notice of the Bureau's policy as stated in the aforementioned Circular Letter No. X-60. We further recommend that any future routine inquiries received in the Bureau headquarters be referred to the Customs field offices for disposition. In our opinion, these steps would accelerate the Bureau's program of encouraging personal contact by its field offices with the importing public and would eliminate the inefficient practice of using legal personnel on routine matters. Furthermore, we believe ultimate savings would result through reduction in the scope of the work and the personnel of this division.

Requests for "binding classifications"  
by importers and foreign exporters

Section 16.10a of Customs Regulations permits importers and foreign exporters to apply in writing to the Commissioner of Customs for a "binding classification" before entry of the merchandise is made or shipped to the United States. The Division of Classification, Entry, and Value is responsible for the development

of these cases for rulings to be made to the importers or foreign exporters. Frequently, this division does not have the essential information to develop these cases. Before a ruling can be made information must be obtained from the appraiser and the collector at the port of New York, where classification and value data on all imported merchandise are maintained. This practice necessitates duplicate handling of requests for binding classification by the New York Collection District and the legal staff in the Bureau headquarters.

We believe the development of the cases for binding classifications could be performed more efficiently and economically if the responsibility for developing replies to importers and exporters were transferred to the Collection District at New York. This transfer would place the responsibility in the office where experienced personnel and complete information are available on the classification and value of merchandise imported into the United States and, in our opinion, would make possible ultimate savings in utilization of legal personnel at Bureau headquarters.

We recommend that consideration be given to transferring the responsibility for the development of replies in connection with binding classifications from the Division of Classification, Entry, and Value to the New York Collection District.

#### Issuance of Customhouse Brokers Licenses

Appendix XX, Customs Regulations of 1943, requires that applications for Customhouse Brokers Licenses be approved by the Bureau

headquarters. The applications are filed with the collectors who forward them to the Division of Classification, Entry, and Value for approval. Upon approval, investigations are made of the applicants by the Customs Agency Service. Upon receipt of the investigation reports, this division reviews the findings and recommendations and, if satisfactory, notifies the collectors that the applicants may take the broker's examination. The results of these examinations are forwarded to this division by the collectors for final approval and issuance of the license. A file of all licensed brokers is maintained by this division at Bureau headquarters and by each collection district. We were informed that the reason for processing brokers' licenses in the above manner is to provide a central follow-up on investigations and examinations of brokers in the collection districts where the applicants are located, and to determine that all requirements of the regulations have been met.

We believe the processing of brokers' licenses under the present procedures unnecessarily delays the issuance of licenses and results in voluminous and duplicate handling of each case between Bureau headquarters and the Customs field offices.

During the fiscal year 1954, 89 licenses were issued and 22 were denied. In all but two of the cases, the action by the Bureau was based primarily upon the findings by the field offices. In view of the fact that the investigations and examinations of brokers are performed in the field, we recommend that the Bureau

institute procedures to authorize the collectors to issue Custom-house Brokers Licenses to applicants meeting the requirements set forth in the Customs Regulations.

Since a file of all licensed brokers in a district must be maintained by each district as a part of its operations, it appears that the file in this division is unnecessary. We therefore further recommend that the division discontinue the file of licensed brokers.

#### DIVISION OF DRAWBACKS, PENALTIES, AND QUOTAS

##### Processing drawback applications by Bureau headquarters

Part 22 of the Customs Manual requires that the following documents be forwarded to the Bureau headquarters in connection with drawback applications.

1. Manufacturers' statements describing the methods followed and the records kept in connection with the manufacture of imported articles upon which drawback will be claimed.
2. Customs Agency Service examination reports of the operations and records of the manufacturers.

These documents are reviewed by the Division of Drawbacks, Penalties, and Quotas for the purpose of rendering decisions on the manufacturers' rights to receive allowances of drawback.

During our audit we reviewed the Bureau's actions on a number of drawback claims and found that approval of these claims was substantially routine, based upon the manufacturers' statements and the reports of the Customs Agency Service.

We believe that the processing of drawback claims could be performed just as well as a part of the regular duties of the

present personnel in the collection districts. The decentralization of this function would eliminate the additional handling of documents between the Bureau headquarters and the Customs field offices and would expedite the liquidation of drawback claims. Moreover, it would reduce the scope of the work and cost of operation of this division in Washington.

We therefore recommend that the Bureau consider delegating to the collectors the authority to determine the manufacturer's right to receive an allowance of drawback.

Mitigation and remission of fines, penalties,  
and forfeitures reviewed by headquarters

Section 23.24 of the Customs Regulations requires that any petition for the remission or mitigation of a fine, penalty, or forfeiture incurred under the customs or navigation laws or for the restoration of the proceeds of a sale of property forfeited under the customs laws shall be addressed to the Commissioner of Customs and filed with the collector. With the exception of those fines, penalties, and forfeitures which may be mitigated or remitted by the collector, under section 23.25 of the regulations, all petitions, with the collector's reports of investigations, if any, and his recommendations as to the action to be taken are required to be forwarded to Bureau headquarters for review and determination as to whether the fine, penalty, or forfeiture shall be executed or canceled.

Our examination of penalty cases received in this division disclosed that approximately 85 percent were disposed of as recommended by the collectors. Only minor changes were made in those

cases where the Bureau did not concur in the collectors' recommendations.

On the basis of our findings we believe the extensive control exercised by the Bureau, in connection with the disposition of penalty cases, could be substantially reduced to permit the collectors more authority to act upon petitions for relief. Therefore, in order to further reduce the work performed by the legal staff of this division, we recommend that the Bureau increase the authority of the collectors to mitigate, remit, or cancel fines, penalties, and forfeitures. We suggest that the Bureau give consideration to extending such authority to at least that set forth in section 12(a)(1) of Bureau of Customs Office Memorandum 833, dated February 12, 1953, which permits the Chief, Division of Drawbacks, Penalties, and Quotas, to remit or mitigate claims, fines, penalties (including forfeitures), or liquidated damages in amounts not exceeding \$2,000 in the aggregate in any one case.

Transfer of functions of the quota section  
to the fiscal section

The quota section of the Division of Drawbacks, Penalties, and Quotas is responsible solely for the control of importations of merchandise subject to quota restrictions.

Our review of the activities of this section disclosed that the control of quota merchandise is maintained by recording the importations of commodities subject to quotas from reports prepared by the collection districts. When the quota limitation on a specific commodity is reached, this section notifies the collection districts of such fact. We believe that the function of this section



is of a statistical nature and should be under the administration of an operating rather than a legal division.

We recommend that the responsibilities of this section be transferred to the fiscal section of the Division of Management and Controls. Such transfer would place this function under the office maintaining facilities for the accumulation of statistical information and would relieve this legal division of an additional administrative responsibility.



## REVIEW OF PREVIOUS MANAGEMENT SURVEY RECOMMENDATIONS

During our audit we reviewed the recommendations made by McKinsey & Company contained in their report on the management survey of the Bureau of Customs, submitted January 20, 1948. Our review was concerned primarily with those recommendations not adopted by the Bureau. We observed several possibilities for management improvements which we believe, if adopted, would result in substantial savings. These recommended improvements are set forth below.

### DUPLICATION OF WORK BETWEEN THE APPRAISERS AND COLLECTORS IN THE CLASSIFICATION OF MERCHANDISE

McKinsey & Company recommended elimination of the duplication of responsibilities between the collectors and the appraisers in the classification of merchandise by transferring this function to the appraisers. This recommendation was based primarily upon their finding that the number of changes in the appraisers' classification by the liquidators were exceedingly small.

During our audit we reviewed the provisions of the Tariff Act and the Bureau's procedures with regard to the responsibilities of the collectors and the appraisers in the classification of merchandise. The appraisers make advisory classifications on the basis of visual observation during their examination of the merchandise. We believe that these procedures provide a sound basis for proper classification. Our review of the Bureau's practices under this procedure, made at the ports of Boston and New York, disclosed that there are four independent verifications made of formal entries to determine the proper classification of the merchandise.

These verifications are made by the entry officers, appraisers, liquidators, and comptrollers' auditors. Members of your staff informed us that no statistics are compiled to show the number of errors made by the appraisers; however, on the basis of the Bureau's experience, errors in the appraisers' advisory classifications are infrequent.

We believe the Bureau overemphasizes its responsibility to classify merchandise which results in considerable duplication of work. We feel this duplication could be eliminated without reduction in controls if the classification of the merchandise by the entry officers and the liquidators were discontinued, and the full responsibility therefor placed on the appraisers.

In view of the apparent degree of accuracy in the advisory classification rendered by the appraisers, we recommend that the Bureau consider requesting the necessary legislative changes that would provide for the transfer of the responsibility for the classification of merchandise from the collectors to the appraisers. We feel the transfer of this responsibility would result in substantial savings by reducing the scope of work of the entry and liquidating personnel and by eliminating duplication between the collectors and the appraisers in the processing of protests filed by importers.

Pending the possibility of legislative changes as recommended above, we believe immediate steps could be taken by the Bureau to effect savings by reducing the liquidators' verification of the appraisers' classifications of merchandise to a selective basis.

PROCESSING OF ENTRIES OF UNCONDITIONALLY FREE  
AND CERTAIN SPECIFIC RATE MERCHANDISE

In our opinion the recommendation by McKinsey & Company to extend the use of informal entries to include all unconditionally free and certain specific rate merchandise should be adopted in a modified form. Our review of the Bureau files and discussions with members of your staff indicated that the primary objection to this recommendation was the possibility of loss of proper safeguards of the revenue through discontinuance of formal appraisal and liquidation if informal entries were used.

We believe that the recommended procedure should be modified to the extent that the use of formal entry documents for entry of unconditionally free and certain specific rate merchandise should be continued as is presently done. The use of formal entries would continue to place the responsibility for preparation of these entries in the importers. We feel, however, that the present review of these entry documents by the appraisers and liquidators could be substantially reduced to a selective examination by the appraisers and by eliminating the duplicate review made by the liquidators.

During our audit we noted that section 27.33b of the Customs Manual authorizes the collectors to designate experienced customs employees as "acting examiners" to examine merchandise entered unconditionally free and under certain specific rates of duty. Our audit disclosed that while this type of merchandise is examined and passed through customs by the acting examiners without submitting samples to the appraisers' stores, the entry documents

are forwarded to the customhouses where they are examined by the appraisers and liquidators in the same manner as entries of dutiable merchandise. We found at the Detroit Collection District, for example, that about 40 of 22,000 duty-free entries processed during the fiscal year 1954 were found to be dutiable, resulting in additional revenue of only \$1,600. It was noted, however, that the differences were found by the acting examiners and appraisers. Moreover, it was found that the appraisers and liquidators devote considerable time in reviewing and checking actions by the acting examiners. Similar situations were disclosed by -- at several other collection districts.

Our audit findings indicate to us that, in view of the low incidence of error in the examination of unconditionally free and specific rate merchandise, the inspectors are performing the duties of examiner in an efficient manner, and are capable of liquidating these entries and safeguarding the revenue without the need for subsequent formal appraisal and liquidation of every formal entry.

We believe a periodic testing of entries by the appraisers at all collection districts utilizing inspectors as acting examiners would provide adequate control that proper classification is made of the merchandise. Periodic testing would substantially reduce the cost of processing these entries as well as eliminate duplication by the appraisers of work done by the acting examiners. Moreover, it would eliminate duplication of work between the appraisers and the liquidators in reviewing and checking the classification of the merchandise made by the acting examiners.

Our views with regard to the processing of entries of unconditionally free and specific rate merchandise were discussed with officials of several collection districts and were substantially concurred in by them.

Therefore, we recommend that the Bureau issue necessary instructions to provide for (1) the application of informal entry procedures in connection with the appraisement and liquidation of formal entries covering unconditionally free and certain specific rate merchandise and (2) periodic testing of such entries by the appraisers to the extent deemed necessary to assure that the merchandise is properly classified by the acting examiners.

#### CONSOLIDATION OF COLLECTION DISTRICTS

During our audit we reviewed the action taken by the Bureau with regard to the recommendation by McKinsey & Company concerning the consolidation of Customs field offices. We noted that the Bureau substantially revised this recommendation and submitted a plan to the Assistant Secretary of the Treasury on April 27, 1948, to reduce the number of collection districts from 44 to 23. In view of the fact that no action had been taken by the Treasury Department to adopt the plan submitted by the Bureau, a letter was sent by the Acting Comptroller General to the Secretary of the Treasury on December 2, 1954, requesting an expression of views on the matter. A reply dated December 7, 1954, from the Assistant Secretary stated that the proposal was again under active study. It is our understanding that the Bureau is currently developing additional information in this regard.

Our review of the Bureau's reports on the number of formal entries processed during the fiscal year 1954 disclosed that about one-third of the 46 collection districts liquidated only 2.5 percent of all formal entries processed. In our opinion this fact should be taken into consideration by the Bureau in presenting any additional information in support of its proposal to consolidate collection districts. In addition, we believe the substantial reduction in the workload at the collection districts, which could be made possible through adoption of our recommendations concerning (1) the transfer of responsibility for classifying merchandise to the appraisers and (2) unconditionally free and specific rate merchandise, would provide further justification for this proposal.

DEFICIENCIES IN HEADQUARTERS FISCAL OPERATIONS

RECORDED OVEREXPENDITURE OF EXPORT CONTROL PROGRAM  
FUNDS--FISCAL YEAR 1954

During our audit it was disclosed that the Bureau's recorded expenditures for export control enforcement activities for fiscal year 1954 exceeded the appropriation limitation provided in the Department of Commerce "Supplemental Appropriation Act for 1954," Public Law 207, Eighty-third Congress (67 Stat. 422). In our opinion the overexpenditure occurred as a result of the failure of the Bureau to establish controls for limiting obligations against export control funds.

The Bureau of Customs activities under the export control program are supposed to be financed by funds appropriated to the Bureau of Foreign and Domestic Commerce, Department of Commerce. The budget prepared by the Bureau of Customs for its portion of this program is submitted to and made a part of the over-all budget of the Department of Commerce.

The Supplemental Appropriation Act for 1954 provided the amount of \$4,000,000 for export control, of which not to exceed \$1,100,000 was available for transfer to the Bureau of Customs for its enforcement activities. During fiscal year 1954 the Department of Commerce transferred \$985,000 of the amount available to the Bureau of Customs.

Under current procedures, the headquarters office is responsible for complete accounting for export control activities of the Bureau. Expenditures for personal services of all Customs employees engaged in export control activities are charged to "Salaries



and Expenses, Bureau of Customs" and are transferred monthly to the export control account on the basis of estimated man-hour costs. These costs are determined from reports of man-hours submitted by the field offices for one week selected out of each quarter. No amounts are charged to export control for any overhead expenses.

The Bureau's expenditures, recorded on this basis, for fiscal year 1954 aggregated \$1,221,717, of which \$985,000 was charged to export control funds, and \$236,717 to "Salaries and Expenses, Bureau of Customs." Although these recorded expenditures exceeded the appropriation limitation of \$1,100,000 by \$121,717, the Bureau of Customs did not request from the Department of Commerce the additional funds (\$115,000) authorized by the appropriation act.

In our opinion the major weakness in the present procedures is the lack of controls necessary to limit obligations and expenditures for export control activities. We believe such controls are essential to prevent further disregard of the intent of Congress to limit the amount available for enforcement work. During our audit we noted that the annual budget for the Bureau's own operations provides no amounts to cover salaries and expenses for export control activities in excess of the amounts made available in the export control appropriation. We were informed by the budget officer that such expenses have been absorbed in the Bureau's appropriation for salaries and expenses from inception of the Export Control Act of 1949. We were further informed that during the



presentation of the budget the Bureau has not apprised the Congress of these facts.

We recommend that the Bureau revise its present accounting procedures to provide the necessary controls for limiting obligations and expenditures under the export control program to the extent of the limitations contained in future export control appropriations. We believe the use of actual cost data of salaries and other expenses incurred in connection with this program would provide an adequate basis for limiting obligations and expenditures under these appropriations.

The authority for the practices followed by the Bureau is under further study in the General Accounting Office.

OVEREXPENDITURE OF EXPORT CONTROL PROGRAM FUNDS--  
FISCAL YEAR 1953

The Department of Commerce Appropriation Act for fiscal year 1953 covering export control activities, Public Law 495, Eighty-second Congress (66 Stat. 573), contained a limitation of not to exceed 90 percent of the budget estimates for 1953 on (1) personal services of personnel above basic rates, (2) transportation of things, and (3) travel of employees.

Our audit disclosed minor overexpenditures of the limitation on transportation of things in the amount of \$33 which occurred because of the failure of Customs field offices to comply with the Bureau's Budget Circular Letter No. 53-3, dated July 18, 1952. This circular prohibits obligation of amounts in excess of those shown in the financial plans without specific Bureau approval.

In addition, the amount allocated by the Department of Commerce for personal services above basic rates was exceeded in the amount of \$120 because of the failure of the budget section to adequately control funds transferred from the Department of Commerce. The overexpenditures violated section 3679, Revised Statutes, and section 135 of the Customs Accounting Manual. Furthermore, the Bureau failed to report the violation of the statute to the Secretary of the Treasury as provided in Treasury Department Circular No. 880, dated January 2, 1951.

Our findings were discussed with members of your staff and we have been informed that corrective action would be taken in the matter.

#### FAILURE TO MAINTAIN PROPERTY ACCOUNTING RECORDS

In our report on audit for the Bureau headquarters office for the period January 1, 1952, through June 30, 1953, we recommended that the Bureau inventory and establish property records for property located in the headquarters office. This recommendation was based on the finding that, with the exception of office machines, the headquarters office did not maintain property records on property on hand in Washington. The same condition existed during the fiscal year 1954. We therefore repeat our previous recommendation.

#### INADEQUACY OF FINANCIAL REPORTS RECEIVED FROM THE CUSTOMS FIELD OFFICES

During our audit we examined the monthly financial reports submitted to the Bureau headquarters by the Customs field offices. Our examination disclosed that 42 of the 46 collection districts failed to follow Bureau's accounting procedures with the result

that erroneous information was reported. We noted also that the accounts unit of the fiscal section issues numerous letters to the collection districts involved to effect revision or correction of each such erroneous report; however, no corrective action apparently has been taken by the collectors to prevent recurrence of the errors.

The specific deficiencies involving repetitive errors by the collection districts were discussed with the Deputy Commissioner, Division of Management and Controls, and the head, fiscal section. We were informed that these deficiencies in reporting would be brought to the attention of the principal field offices concerned for action to prevent recurrence of the errors, and the comptrollers of customs for special attention during their field audits.

We believe the head, fiscal section, should maintain closer supervision over fiscal activities of the Customs field offices to assure better compliance with the Bureau's accounting procedures. If, in the future, accounting deficiencies continue to exist, we believe the head, fiscal section, should report the facts to the Deputy Commissioner, Division of Management and Controls, for such disciplinary action as may be required. Also, we feel the adoption of our recommendations on internal auditing, contained in our report on audit of the Bureau headquarters for the period January 1, 1952, through June 30, 1953, would strengthen the controls over fiscal activities in the field offices by on-the-site detection of practices which lead to errors and noncompliance with established procedures and development of recommendations for correction.

### DEFICIENCIES IN ACCOUNTING RECORDS

Our audit disclosed some instances where the fiscal section failed to follow prescribed regulations and procedures in recording transactions of the Bureau.

These matters were discussed with the head, fiscal section, and we were informed that a review would be made to determine the corrective action to be taken.