UNITED STATES GENERAL ACCOUNTING OFFICE

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Report to the Congress; by Elmer B. Staats, Comptroller General.

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The U.S. Customs Service collected over $6 billion in duties, taxes, and fees on imported merchandise during fiscal year (FY) 1977, and revenues are projected to increase to $7 billion by the end of 1980. Findings/Conclusions: During FY 1976, delays in collections allowed by Customs procedures cost the Government an estimated $9.6 million in interest costs. The Government is entitled to duty payments when goods are released to importers. However, Customs allowed importers to defer payments an average of 12.4 days, and proposed changes may delay collections up to 30 days. The Government could have reduced its interest costs by up to $7.3 million if it had collected, when due, the $3.3 billion in FY 1976 collections deferred. Also, about $563 million in importers' alcohol taxes was deferred in FY 1976 which could have reduced interest costs by an estimated $2.3 million if collected on time. Other delays in collections have resulted from: lengthy reviews by Customs of documentation for imported items, slow collections of amounts due from importers, and incorrect or late bills and receivable reports. Recommendations: The Secretary of the Treasury should consider developing methods to reduce collection delays, including requiring importers to pay duties when goods are released or be charged interest on late payments. He should also review the policy allowing alcohol tax deferrals for an average of 23 days and, if deferrals are allowed to continue, consider levying interest charges on importers who elect to defer taxes. The U.S. Customs Service should reduce processing delays, improve controls over bonds, verify that bond coverage is adequate on all transactions, improve billing and collection procedures, and levy interest charges on overdue bills. (HTW)

7429

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Import Duties And Taxes: Improved Collection, Accounting, And Cash Management Needed

The U.S. Customs Service in the Treasury Department could save millions of dollars annually in interest costs by eliminating deferrals allowed in collecting import duties and alcohol taxes and by improving collection of overdue accounts.

During fiscal year 1976 about $9.6 million in interest expense was incurred by the Government that might have been avoided if deferrals had not been permitted and the amounts due had been collected sooner. Treasury should consider:

- --requiring importers to pay duties when goods are released by Customs,
- --charging interest to importers when they elect to defer or are delinquent in their payments, and
- --improving Customs' billing and collection procedures.

FGMSD-78-50
AUGUST 21, 1978

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114898

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

This report deals with U.S. Customs Service collection of duties, taxes, and fees, which currently average about $6 billion annually. It specifically discusses deferrals importers were allowed to take under a Customs Service delayed payment system. The findings were developed during a review of the Customs Service revenue accounting system.

The report points out that because importers take the maximum amount of time to make their payments, the Government does not get to use the funds to decrease its own borrowings. As a result, the Government's interest cost is substantially increased. We estimate that the annual interest cost could be reduced about $9.6 million if these deferrals were eliminated or if interest were charged the importers who defer payment.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget, and the Secretary of the Treasury.

Elmer B. Staats

Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

IMPORT DUTIES AND TAXES: IMPROVED COLLECTION, ACCOUNTING, AND CASH MANAGEMENT NEEDED

D I G E S T

The U.S. Customs Service collected over $6 billion in duties, taxes, and fees on imported merchandise during fiscal year 1977. Revenues are projected to increase to $7 billion by the end of 1980.

The Government earns duty and tax revenue when Customs releases merchandise to importers, but delays in collecting this money--allowed by Customs procedures--cost the Government an estimated $9.6 million in fiscal year 1976. This is the annual interest cost on Treasury borrowings that could have been avoided had revenues been collected sooner.

DEFERRAL OF ESTIMATED DUTIES

About $3.3 billion of Customs' fiscal year 1976 collections was deferred under a delayed payment system. If this money had been collected when due, the Government could have reduced its interest cost on borrowed funds by as much as $7.3 million. The Government is entitled to duty payments when goods are released to the importers. However, at the locations GAO visited, Customs allowed importers to defer payments an average of 12.4 calendar days, and proposed changes may delay collections up to 30 days. (See pp. 6 and 7.)

The Secretary of the Treasury should consider developing methods to reduce collection delays. Importers could be required to pay duties when goods are released or be charged interest on late payments.

ALCOHOL TAX DEFERRALS

About $563 million in importers' alcohol taxes was deferred in fiscal year 1976. If these funds had been collected on time, governmental interest costs could have been reduced by an estimated $2.3 million. Importers are allowed to defer alcohol taxes an average of 23 days after payment of estimated duties. This is in addition to deferrals allowed if goods are imported under the delayed payment system. Similar tax deferrals are also allowed on domestic alcoholic beverages.

Because of the potential savings in interest expense, the Secretary of the Treasury should review the policy allowing tax deferrals for an average of 23 days. If these deferrals are allowed to continue, Treasury should consider levying interest charges on those importers who elect to defer taxes.

ADDITIONAL DUTIES ARE NOT PROMPTLY COLLECTED

After Customs releases merchandise and importers estimate and pay duties, Customs reviews the documentation for imported items to determine if importers should be billed for additional duties. In some cases this review is lengthy, delaying billings and resulting in misplaced documentation that hinders final collection.

After billing, some duties remain uncollected for long periods. At the Boston, Chicago, Los Angeles, and New York Customs regions, the accounts receivable for these duties averaged $8.5 million each month from April 1976 to March 1977. About 38 percent of this amount was over 90 days past due. Although Customs requires importers to have bonds sufficient to cover all duties, taxes, and fees, collection from bonding companies is often impossible because Customs does not promptly document claims, nor verify that there is adequate bond coverage.

Incorrect or late bills and receivable reports further delay collection of additional duties. Billing errors delayed collection as long as 13 months in cases reviewed by GAO. Also, some Customs regions do not regularly contact importers and bonding companies to obtain collection. Delays of as long as a year occurred in following up on overdue accounts.

Customs should reduce processing delays, improve controls over bonds, and verify that bond coverage is adequate on all transactions. Customs should also improve billing and collection procedures and levy interest charges on overdue bills.

AGENCY COMMENTS AND RECOMMENDATIONS

In commenting on this report, the Department of the Treasury generally agreed with its findings and said that Customs has begun studies on ways to develop corrective action. GAO recommends that the corrective actions provide that deferrals on duties and taxes be either eliminated or that interest be charged on amounts deferred, and that the delay in collecting supplemental duties be shortened and interest charged on accounts 30 days past due.

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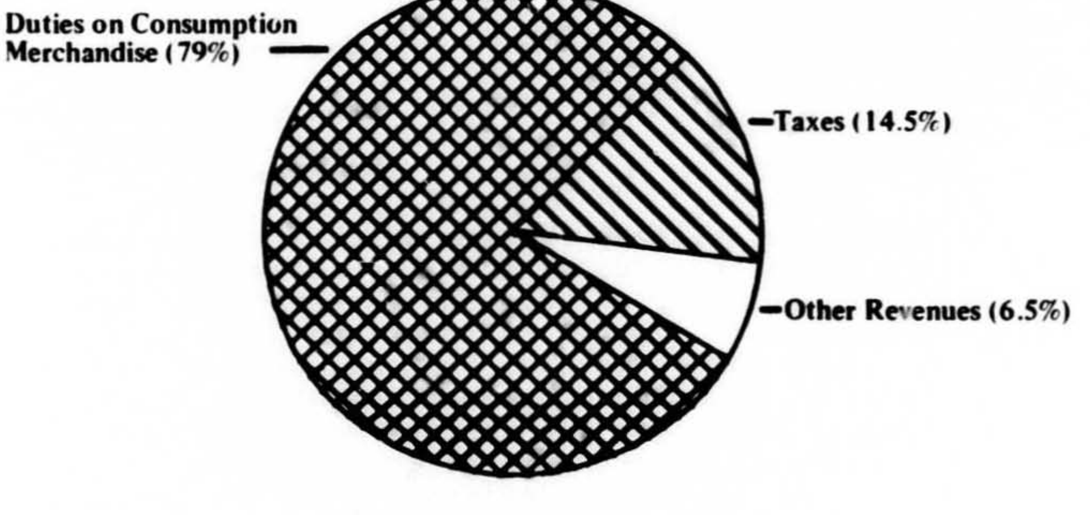
CHAPTER 1

INTRODUCTION

As authorized by the President's Reorganization Plan No. 1 of 1965 (19 U.S.C. 1), the U.S. Customs Service, Department of the Treasury, assesses and collects all duties, taxes, and fees on imports to the United States and its territories. Customs collects duties and taxes due on goods arriving by cargo carriers, through the mails, or in the baggage of travelers. In fiscal year 1977, Customs had 14,201 employees and spent $357 million.

During fiscal year 1977, 78 million carriers and 263 million passengers arrived at the 300 Customs ports-of-entry. (See app. I.) In the same period, $150 billion worth of goods were imported and Customs collected over $6 billion in revenues. By the end of 1980, these revenues are expected to reach $7 billion annually.

As shown in the chart below, about $3.9 billion, or 79 percent of all 1976 revenues, was collected in duties on consumption entry merchandise--commercial shipments of goods imported for direct release to domestic commerce. Of the $723 million in taxes, $704 million was collected on liquor and wine and the other $19 million was on beer and tobacco.



REVENUE COLLECTION PROCEDURES FOR COMMERCIAL IMPORTS

Customs' 46 district offices and 9 regional offices collect revenues on imports. The timing of collections is affected by the import method used, the tax deferral options exercised by importers, and the extent of Customs' final review of the transaction.

As shown below, importers may use either a permit or immediate delivery system to import merchandise for consumption.

Permit System

1. Within 5 workdays after the goods arrive at the Customs station:

   --the importer or broker estimates the duties and files entry documents for Customs review,

   --Customs makes a preliminary review of the documents, and

   --the importer or broker pays the estimated duties.

2. Customs inspects and releases the goods.

Immediate Delivery System

1. Customs inspects and releases the goods, which must be claimed within 5 workdays after arrival.

2. Within 10 workdays after release:

   --the importer or broker estimates the duties and files entry documents for Customs review,

   --Customs makes a preliminary review of the documents, and

   --the importer or broker pays the estimated duties.

The immediate delivery system, which allows release of goods before required processing is completed, was originally restricted to imports of animals and perishables. With an increase in volume of imports by truck and plane carriers and containerized cargo systems, Customs, seeking to expedite entry procedures, encouraged broader use of the immediate delivery system; first, at land border crossings, then in 1968, for almost all imports except goods subject to quota restrictions. The immediate delivery system now accounts for about 80 percent of all consumption entries.

Under both the permit and immediate delivery systems, importers or their brokers prepare entry documents, estimate the duties and taxes payable, and submit the documents and payments to the Customs district offices. On permit entries, importers or their brokers must file entry documents and pay the estimated duties before Customs will release the merchandise. The immediate delivery system provides importers the advantages of obtaining faster release of merchandise and deferring payment of estimated duties.

Importers pay both taxes and import duties on alcoholic beverages brought into the country. The importers are allowed to defer payment of taxes on alcoholic beverages beyond the date that estimated import duties are paid. These deferrals are allowed under regulations implementing a 1962 Treasury decision which establishes 15-day deferral cycles and specifies that after estimated duties are paid, alcohol taxes are due by the end of the next succeeding deferral cycle. For example, if estimated duties are paid from the first to the fifteenth of the month, taxes are due at the end of the month. This allows importers to defer payment of taxes an average of 23 days. Customs district offices collect these alcohol taxes for the Internal Revenue Service.

After estimated duties are collected, Customs reviews the transaction to determine whether the duty amount is correct or whether the importer should be billed for supplemental duties or given a refund. After the district offices have reviewed the entries, the regional offices collect the supplemental duties and process the refunds.

SCOPE OF REVIEW

We reviewed selected aspects of the Customs Revenue Accounting System, including the collection and accounting procedures for estimated duties on consumption entries, for taxes on alcoholic beverages, and for accounts receivable for supplemental duties. We also reviewed applicable legislation, policies, and procedures.

At each of the following locations, we selected a random sample of 250 consumption entries liquidated in fiscal year 1976.

--Boston: Sample selected from entries at Boston seaport, airport, and all other ports under the Boston district office.

--Detroit: Sample selected from entries at the port of Detroit.

--Los Angeles: Sample selected from entries at Los Angeles seaport, airport, and all other ports under the Los Angeles district office.

--New York: Sample selected from all ports under the New York seaport area office.

Collections at these locations accounted for about 37 percent of the estimated duties collected on consumption entries. Our sample included permit and immediate delivery entries reviewed in fiscal year 1976, for goods entered by ship, plane, truck, and other modes. We did not sample duty-free entries, informal entries (goods valued under $250), or postal entries.

We determined the extent to which importers deferred alcohol taxes at district offices in Boston, Detroit, and Los Angeles, and at the New York seaport (excluding the port of Albany) from April 1, 1976, through March 31, 1977.

We reviewed supplemental duty accounts receivable collections at the Boston, Chicago, Los Angeles, and New York regional offices by examining about 150 importer accounts that were over 120 days past due as of October 31, 1976.

CHAPTER 2

CUSTOMS' PROCEDURES DELAY

COLLECTION OF DUTIES

During fiscal year 1976, payment of about $3.3 billion in estimated duties on consumption merchandise was deferred because importers used the immediate delivery system. Although the Government is entitled to payment when goods are released to the importers, at the locations we visited, importers deferred payments an average of 12.4 calendar days, ranging as high as 33 days. In contrast, payments for entries under the permit system are required before goods are released.

If the 12.4-day delay between release and payment occurred at all Customs' regions, interest costs of about $7.3 million on additional Treasury borrowing could have been avoided in fiscal year 1976. Changes that are being proposed in entry processing procedures could increase the delay between release and payment to 30 days.

COLLECTIONS DELAYED UNDER THE IMMEDIATE DELIVERY SYSTEM

Customs duties, although a source of revenue, are also protective tariffs, that is, assessments made on cheaper foreign goods to protect more costly domestically produced goods. Customs duties are due prior to the goods being released into United States commerce.

Although wider use of the immediate delivery system (see p. 2) has sometimes helped expedite release of goods, it has created another problem--deferral of revenue collections--which in turn prevents the Government from using the money in lieu of borrowing. For all immediate delivery entries in our sample, the elapsed time from release of goods to payment of estimated duties ranged from 0 to 33 calendar days, and, as shown below, averaged 12.4 days. 1/

1/Our sample provided 95-percent assurance that the average delay was between 12.2 and 12.7 days.

Location	Number of immediate delivery entries in sample		Average calendar days between release and payment 1/
Boston District	229		11.8
Detroit Port	249		10.9
Los Angeles District	215		12.7
New York Seaport Area	214		14.6
Total	907	Average	12.4

These collection deferrals increase the need for Treasury borrowings. In fiscal year 1976, Customs collected about $3.9 billion in duties on consumption entries. We estimate that about 84 percent of these duties (or $3.3 billion) were collected under the immediate delivery system. Using the 12.4-day delay developed in our sample and interest costs of 6.5 percent per year, we estimate that deferrals delayed collections which, had they been collected when due, could have reduced governmental interest cost by about $7.3 million in fiscal year 1976.

REVENUE NOT RECORDED WHEN EARNED

Although the Government earns revenue when an imported item is released to importers, Customs normally only records this revenue when payment is received. Under the immediate delivery system, there is a time delay between release of merchandise and payment of duty. Accordingly, Customs financial statements do not show, as accounts receivable, the significant uncollected earned revenue inherent in the immediate delivery system. This conflicts with the provisions of the Customs accounting system approved by the Comptroller General in 1972, and Public Law 84-863, which requires the recording of revenue as soon as it is earned.

PROPOSED CHANGES MAY FURTHER DELAY REVENUE COLLECTION

Customs is considering two alternative policy changes that could further delay collection of estimated duties and increase the need for Treasury borrowing.

1/The payment dates used in our calculations were the dates Customs recorded the collections in its accounting system.

A monthly consolidated entry system developed by Customs would allow importers to file consolidated entry documents and pay estimated duties for goods released during a 1-month period. The documents and estimated duties would be due at Customs within 10 days after the end of the monthly period. This system would streamline entry processing, but could delay collection of estimated duties an average of 25 days from release of goods--an additional 12.6 days beyond the current average delay of 12.4 days.

The second approach relates to provisions of the proposed Customs Procedural Reform Act of 1977 (H.R. 8149). This legislation gives the Secretary of the Treasury discretionary authority to allow importers up to 30 days after release of merchandise to pay estimated duties. Importers would file summary entry documents within 10 workdays after release of the merchandise. Although Customs has indicated that if this legislation is enacted it will limit the delay between release of goods and payment of duties to 18 days, payment will be extended 5.6 days beyond the present delay of 12.4 days.

Subsequent to a briefing on the results of our review to the staff of the Senate Finance Committee, Customs furnished the Committee with additional information on the entry procedures Customs intends to establish if H.R. 8149 is enacted. Customs reported that a system of importer accounts will be established that will be designed to facilitate collection of duties before, during, or after merchandise release. Further, Customs reported that the system is designed to facilitate charging of interest beginning on the date the merchandise is actually released, if Government policies so require. However, Customs did not indicate what specific changes, if any, would be implemented to reduce the collection deferrals inherent in the immediate delivery system.

CONCLUSIONS AND AGENCY COMMENTS

The immediate delivery system, currently used for most imports, delays revenue collection and increases the need for Treasury borrowings. Customs' financial statements do not reflect these delays. Customs duties are due when goods are released into U.S. commerce. In cases in which importers defer payment of duties, we believe the importer should bear the expense of the deferred revenue and not the Government. The Government, therefore, should charge interest on deferred payments, in much the same manner as it does on income taxes paid after the due date.

In a letter dated May 25, 1978 (see app. II), Treasury said that the Customs Service is studying the practicality and feasibility of assessing interest charges on deferred duties to reduce collection deferrals inherent in the immediate delivery system. We agree that these alternatives should be explored, but we believe that other alternatives should be considered, such as reducing the deferrals now allowed or requiring deposit of duties at the time goods are released.

Customs also said that it was considering reporting accruals resulting from deferred duty payments under a revised Appropriations Accounting System, but that it would be time-consuming and costly. But the Customs accounting system design approved by the Comptroller General includes simple procedures that Customs could implement now--recording statistical estimates of accrued revenues on immediate delivery entries. We believe that whatever method Customs uses, it should record revenue when earned, as required by Public Law 84-863.

RECOMMENDATIONS

We recommend that the Secretary of the Treasury develop a system that reports all revenue when earned and either reduces collection deferrals inherent in the immediate delivery system or collects interest on the deferred amount. Because the development of a revised system will take considerable time, and because large sums are involved, we recommend that the Secretary reduce the deferrals presently allowed under the immediate delivery system.

CHAPTER 3

CUSTOMS' PROCEDURES DELAY

COLLECTION OF ALCOHOL TAXES

Treasury allows importers to defer alcoholic beverage taxes beyond the date on which estimated import duties are paid. For fiscal year 1976, we estimate that payment of about $563 million in alcohol taxes was deferred an average of 23 days. Had these funds been collected when due, interest costs of about $2.3 million on additional Treasury borrowings could have been avoided. In view of the costs, Treasury should reconsider allowing the deferred payments.

COST OF TAX DEFERRALS GRANTED BY TREASURY

Most major importers exercise their option to defer alcohol taxes. Current regulations implementing a 1962 Treasury decision (T.D. 55568) which granted this option allow an average deferral of 23 days, starting after estimated duties are paid. This is in addition to the average 12.4-day deferral allowed for liquor imported under the immediate delivery system. Similar tax deferrals are also allowed on domestic alcoholic beverages.

As shown below, at the four districts we reviewed, importers deferred an average of 83.2 percent of the $312 million in alcohol taxes collected in the 12 months ended March 31, 1977.

Location	Total collections	Deferred collections	Percent deferred
Boston	$ 24,328,250	$ 16,653,570	68.5
Detroit	163,215,892	152,705,308	93.6
Los Angeles	37,822,060	32,008,002	84.6
New York	87,124,893	58,506,263	67.2
Total	$312,491,095	$259,873,143	83.2

During fiscal year 1976, Customs collected about $704 million in alcohol taxes. Assuming 80 percent of this total, or $563 million, was deferred 23 days and interest costs on Treasury borrowings averaged 6.5 percent per year, we estimate that the tax deferral privilege given importers by Treasury delayed collections which the Government could have used to reduce borrowings and thus interest costs by about $2.3 million in fiscal year 1976. This does not include the cost of maintaining deferral accounts for importers, nor the cost of issuing bills and making collections for deferred taxes.

We did not review domestic alcohol tax deferrals, but in fiscal year 1976, the Alcohol and Tobacco Tax Division of Treasury collected $3.2 billion in taxes on domestic alcoholic beverages. Although we did not determine to what extent these taxes were deferred, the deferral privilege on domestic liquor also results in costs to the Government and should also warrant attention by the Department of the Treasury.

ADDITIONAL DEFERRAL ALLOWED BY THE NEW YORK REGION

During our review we noted an inconsistency in the way Customs regions have interpreted the regulations implementing the 1962 Treasury decision which allowed tax deferrals. (See p. 3.) Three of the regions we reviewed correctly allowed importers of alcoholic beverages to defer tax payments an average of 23 days after payment of estimated duties. However, Customs' New York regional office misinterpreted the decision and computed the deferrals from the wrong date, which allowed such importers an average deferral of 38 days. This additional 15-day deferral between date of duty payment and date of tax payments delayed collections so that the Government incurred about $156,000 in interest cost in fiscal year 1976 that could have been avoided. This amount is not included in the estimated $2.3 million in interest expense that could have been avoided if the nationwide deferral privilege had not been permitted.

CONCLUSIONS AND AGENCY COMMENTS

Treasury granted importers and domestic dealers the privilege of deferring payment of alcohol taxes, but this privilege cost the Government approximately $2.3 million in fiscal year 1976 for imported liquor alone, because by not receiving the money when due the Government was not able to use the money to reduce its own borrowing.

In responding to this report, the Department of Treasury advised us that the Customs Service is undertaking a study to determine whether present policy granting importers deferred tax privileges should be changed or amended to provide for the imposition of interest charges. Customs should report on the results of this study to the Congress.

Treasury also said that deferred tax amounts are being collected properly in all locations except the New York region. Specific instructions are being issued to the Regional Commissioner, New York, to ensure that proper procedures are followed in the future.

RECOMMENDATION

Because of the magnitude of the costs to the Government, we recommend that the Secretary of the Treasury review the policy allowing tax deferrals in imported and domestic alcoholic beverages. If the Secretary believes that it is in the Government's best interests to continue to allow such deferrals, we believe he should also consider levying interest charges on dealers that elect to exercise the privilege. Pending this review by the Secretary, we recommend that the Commissioner of Customs require that all Customs offices limit tax deferrals to no more than the maximum time allowed by the 1962 Treasury decision and its implementing regulations.

CHAPTER 4

SUPPLEMENTAL DUTIES SHOULD BE

COLLECTED SOONER

During fiscal year 1976, Customs issued supplemental duty bills totaling $76.4 million for duties that were underestimated, and refunded $30 million for overpayments. Supplemental duties are not always promptly collected, costing the Government additional interest borrowings that could have been avoided if the duties had been collected promptly.

In the four regions included in our review, the reported supplemental duty accounts receivable averaged $8.5 million each month from April 1976 to March 1977. As shown below, each month about $3.2 million (38 percent) of the average duty accounts receivable was over 90 days past due, of which 47 percent was in suspense--did not receive priority attention--because of legal disputes, missing bonds, or bankrupt importers whose bond coverage was insufficient. Reasons

		Over 90 days past due			
Region	Total average monthly receivables	In active collection	Possible bad debt, held in suspense	Total	Percent of total
Boston	$ 934,000	$ 102,800	$ 130,700	$ 233,500	25
Chicago	1,049,000	167,800	-0	167,800	16
Los Angeles	2,537,000	236,200	1,006,900	1,243,100	49
New York	3,951,000	1,201,100	379,300	1,580,400	40
Total	$8,471,000	$1,707,900	$1,516,900	$3,224,800	38
Percent over 90 days past due		53	47	100	

for delayed collections include prolonged review of a transaction to determine final duty amount, inadequate bond control and verification, incorrect and untimely billings and receivable reports, and the questionable value of certain collection practices. Although we restricted our review to collection of supplemental duties, some of these same problems may adversely affect prompt payment of importer refunds.

PROLONGED PROCESSING

Importers cannot be billed for supplemental duties until Customs reviews the transaction to determine the final duty amount. Accordingly, delays in the review process preclude prompt billing, resulting in additional cost to the Government. Further, prolonged review increases the possibility of bonds being lost or misplaced, or of importers or brokers moving or terminating their businesses, making collection difficult or impossible.

As of October 1, 1976, about 1.5 million consumption entries were in various stages of final processing. We sampled 1,000 entries processed in fiscal year 1976 at the four locations included in our review, and developed the following schedule showing the number of months in process.

Months in process	Number of entries sampled	Percent of total entries in the sample
Less than 1	420	42.0
1 to 2	193	19.3
2 to 6	193	19.3
6 to 12	103	10.3
Over 12	91	9.1
Total	1,000	100.0

Lengthy reviews to obtain information necessary to classify and value goods, and importer protests of duty assessments, prolong processing. Although, as shown above, about 42 percent of the entries in our sample were reviewed within 1 month, others took substantially longer. In this regard, the Congress is currently considering legislation (Customs Procedural Reform Act of 1977--H.R. 8149) which provides for automatic liquidation within 1 year after entry unless Customs or the importer requests an extension. While enactment of this legislation will encourage improved management, the potential cost savings are such that Customs should make every effort to further expedite the review process now.

INADEQUATE BOND CONTROL AND VERIFICATION

Although Customs requires importers to have bonds sufficient to cover all duties, taxes, and fees, collection from bonding companies is often delayed or impossible because Customs does not promptly document claims, nor verify that there is adequate bond coverage. If an importer defaults, Customs is supposed to proceed against the bond and collect from the surety (bonding agent), up to a maximum of the bond value.

Control of bond documents needs strengthening

Customs cannot collect from a surety unless it substantiates each claim with copies of the signed bond and entry documents. Customs, however, does not have effective bond control, and as a result, locating some bonds is difficult or impossible. In such cases payment by sureties is either delayed for long periods or is never received.

As noted on page 4, we examined about 150 importer accounts that were over 120 days past due. In many cases we found that the collection delays were attributable to missing bond or entry documentation. For example, we examined 46 instances in New York in which Customs tried to locate copies of bond and entry documents to substantiate claims against sureties. In 27 instances the documents were located--15 within 3 months, and 12 in 3 months to 3 years. In 12 instances, Customs could not locate the documents and terminated collection efforts. In the remaining 7 instances, Customs was still searching for the documents at the time of our review.

Customs could minimize collection problems resulting from lost or misplaced documents by maintaining a control system so that copies of bonds can be easily obtained by the regional offices. In this regard, we noted that the New York regional office currently is duplicating some entry documents and bonds available for public review, to help resolve this control problem.

Inadequate bond coverage

We found that some imports are released without adequate bond coverage.

Some bonds are written to cover more than one entry. In such cases, prior to release of goods, Customs requires each importer to submit documents which indicate the value of the merchandise and the number of the bond covering the merchandise. Customs then checks its records to assure that the bond number is valid. However, if an importer inadvertently supplies Customs a wrong bond number--one which relates to another importer--and subsequently defaults in payment, Customs will encounter unnecessary delays in identifying and collecting from the responsible bonding company, if in fact one exists. But Customs believes that although this can occur it would not occur as a normal practice.

When bonds are written to cover more than one entry, Section 113 of the Customs Regulations requires that the bond value be adjusted for all outstanding entries. Customs' bond control system does not, however, provide for such adjustment--no attempt is made to total the bond coverage applied to an importer's entries and determine the coverage remaining. For example, an importer with a $100,000 bond may already have outstanding entries requiring bond coverage of $100,000. If the importer requires $10,000 bond coverage on his next shipment, Customs would be unaware that the necessary bond coverage ($110,000) exceeds the bond value ($100,000), and would allow the shipment to be imported with insufficient bond coverage. In 1976, under similar circumstances, Customs' Los Angeles regional office had to abandon efforts to collect $642,000 from bonding companies for one bankrupt importer because the bond coverage had been exceeded.

Improvements are needed in the bond control system to hasten collection from bonding companies when importers default. The current system should be modified to match importer and bond numbers; and the system should accumulate the amount of coverage applied to outstanding entries for use in determining the adequacy of bond coverage.

INCORRECT AND UNTIMELY BILLINGS AND RECEIVABLE REPORTS

A centralized Customs data center issues most supplemental duty bills and past-due notices directly to importers. However, collection of supplemental duties is sometimes delayed because of time delays and accuracy problems, in either the billing information received from the regional offices or in the bills prepared at the data center.

Errors involving importer identification information can substantially delay collection of supplemental duties. In the New York region we reviewed 50 accounts that were over 120 days past due and found that in 9 cases the bills were mailed to the wrong importer or bonding company, delaying collection for 2 to 7 months. Similarly, in 6 of 21 cases reviewed in the Chicago region, collection was delayed 1.5 to 13 months. Further, in 1 month alone, because of missing importer identifications and not following proper procedures in the Boston region, the Customs data center had forwarded 91 out of a total of 1,500 bills to the region to obtain the importer identification. In such cases collection is delayed until the regional office identifies the importer and forwards the bill.

The data center produces a monthly accounts receivable report for use by each region in following up overdue bills. These reports are 2 to 3 weeks old by the time they are received, often include bills that have already been paid or canceled, and in some cases do not contain importer identifications. The regions must manually correct and update these reports before they can be used. Improvements are needed to assure that importers are properly billed and overdue accounts are promptly identified.

MARGINAL EFFORTS TO COLLECT OVERDUE ACCOUNTS

Although regional offices are responsible for collecting overdue accounts, in some instances the potential value of such efforts is reduced because claims against sureties are not promptly documented, delinquent importers and sureties are infrequently contacted, or threatened sanctions are inappropriate.

Untimely documentation of claims against sureties

When supplemental duty bills remain outstanding for over 60 days, the Customs data center prepares monthly computerized demand notices on the sureties. However, sometimes these notices in themselves do not elicit prompt payment because they usually are not accompanied by copies of bond and entry documents, even in cases in which they can be readily located. If the demand notices were accompanied by these documents, the validity of the claims would be confirmed sooner, and the notices would have greater potential value for eliciting prompt payment. Customs agrees that a problem exists but is considering an alternative solution to our proposal.

Infrequent contacts on overdue accounts

The regional offices use letters, phone calls, and meetings to follow up overdue accounts, but in some cases these contacts are infrequent. GAO's "Policy and Procedures Manual for Guidance of Federal Agencies" requires that revenues be collected as promptly as possible.

In the Los Angeles region, we selected 50 importer accounts that were over 120 days past-due. We noted that, in 15 cases, the regional office did not initiate followup contact until the accounts were over 90 days past due. In four cases, intervals between contacts ranged from 6 months to 1 year. If followup contacts were more frequent, Customs could be alerted sooner to problems that might be resolved, enabling more timely collections. Customs should have more frequent followup contact when importers' accounts are 30 days past due.

CONCLUSIONS AND AGENCY COMMENTS

We believe that the agency should take actions to expedite the collection of supplemental duties. In the four regions reviewed, $3.2 million of supplemental duties remained outstanding for long periods.

To enable more timely processing of entries allowing earlier billings, Customs is preparing instructions encouraging field offices to expedite the processing of entries and comply with the spirit of the review procedures proposed in H.R. 8149, as discussed on page 13.

To improve bond control and minimize collection problems, Customs is developing procedures to improve bond control, has initiated a project to determine the best method of assuring there is adequate bond coverage on all entries, and is exploring the possibility of replacing the bonding system with a fee schedule. Customs is issuing a memorandum reminding field offices of the proper procedures to be followed in collecting overdue accounts from sureties and is considering creating a public file of bonds to enable timely documentation of claims against sureties.

To improve billing and collecting procedures, Customs said that it has also developed procedures intended to reduce errors in the billing system. It has taken steps to improve the timeliness of accounts receivable reports, and provide current information on the status of accounts receivable.

In our opinion, charging interest on all accounts 30 days past due would provide an equitable and timely incentive to prompt payment. This would also compensate the Government for revenue collection delays on overdue accounts.

Customs said that it has not been granted legislative authority to charge interest, and that such charges would not be in the best interest of the Government since interest would also have to be paid on refunds. We subsequently discussed this matter with Customs officials, pointing out that court decisions and legal opinions have held that Federal agencies are authorized to charge interest on overdue accounts in the absence of legislation to the contrary, and that the Government is not required to pay interest on refunds. Customs agreed to review existing policies and consider charging interest on overdue accounts.

RECOMMENDATIONS

To help reduce delays in collection of supplemental duties, we recommend that the Secretary of the Treasury direct the Commissioner of Customs to

--improve the processing of entries to expedite billings,

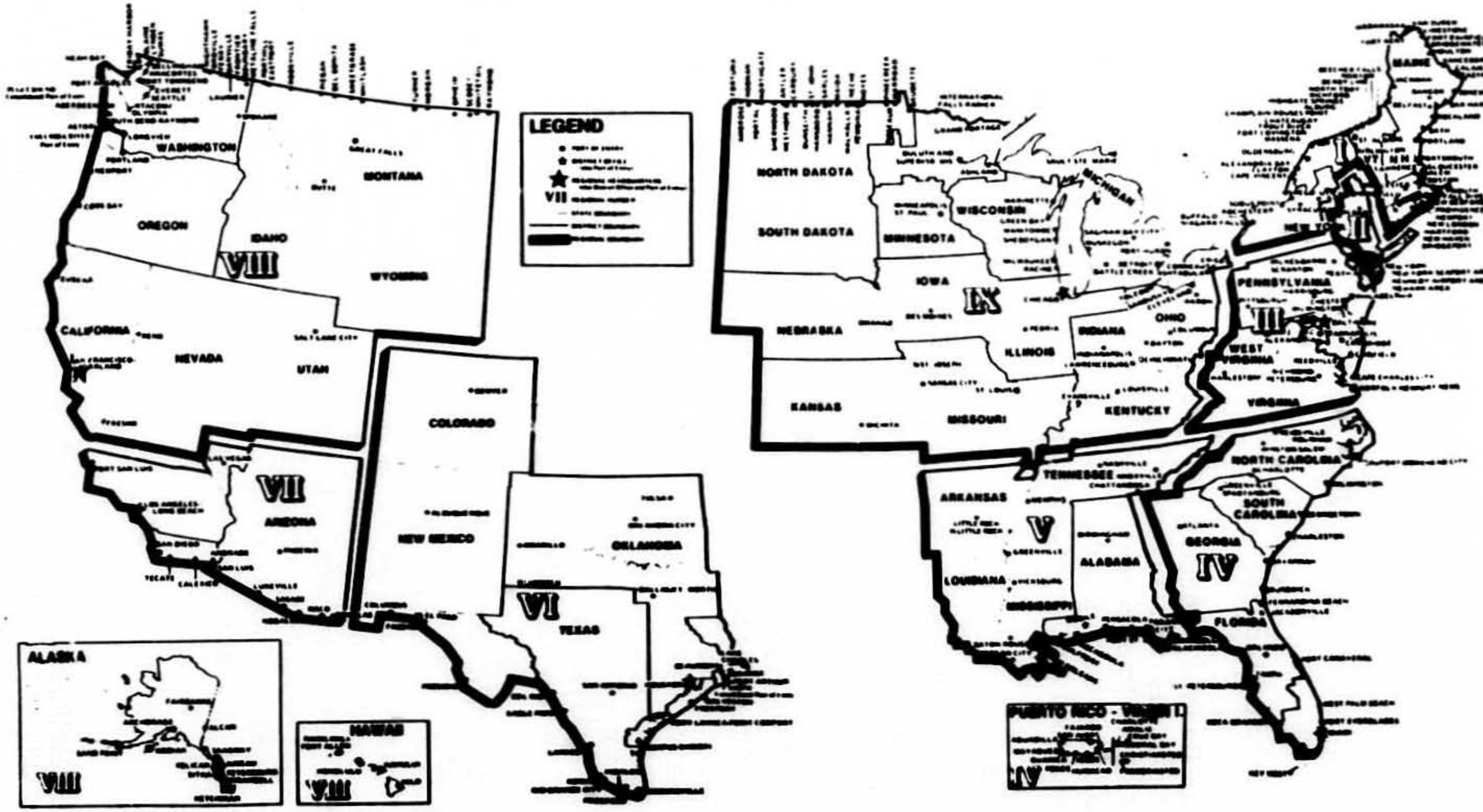
--develop methods of improving bond control,

--require the regions to promptly document claims against sureties and maintain frequent contacts with delinquent importers and sureties,

--improve the billing system to assure proper billing of importers and timely identification of overdue accounts, and

--charge interest on all accounts 30 days past due.

REGIONAL BOUNDARIES OF CUSTOMS



APPENDIX I

DEPARTMENT OF THE TREASURY
WASHINGTON D C 20220

ASSISTANT SECRETARY

MAY 25 1978

Dear Mr. Scantlebury:

The General Accounting Office draft report entitled "Import Duties and Taxes: Improved Collections, Accounting and Cash Management Needed" has been reviewed by officials of the U.S. Customs Service and pertinent comments are presented below by chapter and/or page number reference.

Chapter 2

Recommendation: "develop a system that reports all revenue when earned and reduces collection deferrals inherent in the immediate delivery system."

Comments: The Customs Service has initiated a project to develop and implement a revised Appropriations Accounting System. Consideration is being given to the feasibility of reporting accruals resulting from deferred payments of duties under the revised system. In addition, the Customs Service is undertaking a study to determine the practicality and feasibility of assessing interest charges on deferred payments of duties as a measure to reduce collection deferrals inherent in the immediate delivery system.

Other Comments: With reference to Revenue Not Recorded When Earned (p. 8), the Customs Service does not currently recognize all accrued revenue since a time consuming and costly system would be required to accurately determine the accrued revenue due on merchandise released under immediate delivery. Furthermore, the financial statements on which the accrual would be reported are used strictly for accounting purposes within Customs, and the information does not affect the Treasury Department accounts or Governmentwide reporting.

Chapter 3

Recommendation: "review policy allowing tax deferrals on imported and domestic alcoholic beverages. If allowed to continue, then consider levying interest charges on dealers

GAO note: Page numbers mentioned in this appendix refer to our draft report and may not correspond to this final report.

that elect to exercise the privilege."

Comments: The Customs Service is undertaking a study to determine whether present policy granting importers deferred tax privileges should be changed or amended to provide for the imposition of interest charges. The results of this study will be furnished to and coordinated with officials of the Bureau of Alcohol, Tobacco and Firearms for consideration in connection with domestic deferred tax policy.

Recommendation: "Customs offices limit tax deferrals to the average 23 days allowed by the 1962 Treasury Decision."

Comments: A survey of the Customs regions indicates that deferred tax amounts are being collected properly in all locations except the New York Region. Specific instructions are being issued to the Regional Commissioner, New York, to ensure that proper procedures are followed in the collections of tax deferrals.

Chapter 4

Recommendation: "expedite the liquidation process to enable prompt billings."

Comments: Currently the U.S. Customs Service receives 3.7 million entries per year. For a portion of these entries, estimated at 9.1 percent by GAO, final processing is delayed beyond one year because of statutory considerations, compliance with court orders, and valid differences of opinion between the importer and Customs. Instructions are being prepared to encourage field officers to further reduce this percentage by identifying the specific areas in which final processing must be extended. Moreover, we are pleased that GAO supports the legislative provisions proposed, in part, to correct the problems identified with prolonged processing. In this regard instructions are being issued encouraging field offices to comply with the spirit of H.R. 8149.

Other Comments: With reference to Supplemental Duties Should Be Collected Sooner (p. 15), it should be noted that only approximately four percent of supplemental duty bills issued during a twelve month period are outstanding past 30 days.

The majority of these billings, as indicated in the GAO report, involve legal disputes and bankruptcies. In addition, a number of outstanding bills have been placed in suspense pending cancellation and reissuance because of incorrect duty calculations or other errors.

Recommendation: "develop methods of improving bond control so that the adequacy of bond coverage can be easily determined and copies of bonds easily obtained."

Comments: This area will receive Customs' immediate attention. Instructions will be issued to standardize the procedure for filing term bonds, and to coordinate the document retention and destruction period with the final processing of the affected entries. The New York practice of making copies of bonds immediately available for surety review will be considered as a national procedure.

The adequacy of bond coverage has been a recurring issue within the Customs Service. A project is being initiated to determine the operational resources required to implement a control system, perhaps similar to the one used by banks to determine average daily liabilities. Customs is also considering a procedure which would provide a profile of an importer's previous year's activity at the time of bond renewal for adequacy determinations. Finally, Customs is exploring the replacement of the entire bond system by a fee schedule.

(See GAO note below.)

Other Comments: With reference to Inadequate Bond Coverage (p. 19), Customs agrees with the implications that an importer could inadvertently supply a wrong bond number, but not as a normal practice. The Automated Bond Information System (ABIS), which was implemented in 1973, is designed to prevent this type

GAO note: Deleted material pertained to a matter contained in the draft report which has changed or is not included in this report.

of problem. Furthermore, the benefit of matching importer and bond numbers as recommended by GAO is now achieved by ABIS where sureties and importers are matched.

As noted on page 20 of the report, many of the problems identified in this section involve old entries and in turn the procedures followed at the time the entries were filed. The entries relating to the bankrupt importer in the Los Angeles region, for example, were filed during the period 1967 to 1970.

Recommendation: "improve the billing system to assure proper billing of importers and timely identification of overdue accounts."

Comments: As GAO noted, bills are occasionally issued with erroneous names and/or addresses. The Customs Automated Accounting System generates bills in accordance with name and address information provided by importers and brokers. To prevent the introduction of erroneous information into the computer, Customs instituted a program two years ago which enables them to "freeze" importer identification information in the computer. They also recently developed a computerized preliminary update listing by location for review and corrective action by the appropriate regional Financial Management Division.

Other Comments: With reference to Incorrect and Untimely Billings and Receivable Reports (p. 20), supplemental duty bills are not normally issued without names and addresses since the Customs Automated Accounting System is programmed to reject the processing of an entry when proper importer identification information is not on file. The bills which GAO identified as having missing importer information were initially issued by the regional office, with subsequent notices being generated by the computer. This procedure is to be used for issuance of miscellaneous bills, not for supplemental duty bills, and Customs has notified the responsible region, accordingly.

Action is being taken to improve the timeliness of accounts receivable reports by providing local printing of the reports at the cognizant regional offices. Although not noted in the

GAO report, one of the regions visited, New York, also had online query capability for the accounts receivable program; in the near future, Customs expects that this capability will also be made available to all regions.

Recommendation: "require the regions to promptly document claims against sureties and maintain frequent contacts with delinquent importers and sureties."

Comments: The Customs Claims, Policies and Procedures Manual establishes the procedures to be followed in collecting overdue accounts. In addition, a memorandum is being issued reminding field offices of the proper procedures to be followed in collecting overdue accounts, particularly where sureties are involved.

Other Comments: With reference to Untimely Documentation of Claims Against Sureties (p. 22), Customs does not believe that furnishing copies of bonds and entry documents along with surety demand reports is warranted. In some instances the surety is aware that the obligation is valid, and in other cases the surety contacts the principal resulting in payment to Customs without further action. Under these circumstances, the additional cost of retrieving, copying, and mailing the entries and bonds would not be justified. Instead, Customs is considering creating a public file for copies of bonds.

(See GAO note on p. 22.)

Recommendation: "levy interest charges on all accounts 30 days past due."

<u>Comments</u>: Customs has not been granted legislative authority to charge interest, but on several occasions consideration has been given to proposing such legislation. Various studies, however, have concluded that it would not be in the best interest of the Government to assess interest since interest would also have to be paid on refunds due from protests, reliquidations, and other actions.

As a result of the recommendations made in the GAO report and in view of the President's interest in improving cash flow, Commissioner Chasen has directed the Internal Audit Division to conduct an in-depth survey of Customs cash management. The purpose of this survey will be to identify impediments to a rapid cash flow of duties and taxes into the Treasury.

We appreciate the opportunity to comment on the draft report and will continue to cooperate with the General Accounting Office in future efforts to improve our operations.

Sincerely,

Richard J Davis

Richard J. Davis
Assistant Secretary
(Enforcement and Operations)

The Honorable
D. L. Scantlebury, Director
Division of Financial and General
Management Studies
U.S. General Accounting Office
Washington, D. C. 20548

PRINCIPAL DEPARTMENT OF THE TREASURY OFFICIALS RESPONSIBLE FOR ADMINISTERING ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
SECRETARY OF THE TREASURY		
W. Michael Blumenthal	Jan. 1977	Present
William E. Simon	Apr. 1974	Jan. 1977
UNDER SECRETARY OF THE TREASURY		
Bette B. Anderson	Apr. 1977	Present
COMMISSIONER, UNITED STATES CUSTOMS SERVICE		
Robert E. Chasen	July 1977	Present
G. R. Dickerson (acting)	May 1977	July 1977
Vernon D. Acree	May 1972	Apr. 1977

(90618)