UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D C 20548

CIVIL DIVISION

JUN 28 1971

Dear Mr. Ambrose:

We have made a review of the accounting for import duties by the Bureau of Customs automated revenue accounting system. We found that input data submitted by the port of Baltimore and the New York Region and rejected by the computer as erroneous or unacceptable was not being corrected promptly. The rejected data consisted of errors in the coding and recording of cash collections and errors related to other than cash, referred to by the Bureau as noncollection items.

Failure by the regions and ports to promptly correct errors in the coding and recording of cash collections results in delays in crediting the collection to the proper account or entry transaction. Failure to promptly correct either cash collection or noncollection items can also result in (1) delays in liquidating an entry and in notifying the importer of the liquidation, (2) delays in billing the importer for additional duty, (3) delays in making refunds to the importer, (4) billing an importer for duties which have been paid, and (5) inadequate records of revenue collections for management purposes.

ACCOUNTING FOR IMPORT DUTIES

Input data to the automated revenue accounting system on import duties is submitted to the Bureau's Data Center in Silver Spring, Maryland, by the ports of entry and the regional offices. Input data includes information such as (1) entry number, importer number, and duty estimated by the importer at the time of entry, (2) cash collection of the estimated duty, (3) liquidation of the entry based on the Bureau's determination as to the correct amount of duty, and (4) subsequent collection of any amounts due.

As designed, if all the input data is correct, when the Bureau determines the actual amount of duty at liquidation, the Data Center bills the importer for any amount due, makes a refund for any overpayment, or advises the importer or his agent that the estimated

duty was correct. Subsequent collections of amounts billed remove the accounts receivable from the system.

During the processing of input data, the computer rejects erroneous or unacceptable input data and lists the rejected data on weekly listings which are sent to the regions and ports for corrective action. Separate listings are prepared for rejections relating to (1) cash collection transactions and (2) noncollection transactions.

The rejected cash collection listing includes errors in the coding and recording of cash collections. The rejected cash collections shown on this listing are credited to an unapplied receipt account until the coding and recording of the collection has been corrected. An end-of-month listing includes cash collection items rejected for the week, plus all previously rejected cash collection items that have not been corrected. The weekly listing of rejected noncollection items, includes items rejected for various reasons, such as an importer's number shown on an entry document which does not match an assigned number in the system. Periodically, the listing of rejected noncollection items includes some types of previously rejected data that has not been corrected.

During our review we visited the port of Baltimore and the New York Regional Office to determine the action being taken to correct the rejected input data on import duties.

REJECTED DATA NOT CORRECTED ON A
TIMELY BASIS

For the Baltimore Region, the end-of-month listing of rejected items for September 1970 showed that there had been 410 errors in the coding and recording of cash collections, including 211 cash transactions for correction by the Baltimore Port. Our review of the 211 Baltimore Port's rejected cash transactions showed that they were not being corrected on a timely basis:

   --129 items had been rejected prior to September 1970, including one
     transaction first rejected in October 1968,

   --20 of the 129 items rejected prior to September 1970 still appeared
     on the end-of-month listing for December 1970.

The weekly listings of rejected noncollection transactions for September 1970 contained about 3,600 input rejections for the Baltimore Region of which about 1,300 were applicable to the Baltimore Port. Our review of the 1,300 Baltimore Port's rejected noncollection transactions showed that they were not being corrected on a timely basis. The listings for the Baltimore Port for September 1970 included items such as:

Code	Quantity	Cause of computer rejection,
V	105	Entry of merchandise recorded in computer for over 2 weeks; however, there is no record of collection of duty
6	21	No valid importer number on file for which a refund is due
Z	240	The importer's number does not match a corresponding number in the system

Of the 105 items, with estimated duty of about $848,000, on the September listing where there was no record that duty had been collected (code V), 78 items, with estimated duty of about $814,000 were still shown as uncorrected on the December listing, including some which dated back to July 1967. We were informed that the port did not take prompt corrective action on this type of error because it would eventually be corrected when the entry was processed for liquidation. However, since a considerable period of time can elapse between the time the computer rejects the input data and the time the entry is liquidated, we believe that every effort should be made to correct these items promptly. One of the benefits of ADP revenue controls is to ascertain that estimated duties declared at entry are, in fact, collected. Unless efforts are made on a timely basis to correct these rejected items, the full benefits of this control are not being attained. The financial management officer at the Baltimore Region agreed that these items should be corrected promptly.

Similarly, we noted that for the 21 items where a refund was due the importer but the importer's number could not be identified (code 6), 13 items remained on the error listing as uncorrected as of December 31, 1970. We found that (1) four of the 13 items had been liquidated manually on the port's records and the monies refunded in March and August 1969, but action had not been taken to correct the transactions in the revenue accounting system, (2) action had not been taken to locate the data needed to correct four entries, (3) action had been taken by the port to correct two items which had not been picked up in the computer and were still listed as uncorrected, (4) one item was liquidated in January 1971, and (5) action had been initiated to obtain the importers' number for the remaining two items.

About 240 of the 1,300 rejected noncollection items for the port of Baltimore for the month of September, were classified as Z type errors where the rejection occurred because the importer's number shown did not match a corresponding number in the system. Action was not being taken to resolve and remove these types of items from the error listings.

National Office officials advised us that these computer rejected items are not considered matters that require immediate resolution by the field offices because correction of the data has no effect on the liquidation of the entry. We believe that to receive the full benefit of the system these errors should be corrected promptly because if the importer is not properly identified prior to liquidation, the Data Center cannot immediately notify the importer of liquidation, bill the importer for additional amounts due, or make a refund to the importer for any over-payment. These actions are therefore delayed until the port researches its files after liquidation to obtain the name and address of the importer and inserts it on a notice of liquidation, or on a billing for additional duty prepared by the Data Center, or furnishes the information to the Data Center in order that a refund can be made.
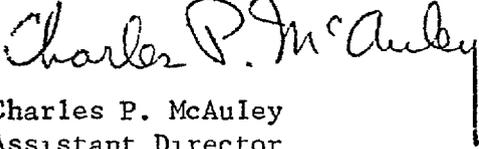
We also visited the New York Regional Office in October 1970 and discussed the correction of computer rejected items. Although we did not analyze these listings, we did note that, as in the Baltimore Region, certain rejected items were not being corrected, or were not being corrected in a timely manner. The end-of-month listing for September 1970 showed that about 7,000 cash collection items had been rejected by the computer because of errors in the coding and recording of cash collections. We noted that about 5,500 rejected cash collection items, or about 79 percent, were for prior month transactions some dating back to March 1969. Of approximately 31,000 items appearing on the weekly listings of noncollection errors for the month of September, about 4,700 were classified as Z type errors and about 5,200 were classified as V type errors, discussed previously in connection with the port of Baltimore, on which no corrective action was being taken.

In discussing the correction of computer rejected items with National Office officials, we were advised that consideration is being given to establishing a monthly statistical report system for computer rejected items. We were also informed by National Office officials that two regional offices are in the process of documenting the detailed procedures followed in the correction of rejected items, and that these procedures will be used by the National Office as an aid in the preparation of a revised correction procedures manual to be used by all ports and regions.

We believe that these proposed actions can be useful in solving this problem, if appropriate steps are taken to analyze the type of errors that are occurring and instructions issued to the ports and regions advising them of why the errors are occurring and the steps needed to reduce the number of errors. We believe that emphasis should be placed on the effect that these errors, and the failure to promptly correct identified errors, have on the proper operation of the system.

We appreciate the cooperation extended to our representatives during our review. Please advise us of any actions taken on the matters discussed in this report.

Sincerely yours,

Charles P. McAuley
Assistant Director

The Honorable Myles J. Ambrose
Commissioner
Bureau of Customs