

DOCUMENT RESUME

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[Customs Check Depositing Procedures Need Improvement].  
FGMSD-78-58; 8-114898. September 20 1978. 4 pp.

Report to Rep. Bill Gradison; by D. L. Scantlebury, Director,  
Financial and General Management Studies Div.

Issue Area: Accounting and Financial Reporting: Collection of  
Amounts Owed (2803);

Contact: Financial and General Management Studies Div.

Budget Function: Miscellaneous: Financial Management and  
Information Systems (1002).

Organization Concerned: Department of the Treasury; United  
States Customs Service; United States Shoe Corp.; Harlo Air  
Cargo Brokers, Inc.

Congressional Relevance: Rep. Bill Gradison.

United States Shoe Corporation alleged that it suffered losses because it had to make good on checks issued by its bankrupt import broker, Harlo Air Cargo Brokers, Inc., and contended that the loss occurred because of the U.S. Customs Service's delay in depositing the broker's checks. U.S. Shoe's \$80,381 loss included \$60,170 of Harlo's duty payment checks that were returned by the bank for insufficient funds. At the same time, Customs was processing import documents with checks attached for \$20,200. It could not be ascertained if any of the returned checks would have cleared the bank if Customs had deposited them earlier because extensive analysis of bank records would have been required, and Harlo's insolvency was at least partially caused by the insolvency of another company whose checks to Harlo were returned unpaid. Customs' New York region deposited the checks an average of 7.5 workdays after receipt--substantially less than the several months delay alleged by U.S. Shoe. The delay in depositing Harlo's checks was caused by a regional office procedure requiring that checks accompany import documents during initial processing. The New York office's check depositing procedures are unique within the Customs Service. In Boston, Los Angeles, and Detroit, checks are deposited upon receipt, usually the same or the following workday. The Customs Service has purchased modern processing machines, decreasing the delay at John F. Kennedy Airport, and has prepared instructions requiring the deposit of duties and taxes upon receipt. (BRS)

7701



UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

DIVISION OF FINANCIAL AND  
GENERAL MANAGEMENT STUDIES

B-114898

SEPTEMBER 20, 1978

The Honorable Bill Gradison  
House of Representatives

Dear Mr. Gradison:

Your letter of October 11, 1977, enclosed a letter from the United States Shoe Corporation which discussed losses suffered by the Corporation because it had to make good on checks issued by its import broker which was bankrupt. U.S. Shoe alleged that the loss occurred because the United States Customs Service, Department of the Treasury, delayed depositing checks for several months and suggested that if the brokers' checks had been deposited promptly, U.S. Shoe's losses would have been minimized, if not eliminated. The Corporation believed an investigation of the check processing procedures in all Federal Government agencies was warranted. You requested that both the Customs Service and GAO look into this matter and recommend or implement necessary reforms.

We share your concern that a Government-wide investigation of check processing procedures is warranted. Although we have not reviewed the Government's check processing practices, we have reviewed cash management on a continuing basis as part of our review of accounting systems in operation. From May 5, 1977, to February 24, 1978, we issued 15 reports recommending improvements in agencies' cash management systems. During the audits that produced these reports the agencies' check processing systems were reviewed.

At a November 18, 1977, meeting with your Office we explained that we were reviewing Customs Service's Revenue Accounting System and had already identified problems in the New York regional office's check handling procedures. As part of that review, we investigated the alleged U.S. Shoe losses.

RESULT OF OUR REVIEW

U.S. Shoe used the services of a customs broker to process documents required by the Customs Service and to

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(90628)

pay the required duties on its imports. However, because the customs broker used by U.S. Shoe had not been reimbursed by another of its clients the broker became insolvent and filed a bankruptcy petition.

We found that U.S. Shoe had to pay the Customs Service for import duties that it had previously paid to its bankrupt import broker, Harlo Air Cargo Brokers, Inc. (Harlo). In its capacity as U.S. Shoe's broker, Harlo would normally have prepared entry documents and paid applicable customs duties on behalf of U.S. Shoe. U.S. Shoe would have paid Harlo the amount of the duties on imported merchandise and Harlo would have, in turn, written a check, attached it to the import entry documents and submitted the package to Customs.

With respect to the \$80,381 loss, \$60,170 of Harlo's duty payment checks were returned by the bank in May 1977 because of insufficient funds. At that same time, Customs was processing import documents with checks attached for an additional \$20,211. These combined amounts accounted for the \$80,381 in Harlo checks which U.S. Shoe had to make good. We did not ascertain if any of the returned checks would have cleared the bank had Customs deposited them earlier, because (1) extensive analysis of bank records would have been required, and (2) Harlo's insolvency was at least partially caused by the insolvency of another import company whose checks to Harlo were returned unpaid. However, we did find that Customs Service's New York region deposited the returned checks an average of 7.5 workdays after receipt--substantially less than the "several months delay" indicated by U.S. Shoe.

There were 23 import transactions applicable to U.S. Shoe's complaint. For 17 of the transactions, totaling \$60,170, we determined that Customs had deposited Harlo's checks; however, in 2 cases, we were unable to determine when Customs received the checks. The remaining 15 checks were deposited between 3 and 12 workdays after receipt--an average of 7.5 workdays. We did not calculate a time delay on the remaining six transactions totaling \$20,211 because, knowing of Harlo's insolvency, Customs did not deposit the checks.

The delay in depositing Harlo's checks was caused by a New York regional office procedure requiring that checks accompany import documents during initial processing. Import documents were received, reviewed, assigned an entry number, and entered into the computer system before the

duty payment checks could be deposited. The average processing time for the Harlo checks was

--1.2 workdays from receipt to assignment of the entry number,

--5.5 workdays from assignment of entry number to receipt by the cashier,

--0.8 workdays for the cashier to deposit the checks, and

--7.5 workdays in total.

The New York regional office's check depositing procedures are unique within the Customs Service. In Customs' Boston and Los Angeles regions and in the Detroit District, checks are deposited upon receipt, usually the same or the following workday.

Customs responded to your request in a November 21, 1977, letter and said that it would try to improve its processing capabilities and service to the importing public. In July 1978, when we asked about the depositing delay problem, Customs officials said that in the past, the New York regional office had had processing problems but, with additional staffing and the purchase of modern processing machines, the delay at the John F. Kennedy Airport has decreased.

The Customs Service has also prepared instructions requiring the deposit of duties and taxes upon receipt. These instructions provide that Customs will deposit checks on the day of receipt rather than waiting until the import documentation is reviewed. This new system is presently being tested at Port Huron, Michigan, and plans are being made for its nationwide implementation.

In our opinion, successful implementation of the proposed new depositing system is desirable not only to minimize the type of problem that arose on the U.S. Shoe entries but also as an important feature of any system of cash management.

In a November 14, 1977, memorandum to the heads of executive departments and agencies, President Carter said that he was interested in improving cash management throughout the Federal Government. The purpose of the effort was to use cash most effectively, paying special attention to how cash is collected, and thereby reduce the Federal debt and interest cost. We believe this effort is warranted and are encouraged by the actions taken thus far.

We informally discussed our findings and conclusions with agency officials. Their corrective actions have been included in this report where appropriate.

For your information, we are sending you a copy of our report to the Congress entitled "Import Duties and Taxes: Improved Collection, Accounting, and Cash Management Needed" (FGMSD-78-50, Aug. 21, 1978).

As arranged with your office, we are sending copies of this letter report to the Commissioner of Customs. Copies will also be available to other interested parties who request them.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "D. L. Scantlebury".

D. L. Scantlebury  
Director

Enclosure