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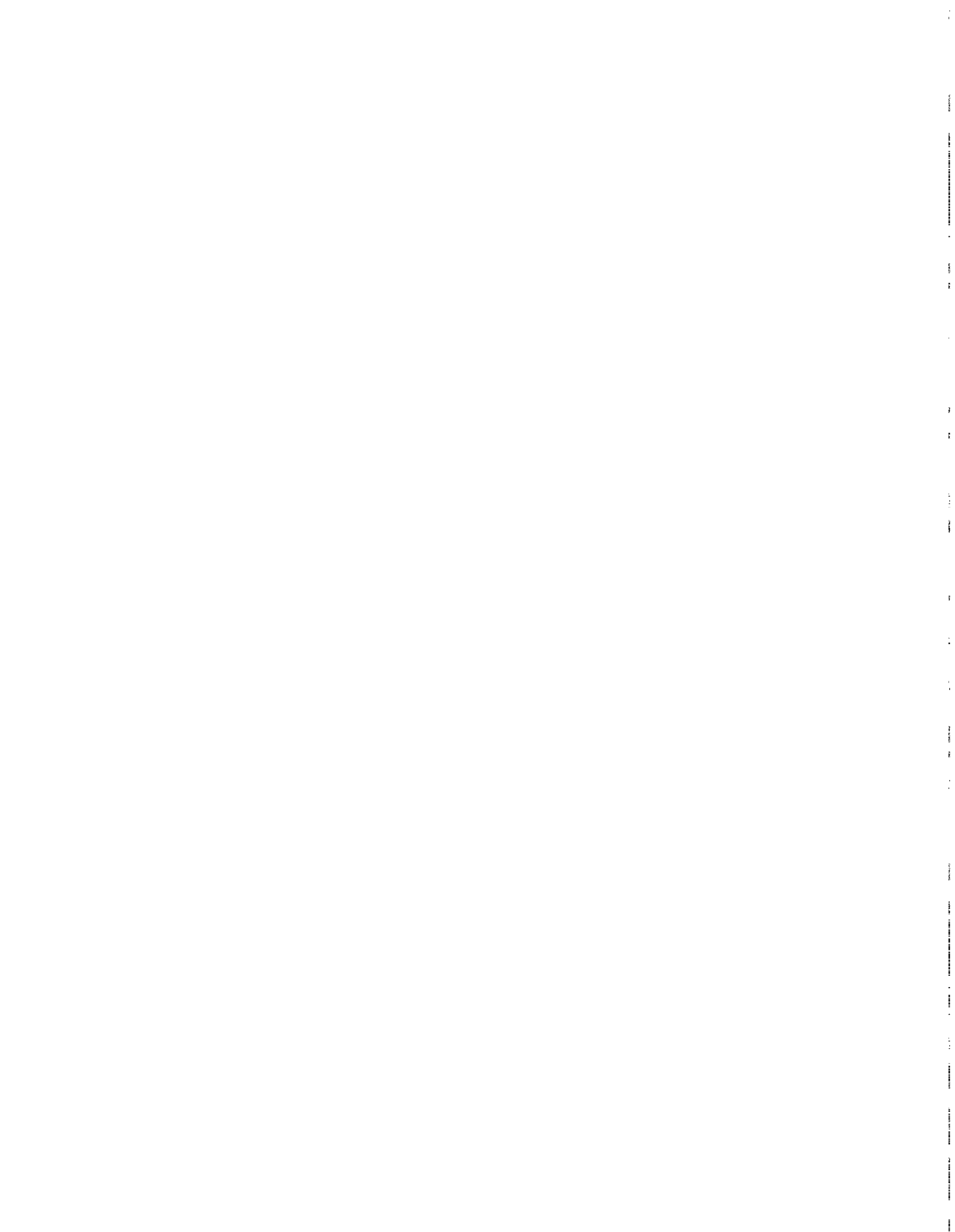
Report to the Chairman, Subcommittee
on Oversight, Committee on Ways and
Means, House of Representatives

March 1991

CUSTOMS AUTOMATION

Progress Made, More Expected in Revenue Reconciliation Process







United States
General Accounting Office
Washington, D.C. 20548

Information Management and
Technology Division

B-231311

March 7, 1991

The Honorable J. J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

This is our second and final report responding to your May 17, 1989, letter, in which you requested that we examine certain controls relating to the U.S. Customs Service's automated revenue collection and deposit processes. Our first report addressed significant internal control weaknesses in Customs' revenue collection procedures at ports of entry that made these collections vulnerable to fraud and abuse.¹

This report responds to the remaining portion of your request for a review of Customs' actions to address internal control weaknesses in reconciling collections with bank deposits. In our April 1989 report and testimony,² we pointed out that Customs could not reconcile an almost \$54-million discrepancy between its reported collections and deposits in its February 1989 Statement of Accountability. (The Statement of Accountability is a report sent monthly to the Department of the Treasury.) In addition, Customs was unable to reconcile collections to deposits on a monthly basis using the Automated Commercial System (ACS), and as a result could not balance its records of monthly collections with its records of deposits. Finally, Customs was experiencing about a 45-day lag in reconciling its bank deposit records with Treasury's deposits as reported to Treasury by the banks.

As agreed with your office, our objectives were to determine what Customs has done since our April 1989 report and testimony to (1) resolve the \$53.5 million discrepancy in its February 1989 Statement of Accountability, (2) enhance ACS to provide reconciliation of collections and deposits, and (3) reduce the lag time in reconciling its bank deposit records with Treasury's deposit records.

¹Customs Automation: Duties and Other Collections Vulnerable to Fraud and Abuse (GAO/IMTEC-90-29, Feb. 28, 1990).

²Customs Automation: Internal Control Weaknesses in Customs' Revenue Collection Process (GAO/IMTEC-89-50, Apr. 11, 1989); and Internal Control Weaknesses in Customs' Revenue Collection Process (GAO/T-IMTEC-89-5, Apr. 17, 1989).

Results in Brief

Since April 1989, Customs has reconciled about \$45.3 million of the \$53.5 million discrepancy, and has made system enhancements to ACS that now permit monthly reconciliations of collections to deposits. However, as of January 31, 1991, about \$8.2 million of the February 1989 discrepancy remained unresolved. Because of a lack of documentation, Customs may never be able to determine whether this unresolved amount represents theft, fraud, or internal accounting problems. Customs is still experiencing a 45-day lag in reconciling its deposit data with Treasury's, but expects a new system Treasury is developing to resolve this problem by obtaining deposit data sooner.

Background

One of the U.S. Customs Service's primary missions is to assess and collect revenues in the form of duties, taxes, tariffs, and fees on imported merchandise. In fiscal year 1990, imported merchandise was valued at over \$450 billion, and Customs collected over \$19 billion in revenues. To assist in its efforts to collect these revenues, Customs developed and implemented the ACS Financial System module.

When Customs officials at U.S. ports receive payments, these payments are entered into ACS as a collection. Later in the day, cashiers total all checks and cash received and enter the total into ACS as the amount deposited for that day. Each day, cashiers are required to reconcile the total collections entered into ACS with the total daily deposits entered into ACS. If the two totals do not agree, the computer terminal at which the entries were made cannot be closed out until the discrepancies are resolved.

Deposit packages containing the day's collections are prepared and sent to a commercial or Federal Reserve bank. Deposit tickets confirming the receipt of funds are forwarded by the banks to Customs' National Finance Center in Indianapolis, Indiana. Banks later confirm the actual amount of funds received and prepare adjustments for such items as shortages or counterfeit bills. Data on these deposits and adjustments are then forwarded to Customs' National Finance Center and the Treasury. By the eighth working day after the end of each month, Customs' National Finance Center sends a Statement of Accountability to Treasury, summarizing its total monthly collections and total deposits. About a month later, Treasury sends a Statement of Differences to Customs, detailing any differences between the deposits confirmed by the banks and the deposits reported by Customs. Customs is responsible for resolving differences between its deposit records and Treasury's records of deposits as reported by the banks.

Our previous report and testimony in 1989 disclosed significant breakdowns in Customs' automated controls over revenue collection, deposit, and reconciliation.³ Because of ACS' inability to link each collection to its corresponding deposit, Customs could not use ACS to reconcile discrepancies between collections and deposits. The agency continually reported these unreconciled discrepancies to Treasury on its monthly Statement of Accountability as "undeposited collections." As of February 1989, Customs reported that total accumulated collections exceeded deposits by \$53.5 million. Moreover, Customs could not use ACS to determine if the imbalances were due to theft or were the result of past problems with its internal accounting records. Protracted lags in reconciling Customs' bank deposit records with Treasury's bank deposit records were also found—a weakness that permitted numerous thefts to go undetected for long periods of time.

Prior Discrepancy Substantially Reconciled

Between April 1989 and January 1991, Customs has made accounting adjustments to account for approximately \$45.3 million of the \$53.5 million discrepancy by either locating previously unrecorded deposit confirmations or obtaining supporting documentation from Treasury's Financial Management Service. To assess the appropriateness of these adjustments, we judgmentally selected 93 of the 3,020 adjustments made during the period April 1989 to April 1990.

Our review of the documentation for these adjustments disclosed no evidence of unsupported adjustments. However, as of January 31, 1991, \$8.2 million remained unaccounted for and unreconcilable. According to Customs' National Finance Center Revenue Branch chief, who has coordinated the reconciliation effort, the remaining discrepancy may never be resolved because of the lack of documentation. According to a November 1990 Customs progress report to the House Subcommittee on Oversight, Committee on Ways and Means, from the Commissioner of Customs, if Customs is unsuccessful in its efforts to completely resolve and fully eliminate the undeposited collection discrepancy on the Statement of Accountability, a final accounting adjustment of some type may be required to eliminate any remaining discrepancy.

³GAO/IMTEC-89-50, Apr. 11, 1989, and GAO/T-IMTEC-89-5, Apr. 17, 1989.

ACS Enhancements Have Improved Ability to Reconcile Deposits With Collections

Since April 1989 Customs has introduced several ACS software enhancements to correct internal reporting and programming deficiencies involving collection and deposit transactions. As a result of these enhancements and the addition of new accounting reports, Customs says it is now able to balance its total monthly collections with deposits.

Several major enhancements made to the ACS Financial System module addressed Customs' inability to reconcile monthly collections with deposits. In August 1989 a change was implemented that requires entry of the deposit ticket number in all collection transactions. This procedure ensures that deposits can be traced back to collections, which gives ACS the ability to link each collection to its corresponding deposit. In October 1989 ACS was enhanced to produce monthly reconciliation reports. These reports are used to reconcile collections and deposits at the end of each month and to support the Statement of Accountability. This enhancement has eliminated the persistent, month-to-month, unreconcilable deposit and collection imbalances. With these new enhancements, Customs has been successful since December 1989 in reconciling its monthly collections with deposits.

Reconciliation Lag Time Continues but New Treasury System May Solve Problem

To reduce the 45-day lag in reconciling its bank deposit records with Treasury's deposit records as reported by banks,⁴ Customs obtained daily deposit data on computer tape directly from Treasury's Financial Management Service beginning in September 1989. Customs had planned to load the data daily into ACS to compare Customs' deposit records with those reported to Treasury by banks, and thereby identify any differences on a daily basis. However, the deposit data on the daily tapes were not useful for this purpose. According to Customs officials at the National Finance Center, many daily deposit records from Treasury did not match Customs' records because Treasury's records did not reflect subsequent adjustments made by banks. We were told that accounting for these subsequent adjustments would be very time-consuming.

To date, Customs has not had success in reducing the 45-day deposit reconciliation lag time. However, a new effort under way at Treasury known as Cash-Link may permit Customs and other federal agencies to obtain deposit confirmations within 24 hours. The objectives of the Cash-Link system are to support both the cash management goals of

⁴Customs uses the deposit information received from the Treasury's Financial Management Service on a document known as the Statement of Differences to confirm if deposits sent to banks by ports have been received and reported fully to the Treasury by the banks.

Treasury and the accounting needs of the program agencies such as Customs.

As designed, Cash-Link would consolidate the current deposit reporting processes now being used by banks and federal agencies. With Cash-Link, Customs and other federal agencies will have the ability to access a single on-line data base of deposit information to review and reconcile their deposits. Instead of the 45-day time period, Cash-Link will make available to agencies through personal computer or telephone access deposit, debit, and deposit adjustment data, as reported by banks, the next day after the day of deposit. Customs officials look to this new system to solve the agency's problem with obtaining timely bank deposit confirmations and shorten the time it takes to reconcile and resolve deposit discrepancies with banks and the Treasury.

According to Treasury's Cash-Link Program staff director, reporting of deposits by banks through the Cash-Link network was instituted in phases over a 3-month period. The large financial institutions, which the staff director said represented over 50 percent of all deposits reported to Treasury, began reporting agency deposits through the Cash-Link network in December 1990 and January 1991. In February 1991 the remaining banks began reporting their deposits through the network.

According to the staff director, the Cash-Link function, designed to provide agencies with access to the data base of deposit information to review and reconcile deposits, will be pilot-tested at Customs, the Internal Revenue Service, and Treasury's Financial Management Service in the spring of 1991. Other agencies will be given access to the Cash-Link data base following successful completion of the pilot test.

Conclusions

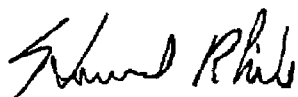
Since April 1989 Customs has improved its revenue reconciliation process. Unreconciled differences in collections and deposits have been reduced significantly although not eliminated—about \$8 million remains unreconciled. Customs has enhanced ACS to enable monthly collection and deposit reconciliations. However, Customs is still experiencing a 45-day lag time in reconciling its deposit data but hopes a new system Treasury is developing will resolve this problem.

As requested by your office, we did not obtain official agency comments on a draft of this report. However, we discussed the information in this report with the Deputy Commissioner and other senior Customs officials

and have incorporated their views as appropriate. Our objectives, scope, and methodology are described in detail in appendix I.

As agreed with your office, unless you publicly announce this report's contents earlier, we plan no further distribution until 30 days from the date of this letter. At that time we will send copies to the Chairmen, House and Senate Committees on Appropriations; the Chairman, House Committee on Government Operations; the Chairman, Senate Committee on Governmental Affairs; and the Director, Office of Management and Budget. We will also send copies to the Secretary of the Treasury and the Commissioner of Customs, and make copies available to other interested parties upon request. Should you have any questions about this report or require additional information, please contact me at (202) 275-3455. Major contributors to this report are listed in appendix II.

Sincerely yours,



Howard G. Rhile
Director, General Government
Information Systems

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Abbreviations

ACS	Automated Commercial System
FMS	Financial Management Service
GAO	General Accounting Office
IMTEC	Information Management and Technology Division

Objectives, Scope, and Methodology

Our objectives were to determine what the U.S. Customs Service has done since April 1989 to (1) resolve a \$53.5 million discrepancy in its February 1989 Statement of Accountability, (2) enhance the Automated Commercial System (ACS) to provide reconciliations of collections and deposits, and (3) reduce the lag time in reconciling its bank deposit records with Treasury's deposit records.

To determine what Customs has done to resolve the discrepancy between reported collections and deposits, we reviewed accounting records and interviewed management and support personnel at Customs' National Finance Center in Indianapolis, Indiana, and the U.S. Customs Service headquarters in Washington, D.C. These records included the monthly Statements of Accountability (CF-4939) for the period October 1987 through January 1991, ACS reconciliation reports, Treasury's Budget Clearing Account for Customs (20f3878.06), confirmed deposit tickets (SF-215), and the statement of work for accounting support services contracted by Customs' National Finance Center. We reviewed these records to confirm the adequacy of documentation used by Customs for making adjustments to the Budget Clearing Account and the attendant Statement of Accountability totals.

To review the documentation used by Customs to make adjustments, we judgmentally selected 93 transactions from a universe of 3,020 Budget Clearing Account adjusting entries. These transactions were selected from the larger amounts adjusted by the six accounting technicians during the 12-month period immediately following our April 1989 testimony (i.e., May 1989 through April 1990), which affected accounting months October 1981 through June 1985. In selecting our transactions, we included at least ten adjustments made by each of the six Customs accounting technicians who made the adjustments. For each transaction selected, we obtained and assessed the supporting documentation used by Customs to make the respective adjustments.

To assess Customs' efforts to enhance ACS so that the system can reconcile collections with deposits, we reviewed system change requests for enhancements and discussed these enhancements with U.S. Customs headquarters and National Finance Center officials. We also selected for detailed review the March 1990 Statement of Accountability and traced the collection and deposit amounts to the supporting ACS monthly collection and deposit reconciliation reports. In addition, we reviewed monthly Statement of Accountability collection and deposit totals from December 1989 through January 1991 to determine whether Customs was able to reconcile collections with deposits.

Appendix I
Objectives, Scope, and Methodology

To determine Customs' actions to reduce the lag time in reconciling its bank deposit records with Treasury's deposit records, we reviewed documentation on the present Treasury General Account system used by Customs to confirm deposits and resolve deposit discrepancies with banks. We also reviewed the U.S. Cash-Link Cash Concentration Services' technical proposal, functional definition, and functional specifications prepared by Riggs National Bank of Washington, D.C. We discussed the new system with Treasury and Customs headquarters officials to obtain their views on whether the system would meet Customs' deposit reconciliation needs.

We performed our work from March 1990 through January 1991, in accordance with generally accepted government auditing standards.

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