United States General Accounting Office

GAO

Report to Congressional Committees

March 1991

U.S. CUSTOMS SERVICE

Efforts to Strengthen Controls Over Mail Imports Duties and Fees

GAO/GGD-91-37

GAO

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

General Government Division

B-242691

March 12, 1991

The Honorable Lloyd Bentsen
Chairman, Committee on Finance
United States Senate

The Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
House of Representatives

This report responds to section 114 of the Customs and Trade Act of 1990 (Public Law 101-382), which directs the General Accounting Office to study the collection of assessed duties and fees and to report on ways to improve collections. The Treasury Department's U.S. Customs Service is responsible for assessing duties and processing fees on mail imports. The United States Postal Service (USPS) is responsible for collecting the assessed duties and processing fees and remitting the collections to Customs.

On January 17, 1991, we briefed your committees on Customs' actions to strengthen controls over mail collections. As agreed with your committees, we are providing information on the status of Customs' improvement efforts.

Results in Brief

Customs reported to the Department of the Treasury that during fiscal year 1990, it assessed duties and processing fees of about $26 million and received about $24 million from USPS. Also as of the end of fiscal year 1990, Customs records showed that about $10 million was delinquent. Customs' financial integrity and other internal reviews done over the past several years have identified internal control problems including weaknesses in Customs' systems for tracking which assessments were collected and which were outstanding. Such problems have resulted in inaccurate billings, collection backlogs, and deposit delays.

In 1989, Customs began efforts to overhaul its systems used for assessing, depositing, and accounting for duties and processing fees on mail imports. Customs is in the process of developing new automated systems to (1) replace existing manual processes, (2) provide better controls and accountability, and (3) provide more accurate information on assessments outstanding. Customs expects that, once fully implemented, these changes should enhance internal controls over mail collections and improve its ability to follow up on outstanding assessments and promptly deposit collections. Customs plans to complete these improvements by the end of December 1991.

Mail Collections Overview

USPS receives merchandise mailed to the United States under international agreements with foreign countries. Upon receipt, USPS sends the mail to one of Customs' 20 mail processing facilities for examination and assessment of duties and processing fees.

In general, for mail subject to duties, Customs' inspectors are to manually prepare a mail entry (bill) showing the amount of duties and fees assessed. These inspectors then are to attach copies of the bill to the package and return it to USPS. Customs' inspectors also are to send a copy of the bill to Customs' data processing center located in Newington, Virginia, for entry into the mail accounting system. The bill is to include the duty and a $5 processing fee.[1] Customs reported to the Department of the Treasury that during fiscal year 1990, Customs assessed duties and fees amounting to about $26 million.

Post offices across the nation are to collect the duties and fees from importers upon delivery. These offices are then to forward monthly the bills and one consolidated payment to Customs' New York Region. Customs' New York Region is responsible for (1) receiving all postal collections on mail imports, (2) preparing bank deposits, and (3) transmitting collection information to the Customs data processing center for entry into the mail accounting system.

Local post offices are to account for collections remitted to Customs. USPS does not maintain a central record of all collections remitted nationwide. However, Customs' collection records and Department of the Treasury reports for fiscal year 1990 showed USPS remitted collections totaling about $24 million.

If Customs does not receive collections from the post offices within 90 days from the date the bills were written, Customs' mail accounting system is to generate consolidated delinquency reports listing uncollected bills. Customs' National Finance Center (NFC) in Indianapolis, Indiana, is to use these reports to follow up on delinquent bills. As of the end of fiscal year 1990, Customs' records showed that about 320,000 bills totaling about $10 million were delinquent.

[1]The Consolidated Omnibus Budget Reconciliation Act of 1985 (19 USC 58c (a) (6)) authorized Customs to add the processing fee for each bill that its inspectors prepared.

Mail Collections Control Weaknesses

Previous Customs studies had identified control weaknesses that hampered collection follow-up, delayed deposits, and created a potential for collection losses. Problems with Customs' ability to (1) do collection follow-up, (2) deposit collections promptly, and (3) control against losses or theft are discussed in the following paragraphs.

NFC reported problems with the accuracy of the mail accounting system's delinquency reports as early as April 1987. NFC found that some of the collected bills appearing on the delinquency reports had already been collected and were causing unnecessary follow-up. In a December 1988 collection study, Customs confirmed this problem. It reported there were about 19,000 collected bills not promptly recorded in the accounting system. The report attributed the problem to the automated system's limited capacity to process collection data. Because of this problem, NFC had to review lists of collected bills against delinquency reports manually before initiating follow-up. This time-consuming task created backlogs and delayed follow-up actions at the NFC.

Problems with the accuracy of delinquency reports still exist. Customs' 1990 Federal Managers' Financial Integrity Act report highlighted that the mail accounting system was not assuring proper follow-up on delinquent debts and needed correction.[2]

The NFC official responsible for mail collections also said that the number of reported delinquencies (320,000 bills at the end of fiscal year 1990) was overstated. Further, the official said that because of limited staff, NFC has not determined the accuracy of the report. However, on the basis of his past experience, the official estimated that about two-thirds of the bills on the report have been paid. We took a judgment sample of 138 bills out of the 320,000 on the September 1990 delinquency report. We traced the bills to automated collection records for October 1989 through March 1990 and found that USPS remitted 106 bills (77 percent) totaling about $3,500 to Customs.

The Customs data processing official responsible for maintaining the mail accounting system said that the system is 25 years old and experiences equipment breakdowns which delay collection processing. The

[2]The Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255, 96 Stat. 814) requires ongoing evaluations of the internal control and accounting systems that protect federal programs against fraud, waste, abuse, and mismanagement. The law further requires that the heads of federal agencies report annually to the President and Congress on the condition of these systems and on their actions to correct weaknesses identified.

official also said that the system lacks documentation, which makes it difficult to identify and fix problems such as those associated with the accuracy of delinquency reports.

Another problem affecting mail collections was that Customs was delaying depositing USPS collections and not maximizing interest earnings. To prevent deposit delays, Treasury Department guidelines encourage daily deposits. Customs' December 1988 study found the New York Region delayed depositing mail collections of more than $470,000 dating from July 1988.[3] The Customs official who did the study said the delays occurred because the New York Region was not separating the collections from the bills until the amounts were recorded in the accounting system. According to a collection official at the New York Region, collections are now separated from the bills but that because of limited staffing some deposit delays still occur.

Finally, we found that the deposit preparation process at the New York Region had internal control weaknesses that caused risks of loss, theft, or misuse of collections. To combat these risks, generally accepted accounting principles recommend that collections be placed under controls as soon as they are received. Such controls include (1) listing incoming collections and later reconciling the listing to deposits and (2) separating critical functions between employees who receive incoming collections and prepare deposits.

We found that Customs' New York Region was not preparing lists of incoming collections from local post offices. Also, there was no reconciliation of incoming collections with deposits. Moreover, only one employee was responsible for opening mail containing collections and preparing deposits. These control weaknesses could allow thefts or misuse of collections to occur.

Corrective Actions Being Taken

Customs has taken several actions to replace its systems used in assessing and collecting duties and fees on mail imports. These actions include developing new systems or processes for preparing bills, depositing collections, and accounting for assessments and collections. The new systems will be a part of Customs' overall Automated Commercial System, which Customs uses for inspecting imported merchandise and

[3]Customs' New York Region has experienced problems with depositing and controlling collections in other regional activities. These issues are discussed in our report entitled Customs Automation: Weaknesses in Revenue Collection at John F. Kennedy International Airport (GAO/IMTEC-90-16, Sept. 27, 1990).

accounting for agencywide collections. Customs expects that, once fully implemented, these changes should address reported internal control problems over mail collections and enhance its billing and oversight capabilities.

Customs officials said that in June 1989 a contractor began developing programs to automate the bill preparation process. Customs inspectors will no longer prepare bills manually but will instead enter data into the bill preparation system. Data are to include the merchandise value and the importer's name and address. The bill preparation system is to automatically generate the duty and add the $5 processing fee to the bill. The bill preparation system is to also capture information including bill number and amount due. The new deposit process and accounting system, under development since 1989, is to use the automated information from the bill preparation system to speed the updating of collection records and to establish accounts receivable records.

Customs officials said that by the end of April 1991, computerized bill preparation should be operating in five mail processing facilities. These facilities account for about 76 percent of all bills prepared annually. They also said computerized bill preparation should be operating in the 15 remaining facilities by December 31, 1991.

Under the new deposit process, local post offices are to no longer send one consolidated payment and collected bills to Customs' New York Region. Instead, they are to send them to a postal rental box ("lockbox") serviced by a commercial bank. The bank is expected to deposit collections daily. The bank is also to provide the new accounting system daily collection information. Customs expects that daily preparation of this information should reduce the possibility of delays in updating collection records and result in more accurate delinquent debt information.

Also under the new deposit process, the bank is to transmit collection information to NFC along with the cancelled checks making up the daily deposit. An NFC collection official said that receiving this information should enable NFC to determine (1) if local post offices have remitted collections to Customs and (2) whether bank deposits have been made promptly . An NFC collection official said the new deposit process is to begin in the summer of 1991.

Customs' new mail accounting system is expected to enhance billing and oversight capabilities. NFC currently manually prepares follow-up bills to importers. The new system is to generate follow-up bills automatically on a weekly basis, which would help make follow-up more timely. An NFC collection official said the new system could free up staff to investigate situations where the importer submits proof of payment but the accounting system has no record of Customs receiving it.

The new accounting system is also being designed to provide managers with the capability to produce a series of oversight reports. Customs officials said they will be able to identify local post offices having performance problems in remitting collections to Customs in a timely manner. With this information, they said they would notify USPS headquarters to take corrective actions. Customs plans to implement the new system by December 31, 1991.

Objective, Scope, and Methodology

Our objective was to report on the status of Customs' efforts to improve controls over mail collections. We visited

- Customs' headquarters offices responsible for mail program operations and systems development;
- USPS headquarters offices responsible for international mail processing and collection oversight;
- two of Customs' 20 mail processing facilities responsible for assessing duties and fees, located in Washington, D.C., and at John F. Kennedy International Airport in New York;
- Customs' New York Regional Office responsible for receiving and depositing mail collections, located in New York City; and
- Customs' NFC responsible for mail accounting, located in Indianapolis, Indiana.

The mail processing facilities we visited accounted for 40 percent of the bills prepared during fiscal year 1990. According to a Customs program official, the processes used by these facilities are common to those used in other mail facilities.

At the locations visited we did the following:

- Interviewed officials to learn about the methods used for processing imports, collecting duties and fees, and improvements needed.
- Reviewed procedures and observed mail operations to learn the processes for assessing duties and fees on mail imports and depositing collections.

- Reviewed Customs' accounting reports to obtain background information on assessments and collections.
- Reviewed Customs' evaluations to learn about mail processing problems.
- Reviewed delinquency reports to determine whether reported follow-up problems have been corrected. We judgmentally selected 138 delinquent bills totaling about $4,800 listed on the September 1990 delinquency report. This report contained about 320,000 delinquent bills. Customs prepared the bills during July and August 1989. We traced the bills to automated collection records for October 1989 through March 1990. The results we obtained cannot be projected to the universe of delinquent bills. We did not verify collection record accuracy.
- Reviewed Customs' plans and schedules for correcting mail collection deficiencies.

Our work was done from July 1990 through December 1990 using generally accepted government auditing standards.

We discussed the information in this report with officials from Customs and USPS, and have included their comments where appropriate. They generally agreed with the facts presented.

We are sending copies of this report to the Secretary of the Treasury, the Commissioner of Customs, the Postmaster General, and other interested parties.

Major contributors to this report are listed in appendix I. Should you need additional information on the contents of this report, please contact me on (202) 275-8389.

Sincerely yours,

Lowell Dodge

Lowell Dodge
Director, Administration of
Justice Issues

Major Contributors to This Report

General Government Division, Washington, D.C.

Weldon McPhail, Assistant Director, Administration of Justice Issues
John Noto, Evaluator-in-Charge

Ordering Information

The first five copies of each GAO report are free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

U.S. General Accounting Office
P. O. Box 6015
Gaithersburg, MD 20877

Orders may also be placed by calling (202) 275-6241.