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High-Risk Series

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Managing the Customs Service

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Comptroller General
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The President of the Senate
The Speaker of the House of Representatives

In January 1990, in the aftermath of scandals at the Departments of Defense and Housing and Urban Development, the General Accounting Office began a special effort to review and report on federal government program areas that we considered "high risk."

After consulting with congressional leaders, GAO sought, first, to identify areas that are especially vulnerable to waste, fraud, abuse, and mismanagement. We then began work to see whether we could find the fundamental causes of problems in these high-risk areas and recommend solutions to the Congress and executive branch administrators.

We identified 17 federal program areas as the focus of our project. These program areas were selected because they had weaknesses in internal controls (procedures necessary to guard against fraud and abuse) or in financial management systems (which are essential to promoting good management, preventing waste, and ensuring accountability). Correcting these problems is essential to safeguarding scarce resources and ensuring their efficient and effective use on behalf of the American taxpayer.

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Overview

The Customs Service is responsible for guarding the nation's borders and enforcing trade laws and policies that protect against the introduction of foreign goods that threaten U.S. health, safety, or economic well-being. Attendant to its trade enforcement mission, Customs is the government's second largest revenue collection agency; it reported collections of over $16 billion in fiscal year 1991. Confronted during the 1980s with increasing levels of imports, demands to balance its efforts to enforce the trade laws with those of facilitating the flow of cargo, and limited resources, Customs instituted automated systems to speed up the flow of goods and target imports for review through the Automated Commercial System (ACS).

The Problem

Customs' efforts to speed up the flow of goods were successful, but Customs cannot ensure that it is meeting its responsibilities to combat unfair foreign trade practices or protect the public from unsafe goods. Customs did not detect about 84 percent of the estimated trade law violations in imported cargo during fiscal year 1991. Moreover, Customs has experienced declines in the percentage of estimated

capacity to meet the challenges of the changing world trade environment.

GAO's Suggestions for Improvement

Over the past several years, Customs has achieved some successes. The trade community, for example, has agreed that ACS, the core information system for customs transaction processing that was introduced during the 1980s, has been effective in meeting its needs. Furthermore, Customs has been able to arrange broad agreement among the diverse interests within the trade community in support of legislation to enable Customs to proceed toward full automation of the customs transaction process.

As Customs pursues its plans to fully automate customs transaction processing, it must be sure to develop the management processes needed to meet its trade enforcement responsibilities. To its credit, Customs is actively addressing the management problems identified by us and others. It has initiated a program of financial reforms and established task forces to address needed improvements in its trade enforcement efforts, strategic management processes, and the management of its information and human resources.

cargo violations detected since calendar year 1988.

Furthermore, Customs' financial management system has a range of weaknesses, including the absence of reliable information on operating costs and the status of accounts receivable, a lack of data integrity in the general ledger, contract payments made without proof of delivery or acceptance of goods and services, and weaknesses in its internal controls over the payment of overtime to Customs inspectors.

The Causes

Customs lacks an effective strategic management process capable of guiding its operations and establishing accountability for performance. Its current 5-year plan does not set forth a clear objective for its trade enforcement activities, prioritize its numerous objectives, or adequately articulate a means of fully automating customs transaction processing. Further, Customs is experiencing related weaknesses in information management, financial management, human resource management, performance measurement, and organizational structure. Left uncorrected, these weaknesses could hinder Customs'

Customs' Key Trade Enforcement Efforts

The American public relies on the U.S. Customs Service—a key agency responsible for guarding the nation's borders—to enforce trade laws and policies against the introduction into the country of foreign goods that threaten our health, safety, or economic well-being. Customs confronts continuing challenges to its efforts to effectively enforce the trade laws. Between 1980 and 1990, the volume of imports that Customs processed more than doubled, from about 4.4 million to 9.2 million. Rapid changes in world business patterns, such as free trade agreements and "just in time" inventory systems, increase the complexity of the import control function and heighten demands on Customs to release goods quickly. Finally, the pressures on the resources available for Customs' trade enforcement have been aggravated by the agency's increasing involvement in the war on drugs. During the 1980s, resources for narcotics enforcement increased 324 percent compared to a 115-percent increase for trade activities.

As a primary border enforcement agency, the Customs Service works with 40 other government agencies to enforce over 400 laws. Customs' trade enforcement responsibilities rest primarily with its

The success of these efforts will be influenced by how well Customs (1) develops and gains acceptance for a comprehensive trade enforcement strategy, (2) corrects its long-standing financial management problems, and (3) has the support and oversight it needs from the Congress and the Office of Management and Budget (OMB) to help it focus on key strategic and organizational issues and achieve fundamental management improvements.

inspectors, import specialists, or special agents assess penalties and make seizures, it is the fines, penalties, and forfeitures (FP&F) staff that is responsible for making sure civil enforcement cases are properly processed and that penalties are collected.

inspectors and import specialists. Inspectors are responsible for the actual inspection of cargo at the nation's docks, airports, and land borders to ensure compliance with the trade laws. Faced with an expanding volume of imports, inspection efforts are targeted, largely through the criteria within the Cargo Selectivity System (CSS), toward those imports deemed to represent the highest risk. In fiscal year 1991, Customs performed 522,000 inspections, which was about 8 percent of all imports.

Import specialists draw upon the knowledge they develop about specific commodity areas to review a variety of documents importers are required to submit to ensure that the proper amount of duties and fees are paid on merchandise and to verify that imports comply with various quota and other restrictions. The Entry Summary System (ESS) is designed to select documents for import specialist review on the basis of risk criteria. In fiscal year 1991, approximately 8 million import documents were submitted to import specialists.

When Customs detects noncompliance with regulations, fraud, or other illegal acts, it will assess and seek to collect fines or penalties and/or seize the merchandise. While each year Customs conducts thousands of random cargo examinations—nearly 53,000 in fiscal year 1991—to deter importers from bringing merchandise into the country in violation of laws or restrictions and to assess the risk-targeting capabilities of CSS. However, the information from its random cargo exams could also be used to develop estimates of the violations in all cargo imports. Without the benefit of this latter information, Customs was unaware that the effectiveness of its cargo inspection activities had been declining over the past 3 years, both in terms of detecting estimated violations and in achieving acceptable levels of voluntary compliance.

Another change that is needed to correct problems related to Customs' operational performance is the development of an institutional standard for measuring the significance of trade violations. Right now, Customs does not have a good basis for determining whether it is focusing its limited resources on the most important violations. Marking violations—inaccurate representations of required information on imports—represent over 60 percent of the violations discovered during the past 3 years. And Customs officials generally agree that

Strategic Direction for Operations Not Adequate

Customs needs an effective strategic management process capable of guiding operations and establishing accountability for performance. Customs' current 5-year plan does not set forth a clear objective for its trade enforcement activities. Trade enforcement needs to be defined in terms of increased detection of violations, increased voluntary compliance by importers, increased collections of duties, or some comparable objective. A clearer objective would also help Customs personnel balance their efforts among numerous enforcement programs and between the goals of enforcing the trade laws while also facilitating the flow of goods.

The 5-year plan also does not prioritize its numerous objectives or adequately articulate how to fully automate Customs' transaction processing, the cornerstone of its efforts for meeting its trade enforcement responsibilities. Eliminating these weaknesses would improve the plan's usefulness in guiding operations and establishing accountability for performance.

Accountability for performance could also be improved. This could be accomplished by making better use of information for management decisionmaking. For example,

Status of Agency Efforts

In response to our recommendations regarding strategic planning and trade enforcement, Customs has initiated efforts to develop a trade enforcement strategy, reevaluate its selectivity systems, and improve its planning process. As a result of these efforts, Customs stated that its trade enforcement objective is to ensure a high level of voluntary compliance by the trade community. Customs has not yet released the details of its trade enforcement strategy. However, Customs has outlined plans that promise to significantly improve its selectivity systems. The incoming Commissioner will need to ensure that progress on these important efforts is sustained.

marking violations are the least significant category.

Customs recognized that the assessment and collection of fines, penalties, and forfeitures is the foundation of efforts to ensure compliance with the trade laws and regulations. Currently, efforts are under way to redesign the FP&F information system. Quick action by Customs to include the capability to compare actual collections to penalty assessments, or to monitor collection performance by field location, would enhance its ability to effectively use this key enforcement tool.

Various studies by others have also identified weaknesses in certain key management processes. For example, Customs' internal management assessments have usually been too narrowly focused to identify the root cause of program management problems and would be more useful if done more routinely. Further, Customs is not aggressive enough in ensuring that recommended corrective actions are implemented. Finally, more specific performance standards in senior executive contracts are needed to measure managers' success in achieving agency goals.

effectiveness of the agency's programs. For example, ESS—the automated system within ACS that determines which import documents will be reviewed—operated for over 3 years without Customs achieving the capability to compare entry document review results with the specific criteria prompting the review. This capability is critical to both assessing the effectiveness of selectivity criteria and analyzing violation trends.

Further, ESS does not readily identify why an import specialist receives entry documents for review. The importance of this information increases when entry documents contain multiple items of imported merchandise. Without this information, an import specialist does not know what needs to be reviewed.

Customs Did Not Adhere to Systems Development Guidelines

In developing and implementing its information systems, Customs did not adhere to federal information systems guidelines. This delayed the implementation of key information systems. For example:

- In 1989, Customs began developing an in-house Asset Information Management System (AIMS) without performing a feasibility study to determine whether it

Ineffective Information Resources Management Hampers Mission Accomplishment

Customs has not managed its information resources effectively, thereby limiting the availability of information needed by employees for program execution and oversight. Also, Customs employees often lack basic information needed to assess the effectiveness of trade enforcement efforts. These conditions arise because of weaknesses in two key areas related to how Customs manages its information resources.

Planning Efforts Not Sufficiently Focused on Trade Enforcement Mission

In developing ACS during the 1980s, Customs management was able to overcome long-standing obstacles to automating the import filing process and produce a system that the trade community overwhelmingly agreed has been effective in meeting its needs for quickly processing imports. Thus, Customs has been successful in meeting one of its objectives for ACS.

However, Customs' second objective for ACS was to develop a system useful for detecting shipments that violate U.S. laws. Customs officials acknowledge that this objective received limited attention during ACS planning. Consequently, ACS is not serving as an effective resource for managers and field staff to enforce compliance with the multitude of trade laws or to measure the of the trade data residing in ACS without impeding progress toward the system's primary function of expediting the release of cargo. And Customs has implemented the ESS history file, which should enable it to better evaluate the effectiveness of its automated criteria. These actions are commendable. But to maximize their potential to succeed, the incoming commissioner will also need to

- identify program and cross-functional information needs,
- prepare an information and systems architecture that shows how information technology will fit into the agency's overall trade enforcement strategy and prescribes the critical characteristics of the equipment and resources needed to meet current and future needs,
- adhere to federal system development guidelines, and
- evaluate the effectiveness of its information resources management activities.

would be more cost efficient to meet its financial information needs through use of an off-the-shelf software package. After 3 years of in-house development and expenditures of over $4 million, Customs did a feasibility study that prompted it to abandon its in-house efforts.

- From the initial design of ESS in 1987 to the present, Customs did not prepare feasibility studies, risk or cost-benefit analyses, or development and implementation plans. Customs implemented the first phase of ESS without fully testing the system. As a result, import specialist reviews are being hampered because they are experiencing difficulty getting key information on why an entry document was selected for review.

Status of Agency Efforts

Customs is taking a number of positive steps to improve planning and make better use of its information resources to enforce the trade laws. It has slowed the pace of ACS development and implementation to help the broker community keep pace with the changes taking place in the processing of imported cargo. It has shifted responsibility for defining information needs from the ACS systems analysts to program personnel. It is exploring ways of making more effective use importer compliance with tariff provisions because there is currently no standardized way to capture and analyze the results of the reviews.

Strengthening internal controls over other Customs revenue-generating activities could also benefit the agency. Currently, Customs does not routinely compare the amount of user fees collected from airline carriers and exporters with amounts owed. Customs' own fiscal year 1990 review at 1 airport showed that 6 of 10 carriers had underpaid passenger user fees by $1.9 million. Also, when Customs recently compared export shipment data with collection information, it discovered that some exporters shipped goods out of the country without paying harbor maintenance fees.

System Improvements and Better Controls Needed Over Debt Collection

Customs' delinquent accounts receivable totaled almost $344 million as of September 30, 1991. Customs could increase its capability to collect these receivables by upgrading its systems so it could monitor such important information as the age of receivables and the sufficiency of the bonds required to cover the value of importer activity. Also, Customs could make greater use of its authority to impose sanctions

Better Accountability and Stronger Controls Needed Over Customs' Resources

Customs continues to face the challenge of establishing adequate accountability and control over its resources. Stronger controls for identifying and collecting fees owed and for debt collection would have produced greater success in collecting millions of dollars in user fees and delinquent accounts receivable. Further, Customs' automated and manual accounts receivable systems would be more useful if they contained more complete and accurate data. Finally, Customs needs to improve both its accounting for and controls over property.

Implement Stronger Controls Over Revenue

Stronger internal controls governing the efforts of Customs import specialists to determine whether appropriate duties are paid would produce more revenues. Limitations in the capabilities of ESS leave Customs without assurance of the effectiveness of its efforts to target high-risk import documents for review. ESS has not had a history file to monitor the results of its reviews to either confirm the current selection criteria or to develop a valid basis for changing them. Although Customs randomly selected about 93,700 entry documents for review in fiscal year 1990, it was not able to use the results of these reviews to develop estimates of overall and its primary accounting system in fiscal year 1991. Part of these differences can be attributed to the lack of adequately trained personnel. For example, some property officers were not aware that the method used to process property acquisitions can affect how property is recorded in the system. An additional factor contributing to these differences was improper classification of property acquisitions. Financial records showed considerable confusion among Customs personnel in deciding when to expense property items and when to capitalize them.

Also, contingent liabilities were not disclosed in the notes to the financial statements to account for refunds that were likely to be made to exporters who apply for refund of duties collected on merchandise initially imported and now being exported—known as drawbacks.

Status of Agency Efforts

Customs has recognized many of its financial system problems, and top management has expressed its resolve to correct them under the framework of the Chief Financial Officers (CFO) Act. Under the direction of its CFO, a number of initiatives are under way, such as an effort to develop a new financial (restricting import activity through Customs) against delinquent importers and sureties. Such actions could also help it collect delinquent debts in a timely manner and, thereby, increase revenue.

More Reliable Financial Management Systems Needed

Customs' accounting and internal control systems do not give management complete and accurate information to effectively manage its resources. No single accounts receivable system currently captures all amounts (duties, fees, fines, and penalties) owed Customs from the time of assessment to collection. As a result, Customs must manually prepare financial reports using information from a number of automated and manual systems. For example, the FP&F system contains information on the fines and penalties assessed violators of trade laws, but Customs does not establish these amounts as individual accounts receivable or summarize this information in the primary accounting system or in financial reports. The manual preparation of financial reports on accounts receivable is labor intensive and increases the opportunity for inaccurate reporting.

Also, differences totaling $61.8 million existed between Customs' property system

Insufficient Attention Given to Human Resources Management

Customs is confronting a number of human resource management (HRM) issues that diminish its ability to effectively enforce trade laws and improve organizational performance. For example, reviews conducted by a Customs-established Blue Ribbon Panel and by the Treasury Inspector General in 1991 found that

- performance ratings had no relationship to actual performance and
- the process for dealing with ineffective supervisors and managers did not work, and employees whose performance was considered inadequate did not receive such feedback from supervisors.

Customs' managers and brokers also expressed concerns regarding the adequacy of training efforts, despite the recent expansion of the training program and the revamping of some existing courses. In response to a GAO questionnaire, over 40 percent of Customs managers expressed concerns about the management training they received, training for their staffs, and time and funding provided for training.

Further, 54 percent of customs brokers viewed the turnover of Customs staff as management system. The incoming Commissioner's involvement and commitment will be essential to achieving an effective financial management environment.

delays, understaffing, inadequate staff training, a high turnover rate, and recruiting delays.

Status of Agency Efforts

Customs has initiated a number of HRM efforts. It has established HRM objectives in its 5 year plan, formed an Office of Organizational Effectiveness headed by an Associate Commissioner to correct problems pointed out by the external reviews conducted in 1991, and has surveyed employees to determine what job benefits they would like. To maximize its potential to address its workforce problems, Customs needs to develop a (1) planning process that targets key HRM issues and is tied to the budget process; (2) workforce planning capability that identifies the number of people and types of skills needed and areas where problems may occur; (3) training program to enhance employee development and productivity; and (4) capability to monitor, evaluate, and update information that affects HRM goals. Instituting this management system will also require sustained commitment from the incoming Commissioner and his or her team.

negatively affecting job knowledge and the quality of service. The majority of Customs managers also thought that staff changes were too frequent and had a negative effect on their work.

Better Processes and Structure Needed to Address HRM Problems

Customs has established ambitious HRM objectives for increasing the professionalism of its workforce. However, its ability to achieve these objectives and address its workforce problems are limited by weaknesses in its HRM processes and structure. Customs does not have a comprehensive HRM plan that supports organizational goals. Further, it does not routinely analyze information for evaluating key HRM issues. For example, Customs does not routinely account for agencywide training expenditures, collect reliable information on the courses offered throughout its units, or track the training histories of its personnel.

Also, the limited capabilities of the central personnel and training offices diminish their ability to lead an effective agencywide HRM effort. For example, the Office of Human Resources is faced with an inappropriate organizational structure, erroneous data in automated systems, paperwork processing

There are two reasons for the problems. First, Customs' headquarters structure divides policymaking offices by job function (such as inspections, duty assessment and collection, and criminal enforcement) rather than aligning them by mission. This functional division encourages top policymakers to focus on functional concerns, as opposed to mission effectiveness, and places the responsibility for managing conflicting priorities and integrating cross-office functions in the Commissioner's office.

Second, a structural emphasis is placed on geographic diversity by the dispersion of line authority from the Commissioner's office directly to regional offices, which develop independent policies based upon regional priorities. This diversity conflicts with the agency's objective of maintaining uniform programs and again places the responsibility for ensuring consistent policy implementation in the Commissioner's office.

The result is an overload of management circuits in the offices of the Commissioner and Deputy Commissioner, which are the only offices with the formal authority to ensure agencywide consistency and

Organizational Structure Hinders Mission Accomplishment

Changes in Customs' organizational structure must accompany efforts to improve management processes. Successful accomplishment of the trade enforcement mission requires effective coordination of the efforts of the offices of Inspection and Control, Commercial Operations, and Enforcement. However, 49 percent of Customs' managers feel that there is not a high level of cooperation or coordination among programmatic units. In 1991, an internal Customs study concluded that the FP&F program is the foundation on which Customs' enforcement mission rests because all the resources expended in any enforcement action are wasted unless they result in a penalty, fine, or forfeiture. However, the study found that Customs' components lacked a general understanding of the relationship between their functions and the FP&F program.

Another problem with the organizational structure is that Customs' reliance on its 7 regions to oversee operations in the 44 districts is not ensuring consistent policy implementation. For example, headquarters inspection and control program managers were unable to overcome field opposition to instituting a standard method for tracking the quality of cargo examinations.

field structure on the basis of findings of wide variations among the districts' workloads and resources. It is very likely that Customs' plans to fully automate its transaction process will lead to centralized document filing by the trade community. This could lead to centralizing the duty assessment function performed by import specialists, with implications for the current configuration of Customs' districts and ports.

However, current appropriations legislation restricts Customs from planning or implementing changes to the current field structure. We have recommended that the Congress remove those legislative restrictions. If the Congress does remove such restrictions, we recommend that Customs examine its field structure and consider consolidating districts to improve accountability and reduce unnecessary expense. Again, such an examination should be done within the framework of Customs' plans for enforcing the trade laws as it moves to fully automated customs transaction processing.

In a recent status report on efforts to address the recommendations in our general management review, Customs agreed that coordinate the functionally divided components that carry out the agency's mission. The current structure essentially mandates that the Commissioner's office manage the details of the work—a job that should be delegated to subordinate managers. This structure takes away from the time the Commissioner and Deputy Commissioner can devote to their leadership responsibilities.

Status of Agency Efforts

We recommended that Customs closely examine its current structure with the objective of reorganizing the agency to better achieve the trade enforcement mission. Serious consideration should be given to reorganizing headquarters offices according to broadly defined mission components and vesting the top officials in these offices with line authority over field operations. Any reorganization should be based on a clearly communicated statement of Customs' mission and a translation of this mission into a comprehensive trade enforcement strategy.

Any complete study of Customs' organization should also address the agency's field structure. Customs studies have identified the need for revisions to the

Conclusions and Action Needed

Customs has initiated a broad range of efforts to address management problems identified by us and others. Although Customs is making a good faith effort to formulate and implement plans, the permanency of these plans is fragile at this point because of the early stage they are in and the disruptions that may accompany the transition to the new administration. Therefore, priority attention from the new Commissioner will be crucial to ensuring that current efforts are sustained and result in real improvements. In addition to gaining support for broad systems and organizational improvement efforts within Customs, the incoming Commissioner will also face the task of gaining acceptance for Customs' trade enforcement strategy from the Congress and the trade community.

we had identified some valid organizational issues. However, Customs said that any actions to overhaul its organizational structure would await the outcome of the efforts it has under way to address the other management problems we identified, and action by the Congress to remove the legislative restriction that prohibits Customs from changing its current field structure. We believe that Customs' approach is reasonable.

High-Risk Series

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Related GAO Products

U.S. Customs Service: Trade Enforcement Activities Impaired by Management Problems (GAO/GGD-92-123, Sept. 24, 1992).

Financial Management: Customs Needs to Establish Adequate Accountability and Control Over Its Resources (GAO/AFMD-92-30, Aug. 25, 1992).

Customs Automation: Cargo Examinations Targeted by Automated Cargo Selectivity System (GAO/IMTEC-89-59, June 27, 1989).

Accountability Issues

Defense Inventory Management (GAO/HR-93-12).

Internal Revenue Service Receivables (GAO/HR-93-13).

Managing the Customs Service (GAO/HR-93-14).

Management of Overseas Real Property (GAO/HR-93-15).

Federal Transit Administration Grant Management (GAO/HR-93-16).

Asset Forfeiture Programs (GAO/HR-93-17).

This report is one of the high-risk series reports, which summarize our findings and recommendations. It describes our concerns over the ability of the U.S. Customs Service to effectively enforce the trade laws and maintain effective financial controls.

Copies of this report are being sent to the President-elect, the Democratic and Republican leadership of the Congress, congressional committee and subcommittee chairs and ranking minority members, the Director-designate of the Office of Management and Budget, the Secretary-designate of the Treasury, and the Commissioner of Customs.

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