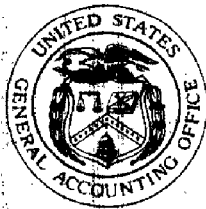


October 1993

FINANCIAL MANAGEMENT

Customs Lacks Adequate Accountability Over Its Property and Weapons





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

Accounting and Information
Management Division

B-253999

October 18, 1993

The Honorable George J. Weise
Commissioner
U.S. Customs Service

Dear Mr. Weise:

This report presents the results of our review of the U.S. Customs Service's accountability and stewardship over (1) property, plant, and equipment, referred to collectively as property, and (2) weapons. These physical assets are primarily used by Customs to enforce laws and regulations governing international traffic and trade. As of September 30, 1992, Customs reported property valued at \$712 million and held approximately 23,000 weapons. Our review was performed as part of our audit of Customs' fiscal year 1992 financial statements pursuant to the Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576). Under the act, Customs is 1 of 10 pilot agencies required to prepare financial statements and have them audited. This is one of several reports we are issuing on various aspects of Customs' operations as a result of our 1992 financial statement audit.

Despite recent substantive improvements towards resolving long-standing problems in the property area, Customs' property records and accounting records were not reliable for managing and reporting on these assets because Customs had not instituted internal controls necessary to ensure that information maintained in these records was accurate and complete. Specifically, Customs (1) was unable to reconcile the accounting records and related detailed property subsidiary records to ensure that all property items were accounted for properly, (2) did not perform physical inventories of nonequipment items and physical inventories of equipment were not effectively performed at 17 of the 40 locations we visited, and (3) was unable to support the values assigned to millions of dollars of property, primarily because appropriate procurement documents were not available and, in some instances, Customs used unrealistic estimates. In addition, Customs did not maintain adequate accountability and control over property and weapons. Because these controls were not in place, Customs' property and weapons were vulnerable to theft and misappropriation.

Our tests of a sample of property items identified errors and omissions in Customs' property records and showed that items were incorrectly valued

or their valuation was unsupported. Specifically, these records (1) did not include all property items on hand, (2) included lost or disposed of property items, (3) showed incorrect location data for some items, (4) included property with erroneous or unsupported valuations, and (5) did not include any costs related to developing software in-house.

Our tests of a sample of weapons showed that the weapons records included lost or disposed of weapons, incorrect location or assignment data for some weapons, and did not include all weapons on hand.

We are recommending that Customs' top managers enforce existing policies and procedures for maintaining accurate financial data on its property and safeguarding its property. We are also making a number of recommendations to strengthen these policies and procedures.

Our objectives were to determine whether controls were adequate to ensure that (1) Customs' property and weapons records were complete and accurate, (2) property items were valued according to Customs' policy, and (3) Customs' property and weapons were safeguarded from theft and misappropriation. We also determined whether Customs was adequately accounting for the costs of in-house development of computer software.

Our work was done at Customs' headquarters in Washington, D.C., and the National Finance and National Logistics Centers in Indianapolis, Indiana. We also performed audit work at 40 Customs' locations throughout the United States and Puerto Rico. Our review was conducted between April 1992 and May 1993 in accordance with generally accepted government auditing standards.

Appendix I provides detailed background on Customs' processes for controlling its property; additional details on our scope and methodology; and a more detailed discussion of our findings, conclusions, and recommendations. In commenting on a draft of this report, Customs concurred with our recommendations. Its written comments are reprinted in appendix II.

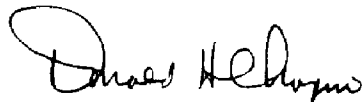
This report contains recommendations to you. As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on these recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government

Operations no later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Governmental Affairs; the House Committee on Government Operations; the House Committee on Ways and Means; the Subcommittee on Commerce, Consumer and Monetary Affairs, House Committee on Government Operations; and the Subcommittee on Oversight, House Committee on Ways and Means. We are also sending copies to the Secretary of the Treasury, the Director of the Office of Management and Budget, and other interested parties. Copies will be made available to others upon request.

This report was prepared under the direction of Gregory M. Holloway, Associate Director, Civil Audits, who may be reached on (202) 512-9510, if you or your staff have any questions. Other major contributors to this report are listed in appendix III.

Sincerely yours,



Donald H. Chapin,
Assistant Comptroller General

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Abbreviations

ADP	automated data processing
ARRS	Automated Receiving Report System
CFO	chief financial officer
FMFLA	Federal Managers' Financial Integrity Act
GAO	General Accounting Office
IG	inspector general
NFPS	National Firearms Program Staff
NFC	National Finance Center
NLC	National Logistics Center
OMB	Office of Management and Budget
PIMS	Property Information Management System
WICS	Weapons Inventory Control System

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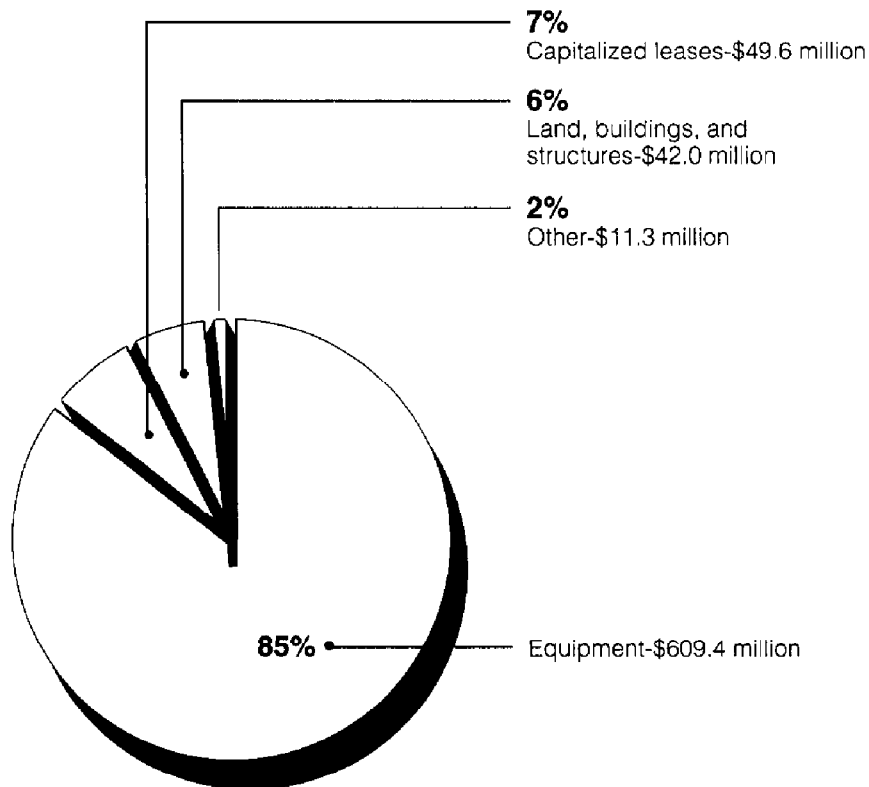
The following sections provide greater detail on the way in which Customs' property processes work; our report findings, conclusions, and recommendations; and agency comments.

Background

Customs utilizes a wide array of property and weapons in enforcing drug-related laws and regulations and laws governing the flow of merchandise or commerce across the borders of the United States. As of September 30, 1992, Customs' property records showed that it had about \$712 million of property located at Customs' headquarters, the National Finance Center (NFC), the National Logistics Center (NLC), 7 regional and 44 district offices, and 294 ports of entry. As shown in figure I.1, property primarily consists of equipment.

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Figure I.1: Composition of Customs' Property as of September 30, 1992



Note: Other consists of leasehold improvements (\$2.3 million) and construction-in-progress (\$9 million).

In addition to this property, weapons are issued to Customs' inspectors at ports of entry and agents involved in enforcement activities for use in performing their duties. In accordance with Customs' capitalization policy,¹ weapons are generally not capitalized.

Customs has acknowledged that property data in its property and accounting records were unreliable and it has reported this each year since 1983, except for 1989, as a material weakness in its annual reports required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982

¹Customs capitalizes any item with an acquisition cost of \$5,000 or greater with an estimated useful life of 2 years or more.

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(Public Law 97-255). In an effort to correct this weakness for equipment, Customs adopted its automated Property Information Management System (PIMS) in 1989 to maintain detailed records on equipment. PIMS is an on-line, real-time perpetual inventory system managed by the NLC's Fleet and Property Branch, and serves as a subsidiary system for capitalized equipment.

The method used for acquiring capitalized equipment determines how it is recorded in PIMS. The first step in recording purchased capitalized equipment in PIMS is the creation of a temporary record which is accomplished either by an automated interface between the Automated Receiving Report System (ARRS)² and PIMS or by the Central Data Entry Unit for those acquisitions not processed through ARRS. Temporary files for most large dollar (i.e., greater than \$25,000) items are created by the Central Data Entry Unit. Upon receipt of the equipment, the local property officer completes the temporary record thereby establishing a permanent record in PIMS. The capitalized equipment transferred from other federal agencies is recorded in PIMS by the Central Data Entry Unit and capitalized equipment acquired through capital leases, forfeiture, or donation is recorded in PIMS by the local property officers.

Customs focused attention since 1990 on improving its accountability over property tracked in PIMS and the accuracy of both the property and accounting records. During fiscal year 1992, these efforts included (1) establishment of policy directives, quality assistance procedures, and procedures manuals, (2) development and implementation of monthly reconciliation procedures, and (3) institution of the Central Data Entry Unit to serve as the focal point for the management of capitalized equipment. However, despite attention devoted to the property area, Customs' attempts to reconcile its accounting records to its property records were unsuccessful.

When all efforts to identify causes for imbalances have been exhausted, it is acceptable to make a one-time adjustment so that accounting records agree with property records as long as the property records are accurate and reliable. In fiscal year 1992, Customs increased its efforts to verify and correct its detailed property records, including those for property not tracked in PIMS, with the intention of making such a one-time adjustment to the accounting records.

²The recording of the receipt of property in the Automated Receiving Report System automatically posts the initial acquisition of such property in PIMS.

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The National Firearms Program Staff (NFPS) located in Fort Benning, Georgia, procures, maintains, and distributes Customs' owned weapons; develops firearms policy; maintains accountability over weapons; and conducts firearms training and qualification. NFPS has responsibility for the Weapons Inventory Control System (WICS), which is used to track weapons. Only NFPS can make entries into WICS—all other offices have access to information contained in the system for the weapons in their offices but cannot make any changes to the information. When weapons are reassigned or moved to other organizational units, the organizational units sending the weapons are required to inform NFPS of such status changes.

Objectives, Scope,
and Methodology

Our objectives were to determine whether controls were adequate to ensure that (1) Customs' property and weapons records were complete and accurate, (2) property items were valued according to Customs' policy, and (3) Customs' property and weapons were safeguarded from theft and misappropriation. We also determined whether Customs was adequately accounting for the costs of in-house development of computer software.

To assess controls over property and weapons, we reviewed Customs' written procedures for recording and deleting property and weapons and for valuing property, interviewed responsible Customs personnel, and reviewed related documentation.

We tested the accuracy and completeness of Customs' property records for equipment by physically inspecting or examining documentation to support the existence and usefulness of all 56 equipment items with acquisition costs of \$2 million or more, totaling \$384 million, and a statistically selected sample of 650 items with acquisition costs ranging from \$5,000 to \$2 million, totaling \$11.2 million. Our sample was selected from PIMS which accounted for 10,743 items valued at \$582 million of Customs' reported property as of September 30, 1992. At the locations where we physically inspected our sample items, we judgmentally selected an additional 466 items and determined if they were recorded in PIMS.

We also tested the accuracy and completeness of Customs' weapons records by comparing a randomly selected sample of 465 weapons in WICS with weapons located at the Customs facilities noted above and at the National Firearms Program Staff. While at these locations, we also

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judgmentally selected an additional 257 weapons physically located at the same Customs' locations and attempted to find the related records in WICS.

Additionally, to determine the accuracy and completeness of Customs' manual records for capitalized property other than equipment, we randomly selected a statistical sample of 31 items totaling \$48.7 million from September 30, 1992, listings of land, buildings, other structures and facilities (10 items); leasehold improvements (2 items); and capitalized leases (19 items). We then either physically inspected or examined documentation to support the existence of these items.

Further, at the 40 locations we visited, we identified, observed, and assessed the safeguards over property and weapons. In addition, we interviewed the 49 Customs' property officers at those locations to determine the extent of training they had received on PIMS and physical inventory procedures.

To determine if property items had been valued in accordance with Customs' policy of recording such items at their acquisition cost, we attempted to compare the recorded values of the items we selected from property records, as noted above, with the related procurement documents. In addition, we scanned PIMS' September 30, 1992, data base to identify items with unusually high or low values for review.

As with any statistical analysis, the results are subject to some uncertainty, or sampling error, because only a portion of the universe was selected for review. The sampling method used allowed us to estimate, at a 95 percent confidence level, (1) the number of missing, damaged, and idle equipment items, (2) the instances of inaccurate recording of status changes for equipment items and weapons, and (3) the number of equipment items incorrectly valued.

Our projections are expressed as point estimates (our "best guess" as to the true population value) that fall within confidence intervals. This means that if you were to determine an estimate for 100 different random samples of the same size from this population, 95 out of 100 times, the estimate would fall within the confidence interval. In other words, the true value is between the lower and upper limits of the confidence interval 95 percent of the time.

To determine if Customs was adequately accounting for the costs of in-house development of computer software, we discussed this matter

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with Customs' officials responsible for information systems development and financial management.

We reviewed our previous reports pertinent to property, as well as reports of the Treasury Office of Inspector General (IG) pertinent to weapons. We also reviewed Treasury's FMFIA reports for fiscal years 1983 to 1992 and Customs' input to those reports. We discussed our findings with officials at Customs' headquarters in Washington, D.C., as well as at Customs' National Finance Center in Indianapolis, Indiana. We conducted our review in accordance with generally accepted government auditing standards from April 1992 through May 1993.

Customs provided written comments on a draft of this report. These comments are summarized and evaluated at the end of this appendix and are reprinted in appendix II.

Inadequate Controls Over Property Records

Customs had not instituted adequate controls to ensure that information maintained in its property records was accurate and complete. Specifically, Customs (1) was unable to reconcile its accounting records with the related detailed property subsidiary records, (2) did not perform physical inventories of nonequipment items and did not effectively perform physical inventories for equipment because it lacked certain necessary inventory procedures or procedures were not followed, and (3) did not adequately train property officers. As a result, Customs' property records were unreliable for managing and reporting on its property.

Customs Was Unable to Reconcile Its Accounting and Property Records

For years, Customs was unable to reconcile its accounting records and related detailed property subsidiary records. Such reconciliations would allow Customs to promptly detect and resolve any differences between these records and to maintain accountability over its property. Because Customs' accounting and property systems are not fully integrated, Customs must record most large dollar acquisitions separately in each set of records, an inefficient practice that increases opportunities for errors and omissions. As we reported³ in August 1992, Customs' reconciliation efforts have been hampered by such errors and omissions.

³Financial Management: Customs Needs To Establish Adequate Accountability and Control Over Its Resources (GAO/AFMD-92-30, August 25, 1992).

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In fiscal year 1992, Customs' efforts to reconcile its property records to the accounting records resulted in a net upward adjustment to the accounting records of approximately \$36.5 million. The net adjustments to specific categories of property, which totaled \$114 million, are shown in table I.1. Many of these adjustments, totaling tens of millions of dollars, were not supported by identifiable transactions and were necessary to make the accounting records agree with the property records. These unresolved differences showed that in previous years, Customs could not account for all property additions and disposals nor ensure that information in its accounting records and property records was correct. Consequently, Customs did not know whether these properties were simply incorrectly recorded, misappropriated, or stolen.

Table I.1: Adjustments to Accounting Records for Property as of September 30, 1992

Dollars in thousands			
Property category	Property records	Accounting records	Net Adjustments
Land	\$ 74	\$ 258	\$ (184)
Buildings	7,508	5,079	2,429
Other structures	34,435	256	34,179
Leasehold improvements	2,327	471	1,856
Equipment	609,375	648,388	(39,013)
Capitalized leases	49,573	21,307	28,266
Construction-in-progress	8,978	6	8,972
Total Plant, Property, and Equipment	\$712,270	\$675,765	\$36,505

Note: Customs adjusted its accounting record balances to agree with the property record balances and used these amounts for reporting on its September 30, 1992, financial statements.

As required by the CFO Act and the Joint Financial Management Improvement Program's Core Financial System Requirements, adopted by the General Accounting Office (GAO), Office of Management and Budget (OMB), and Treasury, Customs' long-range plans call for integrating its accounting and property systems so that the entry of one transaction will automatically update all appropriate records. However, even when this is done, timely reconciliations between its property and accounting records will be essential for ensuring that its property is properly accounted for and identified.

Physical Inventories Not Performed or Not Effective

Physical inventories were either not taken for some property or were not effectively used to identify and resolve discrepancies and correct errors in

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property records. Physical inventories of land, buildings, other structures and facilities, and leasehold improvements have never been conducted by Customs. In addition, physical inventory procedures for equipment primarily consisted of attempts to locate all capitalized items⁴ recorded in PIMS. However, procedures to attempt to locate records in PIMS for all capitalized items on hand were vague. Consequently, such steps were often not performed.

Performing physical inventories is an essential control to help detect discrepancies between items actually on hand and items recorded in the property records. Any discrepancies can then be investigated to determine what adjustments to property records are needed and what control weaknesses may have caused the discrepancies. Periodic physical inventories are especially crucial where internal controls over property are poor or nonexistent. Customs Directive 5230-23 dated June 19, 1992, directed that: "As part of that system of controls, a physical inventory of accountable personal property will be performed annually." This directive was in compliance with the Department of Treasury Administrative Accounting Principles and Standards which require a system of appropriate internal controls over all assets to ensure against loss or theft, and to ensure that accounting records are accurate and complete.

In addition, Customs Directive 5230-12, dated June 18, 1990, requires that physical inventories of Customs' owned equipment be taken annually. It also requires that physical inventories of all other capitalized property be performed at least every 3 years. Customs' written "Personal Property Inventory Procedures" for 1992 directed that all capitalized equipment items recorded in PIMS be physically examined. Using PIMS records, NLG listed, on inventory count sheets, all equipment items that had to be physically inspected, and the inventory count team was required to verify the items listed on the count sheets. The inventory instructions did not include steps for the inventory count team to ensure that all capitalized equipment items on hand were counted and recorded on the count sheets. However, the inventory instructions did contain reconciliation procedures for the local property officer to perform in the event that property was identified which was not listed on the count sheets. In addition, the inventory instructions did not include specific procedures for capitalized property items other than equipment.

⁴Capitalized items consist of property with acquisition values of \$5,000 or greater with an estimated useful life of 2 years or greater.

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In fiscal year 1992, the annual physical inventories of equipment were performed as required. However, at 17 of the 40 locations where we tested, we identified errors that showed the physical inventories were not effective in detecting and correcting discrepancies. We found instances where equipment items on hand were not included in the property records, items that were no longer in Customs' possession had not been deleted, and some items were not at the locations listed in the property records.

Of our judgmental sample of 466 equipment items that we selected at locations to determine if they were recorded in the property records, we found the following discrepancies that were not detected by Customs in performing its physical inventories.

- Eight of 14 automated data processing (ADP) items we selected at Customs' Newington Data Center, with reported acquisition values totaling \$6.2 million, and 6 of 17 communications equipment items we selected at Customs' Houston Communications Center, with acquisition values totaling about \$39,000, had not been recorded.
- A secured communications system, photocopier, and radio equipment with reported acquisition values of \$50,000, \$24,092, and \$10,676, respectively, at various Customs' locations also had not been recorded.

Typically, the reason that Customs did not identify that property on hand was not recorded in the property records was because inventory procedures to identify items on hand but not recorded in the property records were often not performed. Sixty-five percent of the property officers at the sites we visited told us such procedures were not performed because there were no specific instructions or requirements to do so.

In addition to our judgmental sample of 466 items, we selected a random sample of 650 equipment items in the property records to see if they existed and were properly valued—the valuation problems found are discussed later in this report. We found the following discrepancies for the 650 equipment items verified for existence.

- Three vehicles and one base station radio recorded in PIMS had been disposed of, one as early as December 1990, but the disposals had not been recorded.

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- Two lap top computers, a personal computer, two boat trailers, a data encoder scrambler, and two mobile radios could not be located.⁵
- A 17-foot boat, radar scanner, radio, and vehicle had been transferred to Customs locations other than the location identified in PIMS. In one case, a boat had been transferred from Brunswick, Georgia, to Detroit, Michigan, prior to September 1990, but the transfer had not been recorded.

Based on our sample, we estimated that 24 items in Customs' property records were disposed of and not recorded as such and 113 items could not be verified by physical inspection or alternative means. In addition, we estimated that 209 equipment items were located at a site other than that identified in the property records.⁶

In addition to these problems with Customs' annual equipment inventories, our review of property records and discussions with officials at NLC in Indianapolis, Indiana, showed that Customs had not conducted physical inventories for capitalized property items other than equipment in the last 3 years as required. These inventories had never been performed because, according to these Customs officials, Customs did not consider them to be a priority.

In an effort to report accurate amounts for capitalized property items other than equipment, Customs contracted with a private consultant to assist in identifying all items and determining their proper value. This category includes land, buildings, other structures, leasehold improvements, capitalized leases, and construction-in-progress. The consultant researched Customs' documents to arrive at the amounts reported, but inventories of these property items were not performed. Because physical inventories were not performed, Customs does not have assurance that the listings of nonequipment items are complete and accurate.

Our test of these reported amounts showed in one instance, failure to perform a physical inventory of leasehold improvements resulted in an \$800,000 overstatement in the property records going undetected. This

⁵Approximately 6 months after we performed our physical inspections, Customs provided explanations for the eight missing items. Customs told us that four were found at locations other than those identified in PIMS, three were found to be assigned to individual employees, and one was a duplicate entry. We did not verify this new information because our field work had been completed when the information was provided.

⁶The confidence intervals, for these point estimates, at a 95 percent confidence level, are as follows: (1) between 17 and 31 items had been disposed of but not recorded, (2) between 8 and 405 items were missing, and (3) between 139 and 279 items were located at a different site.

overstatement occurred because of an erroneous inclusion of a mail conveyer system for a Customs' foreign mail operations center, which as of March 1993, had not yet been installed. After we brought this problem to Customs' attention, the Director of Customs' NFC had the listing of leasehold improvements reviewed and found that the listings were based on obligated amounts for work to be performed rather than capitalized amounts for improvements that had been completed. As a result, Customs performed additional procedures to verify the completed leasehold improvements, and the \$5.4 million that had been previously reported was adjusted to \$2.3 million.

Property Officers Lack Adequate Training

In addition to the lack of proper procedures, a number of Customs' property officers did not receive adequate training for performing effective physical inventories and accounting for its property. Although Customs' inventory procedures direct that the local property officer not perform the inventory counts, they require the local property officer to provide training for those who conduct the physical inventories.

Most of Customs' property officers performed the property management responsibilities as a collateral duty. Only 1 of the 49 property officers we interviewed was a full-time property officer. Sixty percent of the 48 were full-time technicians or administrative assistants and the remaining 40 percent were full-time special agents, pilots, or air interdiction officers.

Of the 49 property officers at the 40 Customs locations we visited, 31 percent, stated that although training was offered by the NLC, they had not received any formal training on the use of PIMS and 39 percent stated they had not received formal physical inventory training.

The reasons, given by the property officers interviewed, for the lack of adequate training included conflicts with their full-time duties, cancellation of classes due to low enrollment, and a lack of travel funds. In addition, high turnover among property officers—20 percent of the property officers interviewed had been assigned within 1 year and 69 percent had been assigned within 3 years—also adversely affected Customs' ability to maintain a fully trained staff.

This lack of adequate training affected the reliability of Customs' property records. As we reported in our August 1992 report, failure to understand the automated property system was a major contributing factor to discrepancies between (1) the physical inventory and the automated

property system and (2) the automated property system and the accounting system.

Property Values Were Unsupported and Inaccurate

According to GAO's Policy and Procedures Manual for Guidance of Federal Agencies,⁷ a fundamental requirement for any viable accounting system is that the financial transactions for which the system must account be adequately supported with pertinent documents and source records. Property balances reported in Customs' fiscal year 1992 financial statements were not adequately supported with pertinent documents and source records relating to the financial transactions that resulted in the property balances. Consequently, Customs lacks assurance that its property records include all property it owns, and it cannot accurately report its property. In addition, equipment included in Customs' automated property system was inaccurately valued primarily because, in many instances, (1) Customs used estimated values rather than researching procurement records to obtain actual acquisition costs and (2) the write-down of property values for those items which were either damaged or idle was not considered.

Customs was unable to support the values assigned to 334 of the 650 items in our sample of items valued between \$5,000 and \$2 million. These unsupported assets had an aggregate reported value of \$5 million and ranged from a cash register valued at \$5,000 to a yacht valued at \$500,000. In addition, Customs could not provide pertinent documents and source records to support the value assigned to 1 of the 56 items with recorded values over \$2 million—a mainframe computer valued at \$4.3 million. Customs primarily attributed the inability to locate supporting documentation to the absence of appropriate references to source documents in PIMS. This occurred because the permanent record for each equipment item can be established in PIMS without including the source document number in the designated field. GAO's Policy and Procedures Manual for Guidance of Federal Agencies requires transactions to be referenced to individual source records in a manner that enables tracing or replicating a transaction from the resulting record or report to the source.

⁷Federal accounting standards contained in Title 2 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies are being examined by the Federal Accounting Standards Advisory Board. The Board, established in October 1990, is composed of nine members, including representatives from GAO, OMB, and the Department of the Treasury. GAO and OMB may issue new standards based on the Board's recommendations. Like most federal agencies, the Department of the Treasury and Customs policies call for following the accounting standards prescribed by Title 2.

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Of the 316 items in our sample for which we were provided supporting documentation, 38 were not properly valued, resulting in a net understatement of \$128,568 for those items. Based on these results, we estimate that property items valued between \$5,000 and \$2 million had a net understatement of at least \$4.7 million.⁸

One factor contributing to inaccuracies of Customs' reported property balances was that equipment values were often based on estimates rather than actual acquisition costs and thus were not in accordance with Customs' valuation policy (acquisition cost). In addition, clerical mistakes contributed to valuation errors.

We found many instances in which the assigned values appear to be estimates. We scanned all 10,460 capitalized equipment items and noted that 735 or 7 percent were valued at exactly \$5,000. In addition, 40 equipment items were valued at exactly \$20,000. Although Customs could not provide documentation for the majority of our sample items with these stated values, in those instances where support was available, the supported values were significantly different from the assigned values. For example,

- for the 2 items in our sample valued at exactly \$5,000 for which Customs provided us supporting documentation, the acquisition cost for one was \$10,999 and the other was \$2,475, and
- the one item in our sample valued at \$20,000 was acquired through forfeiture and had an appraised value of \$40,000 at acquisition.

We also found instances in which the assigned values for equipment items were incorrect due primarily to clerical mistakes. The following illustrates these types of errors.

- The property records for two radio base stations assigned to the same location showed one valued at \$136,841 while the other was valued at \$13,000. Based on our physical inspection of the items and inquiry of the local property officer, these base stations were identical and the acquisition value of each was approximately \$13,000.
- An equipment tester was valued at \$3 million, but, based on the supporting documentation, it should have been valued at \$300,000.

⁸The range of our confidence interval, at a 95 percent confidence level, is that the actual amount that property was understated as of September 30, 1992, was between \$4.7 million and \$6.0 million.

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Further, at the locations we visited, we observed equipment items that were either damaged or not in use but which were not designated as such in PIMS. Consequently, the reported property values for such items were overstated. Specifically, of the 650 items selected in our sample from PIMS, we found 15 totaling \$142,020 were either damaged or not being used in Customs' operations. Based on these results, we estimated that 229 items in Customs' property records were damaged or not being used in Customs' operations.⁹

Of the 10 items in our sample for land and structures valued at \$34 million, 6 contained valuation errors resulting in a net overstatement of \$713,834. In addition, Customs was unable to provide supporting documentation for 3 of the sample items because the documents showing the cost/value of these structures, which had been built prior to 1985, had been placed in a Federal Records Center.

After we brought these valuation errors to Customs' attention, the Customs' National Finance Center Director stated that Customs plans to review procurement documents to verify the acquisition costs or develop supportable cost estimates for its capitalized property and correct related property records by September 30, 1993. If Customs cannot obtain actual acquisition costs for all items, GAO's Policy and Procedures Manual for Guidance of Federal Agencies requires that the fair value of the property at the date acquired be estimated from available records or evidence.

While Customs has adopted acquisition costs as a basis for valuing its property for financial management purposes, other data related to these assets could also be of assistance to management in its decision-making. For example, estimated replacement costs may be useful to managers in making budget and procurement decisions. Such information could be maintained in PIMS or be available from other sources. Officials at NLC advised us that a scheduled fiscal year 1993 enhancement to PIMS would allow the recording of replacement costs.

⁹The range of our confidence interval, at a 95 percent confidence level, is that the actual number of equipment items damaged or not being used as of September 30, 1992, was between 16 and 681.

Costs of Customs-Developed Software Not Captured

Customs did not maintain complete cost information on computer software. Its policy was to record the cost of purchased software in the accounting records, and, as of September 30, 1992, Customs' accounting records showed a balance of approximately \$5.6 million. However, Customs did not have policies and procedures that required that costs associated with its in-house development of software be recorded because it did not have a cost accounting system for tracking actual software development expenditures. These costs can be significant. For example, Customs' March 1992 Information Systems Plan included projected costs through fiscal year 1998 of \$830 million for redesign of the Automated Commercial System and \$185 million for continued development of the Asset Information Management System. Much of these costs is attributable to Customs and contractor personnel costs.

Reliable information on the costs of developing software in-house can (1) help managers measure the costs and benefits of alternative courses of action, such as the cost of purchasing software versus developing it in-house and (2) allow managers to monitor and control projects by comparing actual costs to budgeted costs. One of the tasks in Customs' Office of Information Management Fiscal Year 1993 Project Plan dated May 3, 1993, is to develop capitalization and property management policies and procedures for purchased, leased, contractor-developed, or in-house developed mainframe software. In performing this task, Customs plans to determine the costs for all existing operating software that had been developed in-house and develop procedures to account for in-house software development costs for all ongoing activities.

Weaknesses in Physical Safeguarding of Property and Weapons Exist

Customs did not exercise adequate accountability and stewardship over its property because its property officers performed several of the key duties and responsibilities relating to property transactions, resulting in a lack of proper separation of duties. In addition, its Weapons Inventory Control System (WICS) did not provide the information necessary for Customs to maintain full accountability and control over its weapons.

Lack of Separation of Duties

At each Customs location, a local property officer is directly responsible for capitalized assets assigned to that location. Each property officer has the authority to (1) physically receive property and complete the property file in the property system, (2) initiate action to have changes made within the system, (3) participate in the inventory process, and (4) reconcile differences between the system and the physical inventory. The fact that

one person is responsible for such a wide array of duties hampers the safeguarding of property and leaves Customs vulnerable to fraud, waste, or abuse.

Regarding proper separation of duties, Appendix II to GAO's Title 2 states:

"Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals. To reduce the risk of error, waste, or wrongful acts or to reduce the risk of them going undetected, no one individual should control all key aspects of a transaction or event. Rather duties and responsibilities should be assigned systematically to a number of individuals to ensure that effective checks and balances exist."

Many of the 49 local property officers we interviewed performed several of the key duties involved in property transactions. For example,

- approximately 57 percent of those interviewed had performed the inventory counts either alone or with the assistance of others, contrary to Customs' inventory procedures which required that someone other than the property officer perform the inventory counts, and
- approximately 88 percent reconciled any discrepancies found during the inventory process and entered the results into PIMS, while the remaining 12 percent forwarded the discrepancies to the district or region to be entered into PIMS.

Weapons System Contains Inaccurate Data

In February 1993, the Treasury IG reported¹⁰ that WICS was incapable of providing the information necessary for Customs to maintain full accountability and control over its weapons. Consequently, Customs was vulnerable to undetected losses or theft of weapons. The IG found instances where Customs' field offices were not providing the National Firearms Program Staff (NFPS) with complete, accurate, and timely information on weapons status changes. In addition, it found that NFPS was not properly recording receipt of weapons, and not updating receipt logs when weapons were removed from storage. Further, they reported that annual inventories were not taken, were incomplete, or were not always certified by physical verification. The IG's review was performed to assess whether Customs properly accounted for all firearms monitored by NFPS during fiscal year 1991. Although Customs has taken steps to address some of the problems identified by the IG, we found discrepancies which showed that many of these problems still existed in fiscal year 1992. For our

¹⁰Audit Report on Firearms Accountability, U.S. Customs Service (OIG-93-029, February 22, 1993).

random sample of 465 weapons we selected from WICS, we found the following 43 discrepancies.

- One weapon was missing. Neither the weapons custodian at NFPS nor the local firearm property officer at the Customs' port could explain what happened to this weapon.
- Seven of the weapons in our sample could not be inspected because they had been destroyed but the disposals had not been recorded. Documentation signed by witnesses to the destruction showed that the weapons had been destroyed during the period of March 1989 to May 1992.
- Thirty-four of the weapons in our sample were not assigned to the individuals listed in the system or were located at a different field location than that recorded in WICS.
- Customs erroneously established a record for a weapon which it had not acquired.

For our judgmental sample of 257 weapons we physically inspected and searched for the related record in WICS, we found 4 weapons had been acquired in September 1992 and not recorded in the system until October 7, 1992. We also identified 6 forfeited weapons not recorded in WICS. NFPS stated that its policy in 1992 was not to record forfeited weapons in WICS until they were assigned to Customs agents and inspectors in the field, although it was to record all forfeited weapons in its internal log book when they were received.

In its written response to the IG's report, Customs stated that it planned to undertake a complete redesign of WICS with implementation scheduled for fiscal year 1994. In addition, Customs stated that it plans a complete physical inventory of all its weapons prior to conversion to the new system.

Conclusions

Although Customs made significant strides towards resolving long-standing problems with accounting for and controlling property, it still had not instituted the necessary controls to ensure that its property records were accurate and complete. As a result, the information Customs needed to make management decisions and prepare financial statements was not readily available. In addition, Customs did not have procedures in place to ensure that the costs of in-house development of software were accurately accounted for.

Improved controls and financial systems, including fully integrating its accounting and property systems, would strengthen Customs' accountability and stewardship for its property. Due to the CFO Act's emphasis on developing more useful financial management information, Customs officials plan to improve the reliability of its property records. Reliable property records that clearly show what equipment is on hand and in use, where it is located, and who is responsible for it, is critical for Customs' managers to properly manage, maintain, and protect such equipment and improve decisions on how to best utilize Customs' property.

Recommendations

We recommend that the Commissioner of the U.S. Customs Service direct the Chief Financial Officer to:

- complete the integration of property and accounting systems as planned;
- conduct physical inventories of capitalized property items other than equipment every 3 years as required;
- modify the procedures for periodic inventories of equipment to require that all capitalized equipment is counted;
- train local property officers and other employees involved in the physical inventory process;
- revise the responsibilities and duties of local property officers to provide adequate separation of duties;
- develop procedures for accurately and adequately documenting equipment values recorded in PIMS by (1) requiring appropriate references to source documents in each property file in PIMS, (2) reviewing procurement documents for those items with estimated values and entering corrections, and (3) properly identifying property items not in use or damaged; and
- oversee Customs efforts for ensuring that the costs of ongoing ADP software development efforts are properly recorded and are complete and accurate.

We also recommend that the Commissioner direct the Associate Commissioner for Law Enforcement to (1) monitor steps being taken in response to the IG's report, including the design of the new WICS, for addressing identified system deficiencies and (2) develop and implement procedures for effectively performing annual physical inventories of weapons at field locations, properly resolving discrepancies, and appropriately adjusting inventory records.

Agency Comments and Our Evaluation

In commenting on a draft of this report, Customs agreed with our recommendations and discussed corrective actions that it has implemented or planned. Regarding the integration of the property and accounting systems, Customs stated that it started a major enhancement project in early fiscal year 1993 to strengthen the accounting capability of its property system, and it is currently developing an automated reconciliation tool for the accounting and property systems until they are fully integrated. Regarding controls over property, Customs stated that it has modified its physical inventory procedures, provided inventory training, revised the inventory responsibilities for local property officers, and is currently revising policies and procedures for inventory of property items other than equipment. Regarding proper valuation of equipment items and reporting the costs associated with the development of in-house software, Customs stated that it must develop (1) procedures to obtain procurement documents for property items, (2) a methodology to estimate property values for items lacking procurement documents, and (3) a policy for capturing and reporting software development costs. Finally, regarding the controls over weapons, Customs stated that it is committed to improving control and accountability for firearms and has established a multi-disciplinary working group which is currently working to develop an enhanced firearms tracking system.

While these efforts appear to be designed to address the specific areas of weakness identified in our report, it is critical that they be properly implemented. If these planned improvements are successfully implemented, they should help correct the control weaknesses we identified and significantly reduce the related risk of error and fraud.

Comments From the U.S. Customs Service

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



THE COMMISSIONER OF CUSTOMS

WASHINGTON, D.C.

September 14, 1993

Mr. Donald H. Chapin
Assistant Comptroller General
U.S. General Accounting Office
441 G Street, NW.
Washington, D.C. 20548

Dear Mr. Chapin:

The Customs Service appreciates the opportunity to review and comment on the General Accounting Office draft report on Customs' accountability and stewardship over property and weapons. Customs agrees with the recommendations in the draft report and is committed to resolving the reported issues timely, and as such, I am pleased to inform you that some of the recommendations have already been implemented. Plans addressing the remaining issues identified in the draft report have been developed. The following are Customs comments on the GAO recommendations.

- Complete the integration of property and accounting systems as planned.

Agree. In FY 1993, Customs replaced the Customs Accounting Management Information System (CAMIS) with the Federal Financial System (FFS). FFS was selected to specifically address the Federal Manager's Financial Integrity Act (FMFIA) weaknesses.

Property Information Management System (PIMS), which Customs began using in 1989, was not designed to capture all information needed to meet the stringent accounting requirements of the Chief Financial Officer's (CFO) Act. Customs began a major enhancement project in early FY 1993 to modify PIMS to strengthen its accounting capability and increase its useability by field personnel. We feel that once these enhancements are completed, Customs property accounting will be adequate.

Customs must continue to reconcile FFS and PIMS until the two systems are fully integrated. We are currently developing an automated reconciliation tool to streamline the process and capture all property transactions.

REPORT DRUG SMUGGLING TO NEEDED STATES U.S. CUSTOMS SERVICE 0809 BE-AU-03

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- Conduct an inventory of capitalized property items other than equipment every 3 years as required.

Agree. Customs recognizes the need for a periodic inventory and we are currently updating the policies and procedures regarding inventory of property items other than equipment (real property). We anticipate completing this project and conducting the inventory of property items other than equipment in FY 1994.

- Modify the procedures for periodic inventories of equipment to require that all capitalized equipment is counted.

Agree. During FY 1992, Customs modified its physical inventory policies to conduct a 100% inventory of capitalized property and selected a statistical sample of non-capitalized property for inventory purposes. The inventory policies and procedures directed the inventory personnel to verify the existence of property listed on the count sheets and identify capitalized property that was not identified by a Customs bar-code label.

Based on the initial GAO audit findings, the FY 1993 Physical Inventory Procedures were modified to emphasize the importance of inventorying all capitalized property, including expanding the inventory scope to search for unrecorded capitalized property. GAO recently reviewed these modified procedures and deemed them adequate.

- Provide local property officers and other employees involved in the physical inventory process inventory training.

Agree. Criticism contained in the GAO Draft Report centers on inadequate inventory training of Local Property Officers, and inadequate training in the usage of PIMS.

Customs provided inventory training to over 250 Property Coordinators and Local Property Officers in FY 1992. The training emphasized the proper procedures for conducting an inventory, recording inventory results, and recording and resolving inventory discrepancies. Physical inventory procedures were prepared and distributed to field personnel to help conduct the inventory.

See comment 1.

- 3 -

We recognize that effective execution of inventory procedures is critical to ensuring that accurate data is presented in the Customs financial statements. We expanded the scope and depth of our inventory training in FY 1993 and included in our training materials many comments provided by GAO during the early audit phases in FY 1993.

Customs also implemented a train-the-trainer concept in preparation for the FY 1993 inventory. Logistics personnel travelled to Customs various regions to conduct training for over 200 Property Coordinators and Local Property Officers. An additional 150 personnel were trained in August 1993. The Property Coordinators are now charged with providing adequate training to their respective Local Property Officers and inventory takers. We have also designed a certification form to substantiate the training of the inventory takers by the Local Property Officers.

- Revise the responsibilities and duties of Local Property Officers to provide adequate separation of duties.

Agree. Customs modified its physical inventory procedures in FY 1993 to require each field office manager to designate an inventory taker, and provide adequate supervision of the inventory. The segregation of duties designed into these modified procedures provides the necessary internal controls to ensure that a complete and accurate inventory is achieved. These revised physical inventory procedures were reviewed and deemed adequate by GAO in July 1993.

- Develop procedures for accurately and adequately documenting equipment values recorded in PIMS by (1) requiring appropriate references to source documents in each property file in PIMS, (2) reviewing procurement documents for those items with estimated values and entering corrections, and (3) properly identifying items not in use or damaged.

Agree. Comments contained in the GAO Draft Report focus on Customs approach for estimating values of property rather than researching procurement records to obtain actual acquisition costs, and the failure to write-down property values for damaged or idle items.

See comment 1.

- 4 -

Customs recognizes the weaknesses in its ability to provide adequate support for certain property transactions, and we have recently taken steps to improve the process. We must also develop procedures to obtain procurement documents for property items recorded in PIMS without adequate support. Additionally, we must develop a methodology to estimate property values for items lacking procurement documents.

These estimates could be provided by appraisal or by the examination of valuation references, such as the Blue Book for automobiles. Whatever method is chosen, there will likely be a significant cost associated with it. Customs is studying the options, and will develop a strategy to resolve the weakness.

Some property items sampled by GAO during their audit were damaged or idle when the items were examined. The FY 1993 Physical Inventory Procedures require that specific procedures be followed to review the Status Codes in PIMS for all property items damaged or idle. Customs will then make appropriate adjustments reflecting the write-down of value for the damaged or idle items.

- Ensure that the costs of ongoing ADP software development efforts are properly recorded and are complete and accurate.

Agree. The Office of Management and the Office of Information Management will work together to develop a cost-effective approach to identifying, accumulating, and reporting the costs associated with the development of in-house software. This includes developing a policy on what costs should be captured and how the costs should be reported.

- Direct the Associate Commissioner for Law Enforcement to (1) monitor steps being taken in response to the Inspector General's report, including the design of the new Weapons Inventory Control System (WICS), for addressing identified system deficiencies and (2) develop and implement procedures for effectively performing annual physical inventories of weapons at field locations, properly resolving discrepancies, and appropriately adjusting inventory records.

Appendix II
Comments From the U.S. Customs Service

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Agree. A U.S. Customs Service multi-disciplinary working group is working to develop an enhanced firearms tracking system. Initial projections indicate a viable system will be in place in FY 1994, with a six month test period to insure that all system modules are thoroughly tested.

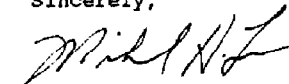
The National Firearms Program Staff (NFPS) is currently verifying all WICS database information in conjunction with the 1992 firearms inventory. As each firearm record is processed, all information is confirmed and/or updated and the record verified. Through this exacting process, each firearm's record in WICS is examined and verified so that all reasonable measures are taken to insure the validity of the data in the current WICS. Another complete inventory will be taken to "seed" the new firearms tracking system.

Two memorandums have been issued by Customs Executive Management stressing the importance of firearms accountability and the need to comply with existing directives. NFPS is also preparing to institute a policy of random sampling of firearms assigned to individual and field locations. This sampling process will be incorporated into the new system and will validate approximately 2.5% of the firearms inventory on a quarterly basis.

Customs is undertaking a forceful and integrated approach to implement the audit recommendations made by the Treasury Department's Office of the Inspector General and reiterated by the GAO findings. Our actions taken thus far reflect our commitment to improve control and accountability for firearms and increase managerial awareness concerning firearms accountability.

If any additional information is needed, your staff may contact Judy Starling at (317) 298-1568 or Vivienne Alonso at (317) 298-1224.

Sincerely,


George J. Weise
Commissioner

The following are GAO's comments on the U.S. Customs Service's letter dated September 14, 1993.

GAO Comments

1. We reviewed Customs' modified inventory procedures and advised Customs that they will need to be successfully performed to address the weaknesses we identified with the physical inventory process during our fiscal year 1992 audit. We will assess the implementation of such procedures in our fiscal year 1993 audit.

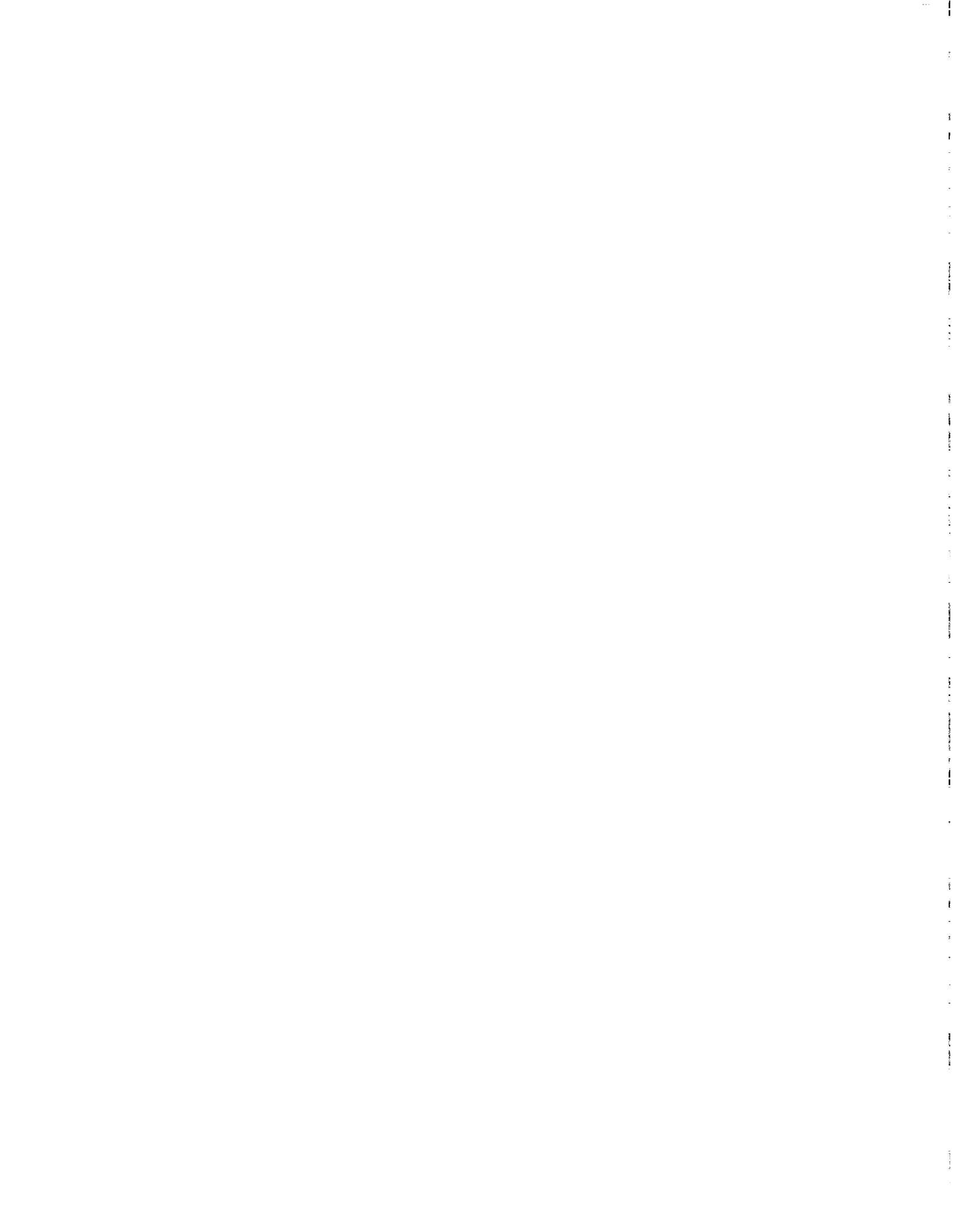
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