United States General Accounting Office

GAO

Report to the Commissioner
U.S. Customs Service

November 1993

FINANCIAL MANAGEMENT

Customs Did Not Adequately Account For or Control Its Accounts Receivable

GAO/AIMD-94-5

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

Accounting and Information
Management Division

B-253816

November 8, 1993

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

Dear Mr. Weise:

This report presents the results of our review of accounts receivable at the U.S. Customs Service. We conducted this review as part of our financial statement audit of Customs pursuant to the Chief Financial Officers Act of 1990 (Public Law 101-576).

This report contains recommendations to you. As you know, the head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations. You should send the statement to the Senate Committee on Governmental Affairs and the House Committee on Government Operations within 60 days of the date of this letter and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made over 60 days after the date of this letter.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Governmental Affairs; the Senate Committee on Finance; 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 at (202) 512-9510 if you or your staff have any questions. Other major contributors are listed in appendix II.

Sincerely yours,

Donald H. Chapin

Donald H. Chapin
Assistant Comptroller General

Executive Summary

Purpose

The U.S. Customs Service's reported gross accounts receivable balance almost tripled since 1989, reaching $936.6 million as of June 30, 1992. This increase is an indication that importers owe a significant amount in unpaid duties and that Customs may have fallen behind in collecting its receivables. Because of these and other financial management problems, GAO and the Office of Management and Budget (OMB) designated Customs as a high-risk area, targeted for special management attention.

GAO reviewed the validity and collectibility of Customs' reported gross accounts receivable and the effectiveness of Customs' collection efforts as of June 30, 1992, in preparation for its audit of Customs' fiscal year 1992 financial statements. In accordance with authority granted by the Chief Financial Officers Act (CFO) of 1990 (Public Law 101-576), GAO elected to perform this audit.

Background

Customs, a part of the Department of the Treasury, is second to the Internal Revenue Service in revenues collected for the federal government. For fiscal year 1992, Customs reported collections of about $20 billion primarily in import duties, excise taxes, user fees, and fines and penalties on imported goods and services.

Although most duties, taxes, and fees are collected shortly after Customs releases merchandise into the United States for consumption, some are not. Unpaid assessments are the basis for Customs' accounts receivable and occur when (1) merchandise is released into commerce prior to payment of duties, taxes, and fees, (2) a review of entry documents identifies additional duties owed, (3) excise taxes on imported wine, distilled liquor, and tobacco are deferred, (4) users fail to pay amounts owed on fee-related programs, such as harbor maintenance, and (5) a fine or penalty is assessed an importer for violating trade laws and regulations. GAO analyzed Customs' reported receivables by examining a judgmental sample of 1,132 individual assessments that were outstanding as of June 30, 1992, the most recent data available at the time GAO's sample was drawn.

Results in Brief

The Congress, other federal decisionmakers, and the public have not been provided accurate information on the amount of duties, taxes, user fees, and fines and penalties owed to the federal government or the amount that Customs will be able to collect. GAO's analysis showed that Customs' reported gross accounts receivable was unreliable, largely because it included unsubstantiated and erroneous claims and did not include certain valid receivables. In addition, some accounts receivable were recorded at a gross amount, while other receivables were recorded at a net amount—that is, gross receivables adjusted by an allowance for uncollectible accounts.

In addition, Customs' methodology for estimating the collectibility of its accounts receivable was incorrect. Customs included invalid receivables in the analysis and relied primarily on historical collection experience without considering the debtors' current ability to pay. GAO estimated that $358 million, or 88.8 percent, of the valid receivables in its sample as of June 30, 1992, was uncollectible. GAO's analysis showed many of the valid receivables were uncollectible because the importer had filed for bankruptcy and/or the related surety bond was insufficient to cover amounts still owed.

Moreover, Customs did not effectively manage its receivables portfolio to prevent or minimize delinquent accounts receivable. Customs' collection efforts were hampered by missing documentation needed to sustain claims against importers and sureties and a failure to sanction some delinquent importers.

Customs' inability to provide reliable information on its receivables can adversely affect its collection activities as well as financial reporting accuracy. Some importers may perceive that Customs' efforts to collect duties, taxes, fees, fines, and penalties are not equitable because of the disparity between Customs' gross receivables and amounts expected to be collected. This, in turn, could affect voluntary compliance with Customs' laws and regulations. More reliable information on receivables could allow Customs to more effectively allocate resources, determine staffing levels, and measure enforcement and collection performance.

Principal Findings

Customs' Gross Receivables Balance Was Inaccurate and Incomplete

Based on GAO's analysis, Customs' reported gross receivables balance as of June 30, 1992, was substantively unsupported and included many erroneous and possibly duplicate amounts. Customs' accounting policies and weak financial management systems allowed it to include at least $97.2 million of invalid receivables in the June 30, 1992, balance and also offered little assurance that all receivables were accurately recorded and reported in the financial statements. As a result, Customs did not (1) record certain fines and penalties receivables at their gross amount, (2) include duties that were assessed in conjunction with penalty assessments, and (3) recognize all claims for duties and taxes owed by importers/brokers on merchandise that Customs released into U.S. commerce.

Although Customs made a diligent effort during fiscal year 1992 to correct its receivables balance, problems remained. Systems development efforts are under way, but no plans exist to ensure that inaccurate and incomplete data in the current systems are corrected prior to transfer to the new systems and that the proper amounts are collected.

Customs' Methodology for Estimating Collectibility Unreliable

Reliably estimating an allowance for uncollectible receivables requires consideration of both historical collection experience and current economic conditions. Also, according to a standard recently recommended by the Federal Accounting Standards Advisory Board and approved by GAO, OMB, and the Department of the Treasury, such an analysis should include an evaluation of individual accounts to determine the debtor's current ability to pay.

Customs reported $415 million as its allowance for uncollectible accounts as of June 30, 1992. However, Customs' methodology for estimating collectibility of accounts receivable was unreliable because Customs based its analysis on its misstated gross receivables balance, and it did not analyze individual debtor accounts to determine the debtor's current ability to pay. Further, although Customs developed historical collection rates for groups of assessments, the assessments within these groups did not have similar collection risk characteristics, and Customs did not consider current and forecast economic conditions.

Accounts Receivable Not Effectively Managed

Customs continues to face problems managing the collection of its delinquent accounts receivable. These problems stem, in part, from not adequately managing its commercial entry process to prevent or minimize delinquent receivables. Factors such as delayed entry summary liquidation, poor monitoring of bond sufficiency to ensure payment if importers default, and delays in processing protested supplemental duty bills have increased the likelihood of delinquent accounts receivable. Also, once receivables become delinquent, Customs' collection efforts are hampered by missing entry and bond documentation and a failure to sanction some delinquent importers. Customs' Debt Resolution Unit, however, had made some progress in closing out old, delinquent accounts receivable.

Recommendations

GAO recommends that the Commissioner of Customs direct the Chief Financial Officer to:

- develop accounting policies and procedures and related accounting systems to ensure that all valid accounts receivable are accurately and completely recorded and reported in Customs' financial statements;
- modify Customs' methodology for determining the collectibility of its receivables by (1) including an analysis of individual importer accounts to assess their ability to pay and (2) basing group analyses on (a) categories of assessments with similar collection risk characteristics, (b) current and forecast economic conditions, and (c) historical collection data; and
- develop policies and procedures and related monitoring efforts so that (1) entry processing and protested receivables are resolved promptly, (2) entry and bond documentation are properly maintained, and (3) delinquent importers are sanctioned.

Agency Comments

Customs generally agreed with GAO's recommendations and stated that it is committed to resolving the reported issues promptly. Also, Customs stated that it has developed plans to address the issues identified in the report, but implementation of some of the recommendations will take several years. GAO plans to evaluate the effectiveness of these efforts as part of its ongoing audit of Customs' fiscal year 1993 financial statements. Customs' comments are discussed in chapters 2, 3, and 4 and are included in appendix I.

Contents

Tables

Figures

Abbreviations

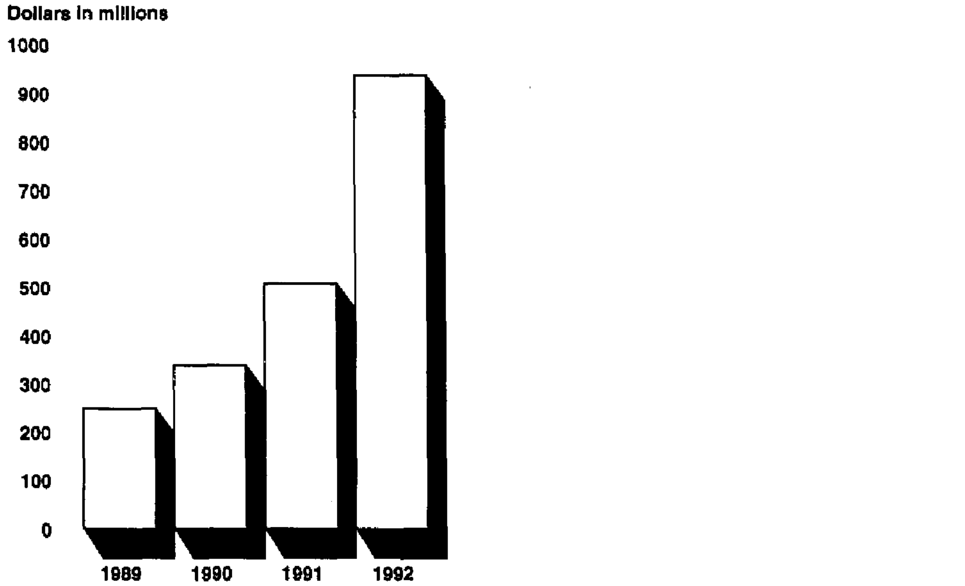
ACS	Automated Commercial System
CAMIS	Customs Automated Management Information System
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
FASAB	Federal Accounting Standards Advisory Board
FMFIA	Federal Managers' Financial Integrity Act
GAO	General Accounting Office
IRS	Internal Revenue Service
NFC	National Finance Center
OMB	Office of Management and Budget

Chapter 1

Introduction

This report discusses the validity and collectibility of the U.S. Customs Service's reported gross accounts receivable and the effectiveness of Customs' efforts to manage collection of these receivables. Customs reported to the Department of the Treasury that its gross accounts receivable were $936.6 million as of June 30, 1992. As shown in figure 1.1, this represents a sizeable growth, 278 percent, from the $248 million reported 3 years earlier, at June 30, 1989. This increase is an indication that importers owe a significant amount in unpaid duties and that Customs has fallen behind in collecting its receivables. Because of the large size and recent rapid growth in Customs' accounts receivable, we and the Office of Management and Budget (OMB) designated this and other financial management problems at Customs as a high-risk area, targeted for special management attention.

Figure 1.1: Customs' Accounts Receivable Balances as of June 30, 1989 Through 1992



Note: These balances do not include intergovernmental receivables.

Our review of Customs' accounts receivable is an integral part of our audit of Customs' fiscal year 1992 financial statements. Customs is 1 of 10 pilot agencies required to prepare financial statements and have them audited by June 30, 1993, as a pilot project under the Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576). The CFO Act establishes a blueprint for effective financial management reform that includes a strong financial management leadership structure, the requirement for a long-range financial management improvement plan, audited financial statements, development of performance and cost data, and integrated financial management systems. As authorized by the act, we elected to perform the audit of Customs' fiscal year 1992 financial statements. This is one of several reports on various aspects of Customs' financial operations.

Background

Customs, as part of the Department of the Treasury, is responsible for (1) enforcing the laws governing the flow of merchandise or commerce across the borders of the United States, (2) assessing and collecting import duties, excise taxes, user fees, and fines and penalties due on imported and other goods and services, and (3) enforcing drug-related and other laws and regulations on behalf of federal agencies or in conjunction with others, such as state and local authorities or foreign countries.

Second only to the Internal Revenue Service (IRS) in the amount of revenues collected for the federal government, Customs reported collections of about $20 billion for fiscal year 1992. Collection of revenues is generated primarily from the following sources as well as from interest that is charged on the unpaid balances of accounts receivable.

- Import duties. Customs assesses importers duties on goods and merchandise brought into the United States from foreign countries. At the time importers bring merchandise into the United States, they (or their brokers) are required to file with Customs entry documents which disclose the merchandise imported and its value. Within 10 working days after Customs releases the merchandise into U.S. commerce, the importer is to submit an entry summary document, which describes the type, quantity, and value of the merchandise; the type of duty; and the related estimated import duties and fees payable. Duties are usually paid at the time the importer/broker files the entry summary document. Accounts receivable arise from import duties when merchandise is released into U.S. commerce prior to payment of duties, regardless of the 10-day grace period.

  In addition to the above voluntary reporting and related payments, Customs' import specialists review selected entry summaries to determine whether importers' estimates of import duties and fees were accurate or whether additional (supplemental) duties are owed. An entry summary case file typically contains declarations of goods to be entered into the U.S.; estimated duties, taxes, and fees; invoices; and correspondence between Customs and the importer.

Customs' regulations allow the importer 90 days from the bill date in which to file a protest challenging the assessment of supplemental duties. Consequently, accounts receivable for supplemental duties are to be recorded when the 90-day protest period elapses if payment has not yet been received from the importer or when a protest decision has been rendered in favor of Customs.

- Excise taxes. On behalf of the Bureau of Alcohol, Tobacco, and Firearms, Customs collects taxes from importers on imported wine, distilled liquor, and tobacco. Customs, however, does not assess nor collect excise taxes on liquor that is brought into the U.S. in bulk quantities. Customs is responsible for collecting taxes on bottled liquor. Accounts receivable for excise taxes arise when merchandise subject to excise tax is released into U.S. commerce. Subject to Customs' approval, payment of excise taxes can be deferred by the importer from 15 to 30 days depending on when the entry summary document was filed.
- User fees. Customs collects fees on fee-related programs, such as harbor maintenance. These fees are typically based on a fixed percentage of the value of the merchandise. Accounts receivable for user fees arise when merchandise is released into U.S. commerce prior to payment of user fees or when users underpay the amount of fees owed.
- Fines and penalties. Customs imposes fines and penalties on importers when it determines that an importer violated laws and regulations Customs is responsible for enforcing. These laws and regulations contain guidelines for establishing the amount of fines and penalties to be assessed. The guidelines and criteria for negotiation or mitigation to a lower fine or penalty amount to settle the case are established by Customs through its regulations. Also, Customs' regulations allow the violator and/or surety[1] a period of time in which to file petitions challenging the fine or penalty amount assessed. Accounts receivable for fines and penalties are recognized when either the petition period elapses and payment has not been made or Customs has reached agreement with the violator as to the amount of damages owed. A fines and penalties case file contains memorandums identifying the nature of violations, penalty notices, letters petitioning Customs' decision, and memorandums of Customs' legal position.

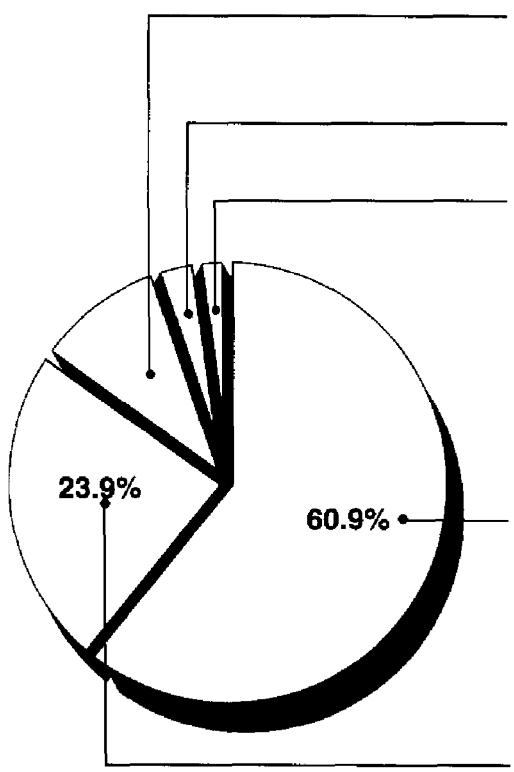
[1]A surety is a company or individual that issues a bond to the importer/broker covering the merchandise brought into U.S. commerce. Should the importer/broker fail to pay amounts to Customs, the surety would be responsible in accordance with Customs' regulations.

To help protect the government's interests against loss from unpaid import duties, excise taxes, or other assessed amounts, Customs requires importers to maintain bond coverage with sureties. In addition, Customs is authorized by law to sanction importers and sureties by (1) requiring importers/brokers to pay duties and fees prior to the release of their merchandise into U.S. commerce, and (2) refusing to accept future bonds from a surety company.

Customs has two types of accounts receivable: (1) custodial and (2) noncustodial. Noncustodial accounts receivable, such as reimbursements for overtime and services rendered to private organizations and individuals, can be used to defray Customs' operating expenses. Accounts receivable from the four sources described previously are referred to as custodial receivables. Custodial receivables occur when amounts to be collected will be distributed to Treasury, other federal agencies, and state and local agencies, and cannot be used to finance Customs' operations.

As figure 1.2 shows, two types of accounts receivable, those arising from supplemental duties and from fines and penalties, comprised over 84 percent of Customs' reported gross custodial accounts receivable at June 30, 1992.

Figure 1.2: Gross Custodial Accounts Receivable by Type as of June 30, 1992



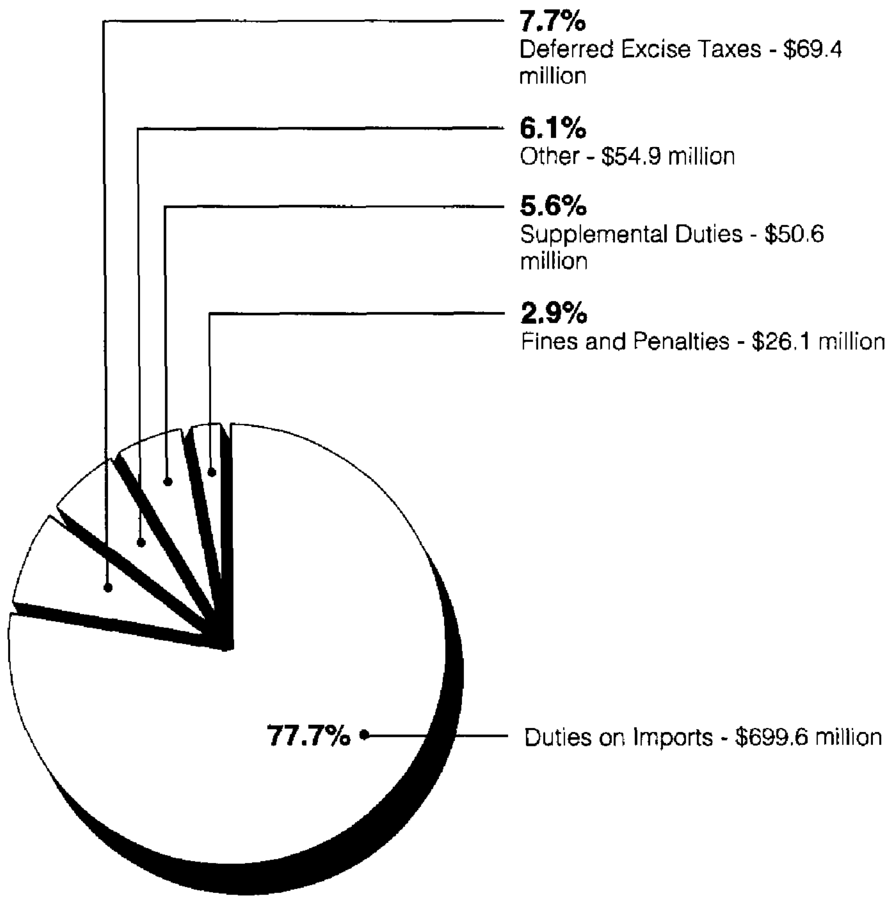
Notes: Duties on import receivables include mail entries, debit vouchers, cash shortages, and miscellaneous.

Other is comprised of promissory notes, harbor maintenance fees, and reimbursable services.

Source: Customs' Schedule TFS 220.9 as of June 30, 1992.

However, as shown in figure 1.3, and explained in detail in chapter 2, Customs significantly changed the composition of its accounts receivable balance as of September 30, 1992, from that reported to Treasury as of June 30, 1992. As part of its first-year effort to prepare financial statements under the CFO Act, Customs reported $900.6 million in its gross custodial accounts receivable balance as of September 30, 1992, down from $936.6 million in the report to Treasury as of June 30, 1992.

Figure 1.3: Gross Custodial Accounts Receivable by Type as of September 30, 1992



Note: Other is comprised of promissory notes, harbor maintenance fees, forfeiture fund, and reimbursable receivables.

Source: Customs' fiscal year 1992 financial statements.

Management Structure and Accounting Systems

The Assistant Commissioner for Management serves as Customs' Chief Financial Officer (CFO). As CFO, this official provides advice and guidance on financial management to the Commissioner and is responsible for the development and implementation of accounting, budgeting, and financial control systems. Customs' accounts receivable and collection operations involve (1) 294 ports of entry, (2) 44 district offices, (3) the Customs Data Processing Center, Newington, Virginia, and (4) the National Finance

Center (NFC), Indianapolis, Indiana. Customs' accounts receivable processing for the primary categories of accounts receivable is described in the following section.

Supplemental duty and deferred excise tax assessments are identified by Customs district offices based on reviews of entry summary documents filed by importers. The billings related to these assessments are generated at the Customs Data Processing Center and collections are reported to NFC.

Fines and penalties cases are usually identified at ports of entry and forwarded to the appropriate district offices for processing. The district offices prepare the penalty notices and process the collections. NFC identifies, bills, and collects harbor maintenance fee underpayments.

Customs relies heavily on its Automated Commercial System (ACS) to capture and track accounts receivable information. ACS was developed to automate information on Customs' program operations and is used to account for revenue collected. Also, ACS provides information to Customs' primary accounting system, the Customs Accounting and Management Information System (CAMIS), which was the agency's general ledger system in fiscal year 1992. Together, these systems are used to (1) record information on the financial results of programs and administrative operations, (2) prepare financial reports for use by Customs' management, and (3) prepare financial reports on the results of program and administrative operations and the status of appropriated funds for external parties, such as OMB and Treasury.

The Debt Resolution Unit of NFC's Revenue Branch is primarily responsible for collecting Customs' delinquent accounts receivable. The Revenue Branch initially developed and implemented the methodology Customs used to estimate its allowance for uncollectible accounts as of June 30, 1992. However, for its fiscal year 1992 financial statements, Customs' CFO staff at NFC developed the methodology for estimating its allowance for uncollectible accounts.

Objectives, Scope, and Methodology

We reviewed Customs' accounts receivable in preparation for our audit of Customs' fiscal year 1992 financial statements. Our specific objectives were to:

- determine the validity and collectibility of Customs' reported gross accounts receivable balance as of June 30, 1992,
- evaluate Customs' methodology for estimating its allowance for uncollectible accounts, and
- assess Customs' efforts to manage the collection of its accounts receivable.

We also reviewed Customs' September 30, 1992, receivables balance to determine if the weaknesses we identified as of June 30, 1992, were still present or if new problems had been introduced.

To assess the validity of Customs' reported gross accounts receivable balance, we judgmentally tested 1,132 assessments supporting the accounts receivable amounts contained in Customs' quarterly Schedule TFS 220.9, "Report on Accounts and Loan Receivable Due From the Public," as of June 30, 1992. This report was the most recent data available at the time our sample was drawn. We chose the sample from four major Customs' categories of accounts receivable as of June 30, 1992. For each category, we chose (1) a random sample of 77 cases plus (2) all cases over a dollar threshold that we considered critical for that category in order to evaluate most of the large dollar values. We reclassified 145 of the 335 cases originally selected as "protested supplemental duties" to the supplemental duty category because a Customs' decision had been rendered on their validity. The final composition of our sample was as follows: 532 supplemental duties, 190 protested supplemental duties, 244 deferred excise taxes, and 166 fines and penalties. The 1,132 cases had a gross value of $1.522 billion but, because Customs reported some of its receivables at a net amount, these cases accounted for $232.8 million, or 24.9 percent, of Customs' reported gross accounts receivable as of June 30, 1992.

For each assessment selected, we reviewed the supporting documentation contained in the entry summary or fines and penalties case files to establish why a receivable was created, whether Customs had sufficient and reliable information to determine the amount owed, and if the account had been subsequently adjusted or canceled because it was erroneous.

To evaluate Customs' methodology for estimating its allowance for uncollectible accounts, we reviewed the factors and assumptions Customs used in its estimate. We compared Customs' methodology to the criteria established in Title 2 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies and to the standards recommended by the Federal

Accounting Standards Advisory Board (FASAB), "Accounting for Selected Assets and Liabilities," and approved by GAO, OMB, and the Department of the Treasury in March 1993. We also met with cognizant Customs' officials to gain a thorough understanding of the data and procedures used.

We determined the collectibility of the valid assessments in our sample. To do this, we examined Customs' case file records that showed each importer's outstanding amounts owed, payment history, financial data on the importer, and any other relevant information in the file that would affect the importer's ability to pay. We also considered the extent of Customs' efforts to collect the assessments.

To ensure that our collectibility estimate was based on all available data and that our judgments regarding collectibility were reasonable, we interviewed Customs' officials at NFC and had them review our determinations for all valid sampled assessments. In some instances, the NFC officials provided us with updated information on the status of their collection efforts, which we considered in finalizing our collectibility estimates.

To assess Customs' efforts to manage the collection of its accounts receivable, we reviewed Customs' accounts receivable collection policies and procedures. Then, based on the information contained in the collection case files for the assessments selected for testing, we assessed Customs' compliance with these policies and procedures.

Also, we discussed with Customs' officials their efforts to enhance its financial management systems and to improve Customs' accounts receivable accounting and reporting processes.

Customs provided written comments on a draft of this report. These comments are presented and evaluated in chapters 2, 3, and 4 and are included in appendix I.

We performed our work at Customs' headquarters in Washington, D.C., the Data Processing Center, and the NFC, as well as at selected Customs regions, districts, and ports of entry. Our work was performed from March 1992 through May 1993 in accordance with generally accepted government auditing standards.

Customs' Accounts Receivable Were Inaccurate and Incomplete

Customs did not have policies and procedures for recording and reporting receivables in accordance with accepted accounting procedures, and it did not know what amounts were owed the federal government. Customs included invalid assessments in its accounts receivable balance, its internal controls over recording and reporting receivables were weak or nonexistent, and its accounting systems did not accurately account for all receivables. In addition, some receivables were recorded at a net, rather than gross amount.

As part of its first-year efforts to prepare financial statements under the CFO Act, Customs significantly changed the composition of its reported September 30, 1992, accounts receivable balance from that reported to Treasury as of June 30, 1992, as shown in table 2.1. These changes were primarily in response to concerns we raised to Customs in our current and prior audits of Customs' accounts receivable operation and are discussed in detail in this chapter.

Table 2.1: Customs' Reported Accounts Receivable as of June 30, and September 30, 1992

Dollars in millions

	June 30, 1992	September 30, 1992
Gross Receivables:		
Fines and Penalties	$ 570.8	$ 26.1
Supplemental Duties	223.5	50.6
Deferred Excise Taxes	92.8	69.4
Duties on Imports	29.3	699.6
Other	20.2	54.9
Total Gross Receivables	**$936.6**	**$900.6**

Note: Other receivables is comprised of promissory notes, harbor maintenance fees, and reimbursable services.

While Customs made a diligent effort during fiscal year 1992 to correct its receivables balances, problems remained. Customs' inability to provide reliable information on its accounts receivable hampers Customs' operations and may mislead the Congress and the public. For example, Customs' figures may be used in congressional deliberations regarding increasing collections to reduce the budget deficit, Customs' efforts to collect amounts owed, and Customs' staffing needs. Also, some importers may interpret the disparity between Customs' gross receivables and amounts expected to be collected as an indication that Customs' collection efforts are not equitable because some importers are avoiding their obligations. This, in turn, could affect voluntary compliance with Customs' laws and regulations. In addition, Customs' own managers need reliable information on receivables to allocate resources to their most productive use, determine staffing levels, and ensure that resources are not wasted on trying to collect erroneous assessments.

Customs' Policy for Including All Assessments in Accounts Receivable Was Incorrect

As of June 30, 1992, Customs' policy was to include all assessments in accounts receivable, even though some were invalid.[1] Customs' regulations allow importers or their brokers 90 days to protest any assessment of supplemental duties. They also allow alleged violators 30 days in which to file a petition challenging the assessment of a fine or penalty. This appeal process allows the importer/broker to present information or additional data to document that the assessment was either not valid or incorrect. While Customs may bill the importer/broker during the 90-day protest period, it may not pursue aggressive action on the assessment until after the protest period.

However, Customs' accounting policies and procedures did not take this appeal process into consideration. Customs' policy of including all assessments in its accounts receivable balance was based on its long-standing practice for recording and reporting accounts receivable. This policy was not in accordance with Title 2 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies,[2] which states that accounts receivable are accounted for as assets from the time the events giving rise to the claims are completed until the time they are collected, converted into other resources, or determined to be uncollectible in whole or in part. Customs' policy also was not in accordance with the new "Accounting for Selected Assets and Liabilities" standard approved by GAO, OMB, and Treasury for when federal agencies should recognize their accounts receivable. This standard states that a receivable should be recognized when a federal entity establishes a claim to cash or other assets based on legal authority to levy and collect. Thus, while it would be appropriate for Customs to account for all assessments in its financial management system for tracking purposes, only claims for which the prescribed protest or petition period had expired should have been included in accounts receivable for financial reporting purposes.

[1]Throughout this report, we refer to invalid receivables as those assessments which should not be included for financial reporting purposes. However, we recognize that Customs needs to account for those assessments for enforcement and compliance purposes.

[2]Federal 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.

Of our sample of 1,132 assessments included in Customs' June 30, 1992, reported accounts receivable balance, we found that 466 assessments with a reported value of $81.7 million or 41.2 percent of the assessments and 35.1 percent of the reported dollar value in our sample were unsubstantiated because actions to decide whether amounts were owed and how much were not yet completed. Including such cases overstated Customs' accounts receivable balance because supplemental duty claims under protest can be reduced or proven to be invalid, and fines and penalties cases under petition can be mitigated to nominal amounts. For example, in one instance, a Customs' import specialist reviewed the entry summary document and concluded that the importer had understated the value of the imported merchandise. As a result, Customs increased the duties owed from $28,078 to $129,769. The importer protested the increase and provided documentation to show that Customs was in error, and the additional duties were reduced to $7,541, which the importer paid. In another example, Customs assessed a penalty of about $5.8 million to a carrier for unloading cargo without a permit. The carrier submitted a petition to Customs seeking relief from the penalty amount and provided information that showed that the failure to file a permit was an oversight. Because this was the carrier's first violation, Customs mitigated the penalty amount to $500.

Customs Lacked Policies and Procedures and Accounting Systems for Recording and Reporting Receivables

For its June 30, 1992, Treasury report, Customs did not use its general ledger system, CAMIS, to summarize and report all its accounts receivable because there was a general consensus that it was unreliable. Because Customs did not have a single, integrated accounts receivable system, it had to retrieve detailed information from several manual and automated subsidiary systems that were not effectively controlled for accuracy and completeness.

Although Customs made extensive manual efforts to identify what amounts were owed the government, it did not have (1) policies and procedures describing how the accounts receivable balances were to be derived, including the sources of receivables information, and (2) accounting systems to ensure that all receivables were accurately recorded and reported in the Treasury reports. Specifically, Customs did not (1) report certain fines and penalties receivables at their gross amount, (2) include duties that were assessed in conjunction with penalty assessments, and (3) recognize certain duties and taxes owed by importers/brokers on merchandise that Customs released into U.S. commerce.

According to Title 2 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies, an agency's subsidiary accounts must agree with related control accounts in the general ledger. The general ledger balances must be reconciled with subsidiary accounts and records. Regularly scheduled reconciliation of control and subsidiary accounts and records helps to substantiate and maintain the accuracy of account postings and balances. Differences between the subsidiary and general ledger accounts are to be investigated to determine the causes. Further, agency accounting systems, whether automated or manual, are to contain internal controls which operate to prevent, detect, and correct errors and irregularities from the time a transaction is authorized (initiated) until data from the transaction are summarized in the financial statements.

To develop the June 30, 1992, accounts receivable balance, Customs performed an extensive manual process that included numerous errors resulting from the weaknesses described above. Specifically, the following narrative details Customs' process to determine one element of its accounts receivable balance—fines and penalties receivables, the largest component as of June 30, 1992. We also describe the errors Customs made within each step to arrive at its reported fines and penalties balance of about $571 million.

- Customs obtained a data file from ACS' Fines, Penalties, and Forfeitures Module. This file, with a total value of $2.733 billion, included all outstanding fines and penalties, including unsubstantiated claims as well as cases referred to the Department of Justice for collection. This amount also included $516 million for (1) "dummy" transactions that had been in the subsidiary records as part of a test of the system and (2) some cases that had been previously collected, canceled, or written off.
- The remaining balance of $2.217 billion, after deleting the dummy transactions and other closed cases, was further reduced when $408 million of the $516 million was erroneously deducted twice, resulting in a balance of $1.809 billion.
- The $1.809 billion was then reduced by $1.2 million of regular duties included in ACS for claims for which entry summary documents were filed but not paid on time because these cases were to be accounted for separately.
- The remaining $1.808 billion was then reduced by the value of cases that Customs said had been referred to Justice for collection because these cases were to be accounted for separately. Customs deleted $187 million for these cases. However, as we discuss later, it separately accounted for and added back $451 million rather than $187 million to its receivables

balance for cases referred to Justice for collection. Customs' officials could not explain the difference of $264 million nor identify the specific cases for either amount. Also, if the $451 million is the correct amount, there appears to be a duplication of $264 million since the original $2.733 billion included all fines and penalties cases, including those referred to Justice.

- Customs then multiplied the resultant $1.621 billion by 1.6878 percent, which Customs officials said was based on its collection experience on fines and penalties cases. On that basis, Customs reported a net amount of $27 million for gross fines and penalties receivables. This issue is discussed further in chapter 3. Also, we noted that Customs erroneously reported $2.733 billion, which included "dummy transactions" and other errors, rather than $1.621 billion as fines and penalties gross receivables in a footnote to the Treasury report. This made the report inconsistent with the footnote.
- The following amounts were then added to the $27 million for a total fines and penalties receivables amount of about $571 million, although Customs could not identify the individual debtors: (1) $451 million for cases that had been referred to the Department of Justice for collection, (2) $79 million for cases that had been referred to IRS for collection by offset against tax refunds owed, and (3) $14 million for cases that were awaiting approval for writeoff or termination of collection action.

Customs' June 30, 1992, accounts receivable balance was subject to a number of other errors in addition to those detailed for the fines and penalties cases. Customs excluded entire categories of assessments from its June 30, 1992, balance. For example, Customs did not include $1.2 million in receivables relating to duty claims where entry summary documents were filed but not paid. Also, Customs did not include duties that were assessed in conjunction with penalty assessments, referred to as "loss of duty" receivables.[3] In our sample, we found 12 assessments with a dollar value of $7.8 million of unreported "loss of duty" receivables. Because of limitations in the data fields within ACS' Fines, Penalties, and Forfeitures Module, Customs recorded these duties in the "remarks" section of this module. This section is usually used to make notes or comments to the file and cannot be readily accumulated and recorded in the financial records. Rather than using an alternate method, such as a manual or another automated system to maintain these data, Customs generally excluded them from its accounts receivable balance.

[3]"Loss of duty" receivables are unpaid duty claims arising from penalty assessments where the importer/broker submitted incorrect documentation for merchandise entered into the U.S. for consumption.

Customs recognized that deficiencies in ACS' Fines, Penalties, and Forfeitures Module hampered its ability to accurately account for all amounts owed. Customs' officials informed us that efforts were currently under way to redesign this module so that it can better track and account for fines and penalties owed. The new system is expected to be completed and implemented by January 1, 1994. However, there are no plans to review the accuracy and completeness of the assessments in the current module before it is transferred to the new module.

Finally, Customs used the cash basis of accounting rather than accrual basis to recognize claims for duties and taxes owed by importers/brokers on merchandise that Customs released into U.S. commerce. Specifically, Customs understated its gross receivables balance at June 30, 1992, by not establishing an accrual for duties and taxes owed by importers/brokers. The accrual is for merchandise Customs released into U.S. commerce prior to the importer's filing of an entry summary document and payment, which is generally 10 working days later. We had reported in August 1992 that Customs was understating its accounts receivable by only recognizing a claim at the time it was either billed or received, rather than when the merchandise was released into the country for consumption.[4]

September 30, 1992, Accounts Receivable Balance Contained Additional Errors

To address some of the problems identified in our work on its June 30, 1992, accounts receivable balance, Customs changed how it determined its accounts receivable as of September 30, 1992. However, because it still lacked adequate policies and procedures for developing accounts receivable balances which had to be compiled from numerous sources, the September 30, 1992, balance contained other types of errors.

In particular, Customs made an extensive effort to identify which receivables were valid and to include those; however, Customs' reported amounts were not supported by its detailed records. Specifically, for fines and penalties, Customs reported gross receivables of $26.1 million as of September 30, 1992, down from $571 million as of June 30, 1992. Our work showed that this account may have been substantially understated because Customs' approach for determining these receivables at September 30, 1992, was inadequate and resulted in balances that were inaccurate and incomplete. We identified six fines and penalties cases in our sample with an assessed value of $78.7 million that should have been

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

included in Customs' reported accounts receivable at September 30, 1992, but were not.

To calculate its September 30, 1992, balance of $26.1 million, Customs requested from its seven Regional Counsels a listing of fines and penalties cases settled by the Department of Justice and recorded $14.9 million for nine cases. To this figure, they added $6 million for promissory notes and the related interest. They also included a net amount of $134,000 for 181 unidentified cases calculated by multiplying the number of cases by a newly calculated average amount of fines and penalties collected per case—$741. This issue is discussed further in chapter 3. Lastly, Customs added $5 million in fines and penalties adjustments.

In addition, Customs did not consistently report accounts receivable at gross amounts. Specifically, in a footnote to the financial statements, Customs reported certain fines and penalties receivables at a gross amount and other fines and penalties receivables at a net amount. This type of disclosure would cause users of the financial statements to misinterpret the actual amount owed.

Regarding its prior exclusion of unpaid duties and taxes for merchandise that had been released into U.S. commerce, Customs established an accrual of about $679 million for these claims. Customs determined this amount by tracking the actual collection of duties and taxes from October 1, 1992, through December 7, 1992, Customs' cut-off date for determining the accrual. Customs then matched such collections to merchandise released into U.S. commerce during the 10-working day period prior to the close of the fiscal year—September 17 through September 30—and included the resulting figure in its reported receivables. This amount did not account for all duties and taxes outstanding as of September 30, 1992, because it did not include (1) any duties and taxes incurred during the 10-day period that were not collected by December 7 and (2) any unpaid duties and taxes incurred prior to the 10-day period. Further, Customs initially reported to us that gross receivables from supplemental duties were $39 million as of September 30, 1992, down from a reported $223.5 million as of June 30, 1992, which included the invalid receivables. Customs later revised this amount to $50.6 million because it incorrectly excluded some valid supplemental duties from the $39 million. In addition, Customs' personnel had to run a special program and a reconciliation in order to provide us with detailed support for the $50.6 million.

Lack of Supervisory Review and Systems Deficiencies Contributed to Erroneous Receivables

According to GAO's Policy and Procedures Manual for Guidance of Federal Agencies, agencies are to have internal controls in the form of procedures, records, and accounting systems to prevent and detect situations such as (1) failure to record a transaction, and (2) incorrect or incomplete recording of a transaction. Also, supervisory personnel are to review the assigned work of their staff to help ensure that errors, waste, and wrongful acts are minimized and that specific management directives are achieved.

Customs did not perform supervisory reviews to ensure that receivables information recorded in ACS were correct. Also, systems shortcomings in ACS did not enable Customs to readily account for all receivables. We found instances where accounts receivable erroneously included bulk liquor transactions, overstated deferred taxes for liquor imports, and included erroneous amounts of fines and penalties. Because the causes for the types of errors we found in the June 30, 1992, balance had not been corrected, the likelihood that such errors were present in the reported amounts as of September 30, 1992, was high.

Customs incorrectly established deferred excise tax receivables totaling $2.9 million as of June 30, 1992, for 29 bulk liquor transactions in our sample. A receivable should not have been created because excise taxes are not assessed nor collected by Customs on bulk liquor.

Customs relies primarily on the importers/brokers to properly code and differentiate bulk from bottled liquor on their entry summary documents. We found instances where importers/brokers made coding errors which identified bulk liquor as bottled liquor. Customs did not detect the errors and incorrectly created receivables for the bulk liquor transactions. Also, in some instances where the importer did not submit payment for bulk liquor transactions, some Customs' entry cashiers incorrectly assumed that the importer forgot to enter the amount on the entry summary document and entered this information into ACS, which created an erroneous tax bill for the bulk liquor.

In addition, based on our review of 212 deferred excise tax assessments as of June 30, 1992, Customs overstated its receivables by $12.6 million because of delays in reconciling and posting electronic funds transfer collections into ACS. ACS cannot automatically reconcile and post these collections to their related bills. As such, this process must be performed manually, and there are delays due to case backlogs. Customs reported that its June 30, 1992, receivables balance was overstated by $58.1 million because of these delays. For its fiscal year 1992 financial statements, Customs had not reconciled collections of $2.8 million to their related deferred tax bills. The lack of timely reconciliation was reported as a material instance of accounting system nonconformance in Customs' fiscal year 1992 Federal Managers' Financial Integrity Act (FMFIA) report. Although no specific completion date had been established, Customs plans to establish an automated process in ACS to allow for timely posting of deferred tax collections that are paid electronically.

We also identified four cases in our sample where Customs overstated its gross fines and penalties receivables by a total of $113.1 million. This occurred because the amount recorded in ACS' Fines, Penalties, and Forfeitures Module for these cases had not been updated for the authorized reduction of the assessment from the original amount of about $129 million to the mitigated amount of about $15.9 million. In one case, Customs assessed a separate penalty of $13 million to each of three responsible parties for submitting false invoices to Customs. In this case, collection from any one of the three parties would have satisfied the penalty. One of the parties petitioned Customs and had the penalty amount reduced to $197,225 and paid it. A contributing factor for such inaccuracies was that Customs' policies and procedures only required supervisory personnel to review the work of staff responsible for entering information into ACS to initiate a fine and penalty case. Supervisory reviews were not required on updates and changes to information already in ACS.

Conclusions

A substantial portion of Customs' June 30, 1992, reported accounts receivable balance will not yield revenue because it represents amounts that should never have been reported as receivables. In addition, some valid assessments were not included because Customs' policies and procedures and accounting systems were not adequate to ensure that all receivables are accurately recorded and reported. Our limited review of Customs' accounts receivable balance in its fiscal year 1992 financial statements showed that Customs continues to experience problems accounting for its receivables. Also, the causes of the errors we found in its June 30, 1992, balance had not been corrected and, thus, could have caused misstatements in the financial statements.

Customs' inability to provide reliable information on its accounts receivable may mislead Members of Congress, other decisionmakers, and the public on amounts owed to the federal government and impair Customs' efforts to monitor and evaluate its collection operation.

Recommendations

To help strengthen the accuracy of the accounts receivable balance reported in Customs' financial statements, we recommend that the Commissioner of the U.S. Customs Service direct the Chief Financial Officer to take the following actions:

- Develop policies and procedures to record and report all substantiated accounts receivable at a gross amount. The procedures should also provide a detailed methodology for deriving the accounts receivable balance, including a description of the relevant sources of needed data.
- Require Customs' personnel to review fines and penalties assessments recorded in ACS and correct any inaccuracies before transfer to the redesigned system.
- Require supervisory personnel to review the work of staff responsible for updating and changing information in ACS to ensure that all assessments are accurately and completely recorded.

We also recommend that, for the long-term, Customs develop and maintain an integrated accounting system that can capture accurate and reliable information on all types of assessments (including duties, taxes, fines, and penalties) from assessment through collection of any related amounts.

Agency Comments and Our Evaluation

In its response, Customs generally agreed with our recommendations. For example, Customs stated that it plans to report a gross amount for all receivables, including fines and penalties, on its fiscal year 1993 financial statements. Also, Customs stated that a post-conversion systems edit will require certain review and update steps be performed before fines and penalties personnel can update a case record and exit the system. In addition, Customs will review its procedures to ensure that estimated and supplemental duties, taxes, and fees, as well as fines and penalties, are recorded accurately and completely in ACS. Further, Customs stated that it is in the process of redesigning ACS to capture accurate and reliable information on all types of revenue from assessment through collection.

Although Customs agreed with our recommendation to review fines and penalties assessments recorded in ACS and correct any inaccuracies before transfer to the redesigned system, its response did not demonstrate that it plans to do so. For example, Customs stated that Fines, Penalties, and Forfeitures Officers are currently required to periodically review a percentage of cases in ACS to ensure timely update. However, Customs did not provide us with detailed support of this review, including such written procedures. We reiterate the importance of having Customs personnel review the accuracy and completeness of fines and penalties assessments in ACS before transferring this information to the redesigned system.

Customs also did not fully address our recommendation to require supervisory personnel to review the work of staff responsible for updating and changing information in ACS to ensure that all assessments are accurately and completely recorded. In its response, Customs stated that regional procedures exist requiring personnel unrelated to the Fines and Penalty program to periodically review a percentage of open and closed cases to ensure compliance with operating procedures. Our review showed that these procedures are specific to Customs' FMFIA review process rather than standard operating procedures for supervisory personnel in the Fines and Penalty program. We wish to reiterate the need for supervisory reviews on updates and changes to fines and penalties assessments in ACS as a means of ensuring that these assessments are accurate and complete.

Customs' Methodology for Estimating Collectibility of Accounts Receivable Was Unreliable

Customs' methodology for estimating the collectibility of its June 30, 1992, accounts receivable used an incorrect starting point and did not involve any detailed analysis of debtors' current ability to pay. We estimated that $358 million, or 88.8 percent, of the $403.2 million in valid receivables in our sample as of June 30, 1992, was uncollectible. Applying Customs' methodology, $317.4 million, or 78.7 percent, of the $403.2 million would be uncollectible. Customs attempted to address one of its basic flaws by using only substantiated receivables in its year-end analysis at September 30, 1992, but again based collectibility on previous collection experience by assessment category without examining the likelihood of payment for individual cases.

Customs' officials acknowledged the limitations of its methodology and stated that it was being modified. This will not be an easy task because Customs does not have financial management systems that provide current, accurate information on the status of its receivables.

Estimating Collectibility Requires Analysis of Individual Accounts and Groups Considering Historic, Current, and Forecast Data

According to Title 2 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies, federal agencies are to estimate an allowance for uncollectible amounts based on past experience, present market conditions, and an analysis of the outstanding balances. The asset and liability standard recommended by FASAB and recently approved by GAO, OMB, and Treasury states that uncollectible amounts should be estimated based on an analysis of both individual accounts and groups of accounts and that historical, current, and forecast information regarding the debtors' ability to pay should be considered.

Regarding individual accounts, the new asset and liability standard states that estimates should be based on (1) a debtor's current ability to pay, (2) the debtor's payment record and willingness to pay, and (3) the probable recovery of amounts from secondary sources, such as sureties, IRS, and other applicable collection tools. For estimates made on a group basis, receivables should be separated into categories of homogeneous accounts with similar collection risk characteristics. Receivables should be grouped to reflect operating environment factors such as debtor type (individual or business), reasons that gave rise to the receivable, and geographic regions. Other factors that may be used to further stratify the groups include economic stability, payment history, and age of receivables. The standard further states that, once groups have been established, sampling or modeling can be used to statistically estimate the collectibility of the receivables balance for each group. Statistical estimation should take into consideration factors that are essential for estimating the level of losses, such as historical loss experience, recent economic events, and current and forecast economic conditions. The resulting data can also be used to target collection efforts.

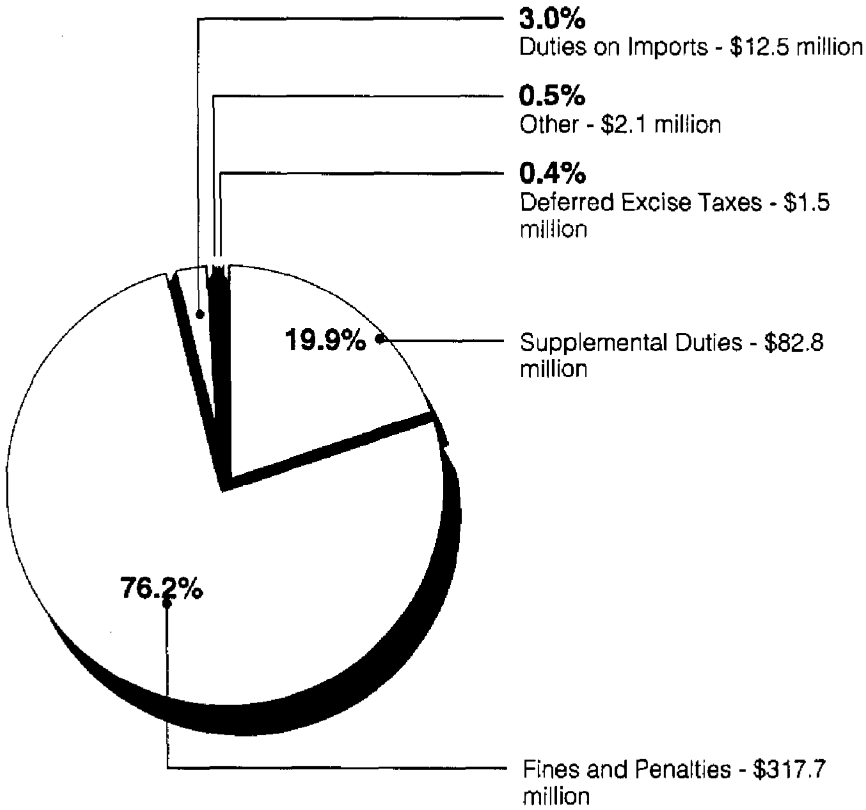
Customs' Analysis of Collectibility Was Unreliable

Customs' methodology for estimating the collectibility of its accounts receivable was not reliable because it relied primarily on historical collection experience rather than a detailed analysis of debtors' current ability to pay.

Customs reported $415 million[1] as its allowance for uncollectible accounts as of June 30, 1992. As shown in figure 3.1, supplemental duties and fines and penalties comprised over 96 percent of the receivables allowance account.

[1]In reviewing Customs' calculation of its allowance, we found that Customs made a computation error of $2,033,829. The correct amount should have been $416,557,268.

Figure 3.1: Allowance for Uncollectible Accounts by Type of Receivable as of June 30, 1992



Notes: The allowance for duties on imports includes mail entries, debit vouchers, cash shortages, and miscellaneous receivables.

The allowance for other receivables relates to promissory notes.

The above total allowance amount is based on the correct amount of $416.6 million as discussed in footnote 1 on page 29.

Source: Customs' Schedule TFS 220.9 as of June 30, 1992.

Customs described its methodology for calculating its allowance in its June 30, 1992, Treasury report. Customs reported that the supplemental duty allowance amount of $82.8 million was based on (1) an analysis of all supplemental duty claims subject to a bankruptcy petition, (2) a fiscal year 1990 analysis of protest decisions rendered against supplemental duty bills, and (3) an analysis of supplemental duty bills written off and canceled.

The fines and penalties allowance amount of $317.7 million was based on Customs' collection experience on fines and penalties cases referred to Justice or IRS and the dollar value of cases awaiting write-off approval. Customs did not separately report an allowance for uncollectible amounts for fines and penalties cases which did not fall in one of the above categories. Instead, Customs applied a collection factor of 1.6878 percent to a manually derived total receivable amount of $1.621 billion. As we discussed in chapter 2, the process for calculating this amount was a laborious effort and contained some errors. The collection factor of 1.6878 percent was based on a historical analysis of 1990 and 1991 collections against closed fines and penalties cases. By applying the 1.6878 percent to the $1.621 billion, Customs included a net amount of $27 million in its June 30, 1992, fines and penalties gross receivables balance. This approach understated gross accounts receivable and allowance account balances.

In addition, except for the promissory note allowance amount of $2.1 million, which was based on an item-by-item analysis, the remaining allowance amount of $14 million was based primarily on Customs' collection experience. No allowance amount was established for harbor maintenance fee underpayments because Customs expects to collect all these receivables. However, Customs had no collection experience for this type of receivable.

Customs' methodology for estimating the collectibility of its accounts receivable was not reliable for several reasons. First, Customs included in its analysis amounts that were not substantiated. This was not an appropriate starting point because it included assessments that did not represent valid receivables such as supplemental duties and fines and penalties claims for which the protest or petition period had not expired or for which the case was still under protest or petition. Reporting such receivables as valid, when they may be canceled or reduced, compounds the difficulties in determining an appropriate allowance for uncollectible amounts.

Second, while an analysis of individual accounts is essential to estimate debtors' current ability to pay, Customs limited its analysis to groups of assessments (duties, fines and penalties, etc.). Customs' analysis for the most part did not consider the debtors' current financial condition; the age, amount, and number of past due accounts that the importer had outstanding; payment history; bond sufficiency; and local economic conditions that might have a significant bearing upon the collection of assessments. Such considerations are important if estimates of collectibility, which pertain only to a given point in time, are to reflect the most current economic conditions and ability of debtors to pay.

Customs' officials told us that they did not have sufficient personnel resources or time to perform an analysis of individual accounts. We recognize that assessing individual accounts is a challenge, especially given limited personnel resources. However, statistical sampling is an appropriate way to select a representative group of assessments to be reviewed in detail. Evaluating all items in the population over a given dollar value, while testing only a sample of items below this threshold can help ensure that a larger percentage of the value of a balance is reviewed.

Third, we have some concerns with Customs using the 1.6878 collection factor to calculate the net fines and penalties receivable. The collection factor was applied to an incorrect base of $1.621 billion which represented assessed and mitigated fines and penalties amounts as well as invalid receivables, that is, fines and penalties cases where the petition period had not expired or cases that were still under petition. Also, the collection factor was applied to mitigated amounts no longer under petition. Although Customs seldom expects to collect the full amount assessed, it generally expects to collect the mitigated amount. Moreover, the collection factor was based on 2 years of collection experience rather than an analysis of the debtors' current ability to pay.

Fourth, Customs did not have financial management systems in place to provide complete and accurate information on the status of its accounts receivable. As we discussed in chapter 2, ACS' Fines, Penalties, and Forfeitures Module did not always contain the most current amount owed by importers. Incomplete and inaccurate data from the financial systems make it difficult to estimate the collectibility of receivables and to reliably measure Customs' collection performance.

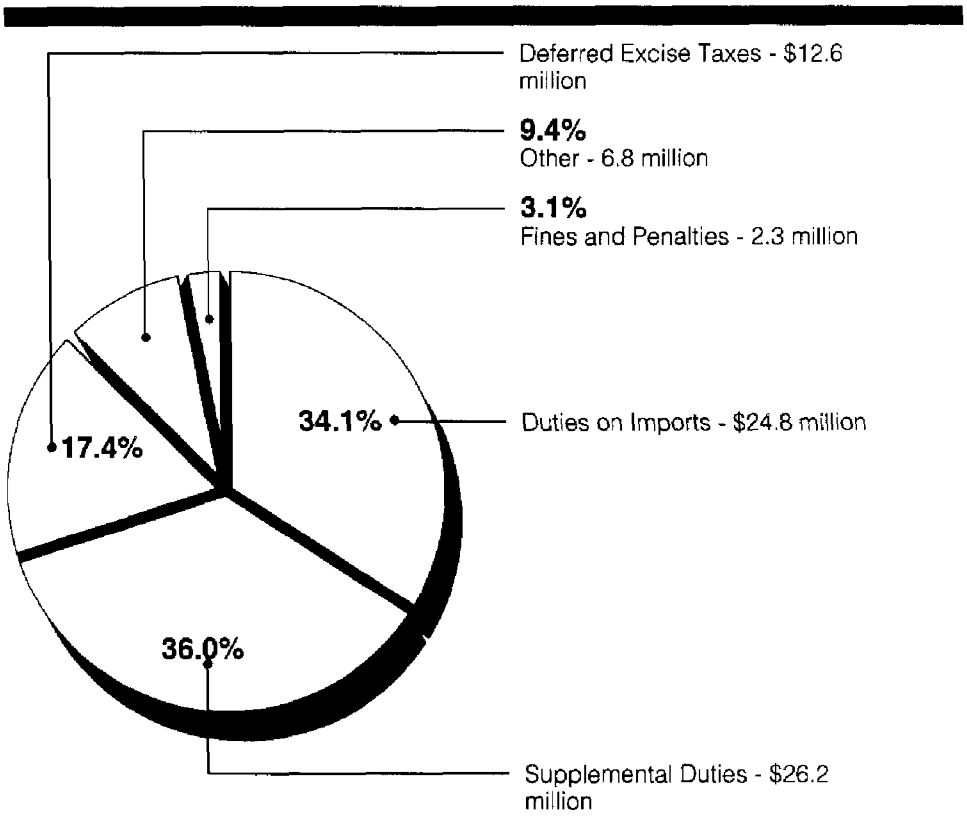
Customs' Methodology Yields Higher Collectibility Estimate

Based on our analysis of individual debtor's ability to pay, we estimated that $358 million, or 88.8 percent, of the $403.2 million in valid receivables in our sample as of June 30, 1992, was uncollectible. Applying the components of Customs' methodology that related to the valid receivables in our sample, $317.4 million, or 78.7 percent, of the $403.2 million would be uncollectible. For each assessment, we considered all of the information available in Customs' case files regarding each importer's history, bond sufficiency, other outstanding bills, and Customs' collection efforts. Many of the valid receivables in our sample were uncollectible because they were due from defunct importers and the bond was insufficient, or the case file contained no indication that the importer intended to pay.

September 30, 1992, Allowance for Uncollectible Accounts Was Unreliable

For its fiscal year 1992 financial statements, Customs reported an allowance account of $72.7 million. As shown in figure 3.2, duties and excise taxes comprised the two largest categories in the allowance account.

Figure 3.2: Allowance for Uncollectible Accounts by Type of Receivable as of September 30, 1992



Notes: The allowance for duties on imports is comprised of mail entries, debit vouchers, cash shortages, and miscellaneous receivables.

The allowance for other is comprised of user fees.

Source: Customs' Accounts Receivable Reconciliation Schedule to fiscal year 1992 financial statements.

Customs continued to understate its allowance for uncollectible accounts by not including a separate allowance for uncollectible accounts for billed fines and penalties cases. As discussed in chapter 2, Customs recorded a net amount of about $134,000 by multiplying 181 unidentified billed fines and penalties cases by a collection factor of $741. The collection factor was based on average revenue collected per fine and penalty case settled during fiscal year 1992. Based on our sample transactions, this collection factor was unreasonable. Specifically, six fines and penalties cases in our sample with an assessed value of $78.7 million should have been included in Customs' reported accounts receivable at September 30, 1992, but were not. Based on our review of these six case files, we estimate that they have a collectible value of $27.7 million.

Conclusions

Customs has not developed a reliable methodology for estimating the amount of its receivables that is likely to be collected. In addition to impairing Customs' ability to reliably report its receivables in its financial statements, the lack of reliable information on collectibility of individual receivables diminishes Customs' ability to improve the effectiveness of its collection efforts and reliably measure its performance. The asset and liability standard recently approved by GAO, OMB, and Treasury provides a more reliable basis for evaluating account collectibility at any given point in time. Following these standards would provide Customs with useful information on the collection risk associated with its receivables and allow it to more reliably estimate the collectible amount of its receivables balance at the close of the accounting period.

Recommendations

We recommend that the Commissioner of the U.S. Customs Service direct the Chief Financial Officer to modify Customs' methodology for assessing the collectibility of its receivables based on the asset and liability standard recommended by FASAB and recently approved by GAO, OMB, and Treasury by

- analyzing individual debtor accounts to assess their ability to pay;
- basing group analyses on categories of assessments with similar collection risk characteristics; and
- considering current and forecast economic conditions, as well as historical collection data, in analyses of groups of assessments.

Once the above collection data are accumulated, we recommend that the Chief Financial Officer use statistical sampling to analyze collectibility of accounts on a group basis, in addition to separately analyzing individual accounts. Such sampling should consider factors that are essential for estimating the level of losses, such as historical loss experience, recent economic events, and current and forecast economic conditions.

In addition, we recommend that the Chief Financial Officer include a separate allowance amount relating to billed fines and penalties cases in Customs' allowance for uncollectible accounts balance.

Agency Comments

In its response, Customs agreed with our recommendations. Customs stated that it will work with us to ensure the methodology for identifying uncollectible amounts is in compliance with the FASAB guidance. We plan to monitor these efforts as part of our ongoing financial audit of Customs' fiscal year 1993 financial statements.

Customs' Accounts Receivable Were Not Effectively Managed

Customs did not effectively manage its commercial entry process to prevent or minimize delinquent accounts receivable. Factors such as delays in finalizing amounts owed, poor monitoring of bond coverage, and delayed processing of protested bills increase the likelihood of delinquent accounts receivable. In addition, Customs did not promptly bill individuals who underpaid their harbor maintenance fees. Moreover, once receivables become delinquent, Customs' efforts were inadequate to ensure collection. Customs' efforts to collect delinquent debt were hampered by missing entry and bond documentation and a failure to sanction some delinquent importers. The problem was further aggravated by limitations put on Customs by law as to what can be done to collect amounts owed.

In addition, large differences existed between the amounts for fines and penalties assessed, mitigated, and collected. These differences raise questions on the effectiveness of Customs' fines and penalties program. Customs generally recognized the need to better manage its accounts receivable so that they do not become delinquent. Efforts were also under way to prevent or minimize uncollectible receivables.

Delinquencies Resulted From Deficient Management Practices

Customs did not take appropriate measures to prevent or minimize uncollectible accounts receivable. In managing its commercial entry process, Customs did not promptly liquidate[1] all entry summaries selected for review. In addition, Customs did not (1) monitor the adequacy of importers' bonds to insure Customs against revenue loss, (2) resolve protested supplemental duty bills in a timely manner, and (3) promptly bill individuals who failed to pay the correct amount of harbor maintenance fees. These internal control weaknesses tend to create an environment conducive to delinquent accounts receivable.

Entry Summaries Were Not Liquidated in a Timely Manner

Entry summaries are generally liquidated based on information provided by importers in their entry summaries. However, as part of its compliance review program, Customs' import specialists review selected entry summaries to ensure that importers have filed complete and accurate documentation.

Title 19 of the Code of Federal Regulations states that an entry is to be liquidated within 1 year from the date Customs releases the merchandise into the United States for consumption. If the liquidation review is not

[1]Liquidation of an entry summary finalizes the amount of duties owed on merchandise brought into the U.S. for consumption.

completed within 1 year, the entry is liquidated by operation of law. However, for practical considerations, the regulations also provide for up to three 1-year extensions of time for liquidations. Extensions may be requested by Customs or the importer. Customs may extend the liquidation process because information it needs to appraise or verify the classification of merchandise is not available. An importer may request an extension because more time is needed to present to Customs information which will affect a protest decision. Liquidation on some entries may also be suspended because, as in the case of antidumping or countervailing duties,[2] Customs is awaiting a decision from the Department of Commerce regarding the amount of duties actually due.

We identified 337 entries in our sample of 966 supplemental duties and deferred excise taxes where Customs took more than 1 year to process the liquidation. Of these entries, 242 entries involved extensions or suspensions, and took from over 1 year to 10.7 years to liquidate; 111 of the 242 entries took more than 3 years to liquidate. Some of these cases involved the assessment of antidumping or countervailing duties. Customs' officials told us that these entries usually take several years to liquidate because Customs is awaiting a decision from the Department of Commerce on the amount of antidumping or countervailing duty owed. However, we did note one case in our sample where Customs took more than 1 year to liquidate the entry upon receiving the final decision from Commerce. In this case, Customs received a decision from Commerce on the antidumping duty on April 7, 1987, but did not liquidate the entry until October 21, 1988, 562 days later.

For 95 entry summaries in our sample, which did not contain any documented evidence in the case files of an extension or suspension, Customs took from over 1 year to 30.8 years to liquidate the entry; 47 of these entries took more than 2 years to liquidate. Our review of the case files showed that Customs took 30.8 years to liquidate one entry because it was awaiting a decision from the Court of International Trade, a federal court. Customs' personnel we interviewed generally could not explain why a specific entry was not liquidated within the 1-year requirement. However, they told us that case backlogs in the districts and ports prevented them from liquidating some entry summaries in a timely manner.

[2]Antidumping duties are levied against products that have been brought into the United States at less than what their fair market value would be in the country where they were produced. Countervailing duties are assessed when a foreign government has paid subsidies on merchandise exported to the United States in order to lower its price below fair market rates. Antidumping and countervailing duties are assessed by Customs if the Department of Commerce determines an unfair trade practice exists and the International Trade Commission determines the practice causes or threatens material injury to, or materially retards establishment of, a United States industry.

Customs' management had not investigated the cause of the delays in our sample. Delays in the liquidation process can hamper the collection of accounts receivable because importers may default while awaiting the results of Customs' liquidation review.

Insufficient Bond Coverage Due to Inadequate Monitoring

Customs' regulations require that importers maintain bond coverage as insurance to protect against loss from unpaid duties, taxes, fees, or other assessed amounts owed to Customs. There are two main types of bonds. A single entry bond covers the value of the merchandise and estimated duties and fees owed on the merchandise listed on a single entry summary and is to be attached to the entry summary when it is filed with Customs. A continuous bond covers multiple entries for a specific period of time and is generally maintained on file at a port of entry. According to Customs' policies and procedures, continuous bonds were set at a minimum of $50,000 and were generally 10 percent of the estimated duties paid in the prior year.

We reported in August 1992 that Customs did not have an information system to inform it whether an individual entry summary was sufficiently covered when a continuous bond is used. In effect, there were no internal controls in place to monitor bond sufficiency. Our review of sampled transactions showed that delinquent accounts receivable are much more likely not to be paid if the importers' indebtedness exceeded the continuous bond amounts. For example, a petroleum importer had 15 outstanding bills totaling $3,096,000 and a continuous bond for $400,000. Customs pursued collection from the surety and collected the bond amount. However, the remaining $2,696,000 was not covered by the bond and must be collected from the importer, who was more than 4 years delinquent in paying this debt.

To address the bond insufficiency problem, Customs developed a bond liability alert report which accumulates and helps identify outstanding bills as they approach the bond amount. The report, which was made available to all Customs districts in October 1992, is prepared monthly and lists continuous entry bonds with unpaid receivables over 45 days which are at least 80 percent of the bond amount. Customs district/area directors are to designate bond sufficiency coordinators in the field to review and analyze the bond liability reports. These reports are to be used along with the on-line screen prints in ACS' Bond Liability Module to determine bond sufficiency. The screen prints will identify outstanding bills and bond information for the intervening time between monthly bond liability reports. The bond sufficiency coordinators must notify importers appearing on the report or screen prints that they must either file another continuous bond of higher coverage or file a single entry bond with each future entry summary filed with Customs.

Because this system was not in place throughout Customs during fiscal year 1992, it was not evaluated as part of our assessment of internal controls. However, the effectiveness of this system will be assessed in our audit of Customs' fiscal year 1993 financial statements.

Delays in Processing Protested Supplemental Duties

A protest is an administrative vehicle for importers/brokers to challenge Customs' assessment of additional duties and fees on imported merchandise. Collection on protested bills is suspended until Customs renders a decision on the protested case.

We found that while Customs' regulations require it to resolve protested bills within 2 years, some final decisions are rendered years after the protest is filed. Customs reported protested bills totaling about $96 million as of June 30, 1992.

We examined a sample of 335 protested supplemental duty bills to analyze the status of Customs' success in resolving protests in a timely manner as well as the accuracy of information in ACS. We identified 92 cases in our sample where Customs took more than 2 years to resolve a protested case. For these protested cases, Customs took from over 2 years to 12.2 years to render a decision on the protest; 51 of the 92 cases took more than 3 years to render a decision. Sixty-seven of the open protested cases in our sample had been awaiting a decision for more than 2 years as of June 30, 1992, our cutoff date for the sample.

Customs' policies and procedures for processing protest cases established controls for identifying delays in processing protest cases. However, our audit work indicated that Customs' personnel may not be following up on delays to identify and address correctible problems within the 2-year time frame.

Customs' personnel responsible for processing some of the protested cases in our sample were unable to provide specific reasons why it took so long to resolve some of the cases. Some general explanations provided by field personnel include (1) they have insufficient personnel resources and (2) they are awaiting a decision from the Court of International Trade.[3]

We recognize that any given protest may encounter adjudicative difficulties requiring more than 2 years to resolve. From a practical viewpoint, however, the longer it takes Customs to resolve a protest, the less likely it is that the agency will collect any duties determined to be owed. If years elapse before a Customs' decision is rendered on a protest, bills become harder to collect. As bills age, documents are lost, bonds can become insufficient if the outstanding debt exceeds the face amount of the bond, and companies can go out of business.

Underpaid Harbor Maintenance Fees Not Promptly Billed

The Water Resources Development Act of 1986 (Public Law 99-662) authorized Customs to collect harbor maintenance fees from commercial vessels loading or unloading merchandise or passengers in U.S. ports. Monies collected are primarily for the benefit of the U.S. Army Corps of Engineers for the improvement and maintenance of U.S. ports and harbors. Effective January 1, 1991, the harbor maintenance fee, which is applied to the value of the merchandise imported or exported, was increased from .04 percent to .125 percent.

In the fall of 1991, Customs learned that some shippers and vessel operators were underpaying the amount of harbor maintenance fees owed by paying the old rate of .04 percent rather than the new rate of .125 percent. Using a computer program, Customs determined the amount of underpayments to be $9.3 million, which it initially reported as accounts receivable in its March 31, 1992, Schedule TFS 220.9 report to Treasury.

However, Customs did not promptly bill shippers and vessel operators who underpaid their fees because it was not clear which Customs' organizational unit had responsibility for collecting these receivables. According to the Billings and Collections Section Chief at NFC, Customs' Office of Regulatory Audit rather than NFC is responsible for collecting harbor maintenance fees receivables. We informed the Acting Revenue Branch Chief of this situation in June 1992. Customs began to bill the shippers and vessel operators for the underpayments in August 1992, almost a year after they learned of the underpayments. The lack of timely billing of harbor maintenance fees underpayments was reported as a material instance of accounting system nonconformance in Customs' fiscal year 1992 FMFIA report.

[3]Importers and brokers can appeal protests denied by Customs to the Court of International Trade.

Failure to promptly bill debtors for amounts owed increase the likelihood of accounts being uncollectible. Experience has shown that bills become increasingly difficult to collect as they get older.

Operational Barriers Inhibited Debt Collection

After Customs identified an accounts receivable as delinquent, several operational problems precluded timely collection and increased risk of default. Specifically, Customs did not maintain adequate control over the documents needed to support an importer's or surety's outstanding balance. Also, Customs did not sanction some delinquent importers. Other tools such as private collection agencies and administrative offsets are not available to Customs. All of these factors are barriers to efficient and effective collection on delinquent accounts receivable.

Missing Documentation Hampered Debt Collection

Customs was often unable to collect from importers or surety companies because the documentation evidencing the entry or bond coverage could not be located. Customs derives billed amounts for supplemental duties and deferred taxes from entry summary documentation filed by importers. Bond liability amounts are supported by a Customs bond, known as a CF-301. Therefore, the entry summary and Customs bond are key documents needed to support Customs' claims against the importer or surety.

As shown in table 4.1, except for Customs' headquarters, all of the Customs' regions experienced problems locating entry summaries and bond documents for the cases in our sample.

Table 4.1: Documentation That Could Not Be Provided for Sampled Cases

		Missing documentation	
Locations	**Sampled cases**	**Entry summary**	**Bond**
Headquarters	5	0	0
Northeast	71	9	8
New York	308	13	37
North Central	130	8	8
Southeast	139	6	5
South Central	22	0	5
Southwest	61	6	14
Pacific	230	9	16
Total	**966[a]**	**51**	**93**

[a]Fines and penalties cases were excluded from this analysis of document sufficiency because they typically involve multiple entry summaries and possibly multiple bonds.

Of the 51 entry summaries missing from our sample, Customs' personnel told us that 9 had been sent to the Federal Records Center and could not be located, and 1 had been destroyed due to the age of the entry summary. Customs' personnel could not explain why the remaining 41 entry summaries were missing from their files. As we reported in August 1992, Customs' field personnel had filed the entry summaries and supporting documents at the ports of entry for an average of 2-1/2 years and then sent the files to a Federal Records Center even though additional duties and fees were still outstanding. Some of these files apparently were misplaced or lost while in transit from one location to another.

In an effort to properly maintain entry summary documentation, Customs instituted a policy in July 1990 requiring that entry summaries for outstanding supplemental duty bills be retained on file in the field offices as long as possible, but for at least 2 years, to facilitate the collection of outstanding bills. However, the policy did not require that documents related to outstanding cases be retained rather than routinely being sent to the Federal Records Center after 2 years.

Customs Did Not Sanction Some Importers

Title 19 of the Code of Federal Regulations details the procedures to be followed when an importer is substantially or habitually delinquent in the payment of Customs bills. In implementing these regulations, Customs developed procedures in October 1988 to automatically sanction the importer when debts were more than 168 days overdue. Sanctioning of an importer requires the regional commissioner to notify the delinquent importer that all future merchandise will not be released into U.S. commerce until the entry summary documentation is filed with payment of estimated duties. The regulations also require that the importer make payment on the delinquent bills within 10 working days of the sanction notice date. If payment is not made, the importer is to be required to pay duties prior to release of merchandise from all Customs regions.

Our review showed that for those cases in our sample where the 168-day criteria were applicable, the importers were sanctioned. However, we identified 15 cases in our sample of valid receivables where the debt was more than 4 years overdue and the importer had not been sanctioned. The 168-day criteria did not apply to these cases because they involved bills issued prior to the effective date of the criteria. Customs, however, made no effort to sanction the importers for these 15 cases or identify other older cases where the importer could have been sanctioned but was not. Customs' personnel could not provide us with adequate explanations for why the importers in our sample had not been sanctioned. Instead, they informed us that 10 of the 15 cases had been or are in the process of being written off or canceled. Of the remaining five cases, three involved bankrupt importers and two were recently paid.

Customs' Contact With Delinquent Debtors Was Minimal

Personal contacts in the form of telephone calls and letters can be valuable collection tools in pursuing collection from delinquent debtors. Our review, however, showed that Customs had minimal personal contacts with delinquent importers. We found that 140 case files in our sample of 360 valid supplemental duty receivables did not contain any documentation of telephone calls made to debtors and 125 case files contained no documentation of letters sent to debtors.

Customs' Debt Resolution Procedures Manual, dated March 1992, states that as a regular practice, NFC staff should personally contact debtors in the early stages of an overdue debt to maximize the chances for obtaining payment or to ascertain why a bill is not being paid. The manual further states that "the personal touch" is preferred to the formal, impersonal computer process in obtaining the cooperation and consideration of both the principal debtors and sureties, and in working closely with them to review and assess all responses to Customs request for payment. Also, information obtained through personal contact can provide Customs valuable insights on its ability to collect the delinquent accounts receivable from the importer or surety. The manual, however, does not specify the frequency of telephone calls and letters to be made to debtors.

A Customs' official told us that insufficient personnel resources limited the number of telephone calls made and letters sent to the debtors. However, subsequent to our June 30, 1992, cutoff date for reviewing Customs' collection efforts, we observed that the Debt Resolution Unit increased its efforts to contact debtors by telephone and through letters. The increased activity was attributed primarily to increased personnel resources in the Debt Resolution Unit in November 1992 and to the issuance of the Debt Resolution Procedures Manual in March 1992.

Debt Collection Options Are Limited

Customs may not use some of the debt collection techniques available to federal agencies under the Debt Collection Act of 1982 (Public Law 97-365). Specifically, Customs is prohibited from using private collection agencies to pursue payment on delinquent receivables. In addition, except for the IRS Offset Program, Customs may not use administrative offsets to recover delinquencies. Administrative offsets allow federal agencies to withhold payments due under one program to satisfy delinquencies owed to the United States under another program, as well as under the same program. For example, Customs cannot use the duties and fees it collects from the importer on merchandise currently brought into the United States to offset delinquent bills owed by the importer. This type of an offset, combined with sanctioning of the importer, would enable Customs to collect delinquent bills from importers who continue to bring merchandise into U.S. commerce.

In our June 5, 1991, comments on Customs Legislative Proposals (B-243759), we noted that the use of collection contractors would allow Customs more resources for improving debt collection capability and enable it to take advantage of private sector expertise. Furthermore, in our August 1992 report, we suggested that the Congress consider enacting legislation to allow Customs to use private collection agencies and administrative offsets. We continue to support such legislation.

Recent Actions to Address Collection Problems

As we reported in August 1992, Customs in January 1991 began to address its debt collection problems by temporarily establishing a Debt Collection Task Force to resolve accounts receivable over 1 year old and to monitor the others. The Task Force focused its efforts on bills dated 1985 or earlier because the statute of limitations on collection from the surety expires 6 years from the date billed. As of June 30, 1991, the Task Force had collected $1.4 million and written off or canceled about $1.7 million as uncollectible.

In March 1992, NFC's Debt Resolution Unit assumed the debt collection responsibilities previously performed by the Debt Collection Task Force. This unit continued to make progress in closing out old, delinquent bills through collections, cancellations, and write-offs. According to statistics provided to us by the Revenue Branch Chief, there were 9,031 bills dated prior to 1986 as of March 31, 1992, at a value of $22.8 million. As of September 30, 1992, the number of bills in this category decreased to 3,684, at a value of $19.9 million. Also, as we discussed earlier, additional personnel resources were placed in the Debt Resolution Unit in November 1992 which resulted in increased contact with debtors by telephone and through letters.

Large Differences Existed Between Assessed and Mitigated Fines and Penalties Amounts

The assessment and collection of fines and penalties are important for ensuring compliance with Customs' laws and regulations. Our review, however, showed that large differences existed between the amounts of fines and penalties assessed, mitigated, and collected. According to Customs' officials, these differences resulted primarily from (1) the statutory requirements that Customs assess fines and penalties in large amounts and (2) Customs' practice of mitigating most assessments to nominal amounts. We found that some assessments are mitigated because Customs did not have sufficient documentation at the time of assessment and later mitigated the assessment to reflect documentation provided by the importer.

Title 19 of the U.S. Code provides guidance for assessing fines and penalties. The assessed amount can be high in relationship to the dollar value of the merchandise imported into the United States. In many cases, the fine or penalty amount represents the entire value of the merchandise. The law also allows the violator the right to challenge the assessed amount by filing a petition with Customs. During the petition process, the violator is to submit information or additional data to Customs, which documents the reasons why the fine or penalty should be eliminated or mitigated. Past experience has shown that most violators file a petition with Customs, and that the assessed amounts are typically mitigated to nominal values. For example, Customs assessed fines and penalties totaling $139.3 million for 24 of the 166 cases in our sample and mitigated this amount to $37.2 million.

Specifically, in one of the cases in our sample, Customs assessed a penalty amount of about $4.4 million to an importer for undervaluing hardware imported into the United States. Customs alleged that the importer committed fraud in undervaluing the merchandise. Consequently, in accordance with Customs' regulations, the penalty amount was assessed at the wholesale value of the merchandise. The importer filed a petition with Customs requesting relief of the penalty amount. Based on the additional information provided by the importer, the penalty was reduced to $150,000.

We also identified some penalty cases where Customs' personnel, suspecting fraud and negligence, assessed the maximum penalty amounts only to mitigate the amounts later because documentation and information was not available to support such an assessment. In one case, a clothing importer was assessed a penalty of $3.1 million for filing false invoices. Customs alleged that the importer was grossly negligent—that is, Customs believed that actual knowledge or wanton disregard could be established. The importer filed a petition with Customs disputing the penalty amount. Customs reviewed the additional documentation and information provided by the importer, changed the alleged violation to negligence because there was insufficient evidence to support the gross negligence charge, and mitigated the penalty amount to $766,317. The importer filed a supplemental petition with Customs requesting additional relief from the mitigated amount. Customs, however, did not render a final decision on this petition because the importer filed for bankruptcy in April 1993.

Customs recognizes that large differences exist between the amounts of fines and penalties assessed, mitigated, and collected. These differences can hamper the effectiveness of Customs' fines and penalties program. For example, violators, who are aware of these differences and Customs' practice of mitigating most assessments, may routinely petition for mitigation, requiring Customs to devote large amounts of resources to the mitigation process. Also, while Customs has some performance indicators for its fines and penalties program, it has not established indicators such as the number of repeat violators and the number of violation changes per Customs' staff person to measure the effectiveness of the fines and penalties program. Such performance indicators would help identify ways of alleviating the administrative burdens of the program.

Conclusions

Poor management over the liquidation of entry summaries, the sufficiency of bond coverage, and protested supplemental duty bills gives rise to delinquent and, in some cases, uncollectible accounts receivable. Failure to aggressively pursue the collection of delinquent accounts receivable reduces federal revenues and, more importantly, serves as an incentive to violators to ignore federal trade laws and regulations.

Compliance with the time frames prescribed for liquidating entries and resolving protested supplemental duties would enable Customs to more promptly identify accounts receivable and initiate collection action. Also, Customs' collection efforts are hampered by the lack of the debt collection tools afforded most federal agencies. Moreover, Customs did not have performance indicators for its fines and penalties program to measure the effectiveness of this program.

Recommendations

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

- implement procedures to ensure that entry summaries are reviewed and liquidated within 1 year or provide documentation why this time frame cannot be met for specific cases;
- monitor Customs' efforts to resolve protested supplemental duty cases in a timely manner;
- require that supporting documents, such as the entry summary and surety bond, are maintained in the field offices for all outstanding receivables until they are collected;
- use all debt collection tools available to Customs, such as sanctioning importers and personally contacting debtors, who are delinquent in paying their bills; and
- develop performance indicators to measure the effectiveness of Customs' fines and penalties program.

Agency Comments and Our Evaluation

In its response, Customs generally agreed with our recommendations. Customs stated that it will (1) implement procedures to ensure that documentation will be on file to support entry summaries that are not liquidated within one year, and (2) implement procedures and strengthen controls to ensure that supporting documents are maintained for all outstanding receivables. Customs also will use a performance indicator report to monitor and minimize delays in processing protested supplemental duty cases. In addition, Customs is examining the feasibility of moving all delinquent debt collection activities to the National Finance Center Accounts Receivable Section.

Regarding our recommendation to develop performance indicators to measure the effectiveness of Customs' fines and penalties program, Customs said that there are currently performance indicators in place for its fines and penalties program, and there are a number of automated management reports that identify districts not meeting selected criteria. Although we have modified the report to indicate that Customs had some performance indicators in place for the fines and penalties program, additional indicators are needed to identify ways to alleviate the program's administrative burdens. Also, Customs stated that the information captured and recorded in automated management reports will significantly increase with the redesign of ACS' Fines, Penalties, and Forfeitures Module. Customs further stated that the new module will increase the effectiveness of the performance indicators as it will allow monitoring of additional data.

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 3, 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 accounts receivable. Customs generally agrees with the recommendations in the draft report and is committed to resolving the reported issues timely. Plans have been developed to address the issues identified in the draft report, but implementation of some of the recommendations will take several years. The following are Customs comments on the GAO report and recommendations.

GAO REPORT

-- The GAO report should state that the redesigned Fines, Penalties, and Forfeitures Module is expected to be completed and implemented by January 1, 1994, instead of October 1, 1993.

See comment 1.

RECOMMENDATIONS

-- Develop accounting policies and procedures and related accounting systems to ensure all valid accounts receivable are accurately and completely recorded and reported in Customs financial statements.

Agree. Customs will develop the necessary policies and procedures to properly recognize and account for all valid receivables. The procedures will be used to prepare the Department of Treasury Financial Report Schedule 220.9 "Report of Accounts Receivables due from the Public", currently under revision, as well as the annual financial statements. Customs has also begun efforts to redesign the Automated Commercial System (ACS) to accurately and completely report all receivables and fully comply with CFO legislation.

- 2 -

-- Modify Customs methodology for determining the collectibility of its receivables by (1) including an analysis of individual importer accounts to assess their ability to pay, and (2) basing group analysis on (a) categories of assessments with similar collection risk characteristics, (b) current and forecast economic conditions, and (c) historical collection data.

Agree. Customs will work directly with GAO on the methodology to record uncollectible amounts in the future. Customs plans to test a statistical sample for each receivable type segregated by age and dollar amount. The individual accounts in the sample will then be reviewed to determine uncollectibles based on 1) subsequent receipts, 2) debtor's current ability to pay, 3) debtor's payment record and willingness to pay, and 4) the probable recovery of amounts from secondary sources, such as sureties. The data obtained from the sample will be extrapolated across the remaining receivables for each related category.

-- Develop policies, procedures and monitoring efforts so that (1) entry processing and protested receivables are resolved promptly, (2) entry and bond documentation are properly maintained, and (3) delinquent importers are sanctioned.

Agree. A review of Customs entry and selectivity processes is currently underway as part of the effort to enhance systems and procedures to ensure the Government's revenue can be adequately identified and collected. A bond sufficiency module was implemented that identifies the remaining bond amount on a given importer. Also, Customs has implemented numerous performance indicator reports along with appropriate standards to monitor field operations progress in key areas. One such report tracks the processing of protests of supplemental duty bills to minimize delays. An Office of Management Task Force is also reviewing Customs sanctioning policy.

See comment 2.

-- Develop policies and procedures to record and report all substantiated accounts receivable at a gross amount. The procedures should also provide a detailed methodology for deriving the accounts receivable balance, including a description of the relevant sources of needed data.

- 3 -

Agree. Customs reported all accounts receivables at a gross amount on the FY 1992 financial statements with the exception of fines and penalty receivables. Systems limitations and time constraints to complete the necessary manual work impeded Customs ability to report a gross receivable amount for fines and penalties in FY 1992.

Customs plans to report a gross amount for all receivables, including fines and penalties, on the FY 1993 statements. As stated, Customs plans to incorporate gross, net, and uncollectible methodology in its procedures to prepare the revised Treasury Schedule 220.9, "Report of Receivables Due from the Public".

-- <u>Require Customs personnel to review fines and penalties assessments recorded in ACS and correct any inaccuracies before transfer to the redesigned system.</u>

Agree. Customs is continuing an aggressive effort to update the status of fines and penalty cases and correct any errors in the current module. FP&F Officers are currently required to periodically review a percentage of cases in ACS to ensure timely update. Additionally, a post conversion systems edit will require the performance of certain review and update steps before allowing FP&F personnel to update a system case record and exit the system.

-- <u>Require supervisory personnel to review the work of staff responsible for updating and changing information in ACS to ensure that all assessments are accurately and completely recorded.</u>

Agree. Customs will review the procedures required to ensure that estimated and supplemental duty, taxes and fees, as well as fines and penalties, are recorded accurately and completely in ACS. Regional procedures exist requiring personnel unrelated to the Fines and Penalty program to review on a periodic basis a percentage of open cases, a percentage of closed cases, and to ensure compliance with operating procedures.

Additionally, a part of Customs FMFIA plan requires a review of fines and penalty cases on a periodic basis.

- 4 -

-- Develop and maintain an integrated accounting system that can capture accurate and reliable information on all types of assessments (including duties, taxes, fines, and penalties) from assessment through collection of any related amounts.

Agree. Customs implemented a new core accounting system that complies with JFMIP core system requirements and other GAO and OMB requirements on October 1, 1992. Capturing accurate and reliable fines and penalties case information from assessment through collection will be accomplished in the redesigned FP&F Module beginning January 1, 1994. Customs is also in the process of redesigning ACS to capture accurate and reliable information on all types of revenues from assessment through collection.

-- Modify methodology for assessing the collectibility of its receivables based on the FASAB "Accounting for Selected Assets and Liabilities" standard approved by GAO, OMB, and Treasury.

Agree. Customs will work directly with GAO to ensure the methodology for identifying uncollectible amounts is in compliance with the FASAB guidance.

-- Implement procedures to ensure entry summaries are reviewed and liquidated within one year or provide documentation why this time frame cannot be met for specific cases.

Agree. Customs will implement procedures to ensure that documentation will be on file to support entry summaries that are not liquidated within one year.

-- Monitor Customs efforts to resolve protested supplemental duty cases in a timely manner.

Agree. Customs has implemented numerous management performance indicator reports to monitor field operations progress. One such report tracks the processing of protested supplemental duty cases. This report will be used to minimize delays in processing.

\- 5 -

-- Require that supporting documents, such as entry summary and surety bond, are maintained in the field offices for all outstanding receivables until they are collected.

Agree. Customs will implement procedures and strengthen controls to ensure that supporting documents are maintained for all outstanding receivables.

-- Use all debt collection tools available to Customs, such as sanctioning importers and personally contacting debtors, who are delinquent in paying their bills.

Agree. The National Finance Center Accounts Receivable Section is currently responsible for the collection of delinquent supplemental duty, reimbursable services, and miscellaneous bills. Customs is currently examining the feasibility of moving all delinquent debt collection activities from field offices to this unit. In addition, an Office of Management Task Force was established and is reviewing the sanction program to establish policy to expand sanctions for all types of delinquent debt, standardize enforcement of the sanction by all Customs offices, and enhance Customs automation of sanctioning.

-- Develop performance indicators to measure the effectiveness of Customs fines and penalties program.

Agree. There are performance indicators in place currently for the Customs fines and penalties program, and there are a number of automated "Red Flag Reports", some of which have been in effect for more than a year, that identify districts not meeting selected criteria. There are also automated management reports currently being used that allow management to identify problem areas before they reach the Red Flag Reports. The information captured and reported in these automated reports will significantly increase with the redesign of the ACS FP&F module. The new module will increase the effectiveness of the performance indicator measures as it will allow monitoring of a significant amount of additional data.

- 6 -

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

Sincerely,

George J. Weise

George J. Weise
Commissioner

The following are GAO's comments on the U.S. Customs Service's letter dated September 3, 1993.

GAO's Comments

1. Chapter 2 was revised to state that the expected completion and implementation date for the redesigned Fines, Penalties, and Forfeitures Module is January 1, 1994.

2. Chapter 4 was modified to state that while Customs' policies and procedures for processing protest cases established controls for identifying delays in processing protest cases, Customs personnel may not be researching delays to identify and address correctible problems within the 2-year time frame.

Major Contributors to This Report

Accounting and Information Management Division, Washington, D.C.

Gary T. Engel, Senior Assistant Director
Helen Lew, Assistant Director
Wilfred B. Holloway, Assistant Director for Design and Methodology
Sabrina L. Jones, Auditor-in-Charge
Casey L. Keplinger, Auditor
R. Patrick Lagos, Auditor

Atlanta Regional Office

Shawkat Ahmed, Audit Manager
Fannie M. Bivins, Evaluator-in-Charge
Kenneth A. Johnson, Auditor
Lisa M. Warde, Evaluator
Patrick H. Sevon, Programmer Analyst

Ordering Information

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

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1000
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000 or by using fax number (301) 258-4066.

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

Official Business
Penalty for Private Use $300

First-Class Mail
Postage & Fees Paid
GAO
Permit No. G100