United States General Accounting Office

GAO

Report to the Commissioner
U.S. Customs Service

December 1993

FINANCIAL MANAGEMENT

Customs' Accounting for Budgetary Resources Was Inadequate

GAO/AIMD-94-23

GAO

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

Accounting and Information
Management Division

B-254553

December 14, 1993

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

Dear Mr. Weise:

This report presents the results of our review of the U.S. Customs Service's internal controls and systems over the obligation and expenditure of both its appropriated funds and funds obtained through reimbursable work agreements. Under the Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576), Customs is 1 of 10 pilot agencies required to prepare financial statements and have them audited. Our review was performed as part of our audit of Customs' fiscal year 1992 financial statements, which we elected to perform in accordance with authority granted by the CFO Act. This is one of several reports on various aspects of Customs' operations which resulted from our 1992 financial statement audit.

Results in Brief

Customs did not properly account for receipt of goods and services. Delays in recording transactions overstated outstanding obligations by millions of dollars with corresponding understatements of accounts payable, expense, and asset accounts. This accounting practice, coupled with the failure to periodically deobligate amounts that were no longer supported by valid contracts or orders, undermined Customs' ability to accurately determine amounts currently available for obligation. It also reduced the accuracy of historical data regarding internal recurring obligations, thus inhibiting accurate budget preparation and resulting in inflated obligations for such expenses in order to avoid a shortfall. Absent an adequate accounting operation for budgetary and financial statement objectives, intensive manual efforts resulting in material adjustments were required at year-end to attempt to determine actual expenditures and the amount of unobligated funds.

In addition, Customs did not properly account for its reimbursable work performed on behalf of other agencies. Customs recorded and recognized intragovernmental receivables and revenue before incurring costs related to performing the work, thereby misstating its financial statements and providing the Office of Management and Budget (OMB) misleading information in the apportionment process. In addition, it did not have documentation to substantiate amounts charged other agencies for performing reimbursable work.

Background

Customs, a bureau of the Department of the Treasury, received four annual appropriations totaling $1.46 billion (Public Law 102-141) to fund its fiscal year 1992 operating costs. The budget authority provided by appropriation acts allows Customs to enter into financial obligations that result in immediate or future outlays of federal funds. Proper management of obligations is an important element of funds control and is dependent on accounting systems containing sufficient discipline, effective controls, and reliable information.

Estimates of amounts expected to be paid are initially recorded as obligations when a formal order for the acquisition of goods and services is placed. Until the goods or services are delivered, the obligation is referred to as an undelivered order. Under federal budgetary accounting requirements, the unliquidated obligations account, reflecting obligations for goods or services not yet received, should be reduced (liquidated) and the expended appropriations account increased upon receipt of the goods or services ordered. An expended appropriation should not be confused with an expenditure of funds in the sense of a cash disbursement. The term expended appropriation is used in the context of federal budgetary accounting to reflect costs incurred and the need to pay for goods and services already received, an amount which is sometimes different from the amount recorded as an obligation when the order was placed. Concurrent with reducing the unliquidated obligations account, entries should be recorded in the proprietary accounts used for financial statement purposes to increase liabilities (accounts payable) and the related expense or asset account.

One-year or annual budget authority is available for obligations only during a specific fiscal year and expires at the end of that time if not obligated and, in such instances, is no longer available to incur new obligations. Obligated budget authority, however, remains available for the following 5 fiscal years for the purpose of the original obligation. For example, as of September 30, 1992, $126 million of Customs' recorded unadjusted unliquidated obligations of $406 million was related to prior year obligations.

Appropriations are only one form of Customs' budgetary resources. Additional budgetary resources, as defined by OMB Circular A-34, are obtained from offsetting collections. Included in this category are reimbursements for materials or services furnished to other government agencies. In such cases, agencies usually enter into "interagency agreements." These agreements set forth work to be performed and the associated cost to be paid by the agencies entering into the agreement. In fiscal year 1992, Customs reported approximately $307 million in revenue from reimbursable services and user fees retained, and $72 million in intragovernmental receivables.

Since 1985, Customs' financial operations have been centralized at the National Finance Center in Indianapolis, Indiana. It is responsible for processing revenue and operating expense transactions reported from headquarters, 7 regions, 44 districts, and approximately 294 ports of entry.

Objectives, Scope, and Methodology

As part of our audit of Customs' fiscal year 1992 financial statements, we assessed the effectiveness of the systems and internal controls that Customs used to account for and manage its appropriated funds and reimbursable funds from interagency agreements. Specifically, we evaluated the effectiveness of Customs' controls over (1) unliquidated obligations and (2) interagency agreements.

To evaluate the effectiveness of controls over unliquidated obligations, we obtained a list of all unliquidated obligations as of September 30, 1992, and selected a random statistical sample of 119 unliquidated obligations. For each selected item, we examined the appropriate obligating documents (for example, contracts, purchase orders, and interagency agreements) to determine the validity of each recorded obligation. We also reviewed selected invoices related to our sample items to determine if expended appropriations were properly charged against these obligations. Based upon our determination of whether a valid obligation existed and whether expended appropriations were properly recorded and documented, we assessed the reasonableness of the unliquidated obligation balance as of September 30, 1992. Finally, we asked responsible Customs officials for explanations of the selected unliquidated balances that lacked adequate support or appeared invalid or incorrect.

To evaluate the effectiveness of controls over interagency agreements, we obtained a list from Customs of all amounts that comprised the unadjusted balance for the intragovernmental receivables account as of September 30, 1992 and 1991. We then recalculated the receivable balance at September 30, 1992, for each interagency agreement listed. We selected all agreements with receivable balances in excess of $100,000 at either September 30, 1991 or 1992, which represented 51 agreements or 98 percent of the fiscal year 1992 intragovernmental receivable balance, and requested documentation to support the receivable and associated revenue balances for these agreements. We also interviewed the contractor hired by Customs to perform an evaluation of interagency agreements for the Operations and Maintenance Fund for fiscal year 1992 and performed a limited review of its working papers.

We performed our work at Customs headquarters in Washington, D.C., and the National Finance Center in Indianapolis, Indiana, from February 1993 through June 1993 in accordance with generally accepted government auditing standards.

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

Customs Did Not Adequately Manage Its Obligations

Customs did not properly account for the receipt of goods and services in its budgetary and proprietary accounts. Specifically, Customs did not liquidate obligations and charge expended appropriations in its budgetary accounts or record a liability and related expense or asset in its proprietary accounts until Customs received an invoice for goods and services. As a result, Customs' accounting records did not provide accurate and up-to-date information regarding obligations. Consequently, Customs could not rely on its accounting records when estimating future obligations and could not easily assess the validity of open obligations. The accuracy of Customs' obligation data was further hampered by the improper classification of goods and services purchased.

Obligations Not Liquidated Upon Receipt of Goods or Services

According to Title 2 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies,[1] federal agencies, for budgetary accounting purposes, are to liquidate obligations and charge expended appropriations upon receipt of goods and services. The receipt of goods and services should

[1]Like most federal agencies, the Department of the Treasury and Customs policies call for following the accounting standards prescribed by Title 2 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies. Federal accounting standards contained in Title 2 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 accounting standards based on the Board's recommendations.

also result in an increase in the liabilities and related expense or asset accounts for proprietary accounting purposes.

Based on our review of the randomly selected unliquidated obligations, we found that Customs did not follow these prescribed accounting procedures. Purchases of goods and services under delivery orders, purchase orders, or Blanket Purchase Agreements are processed using Customs' Automated Receiving Report System (ARRS). Customs Directive 099-1220-006 requires program office personnel designated to receive goods and services to update ARRS daily with receiving information. Vendors are to submit invoices to the National Finance Center, where they are entered into ARRS. Entries to liquidate obligations and establish liabilities are automatically posted to the appropriate budgetary and proprietary accounts in Customs' Automated Management Information System (CAMIS) only when invoice information is matched to receiving information. Thus, as designed, these procedures did not satisfy Title 2 requirements for timely reduction of unliquidated obligations and the related posting of proprietary accounts.

For all purchases not processed through ARRS, invoices are received by program office personnel who certify the receipt of goods and services and send the invoice to the National Finance Center for processing. The appropriate budgetary and proprietary accounts are then manually updated. By relying on the invoices for receipt information, Customs has no independent mechanism for acknowledging and transmitting receiving data. In addition, these procedures are not designed to facilitate the timely liquidation of obligations and establishment of liabilities upon receipt of goods or services and are therefore inconsistent with the accounting requirements under Title 2.

Customs officials at the National Finance Center and several program offices stated that invoices were often received several months or even years following receipt of the underlying goods or services. As a result, Customs' accounting records overstated unliquidated obligations and understated liabilities, expenses, and assets.

Because of these accounting deficiencies, Customs had to perform extensive year-end procedures to determine the amount of unrecorded liabilities. However, Customs could not provide us information needed to determine that its reported liabilities were correct, and thus we also could not determine the extent to which its unliquidated obligations were overstated. These year-end procedures resulted in an increase to liabilities, for financial statement purposes, of about $73 million. However, Customs could not identify the individual accounts that comprised this adjustment. To the extent this increase in liabilities was correct, it should have also resulted in an offsetting reduction to unliquidated obligations.

Periodic Reviews of Unliquidated Obligations Not Effective

Because obligations were not liquidated until the goods or services and invoice were received, Customs program offices also faced a more difficult task in their efforts to periodically validate their unliquidated obligations. Title 7 of GAO's Policies and Procedures Manual for Guidance of Federal Agencies requires agencies to keep their unliquidated obligations current by periodically reviewing the validity of their obligations and deobligating amounts found to be invalid. Expanding on these requirements, Customs Directive 099-1220-005 required Customs personnel to review quarterly listings of open obligations contained in the Report of Open Obligations and determine whether or not unliquidated obligations were fully supported by yet-to-be-delivered goods or services under valid contracts or orders.

To aid in this quarterly review, Customs' National Finance Center was required to provide a quarterly report of unliquidated obligations to the Assistant Commissioners and Regional Commissioners. Any adjustments or deobligations resulting from this review were to be reported to the National Finance Center for correction. For example, adjustments or deobligations should have been reported for cases in which the contracts were cancelled, the value of goods or services received was less than originally estimated, or the quantity ordered was reduced.

However, because of the time lag between the receipt of goods or services and the final billing, the Report on Open Obligations contained many more unliquidated obligations than would have been the case if Customs had effective procedures for recording the receipt of goods or services. As a result, the Report on Open Obligations did not provide program offices with an effective starting point for assessing unliquidated obligations. Several Customs officials stated that they were sometimes reluctant to cancel unexpended funds until they were sure the final bill had been received. Furthermore, in instances where officials we interviewed recognized that the final bill had been received and the unexpended funds should have been deobligated, they could not explain why the obligations remained open at September 30, 1992.

A Customs official at the National Finance Center stated that in previous years, the deobligation of funds had been given a low priority and the center was not adequately staffed to handle the volume of transactions requiring processing. For example, although a program office sent a memo to the National Finance Center in December 1990 requesting that certain unliquidated obligations be deobligated, personnel at the National Finance Center did not deobligate the funds until December 1992. Further, a Customs official stated that program office personnel were not adequately trained in Customs' budget process and did not receive guidance on the importance of deobligating unexpended funds.

Operating Expense Obligations Were Based on Inaccurate Accounting Data

Customs' practice of not liquidating obligations until invoices were received also affected its estimates of future obligations. Customs personnel overestimated the cost of internal recurring obligations because CAMIS did not provide accurate information regarding expenditures incurred in prior fiscal years. Internal recurring obligations are used to provide funding for utilities such as water, sewer, and phone charges, as well as gasoline credit cards. Under this type of expense, obligations are recorded on a quarterly or monthly basis beginning in October to cover expenditures during the fiscal year. Customs is normally billed for these services approximately 1 month after the receipt of services. However, millions of dollars in bills from the Department of Defense for aviation fuel and from the General Services Administration for telephone charges were often received several months after the services were provided. As a result, it was more difficult for program offices to periodically adjust obligations to more accurately reflect the current level of services received.

When estimating amounts to obligate for internal recurring obligations, program offices can obtain data on expenditures and unliquidated amounts for the prior fiscal year from CAMIS. However, because Customs did not reduce unliquidated obligations until invoices were received, CAMIS did not provide program offices with accurate data on prior year expenditures, especially when there was a substantial time lag between the receipt of goods or services and the related invoice. As a result, officials at several program offices told us that they inflated their estimated internal recurring obligations to ensure that sufficient funds were obligated to cover all possible expenditures. Had Customs program offices been provided accurate prior year cost information, they could have more accurately estimated future costs and obligated accordingly.

Thus, Customs' funds could have been used more efficiently to address its other needs.

We reviewed the supporting documentation for seven internal recurring obligations selected in our sample. In each case, all of the goods and services had been received as of September 30, 1992, and, consequently, almost all of the obligations should have been liquidated. However, on average, approximately 55 percent of funds obligated were actually liquidated as of September 30, 1992. For example, only $221,065 of a $630,000 obligation for fiscal year 1992 Department of Defense fuel charges had been liquidated as of September 30, 1992. Customs officials stated that as of September 30, 1992, they had not been billed for approximately $160,000 and, thus, had not liquidated that portion. They also stated that they overestimated the obligation in the beginning of the year by approximately $250,000. A Customs official in another program office stated that they routinely requested that an additional 5 to 10 percent be obligated over the program office's prior year expenditures for internal recurring obligations to ensure that sufficient funds were available.

Customs Did Not Properly Classify Obligations

Customs' system of assigning object and subobject class codes to goods or services purchased did not provide Customs managers and decisionmakers with accurate information regarding the areas in which funds were spent. In addition, this system did not allow Customs to accurately report its expenses by object class in its financial statements, as required by OMB Bulletin 93-06.

Accurate spending information is vital to ensure that agencies efficiently manage their programs and submit budget requests that reflect their actual needs. Object class codes identify the obligations of the federal government by the types of goods or services purchased and are a means of monitoring how agencies spend their money. OMB Circular A-11 defines what types of items should be included in object class codes. Customs developed subobject classes which further define the items or services purchased. To provide instructions for the proper coding of obligating documents, Customs issued Directive 5320-10, effective August 7, 1989. Also, Customs issued Directive 099-5320-024, effective March 11, 1993, to update its previous directive and ensure that Customs prepares reports that are useful and meet the goals of the CFO Act to accurately report how the government spends taxpayer dollars.

We found nine obligations in our sample that were misclassified. In one case, an obligation for radar equipment was charged to a code described as "Other Supplies and Materials To Be Consumed Within 1 Year or Less." This equipment should have been charged to an "Other Equipment" code. Program officials at one office stated that misclassifications occurred because Customs officials at the program office level placed a low priority on ensuring that items purchased were properly classified.

In addition, of the 28 obligations we reviewed which were related to interagency agreements for goods or services purchased for Customs' own use, 14 were charged to subobject class code 25.52, "Other Interagency Agreements," rather than to the code that would have specifically designated the goods or services purchased. The remaining 14 were classified by the type of goods or services ordered. Customs' directives did not provide explicit instructions regarding the classification of goods or services ordered under interagency agreements. As a result, Customs managers did not have a reliable picture of what was purchased, and Customs was precluded from accurately reporting its expenses by object class in its financial statements.

Inadequate Procedures and Systems to Record Activity Under Interagency Agreements

In fiscal year 1992, Customs improperly recorded earned reimbursables and intragovernmental receivables based upon receipt of a signed interagency agreement rather than evidence that the work had been performed. Customs generally (1) recorded revenue and receivables arising from interagency agreements before incurring related expenses, (2) did not maintain records to support its expenses incurred in providing the goods or services under the interagency agreements, and (3) did not record a budgetary receivable which would indicate that the costs were reimbursable. This resulted in misstatements on the Principal Financial Statements, the Report on Budget Execution, and the Apportionment and Reapportionment Schedule.

Guidelines for Recording Intragovernmental Receivables and Revenue for Proprietary Accounts Not Followed

Customs Directive 5220-014 provides guidance on the amount of the receivable that should be recorded. The directive requires that "the accounting data used to establish the receivable shall be identical to that used to record the disbursement." In other words, Customs should only record the receivable and the related revenue in an amount equal to the costs it incurred in providing the goods or services specified in the agreement.

The Customs directive and OMB Circular A-34 also specify when Customs should record reimbursable earnings from the interagency agreement. Specifically, the directive states that "payments under agreements which are based on estimated price are subject to the performance of services or the receipt of goods." Further, OMB Circular A-34 states "when a contractor, vendor, or other party (including another Government activity) performs, earnings accrue to him and the applied costs will be recognized at that time." In addition, the OMB Circular states that earned reimbursables represent "orders that have been filled." Based on these guidelines, Customs should only record revenue once it performs the services or provides the goods required in the agreement.

During fiscal year 1992, Customs did not comply with its own directive or OMB Circular A-34 in accounting for its interagency agreements. Generally, Customs (1) did not base requests for reimbursements on its actual costs and (2) improperly recorded revenue and earned reimbursables in advance of providing the goods or services.

According to a Customs official, soon after receiving a signed interagency agreement, Customs generally recorded revenue and an intragovernmental receivable without knowing what costs, if any, had been incurred to provide goods or services. In such cases, for proprietary accounting purposes, Customs improperly recognized revenue before it was earned and a receivable before it was valid. For example, Customs entered into an agreement to purchase radio equipment on behalf of the U.S. Coast Guard for a reimbursable amount of $963,765. Customs recorded revenue and a receivable for the full amount of the agreement when it was signed in fiscal year 1991, even though it had not yet acquired the radio equipment. According to the Customs program manager overseeing the acquisition of the equipment, the Coast Guard did not begin to receive the goods until early in fiscal year 1993 because of the time required for the contractor to meet government specifications. Thus, revenue was overstated in 1991 and intragovernmental receivable balances were overstated in 1991 and 1992.

Customs Did Not Have Documentation Guidelines for Interagency Agreements

Customs did not establish procedures for retaining documentation for costs related to fulfilling interagency agreements. For 43 of the 51 interagency agreements examined, Customs could not provide invoices and other documentation to support its expenses incurred in providing goods or services to requesting agencies. The remaining eight interagency agreement records included manually prepared schedules of certain costs incurred, but they were not supported by invoices or other documentation.

These costs did not agree with the amounts recorded as revenue and receivables for the eight cases and, for two cases, the amounts billed to the requesting agency. Because Customs could not verify what expenses were incurred on behalf of other agencies versus those expenses incurred for Customs' own operations, it had no assurance that it was recovering the full costs incurred or that it was not charging other agencies for its operational costs that were not related to interagency agreements.

We also found that 20 of the 51 agreements had entries to record revenue and a receivable for which there was no evidence that Customs sent a bill to the requesting agency. In addition, 16 agreements had recorded reimbursements but did not have support for the amount received, such as check copies or deposit records.

This lack of proper recordkeeping resulted in unsupported billings and collections as well as potential inconsistencies between amounts paid by Customs to outside vendors, amounts recorded as revenue and receivables, and the amounts actually collected. Although the billed amounts were within the limits set by the agreements, due to the lack of documentation, we were unable to verify whether the billed amounts represented actual costs.

In the case of one agreement to supply goods and services to the Air Force, estimated to cost $18.3 million, Customs did not maintain documentation such as invoices or other records to support the costs incurred to complete the agreement. In fiscal year 1991, Customs recorded earned reimbursables and an intragovernmental receivable for the entire $18.3 million. According to the Customs official responsible for this agreement, Customs incurred costs, billed, and collected $16.5 million on this agreement. Customs' fiscal year 1992 intragovernmental receivable balance included a $1.8 million receivable amount for this interagency agreement, which, according to this Customs official, was not incurred by Customs nor owed by the Air Force and, accordingly, was not a valid receivable.

Customs hired an accounting firm which performed a detailed review of interagency agreements related to the Operations and Maintenance Fund for fiscal year 1992 to determine if amounts owed were appropriate based on what portion of the goods or services called for in the agreement had been provided. This review resulted in a $96 million downward adjustment to the intragovernmental receivables and reimbursable services retained line items on the financial statements, leaving reported balances of

$72 million and $307 million, respectively. However, Customs could not identify how much of the $96 million pertained to fiscal year 1992, and the accounting firm agreed that a portion of the adjustment was attributable to prior years. Thus, the reported balance for reimbursable services and user fees retained is likely to be understated to the extent that it was reduced in fiscal year 1992 for amounts that related to earlier years.

The accounting firm also noted that Customs had difficulty identifying the population of interagency agreements it reviewed since Customs lacks a comprehensive data base of all interagency agreements. Therefore, we are not confident that the lists from which we selected the 51 agreements for review were complete.

Interagency Agreements Not Correctly Recorded in Budgetary Accounts

According to the U.S. Government Standard General Ledger, at the time Customs obligates reimbursable funds to fulfill an interagency agreement, it should also record a budgetary receivable. This receivable indicates that the budgetary resources obligated are to be funded from reimbursements from other agencies. However, during fiscal year 1992, when Customs obligated funds under interagency agreements, no budgetary receivable was recorded. By recording reimbursable obligations without this receivable, it could appear that Customs has less budgetary resources to fund its own operations than it actually does.

In addition, Customs made the same type of error in budgetary accounting that it had made in proprietary accounting when it recorded revenues and receivables before performing the required services. Customs overstated its unobligated budgetary resources for no-year appropriations because it incorrectly recorded earned reimbursements from interagency agreements prior to incurring obligations or expenditures. This practice is inconsistent with the instructions in OMB Circular A-34. Customs' National Finance Center should record earned reimbursements only upon receiving evidence that funds have been obligated and the expenditure incurred. We found that Customs generally records earned reimbursements upon receipt of a signed interagency agreement even where goods or services have not been provided. Based on our discussions with Customs officials at the National Finance Center and headquarters, the early recording of the earned reimbursements was caused by a lack of clear guidance from the Budget Division to accountants at the National Finance Center. They were instructed to record a receivable when they obligated funds under the interagency agreement. Instead of recording a budgetary receivable, the accountants incorrectly recorded a proprietary receivable and earned reimbursements.

While planning its budgetary needs for fiscal year 1992, Customs reviewed the amount of unobligated budgetary resources brought forward from prior years as shown on the Apportionment and Reapportionment Schedule and the Report on Budget Execution. This amount includes the difference between what Customs reported as reimbursements earned and what was obligated in order to fulfill the agreements. The Budget Division reviewed interagency agreement accounting records at the National Finance Center and discovered that approximately $13 million of the amount carried forward was an overstatement due to the premature recording of earned reimbursements. The exact amount of the overstatement and the specific agreements contributing to it could not be determined because Customs' records lacked adequate information to specifically identify those agreements.

Since Customs' Apportionment and Reapportionment Schedule included inflated unobligated budgetary resources, which are used by OMB to apportion funds to Customs, Customs could be apportioned budgetary resources which, in fact, it has not yet earned. Additionally, because the Report on Budget Execution includes inflated unobligated resources, OMB does not have correct information needed to monitor Customs' compliance with its apportionment and to assess Customs' future budgetary needs.

Corrective Actions for Interagency Agreements in the Operations and Maintenance Fund

In April 1993, Customs approved operating procedures for processing reimbursable interagency agreements in its Operations and Maintenance Fund. The procedures are intended to ensure compliance with accounting requirements, establish minimum documentation standards, enhance internal controls, and reconcile interagency agreement information maintained by Customs officials responsible for overseeing the agreements related to the Operations and Maintenance Fund.

Although these procedures provide better guidance for recording interagency agreements, they do not require that a budgetary receivable be recorded to offset obligations recorded in the course of fulfilling the agreements.

Conclusions

Customs' fiscal year 1992 policies and procedures did not encourage fiscal responsibility or accountability among its various offices. Inadequate accounting policies, inaccurate estimates of expenditures, and the untimely deobligation of funds prevent Customs from using funds in the most efficient manner possible. Because budgetary accounts are not adequately maintained, spending levels and funding needs may not be accurately portrayed in both internal and external reports. As a result, Customs managers and congressional decisionmakers are forced to base decisions on information which misrepresents Customs' budgetary position, which may lead to the inefficient use of taxpayer funds.

In addition, Customs' failure to comply with stated guidelines for interagency agreements resulted in erroneous and faulty financial statement reporting—the year-end intragovernmental receivable balance is misstated, and the proper revenue balance is indeterminable. Also, Customs' Report on Budget Execution and Apportionment and Reapportionment Schedule include an inflated unobligated resources balance.

Recommendations

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

- Revise Customs' accounting systems and procedures to properly account for the receipt of goods and services. Specifically, (1) modify the accounting systems for ARRS transactions to automatically liquidate obligations and post related entries in the proprietary accounts immediately upon receipt of goods and services, (2) develop and implement a mechanism for non-ARRS transactions to acknowledge and transmit receiving data and use such data to post appropriate budgetary and proprietary accounting entries, and (3) expand the use of the Report on Open Obligations, as a short-term measure, by instructing program office personnel to review the report and notify the National Finance Center when goods and services have been received.
- Clarify guidance on the coding of obligating documents for goods or services obtained for Customs' use under interagency agreements to require that they be classified by the types of goods or services ordered.
- Amend the recently approved procedures for processing interagency agreements for the Operations and Maintenance Fund to require that a budgetary receivable be recorded to offset related obligations. Also, these amended procedures should be applied to all interagency agreements to help ensure that they are properly recorded in the future.

- Review all outstanding intragovernmental receivables as of September 30, 1992, in order to confirm that they are valid receivables and adjust the balances to correct any misstatements.
- Review all interagency agreements in order to identify the unliquidated obligations amount for agreements in which no budgetary receivable has been recognized and then record a budgetary receivable equal to the amount of unliquidated obligations.
- Review the documentation and accounts for all interagency agreements in order to identify recorded earned reimbursements which exceed amounts expended and adjust earned reimbursements to equal amounts expended.

Agency Comments

In commenting on a draft of this report, Customs agreed with our recommendations and discussed corrective actions that it has implemented or planned. Regarding the revisions to its accounting systems and procedures to properly account for the receipt of goods or services, Customs stated that a modification to ARRS, which would make appropriate postings upon receipt of goods or services as well as process all transactions through the ARRS system, is included in its administrative system improvement plan. However, this system enhancement effort is presently on hold while the Department of the Treasury undertakes a review of Treasury Bureau systems in an effort to eliminate duplicative systems. In the short-term, Customs plans to develop and implement procedures during fiscal year 1994 to transmit non-ARRS receiving report information to the National Finance Center upon receipt.

Regarding the clarification of its guidance on the coding of obligating documents, Customs stated that it updated its Object Class Code Directive on March 11, 1993. In addition, Customs will re-emphasize to officials responsible for assigning object class codes that the "Other Interagency Agreements" code is only to be used when no other object class code can properly identify the type of goods or services ordered. Regarding Customs' interagency agreement procedures, Customs stated that the procedures will be amended, for fiscal year 1994, to include a budgetary receivable. To confirm the validity of its outstanding interagency intragovernmental receivables as of September 30, 1992, Customs stated that it had reviewed its outstanding balances and posted adjusting entries in conjunction with its implementation of the procedures for processing the agreements during fiscal year 1993. In addition, Customs stated that it is reviewing fiscal year 1993 and prior year interagency agreement records so that appropriate adjustments can be made to budgetary accounts for those agreements where (1) a budgetary receivable had not been recognized and (2) earned reimbursements exceeded amounts expended.

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

This report contains recommendations to you. 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 to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of this report. A written statement also must be sent to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this report.

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 on (202) 512-9510, if you or your staff have any questions. Other major contributors to this report are listed in appendix II.

Sincerely yours,

Donald H. Chapin
Assistant Comptroller General

Comments From the U.S. Customs Service

THE COMMISSIONER OF CUSTOMS

WASHINGTON, D.C.

October 21, 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 U.S. Customs Service appreciates the opportunity to review and comment on the General Accounting Office draft report on Customs accounting for budgetary resources. Customs agrees with the recommendations in the draft report and is committed to resolving the reported issues timely. As such, I am pleased to inform you that some of the recommendations have already been implemented. Plans addressing the remaining issues identified in the draft report have been developed, but implementation of some of the recommendations may take more than one year. The following are Customs comments on the draft report recommendations.

RECOMMENDATIONS

-- Revise Customs accounting systems and procedures to properly account for the receipt of goods and services. Specifically, (1) modify the accounting systems for ARRS transactions to automatically liquidate obligations and post related entries in the proprietary accounts immediately upon receipt of goods and services, (2) develop and implement a mechanism for non-ARRS transactions to acknowledge and transmit receiving data and use such data to post appropriate budgetary and proprietary accounting entries, and (3) expand the use of the Report on Open Obligations, as a short-term measure, by instructing program office personnel to review the report and notify the National Finance Center when goods and services have been received.

Agree. A modification to Customs Automated Receiving Report System (ARRS) is included in our administrative system improvement plan. The modification would make appropriate postings upon receipt of goods and services as well as process all transactions through the ARRS system,

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eliminating the non-ARRS transactions mentioned in point two. This modification is a major enhancement to the existing system and is contingent upon the enhancement of Customs automated procurement system. However, the Department of the Treasury is currently undertaking a review of Treasury Bureau systems in an effort to minimize the number of systems by eliminating like systems operating within each Bureau. This Departmental review has presently placed Customs system enhancement efforts on hold.

In the interim, Customs plans to develop and implement procedures during Fiscal Year 1994 to transmit non-ARRS receiving report information to the National Finance Center upon receipt. Customs is currently exploring options to meet this recommendation including the use of the Report of Open Obligations. Customs will continue to perform manual year-end procedures to prepare the Fiscal Year 1993 year-end financial statement balances.

-- Clarify guidance on the coding of obligating documents for goods and services obtained for Customs use under interagency agreements to require that they be classified by the types of goods or services ordered.

Agree. Customs updated its Object Class Code Directive on March 11, 1993. The directive identifies the responsibility of Customs officials when selecting the object class code for all obligating documents and highlights the care that must be taken when assigning object class codes to ensure the activity can be correctly recorded in Customs accounting records. The directive also provides object class code definitions, an object class code index, and identifies a contact within Customs Budget Division where assistance can be obtained in identifying an appropriate object class code. Customs has a specific object class code for "Other Interagency Agreements." This object class code is defined for use for "agreements with other government agencies not otherwise classified." The definition also references the appropriate code if the agreement is to acquire capitalized personal property. Customs will re-emphasize to officials responsible for assigning object class codes that the "Other Interagency Agreements" code is only to be used when no other object class code can properly identify the type of goods or services ordered.

-- Amend the recently approved procedures for processing interagency agreements for the Operations and Maintenance Fund to require that a budgetary receivable be recorded to offset the related obligations. Also, these amended procedures should be applied to all interagency agreements to help ensure that they are properly recorded in the future.

Agree. The reimbursable interagency agreement procedures will be amended for Fiscal Year 1994. The existing procedures were applied to all interagency agreements during Fiscal Year 1993. Efforts are underway to review Fiscal Year 1993 and prior year interagency agreement records so that appropriate adjustments can be made to budgetary accounts.

-- Review all outstanding intragovernmental receivables as of September 30, 1992, in order to confirm that they are valid receivables and adjust the balances to correct any misstatements.

Agree. In conjunction with the implementation of the procedures for processing interagency agreements during Fiscal Year 1993, Customs has reviewed its outstanding intragovernmental receivables and has posted appropriate adjusting entries.

-- Review all interagency agreements in order to identify the unliquidated obligation amounts for agreements in which no budgetary receivable has been recognized and then record a budgetary receivable equal to the amount of unliquidated obligations.

Agree. As stated, efforts are underway to review Fiscal Year 1993 and prior year interagency agreement records so that appropriate adjustments can be made to budgetary accounts.

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-- Review the documentation and accounts for all interagency agreements in order to identify recorded earned reimbursements which exceed amounts expended and adjust earned reimbursements to equal amounts expended.

Agree. As stated, efforts are underway to review Fiscal Year 1993 and prior year interagency agreement records so that appropriate adjustments can be made to budgetary accounts.

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

Sincerely,

George J. Weise

George J. Weise
Commissioner

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