



**United States General Accounting Office  
Washington, D.C. 20548  
General Government Division**

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B-280367

July 7, 1999

The Honorable Philip M. Crane  
Chairman, Trade Subcommittee  
House Committee on Ways and Means  
House of Representatives

Subject: Customs Service Compliance Assessments of Selected Importers

Dear Mr. Chairman:

As you requested, this letter discusses how the U. S. Customs Service's Regulatory Audit Division is conducting compliance assessment audits in the context of the Customs Service Modernization Act, which was enacted in December 1993, as Title VI of P.L. 103-182. According to Customs, the act was intended to expand cooperation between importers and the Customs Service. One aspect of the act was for Customs to assist importers by assessing their compliance with new recordkeeping requirements and their internal control systems. Specifically, our objectives were to conduct a preliminary review of the Office of Regulatory Audit's compliance with (1) procedures established by the act and (2) Customs' policies and procedures for conducting the audits to identify any problems that might warrant our further review.

We conducted our preliminary review at Customs headquarters in Washington, D.C., and at two Regulatory Audit field offices--New York and Chicago. We selected these offices because they were two of the three field offices completing the most audits.<sup>1</sup> We reviewed the requirements of the Modernization Act regarding compliance assessments and Customs' internal policies and procedures for conducting audits. We obtained summary data on 157 of the 168 audits conducted under the act through September 30, 1998,<sup>2</sup> as well as detailed information on 25 of 28 audits completed in the 2 field offices.

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<sup>1</sup> Because we were reviewing investigative case files for another assignment concurrently, we specifically included only Regulatory Audit field offices that were collocated with a Customs' Office of Investigations field office.

<sup>2</sup> The list of completed audits that Customs officials originally provided included 160 audits from the Regulatory Audit Management Information System as of October 22, 1998. Because they were initiated before the enactment of the act and a large number of hours had been charged to them, for purposes of this letter, we excluded 3 of the 160 audits to arrive at a total of 157. Subsequently, Customs provided us with additional information as of November 4, 1998, and we determined that 168 audits were completed during the period in question, excluding the 3 audits described above.

Our preliminary review was conducted from June 1998 to February 1999 in accordance with generally accepted government auditing standards. We requested comments on a draft of this letter from the Secretary of the Treasury or his designee. On June 4, 1999, Customs' Director, Office of Planning provided us with a written response to this letter; he said that Customs does not take exception to the contents of this letter.

## RESULTS

On the basis of the data we reviewed, Customs' Office of Regulatory Audit appeared to have generally complied with (1) the section of the Modernization Act that addresses compliance audits and (2) most of its internal policies and procedures. Not all of the audits that we reviewed were completed within the time frames defined by Customs' guidance. However, for the audits that we reviewed, the importers often contributed to some of the additional time required to complete the audits. Because we noted no serious problems concerning Customs' compliance with the act or its policies and procedures, we do not believe that any further work is warranted in that area at this time.

Our review of 25 cases closed in New York and Chicago indicated that these field offices were following procedures established by the act. As required by the act, in all 25 cases, the Office of Regulatory Audit

- informed importers of upcoming audits,
- provided importers an opportunity for an entrance conference,
- provided importers the opportunity for a formal exit conference, and
- provided importers a formal written report of the results of the audit.

The act also requires Customs to inform importers of the estimated time it would take to complete an audit. During the case file review, we found evidence that Customs provided time estimates to importers in 12 of the 25 cases. However, neither the act nor Customs specifically requires that the provision of this information be documented, so more importers may have been informed than the 12 cases for which we found documentation.

When the new compliance assessment program was initiated in October 1995, Customs established a target of 6 months and 1,000 staff hours to complete each audit. After completing 63 compliance assessments audits, the Office of Regulatory Audit concluded that the process was taking considerably longer than it had initially estimated. Subsequently, in November 1997, Customs targeted 9 months for the cycle time and 1,500 staff hours for conducting each audit. For our analysis, we used the standard of 9 months and 1,500 hours for the cases we reviewed in the two field offices.

As shown in table 1, nationwide, the median number of months elapsed and the median staff hours used to complete the compliance assessment audits exceeded Customs' target by 9 months and 209 hours, respectively. Of the 14 cases reviewed in the New York office, only 1 case was completed in 9 months, but 8 cases were completed in less than 1,500 staff hours. Of the 11 cases that we reviewed in the Chicago office, 3 cases were completed in 9 months or less, and 3 were completed in less than 1,500 staff hours.

<b>Table 1: Time and Staff Hours Used by the Office of Regulatory Audit to Complete Compliance Audits</b>			
	<b>Nationwide<sup>a</sup></b>	<b>New York</b>	<b>Chicago</b>
Number of closed cases	157	14	11
Median number of months to complete audits	18	19	13
Range in months	5 to 33	9 to 27	8 to 24
Median number of staff hours to complete audits	1,709	1,388	1,930
Range in staff hours	409 to 6,408	409 to 3,441	744 to 3,069

<sup>a</sup>The beginning point for the nationwide data varied by case and was the first contact date, the date of the preentrance conference, or the date of the entrance conference. We used the entrance conference date for our analysis of cases from the New York and Chicago offices.

Source: GAO analysis of Customs data and case file reviews.

Our review of the case files suggested that importers often contributed to the delays in completing the compliance audits by (1) failing to provide requested information in a timely manner or (2) requesting extensions in the audits for various reasons. For example, on July 19, 1996, Customs asked an importer for information needed to conduct the audit. The importer said the earliest it could have the information would be early September 1996. After several more delays, the importer provided the information to Customs on November 15, 1996, 4 months after it was initially requested. This case took a total of 23 months to complete, with 5 and one-half months attributable to delays by the importer.

In another case, Customs first requested information from the importer on September 26, 1996; the fifth request for that same information was made more than 4 months later, on February 7, 1997. Also, during the course of this audit the importer's legal counsel requested a total of 150 days in extensions, the equivalent of about 5 months, for a case that took about 13 months from the entrance conference to report issuance.

Other examples of delays caused by importers involved their failure to complete two questionnaires—a general questionnaire and an electronic data processing questionnaire—prior to the entrance conference, as required by the compliance assessment audit procedures. For example, our file review found that only 6 of the 25 importers returned the 2 questionnaires at or before the entrance conference.

Customs files show that while preparing for the compliance assessment audits, some importers discovered that they had underpaid duties or tariffs and made payments to Customs known as voluntary tenders; this was another reason for requesting a delay. This occurred in 17 of the 25 cases that we reviewed in the New York and Chicago offices, with about \$1.6 million being submitted to Customs. In one case, the importer asked for a 60-day extension to “perfect” a prior disclosure of money owed; subsequently, the importer asked for

another extension of 60 days to gather detailed information and tender all lost duties relating to the earlier tender. This case took a total of 13 months, 4 of which were for extensions granted to the importer.

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We are sending copies of this letter to the Honorable Sander M. Levin, Ranking Member of your Subcommittee; the Honorable Raymond Kelly, Commissioner of Customs; Mr. Robert Trotter, Assistant Commissioner for Strategic Trade; and Mr. William Inch, Director of the Regulatory Audit Division.

Major contributors to this letter were Brenda Bridges, Carolyn Ikeda, Charity Goodman, Ronald Salo, and Rebecca Shea. Please contact me at (202) 512-8777 if you or your staff have any questions.

Sincerely yours,

A handwritten signature in black ink that reads "Norman J. Rabkin". The signature is written in a cursive style with a large, prominent initial "N".

Norman J. Rabkin  
Director, Administration  
of Justice Issues

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