

**U.S. CUSTOMS SERVICE
HAS UNDERCHARGED COURIERS FOR
THE COST OF INSPECTOR SERVICES**

OIG-00-111

July 31, 2000



Office of Inspector General

United States Department of the Treasury



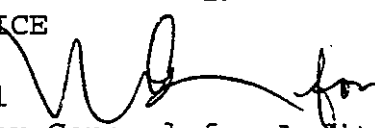
OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

July 31, 2000

MEMORANDUM FOR RAYMOND W. KELLY, COMMISSIONER
U.S. CUSTOMS SERVICE

FROM: Dennis S. Schindel 
Assistant Inspector General for Audit

SUBJECT: U.S Customs Service Has Undercharged Couriers
for the Costs of Inspector Services

Attached is the subject final audit report. Our report addresses the U.S. Customs Service's (Customs) reimbursement and resource allocation at Courier Hubs (Hubs) and Express Consignment Carrier Facilities (ECCF). The objective of the audit was to determine whether Customs was properly assessing and collecting all revenue due the Government for services provided to these facilities. The audit was performed at Customs' Headquarters in Washington, D.C.; Customs' Accounting Services Division in Indianapolis, IN; the Miami, FL, and Jamaica, NY, ECCFs; the Federal Express Company Hubs in Memphis, TN, and Indianapolis, IN; the United Parcel Service Hub in Louisville, KY; and the Emery Hub in Dayton, OH.

Expenses incurred by Customs at the ECCFs and Hubs are reimbursable under Title 19, USC 58(c). However, we found that Customs did not bill for all hours worked by inspectors and did not bill for all night differential premiums. Based on a sample of 12 2-week pay periods, we estimate that as much as \$1.28 million may have been under-billed in Fiscal Years 1999 and 1998. We also found that approximately \$115,000 in canine costs would have gone unbilled had we not brought this issue to Customs attention. We estimate that, if changes are not made, over the next 3 years Customs will lose about \$2,035,000 in additional revenue.

We also found that Customs computational charge of 137 percent designed to cover benefits, holidays, and leave was inadequate and should be revised to 158 percent. We estimate that this change would result in an additional \$5,520,000 in revenue over the next 3 years.

Finally, we found that Customs has not developed a process for allocating staff among Hubs and ECCFs based on need. We made recommendations addressing these matters in the draft and final report.

In responding to our draft report, you detailed a set of corrective actions that when fully implemented should satisfactorily address our recommendations. Customs did not agree with our recommendation of sending copies of invoices to the Hubs and ECCFs for supervisory review. Customs, however, is considering other alternatives to improve supervisory review of the billing process. Once Customs has determined the corrective actions to be taken, we will evaluate them to determine if they provide adequate controls.

Please be advised that we are recording potential revenue enhancements totaling \$7,960,444 in the Inventory, Tracking and Closure system (ITC) for our recommendations related to (1) unbilled inspector hours and night differential premiums and (2) the need to increase the computational charge. These recommendations are identified in Appendix 3 of our report. We will also include the potential revenue enhancement amounts in the OIG Semiannual Report to the Congress. Customs management is responsible for recording the amount of revenue actually collected as a result of the audit in the ITC.

We would like to extend our appreciation to Customs for the cooperation and courtesies extended to our staff during the review. If you have any questions, please contact me at (202) 927-5400, or a member of your staff may contact Donald Benson, Director, Program Audits, at (617) 223-8640.

Attachment

cc: William A. Keefer, Assistant Commissioner, Office of
Internal Affairs

Brenda A. Brockman, Director of Evaluation Oversight,
Office of Planning

EXECUTIVE DIGEST

Overview

Express Consignment Carrier Facilities (ECCF) and Courier Hubs (Hubs) are privately owned air cargo operations located at or near major airports. These facilities, operated by companies such as Federal Express (FedEx), United Parcel Service (UPS), and DHL offer expedited delivery of imported cargo. At Hubs and ECCFs, the U.S. Customs Service (Customs) provides timely inspections and processing of shipments in exchange for which the companies reimburse Customs for their costs--approximately \$19 million annually.

In recovering its costs, Customs issues biweekly invoices. The invoices include a reimbursable charge consisting of an amount equal to 137 percent (computational charge) of the hourly rates of pay of the Customs employees. This rate set by Customs regulations is intended to cover the cost of various employee benefits such as leave, holidays, retirement, life insurance, and health benefits. The invoices also include night differential payments made to Customs employees, applicable overtime payments, a 15 percent overhead charge, a 1.45 per cent Medicare premium charge, and a Merchandise Processing Fee.

Objectives, Scope and Methodology

The objective of this audit was to determine if Customs was properly assessing and collecting all revenue due the Government from Hubs and ECCFs. To achieve this objective, we interviewed Customs officials at six of the largest Hubs and ECCFs, and at Customs port offices, Headquarters, and the Accounting Services Division (ASD) in Indianapolis. We performed reviews of invoices and supporting documentation, conducted a staffing/workload analysis, and reviewed the adequacy of Customs 137 per cent computational charge. Field work was performed from April to November 1999, and was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

EXECUTIVE DIGEST

Audit Results

We found that Customs has not collected all the revenue due the Government because it did not bill for all hours worked by inspectors or for all night differential premiums. We sampled 12 2-week pay periods during Fiscal Years (FY) 1999 and 1998 and found that about \$324,000 went under-billed. Based on this amount, we estimate that as much as \$1.28 million may have been under-billed during FYs 1999 and 1998. We also found that approximately \$115,000 in canine costs were unbilled, and would have remained unbilled had we not brought this issue to Customs attention. This occurred due to insufficient internal controls and Customs personnel at the Hubs and ECCFs not being fully aware of the process of entering data into the billing system. All together, we estimate that, if changes are not made, over the upcoming 3-year period Customs will lose about \$2,035,000 in revenue.

We also found that the 137 percent computational charge was inadequate to cover Customs actual costs. We believe that, in order to recoup its costs, Customs needs to charge 158 percent. We estimate that an increase to 158 percent would result in additional revenue of about \$1.84 million annually, or about \$5,520,000 over the next 3 years. Finally, we found wide variances in workload among the Hubs and ECCFs, and believe that Customs must develop a staffing allocation model to ensure that its inspectors are optimally located.

Recommendations

We made recommendations to the Commissioner of Customs to address the deficiencies we found. These recommendations include: (1) issuing guidance to assist Customs inspectors at the Hubs and ECCFs in properly billing for all reimbursable costs, (2) amending the regulations to increase the computational charge, and (3) developing a staffing allocation process.

EXECUTIVE DIGEST

Management Response and OIG Comment

Customs has outlined a set of corrective actions that when fully implemented should generally satisfy our recommendations. For example, Customs issued a directive defining reimbursable activities at Hubs and ECCFs, and agreed to amend regulations increasing the computational charge. Customs goal is to have the new rate in place by October 1, 2000. Customs is also in process of developing a Resource Allocation Model.

TABLE OF CONTENTS

EXECUTIVE DIGEST.....	i
BACKGROUND	1
OBJECTIVES, SCOPE AND METHODOLOGY	4
AUDIT RESULTS	
Finding 1. Customs Has Lost Revenue Due to Under-Billing.....	7
Finding 2. Customs Computational Charge Is Inadequate to Cover its Costs	16
Finding 3. A Staff Allocation Process Is Needed.....	20
APPENDICES	
Appendix 1 Reimbursement from Hubs and ECCFs	25
Appendix 2 Abbreviations	27
Appendix 3 Schedule of Potential Revenue Enhancements	28
Appendix 4 Management Response	29
Appendix 5 Major Contributors To This Report	37
Appendix 6 Report Distribution	38

BACKGROUND

Express Consignment Carrier Facilities and Hubs

Express Consignment Carrier Facilities (ECCF) and Courier Hubs (Hubs) are privately owned air cargo operations. These facilities located at or near major airports offer expedited delivery of imported cargo and are operated by companies such as Airborne Express, DHL, Emery, Federal Express (FedEx), United Parcel Service (UPS), and TNT. At Hubs and ECCFs, Customs inspectors provide timely processing of shipments to ensure that the companies meet their delivery dates. In return for this service, the Consolidated Omnibus Reconciliation Act of 1985 (COBRA)¹ requires the companies to reimburse Customs for the costs of services provided. In Fiscal Year (FY) 1998, Hubs and ECCFs reimbursed Customs about \$18.5 million, and for FY 1999 (through July 31) reimbursements totaled approximately \$16.1 million. (See Appendix 1 for the reimbursements paid to Customs by the various Hubs and ECCFs.)

In processing imported cargo, Hubs and ECCFs provide Customs with information about all shipments on a manifest in advance of their arrivals at the airports. Customs inspectors review these documents and select specific cargo for physical examination before its release into the commerce. This process, at times, can be difficult because Hubs and ECCFs generally handle extremely large volumes - industry data shows that during the 23-month period of October 1, 1997 to August 31, 1999, over 200 million packages and documents passed through these facilities.

Although both process international cargo, differences exist between Hubs and ECCFs. Hubs are single-company operations that generally operate between 5:00 PM and 8:00 AM, and have Customs inspectors and support staff assigned full time. In contrast, ECCFs can operate both day and night. Inspectors are not assigned full time and generally spend only a portion of their work-days at any particular ECCF.

¹COBRA authorized reimbursable services for work performed by Customs inspectors outside of normal duty hours. In 1996, a technical amendment to the Customs Modernization Act authorized Customs to also be reimbursed for daytime services so that now all services are reimbursable.

BACKGROUND

The differences in the way that ECCFs and Hubs are staffed also significantly impacts the billing process. At ECCFs the couriers are only billed for the actual hours worked by Customs personnel. In contrast, since Custom personnel are assigned full time to the Hubs, the couriers are billed for all the employees' time including holidays, annual leave, and sick leave. Another difference is that ECCFs are usually comprised of a number of air carriers operating at the same airport in close proximity to one another. For example, the ECCFs in Miami, FL, consist of four air cargo carriers--DHL, UPS, Miami International Air Cargo, and Miami International Courier Association.

Reimbursements

Hubs and ECCFs provide Customs with office space, equipment, furnishings, supplies, and security. They also pay for the training of Customs inspectors as well as expenses related to canines (kenneling, food, veterinarian fees, and other expenses) used at these facilities. However, virtually all reimbursements received from Hubs and ECCFs are to cover the salary, benefits, and overhead costs of Customs employees.

Customs uses an automated invoice system in seeking reimbursement for work performed by Customs employees. The process begins when work tickets detailing inspectors working hours are inputted into the Customs Officers Scheduling System (COSS). Through an interface between COSS and the Customs Automated Commercial System, biweekly invoices are generated. These invoices, printed by the Office of Information Technology in Newington, VA, are forwarded to ASD's Accounts Receivable Group in Indianapolis, who mail them to the express consignment companies. The invoices include a reimbursable billing and a Merchandise Processing Fee (MPF). The reimbursable charge includes:

- An amount equal to 137 percent of the hourly rates of pay of the Customs employees (computational charge). This rate set by Custom regulation is intended to cover the costs of various employee benefits.
- Applicable overtime payments.

BACKGROUND

- A 15 percent administrative overhead charge.
- A 1.45 percent Medicare premium charge.

The MPF is simply a fee identical to the reimbursable amount. For example, if the invoiced amount for the reimbursable costs was \$2,000, the total amount billed would be \$4,000 -- \$2,000 for reimbursements and \$2,000 for the MPF. This MPF was instituted as a fee for processing all merchandise valued at less than \$2,000 (the bulk of the merchandise processed at Hubs and ECCFs). For merchandise exceeding \$2,000, formal entries must be submitted with a MPF assessed at the rate of .21 percent of the merchandise's value, with a minimum fee of \$25 and a maximum of \$485.

In contrast to the automated invoice system noted above, Customs uses a manual process for recouping costs associated with canines, relocation of employees, training, and when issuing an adjustment invoice for errors in the original automated invoice. In these cases, it is the responsibility of the field to notify ASD and provide it with the documentation needed to invoice the consignment companies.

Payments for both automated and manual invoices are sent to a lockbox in Atlanta. Collections for salaries and the other reimbursements are posted back to the individual Customs Management Center's (CMC) budget, while the MPFs are entered into the Treasury's General Fund.

OBJECTIVES, SCOPE AND METHODOLOGY

The objective of this audit was to determine if Customs was properly assessing and collecting all revenue due the Government from Hubs and ECCFs. To accomplish this objective, we interviewed Customs officials at Headquarters, ASD, port offices, Hubs, and ECCFs. We also reviewed applicable laws, regulations, directives, manuals, and records maintained at various ECCFs and Hubs.

We visited six of the largest Hubs and ECCFs. At these facilities we observed operations, reviewed records, and interviewed Customs inspectors. The facilities that we visited were:

- FedEx Hub, Memphis, Tennessee;
- FedEx Hub, Indianapolis, Indiana;
- UPS Hub, Louisville, Kentucky;
- Emery Hub, Dayton, Ohio;
- Miami, Florida ECCFs consisting of DHL, UPS, Miami International Courier Association (MICA), and Miami International Air Cargo (MIA); and
- Jamaica, New York ECCFs consisting of New York Air Courier Clearance (NYACC), DHL, and TNT Skypack.

A major portion of our audit involved two separate but closely related reviews, the purpose of which was to determine if Hubs and ECCFs were invoiced for all reimbursable costs due the Government. The first review, a work ticket/invoice review, was performed at the two FedEx Hubs and the two ECCFs that we visited. The second was an invoice-only review of all Hubs and ECCFs.

In the work ticket/invoice review, we judgmentally sampled 2 FY 1999 pay periods and 6 FY 1998 pay periods. For these pay periods, we reviewed paper copies of work tickets, reimbursement registers, and inspectors biweekly work schedules, and compared these documents to the invoices issued to the companies by ASD.

OBJECTIVES, SCOPE AND METHODOLOGY

After performing the work ticket/invoice review, we expanded our scope to cover all Hubs and ECCFs. However, we did not make further field visits. Instead, for those Hubs and ECCFs that we did not visit, we only performed an invoice review (no review of supporting documents, such as work tickets, work schedules, or other related documents).

In this review, our scope was the same 8 pay periods as the work ticket/invoice review, plus an additional 2 pay periods in both FY 1999 and 1998—a total of 12 pay periods. We focused on determining if premiums for night differential were billed, and whether all of the inspectors assigned to the Hubs were billed a full 80 hours for the 2-week pay period. We also reviewed the invoices for grossly out-of-line items, such as no billings or a very small amount of hours billed in comparison with other invoices. After completing this work, we addressed questions to the responsible Customs officials in the field.

These reviews revealed that Customs had under-billed the couriers for hours worked by Customs inspectors and had not billed for all night differential premiums. In determining the amount that was under-billed, we multiplied the hours not billed by the individual employee's rate of pay obtained from the invoices, and included any applicable night differential premium that should have been billed. In the few cases that we were unable to determine the rate of pay, we used the average salary of Customs employees. In the instances where the hours billed were correct, but night differential premiums were omitted, we applied the appropriate premium to the salary. After these calculations were completed, we added a duplicate amount to provide for the MPF. We then estimated the annual effect of these under-billings. Because we reviewed 8 pay periods in FY 1998, we multiplied the amounts under-billed in those pay periods by 3.25 (26 annual pay periods divided by 8). For FY 1999, we used a factor of 6.5 because our review consisted of 4 pay periods (26 divided by 4).

OBJECTIVES, SCOPE AND METHODOLOGY

Our review covered the following pay periods:

FY 1998

<u>Work Ticket/Invoice Review</u>	<u>Invoice Only Review</u>
11/23-12/06/97	11/23-12/06/97
12/07-12/20/97	12/07-12/20/97
04/27-05/09/98	04/27-05/09/98
05/10-05/23/98	05/10-05/23/98
05/24-06/06/98	05/24-06/06/98
06/07-06/20/98	06/07-06/20/98
	06/21-07/04/98
	07/05-07/18/98

FY 1999

<u>Work Ticket/Invoice Review</u>	<u>Invoice Only Review</u>
	01/03-01/16/99
01/17-01/30/99	01/17-01/30/99
01/31-02/13/99	01/31-02/13/99
	02/14-02/27/99

We also reviewed manual billings issued in FYs 1999 and 1998, performed a staffing and workload analysis of the Hubs and ECCFs, and reviewed Customs 137 percent computational charge.

Audit field work was performed from April to November 1999 at Customs Headquarters in Washington, D.C., the ASD in Indianapolis, IN, and at the Hubs and ECCFs listed on page 4.

We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and included such audit tests as we determined necessary.

AUDIT RESULTS

Finding 1. Customs Has Lost Revenue Due to Under-Billing

We found that Customs has not collected all revenue due the Government because Customs did not bill the couriers for all inspector hours or applicable night differential premiums. Our review of 12 2-week pay periods during FYs 1999 and 1998 disclosed that about \$324,000 went under-billed at seven Hubs and three ECCFs. Based on this amount, we estimate that Customs under-billed the couriers about \$1.28 million for these 2 fiscal years—approximately \$640,000 per year. We also found that reimbursable canine costs of about \$17,000 per year, and a one time equipment purchase of \$64,000, had gone unbilled, and would likely have remained unbilled had we not brought these issues to the attention of Customs. As a final note, due to errors within the system, the invoices contained incorrect badge numbers, making it difficult to identify inspectors for whom the couriers are being billed.

The failure of Customs to correctly invoice the couriers occurred because personnel at the Hubs and ECCFs were not all fully aware of the process of entering hours into the billing system, and in some cases were not aware of what expenses should be billed. Also, important internal controls were missing. For example, effective supervisory reviews to ensure that all billable hours and premiums were entered into the system were not conducted, and Hubs and ECCFs did not receive copies of invoices sent to the couriers. These invoices would provide Hub and ECCF supervisors with another means of checking the accuracy of invoices, even though these invoices would be received 3 to 4 weeks after the work performed.

To ensure that all revenue due the Government is collected, Customs needs to improve its process of seeking reimbursement from the couriers. Customs needs to (1) provide better guidance to the Hubs and ECCFs; (2) institute better internal controls at the Hubs and ECCFs; and (3) initiate collection efforts, where feasible, for the \$324,000 in unbilled items identified in our review.

If Customs improves its internal controls and issues better guidance, we believe that Customs will receive about \$2,035,000 in additional revenue over a 3-year period, comprised of \$1.92 million in salary

AUDIT RESULTS

costs (\$640,000 per year), canine costs of about \$51,000 (\$17,000 per year) that we believe would have gone unbilled had we not performed our audit, and the \$64,000 equipment purchase noted above.

Recommendations

The Commissioner of Customs needs to ensure that:

1. Guidance is issued defining reimbursable costs and the methods for processing them.
2. Better internal controls are established, such as requiring supervisory reviews to ensure that hours are correctly billed each pay period, sending copies of courier invoices to the Hubs and ECCFs, and updating employee badge numbers in the invoice system.
3. Collection actions are initiated for certain unbilled items identified in our audit.

Management Response and OIG Comment

Customs will take actions that, when fully implemented, will satisfy our recommendations. Customs' Office of Field Operations issued a directive on December 10, 1999, defining reimbursable activities at Hubs and ECCFs. Customs also has retroactively billed for under-billed items identified in our report, and has corrected deficiencies in canine billings. No revenue has been lost because of under-billings for canines. Customs disagreed with sending copies of invoices to the Hubs and ECCFs but is currently considering alternatives to improving supervisory review of the billing process as well as updating badge numbers. Once Customs has determined the corrective actions to be taken, we will evaluate them to determine if they adequately address our recommendation of instituting better internal controls.

Customs provided us with additional documentation showing that our draft report overstated by about \$31,000 the under-billings that

AUDIT RESULTS

occurred for the 12 pay periods that we reviewed--we reported \$355,126; Customs documentation shows that the amount should have been \$324,444. We have made the necessary corrections in this report. Also, Customs commented that our estimate of \$1.58 million in under-billings for FYs 1999 and 1998 (revised to \$1.28 million based on the additional documentation noted above) is inflated and unsupportable--stating that our methodology involved annualizing "isolated errors." However, we believe that our methodology was valid. Further, we believe the under-billings were not "isolated" in that the errors we found occurred at 10 separate facilities during 12 different pay periods.

Details

Hours and Night Differential Not Billed

At seven Hubs and three ECCFs, Customs did not bill the couriers for all hours worked by inspectors and/or did not bill for night differential premiums. In the 12 pay periods in our sample, Customs under-billed \$324,444. Based on this amount, we estimate that under-billings for FY 1999 and FY 1998 may have totaled as much as \$1.28 million -- \$824,774 in FY 1998 and \$459,343 in FY 1999, an average of \$640,000 per year (see Charts 1 and 2, page 12). The methodology used in estimating annual billings is described above on page 5. Details by individual Hubs and ECCFs follow:

FedEx Hub, Memphis, TN

A total of 400 hours covering 4 different FY 1998 pay periods were not billed, totaling \$24,785. This annualizes to \$80,551.

UPS Hub, Ontario, CA

Eighty hours of one inspector's time was not billed for a FY 1998 pay period. Also, night differential was not billed for four other employees, in 2 FY 1998 and 1 FY 1999 pay periods. These under-billings amounted to \$2,400 in FY 1998 and \$6,797 in FY 1999. These translate to estimated under-billings for FY 1998 of \$7,800 and \$44,181 for FY 1999.

AUDIT RESULTS

FedEx Hub, Oakland, CA

In 2 pay periods in FY 1998, six inspectors did not enter a total of 408 hours into the work ticket function, resulting in under-billings of \$26,570.

Also in FYs 1998 and 1999, night differential was not billed for several inspectors. For 3 FY 1998 pay periods, night differential was not billed for six inspectors, resulting in under-billings of \$10,728. In FY 1999, night differential for seven inspectors in each of 3 pay periods was not billed, resulting in \$17,591 in lost billings. The total of \$37,298 not billed in FY 1998, and the \$17,591 not billed in FY 1999, results in estimated under-billings of \$121,219 and \$114,342 on an annual basis, respectively.

Airborne Hub, Wilmington, OH

We found that in 1 FY 1998 pay period, 240 hours of work performed by three inspectors were not billed. As a result, Airborne was not billed \$18,510 in salary, night differential and MPFs. The same thing occurred for one of the inspectors in 1 FY 1999 pay period, resulting in an under-billing of \$5,694. These under-billings annualize to \$60,158 and \$37,011, respectively.

Emery Hub, Dayton, OH

In 1 FY 1998 pay period, Customs did not bill for a supervisor who was on leave, resulting in an under-billing of \$7,522. This annualizes to \$24,447.

UPS Hub, Louisville, KY

In 1 FY 1998 pay period, the supervisor's 80 hours was not entered with the proper importer number, resulting in \$7,252 not being billed. Also, Customs did not bill 80 hours for one other inspector in FY 1998. The amount under-billed for this inspector was \$6,227. The \$13,479 not billed in FY 1998 projects to \$43,807 on a yearly basis.

AUDIT RESULTS

FedEx Hub, Indianapolis, IN

In several pay periods during both FY 1998 and FY 1999, Customs failed to bill for various employees. In all, FedEx was not billed on 11 separate occasions for inspectors who worked 80 hours. These under-billings totaled \$57,828 in FY 98 and \$11,410 in FY 1999. These equate to annual under-billings of \$187,941 in FY 1998 and \$74,165 in FY 1999.

UPS and FedEx ECCFs, Newark, NJ

For both FY 1998 and FY 1999, there were several instances where night differential was not billed. For UPS, \$33,044 was not billed in FY 1998, and \$11,507 in FY 1999. These project to estimated annual under-billings of \$107,393 in FY 1998 and \$74,795 in FY 1999. For FedEx, \$10,064 was not billed in FY 1998 and \$10,525 was not billed in FY 1999. Annually, these equate to \$32,708 and \$68,413, respectively.

NYACC, DHL, and TNT Skypack ECCFs, Jamaica, NY

During FY 1998, a total of 474 hours of inspector time was not billed. These hours consisted of 1 week in 2 different pay periods in which Customs did not bill for any inspectors, and at other times during the year there were no billings for three inspectors. The amount under-billed was \$25,043, which annualizes to \$81,390.

MICA, DHL, MIA, and UPS ECCFs, Miami, FL

Customs did not bill for two inspectors for 1 FY 1998 pay period. The amount under-billed was \$2,257, which annualizes to \$7,335.

In addition, Customs only billed 7 hours a day when inspectors worked a full 8 hours at the ECCFs. This occurred because personnel at the ECCFs were under the incorrect assumption that they could not invoice the couriers for time spent at lunch. These under billings amounted to \$21,546 in FY 1998 and \$7,144 in FY 1999, which annualize to \$70,025 and \$46,436 respectively.

AUDIT RESULTS

Chart 1. Under-Billings for the Pay Periods in our Sample

HUB/ECCF	Under-billings FY 1998	Under-billings FY 1999
FedEx Hub, Memphis, TN	\$ 24,785	\$ 0
UPS Hub, Ontario, CA	2,400	6,797
FedEx Hub, Oakland, CA	37,298	17,591
Airborne Hub, Wilmington, OH	18,510	5,694
Emery Hub, Dayton, OH	7,522	0
UPS Hub, Louisville, KY	13,479	0
FedEx Hub, Indianapolis, IN	57,828	11,410
ECCFs, Newark, NJ	43,108	22,032
ECCFs, Jamaica, NY	25,043	0
ECCFs, Miami, FL	23,803	7,144
TOTAL-All Hubs and ECCFs	\$ 253,776	\$ 70,668

Chart 2. Estimated Annual Under-Billings

HUB/ECCF	Under-billings FY 1998	Under-billings FY 1999
FedEx Hub, Memphis, TN	\$ 80,551	\$ 0
UPS Hub, Ontario, CA	7,800	44,181
FedEx Hub, Oakland, CA	121,219	114,342
Airborne Hub, Wilmington, OH	60,158	37,011
Emery Hub, Dayton, OH	24,447	0
UPS Hub, Louisville, KY	43,807	0
FedEx, Indianapolis, IN	187,941	74,165
ECCFs, Newark, NJ	140,101	143,208
ECCFs, Jamaica, NY	81,390	0
ECCFs, Miami, FL	77,360	46,436
TOTAL-All Hubs and ECCFs	\$ 824,774	\$ 459,343

AUDIT RESULTS

The circumstances surrounding the under-billings differed among the Hubs and ECCFs. To illustrate:

- Night differential was not billed at the FedEx Hub in Ontario, CA, because the inspectors entered narrative comments into the night premium field of COSS' work ticket screen instead of entering hours.
- At the Emery Hub in Dayton, OH, a supervisor completed a work ticket prior to going on annual leave, but the data was never entered.
- Many of the hours under-billed for Airbourne, Wilmington, OH, apparently occurred because work tickets sent to the Dayton, OH, port office for processing were misplaced.
- As discussed above, Customs inspectors at the Miami, FL ECCF were unaware that they should not have deducted from the billing the time spent at lunch for inspectors working a full day at the ECCF.

Written Guidance and Better Controls are Needed

The under-billings described above occurred because of two principal reasons. First, because Customs has not issued any detailed written guidance on reimbursable billings, Customs employees were sometimes unaware of what should be billed and how to properly enter certain information into COSS. Secondly, Hubs and ECCFs were not routinely determining the accuracy of the number of hours entered into the work ticket function or whether items such as night differential were properly coded.

We believe that Customs needs to issue written guidance detailing and defining reimbursable costs and the methods needed to ensure proper processing.² Also, better internal controls need to be instituted. For example, some supervisors were not ensuring that hours inputted into the work ticket function are all inclusive. A management control is needed requiring supervisors to match the information inputted into the work ticket function with the hours

²In December 1999, Customs issued guidance on what qualifies as a reimbursable cost. The next step needed is to issue guidance on how to process these costs for billing.

AUDIT RESULTS

actually worked by the inspectors. Inspectors and supervisors presently may lack incentive for ensuring the accuracy of data inputted because the work ticket function, used to generate reimbursable invoices, is independent of the administrative function used in generating payroll. This fact makes it even more critical that effective controls be in place.

Another weakness in the reimbursement process was that Hubs and ECCFs did not receive copies of invoices sent to the couriers. As a result, the Hubs and ECCFs lacked an important tool to ensure that the invoices were accurate. Even though invoices may be issued 3 or 4 weeks after the work has been performed, we believe that Hubs and ECCFs should have access to them. In addition, we found the invoices themselves needed improvement. Invoices identify inspectors by badge number (not by name or other identifier); however, we found that several badge numbers listed on the invoices were incorrect. As a result, it is difficult to identify which inspector's time was billed. We believe that Customs needs to correct the badge numbers within the inventory system.

Deficiencies in Canine Billings

Customs Hubs and ECCFs were untimely in issuing certain canine bills. For example, in FY 1998 Customs approved canines for the following locations:

- ECCFs in Miami, FL;
- Airborne Hub, Wilmington, OH;
- DHL Hub, Cincinnati, OH;
- Emery Hub, Dayton, OH;
- FedEx Hub, Indianapolis, IN;
- UPS Hub, Louisville, KY; and
- UPS Hub, Ontario, CA.

The canine for UPS in Louisville, KY, arrived in June 1999, with all the others arriving between December 1997 and November 1998. Only Airborne, Emery, and UPS in Louisville, KY, were timely in submitting documentation to ASD so they could bill the couriers for costs incurred for kenneling and supplies. At FedEx in Indianapolis,

AUDIT RESULTS

IN, Customs did not initiate billings until 10 months after the canine's arrival in December 1997.

At the other three facilities -ECCFs, Miami, FL; DHL, Cincinnati, OH; and UPS, Ontario, CA - it took 8 to 18 months to bill for the canines, and these billings were only initiated after we began our inquiries. Therefore, we believe that had we not performed our audit, these costs would have gone unbilled. At Miami, annual canine costs have averaged \$8,000 (two dogs); at UPS, Ontario, \$3,100; and at DHL, Cincinnati, \$5,900, for a total annual cost of \$17,000.

In addition, the Customs Canine Center in Front Royal, VA, purchased eight mobile radios at a cost of about \$64,000 and distributed four to Miami, and one each to DHL, Emery, and both UPS Hubs in September 1998. However it was not until we raised the issue of reimbursement that Customs began the process of obtaining the necessary documentation to bill the couriers. As in the case of the yearly canine costs noted above, we believe that this \$64,000 would have also gone unbilled.

We believe that to correct these billing deficiencies, Customs needs to issue written guidance and establish internal controls to ensure that all canine costs are properly identified and billed.

AUDIT RESULTS

Finding 2. Customs Computational Charge Is Inadequate to Cover Its Costs

Customs regulations intended to ensure that couriers reimburse the Government for the cost of services provided are outdated. Current regulations require Customs to be reimbursed 137 percent of employee's salaries (computational charge) to cover the cost of various benefits. We found, however, that the actual cost of benefits is much higher, and believe that in order to recoup its costs, Customs needs to charge 158 percent. We estimate that the outdated computational charge is costing Customs about \$1.84 million in annual revenue or about \$5.52 million over a 3-year period.

Recommendations

1. The Commissioner of Customs needs to ensure that Customs amends its regulations by increasing the computational cost to reflect the cost of services provided.

Management Response and OIG Comment

Customs concurred with this recommendation and believes that our 158 percent computational charge calculation is reasonable. Customs will initiate its own comprehensive review and propose a new rate that Customs hopes to have in place by October 1, 2000.

Details

Present Computational Charge Is Outdated

Customs regulations, Title 19, Code of Federal Regulations, Part 24.17, is intended to ensure that couriers reimburse the Government for the cost of Customs inspectional services provided at their facilities. These regulations require a computation charge of 137 percent of the regular hourly rate of pay of the Customs employees that provided the service. This charge reflects an 11.5 percent contribution for employee

AUDIT RESULTS

benefits, and factors in holidays, annual leave and sick leave.
The charge is computed as follows:

Gross working hours in 52, 40-hour weeks	2,080
--	-------

Less:

9 public holidays (New Years Day, Presidents Day, Memorial Day, Independence Day, Labor Day, Columbus Day, Veterans Day, Thanksgiving Day, and Christmas Day)	72 hrs.	
Annual Leave--26 days	208 hrs	
Sick Leave--13 days	<u>104 hrs.</u>	384

Net number of working hours (2,080 minus 384)	1,696
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Gross working hours in 52, 40-hour weeks	2,080
--	-------

Working hour equivalent of Government contributions for employee uniform allowance, retirement, life insurance, and health benefits computed at 11 1/2 percent of annual rate of pay of employee (2080 X .115)	239
--	-----

Equivalent annual working hour charge to Customs appropriation (2,080 + 239)	2,319
---	-------

Ratio of annual number of working hours charged to Customs appropriation to net number of annual working hours (2,319/1,696)	137 percent
---	-------------

The 137 percent computational charge no longer reflects the actual cost of Customs services provided at the Hubs and ECCFs. The charge does not adequately recover all of the costs for uniform allowances, retirement, and health and life insurance. Further, Martin Luther King Day, which was added as a national holiday in 1986, is not factored into the calculation.

AUDIT RESULTS

We obtained FY 1999 financial data from Customs Asset Information Management System. This data breaks down Customs salaries and benefits by CMC. In order to determine the benefit ratio that should be applied to Hubs and ECCFs, we calculated the benefits for employees in those CMCs that have Hubs and ECCFs. We then applied these benefits to the salaries of the employees in the same CMCs. This showed a benefit ratio of 27.16 percent. We added 1.39 percent to account for the uniform allowance resulting in benefits of 28.55 percent. We also added Martin Luther King Day to the list of holidays and then recomputed the computational charge, which as shown below, amounted to 158 percent.

Gross working hours in 52, 40-hour weeks		2,080
Less:		
10 legal public holidays	80 hrs.	
Annual Leave--26 days	208 hrs	
Sick Leave--13 days	<u>104 hrs.</u>	392
Net number of working hours (2,080 minus 392)		<u>1,688</u>
Gross working hours in 52, 40-hour weeks		2,080
Working hour equivalent of Government contributions for employee uniform allowance, retirement, life insurance, and health benefits computed at 28.55 percent of annual rate of pay of employee (2,080 X .2855)		594
Equivalent annual working hour charge to Customs appropriation (2,080 + 594)		2,674
Ratio of annual number of working hours charged to Customs appropriation to net number of annual working hours (2,674/1,688)		158 percent

AUDIT RESULTS

We believe that Customs needs to issue new regulations revising the computation charge in order that Customs may be properly reimbursed for the cost of services provided at Hubs and ECCFs.

An updated charge of 158 percent, as in our calculation, represents an increase of 15.3 percent over the current 137 percent charge. Our analysis of four FY 1999 invoices showed that approximately \$1 million a month is billed the couriers for non-overtime salaries. Since an increase in the computational charge would apply to these costs, we estimate that an updated computational charge of 158 percent would result in added revenues of about \$1.84 million per year (\$12 million per year X 15.3 percent).

AUDIT RESULTS

Finding 3. A Staff Allocation Process Is Needed

Customs has not established a process for allocating staff among Hubs and ECCFs based on need. We performed a staffing/workload analysis for a 23-month period that ended August 31, 1999, and found wide variations among the various Hubs and ECCFs. For example, at one Hub, Customs inspectors processed 41 packages per hour/per staff, while at one busy ECCF inspectors processed as many as 2,165 packages. We acknowledge that our review was one-dimensional, and that other factors such as risk and degree of automation should also be considered in any staff allocation process. However, we believe that our analysis demonstrates that Customs needs to establish a process to better allocate resources among the Hubs and ECCFs. Until this is done, Customs is at risk of not having its staff positioned where they are needed.

In addition, Customs has not fully utilized seizure statistics to measure the level of risk at the various Hubs and ECCFs. Customs is in the process of establishing a centralized database, which will capture seizure data. When this is completed, it is essential that Customs uses the seizure data as a factor to allocate staff to the Hubs and ECCFs.

Recommendations

1. The Commissioner needs to ensure that a staffing process is established so that resources are allocated to Hubs and ECCFs based on need.

Management Response and OIG Comments

Customs concurred with our recommendation and is in the process of developing an agency-wide Resource Allocation Model.

Details

Customs Lacks a Staffing Allocation Process

Customs has not developed a method to allocate its staff resources to Hubs and ECCFs based on need. Instead, staffing levels have evolved over time, with no clear justification for the staffing decisions. Customs recently recognized this oversight, and in early 1999 began to develop a staff allocation model. This model, however, is far from complete.

Heavy Workload and Future Growth

Customs inspectors at Hubs and ECCFs face the difficult task of processing large volumes of cargo in very short time frames. Data obtained from the couriers shows that during the 23-month period of October 1, 1997 to August 31, 1999, about 239 million packages and documents passed through these facilities. In addition, many couriers expect even larger volumes in the future. UPS in Louisville, KY, offers a case in point. The courier plans to more than double the size of its facility by the year 2002, as it expects imports will rise from its present 19,000 per night to 49,000. It further projects that, by 2012, imports will grow to 172,000 packages per night. Because of the large volume of cargo currently being processed and the specter of wide-scale future growth, it is important that judicious staffing decisions be made.

Staffing/Workload Analysis Showed Wide Variations

In an effort to demonstrate the need for a staff allocation process, we performed a staffing/workload analysis and found many inconsistencies among the Hubs and ECCFs. We realize that factors other than workload need to be considered in any staffing allocation decision (e.g., risk and degree of automation), but clearly workload should be a major factor.

In performing our analysis, we compared staffing at the Hubs and ECCFs to the volume of merchandise processed. We determined

AUDIT RESULTS

staffing levels from the reimbursable invoices, for 4 FY 1999 and 8 FY 1998 pay periods (see page 6 above for a listing of the pay periods). We were able to use these invoices because they list the amount of hours billed.

From these invoices, we totaled the number of hours worked for the 12 pay periods. We then were able to estimate hours worked on a weekly basis by dividing the total number of hours by 24 (the number of weeks in the 12 pay periods). We were further able to project this data to determine the total staffing per year by dividing total staff hours per week by 40. For example, a Hub or ECCF that averaged 480 hours per week in the 12 pay periods in our review would have a staffing level of 12 (480 hours divided by 40). The workload data (packages and documents processed) was obtained from the couriers because Customs does not collect this type of information. We did not verify the data's accuracy.

As shown in Chart 3, we found wide variations in workload, ranging from a low at Emery Hub, Dayton, OH, where Customs inspectors processed 41 packages per hour/per staff to the Miami, FL, ECCFs where the inspectors processed 2,165 packages.

AUDIT RESULTS

Chart 3. Workload and Staffing-10/1/97 to 8/31/99

Hubs/ECCFs	Total Pkgs. Per Wk.	Staff	Hourly Workload Per Staff
FedEx Hub, Memphis, TN			
UPS Hub, Louisville, KY			
FedEx Hub, Anchorage, AK			
Emery Hub, Dayton, OH			
FedEx Hub, Oakland, CA			
FedEx Hub, Indianapolis, IN			
DHL Hub, Cincinnati, OH			
UPS Hub, Ontario, CA			
UPS Hub, Philadelphia, PA			
UPS Hub, Anchorage, AK			
Bax Global, Toledo, OH			
Airborne, Wilmington, OH			
ECCFs, Miami, FL			
ECCFs, Jamaica, NY			
ECCFs, Newark, NJ			
ECCFs, Los Angeles, CA			
ECCFs, San Francisco, CA			

Other variations, which stand out, include:

- [REDACTED]
- [REDACTED]
- [REDACTED]

AUDIT RESULTS

[REDACTED]

[REDACTED]

[REDACTED]

Reimbursement from Hubs and ECCFs

<u>HUB/ECCF</u>	<u>FY 1998 REIMBURSEMENTS</u>	<u>FY 1999 THRU JULY 31 REIMBURSEMENTS</u>
FedEx Hub, Memphis, TN	\$2,500,622	\$2,003,634
UPS Hub, Louisville, KY	1,488,600	1,140,729
FedEx Hub, Anchorage, AK	1,340,627	1,540,708
Emery Hub, Dayton, OH	990,226	481,770
FedEx Hub, Oakland, CA	916,378	1,017,324
FedEx Hub, Indianapolis, IN	733,189	561,621
DHL Hub, Cincinnati, OH	654,908	729,545
UPS Hub, Ontario, CA	484,166	582,025
UPS Hub, Philadelphia, PA	366,508	365,960
BAX Global Hub, Toledo, OH	345,189	298,604
Airborne Hub, Wilmington, OH	605,349	378,166
UPS Hub, Anchorage, AK	334,456	361,652
 Miami, FL ECCFs		
DHL	842,624	794,976
UPS	453,550	502,720
MICA	920,584	834,196
MIA	374,655	338,912
TOTAL	\$2,591,413	\$2,470,804
 Jamaica, NY ECCFs		
DHL	900,062	810,584
TNT	516,234	391,598
NYAC	475,032	404,608
TOTAL	\$1,891,328	\$1,606,790
 Newark, NJ ECCFs		
Federal Express	1,016,624	804,484
UPS	785,535	676,828
TOTAL	\$1,802,159	\$1,481,312

Reimbursement from Hubs and ECCFs

<u>HUB/ECCF</u>	<u>FY 1998 REIMBURSEMENTS</u>	<u>FY 1999 THRU JULY 31 REIMBURSEMENTS</u>
Los Angeles, CA ECCFs		
DHL	690,580	486,086
TNT	168,417	156,890
Virgin Atlantic	74,764	94,904
TOTAL	\$933,761	\$737,880
 San Francisco, CA ECCFs		
DHL	445,159	301,720
IBC	0	41,121
TOTAL	\$445,159	\$342,841
 Seattle, WA ECCFs		
DHL	85,291	69,944
UPS	20,025	4,094
TOTAL	\$105,316	\$74,038
 Total ECCFs & Hubs	\$18,529,354	\$16,175,403

ABBREVIATIONS

ASD	Accounting Services Division
CMC	Customs Management Center
COBRA	Consolidated Omnibus Reconciliation Act of 1985
COSS	Customs Officers Scheduling System
ECCF	Express Consignment Carrier Facility
FedEx	Federal Express
FY	Fiscal Year
MIA	Miami International Air Cargo
MICA	Miami International Courier Association
MPF	Merchandise Processing Fee
NYACC	New York Air Courier Clearance
UPS	United Parcel Service

SCHEDULE OF POTENTIAL REVENUE ENHANCEMENTS

A revenue enhancement is an action recommended in an OIG audit report which would, if implemented, enhance the General Fund receipts of the Federal Government, usually without having any budgetary impact on any of the Department of the Treasury's appropriations. The following potential revenue enhancements will be recorded in the Inventory, Tracking and Closure system (ITC). These potential revenue enhancements will also be included in the OIG Semiannual Report to the Congress.

<u>Recommendation Number</u>	<u>Potential Revenue Enhancement Amount</u>
Finding 1 - Recommendation 1	\$2,035,000
Finding 1 - Recommendation 3	405,444
Finding 2 - Recommendation 1	5,520,000

The potential revenue enhancement for Finding 1, Recommendation 1, relates to additional collections we estimate Customs will receive over a 3-year period if it improves its internal controls and issues better guidance for billing couriers for inspector hours or applicable night differential premiums. The potential revenue enhancement for Finding 1, Recommendation 3, relates to additional billings issued or to be issued by Customs that are a direct result of our audit. The revenue enhancement amount of \$405,444 consists of: (1) \$324,444 for unbilled inspector hours and night differential premiums identified in our audit sample; (2) \$17,000 for canine billings that were initiated during our audit; and (3) \$64,000 for mobile radio billings that were initiated during our audit. The potential revenue enhancement for Finding 2, Recommendation 1, relates to additional collections we estimate Customs will receive over a 3-year period if it amends the regulation to increase the computational charge that couriers pay to cover the cost of various Customs employee benefits.

It is Customs management's responsibility to record the actual revenue collections received as a result of its implementation of these recommendations in the ITC.

MANAGEMENT RESPONSE



U.S. Customs Service

Memorandum

DATE: May 30, 2000

FILE: AUD-1-OP SMT

MEMORANDUM FOR DENNIS S. SCHINDEL
ASSISTANT INSPECTOR GENERAL
FOR AUDIT

FROM: Director, Office of Planning

SUBJECT: U.S. Customs Service Efforts to Assess and
Collect Revenue from Courier Hubs and Express
Consignment Carrier Facilities

Thank you for providing a copy of the draft report "U.S. Customs Service Efforts to Assess and Collect Revenue from Courier Hubs and Express Consignment Carrier Facilities" and the opportunity to discuss the issues in this report.

We have reviewed the findings and recommendations and have specific comments on certain areas of the report. We concur with the findings that there were instances in which underbillings occurred, although not to the extent asserted in the report. The errors found were caused by the lack of data, or improper input of data, in the Customs Overtime Scheduling System, which would in turn generate either erroneous billings or no billings at all. However, we question the legitimacy of annualizing the effect of isolated errors which has the effect of inflating the final figure used as estimates of the amount Customs underbilled the Courier Hubs and ECCFs. We have included our detailed analysis and comments on the billing questions as an attachment to this memorandum. Our response to the recommendations of the draft report is presented below:

Recommendation 1: The Commissioner of Customs needs to ensure that guidance is issued defining reimbursable costs and the methods for processing them.

TRADITION

*

SERVICE

*

HANDS

We concur. On December 10, 1999, a Directive was issued by the U.S. Customs Service, Office of Field Operations defining reimbursable activities at Hub/ECCF locations. The Office of Finance agrees with its treatment of reimbursable activities.

MANAGEMENT RESPONSE

-2-

Recommendation 2: The Commissioner of Customs needs to ensure that better internal controls are established, such as requiring supervisory reviews to ensure that hours are correctly billed each pay period, sending copies of courier invoices to the hubs and ECCFs, and updating employee badge numbers in the invoice system.

Customs does not agree that the sending of copies of courier invoices to the hubs and ECCFs would in any way improve internal controls. The comparison of the invoices to all the accumulated work tickets at courier hubs and ECCFs is not practical as a control measure from a cost/benefit standpoint and would contribute little to existing controls. The U.S. Customs Service, Office of Field Operations is currently considering alternatives to improving supervision of staff input to the billing process at courier hubs and ECCFs, as well as the issue of updating badge numbers for employees.

Recommendation 3: The Commissioner of Customs needs to ensure that collection actions are initiated for certain unbilled items identified in our audit.

We concur. Closed as of May 16, 2000. We have researched and retroactively billed the appropriate Hub and ECCF locations where underbilling situations are known to have occurred. Also, the deficiencies that OIG cited in reference to canine billings have been corrected. All express consignment operator locations that have a canine assigned have been and are being billed on a regular basis. At this point, no revenue has been lost because of underbilling for canines.

Recommendation 4: The Commissioner of Customs needs to ensure that Customs amends its regulations by increasing the computational cost to reflect the cost of services provided.

The Office of Finance concurs with the recommendation that the reimbursable charge needs to be revised to reflect Customs costs. Our initial review indicates that the reimbursable charge that you recommended is reasonable. We will initiate a more comprehensive review of the OIG's calculation of the reimbursable charge and propose necessary changes to the regulations. Since the reimbursable charge imposed for the provision of the service affects other reimbursement agreements, we will strive to ensure that the new reimbursable charge in place and effective by October 1, 2000.

MANAGEMENT RESPONSE

-3-

Recommendation 5: The Commissioner needs to ensure that a staffing process is established so that resources are allocated to courier hubs and ECCFs based on need.

We concur. The Office of Field Operations has suspended further specific action for a separate allocation methodology in this area pending further elaboration of the Commissioner's proposed Resource Allocation Model.

If you have any questions, please have a member of your staff contact Ms. Brenda Brockman at (202) 927-1507.



William G. Riley

Attachment

Cc: Chief of Staff
Chief Counsel
G. Zawadski

MANAGEMENT RESPONSE

Accounting Services Division (ASD) Response to OIG General Draft Report on the Courier Hubs and Express Consignment Carrier Facilities

We have reviewed the draft OIG report on the Courier Hubs and Express Consignment Carrier Facilities (ECCFs) audit. We have several concerns about their findings and several specific instances where, in our opinion, they made incorrect assumptions and therefore incorrect conclusions. We are only making our observations from within the framework of our area of responsibility within the Express Consignment Operators (ECO) program, namely that of billings.

A general observation about this audit pertains to their stated objective and scope of this audit. Beginning on page 4 of their draft and in other places within the draft, they state that the objective of this audit was to ensure that Customs was properly assessing and collecting all revenue due the Government from the ECOs. Their Finding 3, which addressed perceived weaknesses in staffing allocation and accounting for seizures, does not seem to be consistent with this objective. Although these may be legitimate areas to address, they were not stated objectives of this audit.

The working papers provided to us by the OIG supporting their audit report of the Courier Hubs and ECCFs have been reviewed and analyzed. Each instance cited in the working papers was researched to determine whether or not an underbilling situation had actually occurred, and if so, the actual dollar amount that had not been billed. The results of this review can be seen on Attachments A and B. Attachment A reviews each finding in the OIG working papers in the order in which they were presented and shows the actual amount underbilled (if any). Attachment B is a comparison of OIG findings and ASD findings by location and fiscal year.

Overall, the OIG overestimated the total amount of underbillings by approximately \$31,000 for the period that they reviewed. Nine inspectional assignments that OIG asserted that were not billed were either actually billed or should not have been billed. In those cases where a billing should have occurred and did not or the amount billed was incorrect, the actual amounts that should have been billed were recalculated.

Annualizing the effect of the relatively few errors found (less than 1% of the inspectional assignments input at the Hubs and ECCFs during the period the OIG reviewed, contained errors) is not necessarily a legitimate conclusion to their findings. This appears to incorrectly inflate the final figure used as the amount Customs underbilled the ECOs (\$1.58 million). For example, they cite the example of Customs not billing for a supervisor who was on leave. They annualized that figure. Unless we assume that the supervisor was on leave for all 26 pay periods and that Customs failed to bill for any leave, annualizing this and other isolated incidents into a much larger number is simply not valid unless it happens every pay period. By annualizing isolated incidents, they have inflated \$355,000 into \$1.58 million. We do not believe \$1.58 million dollars in underbillings is a supportable number. The ASD Billings Team has researched and retroactively billed the appropriate Hub and ECCFs locations where underbilling situations are known to have occurred.

MANAGEMENT RESPONSE

- 2 -

The ASD, Billings Team is currently finalizing a fixed rate billing system to be used for the ECOs. By each ECO paying a fixed amount on a quarterly basis, the effect of any input omission or error will be eliminated. The Billings Team will be able to catch and correct errors before the next billing cycle. This proposed system has been agreed to in principle by representatives of Office of Field Operations, Cost Management Branch, Budget Division, and the ASD.

The deficiencies that OIG cited in reference to canine billings have been corrected. All ECO locations that have a canine assigned have been and are being billed on a regular basis. At this point, no revenue has been lost because of underbilling for canines.

We agree that the 137% is no longer correct. We, in fact, presented a proposal to Budget and OFO in late 1997 to have the rate reviewed. Although our proposed revised rate differs somewhat from the OIG proposal, we agree in principle.

Attachments

MANAGEMENT RESPONSE

ATTACHMENT A

REVIEW OF OIG FINDINGS FROM EXPRESS CONSIGNMENT/HUBS AUDIT

ITEM #	DESCRIPTION OF FINDING	ACTUAL DOLLAR AMOUNT UNDERBILLED		COMMENT
		REIMBURSABLE	WFE TOTAL	
1	FEDEX (52095) - 2 assignments (00679 and 00694 11/23 - 12/8/97) Not entered	4,669.48	4,669.48	9,338.96 These assignments were not billed. Input error.
2	FEDEX (52095) - assignments for canine inspector Not entered (12/7-12/20/97)	0.00	0.00	0.00 Assignments for this inspector were billed. Documentation available.
3	FEDEX (52095) - Assignments for 2 canine inspectors Not entered in COSS (5/10-5/23/98)	0.00	0.00	0.00 Assignments for these inspectors were billed. Documentation available.
4	FEDEX (52095) - Assignment for inspector not entered into COSS (5/24-8/6/98)	2,334.74	2,334.74	4,669.48 No input for this inspector found for this pay period.
5	FEDEX (52095) - Assignments for 2 inspectors not entered into COSS (8/7-8/20/98)	5,388.18	5,388.18	10,776.36 No input for this inspector found for this pay period.
6	UPS (72785) - 3 Assignments did not have night differential billed (8/7-8/20/98, 8/21-7/4/98, and 2/14-2/27/99)	890.81	890.81	1,781.22 Input error entering assignments into COSS
7	UPS (72785) - 3 Assignments for 1 inspector not billed for 3 different periods with night differential applicable (8/7-8/20/98, 8/21-7/4/98, and 1/3-1/16/98)	3,707.99	3,707.99	7,415.98 2 Assignments were billed but two night differential and 1 assignment not billed at all for pay periods in question (See documentation)
8	EMERY (34185) - Supervisor on leave but work ticket not input into COSS (4/27-5/9/98)	3,781.11	3,781.11	7,522.22 Work ticket not input
9	AIRBORNE (34191) - Work tickets for 3 inspectors in 2 different pay periods not entered into COSS (5/24-8/6/98 and 1/17-1/30/99)	12,101.80	12,101.80	24,203.60 Work ticket not input
10	UPS (34185) - 2 inspectors in 2 different pay periods did not enter WT into COSS (5/10-5/23/98 and 8/21-7/4/98)	6,739.65	6,739.65	13,479.30 Work tickets not input

MANAGEMENT RESPONSE

ITEM #	DESCRIPTION OF FINDING	REIMBURSABLE			MPE	TOTAL	ATTACHMENT A	
								COMMENT
11	EMERY (34195) - Carline Officer did not input WT into COSS for this Hub even though officer did not work at this Hub for full 80 hours per pay period. (1/3-1/16/98 and 1/31-2/13/98)	0.00	0.00	0.00	0.00	0.00	Cannot assign full 80 hour assignment to one location if work was done at more than one location. This officer rotated between Emery, Airborne, and Port, therefore, we cannot charge his salary to one Hub.	
12	DHL (34197) - Inspector did not enter WT into COSS for 2 pay periods 1/3-1/16/98 and 1/17-1/30/98)	0.00	0.00	0.00	0.00	0.00	Records indicate that this Inspector did not begin inputting WTS into COSS before 1/31-2/13/98 pay period, therefore, he may not have been assigned to Hub during periods in question.	
13A	FEDEX (34198) - Copies of WT show that they were not entered into WT system (11/23-12/6/97)	0.00	0.00	0.00	0.00	0.00	Assignments in question were billed. Documentation available.	
13B	FEDEX (34198) - A total of 11 assignments in 11 pay periods by 3 inspectors not input into COSS (4/27-7/18/98 and 1/3-2/27/99)	34,619.03	34,619.03	34,619.03	34,619.03	69,238.06	No evidence these assignments were ever put into COSS.	
14	FEDEX (24671) Night differential not input for 19 assignments for 5 inspectors for 4 pay periods (1/3-2/27/99)	5,262.66	5,262.66	5,262.66	5,262.66	10,525.32	Night differential amounts for each assignment recalculated.	
15	10 Different Hub/ECCF locations had either assignments not billed or night differential was not billed in 8 different pay periods FEDEX (72895) - Assignments not billed FEDEX (72895) - Night differential not billed UPS (24670) - Assignments not billed UPS (24670) - Night Differential not billed FEDEX (24671) - Night differential not billed NYACC (24771) - Assignments not billed DHL (24772) - Assignments not billed TNT (24778) - Assignments not billed MIAMI ECCFS (45272 & 45270) - Assignments not billed	13,285.04 14,159.53 12,645.85 9,629.07 5,031.99 3,027.27 5,501.41 3,982.68 1,128.53	13,285.04 14,159.53 12,645.85 9,629.07 5,031.99 3,027.27 5,501.41 3,982.68 1,128.53	13,285.04 14,159.53 12,645.85 9,629.07 5,031.99 3,027.27 5,501.41 3,982.68 1,128.53	13,285.04 14,159.53 12,645.85 9,629.07 5,031.99 3,027.27 5,501.41 3,982.68 1,128.53	26,570.08 28,319.08 26,281.70 19,258.14 10,063.98 6,074.54 11,002.82 7,965.36 2,257.06	Assignments that were not billed or night differentials not billed were recalculated.	
16	4 ECCFS in Miami were only billed for 7 hours per day instead of 8 hours because the lunch hours were not being accounted for. This occurred in 8 different pay periods.	14,344.69	14,344.69	14,344.69	14,344.69	28,689.78	Unbilled hours were calculated at appropriate hourly rate plus overhead.	
TOTAL AMOUNTS UNBILLED		\$162,221.51	\$162,221.51	\$162,221.51	\$162,221.51	\$324,443.02		

MANAGEMENT RESPONSE

ATTACHMENT B

OIG VS. CUSTOMS ESTIMATES OF HUB/ECCF UNDERBILLINGS

LOCATION	FY 1998		FY 1999	
	OIG	CUSTOMS	OIG	CUSTOMS
FEDEX (MEMPHIS, TN)	\$45,164	\$24,785	\$0	\$0
UPS (ONTARIO, CA)	\$13,009	\$2,400	\$6,774	\$6,797
FEDEX (OAKLAND, CA)	\$34,337	\$37,288	\$17,752	\$17,501
AIRBORNE (WILM., OH)	\$18,333	\$18,510	\$5,616	\$5,684
EMERY (DAYTON, OH)	\$7,522	\$7,522	\$0	\$0
UPS (LOUISVILLE, KY)	\$13,479	\$13,479	\$7,281	\$0
DHL (CINCINNATI, OH)	\$0	\$0	\$17,623	\$0
FEDEX (INDPLS, IN)	\$89,707	\$37,828	\$11,410	\$11,410
UPS, FEDEX (NEWARK)	\$18,097	\$43,108	\$25,284	\$22,032
NYACC, DHL, TNT (JFK)	\$21,501	\$25,043	\$0	\$0
MICA, DHL, TNT, MIACES (MIAMI, FL)	\$2,335	\$23,803	\$0	\$7,144
TOTALS	\$283,484	\$283,776	\$91,642	\$70,668
OTAL OIG UNDERBILLING AMOUNTS	\$355,128			
TOTAL CUSTOMS BILLING AMOUNTS		\$324,444		
DIFFERENCE		\$30,682		

15 JUL 1999

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REPORT DISTRIBUTION

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