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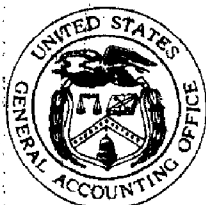
United States General Accounting Office

Report to the Commissioner  
U.S. Customs Service

October 1993

**FINANCIAL  
MANAGEMENT**

**Customs'  
Self-assessment of Its  
Internal Control and  
Accounting Systems Is  
Inadequate**



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

Accounting and Information  
Management Division

B-254326

October 27, 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 Services' efforts in fiscal year 1992 to identify, report, and correct material weaknesses as required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982. Under FMFIA, agencies are required to annually disclose the condition of their internal control and accounting systems. Customs is to disclose such conditions in an assurance letter to the Secretary of the Treasury.

We performed our review as part of our audit of Customs' fiscal year 1992 financial statements pursuant to the Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576). Under the CFO Act, Customs is 1 of 10 pilot agencies required to prepare financial statements and have them audited by June 30, 1993. As authorized in the CFO Act, we elected to perform the financial audit of Customs for the fiscal year ending September 30, 1992. This is one of a series of reports resulting from our audit. Appendix I lists these reports.

## Results in Brief

Although Customs reported nine material internal control and accounting system weaknesses<sup>1</sup> in its fiscal year 1992 assurance letter to the Secretary of the Treasury, it did not disclose the severity of Customs' internal control and accounting system weaknesses. Customs asserted a qualified assurance on its conformance with accounting systems requirements because significant questions remain about (1) the accuracy and reliability of accounts receivable information and (2) the ability of Customs' core financial system to provide accurate financial data. Customs' assertion that its internal control systems achieve the objectives of FMFIA is inconsistent with what we found.

Specifically, we found weaknesses in five major areas, which relate to (1) seized property, (2) revenue, (3) budget, (4) fixed assets, and (5) procurement that we considered to be material, but which were not

<sup>1</sup>Throughout this report, the term material weakness refers to internal control weaknesses and accounting system nonconformances with the Comptroller General's accounting principles, standards, and related requirements.

included in Customs' fiscal year 1992 assurance letter. We also found weaknesses that were either reported so broadly that they did not focus on all the related issues or did not disclose the full extent of the problems.

We disagree with Customs' fiscal year 1992 assurance letter to the Secretary of the Treasury regarding the effectiveness of its internal control and accounting systems. Further, as previously reported in our opinion on Customs' internal controls,<sup>2</sup> such controls were not properly designed and implemented to effectively safeguard assets, provide a reasonable basis for determining material compliance with laws governing the use of budget authority and other relevant laws and regulations, and assure that there were no material misstatements in Customs' Principal Financial Statements.

Also, Customs' self-assessment process did not adequately identify material weaknesses because (1) staff who performed the reviews were not provided with sufficient guidance and training, (2) the tools used to perform the review were inadequate, and (3) management oversight over the review process was ineffective. In addition, some previously identified material weaknesses that Customs reported as corrected still existed because Customs did not address the fundamental causes of those weaknesses or ensure that corrective actions were effectively implemented.

Customs' assurance letter should provide top management a comprehensive assessment of its internal control and accounting systems. Without a comprehensive and candid assessment of its internal control and accounting systems, neither Customs nor Treasury can provide the necessary attention needed to ensure material weaknesses are corrected. Also, since the condition of Customs' internal control and accounting systems is summarized in Treasury's FMFIA report, the President, the Congress, and the public will not be aware of the extent of Customs' weaknesses and the efforts needed to correct them.

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## Background

The Congress enacted the Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255) to reduce fraud, waste, and abuse, and improve management of federal operations by strengthening internal control<sup>3</sup> and

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<sup>2</sup>Financial Audit: Examination of Customs' Fiscal Year 1992 Financial Statements (GAO/AIMD-93-3, June 30, 1993).

<sup>3</sup>For purposes of the act, the terms internal controls, internal accounting and administrative controls, and management controls are synonymous.

accounting systems. The act's application is broad and covers the programs, activities, operations, and functions of federal agencies. It addresses the entire range of policies and procedures that management employs to perform its mission efficiently and effectively and to provide full accountability to the public.

According to FMFIA and its implementing guidance,<sup>4</sup> annual agency reports are to be based on self-assessments of agency internal control and accounting systems. The annual reports must state whether the agency's internal controls taken as a whole provide reasonable assurance that (1) obligations and costs are in accordance with applicable laws, (2) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation, (3) revenues and expenditures are properly recorded and permit the presentation of reliable financial and statistical reports, and (4) accounting systems conform to the accounting principles, standards, and related requirements prescribed by the Comptroller General. Finally, the agency reports must describe corrective actions that are planned, underway, or accomplished to deal with the material internal control and accounting system weaknesses.

Under FMFIA, the Secretary of the Treasury is required to provide an annual statement to the President and the Congress on whether the Department's internal control and accounting systems achieve the act's objectives. The Treasury requires each of its bureaus—of which Customs is one—to provide an annual assurance letter which (1) states whether their respective internal control and accounting systems conform to the Comptroller General's accounting principles, standards, and related requirements, (2) identifies new weaknesses and agency plans for correcting them, and (3) describes the progress made correcting previously reported weaknesses.

Customs' Management Controls Division oversees and coordinates the agency's FMFIA effort. Organizationally, this division is under the Office of Management which is headed by the Assistant Commissioner for Management, who also serves as Customs' Chief Financial Officer. Annually, the Management Controls Division asks each program and regional office to assess its programs and operations for control

<sup>4</sup>The Office of Management and Budget (OMB) has issued guidance for performing FMFIA reviews (Circular A-123, "Internal Control Systems"; Circular A-127, "Financial Management Systems"; and annual memoranda issued to agencies).

weaknesses and report weaknesses that meet the materiality criteria established by OMB.<sup>5</sup>

Regional Commissioners and Assistant Commissioners are responsible for preparing assurance letters which certify whether internal controls within their realm of authority are adequate and if material weaknesses exist. The Management Controls Division combines these assurance letters into a Customs-wide assurance letter to Treasury after consulting with Inspector General, Customs, and Treasury senior officials to determine which weaknesses warrant inclusion in Customs' final FMFIA assurance letter. Customs' Financial Management Improvement Plan addresses many weaknesses considered immaterial for FMFIA reporting purposes.

In accordance with Treasury guidance, the Management Controls Division reviews accounting systems and subsystems on a 3-year cyclical basis. The Management Controls Division contracted with a public accounting firm to conduct the accounting system reviews in fiscal year 1992. The results of these reviews are included in the agency's assurance letter.

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## Objectives, Scope, and Methodology

As part of our audit of Customs' fiscal year 1992 financial statements, we evaluated Customs' efforts to assess and report on its internal control and accounting systems as required by FMFIA. Our specific objectives were to (1) assess Customs' process for evaluating its internal control and accounting systems, with emphasis on whether all material weaknesses we noted in our audit were reported, and (2) determine if Customs accurately reported the corrective action status of material weaknesses since fiscal year 1990.

To assess Customs' process for evaluating and reporting on its internal control and accounting systems, we examined written policies and procedures Customs used for (1) providing guidance to the staff performing the FMFIA review, (2) documenting and testing internal control and accounting systems, and (3) reporting material weaknesses. In addition, we interviewed Customs staff responsible for managing and conducting the internal control and accounting system reviews.

To determine whether all material weaknesses were reflected in Customs' fiscal year 1992 assurance letter to the Treasury, we compared the material weaknesses identified as part of our financial statement audit to

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<sup>5</sup>The materiality criteria are outlined in OMB's 1992 Federal Managers' Financial Integrity Act (FMFIA) Reporting Requirements and are summarized in appendix II.

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those reported by Customs. We determined that the weaknesses we identified met one or more of the factors in OMB's materiality criteria.

We reviewed Customs' corrective action plans to determine if they addressed the underlying cause of the internal control or accounting system weakness and to identify any slippage in implementing these plans. We also reviewed Customs' validation efforts to determine if the material weaknesses were corrected. We conducted interviews with agency officials to discuss material weaknesses that remained uncorrected in whole or in part. We conducted our work from January 1992 to May 1993 in accordance with generally accepted government auditing standards at Customs' locations throughout the United States and Puerto Rico. Customs provided comments on a draft of this report. These comments are discussed in the "Agency Comments" section and are reprinted in appendix IV.

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## **Fiscal Year 1992 Assurance Letter Overstates the Effectiveness of Customs' Internal Control and Accounting Systems**

For fiscal year 1992, the Commissioner of Customs reported nine material weaknesses<sup>6</sup> to the Secretary of the Treasury and asserted that Customs' internal controls were in compliance with the standards and regulations stipulated in FMFIA. However, the Commissioner reported only a qualified assurance on Customs' conformance with accounting systems requirements. We found weaknesses in five major areas that we considered to be material, but which were not included in Customs' fiscal year 1992 assurance letter. We also found material weaknesses that were reported so broadly that they either did not focus on all the related issues or did not disclose the full extent of the problem in Customs' assurance letter. Although Customs asserted a qualified assurance on its conformance with accounting systems requirements, we disagree with Customs' fiscal year 1992 assurance letter to the Secretary of the Treasury regarding the effectiveness of its internal control and accounting systems.

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## **Material Weaknesses Not Reported**

We found material weaknesses in five major areas that were not included in Customs' fiscal year 1992 assurance letter. The weaknesses we identified and included in our report on Customs' financial statements, but which were not included in Customs' 1992 assurance letter, are summarized below.

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<sup>6</sup>Appendix III lists the material weaknesses that Customs reported to Treasury, which Treasury included in its FMFIA report to the President and the Congress.

## Seized Property

As part of its law enforcement duties, Customs seizes property such as cash, luxury automobiles, jewelry, illegal drugs, firearms, and other valuable or potentially dangerous property. We found that Customs' inventory records to control and manage seized property and prepare agency financial reports were incomplete and inaccurate. These records (1) did not include large quantities of seized property, (2) showed incorrect location data for some items, (3) included erroneous values, such as those for counterfeit items, and (4) included seizures and forfeitures that occurred in another fiscal year. Our analysis of fiscal year 1992 seizures showed that Customs' recorded amount of \$823 million was overstated by \$138 million because Customs included items for which it never took possession. Also, our analysis of about half of the recorded value of fiscal year 1992 seizures for which Customs took possession and seized property on hand as of September 30, 1992, showed these amounts to be overvalued by approximately \$217 million and \$113 million, respectively.

Further, in preparing its financial statements, Customs made net adjustments of about \$281 million to its fiscal year 1992 seizures amount and net adjustments of \$52 million to its September 30, 1992, seized property inventory. However, Customs could not provide us with support for the adjustments.

## Revenue

Customs relied to a great extent on importers/brokers to voluntarily report and assess the amount of duties, taxes, and fees owed on imported merchandise. While Customs reported revenue of \$20.2 billion for fiscal year 1992, adequate controls did not exist to reasonably ensure that merchandise entering the United States was identified and that the proper duties were assessed. We found that Customs' policies and procedures for physical inspections of merchandise brought in by carriers were too limited in scope to provide Customs reasonable assurance that all goods had been identified and the proper duty assessed. For example, Customs' inspection effort focused on identifying drugs or other contraband brought in by the carrier. Customs' inspectors typically did not verify the quantity and description of imported merchandise on these carriers with information reported on the manifest.

Also, we found serious control weaknesses at all stages of Customs' drawback process. Drawbacks are refunds to claimants for duties paid when the related imported merchandise is subsequently exported or destroyed. Customs reported \$496 million in drawback payments during fiscal year 1992. However, we found that Customs' internal controls were



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inadequate to prevent excessive or duplicate payments or detect fraudulent claims.

## Budget

Customs did not properly account for receipt of goods and services. Delays in recording transactions overstated outstanding obligations by several million 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 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.

## Fixed Assets

Customs is responsible for managing and reporting its property, plant, and equipment, which it valued at about \$710 million at September 30, 1992. We found that Customs did not have policies and procedures that required that costs associated with its in-house development of computer software be recorded because it did not have a cost accounting system for tracking such expenditures. These costs can be significant. For example, based on Customs' March 1992 Information Systems Plan, projected costs through fiscal year 1998 for redesign of the Automated Commercial System (ACS) and continued development of the Asset Information Management System are estimated to be \$830 million and \$185 million, respectively. Reliable information on the costs of developing software in-house can (1) help managers measure the costs and benefits of alternative courses of action, such as the cost of purchasing software versus developing it in-house and (2) allow managers to monitor and control projects by comparing actual costs to budgeted costs.

In addition, the Treasury Inspector General reported<sup>7</sup> in February 1993 that Customs' Weapons Inventory Control System (WICS) was incapable of providing information necessary for Customs to maintain full accountability and control over its weapons. Customs reported that it held approximately 23,000 weapons as of September 30, 1992. Based on our random sample of 465 weapons recorded in WICS, we found that one of the weapons could not be inspected because it was missing, and seven

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<sup>7</sup>Audit Report on Firearms Accountability, U.S. Customs Service (OIG-93-029, February 22, 1993).

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weapons could not be inspected because they had been destroyed and the disposal had not been recorded. In addition, 34 of the weapons were not assigned to the individuals listed in the system or were located at a different field location than that recorded in WICS. Failure to maintain accountability and control over its weapons makes Customs vulnerable to undetected losses or theft of weapons.

Procurement

Customs reported spending over \$600 million in fiscal year 1992 to acquire goods and services to achieve its missions. We found instances where Customs' contracting officers and technical representatives approved payments on contracts without verifying the validity of the charges by comparing them to the goods or services received. This lack of verification makes Customs vulnerable to fraudulent or overstated charges being submitted and paid without detection.

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Other Material Weaknesses  
Not Adequately Disclosed

In addition to material weaknesses that were not reported, we found weaknesses that were reported so broadly that they either did not focus on all the related issues or did not disclose the full extent of the problems in Customs' assurance letter. These weaknesses are described below and include some of the previously mentioned areas.

While Customs implemented corrective actions in many areas in accounts receivable, Customs did not adequately disclose the magnitude of its accounts receivable problems in its FMFIA assurance letter to Treasury. Specifically, we found that Customs did not (1) record certain fines and penalties receivables at their gross amount, (2) include duties that were assessed in conjunction with penalty assessments, and (3) recognize all claims for duties and taxes owed by importers/brokers on merchandise that Customs released into U.S. commerce. We also identified four cases in a sample of transactions where Customs overstated its gross fines and penalties receivables by \$113.1 million because supervisory personnel had not reviewed receivables information recorded in its accounting systems to ensure that it was correct.

In addition, since 1990 Customs reported a material weakness regarding its inability to properly age and estimate the collectibility of its accounts receivable. However, Customs did not disclose deficiencies in its methodology for estimating the collectibility of its receivables. Customs' methodology was flawed because it was based primarily on historical collection experience rather than the debtor's current ability to pay. As a result, Customs overstated the collectibility of its receivables. For

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example, we estimated that \$358 million, or 88.8 percent of the reported \$403.2 million in valid receivables in our sample as of June 30, 1992, was uncollectible. Using Customs' methodology, \$317.4 million, or 78.7 percent of that amount, would be uncollectible.

Regarding seized property, Customs reported in fiscal year 1992 that stricter adherence to controls over seized property is needed. Specifically, narcotics seizures were not being properly tested or weighed, independent physical inventories were not being performed, and seizures were not being held in adequate storage facilities. This weakness, as reported, did not address some of the additional problems relating to the safeguarding of seized property that we found involving the (1) transfer of property from seizing officers to seizure custodians, (2) deposit of cash in financial institutions, and (3) disposal of unneeded property. Delays in the transferring of property increase the potential for loss or theft because the property is not tracked by a seizure custodian and safeguarded in a designated area. In addition, unneeded cash was not deposited in financial institutions and seized drugs were not disposed of promptly by seizure custodians which also increases the potential for theft or misuse.

In the fixed assets area, Customs reported since 1991 that the interface between its accounting system and detailed property subsidiary records was inadequate and inconsistent, which adversely impacts the recording and capitalization of personal property transactions. Customs disclosed that there were differences between the two systems in the list of items recorded and in the total dollar valuation of property described in the systems. However, Customs did not fully disclose all deficiencies in this area. Customs had not instituted internal controls necessary to ensure that information maintained in its property and accounting records was accurate and complete. Specifically, we found that Customs (1) did not perform physical inventories of non-equipment items and physical inventories of equipment were not effectively performed and (2) was unable to support the values assigned to property, primarily because, for many items, appropriate procurement documents were not available and, in some instances, Customs used unrealistic estimates. For example, Customs could not provide documentation to support values totaling over \$9 million assigned to 335 of the 706 items we tested.

Overall, by not reporting or fully disclosing material weaknesses, (1) Customs cannot provide proper management attention to those areas or ensure that effective corrective actions are completed, (2) the Secretary of the Treasury is not able to accurately determine if the Department's

internal control and accounting systems meet the objectives of FMFIA, and (3) the President, the Congress, and the public will not be advised of the significance of Customs' material weaknesses.

## Customs' Self-assessment Process for Identifying Material Weaknesses Is Only Partially Effective

Although Customs has established a self-assessment process, we found that the process has not achieved the intended benefits of FMFIA because it did not adequately identify internal control and accounting system weaknesses.

Customs' FMFIA review process includes the following:

- risk assessments performed by program managers;
- procedural reviews performed primarily by Customs' Headquarters program managers;
- compliance reviews performed primarily by field office staff;
- systems reviews performed primarily by contractors or Customs' Office of Information Management;
- independent reviews by GAO, the Treasury Inspector General, and Customs' Office of Organizational Effectiveness; and
- regional reviews performed by field and Headquarters staff.

An effective FMFIA review process should include a (1) comprehensive evaluation of the risks associated with the entire internal control system of the agency, program, or function being reviewed, and (2) determination of whether controls and systems are effective in achieving the objectives of FMFIA. As part of this process, management should provide

- adequate training for review staff;
- clear and concise instructions for performing FMFIA reviews;
- active managerial oversight and guidance;
- adequate tools to perform FMFIA reviews, including tools for data gathering, risk assessments, testing, and documenting results; and
- follow-up procedures to ascertain whether corrections of past weaknesses are effective.

## FMFIA Review Process Lacks Some Essential Elements

Customs' FMFIA review process does not adequately identify material weaknesses. As we discussed earlier, we identified material weaknesses in five major areas that were not included in Customs' fiscal year 1992 assurance letter. We found that Customs did not (1) provide sufficient guidance on how to rate Customs' operations according to control risk,

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(2) develop comprehensive review tools for all program areas, (3) monitor the FMFIA review process effectively, and (4) provide adequate training to staff responsible for performing FMFIA reviews. These elements are essential in identifying material internal control and accounting system weaknesses.

For FMFIA purposes, Customs organized its operations according to assessable units or major programs. Program managers assigned these units/programs a risk factor—high, medium, or low—based on their knowledge and experience. Each assessable unit/program was reviewed for the purpose of determining adequacy of controls and/or compliance with policies and procedures. The risk factor determined the frequency of the review as well as the type of review to be performed. For example, a program rated high risk would generally be reviewed each year, while a program rated low risk might be reviewed every third year. Two of the five material weaknesses we identified had a “high” risk rating.

We found that while Customs’ managers were provided guidance on how to perform a risk assessment, they lacked sufficient criteria for determining whether an assessable unit/program was of high, medium, or low risk. Insufficient criteria could result in inaccurate assessments and material weaknesses not being detected.

In addition, Customs often relied on the use of internally developed checklists when reviewing a program for compliance with policies and procedures. The reviewer recorded a “yes” for compliance or “no” for noncompliance to questions on the checklist. However, some of the checklists we reviewed were not effective tools for identifying material weaknesses because they broadly covered the program under review. We also found instances where “no” responses were not sufficiently explained or followed up. For example, a “no” response was recorded on the checklist regarding measures to prevent overobligation of funds, but the reviewer provided no explanation for the deficiency. This was one of the weaknesses we identified in our audit that Customs did not include in its 1992 FMFIA assurance letter.

Further, the Management Controls Division did not adequately monitor the agency’s FMFIA process to ensure that material weaknesses were identified and researched. While the Management Controls Division sometimes received a summary of the review results from the checklists or questionnaires, it did not receive a copy of the completed checklist or questionnaire.

Lastly, Customs staff performing the FMFIA reviews lacked adequate training to achieve the objectives of FMFIA. The Director of the Management Controls Division told us that they need training which would enable them to determine (1) the adequacy of internal control and accounting systems and (2) compliance with policies and procedures. The Management Controls Division is in the process of developing an in-house training program to help managers carry out their FMFIA responsibilities.

### Corrective Actions Cited Have Not Fully Resolved Problems

In its 1992 assurance letter, Customs reported that it had corrected 124 out of 133 material weaknesses since 1983. We found three weaknesses reported as corrected since 1990 still existed because the corrective action did not adequately address the underlying causes of the internal control or accounting system weakness identified. Customs also did not promptly ascertain whether corrective actions were in place to address the problem.

### Weaknesses Prematurely Reported as Corrected

We found instances where material weaknesses were reported as corrected but still existed. For example, our audit showed that Customs did not have adequate accountability and control over reporting and disposition of seized currency and monetary instruments despite reporting that this weakness was corrected in 1990. Customs' corrective action was to issue a revised directive relating to physical handling of seized currency. However, we found that (1) large quantities of seized cash were held for long periods of time and (2) seized cash was deposited in a financial institution in accounts that were non-Treasury accounts and for which the institution did not provide collateral. The failure to deposit seized cash in Treasury accounts and the lack of proper collateral for deposits in financial institutions can result in losses to the government if the financial institutions fail.

Also, in the procurement area, we found that the material accounting system weakness relating to the lack of accrual accounting for liabilities was not fully corrected as Customs reported in its 1992 assurance letter. Customs' corrective action was to issue year-end procedures to identify and record as accounts payable all goods and services received as of September 30, 1992, for which invoices had not yet been received. However, a Customs' official told us that the field offices did not fully comply with these procedures. As a result, Customs could not provide information necessary for us to test whether all payables had been identified in its reported balance of \$73 million as of September 30, 1992.

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**Corrective Action Plans  
Will Not Eliminate  
Reported Weaknesses**

Planned corrective actions are not likely to eliminate some of Customs' reported material weaknesses because Customs has not addressed the fundamental causes of those weaknesses.

For example, to correct the material weakness involving Customs' inability to properly age and estimate the collectibility of its accounts receivable, Customs plans to redesign ACS' Fines, Penalties, and Forfeitures Module. However, Customs does not plan to ensure that information in the current module is accurate and complete prior to transferring this information into the new module. Also, Customs does not have any policies and procedures that require supervisory review of the accuracy and completeness of receivable information entered in the Fines, Penalties, and Forfeitures Module.

In addition, Customs reported a material weakness relating to the lack of data integrity in its general ledger system in 1987. In its 1990 FMFIA assurance letter, Customs reported that this weakness was materially corrected with the issuance of fiscal and administrative policies and procedures. However, during our audit, Customs' officials acknowledged that the data integrity problem will not be fully corrected until its new general ledger and subsystems are implemented.

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**Corrective Actions Not  
Promptly Validated**

To ensure that deficiencies identified during the FMFIA process are corrected, OMB requested in June 1990 that agencies verify or substantiate the effectiveness of actions taken to correct material weaknesses.<sup>8</sup> This confirmation of corrective actions is referred to as validation.

In October 1990, Customs began a formal process of validating its corrective actions to ensure that material weaknesses have been corrected. Customs relied on in-house review teams comprised of experts in the area being validated. The Management Controls Division staff, independent reviewers such as Treasury's Office of the Inspector General and GAO, and contractors conducted the validations. The review teams obtained and reviewed information to verify that the corrective action was effective. For fiscal year 1992, contractors were used to conduct validations of the actions taken to correct material accounting system weaknesses.

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<sup>8</sup>OMB Memorandum for Deputies of Executive Departments and Agencies entitled "Improving Management Control Program Operations," dated June 4, 1990.

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We found several instances where Customs did not promptly validate corrective actions to ensure weaknesses were resolved. For example, Customs identified a material weakness involving improper recording of obligations in fiscal year 1989. While this problem was reported as corrected in fiscal year 1990, it was not validated until fiscal year 1992. Furthermore, we found that this problem had not been corrected. As we discussed earlier, Customs did not ensure that obligations incurred reflected reasonable estimates of future spending levels. Failure to promptly validate corrective actions that have been implemented can result in premature removal of material weaknesses from the FMFIA assurance letter. A Customs' official told us that weaknesses were removed when the program manager informed the Management Controls Division that the corrective action had been implemented rather than after the corrective action had been validated.

Customs' officials acknowledged that their validation efforts are behind schedule. These officials told us that they plan to perform more prompt reviews in the future which will verify whether or not the corrective action implemented has resolved the problem.

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## Conclusions

Because of widespread material internal control and accounting system weaknesses in Customs' operations, Customs did not have reasonable assurance that the objectives of FMFIA have been achieved, and its self-assessments did not produce vital information that top management can use to control costs and improve operations. While Customs has reported many material weaknesses, it did not identify, disclose, and correct some serious deficiencies in its internal control and accounting systems. Continual top management involvement is essential to strengthening Customs' operations and accurately reporting Customs' material weaknesses to the Secretary of the Treasury.

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## Recommendations

To ensure accurate reporting to the Secretary of the Treasury on the effectiveness of Customs' internal control and accounting systems, we recommend that the Commissioner of Customs direct the Chief Financial Officer to (1) develop guidance for assessing control risk in Customs' operations, (2) develop adequate tools to perform FMFIA reviews, (3) implement a comprehensive FMFIA training program to be attended by all staff involved in performing FMFIA reviews, (4) review corrective action plans to ensure that they address the underlying cause of the problem, and (5) promptly test the effectiveness of corrective actions implemented to



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ensure that the weaknesses are corrected before they are removed from Customs' FMFIA assurance letter. We also recommend that the Commissioner direct the CFO to have the Management Controls Division obtain and systematically review the detailed results of the agency's self assessments for accuracy and completeness.

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## Agency Comments

In commenting on a draft of this report, the Commissioner of Customs stated that he concurred with our findings and recommendations. He further stated that initiatives are planned or currently underway to accomplish the objectives of these recommendations. Customs stated that it developed a more comprehensive FMFIA training program which provides specific written guidance to Customs staff for assessing control risk and tools for analyzing and testing the adequacy of controls. Customs also stated that it would adhere to OMB guidance which requires that it not close material weaknesses until validations are completed. In addition, Customs stated that it plans to improve its process for developing and reviewing corrective action plans to ensure that material weaknesses are adequately addressed. Customs further stated that the Management Controls Division will obtain and review the results of the agency's self-assessment process, or a representative sample thereof, for accuracy and completeness.

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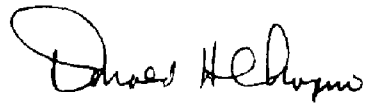
This report contains recommendations to you. As you know, the head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of this letter and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this letter.

We are sending copies of this report to the Director of the Office of Management and Budget; the Secretary of the Treasury; 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; the Subcommittee on Oversight, House Committee on Ways and Means; and other interested parties. Copies will be made available to others upon request.

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

Sincerely yours,

A handwritten signature in black ink, appearing to read "Donald H. Chapin". The signature is written in a cursive style with a large initial "D".

Donald H. Chapin  
Assistant Comptroller General



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# Contents

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Letter	1
Appendix I Reports Resulting From GAO's Audit of Customs' Fiscal Year 1992 Financial Statements	20
Appendix II Office of Management and Budget Criteria for Material Weaknesses	21
Appendix III Material Weaknesses Reported by Treasury and Customs	22
Appendix IV Comments From the Commissioner of Customs	23
Appendix V Major Contributors to This Report	26

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**Contents**

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**Abbreviations**

ACS	Automated Commercial System
CFO	Chief Financial Officer
FMFIA	Federal Managers' Financial Integrity Act
GAO	General Accounting Office
OMB	Office of Management and Budget
WICS	Weapons Inventory Control System

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# Reports Resulting From GAO's Audit of Customs' Fiscal Year 1992 Financial Statements

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Financial Audit: Examination of Customs' Fiscal Year 1992 Financial  
Statements (GAO/AIMD-93-3, June 30, 1993).

Financial Management: Customs Lacks Adequate Accountability Over Its  
Property and Weapons (GAO/AIMD-94-1, October 18, 1993).

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# Office of Management and Budget Criteria for Material Weaknesses

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OMB's 1992 FMFIA reporting guidance provides that a weakness is material if it meets one or more of the following criteria:

- significantly impairs the fulfillment of an agency or component's mission;
- deprives the public of needed services;
- violates statutory or regulatory requirements;
- significantly weakens safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets;
- results in a conflict of interest;
- merits the attention of the agency head/senior management, the Executive Office of the President, or the relevant Congressional oversight committee;
- is of a nature that omission from the report could reflect adversely on the actual or perceived management integrity of the agency;
- prevents the primary agency financial system from achieving central control over agency financial transactions and resource balances; or
- prevents conformance of financial systems with (1) financial information standards and/or (2) financial system functional standards.

# Material Weaknesses Reported by Treasury and Customs

For fiscal year 1992, the Customs Service and Treasury reported to the President and the Congress the following nine material weaknesses in their annual assurance letter. Several of these had been reported earlier.

<b>Material weaknesses</b>	<b>Year initially reported</b>
Inadequate framework to provide assurance that trade enforcement efforts are effective and efficient	1992
Problems in ensuring nationwide compliance with procedures to safeguard and store seized property	1992
Need for more prompt posting of collections on deferred tax payments and prompt billing for amounts currently due on harbor maintenance fees	1992
Problems in determining correct balances for Operations and Maintenance Account	1992
Liquidation functions not always performed timely and correctly in the field	1991
Inadequate information to manage inspectors' overtime effectively	1991
Large discrepancies in value of property recorded in accounting and property management systems	1991
Inability to properly age and estimate collectibility of accounts receivable	1990
Inadequate cost information and analysis available to Customs' managers	1986



# Comments From the Commissioner of Customs



**THE COMMISSIONER OF CUSTOMS**

WASHINGTON, D.C.

September 22, 1993

Donald H. Chapin  
Assistant Comptroller General  
United States  
General Accounting Office  
Washington, D.C. 20548

Dear Mr. Chapin:

Thank you for the opportunity to comment on your draft report on Customs FMFIA process (B-254326). As one of a series of reports from the GAO audit of Customs FY 1992 financial statements, this report focuses on Customs Service efforts to identify, report, and correct material weaknesses as required under the Federal Managers' Financial Integrity Act.

First of all, let me say that GAO has invested a great deal of time and staff work in its audit of Customs CFO process and its staff is to be commended for the extensive scope of their inquiries and analysis. The findings of the report, especially those specifying weaknesses or areas for needed improvement in controls over accounting, budgeting, procurement, management of seized property and other work processes, are accurate and valuable observations. Customs is committed to a process of continuous improvement in our evaluation of our systems of control and information provided in the report will prove helpful. We also concur with the recommendations of the report and provide the following comments on initiatives Customs is planning or has currently underway to accomplish the objectives of these recommendations.

- (1) Develop guidance for assessing control risk in Customs operations.

Customs recognizes the need for program managers to understand more clearly the sources of risk in their operations and to have a framework to analyze the severity of those risks. As a consequence, a significant section of Customs new Management Control Review Course for Customs personnel is designed specifically to provide these skills. The course materials furnish specific written guidance to Customs staff on how to identify and analyze risks, and to test existing controls.

Appendix IV  
Comments From the Commissioner of  
Customs

- 2 -

- (2) Develop adequate tools to perform FMFIA reviews.

Customs has reviewed relevant training materials for performing management control reviews and, in conjunction with a contractor with specialized experience in internal control reviews, developed course materials to be used in the new class, which were designed to provide tools for analyzing and testing the adequacy of controls.

- (3) Implement a comprehensive FMFIA training program to be attended by all staff involved in performing FMFIA reviews.

Customs tested a pilot training course for employees in September 1992 to provide the training, guidance, and skills for effective management control reviews. Based on the initial pilot and employee feedback, Customs has now developed a more comprehensive Management Control Review Course. Initial course sessions are being conducted this fiscal year.

- (4) Review corrective action plans to ensure that they address the underlying cause of the problem.

Customs plans to have FMFIA oversight staff work closely with program officials in developing adequate corrective action plans for identified material weaknesses. These plans will be scrutinized to ensure that necessary management, organizational, and compliance issues as well as procedural or systems deficiencies are addressed in the corrective action plans and that all aspects of weaknesses are targeted for resolution.

- (5) Promptly test the effectiveness of corrective actions implemented to ensure that the weaknesses are corrected before they are removed from Customs FMFIA assurance letter.

In the last two years, Customs has established a standard format and analytical approach for the validation of corrected material weaknesses. A schedule of planned validations is established each year with the eventual goal of validating all current and past material weaknesses. OMB guidance for the 1993 Annual FMFIA Report and Assurance Letter requires that all corrected material weaknesses be retained in Part III of the Annual Report until validated. Customs will adhere to this policy.

Appendix IV  
Comments From the Commissioner of  
Customs

- 3 -

- (6) The Management Controls Division obtain and systematically review the detailed results of the agency's self assessment for accuracy and completeness.

The Management Controls Division will obtain and review the following results of the agency's self-assessment process (or a representative sample thereof where the large number of reviews make examination of every item impossible) for accuracy and completeness:

- risk assessments performed by program managers
- procedural reviews performed primarily by Customs Headquarters program managers
- compliance reviews performed primarily by field office staff
- systems reviews performed by contractors or the Office of Information Management
- independent reviews by GAO, OIG, and the Office of Organizational Effectiveness
- regional reviews performed by field and Headquarters staff

Finally, we recognize that Customs faces a continuing challenge in attempting to ensure adequate controls in the current environment of complexity and change in our financial management systems and procedures. The improvements we have made in recent years in organization, dedicated resources, and the comprehensiveness of our approach to identifying and resolving deficiencies were directed specifically toward the goal of ensuring accurate reporting on Customs internal control and accounting systems and are now beginning to have desired results. A continuation of the direction and goals of this effort will enhance the effectiveness of the program and address the recommendations of your report.

Sincerely,



George J. Weise  
Commissioner

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