FINANCIAL MANAGEMENT: Audit of the United States Customs Service's Fiscal Years 2000 and 1999 Financial Statements

OIG-01-045 February 23, 2001

Office of Inspector General

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The Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

FEB 23 2001

MEMORANDUM FOR ACTING COMMISSIONER CHARLES WINWOOD
UNITED STATES CUSTOMS SERVICE

FROM: William H. Pugh William H. Pugh
Deputy Assistant Inspector General for Financial Management and Information Technology Audits

SUBJECT: Report on the U.S. Customs Service's Fiscal Year 2000 Financial Statements

Attached is our report on the financial statements of the U.S. Customs Service (Customs) as of September 30, 2000 and 1999, and for the years then ended. These financial statements are incorporated in Customs' FY 2000 Accountability Report, included in Section II. In accordance with generally accepted government auditing standards, our report is dated January 29, 2001, the last day of fieldwork.

Our report includes our unqualified opinion on Customs' Balance Sheets as of September 30, 2000 and 1999, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources, Financing, and Custodial Activities for the years then ended. Our consideration of Customs' internal control disclosed two material weaknesses and six reportable conditions. The material weaknesses relate to significant deficiencies noted in the design and operation of the core financial and information systems. These matters are discussed in detail in our report.

In addition, we noted three instances of non-compliance with laws and regulations. Specifically, Customs did not comply with the requirements of the Chief Financial Officers Act of 1990 as it relates to the biennial review of fees. Also, Custom did not comply with the Consolidated Omnibus Budget Reconciliation Act of 1985, as it relates to the reporting on user fees. Finally, Customs' financial management systems do not substantially comply with the financial management system requirements of the Federal Financial Management Improvement Act of 1996.

We request a corrective action plan be provided to us within 30 days of the date of this memorandum. We recognize that certain corrective actions have already been undertaken. We encourage these efforts and will continue to provide advice and assistance as you implement the necessary improvements to your internal control.

Our findings have been reviewed with your staff during our audit, and we have incorporated their comments as appropriate. We have included your written response to this report as an appendix thereto. Should you or your staff have any questions, you may contact me on (202) 927-5400, or a member of your staff may contact Thomas Moschetto, Director, Financial Management Audits, on (202) 927-5074. We appreciate the cooperation and courtesies extended to our staff during the performance of the audit.

Attachment

cc: Brenda Brockman
Director, Evaluation Oversight
Office of Planning

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SECTION I

REPORT OF THE OFFICE OF INSPECTOR GENERAL

OIG

Report of the Office of Inspector General

The Department of the Treasury
Office of Inspector General

To the Commissioner of the U.S. Customs Service:

We audited the U.S. Customs Service's (Customs) Balance Sheets as of September 30, 2000 and 1999, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources, Financing, and Custodial Activity, for the years then ended. These financial statements are incorporated in the accompanying *U.S. Customs Service Fiscal Year 2000 Accountability Report.*

Results in Brief

This report presents our unqualified opinion on Customs' Fiscal Years (FY) 2000 and 1999 financial statements. Our FY 2000 audit disclosed the following material weaknesses, as defined on page 6 of this report, relating to:

- Improving and integrating core financial systems (Repeat Condition, see page 7), and

- Accelerating efforts to ensure timely restoration of mission-critical systems (Repeat Condition, see page 12).

In addition, our audit disclosed six reportable conditions and three reportable instances of noncompliance with laws, regulations, and government-wide requirements. These findings are described in more detail in the following sections of this report.

We considered these material weaknesses and instances of noncompliance in determining our audit procedures and in forming our opinion on whether Customs' FY 2000 financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles. These weaknesses and instances of noncompliance do not affect our opinion on these financial statements.

Management's Responsibilities

Management is responsible for:

- Preparing the financial statements in conformity with generally accepted accounting principles.
- Preparing the Management Discussion and Analysis (MD&A), Required Supplementary Information, and Other Accompanying Information.
- Establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the benefits and related costs of internal accounting policies and procedures.
- Complying with laws, regulations, and government-wide policy requirements applicable to Customs.

Scope of Audits

We conducted our audits in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01–02, *Audit Requirements for Federal Financial Statements* (OMB Bulletin No. 01–02). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our responsibility is to express an opinion on the financial statements based on our audit. We believe that our audits provides a reasonable basis for our opinion.

In planning and conducting our audit of Customs' financial statements for the year ended September 30, 2000, we considered its internal control over financial reporting and compliance with laws, regulations, and government-wide policy requirements. Specifically, we obtained an understanding of the design of Customs' internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. The objective of our audit was not to provide assurance on the internal control over financial reporting and compliance with laws, regulations, and government-wide policy requirements. Consequently, we do not provide an opinion on such controls.

In addition, with respect to internal controls related to performance measures reported in the MD&A, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions and determined whether they had been placed in operation. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Customs' compliance with: (1) certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts; and (2) certain other laws, regulations, and government-wide policy requirements specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and we did not test compliance with all laws, regulations, and government-wide policy requirements applicable to Customs. Providing an opinion on compliance with laws, regulations, and government-wide policy requirements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under FFMIA, we are required to report whether Customs' financial management systems substantially comply with the following three general requirements: Federal Financial Management Systems Requirements (FFMSR), applicable federal accounting standards, and the United States Government Standard General Ledger (SGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a).

Results of Audits

Opinion on the Financial Statements

In our opinion, the financial statements present fairly, in all material respects, the assets, liabilities, and net position of Customs as of September 30, 2000 and 1999, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activity for the years then ended, in conformity with generally accepted accounting principles.

MD&A, Required Supplementary Information, and Other Accompanying Information

The MD&A and Required Supplementary Information (RSI) are not required parts of the financial statements but are required by the Federal Accounting Standards Advisory Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A and RSI. However, we did not audit the MD&A and RSI and express no opinion on it.

Our audit was conducted for the purpose of expressing an opinion on Customs' financial statements for the year ended September 30, 2000, referred to above. The Other Accompanying Information is not a required part of the financial statements but is required by OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Internal Control

Internal control is a process, effected by management and other personnel, designed to provide reasonable assurance that the following objectives are met:

- Reliability of financial reporting - transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with generally accepted accounting principles, and the safeguarding of assets against loss from unauthorized acquisition, use, or disposition;

- Compliance with applicable laws and regulations - transactions are executed in accordance with: (1) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements, and (2) any other laws, regulations, and government-wide policy requirements identified in OMB Bulletin No. 01-02; and

- Reliability of performance reporting - transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

Because of limitations inherent in any internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that internal control may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

As defined in OMB Bulletin No. 01-02, reportable conditions are matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of the internal control that could adversely affect Customs' ability to meet the internal control objectives as defined above. Material weaknesses are reportable conditions in which the design or operation of the internal control does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material in relation to the financial statements being audited or material to a performance measure or aggregation of related performance measures may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We identified the following matters involving the internal control and its operation that we consider to be material weaknesses and other reportable conditions as defined above. Material weaknesses and other reportable conditions that we identified in our *Report on the U.S. Customs Service's Fiscal Year 1999 and 1998 Financial Statements* (OIG-00-050, issued February 18, 2000), and that continued to exist during FY 2000, are identified as "Repeat Condition."

Customs' management generally concurred with our findings and recommendations. The full text of management's response to this report is included in Appendix 1 of this report.

Material Weaknesses

1. Core Financial Systems Need To Be Improved and Integrated (Repeat Condition)

Customs' core financial systems did not provide certain critical financial information necessary for managing operations. Also, the financial systems did not capture all transactions as they occurred during the year, did not record all transactions properly, and were not fully integrated. Additionally, the systems did not always provide for essential controls with respect to override capabilities and changes to system data. As a result, extensive manual procedures and analyses were required to process certain routine transactions and prepare year-end financial statements.

Weaknesses in the core financial systems are discussed below:

- Automated Commercial System (ACS) Accounts Receivable Subsidiary Ledger During the year, ACS could not provide summary information on the total unpaid assessments for duties, taxes, and fees by individual importer. Also, ACS did not generate periodic management information on outstanding receivables, the age of receivables, and other data necessary for managers to effectively monitor collection activity by customer. This was due to the fact that Customs' accounts receivable subsidiary ledger system in ACS was "transaction-based" rather than "customer-based." Additionally, because ACS did not interface with Customs' general ledger system, Customs had to determine the $949 million recorded balance for Non-Entity Accounts Receivable, Net, as of September 30, 2000, after the fiscal year-end, through the use of ad hoc reports and manual procedures.

Federal Financial Management System Requirements (FFMSR) issued by the Joint Financial Management Improvement Program (JFMIP) establish minimum requirements for federal financial management systems. The JFMIP's *Core Financial System Requirements,* states that the core financial system must maintain detailed information by account (e.g., individual, employee, private sector organization, state or local government, or other federal agency) sufficient to provide audit trails and to support billing and research activities.

- Cost Accounting Customs continued to base reimbursable charges for certain inspection positions and other reimbursable services on budget estimates in FY 2000. Customs' Cost Management Information System (CMIS) tracks costs based on estimates provided by field offices and the inspectors overtime scheduling system. However, the source data input into CMIS needs further refinement to enable Customs to evaluate the accuracy of the budget estimates. More reliable information will ensure that the estimated charges approximate actual costs.

  The JFMIP's *Core Financial System Requirements,* states that the core financial system must support managerial cost accounting by providing the capability to measure and report the costs of each segment's outputs. It further states that the core financial system must support the ability to capture fees and other charges imposed by the agency for services and things of value it provides. These costs should be captured at the lowest level to reflect actual costs incurred by the agency in providing goods and services.

  Additionally, Customs currently produces cost management information only at year-end. Cost management information should be produced on a regular basis throughout the fiscal year to provide management with relevant and timely information upon which to base operational decisions.

The JFMIP's *Core Financial System Requirements* states that the core financial system must provide complete, reliable, consistent, timely and useful financial management information on operations to enable central management agencies, individual operating agencies, divisions, bureaus, and other sub-units to carry out their fiduciary responsibilities.

- <u>Recording Certain Transactions In The General Ledger System</u> Certain transactions were not properly recorded in the general ledger system as they occurred. For example, because Customs programmed its general ledger system to record the use of appropriations for all transactions, reimbursable transactions were incorrectly recorded as though they were appropriated transactions. As a result, during the year, Customs accountants were required to analyze the various financing source and expenditure accounts and manually reverse appropriations used and related net position accounts used for the special funds in order to correct the general ledger accounts.

  Section 7 of OMB Circular A-127, *Financial Management Systems* (OMB Circular A-127) requires that financial events be recorded by agencies throughout the financial management system applying the requirements of the U.S. Government SGL at the transaction level. It further states that the criteria (e.g., timing, processing rules/conditions) for recording financial events in all financial management systems shall be consistent with accounting transaction definitions and processing rules defined in the SGL.

We also determined that Customs was unable to record a liability in the general ledger system upon receipt of goods and services. Accordingly, accounts payable were not established and related obligations were not liquidated in the system in a timely manner. Additionally, manual procedures had to be used subsequent to the end of the fiscal year to determine the appropriate balances for intra-governmental and other accounts payable as of September 30, 2000.

In addition, the JFMIP's *Framework for Federal Financial Management Systems*, Chapter 3, states that financial event processing covers those mechanisms necessary to properly process and track data on financial events. It further states that the system shall support activities associated with establishing payables and disbursing funds.

- <u>ACS Override Capabilities</u> Due to the design of ACS, certain controls can be overridden without supervisory approval. For example, when a Customs entry specialist attempts to liquidate an import entry in ACS, the system displays a warning message, if appropriate, indicating that a drawback claim had been filed against the import entry. However, entry specialists could, without supervisory review, override the warning message and process a refund without investigating pending drawback claims. The purpose of this warning message is to ensure that both a refund and drawback are not paid on the same goods. We also determined that entry specialists could override system edits designed to detect refunds exceeding the total duty, tax, and fees paid on an import entry. ACS does not currently generate override reports for supervisory review.

Section 3 of Appendix III to OMB Circular No. A-130, *Security of Federal Automated Information Systems* (OMB Circular No. A-130), requires that there be appropriate controls in major applications, and specifically that technical controls be built into the application. We concluded that a control mechanism to prevent overrides by specialists without supervisory approval would be an appropriate technical safeguard.

- Systems Integration Customs' aircraft parts inventory system did not interface with the general ledger system to record the assets, related financing sources, and costs of parts used in operations. During FY 2000, Customs recorded inventory additions in the general ledger when invoices were paid and recorded inventory consumption in the general ledger on a quarterly basis. As a result, the accounting records did not accurately reflect the inventory values or activity at any point in time throughout the year.

  Additionally, Customs' Special Agent-in-Charge (SAIC) offices maintained separate accounting records for each covert operation. Because these accounting records were not integrated with the general ledger system, Customs was required to manually record the financial results of covert operations in the general ledger on a monthly basis.

  Section 7 of OMB Circular A-127 requires that each agency establish and maintain a single, integrated financial management system.

To address certain aspects of these core system weaknesses, Customs developed the SAP Implementation Project and, in September 1999, purchased the SAP R/3 Enterprise Resource Planning software, and hired a contractor as its integration partner. This new system will be implemented in several phases over the next four years. However, Customs has not yet determined whether the accounts receivable subsidiary ledger will be included with the SAP R/3 implementation.

Recommendations

We reaffirm our recommendations from previous financial statement audits that Customs: (a) ensure that any new systems initiatives include a "customer-based" accounts receivable subsidiary ledger that interfaces with the general ledger system; (b) implement standard procedures to provide for appropriate supervisory review and authorization of critical ACS warning messages and other edit checks that can be overridden; and (c) refine CMIS source data input to allow Customs to evaluate the accuracy of the budget estimates related to reimbursable charges for certain inspection positions and other reimbursable services.

2. **Efforts To Ensure The Timely Restoration Of Mission-Critical Systems Need To Be Accelerated (Repeat Condition)**

Last year, we reported that several significant deficiencies were identified with respect to Customs' ability to provide for timely restoration of mission-critical systems that could impair its ability to respond effectively to a disruption in operations. Without proper attention to service continuity, Customs risks losing the capability to process, retrieve, and protect information maintained electronically, thus significantly affecting its ability to accomplish its mission. Although we determined that Customs made some progress towards correcting these weaknesses during FY 2000, the overall deficiencies continued to exist and continue to place Customs at risk. Due to the sensitive nature of this matter, we are providing details in a separate report with limited distribution.

Reportable Conditions

3. Drawback Controls Need To Be Strengthened (Repeat Condition)

Customs' controls over drawback continued to need improvement during FY 2000. Drawback payments, which totaled $420 million in FY 2000, are refunds of duties and taxes paid on imported goods that are subsequently exported or destroyed. Existing procedures over drawback need to be strengthened and enforced to prevent duplicate or over-/under-payments. Such procedures are essential because once drawback payments are made and the related claim is liquidated, Customs does not have legal authority to demand a return of overpaid drawback, unless fraud is determined.

During our audit, we noted that Customs had not established a comprehensive set of policies and procedures effective for FY 2000 that set forth minimum requirements for processing drawback claims. Rather, Customs relied on a policy memo entitled, *Mandatory Implementation of Drawback Procedures to Comply with Financial Requirements and Ensure Uniform Operations*, dated September 17, 1997, supplemented by nine additional memos issued at various dates in the following year which either elaborated on that policy or set forth new requirements. In addition, we noted that individual Customs drawback offices established their own policies and procedures that either modified or, in the case of supervisory review, eliminated mandatory requirements. As a result, drawback offices were not processing drawback claims in a consistent manner. In addition, the risk of processing claims with over/under-payments and other errors was increased.

In addition, with the exception of claims subject to selective processing[1], policies in effect for FY 2000 did not require drawback specialists to (a) review all prior claims against a selected import entry to determine whether, in the aggregate, excessive amounts had been claimed against import entries and, if applicable, import entry line items or invoices; or (b) systematically sample proofs of export from Export Summary Procedure (ESP)[2] claimants. Additionally, supervisory review policies were not consistent among drawback offices, resulting in the use of different documentation methods and thresholds above which review was required.

The Department of the Treasury's *Accounting Principles and Standards Manual (*Treasury Manual*)*, Tab D-Internal Control System Standards, Procedures Section, states that procedures adopted to carry out bureau operations should be as simple, efficient, and practicable as circumstances permit, considering the nature of the operations and the applicable legal and regulatory requirements. Also, the Supervision Section states that qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved. Supervision should prevent or recognize any unauthorized, wasteful, fraudulent or otherwise irregular transactions or activities.

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[1] Drawback selectivity is a pilot program designed to retain the quality of drawback review by focusing drawback resources on claims that may not meet statutory and regulatory requirements. It establishes a systematic method of identifiing the claims that require drawback specialist review. Claims receive a thorough review when there is positive criteria to match the claim, it is a first-time claim by a claimant, or when a claim is identified as subject to random review. Drawback claims that do not meet any of these review parameters may be liquidated without drawback specialist reivew.

[2] Claimants may file under Export Summary Procedure and provide a representation that the goods, for which drawback was claimed, were exported -- as opposed to submitting shipping documents and other detailed support. ESP claimants are required to provide Customs with proof of export upon request.

Also, as we noted in prior year reports, drawback specialists still did not consistently annotate, on the original import entry or invoice/packing list at the line item level, the quantity for which drawback was claimed. Customs' September 1997 policy memo states that annotation should be made on the invoice next to the designated part number and include the quantity designated, the drawback specialist's initials, and the date of their action.

Furthermore, we noted that documentation supporting the drawback specialists' basis for approval was not always complete and accurate. For example, we found that (a) required information (e.g., carrier name, bill of lading numbers, etc.) for the exported merchandise upon which drawback was being claimed was not always provided by nor requested from ESP claimants, (b) supervisory review and approval of claim payments were not consistently documented, (c) drawback specialists made changes to drawback calculations submitted by claimants that resulted in over- and under-payments of amounts claimed, and (d) drawback claims submitted by non-ESP claimants were liquidated although they were not supported by adequate proofs of export. The Treasury Manual, Tab D-Internal Controls, requires financial transactions to be adequately supported in bureau files with pertinent documents available for audit.

It should be noted that for the last several years Customs has had in place a compensating control whereby Customs' financial advisors statistically sample and test drawback payments and liquidations. These tests are used to determine whether claims are properly prepared and supported. They also determine whether claims exceed the duty and tax paid and the quantity available for drawback on related import entries and, if applicable, import entry line items when aggregated with previous claims filed against

FY 1995 through FY 2000 entries. Customs plans to continue carrying out this compensating control into the future.

We reviewed Customs' methodology for this compensating control procedure, sampled the claims reviewed by Customs, and performed other drawback testing procedures. While we concurred with Customs' methodology, we were unable to verify its testing results because they were not submitted for audit timely and there were numerous instances where Customs' testing sheets contained erroneous or incomplete information. Because Customs could not provide us with adequate evidential matter to support its assertion that there were no significant duplicate or over-/under-payments of drawback made during FY 2000, we were unable to sufficiently evaluate the effectiveness of Customs' compensating control over drawback.

Recommendations

Customs has addressed certain of our prior year recommendations with the FY 2001 implementation of *Drawback Guidance,* which is a comprehensive set of mandatory national drawback policies and procedures. However, we reaffirm the following recommendations from our previous financial statement audit that Customs should: (a) implement effective controls over drawback claims as part of any new systems initiatives; (b) consistently adhere to its national policy on drawback processing; and (c) amend the formal policy to specifically require drawback specialists to systematically sample proofs of export from ESP claimants before liquidating drawback claims.

We are making the following new recommendation as a result of our FY 2000 financial statement audit:

The Commissioner of Customs should ensure that Customs' compensating control over drawback payments and liquidations is strengthened to provide for more accurate and timely reporting of drawback testing results.

4. **Compliance Measurement Programs Need To Be Comprehensively Implemented To Identify The Revenue Gap And Assess Trade Law Compliance (Repeat Condition)**

During FY 2000, Customs continued its statistically-based examination programs, referred to as compliance measurement programs (CMP). CMPs are designed to quantify the revenue gap and assess trade law compliance. Among Customs' most critical CMPs are: (a) the consumption entry CMP, which projects revenue over- and under-collection; (b) the carrier manifest CMP, which measures the accuracy of carrier reporting of cargo arriving in the United States; (c) the bonded warehouse (BWH) CMP, which measures compliance by BWH operators; and (d) the in-bond CMP, which measures the accuracy of cargo information for merchandise allowed to move within the United States without classification or appraisement.

During FY 2000, based on examination results from its consumption entry CMP, Customs projected $414 million in revenue under-collections and $132 million in revenue over-collections. Because these amounts are statistical projections and, as a result, there are no known non-compliant importers for which a legally enforceable claim or refund can be assessed, an accounts receivable or accounts payable cannot be recognized as they do not meet the criteria under generally accepted accounting principles.

We noted the following weaknesses concerning the compliance measurement programs: (a) Customs did not subject all entered cargo to the consumption entry CMP, (b) Customs did not complete the FY 1999 BWH CMPs, (c)

Customs has not conducted CMP examinations on FY 2000 BWH entries, (d) Customs has not formulated a CMP for Foreign Trade Zones (FTZ), (e) Customs has not conducted the air carrier manifest CMP since the end of FY 1998, and (f) the in-bond CMP (Tinman), does not provide Customs assurance that goods moving in-bond were not diverted into the United States commerce without proper classification and appraisement. Specific weaknesses in the CMPs are described below.

In previous financial statement audits, we determined that Customs did not subject cargo valued by importers at under $2,001, the formal entry limit, to cargo examination selection as part of the consumption entry CMP. These goods represented approximately one-third (or approximately 16 million) of the total number of entry lines, and 4.2 percent (or approximately $44 billion) of the total reported value of goods entered into the United States during FY 2000. This policy increases the risk that importers could knowingly circumvent Customs controls by purposely undervaluing an entry line to avoid being selected for examination and thereby avoiding the proper payment of duties, taxes and fees.

In response to our finding, Customs' conducted a study and issued a report entitled, *A Study to Verify Low Value Entry Lines.* The study included a comparison of transmitted values of 1,186 sample entry lines to summary values, i.e. a paperwork comparison, to determine if the importer/broker purposely undervalued the entry line. Although not part of the design of the study, Customs physically examined goods representing 20% of the sample, or 229 lines.

Based on our review, we determined that the study was not appropriately designed to address our concern that importers could knowingly report a value for a line item at under

$2,001, when in fact the value was greater. Since the study did not require an examination of the goods to confirm that their value did not exceed the threshold for all sample lines, we do not believe the study serves as a valid basis for not subjecting cargo valued under $2,001 to cargo examination selection.

Customs continues to experience difficulty in reporting the results of BWH CMPs in a timely manner. As of the completion of our fieldwork, Customs had not yet reported the nationwide results of its FY 1999 BWH CMP exams, nor had it begun the FY 2000 exams. Without the timely reporting of BWH CMP exam results, Customs management cannot determine whether goods are being diverted into the United States commerce without Customs' knowledge and the proper assessment of duties, taxes, and fees. This untimely reporting also impairs Customs ability to accurately project the revenue gap referred to above.

The General Accounting Office's *Standards for Internal Control in the Federal Government*, Information and Communications section, states that information should be recorded and communicated to management and others within the entity who need it and in a form and timeframe that enables them to carry out their internal control and other responsibilities. It further states that for an entity to run and control its operations, it must have relevant, reliable, and timely communications relating to internal as well as external events.

Our audit also identified that Customs did not track merchandise quantities in ACS moving to and from FTZs. Moreover, Customs' ports did not consistently perform and report on the results of BWH and FTZ spot checks in a timely manner. Customs management did not report on the FY 1998 and 1999 surveys of results until January and March 2000, respectively. Further, as of the completion of our fieldwork, the FY 2000 survey requests had not been sent by Headquarters to the ports. These spot checks are to be conducted in accordance with Customs Directive, 3260-27, *Reporting Customs Effort in Audit-Inspection Supervision of Bonded Warehouses and Foreign-Trade Zones.* They are designed to ensure that the proprietors of these facilities maintained accurate inventory records and complied with other Customs requirements. These weaknesses may result in goods being diverted into the United States commerce from BWHs and FTZs without Customs' knowledge and the proper assessment of duties, taxes, and fees.

Customs has not formulated a CMP for FTZs which would measure compliance by FTZ operators with Customs' requirements. With the weakness noted above regarding the lack of consistent spot checks, Customs is at increased risk that goods could be diverted into the United States commerce from FTZs without its knowledge and the proper assessment of duties, taxes, and fees. Customs is in the process of automating the CF-214 - *Application for Foreign-Trade-Zone Admission and/or Status Designation*, which will enable it to then develop a CMP for FTZs.

In addition, Customs has not conducted the air carrier manifest CMP since FY 1998. Approximately 25% of the value of goods entering the United States in FY 2000 entered via air carriers. By not performing the CMP, Customs lacked sufficient assurance as to the reliability of cargo information reported on manifest documentation. Customs' management has indicated that it has no plans for resumption of the air carrier manifest CMP in FY 2001.

The Tinman CMP implemented in September 1998 mitigated and resolved some of the weaknesses noted in our prior year financial statement audit reports. However, Customs is still unable to ensure that goods moving in-bond are not diverted into the United States commerce without proper classification and appraisement.

Customs conducted a 30-day study in which it tracked approximately 1,000 in-bond movements from the port of origin to the port of destination to determine the susceptibility of the goods to theft, shipment substitution, and fraud. The study consisted of verifying that the original quantity, unit of measure, description, and country of origin remained intact from start to finish. The study addressed our previous findings related to physical exams, post-audit reviews, and quantity and description verification discrepancies. Although Customs' concluded there was not a significant potential loss of revenue for the examined items, controls over in-bond CMP activities still need to be enhanced.

The weaknesses noted below were identified in our prior year audit and remain unresolved:

- The Tinman CMP does not require the review of entry documents or proofs of export. Customs new In-Bond Handbook will require review of these documents. However, the handbook is still in draft and is not scheduled for issuance until April 2001.

- The Tinman CMP does not require a statistically random sample selection of in-bond shipments for physical examination. Customs determined that, due to the uncertainty of the type of in-bond shipments arriving at each port, and certain system limitations, the Tinman system is unable to automatically generate a statistically random in-bond selection for examination. Therefore, Customs plans to implement a manual statistical random sampling methodology during FY 2001.

- The ACS INRA screen, which is used to report the results of physical examinations, still lacks a remarks section for non-discrepant shipments. Customs plans to implement Tinman II that will include the suggested remarks section.

CMPs for these areas are essential to ensure accountability over imported goods processed within or entered into the United States commerce, or held by, and withdrawn from bonded warehouses and FTZs. Until Customs fully implements a comprehensive set of CMPs, it lacks the information needed to adequately focus its trade compliance efforts.

Recommendations

We reaffirm our recommendation from previous financial statement audits that Customs implement objective programs to measure compliance for all areas of trade and user fee laws that have significant revenue gap implications. We recommend that the Commissioner of Customs ensure that Customs: (a) finalizes and implements its draft policy on the Foreign-Trade Zone Compliance Check Program; (b) formulates and conducts a CMP for FTZs once the CF-214s are automated; (c) resumes the air carrier manifest CMPs; (d) improves the Tinman CMP post-audit review process to verify the appropriate resolution of in-bond transactions, e.g., review of entry and export documents; (e) implements procedures for the Tinman CMP to provide a statistically random sample of shipments selected for examination; and (f) enhances AMS to allow for the entry of remarks relating to non-discrepant Tinman examinations and to require all inspectors to report any details that would facilitate post audit reviews.

We are making the following new recommendations as a result of our FY 2000 financial statement audit:

The Commissioner of Customs should ensure that Customs:

1. Develops and implements a plan to periodically analyze, assess, and report on the risks associated with entry lines valued at under $2,001, utilizing information available through normal operations and the consumption entry CMP. This would allow Customs to adjust the formal entry limit based on its assessment of risks;

2. Beginning with FY 2001, develops and implements a plan to produce each fiscal years' bonded warehouse CMP results by December of the following fiscal year, while the information is still relevant;

3. Beginning with FY 2001, develops and implements a plan to produce each fiscal years' survey results for bonded warehouse and FTZ spot checks by December of the following fiscal year, while the information is still relevant; and

4. Implements the In-Bond Handbook procedures, currently in draft, which require the review of entry documents or proofs of export.

5. Controls Over In-Bond Shipments Need To Be Strengthened (Repeat Condition)

Controls over open in-bond shipments continued to need improvement during FY 2000. A bill of lading remains open in ACS until all imported merchandise on the bill of lading is recorded as either (a) released into the commerce of the United States; (b) authorized to move in-bond, to a bonded warehouse, or to a foreign trade zone (FTZ); or (c) exported.

In-bond shipments remain open in ACS until (a) the shipment is recorded as having arrived at the intended port of destination, (b) the shipment is recorded as having been exported, or (c) the shipment has been open for 120 days and has not been selected for physical examination or post-audit review. If the shipment has been open for 120 days and has not been selected for physical examination or post-audit review, it is administratively closed by the system. Because open in-bond transactions could represent merchandise that was diverted into the United States commerce without assessment of duties, taxes and fees, controls over in-bond shipments should be strengthened to ensure that revenue is not lost.

Due to the inherent weaknesses in Customs' system for processing in-bond transactions, Customs is still unable to ensure that goods moving in-bond were not substituted or diverted into the United States commerce without proper assessment. As noted in previous audit reports, ACS could not match open transactions to events that would enable them to appropriately close. This was caused by errors relating to the input of merchandise quantities and bills of lading by trade participants and Customs personnel, as well as a lack of appropriate system edits. Additionally, we noted that carriers and importers are still permitted to record imported merchandise in different units of measure (e.g., pounds vs. kilograms, pallets vs. boxes, etc.) on Customs documents. These input errors and inconsistencies in units of measure prevented the timely closure of open in-bond transactions.

As a compensating control, Customs statistically sampled the open in-bond transactions to determine whether they represented merchandise that should have been assessed but was not. We reviewed Customs' methodology for this compensating control procedure, sampled the items reviewed by Customs, and performed tests of those items. We concur with Customs' conclusions resulting from this compensating control procedure that there was no significant loss of revenue relating to the population of open in-bond transactions.

In addition, we attempted to perform tests of closed in-bond transactions to conclude as to the effectiveness of closing open in-bond transactions administratively after 120 days. However, we were unable to complete our tests because Customs was not able to provide us with sufficient documentation to support the items in our sample. Therefore, we were unable to conclude as to the effectiveness of the 120 day close-out policy.

Recommendations

We reaffirm the recommendations from our previous financial statement audits that Customs correct operational and ACS system weaknesses that make it difficult to ensure the appropriate resolution of open merchandise transactions.

We are making the following new recommendation as a result of our fiscal year 2000 financial statement audit:

The Commissioner of Customs should:

1. Determine the reason that supporting documentation for certain in-bond transactions could not be provided;

2. Develop and implement appropriate policies and procedures that will ensure that supporting documentation for all in-bond transactions is available for review by Customs personnel as well as for audit; and

3. Develop and implement procedures to integrate a year-end compensating control test with the Tinman CMP testing. This would result in the testing of open in-bond transactions as a regular operating procedure performed throughout the fiscal year.

6. Entity-Wide Security Program Planning And Management Needs To Be Improved (Repeat Condition)

An entity-wide program for security planning and management is the foundation of an entity's security control structure and is a reflection of senior management's commitment to addressing security risks.

While some progress had been made in this area, we found that the following conditions still exist:

- The Computer Security Incident Response Capability (CSIRC) policy was not complete nor had it been formally approved and implemented. We also noted that the phone numbers on the incident handling contact list did not accurately reflect Customs' current staff. As a result, Customs' users may not be able to contact the appropriate person if there is a security incident. OMB Circular A-130, Appendix III, Security of Federal Automated Information Resources (OMB Circular A-130, Appendix III), requires an incident response capability that ensures there is a capability to provide help to users when a security incident occurs in the system and to share information concerning common vulnerabilities and threats.

- Customs' management had not completed the certification and accreditation (C&A) of its new systems and applications nor the re-accreditation of its legacy (existing) systems and applications. For example, we determined that ACS was operating with only an interim approval due to weaknesses in the controls over the application that had not been corrected. The risk assessment associated with the certification package included four findings that were assigned a priority one risk rating, two of which remained uncorrected (see the "Material Weaknesses" section of this report).

OMB Circular A-130, Appendix III, Section 3b4, requires that a management official authorizes, in writing, use of the application by confirming that its security plan as implemented adequately secures the application. The application must be authorized prior to operating and re-authorized at least every three years thereafter. The authorization of a system to process information, granted by a management official, provides an important control. Management authorization implies accepting the risk of each system used by the application.

- Customs did not fully implement the new requirement for computer security officers (CSO) in accordance with federal security regulations and policies, Department of the Treasury policies, and Customs' own security policies.

- Management had not developed or administered formal training classes for Customs' CSOs and Network Security Administrators (NSA). Formal security training for employees and contractors is required by the following federal guidelines: (1) the Computer Security Act, (2) OMB Circular A-130, and (3) the National Institute of Standards and Technology's (NIST) Special Publication 800-16, *Information Technology Security Training Requirement: A Role and Performance Based Model.*

We also determined that, during FY 2000, Customs' security policy, *Information Systems Security Policy and Procedures Handbook*, had not been formally approved and implemented. Specifically, the policy was in draft form at the time of our audit. OMB Circular A-130, Appendix III, requires that each agency's security program implement policies, standards, and procedures which are consistent with government-wide policies, standards, and procedures issued by OMB, the Department of Commerce, the General Services Administration and the Office of Personnel Management.

Recommendations

We reaffirm our recommendations from previous financial statement audits that Customs: (a) complete the review and approval of the CSIRC policy; (b) issue the CSIRC Operations Handbook; (c) complete the C&A of its new systems and applications and the re-accreditation of its legacy systems and applications; (d) fully implement the CSO position to cover all major areas of information systems security; and (e) assign a high priority to developing and providing appropriate training for CSOs, NSAs, and employees responsible for contingency planning.

We are making the following new recommendation as a result of our FY 2000 financial statement audit:

The Commissioner of Customs should ensure that Customs' security policy, *Information Systems Security Policy and Procedures Handbook*, is finalized and distributed to the appropriate individuals.

7. Physical and Logical Access Controls Need To Be Improved (Repeat Condition)

We identified several deficiencies in Customs' physical and logical access controls over its data files, application programs, and computer-related facilities and equipment. Such controls protect against unauthorized modification, disclosure, loss, or impairment. Due to the sensitive nature of this matter, we are providing further details in a separate report with limited distribution.

8. Software Development And Change Controls Need To Be Fully Implemented For Legacy Applications and/or Systems (Repeat Condition)

Customs' software development life cycle (SDLC) policy should include procedures to monitor and control changes or modifications to existing production software. This control would prevent and detect unauthorized modifications or errors from entering the applications relied upon by users for consistent and secure operation.

During our audit, we noted that Customs made progress in instituting policies, procedures, and techniques to ensure that all new programs and program modifications are properly authorized, tested, and approved, and that access to and distribution of programs are carefully controlled. While progress was observed in the area of application change controls, controls over system software and infrastructure changes were not fully implemented.

The policies and procedures established in Customs' SDLC standards and guidance were not applied to the total inventory of systems software applications during the fiscal year. Specifically, policies and procedures to identify, select, install, and modify system software on the main operating system (OS 390) were not documented. Formalized policies and procedures should be applied to mainframe computers, networks, telecommunications software, all software tools, system software utilities, data base management system software and all commercial system software packages that are included in the inventory maintained by Customs' Systems Engineering Branch and Systems Operations Branch. Without documented procedures, the absence of the individuals responsible for restricting access to system software and for monitoring the use of system software could result in lapses in the protection of Customs' information.

NIST Publication 800-14, *Generally Accepted Principles and Practices for Securing Information Technology Systems*, Section 3.9 *Security Considerations in Computer Support and Operations*, states that an organization's support and operation should include policies for loading and executing new software on a system, use of powerful system utilities, the authorization of system changes, and license management. Also, OMB Circular A-130 requires that federal agencies establish life cycle management controls and the use of software standards for all system software configuration management and change control.

Subsequent to year-end, Customs issued policies and procedures governing the identification, selection, and installation of system software, and modification thereto, on the main operating system (OS 390). These policies and procedures were made available to Customs' personnel on Customs' network. We will review these policies and procedures as part of our audit of Customs' FY 2001 financial statements.

We also noted that ACS documentation was still inadequate. However, in FY 2000 Customs continued to make progress on a Master Schedule to complete ACS documentation by the end of FY 2001.

Recommendations

We reaffirm our recommendations from previous financial statement audits that Customs: (a) implement procedures to ensure that appropriate documentation is maintained for all major applications and general support systems; (b) implement procedures to provide for appropriate end-user training and communication of systems changes; (c) establish and implement a configuration management policy that covers all aspects of Customs automated resources, specifically ensuring the application of and adherence to

SDLC policies and procedures for infrastructure systems; and (d) update ACS systems documentation to an acceptable level so as to allow users to adequately operate and maintain the system.

Closed Findings from Prior Year Audit

Accountability Controls Over Seized Property Inventory Need Improvement

In our report on Customs' FY 1999 financial statements, we reported that nine narcotic seizure line items could not be located or accounted for at the Otay Mesa seized property storage vault located in San Diego, CA, when Customs performed its seized property inventory in September 1999. Six of the seizure line items had been identified as missing during the FY 1998 inventory and should have been reported to Internal Affairs (IA) then. At the time we issued our report, the resolution of these cases was pending an ongoing investigation by IA. Because it is Customs' policy not to disclose any information related to an ongoing investigation, we were not able to obtain information about the status of the nine missing seizures at that time.

We recommended that Customs' investigation into the missing seizures determine the reason that the six seizures identified as missing during the FY 1998 annual physical inventory verification were not reported to IA, that the current investigation be completed expeditiously, and that appropriate action be taken as a result of the investigative findings.

During FY 2000 Customs took steps to resolve this issue which we consider to be responsive to our recommendations. We therefore determined that this weakness should no longer be considered a reportable condition.

Recording Currency Transaction in Seized Asset and Case Tracking System (SEACATS)

In our report on Customs' FY 1999 financial statements, we reported that SEACATS did not maintain accurate and sufficient currency data that could be relied upon for financial reporting purposes without substantial manual reconciliation. Consequently, SEACATS could not produce the analysis of changes in seized currency for the seized and forfeited property disclosure.

We recommended that Customs enhance SEACATS to fully automate the currency functions to (a) enable users to process and update currency transactions, (b) generate relevant reports to better manage is seizures and forfeitures, and (c) generate the complete analysis of changes in seized currency.

During FY 2000 Customs made modifications to SEACATS to resolve this issue which we consider to be responsive to our recommendations. We therefore determined that this weakness should no longer be considered a component of the core systems material weakness.

* * * * * *

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

Compliance with Laws and Regulations

The results of our tests of compliance with laws, regulations, and government-wide policy requirements, exclusive of FFMIA, disclosed the following two instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards,* and OMB Bulletin No. 01-02:

- The Chief Financial Officers Act of 1990 (CFO Act) requires Customs to conduct a biennial review to determine the appropriateness of fees and other charges it imposes for services and things of value, and to make recommendations on revising those charges to reflect costs incurred in providing those services and things of value. In FY 1999, Customs completed its determination of the propriety of those fees; however, it was unable to revise certain fees to reflect costs incurred during FY 1999. In FY 2000, Customs conducted further research to determine the amount at which the individual fees should be set. Customs' initial focus was on navigation fees, while continuing to conduct analyses on various other miscellaneous fees and charges, including reimbursable charges under interagency agreements. Since Customs has not completed a determination of rates for all such fees, Customs is not yet in full compliance with the CFO Act. See the related cost accounting weakness discussed on page 8 in the Internal Control section of this report. (Repeat Condition)

- In addition, the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) requires a biennial review and reporting of COBRA charges every even-numbered fiscal year. During FY 1999, Customs reviewed the appropriateness of COBRA fees as part of its biennial review described above; however, it did not make recommendations for changes to those fees. For FY 2000, Customs conducted further review of the governing legislation and congressional intent and determined it would not be appropriate to propose changes in the fees at this time. Customs plans to further review the COBRA fees and related legislation during FY 2001 to determine what legislative changes may be needed to better align the fees with the cost of service.

Customs is required to submit a report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate each even-numbered fiscal year. The report is to show how the COBRA fees should be adjusted in order that the balance in the Customs User Fee Account approximates zero. Additionally, any proposed fee changes shall, precisely as possible, reflect the actual costs to the Government for the commercial services provided. Since Customs has neither proposed any fee changes nor reported to Congress, Customs is not in full compliance with the COBRA legislation. (Repeat Condition)

Except for the instances described above, the results of our tests of compliance disclosed no other instances of noncompliance with other laws, regulations, and government-wide policy requirements, exclusive of FFMIA, that are required to be reported under *Government Auditing Standards,* and OMB Bulletin No. 01-02.

The results of our tests disclosed instances where Customs' financial management systems did not substantially comply with FFMIA Section 803(a) requirements related to compliance with the FFMSR and the SGL at the transaction level. In the Commissioner's Annual Assurance Statement, included in the accompanying *FY 2000 Accountability Report*, the Commissioner represented that Customs cannot provide assurance that it is in substantial compliance with FFMIA.

The instances of noncompliance with the FFMSR are summarized below. These instances of noncompliance are discussed in more detail along with Customs' planned remedial actions and time frames to implement such actions in the section titled *Federal Managers' Financial Integrity Act Summary* on pages 50-53 of the *U.S. Customs Service Fiscal Year 2000 Accountability Report* (Repeat Condition):

- Customs' core financial systems do not provide complete and accurate information for financial reporting and preparation of audited financial statements.

- The source data input into Customs' Cost Management Information System needs further refinement to enable Customs to generate estimated charges for certain inspection positions and other reimbursable services that approximate actual costs.

- Certain feeder systems are not fully integrated or electronically interfaced with Customs general ledger system.

- Several weaknesses were identified in Customs' electronic data processing general controls in the areas of: (1) timely restoration of its mission-critical systems; (2) entity-wide security program planning and management; (3) logical access controls over its data files, application programs, and computer-related facilities and equipment; and (4) software development and change controls.

The instances of noncompliance with the SGL at the transaction level are summarized below. These are discussed in more detail in the internal control section of this report under Core Financial Systems Need to be Improved and Integrated.

- Reimbursable transactions were initially recorded in the general ledger as though they were appropriated transactions.

- ACS did not interface with Customs' general ledger system to record all receivables throughout the year.

The results of our tests disclosed no instances in which Customs' financial management systems did not substantially comply with applicable federal accounting standards. (Repeat Condition)

FFMIA requires that if the head of an agency determines that its financial management systems do not substantially comply with FFMIA, a remediation plan must be developed, in consultation with OMB, that describes the resources, remedies, and intermediate target dates for achieving substantial compliance. Customs' most recent FFMIA remediation plan includes the planned remedial actions and associated target dates. The plan also identifies the resources required for all but two of the planned remedial actions. However, we noted that funding for several of the key remedial actions is dependent on the enactment of future appropriations. We believe that Customs should develop alternative actions and plans, wherever possible, to address the funding uncertainties and extended timeframes related to these remedial actions.

FFMIA also requires OMB concurrence with any plan not expected to bring the agency's system into substantial compliance with the FFMIA no later than 3 years after a determination of noncompliance is made. Several of Customs' remedial actions were not scheduled for completion within the 3-year statutory timeframe; however, Customs had requested but not yet received OMB concurrence with the extended timeframes of these plans as of the end of our fieldwork.

* * * * * *

We have reviewed our findings and recommendations with Customs' financial management personnel and have incorporated their comments as appropriate. The response to our audit report from the Commissioner of Customs is included in Appendix 1 of this report.

This report is intended solely for the information and use of the management of Customs, the Department of the Treasury, OMB, the U.S. General Accounting Office, and the Congress, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is available to the public as a matter of public record.

William H. Pugh
Deputy Assistant Inspector General for Financial Management and Information Technology Audits
January 29, 2001

U.S. Customs Service
1300 Pennsylvania Avenue, N.W. | Washington, D.C. 20229
202-927-2001 | Fax 202-927-1380

February 15, 2001

Commissioner of Customs

MEMORANDUM FOR WILLIAM H. PUGH
DEPUTY ASSISTANT INSPECTOR GENERAL
FOR FINANCIAL MANAGEMENT AND
INFORMATION TECHNOLOGY AUDITS

FROM: Acting Commissioner

SUBJECT: Draft Report on the U.S. Customs Service Fiscal Years 2000 and 1999 Financial Statements

Attached is the consolidated Customs response to the findings and recommendations contained in the Draft Report on the U.S. Customs Service Fiscal Years 2000 and 1999 Financial Statements.

If you have any questions or require any additional information, please have a member of your staff contact Jo Ellen Cohen, Executive Director, Financial Operations, at (202) 927-0904.

Attachment

cc: Brenda Brockman
Director, Evaluation Oversight
Office of Planning

TRADITION
☆
SERVICE
☆
HONOR

Attachment 1

Material Weaknesses

1. **Core Financial Systems Need To Be Improved and Integrated (Repeat Condition)**

Recommendations

We reaffirm our recommendations from previous financial statement audits that Customs: (a) ensure that any new systems initiatives include a "customer-based" accounts receivable subsidiary ledger that interfaces with the general ledger system; (b) implement standard procedures to provide for appropriate supervisory review and authorization of critical ACS warning messages and other edit checks that can be overridden; and (c) refine CMIS source data input to allow Customs to evaluate the accuracy of the budget estimates related to reimbursable charges for certain inspection positions and other reimbursable services.

Customs Response

Customs concurs with the Treasury Office of Inspector General (OIG) recommendations.

2. **Efforts To Ensure The Timely Restoration Of Mission-Critical Systems Need To Be Accelerated (Repeat Condition)**

Customs Response

Customs has not received the draft of the OIG's Limited Official Use (LOU) document detailing the findings in this area. Therefore, Customs concurs with this finding as previously reported.

Reportable Conditions

3. **Drawback Controls Need To Be Strengthened (Repeat Condition)**

Recommendations

Customs has addressed certain of our prior year recommendations with the FY 2001 implementation of Drawback Guidance, which is a comprehensive set of mandatory national drawback policies and procedures. However, we reaffirm the following recommendations from our previous financial statement audit that Customs should:

(a) implement effective controls over drawback claims as part of any new systems initiatives;

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Customs Response

Customs concurs with the OIG recommendation. Because Customs has been hampered by a lack of funding to develop the new Automated Commercial Environment (ACE), Customs acknowledges there have been delays in implementing new systems initiatives pertaining to a multitude of Customs programs, including drawback. However, with the provision of recent funding and the anticipated awarding of the ACE contract, new systems initiatives concerning drawback will be included with the necessary controls.

(b) consistently adhere to its national policy on drawback processing; and

Customs Response

Customs concurs with the OIG recommendation. Customs Headquarters will reinforce the need for field offices to adhere to the standard national procedures and policies set forth in the *Drawback Guidance* Manual issued September 2000.

(c) amend the formal policy to specifically require drawback specialists to systematically sample proofs of export from ESP claimants before liquidating drawback claims.

Customs Response

Customs concurs with the OIG recommendation. This recommendation has been addressed in guidance to the field provided on June 10, 1998, and again in the *Drawback Guidance* Manual issued September 2000. Additionally, this will be discussed at the upcoming national meeting at the end of February 2001.

We are making the following new recommendation as a result of our Fiscal Year 2000 financial statement audit:

The Commissioner of Customs should ensure that Customs compensating control over drawback payments and liquidations is strengthened to provide for more accurate and timely reporting of drawback testing results.

Customs Response

Customs concurs with the OIG recommendation. Due to the short time frame available for performing the compensating control which, for year-end, is dictated by the close of the fiscal year and includes selecting a sample, retrieving the required documentation,

performing the review, and compiling and analyzing the results, Customs makes every attempt to facilitate the transmission of information to the OIG as quickly as possible. We make every attempt to provide the results to the OIG within the time frame required, and updates as information and clarification arrives from the field. Differences in interpretation of sample results may occur, but these differences do not result in a lack of control.

For the past 5 years, results of this testing have proven drawback payments to be valid and accurate, with an overall error rate of less than one percent, (except for an isolated incident involving a single processing site). The test sample for Fiscal Year 2000 for liquidated drawback refunds was in excess of $15.8 million, and resulted in errors in payment that totaled only 0.24 percent. These results reinforce our findings from previous years' testing and provide the empirical evidence to support our hypotheses that Customs drawback claims are valid and accurate within a 95 percent confidence level and an expected error rate of 4 percent. The testing that was performed and summarized in Customs work papers support our assertion that year after year, drawback payments have been found to be valid and accurate.

Customs will review the current compensating control and its process. The control will be modified as needed to address current Office of Field Operations (OFO) drawback policy. Customs will also consider the inclusion of verification of the control in OFO's Self-Inspection Program.

4. Compliance Measurement Programs Need To Be Comprehensively Implemented To Identify The Revenue Gap And Assess Trade Law Compliance (Repeat Condition)

Recommendations

We reaffirm our recommendation from previous financial statement audits that Customs implement objective programs to measure compliance for all areas of trade and user fee laws that have significant revenue gap implications. We recommend that the Commissioner of Customs ensure that:

(a) Customs finalizes and implements its draft policy on the Foreign Trade Zone Compliance Check Program;

Customs Response

Customs concurs with the OIG recommendation. The Foreign Trade Zone (FTZ) Compliance Check Handbook is expected to be published July 2001.

(b) once the CF-214s are automated, a CMP is formulated and conducted for FTZs;

Customs Response

Customs concurs with the OIG recommendation. A pilot to accept CF-214s electronically, via the Internet is scheduled to begin in October 2001. National implementation is contingent on funding.

(c) air carrier manifest CMPs are resumed;

Customs Response

Customs agrees the CMP for Air Manifests has value, however, the last CMP of Air Manifest several years ago showed fairly high compliance. Since a CMP of this type requires meeting and examination of flights arriving at all hours of the day, overtime costs can be considerable. Since Customs is in the midst of an effort to control overtime costs in the face of decreasing COBRA receipts, the cost-effectiveness of an Air Manifest CMP is not clear. If this issue is resolved in the future, Customs is willing to resume the Air Manifest CMP program.

(d) improvements are made to the Tinman CMP post-audit review process to verify the appropriate resolution of in-bond transactions, e.g., review of entry and export documents;

Customs Response

Customs concurs with the OIG recommendation. The In-Bond Handbook, which addresses this issue, is scheduled to be published in August 2001.

(e) procedures for the Tinman CMP are implemented to provide a statistically random sample of shipments selected for examination; and

Customs Response

Customs concurs with the OIG recommendation. We plan to publish guidance to improve the random selection process for the

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examination of in-bond shipments by April 2001. The process will be included in the In-Bond Handbook when it is published.

(f) AMS is enhanced to allow for the entry of remarks relating to non-discrepant Tinman examinations and to require all inspectors to report any details that would facilitate post audit reviews.

Customs Response

Customs concurs with the OIG recommendation. This system fix is included in the Tinman II enhancements. The Office of Information and Technology is unable to provide an implementation date at this time.

We are making the following new recommendations as a result of our Fiscal Year 2000 financial statement audit:

The Commissioner of Customs should ensure that:

1. *Customs develops and implements a plan to periodically analyze, assess, and report on the risks associated with entry lines valued at under $2,001, utilizing information available through normal operations and the consumption entry CMP. This would allow Customs to adjust the formal entry limit based on its assessment of risks.*

Customs Response

Customs concurs with the OIG recommendation. Based on our analysis of the low-value study that was conducted last year, we do not believe that there is a substantiated risk that importers are undervaluing low-value entry lines. We will however, annually monitor the situation based on existing operational data to reassess the level of risk and to determine whether changes to the formal entry limit is warranted.

2. *Beginning with FY 2001, Customs develops and implements a plan to produce each fiscal years' bonded warehouse CMP results by December of the following fiscal year, while the information is still relevant.*

Customs Response

Customs concurs with the OIG recommendation to produce the CMPs timely. Prior years' CMPs were delayed due to vacancies in the program staff.

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3. *Beginning with FY 2001, Customs develops and implements a plan to produce each fiscal years' survey results for bonded warehouse and FTZ spot checks by December of the following fiscal year, while the information is still relevant.*

Customs Response

Customs concurs with the OIG recommendation to produce the surveys timely. Prior years' surveys were delayed due to vacancies in the program staff.

4. *Customs implements the In-Bond Handbook procedures, currently in draft and which require the review of entry documents or proofs of export.*

Customs Response

Customs concurs with the OIG recommendation. The In-Bond Handbook is scheduled to be published in August 2001.

5. **Controls Over In-Bond Shipments Need To Be Strengthened (Repeat Condition)**

Recommendations

We reaffirm the recommendations from our previous financial statement audits that Customs correct operational and ACS system weaknesses that make it difficult to ensure the appropriate resolution of open merchandise transactions.

Customs Response

Customs concurs with the OIG recommendations.

We are making the following new recommendation as a result of our Fiscal Year 2000 financial statement audit:

The Commissioner of Customs should:

1. *Determine the reason that supporting documentation for certain in-bond transactions could not be provided;*

Customs Response

Customs concurs with the OIG recommendation. We will poll the CMCs to determine the reasons for the late responses and initiate appropriate corrective action.

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2. *Develop and implement appropriate policies and procedures that will ensure that supporting documentation for all in-bond transactions is available for review by Customs personnel as well as for audit; and*

Customs Response

Customs concurs with the OIG recommendation. The In-Bond Handbook, which addresses this issue, will be published in August 2001.

3. *Develop and implement procedures to integrate a year-end compensating control procedure test with the Tinman CMP testing. This would result in the testing of open in-bond transactions as a regular operating procedure performed throughout the fiscal year.*

Customs Response

Customs concurs with the OIG recommendation. We will address this issue in the In-Bond Handbook.

6. **Entity-Wide Security Program Planning And Management Needs To Be Improved (Repeat Condition)**

Recommendations

We reaffirm our recommendations from previous financial statement audits that Customs management should: (a) complete the review and approval of the CSIRC policy; (b) issue the CSIRC Operations Handbook; (c) complete the C&A of its new systems and applications and the re-accreditation of its existing (legacy) systems and applications; (d) fully implement the CSO position to cover all major areas of information systems security; and (e) assign a high priority to developing and providing appropriate training for CSOs, NSAs, and employees responsible for contingency planning.

We are making the following new recommendation as a result of our Fiscal Year 2000 financial statement audit:

The Commissioner of Customs should ensure that Customs security policy, Information Systems Security Policy and Procedures Handbook, is finalized and distributed to the appropriate individuals.

Customs Response

Customs concurs with the OIG recommendations.

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7. **Physical and Logical Access Controls Need To Be Improved (Repeat Condition)**

Customs Response

Customs has not received the draft of the OIG's LOU document detailing the findings in this area. Therefore, Customs concurs with this finding as previously reported.

8. **Software Development And Change Controls Need To Be Fully Implemented For Legacy Applications and/or Systems (Repeat Condition)**

Recommendations

We reaffirm our recommendations from previous financial statement audits that Customs: (a) implement procedures to ensure that appropriate documentation is maintained for all major applications and general support systems; (b) implement procedures to provide for appropriate end-user training and communication of systems changes; (c) establish and implement a configuration management policy that covers all aspects of Customs automated resources, specifically ensuring the application of and adherence to SDLC policies and procedures for infrastructure systems; and (d) update ACS systems documentation to an acceptable level so as to allow users to adequately operate and maintain the system.

Customs Response

Customs concurs with the OIG recommendations.

United States Department of the Treasury

Secretary of the Treasury

Office of Management and Budget

Director of the Office of Management and Budget

United States Senate

Chairman, Subcommittee on Treasury, Postal Service and General Government, Committee on Appropriations
Ranking Minority Member, Subcommittee on Treasury, Postal Service and General Government, Committee on Appropriations
Chairman, Committee on Governmental Affairs
Ranking Minority Member, Committee on Governmental Affairs

United States House of Representatives

Chairman, Subcommittee on Treasury, Postal Service and General Government, Committee on Appropriations
Ranking Minority Member, Subcommittee on Treasury, Postal Service and General Government, Committee on Appropriations
Chairman, Committee on Government Reform
Ranking Minority Member, Committee on Government Reform

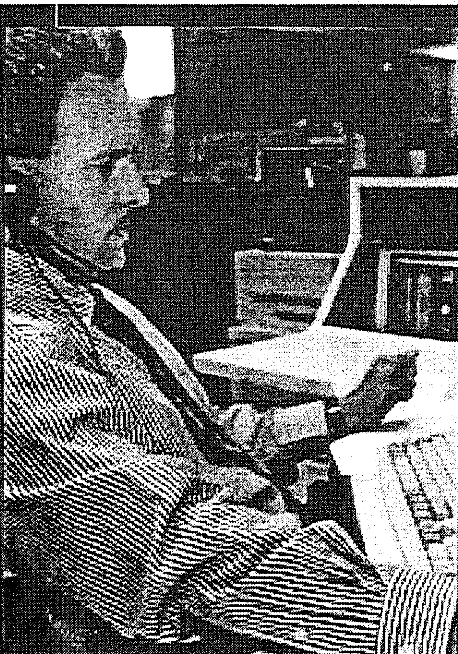
SECTION II

U.S. CUSTOMS SERVICE
FISCAL YEAR 2000 ACCOUNTABILITY REPORT

U.S. Customs Service

Accountability Report

FISCAL YEAR 2000



America s Frontline

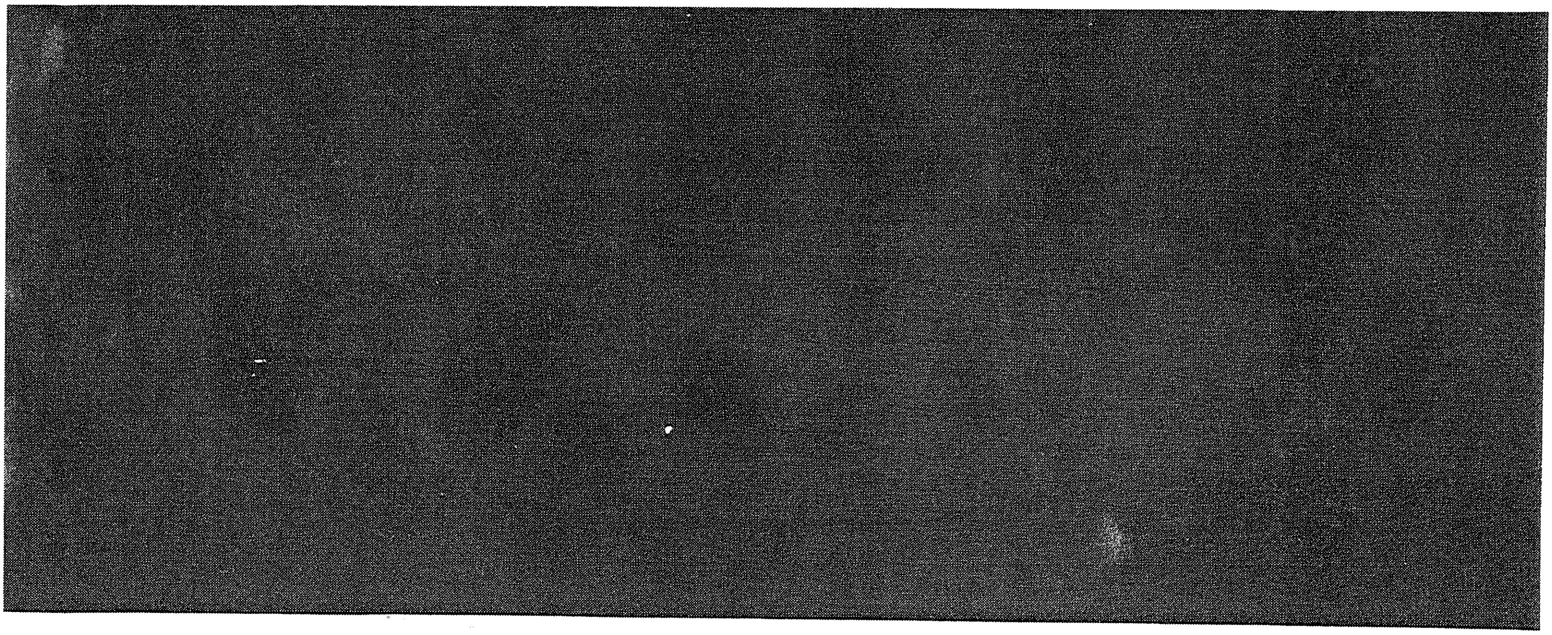


Table of Contents

This Accountability Report covers Federal Fiscal Year 2000 (October 1, 1999, through September 30, 2000) with discussion of some subsequent events. It consolidates the requirements for the U.S. Customs Service (Customs) to produce an Agency Accountability Report, consistent with the requirements of the Government Performance and Results Act of 1993 (GPRA), and an Annual Financial Report pursuant to the Chief Financial Officers Act of 1990 (CFO Act), as amended by the Government Management Reform Act of 1994 (GMRA). It also supports the U.S. Department of the Treasury (Treasury) requirement to produce a Departmentwide Accountability Report as required by GMRA.

This report highlights Customs mission accomplishments, presents financial management information, and represents an ongoing effort to streamline statutory reporting requirements while providing useful information to internal and external customers. Customs financial statements provide the financial position and results of Customs operations, pursuant to the requirements of 31 U.S.C. §3515.

While the statements have been prepared from Customs books and records in accordance with the formats prescribed by the Office of Management and Budget (OMB), the statements are supplemental to the financial reports used to monitor and control budgetary resources prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government. One implication of this is that unfunded liabilities cannot be liquidated without legislation that provides the resources for that purpose.

We received an unqualified opinion from our Office of Inspector General auditors. The auditor's opinion on Customs financial statements, the report on internal control, and the report on Customs compliance with laws and regulations are also included.

Customs Accountability Report and other information about Customs programs are available through the Internet on Customs Home Page at http://www.customs.gov. The Customs Home Page is updated on an ongoing basis with current information relating to Customs mission as well as the programs and initiatives designed to carry it out.

From the Acting Commissioner

Acting Commissioner Charles W. Winwood

As Acting Commissioner of the U.S. Customs Service, I am pleased to present this Fiscal Year (FY) 2000 Accountability Report for our agency. The information contained herein offers a fact-based scorecard of our operational and financial performance.

Customs achieved new heights in performance and service in FY 2000. Customs processed 23.4 million trade entries, an increase of 2 million over FY 1999. The agency also processed 489 million travelers entering U.S. ports of entry, 9 million more than the previous year. Both figures represent record levels for Customs.

While our workload continued to expand dramatically, funding for our base budget remained relatively static. As a result, Customs maintained its focus on improving organizational structure and efficiency at a time of increased demand for our services. During FY 2000, the agency continued its implementation of an ambitious program of change grounded in comprehensive professionalism and accountability reforms, technology acquisition and development, risk management strategies, and modernization programs and initiatives designed to meet the changing needs of business.

The past fiscal year saw a renewed focus on securing the resources for a new system of trade automation. That effort eventually led to the first major piece of funding appropriated by the U.S. Congress for initial development of the Automated Commercial Environment, or ACE, shortly after the close of FY 2000. With the $130 million provided by the Congress for new automation, Customs will select and hire a prime contractor for ACE by early 2001, and complete development of the National Customs Automated Prototype (NCAP).

While securing this funding was an extremely important first step, it is imperative that we keep ACE funding at required levels over the next four to five years. Any serious alterations in that time frame could risk the viability of the new system.

Meanwhile, Customs continued to refine the critical supporting pieces for ACE. We developed and circulated to the trade community a key proposal for Entry Revision, a fundamental step in modernizing the import process. We implemented new risk management strategies throughout Customs to improve our success rates in targeting contraband. This included restructuring our compliance assessment programs to allow for greater flexibility and faster processing of law-abiding importers. Our outreach to the trade community also included planning for the first ever "Customs Trade Symposium 2000," an all-day conference hosted by Customs for business and industry that took place in November 2000.

On the enforcement front, Customs underscored its role as the federal government's leading drug interdiction agency with the seizure of approximately 1.5 million pounds of illegal narcotics. This was highlighted by a series of spectacular investigations including Operation Journey in South America, a multinational effort that brought down the largest drug transportation organization ever targeted by law enforcement.

Customs also continued to play a lead role in contending with emerging smuggling and criminal trends. Aided by a special internal task force, the agency's seizures of the synthetic drug Ecstasy totaled over 9 million tablets, more than double FY 1999 levels. Customs also concluded numerous successful investigations targeted at violations of intellectual property rights, resulting in seizures of over $45 million worth of pirated textiles, computer software, movies, and recorded music. The agency's "CyberSmuggling Center" was also at the forefront of major Internet crime cases involving the transmission of child pornography and the illegal on-line sale of prescription drugs from overseas.

While Customs enjoyed considerable achievements in FY 2000, we are fully aware of the constant challenges ahead. A spiraling volume of trade and new avenues for criminal activity will continue to test our abilities as never before. But I believe we have laid the groundwork for continued success with a vibrant program of innovation and change that has permeated all levels of the organization.

Message from the Chief Financial Officer

Chief Financial Officer C. Wayne Hamilton

Customs FY 2000 Accountability Report reflects our continuing commitment to sound management of Customs resources and finances. This Report includes an analysis of Customs financial management performance, based on internal performance measures and independent external evaluation. It includes a summary of our actions to resolve Financial Managers' Financial Integrity Act (FMFIA) weaknesses, and recognizes our successful transition into the year 2000 (Y2K) without disruption of major systems. Finally, it highlights the formidable challenges facing Customs; the solutions to which will involve significant resource investments.

For the fifth straight year, Customs received an unqualified opinion on its financial statements – a prime indicator of good financial management. The unqualified opinion on these statements assures the American public that Customs assets, liabilities, and net position are fairly presented, in all material respects. In addition, it highlights our credibility as a conscientious manager of public funds.

The achievement of an unqualified opinion requires a tremendous amount of effort by many people throughout the organization. The preparation and presentation of accurate and timely financial management information is dependant upon the work of many dedicated employees who carefully record and monitor Customs financial transactions. These efforts were also hindered by the Y2K transition challenge and yet success was still achieved. I would like to express my sincere gratitude to those who committed their time and effort to our success in meeting these challenges.

We have committed ourselves to bridging the automation gaps in Customs financial management systems. As evidence of that commitment, a pilot test of SAP R/3, an integrated financial management software package, was successfully completed to initiate the beginning stages in the replacement of Customs core accounting system and several other supporting administrative systems. When fully implemented, this new software will allow us to account for and manage our capital assets more efficiently.

Three items were removed from Customs list of FMFIA material weaknesses. This is a very significant and noteworthy accomplishment on Customs behalf. These closed weaknesses were related to problems in our automated seized property system, compliance with export cargo manifest requirements, and controls over imports proceeding to domestic destinations prior to inspection. Improvements in our seized property system allow us to properly reconcile the disposition of seized currency assets. Customs outreach efforts resulted in a significant increase in the accuracy of export manifests. Finally, the implementation of a new post audit system improved our controls over imported cargo shipments transshipped prior to formal Customs clearance.

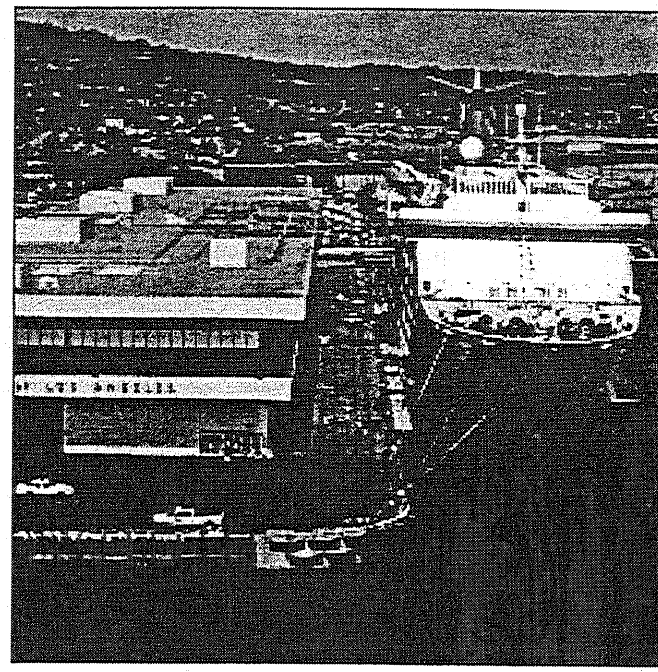
The Office of Finance's strategic direction was revised to emphasize improved customer service and the development of a quality workplace to attract and retain qualified personnel. In keeping with this decision, we provided our external customers access to the Electronic Posting System. This allows contract solicitations to be posted on the Internet, so that a potential bidder will have faster and easier access to them. We have reduced by almost six months the time to pay warehouse operators for the storage of unclaimed imported cargo. We exceeded our goal of making 80 percent of commercial invoice payments by Electronic Funds Transfer (EFT). To better protect revenue collections, we included user fee collections in the criteria to set bond sufficiency amounts for international carriers. To improve employees understanding of their roles in the organization and to enhance their skills, we conducted extensive orientation training and updated the core curriculum in the National Training Plan.

We continue to make progress in improving our financial processes to better serve our customers and stakeholders. Our commitment to modernizing and improving our financial management systems will continue to challenge us, but we are up to the challenge.

Wayne Hamilton

Customs At A Glance—America's Frontline

Customs means many things to many people. To the international traveler, Customs is the men and women at the border station, airport, or seaport who examine personal baggage upon return to the States. To the importer, Customs provides advice, protection, and control of merchandise shipped into the country. To the smuggler, Customs is the planes, vessels, vehicles, and dedicated people constantly monitoring the nation's perimeter to thwart smuggling and attempts at illicit entry of merchandise.



Customs is the primary enforcement agency protecting the Nation's borders. It is the only border agency with an extensive air, land, and marine interdiction force, and an investigative component supported by its own intelligence branch. Customs sophisticated aircraft and facilities conduct surveillance, and detect and interdict suspected smugglers day and night, over water and all types of terrain.

As the primary border interdiction agency, Customs faces a complex, multifaceted drug threat. The staggering number of conveyances, cargo, and passengers arriving into the United States each year continues to present Customs with complex targeting and interdiction challenges. Customs is confronting these challenges head-on through a variety of intelligence, investigative, and operational approaches. In addition to constantly improving operational activities, Customs has incorporated the power of partnerships with industry and foreign governments. An example of this is Customs fight against drug smuggling.

Customs provides the Nation with its second largest source of revenue, returning $23.9 billion to the U.S. Treasury during Fiscal Year (FY) 2000. We rely on vigilance and technology to protect this public revenue. A new automated commercial environment is under development and will rely on account management to streamline the commercial import process, lower the cost of trade compliance, and increase customer service for the trade community. Inspectors will use this system to make paperless cargo clearances and to target non-compliant cargo for examinations.

Major Challenges on America's Frontline

Customs faces many significant factors and obstacles, many of which are beyond Customs control. To anticipate these factors and prepare to address them strategically is, and will continue to be, a formidable challenge. As Customs continues its journey into the twenty-first century, the following significant challenges face the organization and its workforce:

- Focusing on integrity, accountability, discipline, training, automation, passenger and trade growth, border security, integrated air and marine interdiction, and high impact investigations;
- Continuing to facilitate the flow of legitimate commerce and travelers while at the same time identifying, disrupting, and dismantling entities that threaten the legitimate flow of commerce;
- Continuing efforts to identify, disrupt, and dismantle narcotics and related money laundering organizations;
- Combating increasing terrorist threats;
- Hiring, training, and retaining qualified employees in a highly competitive marketplace;
- Maintaining a forward-thinking approach to the deployment of technology and automation; and
- Meeting the demands of external stakeholders while accomplishing our mission.

Steeped in tradition and service to the public, Customs is prepared to meet these and any other unforeseen challenges to accomplish its mission and protect the American public.

Customs Mission

We are the guardians of our Nation's borders—America's frontline.

We serve and protect the American public with integrity, innovation and pride.

We enforce the laws of the United States, safeguard the revenue, and foster lawful international trade and travel.

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Major Programs

During FY 2000, Customs performed its operations around four major process areas:

Passenger Processing – Targets, identifies, and examines high-risk travelers, while expediting the movement of low-risk travelers to ensure that those persons entering the U.S. do so in compliance with federal laws and regulations.

Trade Compliance – Maintains a sound trade management system, which maximizes compliance with import and export laws and moves legitimate cargo efficiently.

Outbound – Facilitates international trade while achieving the highest degree of compliance with U.S. export laws.

Enforcement Systems – Prevents the smuggling of narcotics and other contraband into the U.S., by creating an effective narcotics interdiction, intelligence, and investigative capability that disrupts and dismantles smuggling, money laundering, and other illegal organizations.

Customs delivers its products and services through work processes that cut across the agency's programs and functional/staff offices. These crosscutting management activities include Human Resources Management, Training, Financial Management, and Information Technology.

America's Frontline Organization

Customs is a diverse group of men and women operating at 301 ports of entry, 20 Customs Management Centers, and several other field and Headquarters locations that are dedicated to carrying out Customs mission as America's Frontline.

Headquarters

The organizational chart shows the composition of Customs Headquarters offices consisting of: the Office of the Commissioner and related staff offices, as well as the Office of Chief Counsel and the Office of Internal Affairs, seven functional offices and four crosscutting support offices each headed by an Assistant Commissioner. These offices provide effective leadership and support to Customs field personnel while maintaining their roles as advisors and policymakers in support of the Commissioner and Customs mission.

Customs Management Centers (CMCs)

The 20 CMCs located throughout the United States are responsible for oversight of operations within their area of jurisdiction and exercise line authority over the ports of entry. They provide technical and operational assistance and participate in addressing the day-to-day issues at the ports located within their authority. CMCs coordinate with their Office of Investigations counterparts, Special Agent-in-Charge (SAIC) offices, in executing antismuggling and enforcement strategies.

Ports of Entry

Ports of entry are responsible for processing conveyances, passengers, and all goods entering and exiting the United States. In addition to enforcing Customs laws, these offices enforce hundreds of laws for numerous other agencies involved in international commerce. Ports of entry are under the jurisdiction of Customs Management Centers.

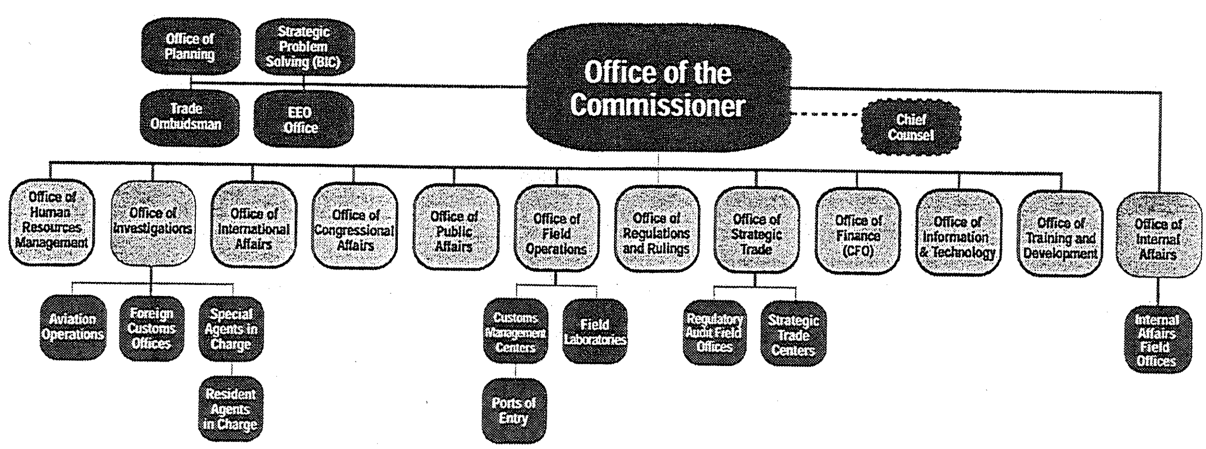
Strategic Trade Centers (STCs)

Customs has five STCs that are located in the following areas: Los Angeles, CA; Dallas, TX; Fort Lauderdale, FL; Chicago, IL; and New York, NY. STC's are primarily responsible for monitoring trade compliance with Primary Focus Industries (PFI) and quantitative analysis of previous and ongoing compliance.

Investigations Field Offices

Special Agent-in-Charge (SAIC) Offices are responsible for the administration and management of all enforcement activities within the geographic boundaries of each office. The SAICs develop, coordinate, and implement enforcement strategy to ensure conformance with national policies and procedures and support national intelligence programs. Each SAIC Office is responsible for any subordinate

U.S. Customs Service Organization Chart



Map of U.S. Customs Service


CENTRAL
EASTERN
WEST GREAT LAKES
NORTH ATLANTIC
EAST GREAT LAKES
MID AMERICA
MID ATLANTIC
NEW YORK
SOUTH ATLANTIC
EAST TEXAS
GULF
NORTH FLORIDA
SOUTH FLORIDA
CARIBBEAN AREA
GRAND PORTAGE
FARGO
ASHLAND
DULUTH
MINNEAPOLIS-ST. PAUL
SIOUX FALLS
SAULT STE MARIE
MARINETTE
GREEN BAY
MANITOWOC
SHEBOYGAN
MILWAUKEE
RACINE
ROCKFORD
CHICAGO
SAGINAW-BAY CITY-FLINT
MUSKEGON
GRAND RAPIDS
DETROIT
BATTLE CREEK
PORT HURON
BUFFALO
SYRACUSE
UTICA
ALBANY
CLEVELAND
ERIE
TOLEDO-SANDUSKY
ASHTABULA-CONNEAUT
AKRON
PITTSBURGH
COLUMBUS
DAYTON
CINCINNATI LAWRENCEBURG
INDIANAPOLIS
PEORIA
DES MOINES
DAVENPORT
MOLINE ROCK ISLAND
OMAHA
ST. JOSEPH
KANSAS CITY
ST. LOUIS
EVANSVILLE
LOUISVILLE
OWENSBORO
WICHITA
SPRINGFIELD
TULSA
OKLAHOMA CITY
LITTLE ROCK-N LITTLE ROCK
MEMPHIS
NASHVILLE
KNOXVILLE
CHATTANOOGA
HUNTSVILLE
BIRMINGHAM
ATLANTA
CHARLESTON
CHARLOTTE
GREENVILLE-SPARTANBURG
COLUMBIA
GEORGETOWN
WILMINGTON
REIDSVILLE
WINSTON-SALEM
DURHAM
RICHMOND-PETERSBURG
NORFOLK-NEWPORT NEWS
FRONT ROYAL
ALEXANDRIA
WASHINGTON, D.C.
ANNAPOLIS
CAMBRIDGE
BALTIMORE
HARRISBURG
PHILADELPHIA
CHESTER/WILMINGTON
WILKES-BARRE/SCRANTON
PERTH AMBOY
LEHIGH VALLEY
LONG ISLAND CITY
SAVANNAH
BRUNSWICK
FERNANDINA BEACH
JACKSONVILLE
TALLAHASSEE
PANAMA CITY
PENSACOLA
MOBILE
GULFPORT
PASCAGOULA
PORT ST. JOE
APALACHICOLA
SANFORD
PORT CANAVERAL
ORLANDO
PORT MANATEE
ST. PETERSBURG
TAMPA
SARASOTA
FT. MYERS
WEST PALM BEACH
FT. PIERCE
FORT LAUDERDALE
PORT EVERGLADES
MIAMI
KEY LARGO
KEY WEST
GREENVILLE
VICKSBURG
SHREVEPORT-BOSSIER CITY
BATON ROUGE
GRAMERCY
LAKE CHARLES
HOUMA
MORGAN CITY
NEW ORLEANS
LAFAYETTE
ORANGE
BEAUMONT
PORT ARTHUR
HOUSTON
GALVESTON
FREEPORT
CORPUS CHRISTI
DALLAS/FORT WORTH
AUSTIN
SAN ANTONIO
MCALLEN
PROGRESSO
BROWNSVILLE
FALCON DAM
MADAWASKA
FORT KENT
VAN BUREN
LIMESTONE
FORT FAIRFIELD
BRIDGEWATER
HOULTON
JACKMAN
VANCEBORO
CALAIS
EASTPORT
BANGOR
BELFAST
BAR HARBOR
ROCKLAND
BATH
PORTLAND
PORTSMOUTH
GLOUCESTER
SALEM
BOSTON
PLYMOUTH
FALL RIVER
NEW BEDFORD
WORCESTER
SPRINGFIELD
ST. ALBANS
BURLINGTON
SAN JUAN
FAJARDO
AGUADILLA
MAYAGUEZ
GUANICA
PONCE
JOBOS
HUMACAO
CHARLOTTE AMALIE
CRUZ BAY
CORAL BAY
CHRISTIANSTED
FREDERIKSTED

field offices, which support the enforcement mission of the SAIC Office. These subordinate field offices, Resident Agent-in-Charge and Resident Agent Offices, are responsible for managing enforcement activities within their respective geographic boundaries.

Customs Strategic Intent

To protect the public against violations which threaten the national economy and health and safety through targeted enforcement and informed compliance and to be the national resource for information on goods and people crossing our borders.

Customs At A Glance

Planning for Customs Present and Future

Customs strategic planning process is based on our need to address the global challenges which Customs manages in its daily operations. The Customs Strategic Plan addresses the priorities that were established and articulated by the Commissioner with improvements that allow us to remain compliant with the requirements of the Government Performance and Results Act (GPRA). Senior managers prepare plans that reflect Customs priorities and align their functional programs to address the requirements of the Agency's customers and stakeholders. This requires an integration of Customs strategic planning, budgeting, performance measurement, accounting, and reporting activities that effectively blends future assumptions with previous accomplishments.

Customs vision, mission, goals, and objectives are a product of close collaboration with customers, other agencies that are carrying out related programs, the Department of the Treasury, and stakeholders in the Administration and Congress. These goals and objectives are supported by the Customs budget described on subsequent pages in this section.

Progress toward the achievement of Customs goals and objectives is described in each of the major program chapters of this document. These chapters provide the Agency's detailed performance goals and accomplishments for each program and for the Agency's crosscutting processes.

Additional details on Customs Strategic Plan are available at the Customs website (http://www.customs.gov).

Revision of Customs Strategic Plan

Customs Strategic Plan was revised in accordance with the GPRA. The result was the realignment of goals from the core programs discussed in this report to those listed below. This FY 2000 Accountability Report is tied to the goals and objectives as reported in Customs FY 2000 Budget and Performance Plan and does not reflect the retroactive realignment of the new five year plan.

Customs strategic goals for FYs 2000-2005:

Trade and Economic Growth: *Stimulate and protect the economic interests of the U.S. by maintaining a sound trade management system that maximizes compliance with import and export laws.*

Border Security: *Secure our borders while facilitating the expeditious movement of international travel and commerce.*

Narcotics Trafficking: *Dramatically reduce the availability and flow of drugs into the U.S.*

Criminal Finance: *Strengthen domestic and international efforts to disrupt the flow of illegal money derived from global criminal activity.*

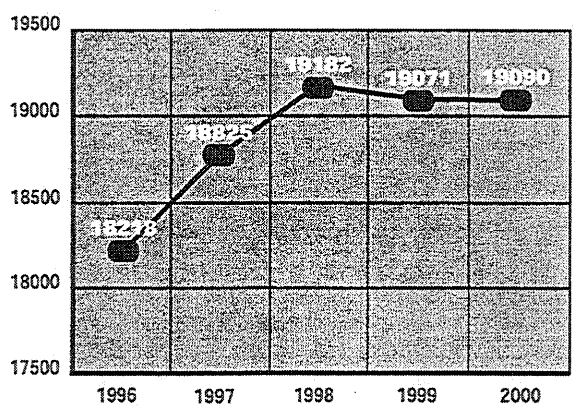
Public Protection: *Contribute to a safer America by reducing civil and criminal violations associated with the enforcement of Customs laws.*

Management Accountability: *Build a strong and effective management support structure that assures the achievement of business results.*

Customs Budget – Trends & Impacts

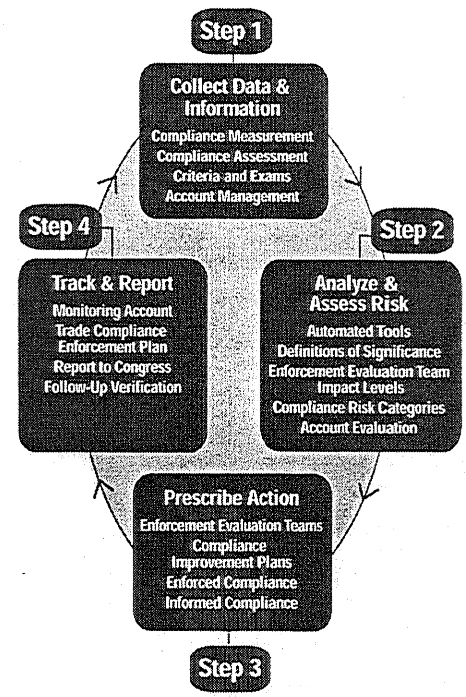
Because of Customs diverse mission, it is a constant challenge to address the multifaceted responsibilities that help to ensure Customs meets its greatest challenge: stopping the inflow of drugs as well as the inflow and outflow of other illegal contraband. The impact on Customs workload by factors beyond its control is tremendous. Continuing external factors associated with trade growth, smuggling patterns, global threats, and technological change will challenge aging automated systems and law enforcement efforts. Increases in the Customs annual budget for the last 2 years have been minimal and staffing has also remained static. The future holds no change in this scenario for Customs. The agency will continue to perform at increasing levels while resources remain static or decrease.

Total Full Time Workforce



During FY 2000, Customs began the implementation of a structured Risk Management Program to assist in the difficulties of managing an increased workload without an increase in staff level. Risk management is a proactive management technique that identifies processes for controlling risk in Customs activities. This takes the form of a four-step process that includes data collection and analysis, risk assessment, carrying out action, and tracking and reporting.

Risk Management Process



The three core processes: Passenger, Trade Compliance, and Outbound—combined with the Enforcement area—encompass all of Customs operational activities to accomplish its mission. Salary and expense appropriations that fund Customs efforts are divided into two major budget activities: "Commercial" and "Drug and Other Enforcement." Commercial activities are defined as those occurring prior to a violation being confirmed or acceptance of a referral for investigation. These include intelligence gathering, targeting, analysis, and examination activities. Drug and Other Enforcement activities occur after confirmation of a violation or acceptance of a referral for investigation, and include drug, money laundering and other investigative activities.

Customs recognizes that some enforcement areas, such as narcotics smuggling and international money laundering strategies, may involve more than one process. For example, narcotics smuggling can involve violations of merchandise (Trade Compliance), by the traveling public (Passenger Processing), and even exports of merchandise (Outbound). Customs has organized its activities to address the detection, investigation, and resolution of violations of U.S. law related to these "cross-process" issues.

How Customs Uses its Budgetary Resources

In accomplishing its mission and in carrying out program activities, Customs spends the greatest part of its appropriated resources on Salaries and Expenses (S&E) categories. Reimbursable Salaries and Expenses account for approximately 18 percent of the annual budget. Operations and maintenance represent the third largest category at approximately 6 percent of Customs resource obligations. These amounts do not include any funding for Customs systems modernization, a major information technology effort Customs is embarking on to plan for and acquire the core trade and financial management systems and infrastructure needed to keep pace with the tremendous growth in trade and enforcement needs.

Actual Fiscal Year Budget Resource Obligations
(in millions)

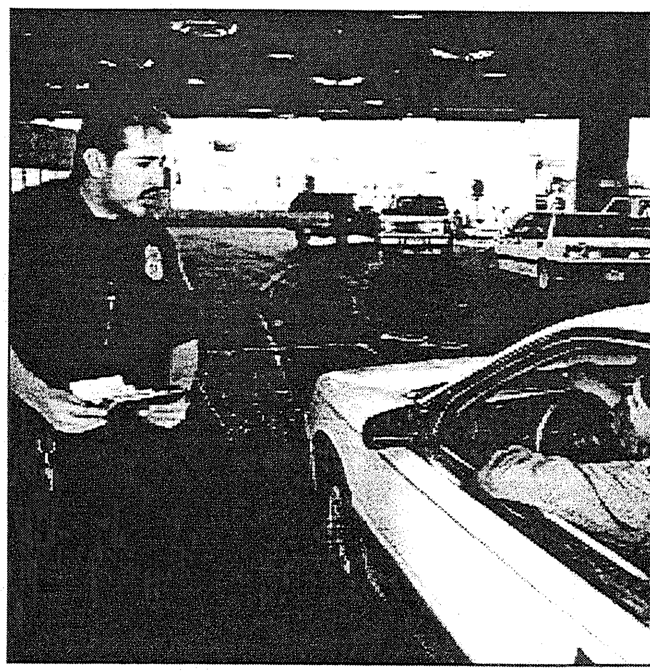
	1996	1997	1998	1999	2000
Salaries and Expenses Direct (includes obligations authorized under COBRA)	$1658	$1806	$1881	$2067	$2041
Salaries and Expenses Reimbursable	412	391	439	462	542
Puerto Rico Refunds, Transfers, Expenses	114	115	110	106	96
Operations and Maintenance	104	113	169	195	177
Facilities	1	2	2	2	2
Small Airports	2	3	3	3	3
Crime Bill	11	10	55	21	65
Refunds, Transfers	2	7	8	7	5
Harbor Maintenence Fee	3	3	3	3	3
Totals	$2307	$2450	$2670	$2866	$2934

Passenger Processing

Program Overview

In the passenger processing area, Customs has the responsibility to ensure that travelers entering the U.S. do so in compliance with federal laws and regulations. Our strategic goal is to secure our borders while facilitating the expeditious movement of lawful international travel and commerce. Our objectives in support of this goal are:

- *Increase travelers' awareness of Customs requirements and mission in order to achieve voluntary compliance.*
- *Select high-risk travelers in advance of arrival.*
- *Intercept high-risk travelers while expediting low-risk travelers.*
- *Deploy selectivity techniques, technology, and tools for the physical inspection of travelers, baggage, and vehicles in order to mitigate potentially high-risk and destructive situations.*



Challenges

Customs is faced with two major obstacles to achieving our goal and objectives in passenger processing. These obstacles include rapidly increasing workloads and static resources.

By the year 2009, passenger enplanements are expected to double with an ultimate goal of nothing less than Global Open Skies. Illegal immigration and drug smuggling will continue to require a major focus. External factors such as terrorism, immigration reform, legislative initiatives, international agreements, and traveler expectations will impact Customs challenge of securing U.S. borders. Customs budget and staff are expected to remain the same over the foreseeable future.

In an effort to achieve our goal and accomplish our objectives, the Passenger Process utilizes the principles of risk management in a uniform, systematic, and disciplined manner.

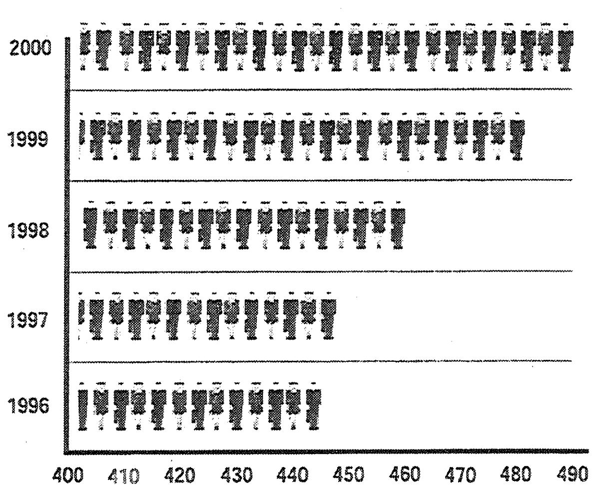
Risk management allows the passenger process to use its limited resources in the most effective way, targeting and identifying travelers who are of highest risk for significant violations, while permitting compliant travelers to move quickly through our borders. This technique also supports deploying the right technology and resources to the appropriate locations in a timely manner.

By using these risk management strategies, Customs has demonstrated that it can substantially increase the efficiency of detecting violations.

Program Activity Trends and Measured Results

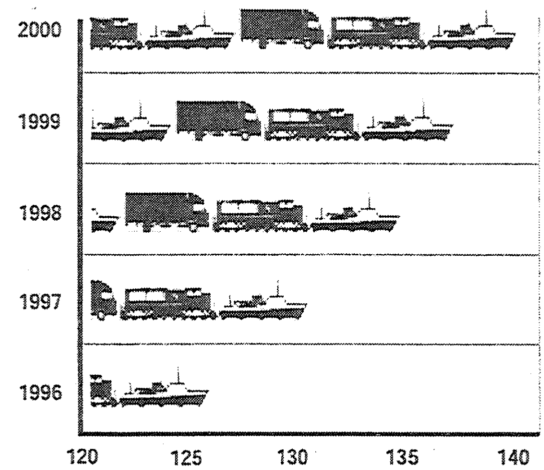
In FY 2000, Customs processed 489 million pedestrians and passengers. Of these arriving persons, 67 million arrived via commercial airlines, 11 million arrived by ship, 328.5 million arrived by automobile,and 46.8 million crossed our borders as pedestrians. The balance of arriving persons used trains, buses, and private and corporate aircraft as modes of transportation.

Land, Air, and Sea Passengers (in millions)



Processed conveyances, such as passenger vehicles, trucks, private and commercial aircraft, and small boats and vessels amounted to 139.9 million.

Conveyances (in millions)



From these arriving persons, vehicles, and carriers, Customs staff arrested 23,670 people, and made the following significant seizures:

Item	Number of Seizures	Total Weight or Amount
Cocaine	1,193	22,596 pounds
Heroin	530	1,960 pounds
Marijuana	9,191	533,887 pounds
Ecstasy	206	not available
Currency	911	$17,449,057
Merchandise	11,498	$138,243,384

A staff of 7,467 inspectors and 631 canine enforcement officers located at 301 ports of entry and 13 foreign, preclearance facilities accomplished this enormous task.

Analysis of Program Performance

Customs passenger processing goal of securing our borders is measured via a compliance rate for travelers. Compliance means acting in accordance with federal laws and regulations governing the entry of persons and accompanying goods and vehicles into the country. Our planned long-term compliance rate goal is 99 percent, which we strive to obtain through informed compliance, refinement of targeting methods, and intercepting and examining high-risk travelers, while expediting low-risk travelers.

To reach our long-term planned compliance rate, Customs has established a set of processing standards for Customs inspectors to achieve:

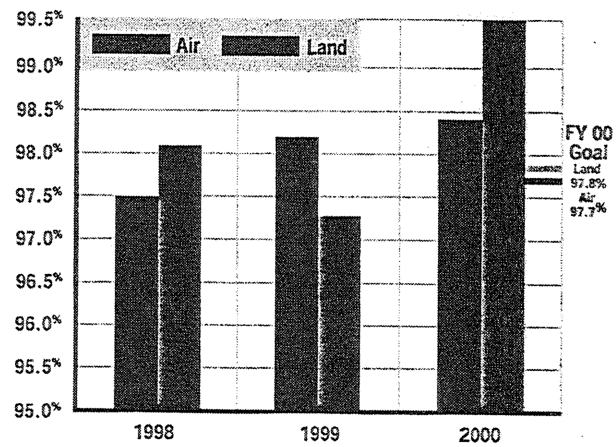
A. Maximize passengers' voluntary compliance with federal laws and regulations by increasing their awareness of Customs requirements (Informed Compliance).

By improving the knowledge of both the frequent and infrequent traveler, Customs believes the number of inadvertent violations can be significantly reduced. Communication methods, such as posting information on the Internet, loop radio broadcasts at land borders, videos for airline information on ticket jackets, and electronic information booths (kiosks), allow inspectors to focus more fully on serious violators. Customs has established Passenger Service Representative positions at key airports of entry to assist travelers with Customs problems and to manage local complaints. We have placed informational signage and supplied brochures at all inspectional facilities. At all locations, we have distributed "Customer Comment Cards" supported by a comment analysis program as part of our partnership with the traveling community. We support a national complaint processing program that assesses, analyzes, and responds to all complaints. Results of comment card and complaint analysis are applied to improving our processes through operational changes in supervision, policy, or training.

Goal: Achieve a compliance rate of 97.7 percent for all arriving air passengers in FY 2000. Achieve a compliance rate of 97.8 percent for all arriving land passengers in FY 2000.

The goals were achieved in both cases.

Air and Land Passenger Compliance Rate

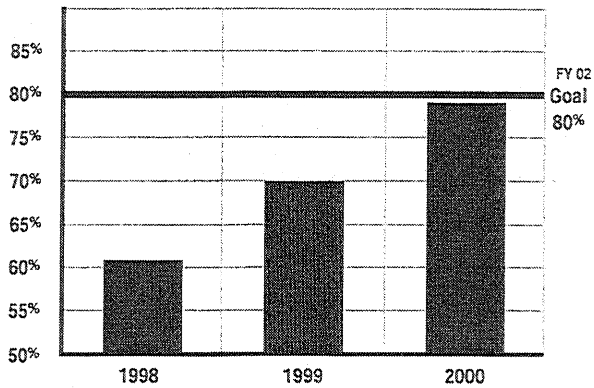


B. Develop and refine methods to select high-risk passengers in advance of arrival (Target these passengers).

Customs has undertaken a variety of initiatives to obtain the traveler information prior to the arrival of the aircraft or vessel. The Automated Passenger Inspection System (APIS) is a joint operation between Customs and the air transport community to meet enforcement responsibilities and facilitation goals.

Goal: Increase air carriers participation in APIS to 80 percent by FY 2002. In the last three years, the APIS participation rate has increased steadily.

APIS Participation Rate



C. Intercept high-risk passengers while facilitating the processing of low-risk passengers (intercept and expedite).

Major improvements in this area of the passenger process are predicated on technological innovation:

License Plate Reader Program

Customs and the Immigration and Naturalization Service received funding for a joint technology initiative. One piece of technology deployed is the License Plate Reader (LPR). An LPR is a computer-based video system that captures images of vehicle license plates (front and rear), digitizes and interprets the image, and transmits the license plate data directly to enforcement systems. This technology enhances safety, enforcement, and facilitation, by improving data input quality and by eliminating both the need for inspectors to keystroke license plate data into enforcement systems as well as the recurring need for inspectors to walk to the rear of arriving vehicles to view rear plates. At this time, 234 LPR systems have been installed and are operating at Ports in Arizona, California, Maine, Minnesota, New Mexico, Texas, and Washington. The current installation of LPRs at all major ports on the Southwest Border is scheduled for completion in September, 2001.

Secure Electronic Network for Travelers Rapid Inspection (SENTRI)

SENTRI is a Justice Department Performance Review Lab project established to test the idea that a dedicated commuter lane can work on the Southwest Border. The goals of the SENTRI project are to enhance border security and reduce travelers' wait times. SENTRI uses the latest technology to provide both positive traveler identification as well as security against smuggling and other violations.

Although SENTRI is primarily a Customs/Immigration and Naturalization Service partnership, there are six agencies involved with the various aspects of the project. This cooperative interagency effort resulted in SENTRI being installed at several sites around the country.

Enrollees in the SENTRI program must undergo a background investigation and an interview. Through this process, a person's citizenship, residence, employment, and criminal record are reviewed. This information, including a digital photograph that documents approved enrollees, is electronically filed. A SENTRI identification card is issued to each approved enrollee. A radio transponder is installed on the enrollee's vehicle. When the vehicle enters the SENTRI lane, the transponder signals the local computer to bring up the information on the people registered in that vehicle. At the same time, a License Plate Reader captures license plate information. The driver swipes his SENTRI identification card through a card reader. The inspector monitoring the SENTRI lane sees a full-color picture of the people who are allowed in the vehicle, as well as pertinent information on the vehicle and its occupants. Once the vehicle and occupants are cleared, the vehicle will be able to proceed into the United States. No one is allowed to use the SENTRI lane if they are not enrolled in the program and traveling in the proper vehicle.

SENTRI also uses pneumatic bollards, tire shredders, gates and jersey barriers to completely enclose the lane. This means that, once a vehicle enters the SENTRI lane, it cannot depart until cleared by the system.

Automated Targeting System

The Automated Targeting System – Passenger (ATS-P) is a completely integrated computer system used by Customs officers at field locations. ATS-P makes use of the latest computing technology in a web-based environment using an internet browser. This system ties numerous enforcement and information systems together making operational processing of enforcement data quick, streamlined, and efficient. Customs officers use ATS-P to quickly identify passengers that may require a higher degree of inspection or examination upon their arrival in the United States.

Body Imaging System

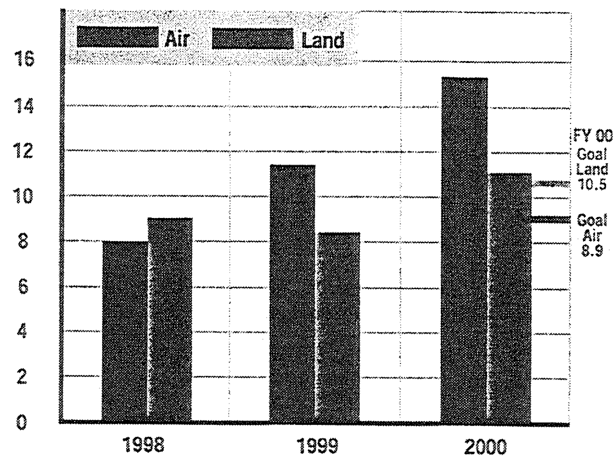
The Body Imaging System is a very low dose x-ray technology which reveals objects hidden under clothing. The system provides an alternative to travelers who have been selected for a pat down search. The traveler may opt for a scan instead of being physically touched by an inspector. This technology also reduces the potential for allegations of abusive or inappropriate touching. 13 units are currently operational at 11 locations: John F. Kennedy (2), Atlanta, Dulles, Los Angeles, Chicago, Newark, Miami (2), Houston, Laredo, Nogales, and San Ysidro.

D. ***Physical inspection of passengers, baggage, and vehicles for the purpose of determining compliance with laws and regulations (Examine).***

Customs measures its selection effectiveness by conducting a measurement program called Compliance Measurement Examination (COMPEX.) COMPEX is a statically valid measurement that compares violations found during targeted enforcement exams with violations discovered during examinations of random samples of passengers. This comparison provides a measure of how well our selection programs are achieving the Customs objective of effective targeting.

Goal: The COMPEX targeting rate should exceed the random targeting rate by multiples of 8.9 for air and 10.5 for land during FY 2000.

COMPEX Effectiveness Ratio
(Number of Times Better Than Random)



For FY 2000, the air COMPEX rate was 15.3 times better than random targeting. In the land environment for passenger vehicle processing, the COMPEX targeting effectiveness rate was 11.1 times better than random.

Compliant travelers should not have to spend excessive amounts of time in secondary examination, unless there are specific reasons to do so. To accomplish this, Customs has established an initial set of processing standards for Customs inspectors to achieve:

- Process 95 percent of arriving air passengers within 5 minutes from the time they retrieve checked baggage to their exit from the inspection facility.

- Process 95 percent of arriving compliant air passengers referred to secondary inspection within 20 minutes.

Passenger Processing

- Process arriving compliant land passengers within 20 minutes, (except on weekends, holidays, and peak traffic times).

Customs inspectors have met the above standards on a consistent basis according to internal survey data. We have also established the following goals for the future:

- Intercept 98 percent of arriving targeted passengers.
- Achieve a targeting efficiency ratio of 10 to 1 for targeted air passengers and 20 to 1 for targeted land passengers.
- Improve the ratio of positive personal searches by 25 percent.
- Achieve a positive personal search rate of 17.8 percent for air, and 8 percent for land.

Passenger Data Analysis Team (PDAT)

The PDAT was established in May 1999 to collect, verify, and analyze personal search data. Data integrity and stewardship are two key functions of this team. Working with the Office of Information and Technology, PDAT developed an analysis tool that allows Customs to quickly produce statistics that are both accurate and timely. PDAT has enhanced data collection. The data is analyzed to identify trends and provide reports to the Commissioner and other Customs executives. PDAT works with port offices to develop passenger compliance and enforcement strategies, including incorporating risk management into the passenger process. As a result of PDAT's endeavors, personal search efficiency has increased from 4.3 percent to 9.2 percent. This is an increase in search efficiency of 114 percent comparing FY 1999 with FY 2000, despite the fact that there was a 55 percent reduction in the number of personal searches conducted.

Personal Search Results

Although the number of personal searches have greatly decreased, Customs officers continue to increase their effectiveness in the detection of narcotics. The following is a comparison of seizure activity for FY 1999 and FY 2000.

Number of seizures of cocaine, heroin, and ecstasy resulting from personal searches only in the air, land, and sea environments:

FY 1999	FY 2000	Percent Change
800	908	+14%

Total (all sources) ecstasy, heroin, and cocaine seizures for arriving air, land, and sea travelers:

Type	FY 1999	FY 2000	Percent Change
Ecstasy	112	206	+84%
Heroin	517	577	+12%
Cocaine	1,226	1,204	-2%

Customs will continue to explore new technologies that will improve our targeting capabilities and present the least intrusive inspections for travelers. Use of biometrics may provide this increased capability. We will explore new methods to communicate information to travelers to ease their Customs clearance procedures, not only for entering the United States, but also for entering foreign countries. The United Kingdom has expressed interest in sharing information kiosks with us at major airports of our respective countries. The expeditious movement of low-risk passengers will continue to be a priority mission for Customs Passenger Programs.

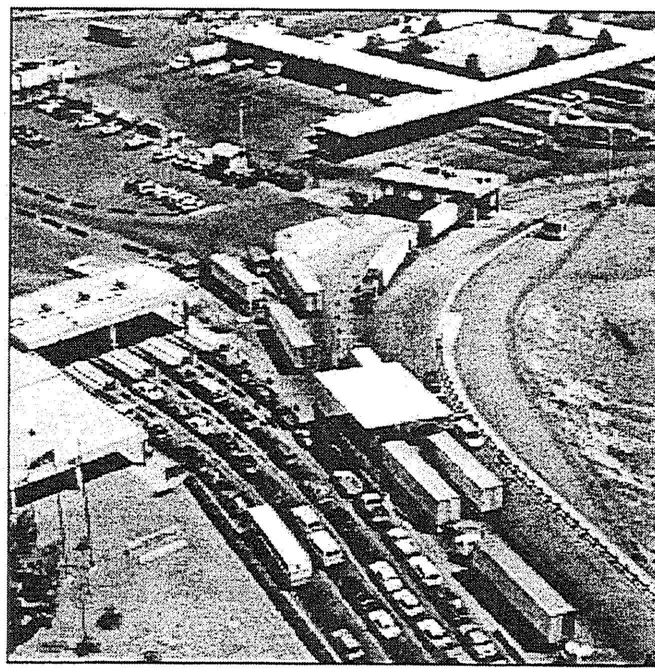
Trade Compliance

GOAL: To stimulate and protect the economic interests of the United States by maintaining a sound trade management system which maximizes compliance with import and export laws and moves legitimate cargo efficiently.

Program Overview

The Customs Service serves a vital role in processing imported goods across our international borders, and in protecting the nation's economy from unfair trade practices.

Utilizing automated tools and data-driven analytical methods in combination with the expertise of trade personnel, the trade compliance process enables Customs to meet the challenge of processing over 20 million entries per year in an efficient and effective manner. Data collected through the trade compliance process also provides various individual and aggregate compliance rates, which contributes a tangible set of measures of success in achieving our goals.



Trade Compliance

At the core of the trade compliance process is the concept of risk management. The Risk Management Process enables the identification of those imports that pose the greatest risk of non-compliance and allows Trade Compliance to focus its finite resources on addressing the problems associated with those imports. Goods that have been determined to be low risk or no risk are cleared with a minimum of Customs involvement.

Compliance Measurement, the core component of the Trade Compliance Risk Management Process, provides Customs with an objective "picture" of import compliance by collecting a statistically valid pool of data for overall imports and specifically-targeted industry sectors known as Primary Focus Industries (PFIs). Data is derived and compiled from disciplined, information-driven cargo examinations and entry document reviews.

This data drives the direction of several programs that are part of the Risk Management Process, such as Compliance Assessment and Account Management. Programs like these permit Trade Compliance to work closely with some of the largest importers, allowing a look beyond the raw numbers in order to more clearly assess a given company's risk. Customs can then gauge the most effective response to this risk in order to achieve our compliance goals.

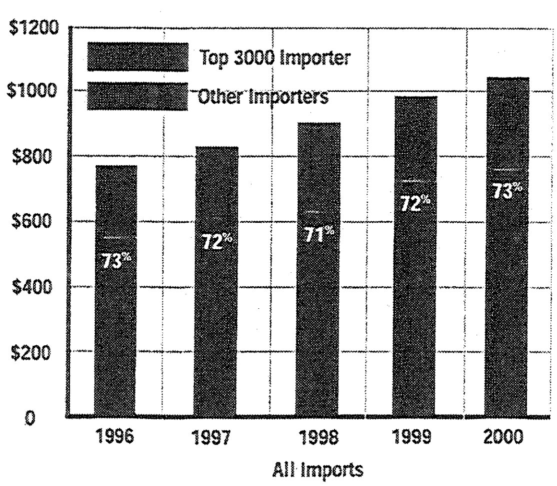
Challenges

With total imports at $1.17 trillion in FY 2000, Customs finds itself being challenged on many fronts. Customs has already achieved some success over the past several years in raising the levels of compliance. Still, Customs faces several unique challenges as it works to hold onto these gains. These challenges are detailed below.

Fiscal Challenges

The measure of the duties actually collected by Customs versus the projected duties had all goods been entered in full compliance is known as the Revenue Gap. The Revenue Gap is used by Customs, along with the trade compliance data, to assess areas that can be targeted for improved compliance and to support informed and enforced compliance activities within the trade community. Continued improvements in the collection, analysis, and

Top 3000 Importers as a Percentage of Total Value of Imports (in billions)

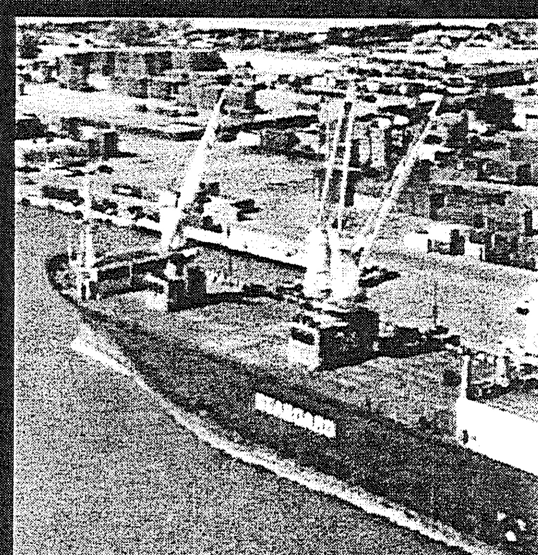


Trade Compliance Objectives

The trade compliance goal has been further broken down into five component objectives, which have helped to focus Customs efforts and activities during FY 2000.

- Increase compliance levels and ensure a more efficient use of resources through the implementation of innovative national programs.
- Modernize Customs automated import processing systems to ensure seamless, electronic processing and accurate data collection.
- Improve the administration and enforcement of international trade agreements.
- Stop predatory and unfair trade practices that threaten U.S. economic stability, market competitiveness, and public safety.
- Improve fiscal management associated with revenue collection.

As they have in FY 2000, the strategic goal and its component objectives are expected to continue to drive the Customs trade compliance outlook for the next several years.



tracking of revenue data at the ports make the Revenue Gap estimate more precise each year. Revenue collections continue to exceed 98 percent.

In addition, Customs is experiencing constant pressure to implement changes in revenue collection systems to allow improved electronic billing, collection, and refund capabilities. These factors for change will continue to focus Customs on improving its accounting systems and procedures, ensuring that all monies owed are collected as efficiently as possible.

Workload Challenges

The last 10 years have seen a dramatic increase in the volume of cargo being presented for entry into our nation's economy. The sudden expansion of Internet E-commerce and its associated demands on express couriers to deliver goods across international borders has also helped to fuel this growth. Despite this growth, Customs strives to process each entry as quickly as possible while still ensuring the highest levels of compliance. This has been a considerable challenge, faced with aging automated systems, and a near static Full-Time Employee (FTE) workforce.

Revenue Gap ($ in thousands)

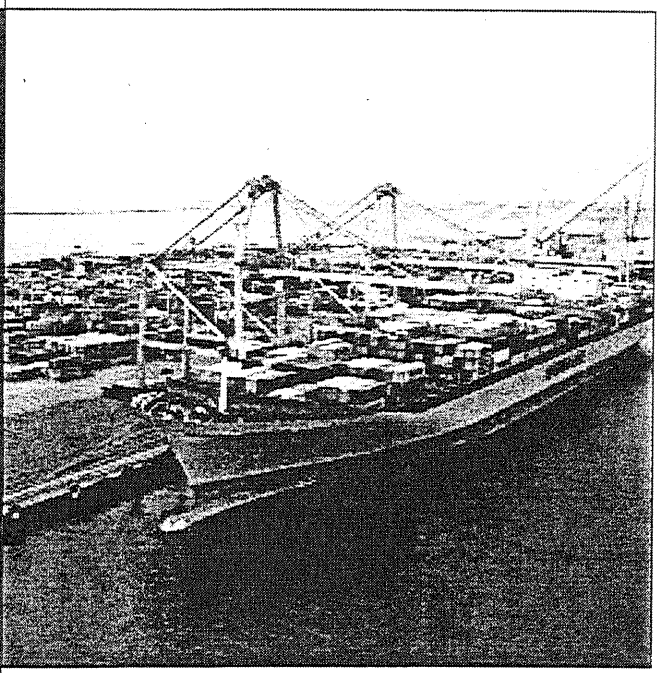
	1996	1997	1998	1999	2000
Actual Revenue Collections:					
Consumption entries	$18,466	$18,721	$18,537	$18,405	$19,858
Related fees & taxes	$1,807	$1,951	$1,885	$1,972	$2,285
	$20,273	$20,672	$20,422	$20,377	$22,143
Compliance Measurement Revenue Estimates:					
(a) Estimated Underpayments	$274	$371	$434	$383	$414
(b) Estimated Overpayments	$101	$161	$91	$131	$132
(c) REVENUE GAP	$173	$210	$343	$252	$282
Total Potential Revenue:					
Actual Revenue + Revenue Gap	$20,446	$20,882	$20,765	$20,629	$22,425
Revenue Gap Percentage:					
Revenue Gap as percent of Total Potential	0.84%	1.01%	1.65%	1.22%	1.26%

Revenue Gap (c) consist of (a) - (b):
(a) Estimated duties, taxes and fees owed to Customs due to non-compliant filing of entries
(b) Estimated duties, taxes and fees that were overpaid to Customs at filing of entries
(c) Estimated net amount of duties, taxes and fees that were owed to Customs due to non-compliant filing of entries

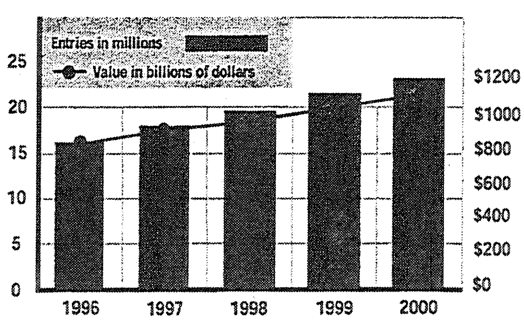
The Revenue Gap is only a statistical estimate and is relatively imprecise. Customs does not recognize the Revenue Gap as a receivable or use it to identify, collect from, or refund monies to specific accounts. There are two major reasons why the Revenue Gap may not be reliable:

1) The revenue changes occur only for a small number of lines even though the sample size for many of the Harmonized Tariff Schedule chapters are large; and
2) The variability of the revenue change is large when it does occur.

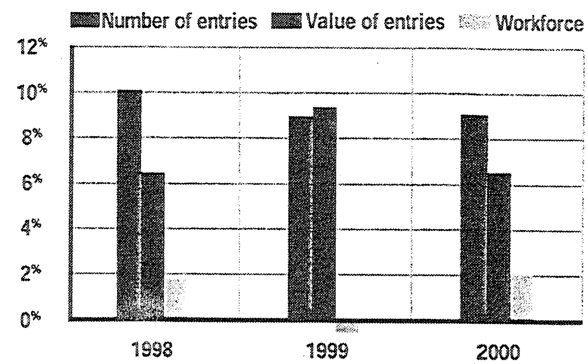
Workload has outpaced (and is projected to continue to outpace) the marginal growth in the Customs workforce. Innovative programs such as Risk Management have been developed to focus resources where they are needed most, but the volume of trade will continue to outpace our workforce levels as time passes. Despite this constraint, Customs will continue to work at achieving our stated objectives.



Trade Compliance Workload



Annual Growth Rate of Workload to Total Customs Workforce



Automation Challenges

The largest difficulty faced by Customs and the trade community is that of ensuring adequate automated systems. Customs currently uses the Automated Commercial System (ACS) to process the huge volume of entries that cross our nation's borders each year. Current trade volume has taxed this system to its limits, and the results of a system failure will have huge implications for Customs and the trade community.

Significant system upgrades have been proposed under Customs information technology (IT) modernization initiative. In the meantime, ACS is operating at near capacity almost every day, and will be kept alive as long as possible. However, ACS operations cannot remain adequate indefinitely. Additionally, design limitations within ACS have prevented the full implementation of a variety of new regulatory programs and procedures, limiting them to prototypes and port trials. Customs will continue to innovate and adapt to a changing trade and business environment as much as possible within the current levels of automation, but the need for system-wide updates is critical.

Program Activity Trends and Measured Results

Customs has been very busy over the past year developing new commercial processing systems, conducting seminars and importer reviews, promulgating new regulations, and investing heavily in training its personnel to manage increased workloads with a more account-based focus. With the forecast showing world trade continuing to expand at an unprecedented level, and our resources remaining relatively static, Customs had to find a way to facilitate the movement of cargo, while remaining vigilant in our efforts to protect the health and safety of the American public.

Customs continued to implement aspects of its Modernization Act in FY 2000 by expanding the number of ports using Remote Location Filing (RLF), which allows cargo to be entered and processed at locations such as factories or warehouses that are not normally within reach of the typical port where the goods actually arrived.

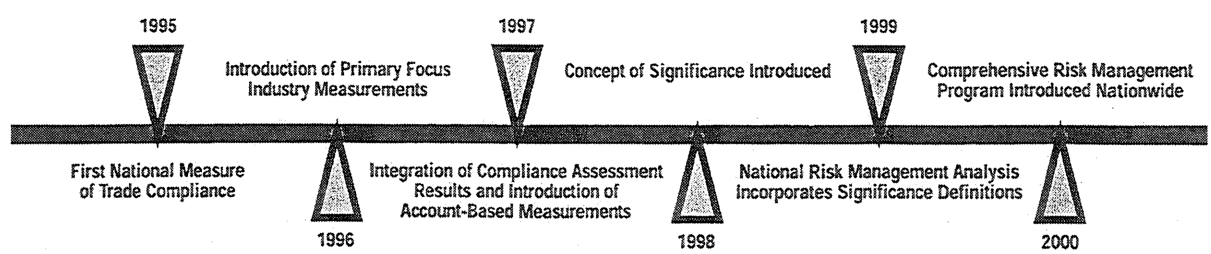
- 120 ports are involved in RLF.
- Approximately 200 brokers and 1,500 importers participate.
- Over 14,000 RLF entries on average are filed per month.

There have also been several key accomplishments concerning regulatory issues. The Entry Revision Proposal identified the need for major legislative changes to streamline and modernize Customs entry statutes and has been a primary and continuing initiative. Regulations packages such as the revised broker regulations, new fines, penalties, and forfeiture guidelines, and a revision in the procedures for issuance of administrative rulings on import issues have all been completed in the last fiscal year. Additionally, the binding rulings program has issued over 12,000 rulings to the importing public in order to help resolve import issues and promote uniformity throughout ports located nationwide. Rulings which were formerly available only by subscription are now available on the Internet free of charge within two weeks of issuance.

The Account Management Program, which monitors the largest importers, now includes 206 national and 566 port-based accounts. This represents a significant increase over the past year, and reinforces Customs move from a traditional transaction-based processing methodology to a more customer focused account-based approach to increase compliance.

The Compliance Assessment Program, now in its fifth year of operation, uses a statistical sampling methodology to select importers for review who exhibit a high degree of non-compliance. Although the review does not constitute an audit, it is a comprehensive way to determine whether or not information being submitted to Customs is complete and accurate in accordance with laws and regulations.

Compliance Measurement History Timeline



Teams of auditors, import specialists, international trade managers, and analysts combine their skills and expertise in a joint effort with corporate managers, helping them develop plans for improving their performance and increasing national compliance rates. This program continues to be a key element of the Risk Management Process, giving us access to vital data needed to construct import profiles by industry, while helping us direct resources in the most advantageous manner to correct deficiencies and processing errors.

For FY 2000, Customs completed Compliance Assessment reviews of 105 major importers, and is in the process of issuing a report on 99 more. These are positive numbers for a program that is a cornerstone of the Customs informed compliance initiative. In further support of this effort, 56 Informed Compliance Publications that provide practical guidance to importers have been issued and are available to trade organizations in hard copy or on the Customs website.

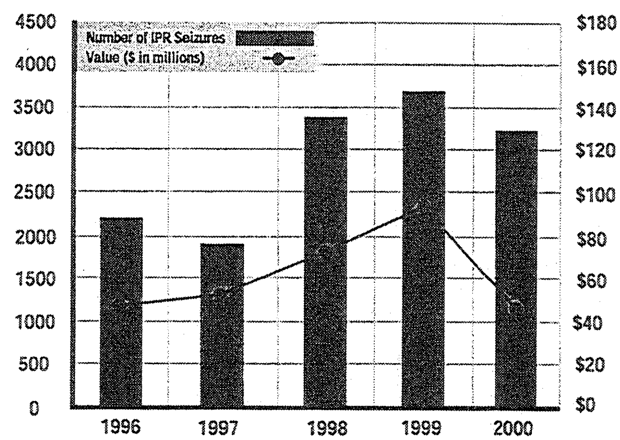
The importance of protecting intellectual property rights (IPR) has received heightened recognition as the global economy becomes more service- and idea-based and world trade increases. With the development of new technologies and the decreasing cost and proliferation of duplication equipment, IPR theft continues to be of great concern to legimate businesses and consumers.

Customs focuses its IPR efforts on the protection of copyrights and trademarks. In an effort to combat the flow of infringing goods into the U.S., Customs has made a concerted effort to detect infringing merchandise entering the U.S. and to seize such goods. This mission is accomplished through the cooperation of various disciplines within Customs in developing intelligence, targeting infringing merchandise and taking enforcement actions.

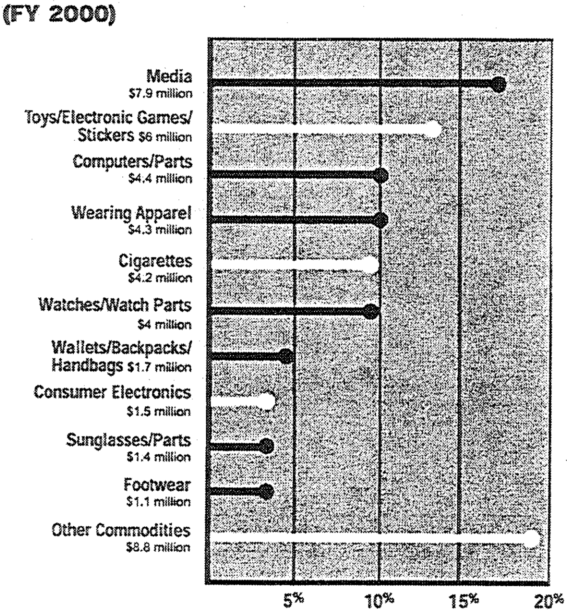
Beginning in FY 1998, there has been a pronounced increase in the number of Customs IPR seizures. Although there were 12% fewer seizures in FY 2000 than in 1999, the average number of seizures over the past three fiscal years is still 65% higher than the average for previous years. The steady increase in the yearly estimated domestic value of IPR seizures peaked in FY 1999 at over $98 million, but decreased 54% in FY 2000. However, the FY 1999 value was marked by several significantly large seizures. The median value of seizures has continued to increase.

The statistics also suggest an increase in the domestic production of infringing goods. Seizures of lesser-valued "identifying elements" (items such as buttons, rivets, patches or labels that mimic actual name-brand products) have increased. These are items, which are then affixed to inferior generic goods, with the completed article sold to unsuspecting consumers as genuine.

IPR Seizures Compared to Value of Seizures



Percentage of IPR Seizures by Commodity (FY 2000)



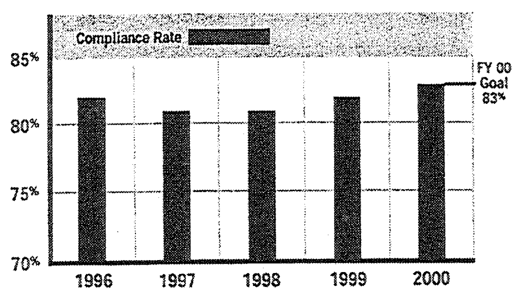
Trade Compliance

Measures of Performance

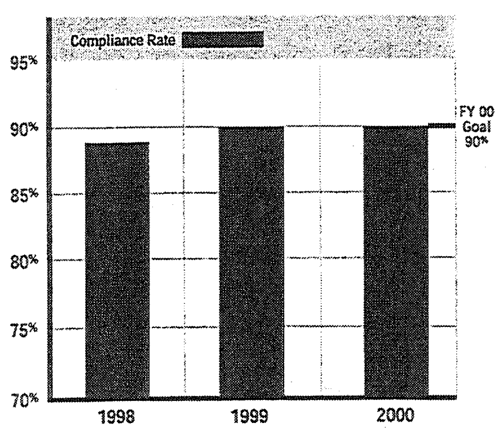
In FY 2000, Customs continued to strive towards its strategic goal of increasing trade compliance levels. Compliance rates for "Letter of the Law Discrepancies" (LOL), which measure all trade discrepancies, and "Major Transactional Discrepancies" (MTD), which measure discrepancy types deemed most significant, have steadily increased over the past few years.

- The LOL compliance rate went up to 83%, continuing an incremental yearly increase.
- The MTD compliance rate was held at 90%, meeting the yearly goal for FY 2000.

Compliance Rate for all Imports (LOL)

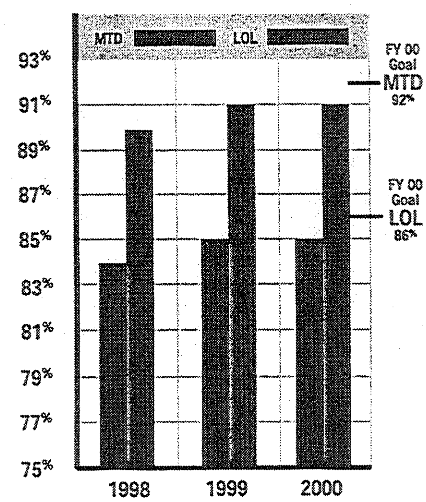


Compliance Rate for all Imports (MTD)



Overall compliance rates can be reviewed more closely by looking at the combined Primary Focus Industy (PFI) compliance rates. PFIs are critical trade areas selected from all industry groups measured through the compliance measurement program. While Customs did not reach the FY 2000 overall PFI targets this year, gains from FY 1999 did not slip, which is an important achievement when weighed against ever rising levels of imports. Several carefully designed and coordinated interventions and innovative programs like the Focus On Non-Compliance and the Multi-Port Approach to Raise Compliance by the year 2000 helped to maintain these levels despite the huge surge in trade volume. Additionally, each of these programs had a goal of not only raising compliance, but also promoting uniformity and information outreach among members of the international trading community.

Overall Primary Focus Industries Compliance

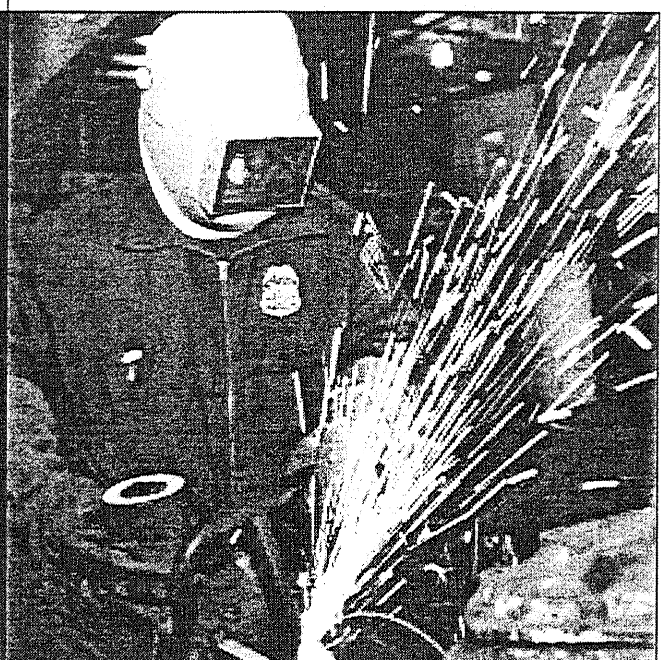


Also impressive was the success of Customs Phase 1 Risk Management Prototype that included 9 major ports of entry. This prototype challenged managers to better align their resources with areas of non-compliance by considering the potential impact of field activities on specific accounts, industries, and commodities. The early success of the prototype heralds Risk Management as another important tool for Customs to use as we face the new challenges of the coming fiscal year.

Outbound

Program Overview

Customs Outbound Programs are responsible for the enforcement of U.S. export laws and regulations. The outbound mission is to interdict the illegal export of unreported currency from the proceeds of narcotics trafficking and other illicit activities; prevent international terrorists groups and rogue nations from obtaining sensitive and controlled commodities; interdict stolen property including stolen vehicles; increase export compliance; and create and utilize an Automated Export System (AES) to refine targeting effectiveness.



The goals of Outbound Programs are to:

- *Maximize the efficiency of limited resources through automation, risk management, and improved targeting,*
- *Provide clear and uniform export guidance,*
- *Increase compliance through informed compliance, outreach, and when appropriate enforced compliance, and*
- *Capitalize on improved infrastructure and non-intrusive technology.*

Customs has continued to define its outbound customers and their needs in an effort to develop an automated data-driven system. Baseline compliance data has been captured in the air, land, and sea environments. In an effort to implement a more comprehensive compliance program, Customs has taken steps to measure compliance based on national account records of companies instead of individual transactions. Customs has developed measures to determine our effectiveness in targeting export cargo violations. Recognizing that better outcome measures are necessary, we are striving to automate the export process to provide better targeting information and to increase resources to augment enforcement efforts.

In an effort to increase aviation safety and security, Customs currently has 109 experienced and trained inspectors with advanced technological capabilities assigned to outbound airport teams. Customs supports antiterrorism/aviation safety and security efforts at 17 of the largest international airports. Additionally, the Outbound Program Office is responsible for the interdiction and detection of weapons of mass destruction (chemical, biological, or nuclear) entering or leaving the United States.

Areas of Future Emphasis

The Automated Export System (AES), designed as a joint venture between Customs, the Bureau of the Census (Census), and other government agencies, electronically gathers export-related information from exporters and carriers. This information increases Customs ability to target export violators and improves the accuracy of trade statistics. With more accurate export data, the trade deficit will decrease, having positive ramifications on trade legislation and the economy as a whole. Enhancements are being implemented in AES that will provide greater flexibility for the trade, more timely enforcement information for Customs, and more accurate information for Census.

Outbound Programs will continue to identify its internal and external customers and their needs, and continue to develop performance measures. Compliance baseline rates will be established by conducting modality surveys and implementing informed compliance programs in the rail and express courier environments. Vessel and air carriers compliance levels will be based upon the national account records of a carrier instead of individual transactions or port-based compliance levels to focus on noncompliant customers' weaknesses. In addition, a northern and southern land border compliance program will be institutionalized.

Outbound Programs will focus on providing its internal customers with more uniform and efficient procedures throughout the export process. Customs will develop national guidelines and all necessary legal documents that allow for field personnel to examine cargo at inland locations. The implementation of inland examination will allow for a more expeditious examination process for the trade and for Customs. Customs will initiate a regulation change that would allow for reimbursable funds to support outbound operations at express courier locations.

Outbound Programs will continue strengthening field operations by providing the following national training to personnel: Aviation Safety and Security; Chemical, Biological, Nuclear, and Radiological; undeclared bulk currency; stolen vehicles; outbound rail and hazardous materials; and other export enforcement training. Additional outbound facilities will be established on the Southwest Border to adequately provide for safe outbound examinations. These facilities will also provide the infrastructure to install the Treasury Enforcement Communications System (TECS), License Plate Readers (LPRs), non-intrusive technology, and other tools. Outbound Programs is working with the Office of Applied Technologies Division to develop wireless TECS and handheld computers to collect outbound inspection data.

Great strides are being made in the area of new outbound examination technology. Customs will continue to develop and evaluate new technology, such as a hand-held currency vapor detector capable of detecting undeclared bulk currency on passengers and in cargo. Vapor detectors will be evaluated to determine their value in identifying explosives in cargo. Customs will test pallet x-ray systems, mobile truck x-ray systems, and gamma ray imaging systems capable of examining full cargo pallets, in a short period of time, for the purpose of detecting explosive devices, weapons, currency and stolen vehicles.

Challenges

Some of the challenges that Outbound Programs will face are to:

- Adjust to new smuggling trends and techniques.
- Adapt to changes in laws and regulations.
- Develop new technologies.
- Manage limited resources efficiently.
- Handle increased movement of cargo and passengers.
- Cope with expanding workloads and areas of responsibility.
- Address increased threat of terrorism.
- Carry out increasingly complex technical programs.

Customs can anticipate an increase in exports commensurate with the predicted increase in world trade. Census forecasts that exports will increase 6 percent per year and will total $1.2 trillion in 2003. The number of passengers is also expected to increase at a 5-6 percent rate per year. Customs must meet this challenge with limited resources. Currently there are approximately 448 dedicated outbound inspectors nationally. The challenge for Outbound Programs is that, while the amount of cargo and the number of passengers exiting the United States is increasing at a rate of 5 to 6 percent each year, the number of dedicated outbound inspectors is not expected to change over the next few years. This requires that Outbound Programs find new methods to inspect and examine more passengers and cargo with a higher level of targeting effectiveness and efficiency.

Program Activity Trends and Measured Results

Automated Export System (AES)

AES is the U.S. Government's only automated system for reporting and collecting export trade data from exporters and forwarding agents. AES successfully replaced the Automated Export Reporting Program (AERP) on January 1, 2000; enhancements are underway. Customs, with assistance from Census, developed AES to electronically collect Shipper's Export Declarations (SEDs) and manifests to assist in the enforcement of export laws. AES accounts for 43.5 percent of all exports (citing the July 2000 trade statistics) and has an error rate of 2-3 percent (versus 50 percent in the paper environment). The AES error rate is significantly lower because AES utilizes up-front edits to validate and reject questionable transactions. AES will improve the accuracy of export trade data.

Goals for the AES System:

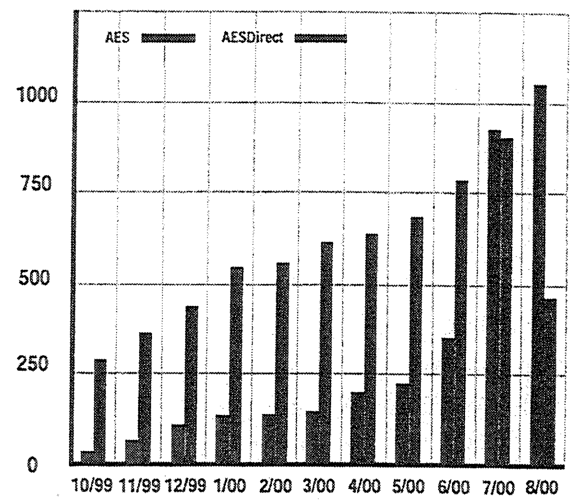
Number of filers:	700
Number of SED transactions:	9 million
Percentage of transactions filed electronically:	64.2 percent
Number of AES Participants:	50,000

Measured Results

Number of filers:	1876
Number of SED transactions:	12.5 million
Percentage of transactions filed electronically:	78.0 percent
Number of AES Participants:	252,488

After AES replaced AERP, Customs and Census successfully migrated all 320 companies under AERP to AES. In addition, Customs is continuing to encourage exporters who are currently submitting paper SEDs to submit their export data through either AES or AESDirect.

Growth of AES Participation (Number of Filers)



The above graph shows the steady growth in the number of participants in AES. There are two ways in which companies can participate in AES. The exporter may either purchase or develop their own software, or under AESDirect, go to the Census website and complete an electronic form.

Outbound Outreach

This year, outbound teams at ports across the country are taking part in outreach to the exporting community and providing workshops on the use of AESDirect. This program is designed to convert filers of paper SEDs to electronic filing through AES. Currently, electronic reporting accounts for 78 percent of all export transactions, and Customs receives over 78 percent of the export data through either AES or the Canadian Data Exchange. Customs must still handle 486 thousand paper SEDs each month. Most paper filers are small-to-medium-sized freight forwarders who view AES as too costly. Customs outreach is showing them that AES is a small part of the cost of exporting, and worth the investment.

Vessel and Air Manifest Compliance

Goal: Attain a compliance rate of at least 92 percent with key export reporting requirements.

Vessel and Air export reporting requirements include:
- Timeliness Rate of Filing of the Manifest (percentage)
- Timeliness Rate for Filing of Bills (percentage)
- Matching Rate of All Bills (percentage)
- Compliance Rate of the Manifest (percentage)

Measured Results:

Vessel:
- Timeliness Rate of Filing of the Manifest – 95.8 percent
- Timeliness Rate for Filing of Bills – 95.2 percent
- Matching Rate of All Bills – 96.3 percent
- Compliance Rate of the Manifest – 96.5 percent

Air:
- Timeliness Rate of Filing of the Manifest – 99 percent
- Matching Rate of All Bills – 94 percent

Baseline measures have been established for the air manifest environment. For the vessel environment, procedures have been established for quarterly post audits and reporting. Although not yet up to Customs expectations for quality, these quarterly reports provided Outbound Programs with a gauge to measure future performance. Customs is still working to improve the rigor of data results reported on these manifest measures. Guidance has been provided to the field regarding the collection of data for manifest compliance.

In the vessel environment, Outbound Programs was able to exceed each of the four goals established for the program. The overall compliance was 96.5 percent. There were 1,234 post audits conducted which resulted in 5,449 violations, 1,397 penalties and 2,768 liquidated damages. As a part of the program, 212 workshops and 905 outreach visits were conducted. A total of 2,088 people were reached during the workshops and visits.

A statistically valid survey was conducted at 19 of the busiest airports, as part of a limited survey for outbound air manifest compliance. The survey was conducted between March and May 2000. A post audit of identified manifests was conducted. The post audits were designed to match bills and determine the timeliness of manifests filed by the carrier.

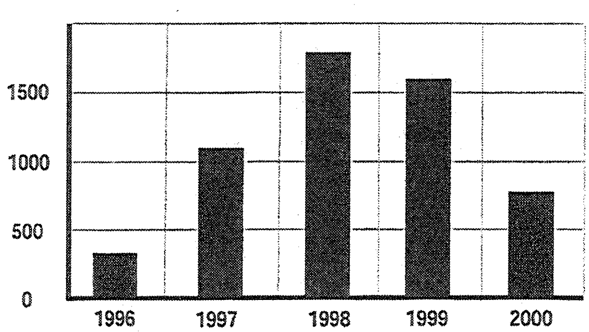
Outbound Licensing

Goal: To make a combined 662 seizures of munitions, technology, and sanctioned shipments.

Measured Results: Customs seized a combined total of 736 shipments of munitions, technology, and sanctioned goods. The value of these shipments was $50.7 million.

Though the number of seizures for FY 2000 decreased from FY 1999, they did meet the FY 2000 projected goals for the Exodus Program. The value of these seizures totaled $50.7 million for the fiscal year. This was a 31 percent decrease in the number of combined seizures for FY 1999. The number of technical violation seizures reached 1,229 and were valued at an additional $45.2 million. Most of the reduction in the number of seizures can be attributed to limited resources and a continued liberalization of the licensing requirements for the Department of Commerce (Commerce). Because of the expected normalization of diplomatic relations with a number of sanctioned nations, the downward trend in licensing violations is expected to continue into the future.

Outbound Licensing Violations



Prior experience has shown that approximately three quarters of the referrals received in the Exodus command center lead to seizures. Customs has been working with Commerce to reduce the length of time required to obtain a license determination. Commerce has set goals for its staff to make licensing determinations in less than 14 business days. Currently Customs is receiving the determinations in approximately 7 to 10 business days.

Customs also continues to work with the Department of State on munition shipments to resolve issues and to improve enforcement. Meetings have been held to determine what level of enforcement the Department of State and the Office of Defense Trade Control want Customs to exercise.

Currency Operations

Goal: Seize at least $62 million in currency being exported illegally. (Note. This measurement has been incorporated into one of the Office of Investigations overall currency measurements.)

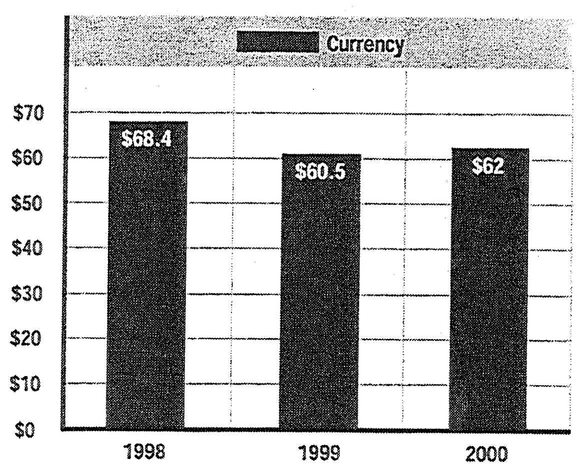
Measured Results: Customs seized $62 million in currency being exported.

Over $62 million in smuggling currency was seized during FY 2000, the second highest annual total in Customs history. There were a total of 1,440 seizures nationally. Three of those exceeded the $1 million mark. A highlight of this year's operations included a six-week interdiction initiative nationally coordinated between the Offices of Intelligence, Investigations, and Field Operations. Operation Powerplay focused on identifying, arresting, and prosecuting violators and organizations involved in transporting proceeds out of the United States.

As a result of Powerplay, Customs made 262 currency seizures totaling over $11.3 million. This outbound enforcement operation also resulted in 38 federal currency arrests, 107 National Criminal Information Center arrests, and 39 state and local arrests, including individuals wanted for child pornography, incest, armed robbery, driving under the influence, drug possession, and domestic violence. Customs officers identified and seized bulk cash shipments concealed in automobiles, trailers, bicycle tires, food products, stereo equipment, internal body carriers, clothing, shoes, luggage, and express courier parcels.

The currency seized represents a significant part of the proceeds from illicit narcotics sales. In an effort to move the currency out of the U.S., smugglers have developed highly involved concealment methods that are increasingly more difficult to detect.

Value of Currency Seizures (in millions)



Operation Clear Sky

In an effort to ensure airline passengers safety over the July 4th holiday season, Customs joined forces with the Federal Aviation Administration to conduct an operation targeting dangerous goods transported on commercial aircraft. This joint initiative, "Operation Clear Sky," was conducted from June 28 – July 21, 2000, at nineteen major airports around the nation where Customs maintains an Anti-terrorism, Aviation Safety and Security Team.

During the operation, there were a total of 1,811 international commercial flights inspected, and a total of 268 hazardous materials interdictions. There were also three undeclared currency seizures totaling $218,555. While the operation itself officially concluded on July 21, 2000, Customs Outbound Aviation Safety and Security Teams continue to perform inspections of outbound international flights in order to help protect the traveling public.

Stolen Vehicle Exports

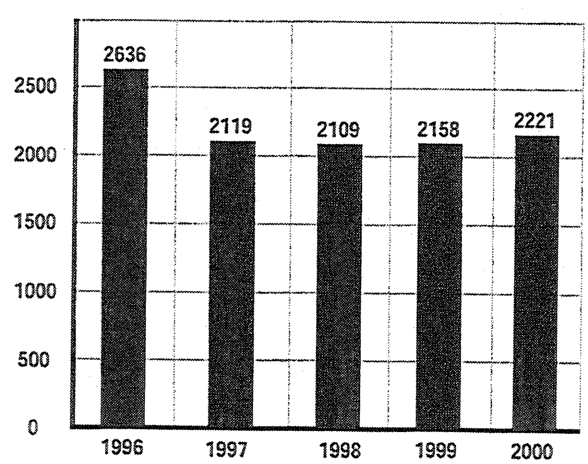
Goal: To seize at least 900 outbound stolen vehicles

Measured Results: A total of 668 outbound stolen vehicles were seized during FY 2000.

The main reason this goal was not reached was a switch in smuggling techniques. It is believed that more stolen vehicles are being secreted in containers than has been the case in the past. Additional non-intrusive technology will be needed to interdict stolen vehicles within containers.

Much of FY 2000 has been spent laying the groundwork for an improved program for the interdiction of stolen vehicles. It is estimated that several hundred thousand vehicles are illegally exported from the U.S. annually. To combat this threat, Customs has installed outbound License Plate Readers (LPRs) along the southern border, purchased and deployed improved non-intrusive technology at Ports of Entry, and revised training and a new handbook for use by interdiction teams. Customs has also developed a new partnership agreement with the National Insurance Crime Bureau (NICB) which will allow for the deployment of NICB data entry specialists to 28 ports throughout the U.S. Through advanced training, inter-and-intra-agency task forces, and improved use of technology, we will be better able to meet the challenge of interdicting stolen vehicles.

Total Stolen Vehicles Recovered



Outbound

A total of 2,221 stolen vehicles were recovered during the fiscal year. The number includes inbound (1,326); outbound (668) and other (227) recovered vehicles. The total value of these vehicles was $23.9 million.

Cooperation with the NICB will add additional inspection personnel to inspect and process the data collected on the many vehicles leaving the country.

Working with State and Local Organizations

Through the use of allocated funds, Customs has been able to team with state and local law enforcement groups to develop expanded outbound and passenger operations. The state and local law enforcement agencies are reimbursed for overtime expenses via the Treasury Forfeiture Fund.

For FY 2000, Outbound Programs received $3 million from the Treasury Forfeiture Fund for operations. These operations supported currency, stolen vehicle, and Exodus interdictions, as well as helping to deter port runners along the Southwest Border. State and local assistance became a great force multiplier at seaports, airports, and along the land border. Without the assistance of these professionals, the successes of FY 2000 would not have been possible.

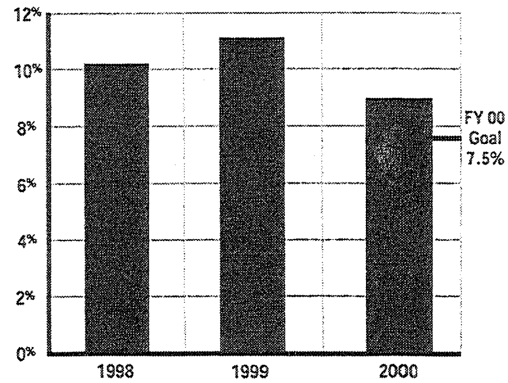
Outbound Targeting Effectiveness

Goal: Achieve an overall targeting effectiveness rate of at least 7.5 percent in outbound cargo shipments.

Measured Results: Customs achieved an overall targeting effectiveness rate of 8.96 percent in outbound cargo shipments.

In FY 2000, Customs began to improve data collection developed through AES. AES is being designed to collect examination data on both AES and non-AES shipments. This will lead to a better targeting rate on outbound cargo shipments.

Targeting Effectiveness for Outbound Cargo Shipments



Enforcement Systems

GOAL: Disrupt the individuals, organizations, and the methods they use to violate laws enforced by the Customs Service.

Program Overview

Customs enforcement systems strategies encompass five major program areas. These are Narcotics, Money Laundering, Trade Fraud, Strategic, and CyberSmuggling Investigations. Enforcement systems activities complement Customs core business processes by focusing on the willful violator and identifying and dismantling organizations used to facilitate international crimes and the persons involved. We have achieved our goals in FY 2000 through the utilization of our diverse enforcement resources. Customs maintains some of the most, if not the most, comprehensive enforcement programs in the nation, employing Customs Inspectors, Intelligence Analysts, Special Agents, Pilots, and Marine Enforcement Officers, and operating a sophisticated array of high technology, including a fleet of 110 vessels and 122 aircraft.

Narcotics enforcement encompasses Customs efforts to reduce the smuggling of drugs across U.S. borders and to dismantle Drug Smuggling Organizations (DSOs). Money laundering activities are those designed to prevent the movement of large sums of money gained from illicit sources across transnational borders. The objective of Customs Strategic Investigations activities is to identify and disrupt criminal enterprises, especially those involving trafficking in weapons, controlled commodities, stolen property, terrorism, or violations of international embargoes. Customs also has a variety of trade fraud programs designed to stop predatory and unfair trade practices that threaten the U.S. economy, as well as violations of intellectual property rights (IPR). Through its CyberSmuggling Program, Customs combats crime committed over the Internet, such as child pornography, the sale of prohibited items, and trade fraud. With an integrated and coordinated air and marine interdiction force, the mission of the Air and Marine Interdiction Division is to protect the Nation's borders and the American people from the smuggling of narcotics and other contraband.

In FY 2000, Customs dedicated 4.8 million hours to investigative programs. A majority of the investigative hours, which totaled 74 percent, were dedicated to narcotics smuggling and money laundering programs.

Strategic Objectives of Enforcement Systems

- Reduce the flow of drugs across the U.S. Border and disrupt and dismantle DSOs through unified intelligence, interdiction, and investigative efforts.
- Identify, disrupt, and dismantle the systems and criminal organizations that launder proceeds generated by smuggling, trade fraud, and export violations.
- Identify, disrupt, and dismantle criminal enterprises violating U.S. laws, with particular emphasis on violations involving international trafficking in weapons, sensitive and controlled commodities, and stolen property; international terrorism; and violations of economic sanctions and embargoes.
- Identify, disrupt, and dismantle entities employing illicit trade practices that negatively impact U.S. trade policies and laws.
- Identify, disrupt, and dismantle organizations involved, through the use of the Internet or other electronic media, in the violation of laws and regulations enforced by the U.S. Customs Service.

Challenges

Customs faces a number of immediate and long-term challenges in the enforcement systems area. Drug use and trafficking will continue to be a major problem. DSOs will continue to probe entry points for weaknesses in interdiction capabilities. A trend toward smugglers air-dropping their goods to waiting go-fast vessels will continue. Drug smugglers will increasingly use sophisticated technology and deeper concealment techniques for hiding contraband. Use of internal conspiracies and countersurveillance spotters will become more of a threat to Customs. The borderless environment created by e-commerce will be increasingly exploited by the proliferation of international crime groups. The volume and speed of international cash flow will rise and the increased use of electronic transfers will pose new challenges. It is expected that the global banking environment will become more complex and the methods of laundering money will become more sophisticated.

Distribution of Total Investigative Hours by Major Program (Domestic Offices)

Program	FY 2000 (%)
Narcotics Smuggling	54.4
Financial	19.5
Fraud	9.0
Strategic	6.1
Child Pornography	3.4
Other	7.6
All Programs	100.0

Program Activity Trends and Measured Results

A. Narcotics

Strategic Goal: Reduce the flow of drugs across the U.S. Border and disrupt and dismantle DSOs through unified intelligence, interdiction, and investigative efforts.

Fueled by the strong demand for illegal drugs in this country, DSOs continue to represent a compelling threat to the social and economic well-being of the United States. As the Nation's frontline, Customs must respond to this threat, and does so with a cohesive strategy of intelligence, interdiction, and investigation, designed to put traffickers behind bars and the DSOs out of business.

In FY 2000, the consolidation of the air and marine assets into a single, integrated interdiction force has had a multiplying effect. It has led to using the best capabilities of each system, which has maximized results. In FY 2000, Customs began P-3 operations from Naval Air Station (NAS) Jacksonville, Florida, in addition to the P-3 operations based at NAS Corpus Christi, Texas. Operating split P-3 branches allows Customs to improve coverage of transit, arrival, and source zones. Customs provided support to domestic Federal, state, and local law enforcement operations. In addition, Customs operated air assets in certain foreign countries which allowed U.S. Customs to combat drug trafficking in both the source and transit zones before the shipments reached the United States.

Goal: Seize 172,000 pounds of cocaine; 1,900 pounds of heroin; and 1,300,000 pounds of marijuana.

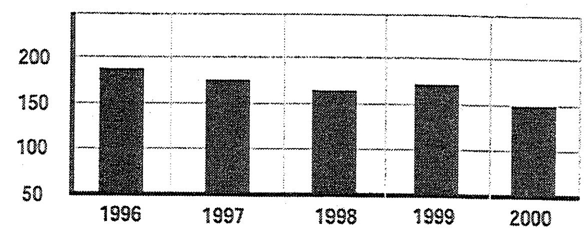
Measured Results: Customs seized or assisted in the domestic seizure of 150,036 pounds of cocaine; 2,555 pounds of heroin; and 1,291,487 pounds of marijuana.

The overall quantity of narcotics seized in regard to this goal in FY 2000 was up 145,352 pounds, or 11.2 percent, over that seized in FY 1999 (down 6.6 percent for cocaine, up 32.6 percent for heroin, and up 13.7 percent for marijuana). There has been a drop in cocaine seizures along the Southwest Border with an increase in seizures in the Caribbean area and North Florida. This trend may indicate changes in the smuggling routes in response to law enforcement pressures. In addition, there have been record-breaking seizures of cocaine in transshipment countries, such as Mexico, which netted 20 tons of cocaine in FY 2000.

An additional factor in lower U.S. cocaine seizures in FY 2000 may be the expanding cocaine market in Europe where prices and profit margins are higher than in the U.S. The drug traffickers are also attempting to use Europe as a transshipment point to smuggle cocaine back into the United States through less guarded corridors. In excess of 30 metric tons of cocaine was seized in Europe in FY 2000.

In addition, the rivalry between a number of smuggling organizations in Mexico and South America has impacted the flow of cocaine into the United States and the resulting seizures. The organizations have attempted to fill voids, maintain corridors, and impact their neighboring competitors while still moving their own loads of contraband. The effect of this system of ebbs and flows can be seen in the pattern and quantity of seizures made during FY 2000. To illustrate, because of the slowdown of seizures made by the midpoint of the fiscal year, the year-end goal of 172,000 pounds of cocaine, a significant increase over the FY 1999 goal, was adjusted to 120,000 pounds of cocaine. However, by the end of FY 2000, seizures exceeded the revised midyear goal by over 30,000 pounds, or 25 percent.

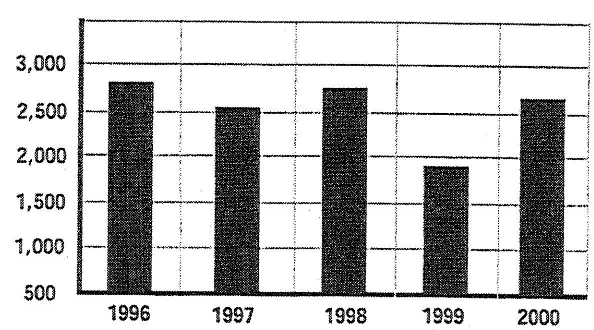
Pounds of Cocaine Seized (in thousands)



FY 1997, 1998, and 1999 figures were updated.

The quantity of heroin seized in FY 2000 amounted to 2,555 pounds, 32.6 percent more than the quantity seized in FY 1999. Although the FY 2000 heroin seizures represented a significant increase, 34.5 percent above our FY 2000 goal, it was comparable to the average quantity of heroin seized over the last 5 years. Heroin moved by commercial air remains the largest threat to Customs enforcement efforts. Commercial air shipments accounted for over 69 percent of all heroin seizures in FY 2000. Although South America remains a major source for heroin smuggling, the traffickers have expanded their transshipment locations to include Central America and the Caribbean. Southeast Asia traffickers also continue to feed the U.S. market. These traffickers use couriers traveling via Europe and/or mail and express consignments to move their shipments. In FY 2000, heroin seizures from countries such as Kazakhstan and Kyrgyzstan also increased.

Pounds of Heroin Seized



FY 1997, 1998, and 1999 figures were updated.

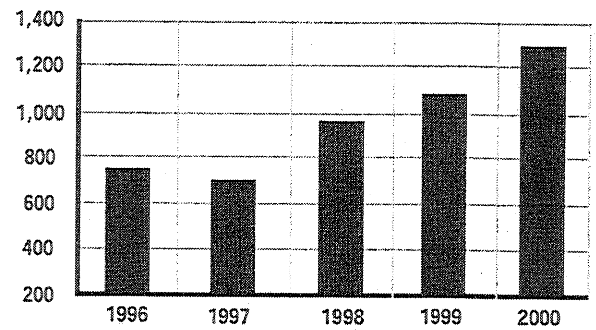
Enforcement Systems

The total quantity of marijuana seized in FY 2000 was 1,291,487 pounds, an increase of 13.7 percent over FY 1999. Customs marijuana seizures were at a record high in FY 2000. In fact, new record highs have been set in each of the last 3 years. As a result, FY 2000 marijuana seizures were almost 80 percent more than the quantity seized in FY 1997.

Because of Customs outstanding success, marijuana traffickers have been forced to become more sophisticated in the techniques they employ. In the marine environment, for example, marijuana smugglers have taken on some of the diversionary smuggling techniques of the cocaine smuggler. The maritime marijuana smuggler is now using decoy vessels in an effort to engage all law enforcement resources in a specific area. With all the resources in an area involved with decoy vessels, the smuggling vessel can then get through. In the Caribbean, traffickers frequently send out vessels filled with illegal aliens as decoy vessels.

At land borders, the marijuana smuggler is using multiple hidden compartments in the same conveyance. An example of this was demonstrated in the March 21, 2000, seizure of a 1991 Ford Taurus in Brownsville, Texas. The vehicle had six separate compartments, which contained a total of 83 pounds of marijuana. In addition, the marijuana smugglers have been boiling marijuana and straining the residue out of the water. The water, which then has THC present, is placed in the window washer reservoir and sprayed over the vehicle's windows. The water dries and leaves a slight residue of THC on the windshield, which causes a positive alert from any drug detection dogs in the area. This allows the load vehicle to pass through the crossing as the law enforcement resources respond to the K-9 alert on the diversionary vehicle.

Pounds of Marijuana Seized (in thousands)



FY 1997, 1998, and 1999 figures were updated.

Another development in FY 2000 was the sharp rise in the seizure of other drugs. The seizure of methamphetamine, by weight, increased by 20.5 percent. The epidemic rise in the use of ecstasy has resulted in tripling the number of dosage units seized to more than 9.3 million units in FY 2000.

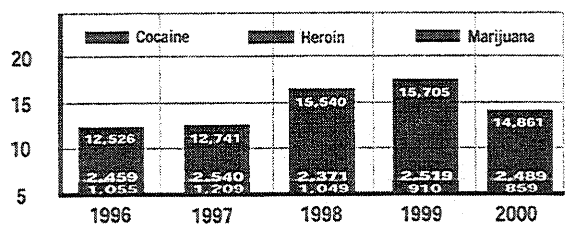
Goal: Make at least 2,600 cocaine seizures; 1,000 heroin seizures; and 16,500 marijuana seizures.

Measured Results: Customs made or assisted in making 2,489 cocaine seizures; 859 heroin seizures; and 14,861 marijuana seizures.

The total number of drug seizures for these three categories decreased from 19,134 in FY 1999 to 18,209 in FY 2000, a 4.8 percent decrease. In relation to FY 1999, the number of cocaine seizures was down by 1.2 percent; the number of heroin seizures was down by 5.6 percent, and the number of marijuana seizures was down by 5.4 percent. In regard to the goals set for FY 2000, the number of cocaine seizures attained 95.7 percent of the goal; the number of heroin seizures attained 85.9 percent of the goal; and the number of marijuana seizures attained 90.1 percent of the goal.

It should be noted that, although Customs did not meet 100 percent of each of these goals set for FY 2000, Customs seized a larger quantity of heroin and marijuana in FY 2000 than in FY 1999. Individual seizures were also larger on average during FY 2000. In addition, the total number of all types of drug seizures for FY 2000 increased from 41,896 to 42,973, a 2.6 percent overall increase over FY 1999. The overall increase in the number of drug seizures is attributed to a slight increase in methamphetamine seizures and a dramatic rise in ecstasy seizures during FY 2000.

Number of Narcotics Seizures



FY 1997, 1998, and 1999 figures were updated.

B. Money Laundering

Strategic Goal: Identify, disrupt, and dismantle the systems and criminal organizations that launder proceeds generated by smuggling, trade fraud, and export violations.

Money laundering activities have the potential to bring serious macroeconomic distortions and misallocation of resources and capital globally. Customs anticipates that economic and financial issues will become further enmeshed with transnational crime and international criminal enterprises; this will require increased intervention by international trade and law enforcement organizations.

Customs has broad authority to conduct international financial criminal investigations. As the guardians of America's borders, Customs is the frontline defense in safeguarding the revenue and fostering lawful international trade and travel. We are the primary law enforcement agency at the border, controlling the flow of people, commodities, and monetary instruments. While no hard numbers exist on the amount of worldwide money laundering from all illicit sources, it is estimated that the global volume of cross-border money laundering is between two and five percent of the world's gross domestic product – some $600 billion. Customs is leading the fight to combat this transnational threat at our nation's borders.

Goal: Seize at least $336.6 million in total monetary instruments.

Measured Results: In FY 2000, Customs seized $204.1 million in illicit proceeds.

The seizure of monetary instruments by Customs has decreased significantly from projections made in FY 1999. The primary reason for the reduction is the shift in outbound cash smuggling methods used by criminal organizations. The shift in these smuggling methods is partially due to the immense success Customs has had in shutting down trusted money laundering systems through cases such as Operation Casablanca and other high profile money laundering operations. As a result, Customs is working hard to retarget high-risk smuggling areas currently utilized by money launderers. The retargeting effort has created a time lag between the new types of money laundering cases worked and the number of seizures associated with these cases. Another reason monetary instrument seizures are down from previous years is that a huge spike in seizures associated with Operation Casablanca and other high profile operations occurred in FY 1999. These operations were concluded, leading to a reduced seizure statistic for FY 2000.

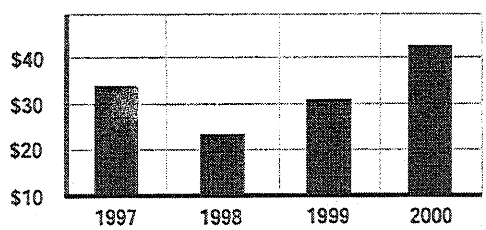
Goal: Seize at least $37.5 million in real and other property as a result of money laundering investigations.

Measured Results: Customs officers seized a combined $42.1 million in real property and other property as a result of money laundering cases.

The value of real property seizures and seizures of other types of property as a result of money laundering cases has increased by $11.7 million from the FY 1999 figure and by $4.6 million over the projected target figure for FY 2000. Since Customs is refocusing on new money laundering systems and organizations, the Asset

Identification and Removal Groups are also beginning to focus on these systems and organizations in order to make the largest impact possible in depriving the criminals of the fruit of their illegal activities.

Real and Other Property Seizures (In Millions)



Customs has seen a shift in money laundering methodology over the last few years. Because of effective enforcement, some of the established methods of moving large amounts of illicit money have given way to riskier smuggling techniques, such as bulk cash shipment. In addition, some criminal organizations are increasingly using more sophisticated methods to move their proceeds offshore such as trade-based money laundering. In combating these new methods, Customs is conducting industry outreach to alert and involve industry in recognizing and reporting the utilization of trade-based money laundering systems and other capital movement techniques as international trade mechanisms to facilitate the movement of illegally-generated proceeds. This trade distortion activity has a significant impact on global commerce.

It is also anticipated that the Civil Asset Forfeiture Reform Act (CAFRA) of 2000 will have a significant impact on limiting the number of currency seizures in the near future. The provisions of CAFRA, including an elevated burden of proof, the elimination of the cost bond, changes in the notice requirements and government payment of counsel, legal fees, costs, and interest, will certainly reduce the number of administrative forfeiture procedures completed by Customs and significantly increase the number of civil and criminal judicial forfeitures. This added burden on the Federal Court System could cause many cases to be declined, which would adversely impact enforcement efforts against money laundering by transnational criminal organizations.

C. Strategic Investigations

Strategic Goal: Identify, disrupt, and dismantle criminal enterprises violating U.S. laws, with particular emphasis on violations involving international trafficking in weapons, sensitive and controlled commodities, and stolen property; international terrorism; and violations of economic sanctions and embargoes.

The operational goals of the program are to prevent specific countries, terrorist groups, and transnational criminal organizations from:

- Smuggling Weapons of Mass Destruction (WMD) and other instruments of terror into the United States;
- Obtaining sensitive and controlled commodities, including WMD components and technologies, conventional munitions, and firearms;
- Engaging in economic and other transactions which support illicit trafficking or terrorist activities, or which violate U.S. and international sanctions and embargoes; and
- Trafficking in stolen property exported from the United States.

One of the major challenges faced in dealing with investigations into transnational criminal organizations is the lack of development and expertise in the law enforcement agencies of foreign governments. Customs will continue to provide training and assistance to foreign authorities in strengthening their borders and enforcement capabilities. This will include providing ongoing foreign border control training and education programs in the areas of WMD, firearms trafficking, and exports of stolen vehicles. Customs will also continue international investigations of strategic-related offenses with foreign customs and law enforcement counterparts through Customs Attachés.

For FY 2000, there were 302 strategic-related arrests, 206 indictments, and 277 convictions, which were almost 50 percent higher than the average of FY 1998 and FY 1999 and approach the average results from FY 1994 to FY 1997.

Seizures in the Strategic arena have increased at about a 4.2 percent average over the past 5 years. While the overall proportion of agent hours directed towards Strategic cases has remained relatively constant, the Strategic Investigations Program results have improved appreciably from the beginning of this 5-year period.

In FY 2000, Customs increased liaisons and resource deployment dedicated to outside agency (FBI, State, and Commerce) initiatives both at the Headquarters and field levels, including the Joint Terrorism Task Forces. These increases proved extremely effective in counteracting several terrorist incidents in December 1999, just prior to the new millennium.

Investigative efforts resulted in significant disruption of international trafficking activities, especially in the area of terrorism. The following are examples:

- On December 14, 1999, Customs Inspectors apprehended an individual attempting to smuggle significant amounts of materials commonly used in making explosives. Customs agents arrested the suspected terrorist and he is scheduled for trial in Los Angeles, California, in early 2001.
- A 4-year undercover investigation led to the arrest of three international businessmen for conspiracy to acquire and sell $20 million worth of embargoed Iraqi oil.

D. Trade Fraud

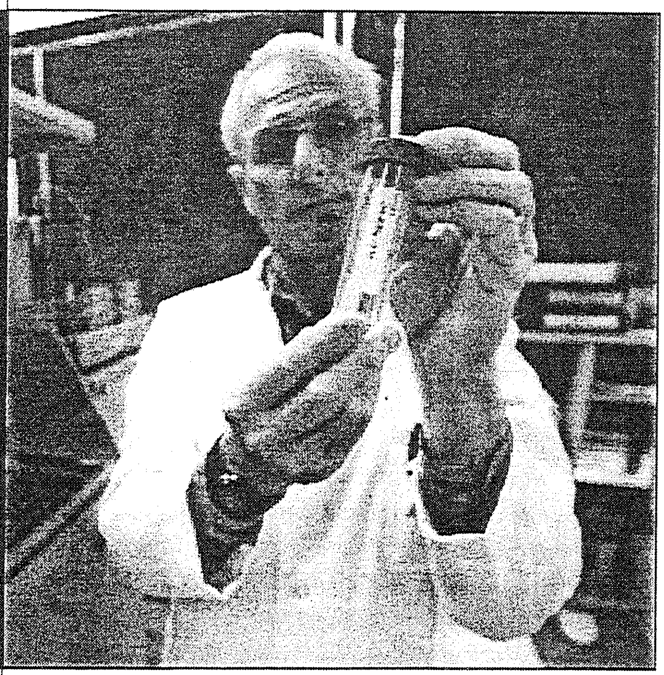
Strategic Goal: Identify, disrupt, and dismantle entities employing illicit trade practices that negatively impact U.S. trade policies and laws.

The globalization of trade, the expansion of free enterprise in the former Soviet Union and the Pacific Rim, and technological advances associated with computers and the Internet provide increasing opportunities for criminal groups and organizations that exploit the international market place to further their illegal activities. Customs is dedicated to combating these groups and organizations through a variety of diverse investigative programs all linked together with one common goal – to stop predatory and unfair trade practices that threaten our economic stability, restrict the competitiveness of U.S. industry in world markets, and place our public health and safety at risk. These programs include: Intellectual Property Rights; Forced Child Labor; Textile Enforcement; Environmental Crimes; Public Health and Safety; Tobacco Smuggling; and the North American Free Trade Agreement (NAFTA).

In FY 2000, Customs achieved investigative successes in the area of Trade Fraud and its ultimate objective – to identify, disrupt, and dismantle entities employing illicit trade practices that negatively impact U.S. trade policies and laws. These included the opening of 1,630 investigations; 166 arrests; 158 indictments; 1,396 seizures; and 1 Detention Order. Examples of successful actions against violators are:

- A 2-year investigation targeting manufacturers, importers, and distributors of counterfeit golf equipment concluded with the conviction of the final defendant. The investigation culminated with the arrest and conviction of 13 individuals, along with the seizure of $1.7 million worth of illegally imported counterfeit golf components. During the course of the investigation, Customs seized over 310 shipments of counterfeit golf equipment, which represented a potential economic loss of revenue to American golf club manufacturers of over $100 million.

- An investigation involving a corporation which fraudulently marked consumer electronic products with false country of origin markings and undervalued the products to avoid paying Customs duties concluded with a guilty plea. The corporation pled guilty to 15 counts of smuggling and was sentenced to pay a criminal fine of $6 million; a special assessment of $3,000; and supervised probation for 3 years or until the fine is paid. Additionally, the corporation was ordered to pay Customs $8 million in penalties and duties.



- Three hundred and sixty containers of counterfeit merchandise were falsely declared to Customs as household furniture. The investigation determined that the organization had smuggled approximately $25 million worth of textiles and counterfeit software with an approximate value of between $12 and $18 million into the United States. Two of the individuals were sentenced for their part in the smuggling scheme and ordered to pay a total of $7.4 million in restitution to Customs.

Customs unveiled the latest weapon in the fight against violations of Intellectual Property Rights (IPR) laws – the National IPR Coordination Center. The IPR Center will coordinate all U.S. Government law enforcement activities involving IPR issues, both domestically and internationally, and serve as a collection point for intelligence provided by private industry, as well as a channel for law enforcement to obtain cooperation from private industry in specific law enforcement situations. Investigative personnel from Customs and the FBI provide core staffing for the IPR Center. Particular emphasis is placed on investigating major criminal organizations and those using the Internet to facilitate IPR crime.

A Special Agent was assigned to the Office of the Customs Attaché, Panama office, to act as regional coordinator for investigations relating to Forced/Prison Labor. This addition will provide Customs with the opportunity to address historical allegations of forced or bonded labor in Central America, as well as result in more proactive investigations.

Textile Production Verification Teams were deployed to 10 foreign countries and conducted visits to over 500 foreign textile factories to verify production capabilities and identify illegal transshipment schemes.

E. Cybersmuggling

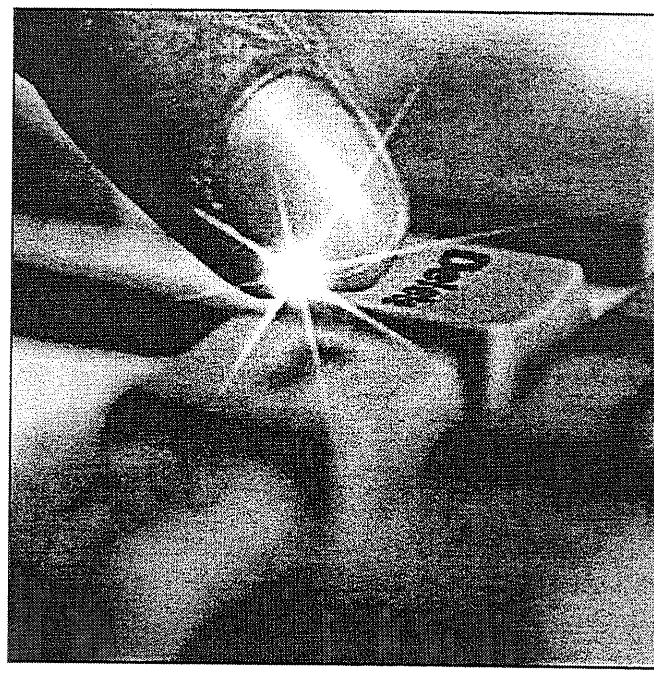
Strategic Goal: Identify and target areas of the Internet being used to commit Internet violations, and work with other federal agencies and countries to develop investigations to target illicit Internet activities.

The Customs Cybersmuggling Program exists to address the evolution of digital crime that crosses America's borders. The program's progression began with the migration of child pornography and is emerging into one of Customs major investigative programs. The disruption and dismantling of violators is accomplished via a coordinated effort between the CyberSmuggling Center and field offices. In FY 2000, Customs responded to the public's 3,425 child pornography tips by issuing 1,419 summons. Initial review and referral of these tips resulted in 263 domestic and 209 foreign leads. During this period, 1,427 child exploitation cases were opened, which resulted in 320 arrests, 299 indictments, and 324 convictions. The impact of one child pornography distribution website was seen in a case this year in which over 4.2 million images were downloaded by as many as 200,000 persons worldwide in a 70-day period. The site has since been shut down and four arrests have been made, including a police officer, an elementary school teacher, and a known child molester.

In addition to child exploitation investigations, the growing use of the Internet has created an increased workload for Customs. Internet investigative cases rose over 200 percent from FY 1999, particularly in fraud and narcotics. Customs efforts to combat online prohibited pharmaceuticals proved successful in a joint operation with Thai law enforcement that resulted in the first-ever dismantling of foreign-based websites exporting prohibited drugs to the United States.

Customs continues to enhance its computer forensics program by providing an infrastructure of equipment and trained Computer Investigative Specialists (CIS) to meet the demands of electronic evidence. During the fiscal year, 55 CIS agents conducted 570 computer forensic exams.

Customs challenges in the cyber arena include the inconsistencies of laws amongst countries and the ability to remain current with technology, both in equipment and employee skill set. To address these issues, the CyberSmuggling Center has dedicated efforts to partner with countries by teaching Internet investigative techniques and cooperative Internet enforcement. Also, training and outreach presentations have been delivered to Federal, state, and local agencies, and to schools, to

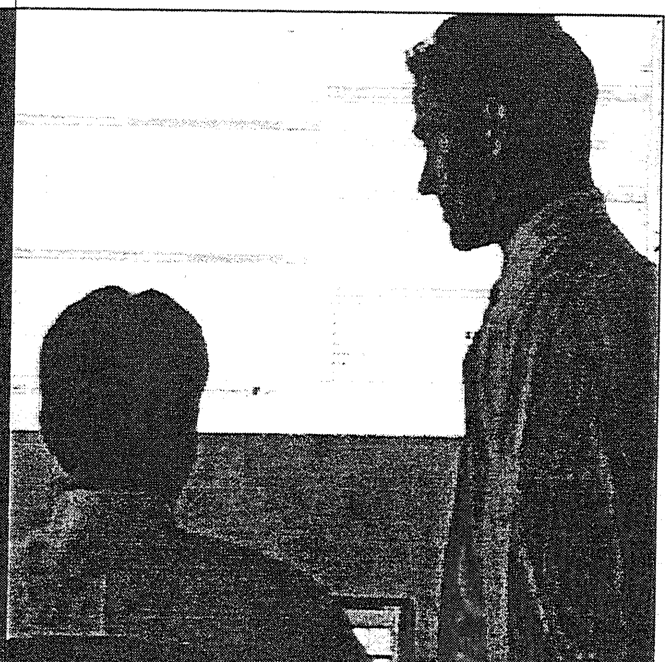


create a joint effort in combating Internet crime. Overall, CyberSmuggling Center staff spent 188 days of FY 2000, reaching 3,631 people around the world.

Crosscutting Management Activities

The work of Customs four basic operational processes is supported by a number of important support functions. These are:

- *Human Resources Management*
- *Training*
- *Financial Management*
- *Information Technology*



Human Resources Management

Customs Human Resources Management (HRM) function demands innovative leadership in the areas of hiring and promotions, programs to enhance the safety and effectiveness of the workforce, and the integration of technology into the delivery of quality services. HRM ensures that the human resource programs are tailored to Customs current and future programs.

Strategic Recruitment

- *Customs National Recruitment Program targets recruitment for Customs key operational positions. To attract quality candidates, outreach initiatives included participation in 29 national conferences, ad campaigns on Customs website and in newspapers and magazines; unveiling of the first recruitment kiosk at the John Jay College of Criminal Justice (photo) and subsequent kiosk placement in three additional universities; and training of 34 additional Field Recruiters. Customs developed comprehensive staffing plans to address attrition, vacancies in critical locations, and positions mandated by Congress.*

- *The Agency's recruitment needs focused on the Southwest Border with its hard-to-fill locations and the Northern Border where staff had to be deployed to address terrorist activities. Internal/external hiring initiatives were balanced using improved programs such as Quality Recruitment, Quick Hire for agents, and Microcomputer Assisted Rating System for senior inspectors. In addition, tracking systems and customer-oriented procedures were put in place to ensure that applicants moved rapidly through the various hiring stages. As of September 2000, more than 850 employees were hired from external sources.*

- To address the recruitment problems in attracting and retaining pilots, retention allowance and recruitment bonus incentives were approved. To optimize recruitment options for P-3 pilots (e.g., attracting retired military pilots), the maximum entry age was increased from 37 to 40. In addition, a Foreign Assignment Review Board was established with an innovative recruitment process for filling attaché and assistant attaché positions. The Customs National Intern program was established, and alliances were established with minority colleges throughout the United States resulting in selections of 27 interns.

- To continue to increase the professionalism of the Customs workforce, tests and structured interview examinations tailored to staffing Customs core occupations were further developed. These efforts ensured ongoing hiring initiatives and the establishment of a pipeline of candidates. In addition, a leadership skills written test battery was developed, pre-tested, and marketed for promotions to GS-14 Criminal Investigators, GS-12 Supervisory Customs Inspectors, and GS-11 Senior Inspectors.

- Customs initiated program reviews to improve services to customers. A Hiring Improvement Committee was established which made 20 recommendations to streamline the process with the goal of reducing hiring timeframes. In addition, the agencywide Recruitment, Retention, and Advancement Committee Report found 51 recommendations to be feasible for implementation. In collaboration with the Office of Training and Development, a succession planning strategy was developed and approved.

Employee Support/Safety

- Customs safety programs were strengthened to emphasize the agency's concern for employees and their critical needs including expanded counseling programs for families of deceased employees or seriously-ill employees and their families, and employees affected by natural disasters or other crises. In addition, more than 50 percent of Customs facilities were inspected; 445 supervisors and managers were trained; critical safety issues were addressed at Customs sites; and the radiation safety program was expanded.

Discipline Reform

- Customs implemented a new discipline program to ensure fairness and consistency in addressing misconduct. Approximately 600 cases were reviewed for consideration during 23 meetings of the Discipline Review Board. A handbook, *A Guide to Good Conduct and the Discipline Process*, was developed for supervisors. The first annual *Report on Conduct and Discipline* was developed for all-employee distribution.

Diversity

Customs is committed to building an agency that is diverse at all levels and reflects the international communities that we serve. Understanding how to engage a diverse workforce that manages and serves a multi-cultural customer base is critical in maintaining the public's confidence in our ability to effectively meet our mission. As an agency, we continue to recognize and capitalize on the rich diversity of our employees, including women, minorities, and persons with disabilities. Promoting diversity is a top priority for Customs. In FY 2000, Customs developed a strategic plan that identifies the challenges that Customs will address to enhance compliance in the areas of civil rights and diversity.

The table on the following page provides Customs workforce data for FY 1990 and FY 2000. Since 1990, the number of women in the Customs workforce has increased by 17 percent as compared to a 5 percent increase for men. Minority representation, particularly the proportion of Hispanics, has increased significantly during the past decade. The number of minorities, as a whole, increased by 39.8 percent while the overall Customs workforce increased by only 8.8 percent.

In accordance with the President's Executive Order, the agency developed a comprehensive plan to increase the number of hiring opportunities for people with disabilities and ensure that reasonable accommodations are provided in the workplace.

Comparison of National Workforce by Gender/Race FY 1990 Versus FY 2000

	FY 1990	FY 2000	Change (+ or -)
Female			
Total	6097	7136	+ 1039
White	3816	4153	+ 337
Black	1272	1436	+ 164
Hispanic	721	1179	+ 458
Asian American	241	323	+ 82
Native American	19	38	+ 19
Non-Hispanic in PR	28	7	- 21
Male			
Total	12422	13008	+ 586
White	9669	8953	- 716
Black	798	879	+ 81
Hispanic	1525	2536	+ 1011
Asian American	332	498	+ 166
Native American	62	105	+ 43
Non-Hispanic in PR	36	37	+ 1

EEO Complaints and Alternative Dispute Resolution

The Equal Employment Opportunity (EEO) Commission mandated the establishment of an Alternative Dispute Resolution program for the resolution of EEO complaints of discrimination. Customs implemented mediation programs for both bargaining unit and non-bargaining unit employees on October 1, 1999. Customs employees, who were trained and certified as mediators by the Justice Center of Atlanta, have conducted 121 mediations during FY 2000. Of these, 81 (67 percent) resulted in successful resolutions. The success of this program is demonstrated by the fact that there was a significantly lower success rate for the 10 months prior to the program's implementation.

Reprisal Study

During FY 2000, Customs hired a contractor to analyze allegations of reprisal within Customs. In Phase 1 of this study, the contractor analyzed employment and EEO records to identify patterns and trends. The analysis compared employment records of those individuals who filed complaints but did not claim reprisal. Telephone interviews were conducted with several dozen employees and supervisors who filed reprisal claims.

During Phase 2, the contractor visited five Customs Field locations. Employees at these sites were randomly selected to participate in one-on-one interviews and focus groups to discuss the issue of reprisal at Customs. The final phase of the study will involve a randomly distributed survey to several thousand employees to assess the perceptions of the workforce as they relate to reprisal issues and the EEO process.

EEO Awareness

In FY 2000, several EEO training initiatives were developed for Customs managers, supervisors, and EEO practitioners. Customs revised the four-hour curriculum for new managers and supervisors at the Federal Law Enforcement Training Center. The course, piloted during FY 2000, received high ratings for its focus on specific issues Customs executives face in managing their organizations.

Customs EEO Office also sponsors distance learning — specifically, monthly EEO training for new Inspectors. Training has been developed to educate all Customs employees about the EEO process and their rights and responsibilities and will be delivered nationally during FY 2001. A course was designed specifically for Customs EEO Counselors to ensure compliance with EEO requirements.

Training

To emphasize the importance of a skilled and well-trained workforce in America's Frontline mission, Customs established a new Office of Training and Development (OTD) in FY 2000 to ensure quality and effective training throughout the Customs Service. OTD built centralized training programs and systems, created a direct link between training and operational success, enhanced career development, expanded course offerings, and strengthened leadership development and professionalism.

The Customs National Training Plan (NTP) was developed to identify the core, standardized, recurring training requirements for employees at the entry, mid, and advanced career levels. The Plan incorporates guidance for 21 mission-critical occupations based on career development frameworks. It allows Customs to develop national priorities for training and to track training accomplishments against national goals. To support the NTP, training staff prepared the first comprehensive Customs course catalog. The NTP serves as a tool to determine efficient means of meeting training needs across the nation.

To ensure training investments are appropriate, targeted to mission-critical priorities, and produce high quality training, Customs has employed a number of management tools. Business Case Analysis was established to govern efforts to introduce new training based on sound business sense, reflecting the intent of Customs strategic plan. Training standards and policies are being introduced to ensure that Customs employees are getting consistent, standardized training presented in a professional manner. The standards will be used as the baseline for evaluating effectiveness and future improvements to all training.

All entry-level course curricula are undergoing extensive validation through a comparison of the tasks employees perform on the job to the content and objectives of training. This ensures that employees are being taught the skills they need to do their jobs on America's Frontline. The process continues through evaluation of training by students and evaluation by supervisors to determine if students are applying newly learned skills on the job.

Customs made strategic use of training by integrating training into major national policy issues. Training is a fundamental part of expanding the national strategy of risk management throughout all levels of Customs. Training was an integral tool in addressing the national issue of personal search policies and procedures. Additionally, training played an instrumental role in introducing change in national policy regarding the 24-hour carrying of firearms by Customs law enforcement personnel. In support of the national strategy of raising the level of professionalism and education in the Customs workforce, the Customs Tuition Program enabled over 600 employees nationwide to go back to school by providing tuition assistance for a variety of job-related courses.

The challenge of delivering more training to more students and to contain costs has led Customs to pursue methods of distance learning. An executive level Distance Learning Board, which reviews business cases for distance learning and establishes funding requirements and policies, was created. The development of a Distance Learning Strategic Plan was undertaken, and a major effort was initiated to make online learning (e-learning) available to the workforce in FY 2001. More than 35 satellite training broadcasts were delivered this year.

Crosscutting Management Activities

Despite funding challenges, the agency has set new records for number of instances and hours of training. The Customs Academy has provided almost half of these hours and has undertaken many initiatives to improve the training it provides. Courses covering passenger and cargo drug interdiction, strategies targeting money laundering, stolen vehicle exporting, and anti-terrorism are tailored to the Customs environment. Courses are delivered at working ports of entry. The opportunity to learn in a work environment has produced unprecedented learning opportunities and enforcement results this year. Data show that during or as a direct result of the training, students have used course-developed skills to seize large quantities of illegal drugs and drug money.

Efforts this past year were focused on the further development of programs that directly impact law enforcement officers. The OTD Firearms and Tactical Training Division commissioned a study of law enforcement training needs within Customs early in FY 2000. As a result of the study, Customs developed a comprehensive Firearms Infrastructure Reorganization and Enhancement plan. The plan targets the professional development of firearms and defensive tactics field instructors as well as defensive skills of the 13,000 armed Customs officers. Underlying the plan are changes in Customs firearms and use of force policies. Projects initiated this year to support these efforts include a defensive tactics instructor certification program, state-of-the-art training equipment, and an automated system designed to track field training for firearms and defensive tactics. Improving officer safety has been a major undertaking this year. Efforts are reflected not only through improved training, but also through the issuance of new body armor, acceleration of the handgun replacement program, and the issuance of shotguns and policy to govern their use for our Southwest Border sites.

The development and sustainment of a strong leadership element for Customs has been a major undertaking in FY 2000. Customs has established a continuum of leadership training that begins with new supervisors attending the revised Customs Supervisors' Seminar within six weeks of becoming a supervisor. A significant backlog of new supervisors needing training was eliminated. A structured Supervisor's On-The-Job training program developed this year follows the supervisor's course. A Supervisor's Desk Reference Guide containing comprehensive administrative and personnel guidelines was published. A new mid-level manager's course began helping Customs managers expand their management and leadership skills. The capstone of the new continuum is the Customs Leadership Institute, a partnership with Columbia University Graduate School of Business. The goal of this program is to develop a cadre of outstanding Customs employees who are well prepared to assume executive positions. The program's success is demonstrated by the fact that some of the students have been selected for executive positions.

Financial Management

Overview

Customs strives to be a leader in financial management by providing high quality, cost-efficient financial management services through customer involvement and modern, integrated financial services. The overall goal of financial management is to develop more effective and efficient methods to obtain and manage financial data, resources, and assets that are consistent with customers' and stakeholders' needs.

One important role within this function is to clearly identify amounts owed Customs, collect these amounts, resolve any questions or discrepancies between collections and amounts owed, and make accurate reports concerning the status of revenue from all sources. Another is to acquire and manage the assets needed to accomplish Customs frontline mission. This includes translating workloads and requirements into requests for needed resources; allocating and distributing funds after resources are made available; acquiring and distributing personnel, goods, and services needed to accomplish Customs front-line mission; managing and paying for these goods and services; and reporting on the costs and use of personnel, goods, and services.

Challenges/Strategies

A basic challenge facing our financial management efforts is to meet the higher accounting standards now expected of government entities—requiring better definition, collection, reporting, and management of financial data, and more effective use of financial information in conjunction with budget and cost information to help managers make decisions. Another important challenge is to keep pace with the technological changes being used outside government to streamline and expedite financial services provided to customers. Many of our processes continue to be labor and paper intensive, making management oversight and follow-up more difficult. A third major challenge is that changes in laws, international agreements, and regulations have increased workloads and made our revenue and trade compliance functions more complex in day-to-day operation.

Several important strategies have been adopted to address these challenges. One is to enhance existing systems and develop new systems and procedures so that financial transactions can be accomplished via electronic commerce. Another approach is to review and streamline our work processes as much as possible to accompany anticipated changes in technology and equipment and to train and prepare our workforce for these changes. Perhaps most important is the effort underway for some time to develop a fully integrated, automated system to process financial accounting, procurement, and asset oversight transactions to ensure the reliability and accuracy of our financial system data. This system would eventually be interfaced with the modernized version of Customs commercial systems to provide a seamless approach to accurate recording and reporting of revenue and other financial data.

FY 2000 Initiatives

During FY 2000, Customs proceeded with a number of initiatives to improve its financial processes and systems. The following are representative examples:

- The Electronic Posting System was established to improve our contracting process. This permits posting of requests for contract proposals on the World Wide Web. In addition, Customs made use of fast track, commercial item acquisition, and other best practice methods of procurement.

- Customs is implementing new software solutions to reengineer its budget, acquisition, property management, and payables systems into a streamlined, integrated asset management process. In FY 2000, we completed a pilot test of the new SAP R/3 software. We also performed a study to determine the feasibility of using the software to accomplish accounts receivable functions, and began configuration, development, and testing for implementing the first phase of software deployment.

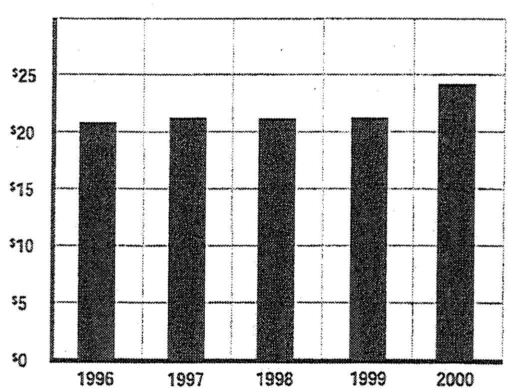
- Customs was again able to prepare timely and accurate financial statements and received an unqualified opinion on the Customs audit for FY 2000.

- Customs continues to enhance its Seized Asset and Case Tracking System (SEACATS). SEACATS is the single repository for Customs inventory and case information related to seized and forfeited property, and to fines, penalties, and liquidated damages. SEACATS is also used by the Treasury Forfeiture Fund to track seized and forfeited property held by the seized property contractor on behalf of other Treasury bureaus. In FY 2000, the system was improved to create a capability for the analysis of changes in seized and forfeited property and currency. An asset sharing module was added, along with enhanced general ledger posting for penalty receivables. As a result of FY 2000 SEACATS enhancements, Customs was able to close an outstanding material weakness related to seized property systems.

Financial Results and Performance Measures

Customs administers the U.S. Trade Program by enforcing the laws governing the flow of merchandise or commerce across U.S. borders, and assessing and collecting duties, excise taxes, fees and penalties on imported and exported goods and services. In FY 2000, Customs collected $24 billion and returned $23.9 billion to Treasury to fund other federal agency programs. Of the remaining $161 million, Customs returned $48.6 million to the Governments of Puerto Rico and the U.S. Virgin Islands, transferred $68.3 million to other federal agencies, and retained $44.5 million to offset various program costs allowed by law and regulation. Duty collections increased $1.5 billion, followed by increases in excise taxes of $190 million, user fees of $169 million and fines and penalty collections of $56 million. Almost $1 billion of the duty increase is associated with collections on textiles and textile products. The remaining difference is primarily associated with three commodity categories; footwear, headgear, and umbrellas; machinery, mechanical equipment, and electrical equipment; and raw hides, skins, and leather.

Gross Revenue Collection (in billions)

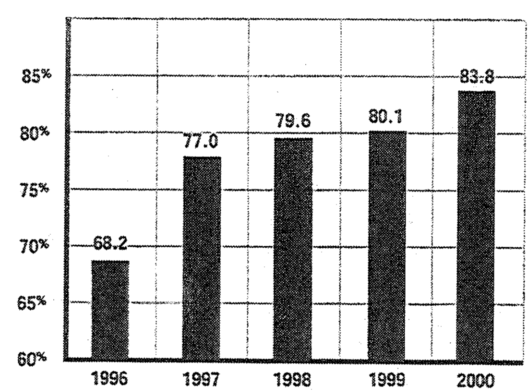


Goal: Increase total revenue collections through electronic means to at least 75 percent.

Measured Results: Customs revenue collections through electronic means increased to 83.8 percent.

The accompanying chart depicts the dollar amount of collections received via electronic means as a percent of total collections. Customs collected $24 billion in FY 2000 in tariff duty, user fees, Internal Revenue Service (IRS) excise taxes, and other assessments. In an effort to improve efficiency and reduce associated costs of the collection/deposit process, Customs has encouraged the trade community and other government agencies to use electronic means when making payments or transfers. Electronic payments made to Customs are credited to Treasury accounts faster than cash and checks. Much of the manual process associated with cash and check processing does not occur when funds are received electronically. Customs uses several different electronic transfer systems. The Automated Clearing House (ACH) is used to transfer payments from the trade community directly to Customs. The On-Line Payment and Collection System is an electronic system used by governmental agencies and bureaus to transfer funds within the government. Fedwire is used primarily to receive payments of IRS excise taxes and credit card transactions. The total amount of collections received via electronic means during FY 2000 was approximately $20.7 billion, $18.7 billion of which was collected via ACH.

Percentage of Collections Received via Electronic Means

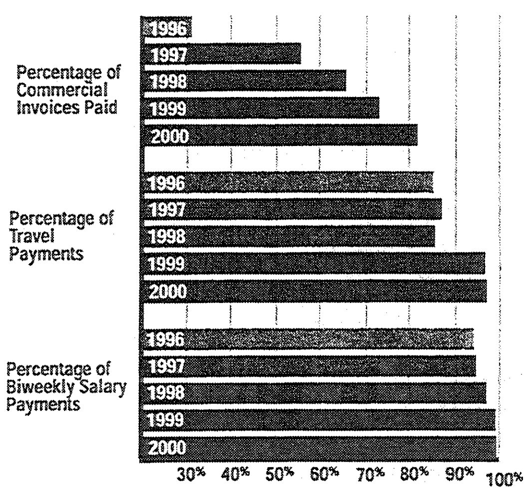


Goal: Increase the percentage of payments made through electronic funds transfers (EFT). At least 80 percent of commercial invoices, 95 percent of travel payments, and 98 percent of salary payments should be paid by EFT.

Measured Results: All of the goals were exceeded. 81.7 percent of commercial invoices, 97.7 percent of travel payments, and 99.2 percent of biweekly salary payments were made by EFT.

On the payables side, the cost of issuing an EFT payment is less than that of a check, processing time is less, and payments are received more quickly. Even though Public Law 104-134, the Debt Collection Improvement Act of 1996, requires most federal payments to be made electronically, it allows for some exceptions, so we will never achieve a 100 percent payment rate for invoices, travel payments, or salary.

Payments Made by Electronic Funds Transfer



Goal: Meet the Treasury assigned goals for percentage of total procurement dollars expended through acquisitions from women-owned businesses, small businesses, small disadvantaged businesses, and minority owned businesses.

Measured Results: Customs greatly exceeded the goals established for procurements through these special preference groups. The assigned goal for procurements through women-owned businesses was exceeded by 67 percent, the goal for small businesses by 64 percent, the goal for small disadvantaged businesses by 547 percent, and the goal for minority owned businesses by 163 percent.

Information Technology

Technology is central to the effective and efficient implementation of Customs operations and to the accomplishment of its Frontline mission. From the non-intrusive inspection systems that contributed to the seizure of over 100,000 pounds of drugs, to the license plate readers at 24 ports of entry that increased the margin of safety for inspectors — allowing them to more closely observe a vehicle and its occupants — technology has a direct impact on Customs operations.

Increasingly, Customs relies on information technology to process passengers and trade shipments each year, and on applied technology to examine trucks, cars, vans, pickup trucks, trains, sea containers and passengers quickly and with a minimum of disturbance.

Customs has developed and manages a number of automated systems that support Customs trade compliance, passenger processing, and enforcement missions. The use of technology allows Customs to target illegal shipments and passengers out of the huge volume of international traffic. The key is electronic data from importers, brokers, carriers and other members of the international trade community. With timely electronic information on shipments and passengers, Customs can concentrate its limited enforcement personnel on the highest risk targets while speedily moving compliant shipments and passengers into the country. Technology is indispensable in the processing of commercial cargo entries and the collection of $24 billion in gross revenue annually.

Automated systems are key to effective Customs operations. Millions of entries are filed annually by the trade community. Duty, taxes, and fees are paid electronically, and statistical and law enforcement data are shared electronically with many government agencies. Through the automated targeting of high-risk shipments, merchandise processing is facilitated, significantly cutting costs and reducing paperwork requirements for both Customs and the importing community. In the last 10 years, trade volume has increased 132 percent and is projected to exceed 30 million entries a year by 2004. One of Customs major

challenges, however, is that Customs Automated Commercial System (ACS) is an aging import processing system, and will never satisfy current performance needs or the future information demands of Trade Compliance. It is based on aging technology and is currently taxed to its limits. It cannot handle increasing trade volume and related enforcement concerns without further degradation in service. Customs experienced ACS outages for durations lasting from 49 to 1,534 minutes for a majority of months in FY 2000.

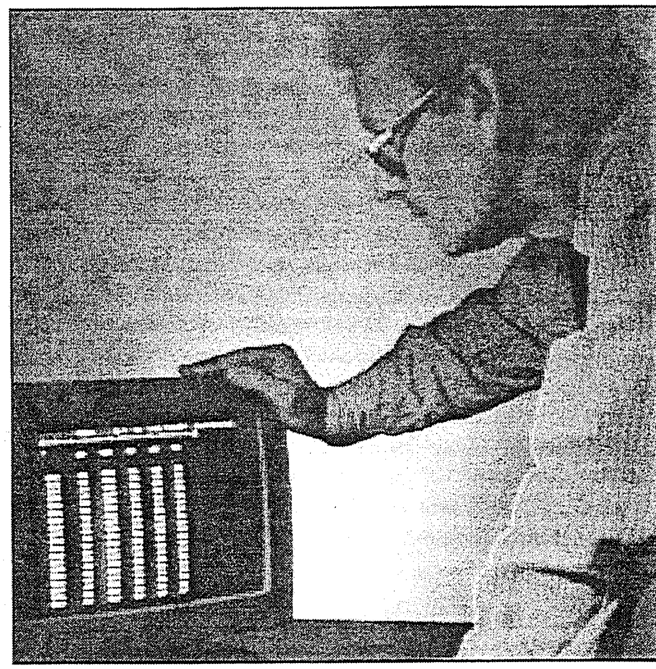
When ACS is non-operative, Customs loses its ability to use automated targeting to effectively manage its risks and resources. Special targeting tools (e.g., the Automated Targeting System) that are used to analyze import data for fraud, illegal narcotics, and terrorism risks become useless. Inspectors no longer receive automatic alerts to help identify goods that should be seized or denied entry. These alerts are critical to Customs efforts to intercept smuggled goods such as illegal drugs, transshipped quota merchandise, products that threaten public health and safety, and goods made with forced labor or by sanctioned countries. Inspectors must clear all cargo manually. There is no practical way for Customs to process cargo rapidly while ensuring proper consideration of known risks. Furthermore, ACS was not designed to meet the requirements of recent legislative mandates, such as the Modernization Act passed in 1993. For these reasons, ACE is planned to replace ACS, and will be developed as the first phase of Customs systems modernization effort.

Another Customs system, AES, is the cornerstone of Customs process to review and manage exports (Outbound Process). Customs developed AES to electronically collect shippers' export declarations and manifests to assist in the enforcement of export laws. AES also significantly improves the process for collection of trade statistics, and facilitates export trade, including license management. It is a joint venture between Customs, Census, other government agencies, and the export community.

A third major system, TECS, supports inspections, interdiction, and intelligence analysis at borders and ports of entry. Information from TECS related to prior illegal activity is used as the base information in the Customs targeting system. This system identifies high-risk passengers and cargo. TECS also manages a system called SEACATS used for keeping track of assets seized by Customs. Finally, Customs Automated Targeting System helps Customs inspectors exercise their law enforcement responsibilities in the import and export environment by summarizing data from electronically filed documents for their analysis.

In addition to these commercial and enforcement systems, Customs operates what are referred to as administrative systems – a collection of more than 40 individual applications constituting three basic functional groups: financial systems, human resource management systems, and field administrative systems.

During FY 2000, Customs successfully managed and implemented changes to Customs information systems for the Year 2000 rollover with no disruption of service to the trade community and other end users. Customs also established the Customs Modernization Office to manage an acquisition in excess of $1.5 billion dollars. The key driver for modernization is the explosive growth in international trade coupled with the static level of the Customs workforce. Every year since 1993, our workload has been at least double that of ten years earlier, and this trend is expected to continue through 2007. Customs users need more accurate and timely data, and the tools to properly analyze it in order to perform their jobs effectively. Both Customs and the trade community need systems that help reduce costs. The Customs Modernization Act both enables and mandates the redesign of business operations and the use of a modern automation approach.



To accomplish this, Customs ACE initiative will rely on account management to streamline the commercial import process, lower the cost of trade compliance, and increase customer service for the trade community through faster cargo release and easier payment options.

Another major initiative tied to modernization was Customs development of the Enterprise Architecture and Investment Management Proccess, which serves as a model for aligning technology to business. In a recent seminar, GAO referred to Customs as a role model in this area.

Federal Managers' Financial Integrity Act Summary

Customs has evaluated its management controls and financial management systems for the fiscal year ending September 30, 2000, as required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982. In addition to its internal evaluations, Customs also relied upon independent financial statement audits, conducted under the auspices of the CFO Act and the GMRA, in its assessment process.

Customs continues to support the objectives of FMFIA and Federal Financial Management Improvement Act (FFMIA) in promoting greater accountability throughout government. Effective internal controls has been a priority initiative as evidenced by the Self-Inspection Program established over the last two years. Of the 115 internal control weaknesses identified under Section 2 since inception of the program, 113 have been corrected and closed, leaving only two unresolved as of September 30, 2000. The two unresolved items are from prior years and their correction primarily involves systems development and security issues. Of the 35 accounting systems non-conformances identified since the beginning of the program, one remains unresolved. The solution for this weakness involves installation of complex, automated systems or significant modification of existing systems. No new Section 4 weaknesses were reported this year.

Annual Assurance Statement for FY 2000

Due to current deficiencies in the quality and adequacy of data provided by Customs financial accounting and reporting systems, I cannot provide reasonable assurance that Customs overall controls and financial management systems are in conformance with the standards prescribed by the Comptroller General of the United States. Based on the results of this year's Office of Inspector General audit of Customs financial systems under the Chief Financial Officers (CFO) Act, we do not have reasonable assurance that the objectives of Section 4 of the FMFIA have been achieved, namely the conformance of our fiscal and administrative systems to General Accounting Office principles and standards. As a consequence, I cannot state compliance with the requirements of the Federal Financial Management Improvement Act (FFMIA). However, with the exception of the material weaknesses described, I can provide reasonable assurance that the general internal control objectives of Section 2 of the FMFIA have been achieved.

Raymond W. Kelly

We closed three of our remaining six weaknesses this year, and no new Section 2 or Section 4 weaknesses were reported. As demonstrated by the number of weaknesses reported and closed since we have been reporting under FMFIA, Customs has made significant progress in addressing and resolving management controls issues. The unqualified opinion received on the FY 1999 Financial Statements is one reflection of the positive results of our efforts to correct conditions noted in the CFO audit process.

In our efforts to address our few remaining weaknesses, we have come to a point where external support and resources are crucial to the success of our corrective action plans. The magnitude and scope of our systems deficiencies require comprehensive solutions and major resource commitments. We are continuing to seek the appropriated funds necessary to move forward on the corrective action plans, and have some indication that our efforts to secure funds are beginning to be successful. In the meantime, we will continue to utilize the compensating procedures and controls available to assure the integrity of our financial operations.

Statistical Summary of Performance

Section 2, Internal Control — Number of Material Weaknesses

	Reported for the First Time	Corrected:	Still Pending:
Prior Years	114	112	2
FY 1998 Report	1	1	0
FY 1999 Report	0	0	0
FY 2000 Report	0	0	0
Total	**115**	**113**	**2**

Of the total number corrected, how many were corrected in FY 2000? 2

Section 4, Financial Management Systems — Number of Material Non-Conformances

	Reported for the First Time	Corrected:	Still Pending:
Prior Years	35	34	1
FY 1998 Report	0	0	0
FY 1999 Report	0	0	0
FY 2000 Report	0	0	0
Total	**35**	**34**	**1**

Of the total number corrected, how many were corrected in FY 2000? 1

Section 1, Part A: Open Material Weakness (Section 2A) as of 9/30/00

Bureau and Control Number	Title of Material Weakness	Description of Material Weakness	Major Milestones: a) Short and b) Long-term	Milestone Dates Original Date	Milestone Dates Current Date
CS-94-02	Inability to timely restore critical systems; lack of a disaster recovery plan	Deficiencies impair Customs ability to respond to a disruption in business operations.	a) Short term		
			• present proposals and costs to Treasury IRB for commercial recovery facility (CRF) options;	10/10/00	10/10/00 Completed
			• complete study to transition to a CRF;	6/30/01	
			• upgrade telecommunications facilities.	9/30/00	7/31/01
			b) Long term		
			• revise the Business Impact Analysis and Disaster Recovery Plans to address additional applications;	TBD	
			• revise the investment management process to include Business Impact Analysis considerations.	TBD	
CS-95-01	Inappropriate access to ADP files, inadequate control of emergency change process, and inappropriate separation of duties	Access capabilities and control mechanisms for critical applications and major support systems need improvement.	a) Short term		
			• Transfer security functions from TECS/SEACATS programmers to the Infrastructure Services Division;	3/31/00	12/31/00 Completed
			• complete risk assessment of mainframe and LAN systems;	10/17/00	10/17/00
			• implement a formal procedure for removing physical and systems access for departed contractor personnel;	1/1/01	6/30/01
			• develop a schedule for implementing a new configuration management tool to control the software change process after consideration of a contractor's report;	4/30/01	
			• implement revised procedures governing emergency change controls.	6/30/01	
			b) Long term		
			• Complete migration to the new change control tool	TBD	

Section I, Part B: The Complete List of Material Weaknesses

(Section 2A) Closed During FY 2000

Bureau and Control Number	Title of Material Weakness	Description of Material Weakness	Validation Process to be Used	Date Closed
CS-93-01	Lack of controls in Customs In-bond Program	Program provided little assurance revenue loss or transportation of contraband was not occurring.	Customs has recently completed an intensive review of in-bond shipments based on a national sample to determine if there was any evidence of discrepancies which could mean lost revenue or contraband in shipments. No major discrepancies were found. Refinement of the system and post-audit process will continue.	9/30/00
CS-98-01	Discrepancies in Customs Outbound Air Manifest Process	A survey of the air outbound manifest process found discrepancies in both Customs and air carrier procedures. A significant number of manifests and shipping declarations were missing.	Customs conducted a statistically valid survey to assess overall compliance at the 19 largest airports and found much improved compliance levels. Outreach and post audits will continue to be conducted on an ongoing basis to monitor the new Compliance Manifest Program.	5/22/00

Section II, Part A: Open Administrative Systems' Non-Conformances

(Section 4A) as of 9/30/00

Bureau and Control Number	Title of Material Weakness	Description of Material Weakness	Major Milestones: a) Short and b) Long-term	Milestone Dates Original Date	Milestone Dates Current Date
CS-93-01	Financial Systems	Customs financial systems do not provide complete and accurate information for financial reporting and for preparation of audited financial statements.	a) Short term		
			• Implement first phase of software deployment of the SAP-R/3 software package.	10/01/00	9/30/01
			b) Long term		
			• Implement full software deployment of SAP-R/3;	10/01/02* 3/30/99	
			• pilot test of the initial version of the subsidiary ledger;		9/30/03*
			• continue testing and refinement of the basic version of the subsidiary ledger;	9/30/99	9/30/03*
			• develop an integrated financial system based on IT modernization – in Phase 2 establish the generic structure of each system;	9/30/02	9/30/03*
			• add transaction specific functionality (i.e., debit voucher and voluntary tender functions and others)		
			Phase 3	9/30/03	9/30/04*
			Phase 4	9/30/04	9/30/05*
			Phase 5		9/30/06* *Contingent on funding

Section II, Part B: The Complete List of Administrative Systems Non-Conformances

(Section 4A) Closed During FY 2000:

None Reported.

Section III, Part A: Open Fiscal Systems' Non-Conformances

(Section 4F) As of 9/30/00:

None Reported.

Section III, Part B: The Complete List of Fiscal Systems' Non-Conformances

(Section 4F) Closed During FY 2000:

Bureau and Control Number	Title of Material Weakness	Description of Material Weakness	Validation Process to be Used	Date Closed
CS-93-02	Seized Property Systems	The automated systems and manual processes for tracking and accounting for seized property were not reliable	Planned enhancements to SEACATS have been accomplished to implement the asset sharing module, provide multiple forfeiture functionality, and make General Ledger updates. The capability of the system to successfully create property and currency rollforwards is the key validation measure as audited by the OIG	9/30/00

Federal Managers' Financial Act Summary

Acronyms

ACE	Automated Commercial Environment
ACH	Automated Clearinghouse
ACS	Automated Commercial System
ADP	Automated Data Processing
AERP	Automated Export Reporting Program
AES	Automated Entry System
APIS	Advance Passenger Information System
ATS-P	Automated Targeting System – Passenger
BIC	Border Interdiction Committee
CAFRA	Civil Asset Forfeiture Reform Act
CFO	Chief Financial Officer
CFO Act	Chief Financial Officers Act of 1990
CIS	Computer Investigative Specialist
CMC	Customs Management Center
COMPEX	Compliance Measurement Examination
CRF	Commercial Recovery Facility
DSO	Drug Smuggling Organization
E-Learning	Electronic (Online) Learning
EEO	Equal Employment Opportunity
EFT	Electronic Funds Transfer
FBI	Federal Bureau of Investigation
Fedwire	US primary domestic electronic funds transfer system
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers' Financial Integrity Act
FTE	Full-time Equivalent
FY	Fiscal Year
GMRA	Government Management Reform Act
GPRA	Government Performance and Results Act
GS	General Schedule (Pay Scale)
HRM	Human Resources Management
IPR	Intellectual Property Rights
IRB	Investment Review Board
IRS	Internal Revenue Service
IT	Information Technology
K-9	Canine (dog)
LAN	Local Area Network
LOL	Letter of the Law
LPR	License Plate Reader
MTD	Major Transactional Discrepancies
NAFTA	North American Free Trade Agreement
NAS	Naval Air Station
NICB	National Insurance Crime Bureau
NTP	National Training Plan
OIG	Office of Inspector General
OMB	Office of Management and Budget
OTD	Office of Training and Development
P-3	Airborne early warning/interceptor aircraft
PDAT	Passenger Data Analysis Team
PFI	Primary Focus Industry
PR	Puerto Rico
RLF	Remote Location Filing
S&E	Salaries and Expenses
SAP R/3	Integrated Financial Systems Software
SAIC	Special Agent-In-Charge
SEACATS	Seized Asset and Case Tracking System
SED	Shipper's Export Declaration
SENTRI	Secure Electronic Network for Travelers Rapid Inspection
STC	Strategic Trade Center
TECS	Treasury Enforcement Communications System
TFF	Treasury Forfeiture Fund
THC	Tetrahydrocannabinol (psychoactive component of marijuana)
Treasury	Department of the Treasury
U.S.	United States
U.S.C.	United States Code
WMD	Weapons of Mass Destruction
Y2K	Year 2000

Department of the Treasury, United States Customs Service
Balance Sheet
As of September 30, 2000 and 1999
(Dollars in Thousands)

	2000	1999
ASSETS		
Entity Assets:		
Intra-governmental Assets		
Fund balance with Treasury (Note 2)	$1,614,715	$1,692,279
Accounts receivable (Note 4)	18,727	21,070
Advances and prepayments	29,673	26,404
Total Intra-governmental Assets	1,663,115	1,739,753
Accounts receivable, net (Note 4)	71,415	73,600
Advances	3,362	4,780
Inventory and related property (Note 5)	41,524	38,222
Property, plant and equipment, net (Note 6)	467,665	401,807
Total Entity Assets	2,247,081	2,258,162
Non-Entity Assets:		
Intra-governmental Assets		
Fund balance with Treasury (Note 2)	249,514	1,032,419
Total Intra-governmental Assets	249,514	1,032,419
Cash and other monetary instruments (Note 3)	162,280	145,043
Accounts receivable, net (Note 4)	948,514	921,327
Other	6,419	5,722
Total Non-Entity Assets	1,366,727	2,104,511
TOTAL ASSETS	$3,613,808	$4,362,673
LIABILITIES		
Liabilities Covered by Budgetary and Other Resources:		
Intra-governmental Liabilities		
Accounts payable	$ 8,115	$ 35,899
Due to the General Fund and others	1,060,504	1,727,782
Accrued payroll and benefits	15,268	--
Advances from others	14,127	16,470
Total Intra-governmental Liabilities	1,098,014	1,780,151
Accounts payable	121,385	102,661
Refunds payable (Note 7)	223,516	248,488
Advances from others	82,226	92,691
Accrued payroll and benefits	78,501	69,638
Contingencies (Note 8)	12,400	47,050
Total Liabilities Covered by Budgetary and Other Resources	1,616,042	2,340,679
Liabilities Not Covered by Budgetary and Other Resources:		
Intra-governmental Liabilities		
Workers' compensation	42,806	41,452
Total Intra-governmental Liabilities	42,806	41,452
Workers' compensation actuarial	224,294	181,822
Accrued annual leave	101,519	97,428
Other (Notes 8 and 9)	4,490	5,114
Total Liabilities Not Covered by Budgetary and Other Resources	373,109	325,816
TOTAL LIABILITIES	1,989,151	2,666,495
NET POSITION (Note 10)		
Unexpended appropriations	688,566	723,951
Cumulative results of operations	936,091	972,227
TOTAL NET POSITION	1,624,657	1,696,178
TOTAL LIABILITIES AND NET POSITION	$3,613,808	$4,362,673

The accompanying notes are an integral part of these statements.

Department of the Treasury, United States Customs Service
Statement of Net Cost
For the Years Ended September 30, 2000 and 1999
(Dollars in Thousands)

	2000	1999
COSTS:		
Program:		
PASSENGER PROCESSING		
Intra-governmental costs	$ 267,030	$ 235,308
With the Public	385,748	404,471
Total Costs	652,778	639,779
Less earned revenue	(51,239)	(74,758)
Net Program Costs	601,539	565,021
Program:		
TRADE COMPLIANCE		
Intra-governmental costs	387,330	358,234
With the Public	559,457	615,613
Total Costs	946,787	973,847
Less earned revenue	(74,322)	(113,633)
Net Program Costs	872,465	860,214
Program:		
OUTBOUND		
Intra-governmental costs	37,758	28,768
With the Public	54,607	49,302
Total Costs	92,365	78,070
Less earned revenue	--	--
Net Program Costs	92,365	78,070
Program:		
ENFORCEMENT		
Intra-governmental costs	356,704	326,684
With the Public	610,900	493,270
Total Costs	967,604	819,954
Less earned revenue	(65,013)	(25,525)
Net Program Costs	902,591	794,429
NET COST OF OPERATIONS (Note 11)	$2,468,960	$2,297,734

The accompanying notes are an integral part of these statements.

Department of the Treasury, United States Customs Service
Statement of Changes in Net Position
For the Years Ended September 30, 2000 and 1999
(Dollars in Thousands)

	2000	1999
Net Cost of Operations	$2,468,960	$2,297,734
Financing Sources		
Appropriations used	1,986,854	1,859,498
Non-exchange revenue	298,038	272,561
Imputed financing	100,044	105,710
Transfers in	47,433	15,547
Transfers out	(10)	(129)
Total Financing Sources	2,432,359	2,253,187
Net Results of Operations	(36,601)	(44,547)
Other/Prior Period Adjustments (Note 12)	465	(167)
Net Change in Cumulative Results of Operations	(36,136)	(44,714)
Increase (Decrease) in Unexpended Appropriations	(35,385)	295,640
Change in Net Position	(71,521)	250,926
Net Position-Beginning of Period	1,696,178	1,445,252
Net Position-End of Period	$1,624,657	$1,696,178

The accompanying notes are an integral part of these statements.

Department of the Treasury, United States Customs Service
Statement of Budgetary Resources
For the Years Ended September 30, 2000 and 1999
(Dollars in Thousands)

	2000	1999
Budgetary Resources (Note 13)		
Budget authority	$2,283,788	$2,419,493
Unobligated balance – beginning of period	1,104,112	945,141
Spending authority from offsetting collections earned	197,680	190,384
Adjustments	521,345	181,812
Total Budgetary Resources	$4,106,925	$3,736,830
Status of Budgetary Resources (Note 13)		
Obligations incurred	$3,076,991	$2,632,144
Unobligated balance available	357,355	421,440
Unobligated balance not available	672,579	683,246
Total Status of Budgetary Resources	$4,106,925	$3,736,830
Outlays		
Obligations	$3,076,991	$2,632,144
Less: Spending authority from offsetting collections and adjustments	(757,782)	(395,437)
Obligated balance – beginning of period	576,591	480,555
Less: Obligated balance, net – end of period	(579,345)	(576,591)
Total Outlays	$2,316,455	$2,140,671

The accompanying notes are an integral part of these statements.

Department of the Treasury, United States Customs Service
Statement of Financing
For the Years Ended September 30, 2000 and 1999
(Dollars in Thousands)

	2000	1999
Obligations and Nonbudgetary Resources		
Obligations incurred	$3,076,991	$2,632,144
Less: Spending authority from offsetting collections and adjustments	(757,782)	(395,437)
Donations not in the budget	127	--
Financing imputed for cost subsidies	100,044	105,710
Transfers-in (out)	47,296	15,418
Total Obligations As Adjusted and Nonbudgetary Resources	2,466,676	2,357,835
Resources That Do Not Fund Net Cost of Operations		
Change in amount of goods, services, and benefits ordered but not yet received or provided	19,512	(62,876)
Costs capitalized on the Balance Sheet	(178,084)	(122,235)
Financing sources that fund costs of prior periods	--	--
Total Resources That Do Not Fund Net Cost of Operations	(158,572)	(185,111)
Costs That Do Not Require Resources		
Depreciation and amortization	52,155	54,052
Inventory used in operations	58,480	50,903
Other	2,928	14,843
Total Costs That Do Not Require Resources	113,563	119,798
Financing Sources Yet To Be Provided (Note 14)	47,293	5,212
Net Cost of Operations	$2,468,960	$2,297,734

The accompanying notes are an integral part of these statements.

Department of the Treasury, United States Customs Service
Statement of Custodial Activity
For the Years Ended September 30, 2000 and 1999
(Dollars in Thousands)

	2000	1999
SOURCES OF CUSTODIAL REVENUE AND COLLECTIONS		
Revenue Received:		
Duty	$20,555,901	$ 19,055,239
User fees	1,684,967	1,515,936
Excise taxes	1,648,255	1,457,836
Fines and penalties	112,504	56,835
Interest	38,685	31,543
Other	9,024	14,673
Total Revenue Received	24,049,336	22,132,062
Less: Refunds and other payments (Note 15)	(1,232,152)	(1,159,553)
NET REVENUE RECEIVED	22,817,184	20,972,509
Accrual Adjustment	52,159	98,736
TOTAL CUSTODIAL REVENUE	22,869,343	21,071,245
DISPOSITION OF REVENUE RECEIPTS		
Amounts Transferred:		
U.S. Department of the Treasury	22,656,095	20,793,602
U.S. Department of Agriculture	68,219	66,487
Retained by U.S. Customs Service	44,295	49,344
Other Federal agencies	65	61
Government of Puerto Rico	44,559	58,830
Government of the U.S. Virgin Islands	3,951	4,185
Accrual adjustment	52,159	98,736
TOTAL DISPOSITIONS OF REVENUE RECEIPTS	22,869,343	21,071,245
NET CUSTODIAL REVENUE ACTIVITY	$ 0	$ 0

The accompanying notes are an integral part of these statements.

1. Summary of Significant Accounting Policies

Reporting Entity

The U.S. Customs Service (Customs), with headquarters in Washington, D.C., was created in 1789 and is a bureau of the U.S. Department of the Treasury (Treasury). Customs is primarily responsible for administering the U.S. Trade Program and U.S. Narcotics Enforcement Program. These responsibilities are met by: (1) enforcing the laws governing the flow of merchandise or commerce across the borders of the United States, (2) assessing and collecting duties, taxes, and fees, on imported and other goods and services, and (3) enforcing drug-related and other laws and regulations of the United States on behalf of Federal agencies and/or in conjunction with various state, local, and other Federal agencies and foreign countries.

Substantially all of the duty, tax and fee revenues collected by Customs are remitted to various General Fund accounts, maintained by Treasury. Treasury further distributes these revenues to other Federal agencies in accordance with various laws and regulations. Customs transfers the remaining revenue (generally less than two percent of revenues collected) directly to other Federal agencies, the Governments of Puerto Rico and the U.S. Virgin Islands, or retains funds as authorized by law or regulations. Refunds of revenues collected from import/export activity are recorded in separate accounts established for this purpose and are funded through permanent indefinite appropriations. These activities reflect the non-entity, or custodial, responsibilities that Customs, as an agency of the Federal government, has been authorized by law to enforce.

Operating and other costs incurred resulting from the activities described above are funded principally through congressional appropriations on an annual, multi-year, and no-year basis. Accordingly, operating costs incurred are offset by appropriated funds that are recorded as financing sources or by reimbursable revenue, user fee revenue, or other financing sources. These operational activities are reflected in the entity accounts of Customs.

The Federal Account Symbols and Titles of Customs entity and non-entity accounts are presented in the Required Supplementary Information Section of this report.

Basis of Accounting and Presentation

The Chief Financial Officers Act of 1990 (CFOA) requires Customs to produce audited financial statements for all activities and funds. The Government Management Reform Act of 1994 (GMRA) requires executive agencies, including Treasury, to produce audited financial statements for all its activities and funds. Additionally, as provided by GMRA, the Director of the Office of Management and Budget (OMB) included Customs in their designation of agencies required to have financial audits performed.

These financial statements are provided to meet the requirements of the CFOA and GMRA and have been prepared from Customs accounting records in conformity with generally accepted accounting principles (GAAP). GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which was designated the official accounting standard-setting body of the Federal Government by the American Institute of Certified Public Accountants. The statements consist of the balance sheet, statement of net cost, statement of changes in net position, statement of budgetary resources, statement of financing, and statement of custodial activity, as prescribed by OMB Bulletin No. 97-01, Form and Content of Agency Financial Statements, as amended.

While these financial statements have been prepared in accordance with the formats prescribed by OMB, they are different from the financial reports used to monitor and control budgetary resources which are also prepared from Customs accounting records.

These financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that payment of liabilities other than for contracts can be abrogated by the sovereign entity.

Entity Component of the Financial Statements

Customs entity financial statements with respect to the balance sheet, the statement of net cost, and the statement of changes in net position are reported using the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. Customs statement of budgetary resources is reported using the budgetary basis of accounting. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. It generally differs from the accrual basis of accounting in that obligations are recognized when new orders are placed, contracts awarded, and services received, that will require payments during the same or future period. Customs statement of financing reconciles differences between the budgetary and accrual bases of accounting. Intra-entity transactions have been eliminated and the statements report consolidated balances.

Non-Entity Component of the Financial Statements

Customs non-entity revenue and refunds are reported on the statement of custodial activity using a modified cash basis. With this method, revenue from cash collections are reported separately from receivable accruals, and cash disbursements are reported separately from payable accruals.

Entity

Assets and Liabilities

Entity intra-governmental assets and liabilities result from activity with other Federal agencies. All other entity assets and liabilities result from activity with parties outside the Federal government, such as domestic and foreign persons, organizations, or governments.

Fund Balance with Treasury

Fund balances with Treasury are the amounts remaining as of fiscal year-end from which Customs is authorized to make expenditures and pay liabilities resulting from operational activity, except as restricted by law.

Accounts Receivable

Intra-governmental accounts receivable represent amounts due from Federal agencies. These receivables are expected to be fully collected. Accounts receivable from reimbursable services and user fees represent amounts due from non-federal sources for services performed. These receivables are net of amounts deemed uncollectible which were determined by considering the debtor's current ability to pay, the debtor's payment record and willingness to pay, the probable recovery of amounts from secondary sources, such as sureties, and an analysis of aged receivable activity.

Advances and Prepayments

Intra-governmental advances and prepayments consist of advances expected to be returned without expenditure and amounts paid to Federal agencies prior to Customs receipt of goods and services. All other advances and prepayments consist of employee travel and salary advances, and advances relating to certain investigative activities.

Inventory and Related Property

Inventory consists of aircraft and marine parts and materials to be consumed in Customs operations. Aircraft parts and materials are recorded at the average unit cost, and marine parts and materials are recorded using the First-In-First-Out valuation method. Both methods approximate actual acquisition costs. Disclosures are also made for items seized by Customs and subsequently forfeited.

Property, Plant and Equipment

Prior to October 1, 1995, Customs capitalized property, plant and equipment with an acquisition value of $5,000 or greater, and a useful life of 2 years or greater. Beginning October 1, 1995, Customs capitalizes property, plant and equipment with an acquisition value of $50,000 or greater, and a useful life of 2 years or greater. Customs also capitalizes bulk acquisitions of like-kind property, plant and equipment items that are individually valued under the capitalization threshold but are, in the aggregate, significant to Customs financial position or results of operations.

Expenditures for normal repairs and maintenance are charged to expense as incurred. Expenditures greater than $50,000 for improving or rebuilding an asset and that increase an asset's useful life are capitalized. Prior to October 1, 1995, expenditures greater than $5,000 for improving or rebuilding an asset and that increased an asset's useful life were capitalized. In-house computer software development costs are expensed.

Depreciation and amortization are computed using the straight line method over the estimated useful lives of the assets ranging from 5 to 20 years for equipment, 2 to 30 years for leasehold improvements, and 30 years for buildings and structures.

Liabilities Covered By/Not Covered by Budgetary or Other Resources

Liabilities covered by budgetary or other resources are those liabilities incurred for which Congress has appropriated or otherwise made funds available during the current or prior fiscal years. Liabilities not covered by budgetary or other resources represent amounts owed in excess of available congressionally-appropriated or other amounts. The liquidation of liabilities not covered by budgetary or other resources is dependent on future congressional appropriations.

Accrued Annual, Sick and Other Leave and Compensatory Time

Annual leave, compensatory time, and other leave time are accrued when earned. The accrual is presented as a component of liabilities not covered by budgetary resources in the balance sheet and is adjusted for changes in compensation rates and reduced for annual leave taken. Sick leave is not accrued when earned, but is expensed when taken.

Pension Costs, Other Retirement Benefits, and Other Post-employment Benefits

Most Customs employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS). Customs contributes 8.51 percent of base pay for regular employees, and 9.01 percent for law enforcement agents. Employees hired after December 31, 1983 are automatically covered by the Federal Employees' Retirement System (FERS) and Social Security. A primary feature of FERS is that it offers a savings plan to which Customs automatically contributes 1 percent of base pay and matches any employee contributions up to an additional 4 percent of base pay. For most employees hired after December 31, 1983, Customs also contributes the employee's matching share for Social Security. For the FERS basic benefit Customs contributes 10.7 percent of base pay for regular employees, and 23.3 percent for law enforcement agents. The pay base for determining Customs contributions to CSRS and FERS for inspectors and canine officers includes regular pay and up to a maximum of $15,000 in certain overtime earnings for Fiscal Year 2000 and Fiscal Year 1999.

Customs recognizes the full costs of its employees' pension benefits, however, the liability associated with these costs is recognized by the Office of Personnel Management (OPM). As of September 30, 2000 and 1999, contributions of $164.0 million and $153.2 million, respectively, were made to these plans. In addition, Customs recorded an additional expense of $51.3 million and $50.5 million, respectively, for employee pension benefit costs in excess of Customs contributions.

Similar to Federal retirement plans, OPM, rather than Customs, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and the Federal Employees

Group Life Insurance Program (FEGLI). Customs is required to report the full cost of providing other retirement benefits (ORB) for its retired employees as well as reporting contributions made for active employees. As of September 30, 2000 and 1999, Customs ORB expense for retired employees totaled $47.1 million and $47.2 million, respectively. As of September 30, 2000 and 1999, Customs contributions for active employees participating in the FEHBP and FEGLI programs were $61.0 million and $56.1 million.

An expense and liability for other postemployment benefits (OPEB), which includes all types of benefits to former or inactive (but not retired) employees, their beneficiaries, and covered dependents is also recognized.

Workers' Compensation

A liability is recorded for estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The FECA program is administered by the U.S. Department of Labor (Labor), which initially pays valid claims and subsequently seeks reimbursement from Federal agencies employing the claimants. Reimbursement to Labor on payments made occurs approximately two years subsequent to the actual disbursement. Budgetary resources for this intra-governmental liability are made available to Customs as part of its annual appropriation from Congress in the year in which the reimbursement takes place.

Additionally, the actuarial liability estimate includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Based on information provided by Labor, Treasury allocates the actuarial liability to its bureaus and department offices based on the payment history for the bureaus and department offices. The net present value of estimated payments is not covered by budgetary resources and will require future funding.

Unexpended Appropriations

Unexpended appropriations represent the amount of Customs unexpended appropriated spending authority as of fiscal year-end that is unliquidated or is unobligated and has not lapsed, been rescinded or withdrawn.

Cumulative Results of Operations

Cumulative results of operations primarily represents the excess of user fee revenues over related expenses. It also includes resources used to invest in property and equipment, and operating materials and supplies held for use, and transfers in of equipment, materials, and supplies from other Federal agencies without reimbursement. Also, included as a reduction in cumulative results of operations, are liabilities incurred, which will require funding from future appropriations, such as accumulated annual leave earned but not taken, accrued workers' compensation, and contingent liabilities.

Revenue, Financing Sources and Expense Recognition

Customs activities are financed principally through appropriations, exchange revenue, and non-exchange revenue. Appropriations used are recognized as a financing source when expenses are incurred or assets are purchased. Exchange revenues from reimbursable services and intra-governmental reimbursable activity are recognized as earned when the good or service is provided and reflect the full cost of the good or service provided. Non-exchange revenue from user fees is recognized as earned in accordance with the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended. Customs may retain the user fee revenues and expend them as authorized by law for Customs inspector overtime and other activities directly related to the services to which the fees relate.

An imputed financing source is also recognized to offset costs incurred by Customs but funded by another federal source, generally in the period in which the cost was incurred. Expenses are recognized when goods or services are received, when inventory is used, or assets depreciated, or amortized.

Non-Entity

Assets and Liabilities

Non-entity intra-governmental assets and liabilities result from activity with other Federal agencies. All other non-entity assets and liabilities result from activity outside of the Federal government, such as domestic and foreign persons, organizations, or governments.

Fund Balance with Treasury

Fund balance with Treasury represents funds available to pay refunds and drawback claims of duties, taxes, and fees.

Cash and Other Monetary Instruments

Cash represents monies to be distributed in a future period. A timing difference occurs when cash is received and applied to a specific revenue type in one period, and the distribution of funds occurs in a future period. Monetary instruments are held by Customs in lieu of an importer/broker filing a surety bond. Corresponding liabilities are recorded for amounts expected to be allocated in future periods to Federal agencies or accounts and non-federal advances from others.

Accounts Receivable

Accounts receivable consist of duties, user fees, fines and penalties, refunds and drawback overpayments, and interest which have been established as a legally enforceable claim and remain uncollected as of year-end. These receivables are net of amounts deemed uncollectible which were determined by considering the debtor's payment record and willingness to pay, the probable recovery of amounts from secondary sources, such as sureties, and an analysis of aged receivable activity. Customs accounting policy for non-entity receivables is described in more detail in Note 4, Accounts Receivable, Net.

Seized Property and Currency

Seized property and currency result from enforcement activities. These items are not considered assets of Customs; however, Customs has a stewardship responsibility until the disposition of the seized items are determined, i.e., judicially or administratively forfeited or returned to the entity from which it was seized. If forfeiture occurs, the seized property and currency become assets of the Treasury Forfeiture Fund, or in the case of prohibited items, such as narcotics, are destroyed. Analysis of changes in seized and forfeited property and currency are disclosed in Note 5, Inventory and Related Property.

Other Non-Entity Items in Customs Custody

Customs has the authority, in accordance with provisions of the Federal Crime Code and Federal Rules of Criminal Procedures, to retain property within its custody for evidentiary purposes. Because this property is not seized under seizure and forfeiture laws, it cannot become property of the U.S. Government and is intended to be returned to the owner at some future date. This evidence is not disclosed in the financial statements or related notes as the amount is not significant, but does represent a fiduciary responsibility of Customs.

Liabilities

Customs receives funding to pay refunds and drawback claims of duties, taxes, or fees. Customs accrues a liability for refunds and drawback claims approved at year-end, but paid subsequent to year-end. An intra-governmental liability due to the General Fund is recognized for refunds and drawback funds in excess of accrued liabilities. Customs also discloses contingent liabilities related to future refunds and drawback claims. These liabilities are based on historical experience.

Revenue and Expense Recognition

Revenue is recognized when the cash Customs is entitled to collect on behalf of the Federal government is received. Primarily, these revenue collections result from current fiscal year activities. The significant types of revenues collected and related disbursements are described below:

- Duties: amounts collected on imported goods.

- User fees: amounts designed to defray the cost of services performed by Customs officers or other officials within the port authority, to maintain United States harbors, and to defray the cost of other miscellaneous service programs.

- Excise taxes: amounts collected on imported distilled spirits, wines and tobacco products, and other miscellaneous taxes collected on behalf of the Federal government.

- Fines and penalties: amounts collected for violations of laws and regulations.

- Refunds: payments made to importers/exporters is primarily identified when the import entry is liquidated, a process in which Customs makes final determination of duties, taxes, fees and interest owed on the entry and compares it to the estimated amount previously paid by the importer/broker. Interest is included in the refund generally for the period of time between when the estimated amounts were received from the importer/broker and the time the entry is liquidated. When a refund is identified prior to liquidation, the refund from this remittance is funded from the duty, tax, or fee collection rather than from the Refunds and Drawback account.

- Drawback: a remittance, in whole or in part, of duties, taxes, or fees. Drawback typically occurs when the imported goods on which duties, taxes, or fees have been previously paid are subsequently exported from the United States or destroyed prior to entering the commerce of the United States. Depending on the type of claim, the claimant has up to six or eight years from the date of importation to file for drawback.

A financing source and expense for refunds and drawback is recognized when payment is made. The financing source, representing permanent, indefinite appropriation accounts used to fund the disbursement, is recorded as a decrease in the amount transferred to Treasury reported on the Statement of Custodial Activity.

An accrual adjustment is included to adjust cash collections and refund disbursements with the net increase or decrease of accrued non-entity accounts receivables, net of uncollectible amounts, and refunds payable.

Customs will also take into custody, without risk or expense, merchandise termed "general order property," which for various reasons can not be legally entered into the U.S. commerce. Customs sole responsibility for the general order property is to ensure it does not enter the commerce of the United States. If general order property remains in Customs custody for a prescribed period of time, without payment of all estimated duties, storage and other charges, it is considered unclaimed and abandoned and can be sold by Customs at public auction. Auction sales revenue in excess of charges associated with the sale or storage of the item is remitted to the Treasury General Fund. In some cases, Customs incurs charges prior to the sale and funds these costs from entity appropriations. Regulations permit Customs to offset these costs of sale before returning excess amounts to Treasury. Proceeds from the sale of general order property totaled $6.4 million and $6.3 million for the years ended September 30, 2000 and 1999, respectively. Excess amounts returned to the Treasury average $1.1 million.

2. Fund Balance with Treasury

Entity

Fund balance with Treasury as of September 30, 2000 and 1999, consists of the following (in thousands):

	2000	1999
Trust Funds	$ 110,745	$ 98,357
Appropriated Funds	734,349	771,302
Special Funds	760,386	811,812
Deposit Funds	8,150	9,558
Cash – Imprest Funds	1,085	1,250
Totals	$ 1,614,715	$ 1,692,279

Amounts comprising the special fund balances result from Customs authority to assess and collect passenger and conveyance-related user fees, Customs authority to assess and collect fees associated with services performed at certain small airports or other facilities, and Customs authority to retain amounts needed to offset costs associated with collecting duties, taxes and fees for the Government of Puerto Rico. These special fund balances are restricted by law in their use to offset specific costs incurred by Customs. Customs is required to maintain $30 million in its User Fees Account. Also, an additional $640 million of the User Fees Account balance is restricted by law in its use to offset costs incurred by Customs until made available as provided in Appropriation Acts. As of September 30, 2000 and 1999: (1) Customs User Fees Account contained approximately $742.9 million and $794.1 million, respectively; (2) Customs Services at Small Airports account contained approximately $3.8 million and $2.9 million, respectively; and (3) the Refunds, Transfers and Expenses of Operation of Puerto Rico account contained approximately $13.7 million and $14.8 million, respectively.

The entity trust fund balances result from Customs authority to use the proceeds from general order items sold at auction to offset specific costs incurred by Customs relating to their sale, to use available funds in the Salaries and Expense Trust Fund to offset specific costs for expanding border and port enforcement activities, and to use available funds from the Harbor Maintenance Fee Trust Fund to offset administrative expenses related to the collection of the Harbor Maintenance Fee.

The entity deposit fund balance represents amounts received as an advance that are not accompanied by an order. Once the order is received the deposit fund balance is decreased.

Non-Entity

Fund balance with Treasury as of September 30, 2000 and 1999, totaled (in thousands):

	2000	1999
General fund accounts	$ 249,514	$ 1,032,419

The general fund balance represents amounts with Treasury from permanent, indefinite appropriations to pay refunds and drawback claims of duties, taxes, or fees. The balance is presented as a non-entity balance because the refund and drawback payments are associated with Customs custodial activity of collecting revenue on behalf of the Federal government.

3. Cash and Other Monetary Instruments

Cash and other monetary instruments as of September 30, 2000 and 1999, consist of the following (in thousands):

	2000	1999
General fund receipt accounts	$ 58,762	$ 58,306
Trust fund receipt accounts	1,332	472
Special fund receipt accounts	3,433	6,131
Deposit fund receipt accounts	97,284	77,874
Monetary instruments	1,469	2,260
Totals	$ 162,280	$ 145,043

These account balances represent timing differences between when cash relating to duties, taxes, fees, and other trade related collections are received and when the distribution of funds occurs. Cash can either be distributed to the General Fund, other Federal agencies, other governments, or returned to the importer/broker.

The deposit account contains funds held by Customs that may not result in custodial revenue. Items in the account typically include: (1) amounts collected from bankrupt entities (these amounts will be re-distributed according to final determination of bankruptcy procedures); (2) offers made by an importer/broker who violated a law or regulation and is attempting to mitigate the penalty or fine amount (the offer will become revenue if accepted or will be refunded to the importer/broker if rejected); and (3) cash held by Customs from an importer/broker in lieu of the importer/broker filing a surety bond (these amounts are returned to the importer/broker when the importing activity ceases or when a surety bond is placed on file with Customs, net of any amounts owed relating to duty, taxes, or fees).

4. Accounts Receivable, Net

Entity Intra-governmental Accounts Receivable

Accounts receivable due from other Federal agencies, as of September 30, 2000 and 1999, respectively, total $18.7 million and $21.1 million, and are considered fully collectible.

Entity Accounts Receivables, Net

Receivables from reimbursable services are recognized for work, or services provided to a private party. By law, collections of these receivables can be credited to the appropriation accounts from which the related costs were paid. As of September 30, 2000 and 1999, reimbursable service receivables total $2.6 million and $4.0 million, respectively, and are considered fully collectible.

User fees are collected for inspectional processing of air and sea passengers and loaded railroad cars. Receivables accrue for airline and vessel fees on a quarterly basis and accrue for railroad fees on a monthly basis. Payment is due thirty days subsequent to the end of the quarter for airline and vessel fees, or sixty days subsequent to the end of the month for railroad fees. As of September 30, 2000 and 1999, user fee receivables total $68.8 million and $69.6 million, respectively, and are net of uncollectible amounts totaling $6.7 million and $5.8 million, respectively.

Non-Entity Receivables, Net

Receivables as of September 30, 2000 and 1999 are as follows (in thousands):

	2000		
Receivables Category	Gross Receivable	Amounts Uncollectible	Total Net Receivables
Duties	$ 829,525	$ (51,535)	$ 777,990
Excise Taxes	40,300	(462)	39,838
User fees	65,228	(4,100)	61,128
Fines/penalties	737,326	(675,698)	61,628
Interest	57,302	(50,078)	7,224
Refunds and drawback	3,028	(2,322)	706
Totals	$ 1,732,709	$ (784,195)	$ 948,514

	1999		
Receivables Category	Gross Receivable	Amounts Uncollectible	Total Net Receivables
Duties	$ 834,436	$ (45,173)	$ 789,263
Excise Taxes	32,661	(90)	32,571
User fees	56,785	(3,069)	53,716
Fines/penalties	404,130	(363,912)	40,218
Interest	41,680	(36,528)	5,152
Refunds and drawback	3,374	(2,967)	407
Totals	1,373,066	$ (451,739)	$ 921,327

Customs assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. At the time importers bring merchandise into the United States, they are required to file Customs entry documents. Generally, within 10 working days after Customs releases the merchandise into the U.S. commerce, the importer is to submit an entry document with payment of estimated duties, taxes, and fees. A receivable of $846 million and $836 million was recorded for 448,681 entries and 417,530 entries for merchandise released into commerce on or before September 30, 2000 and 1999, respectively, for which payment was not received as of September 30, 2000 and 1999. There were an additional 665 entries and 5,991 entries for merchandise released into commerce on or before September 30, 2000 and 1999, respectively, for which a receivable amount could not be determined because the entry summary documentation describing the type, quantity, and value of the merchandise had not been received from the importers. It is Customs policy to track and demand payment of unpaid estimated duties, taxes and fees receivable amounts by establishing a liquidated damage case which generally results in a fines and penalty type receivable. Of the non-entity net receivable amounts at September 30, 2000 and 1999, approximately 89 percent and 91 percent was collected by the end of the first week in November 2000 and 1999, respectively.

In addition Customs import specialists review selected entry summaries to determine whether importer estimates of duties, taxes, and fees were accurate or whether additional (supplemental) amounts are owed and should be billed. Customs regulations allow the importer 90 days from the bill date in which to file a protest to be reviewed by the Port Director and an application requesting further review of the protest by Customs Office of Regulations and Rulings challenging the assessment of supplemental duties, taxes, and fees. If the protest and application for further review are denied by the Port Director, the protestor has an additional 60 days from the denial date to file for a review of the application by the Commissioner of Customs. Consequently, supplemental accounts receivable balances are only recorded on outstanding claims when the protested period has elapsed or when a protest decision has been rendered in Customs favor.

The Entry Reconciliation Program prototype, implemented October 1, 1998, allows importers to make entry of merchandise when certain information elements, such as dutiable value, are not fully determined at time of release of goods into the U.S. commerce. The importer files a reconciliation entry up to 15 months after the imported goods enter the U.S. commerce, which finalizes the entry data, and makes the appropriate financial and statistical adjustments. A reconciliation entry can include a single entry or thousands of entries. Since the program began, over 2.8 million individual entry summaries have been entered into the reconciliation program. Customs has received 36,019 reconciliation entries associated with over 1.3 million entry summaries. Customs expects to begin liquidating the reconciliation entries in Fiscal Year 2001. Until the reconciliation entries are received and liquidated, Customs can not determine whether additional duties or fees are due from the importer.

A fine or penalty is established when a violation of import/export law is discovered. Customs assesses a liquidated damage or penalty for these cases to the maximum extent of the law. The importer or surety has the option after receipt of the notice of assessment to petition that assessment. The importer or surety has 60 days to file such petition for relief or make payment of the assessed amount. If a petition is received and Customs finds there are extenuating circumstances, such as an incorrect assessment, which warrants mitigation, relief is granted as prescribed by Customs mitigation guidelines and directives. As of September 30, 2000 and 1999, Customs had 7,180 and 7,280 fines and penalty cases, respectively, recorded as receivables. Of the 7,180 fines and penalty cases, Customs identified 293 cases associated with a single company that declared bankruptcy during Fiscal Year 2000. The 293 cases total approximately $484 million, and are secured by a $2.5 million bond. Customs is also tracking another 31,636 cases, for which a receivable was not established because: (1) the petition period had not expired; or (2) Customs had not reached agreement (relief granted or denied or court settlement) with the importer or surety as to the amount of damages (fines) or penalties owed. For the 31,636 and 28,838 cases still in petition phase as of September 30, 2000 and 1999, respectively, Customs identified approximately $35 million and $14 million, respectively as "actual loss of duties."

5. Inventory and Related Property

Operating Parts and Materials

Operating parts and materials consist of parts and materials held for future consumption to repair and maintain Customs aircraft and vessels used in enforcement activities.

Operating parts and materials as of September 30, 2000 and 1999, consists of the following (in thousands):

Category	2000	1999
Aircraft	$ 38,889	$ 34,880
Marine	2,635	3,342
Totals	$ 41,524	$ 38,222

Parts and materials acquired without reimbursement and consumed during the fiscal year ended September 30, 2000 and 1999, totaled $27.6 million and $21.7 million, respectively. Included in the September 30, 2000 and 1999 balances are parts and materials transferred to Customs without reimbursement totaling $17.7 million and $17.7 million, respectively. When ultimately consumed in Customs operations an operating expense is recorded.

Seized Property and Currency

Seized property results principally from Customs criminal investigations and passenger/cargo processing and are not considered assets of Customs. These items include contraband and counterfeit/prohibited items such as drugs and weapons that have no recorded value. Under the requirements of Statement of Federal Financial Accounting Standards No. 3, Accounting for Inventory and Related Property, forfeited and seized property held by Treasury bureaus, including Customs, are disclosed on a consolidated basis in the financial statements of the Treasury Forfeiture Fund. Customs has a stewardship responsibility for these assets upon seizure. Substantially all seized property, except drugs and weapons, is managed and maintained under a contract with an unrelated entity, and is disclosed at a value estimated by Customs personnel or, in some cases, an independent appraiser. Depending upon the need for evidence, seized currency is either deposited to a Treasury suspense account or stored in a vault at a financial institution or Customs facility.

Analysis of Change in Seized Property and Currency

The following information is consolidated with other Treasury bureaus and the U.S. Coast Guard and reported in the financial statements of the Treasury Forfeiture Fund. An analysis of change in seized property and currency during Fiscal Year 2000 is as follows (dollars in thousands):

	Balance October 1		Seizures		Remissions		Forfeitures		Adjustments (a)		Value Changes		Balance September 30	
	Value	No.	Value	No.	Value	No	Value	No	Value	No	Value	No	Value	No
Currency and monetary instruments	$ 181,427	–	$ 147,092	–	$ (75,927)	–	$ (94,225)	–	$ 2,465	–	$ –	–	$ 180,832	–
Marketable securities	2,396	–	439	–	(224)	–	(110)	–	(17)	–	–	–	2,484	–
Real property	7,018	36	2,039	15	(3,087)	(39)	(3,955)	(21)	5,062	52	(42)	–	7,035	43
General property	164,841	9,657	161,532	19,825	(178,643)	(8,586)	(23,261)	(12,823)	(7,144)	(849)	(17,875)	–	99,450	7,224
Vessels	1,789	69	12,432	119	(7,456)	(37)	(3,197)	(92)	(11)	(8)	(15)	–	3,542	51
Aircraft	4,336	13	14,217	19	(14,787)	(19)	(133)	(3)	(1,419)	(3)	–	–	2,214	7
Vehicles	11,007	1,895	58,182	9,311	(35,371)	(3,420)	(13,213)	(5,273)	83	(111)	(313)	–	20,375	2,402
Totals	$ 372,814	11,670	$ 395,933	29,289	$ (315,495)	(12,101)	$ (138,094)	(18,212)	$ (981)	(919)	$ (18,245)	–	$ 295,932	9,727

(a) Adjustments include reclassification of property categories and minor adjustments to beginning balance. Additionally, adjustments include property turned over to state and local or other Federal law enforcement agencies for prosecution or destruction prior to forfeiture.

Analysis of Change in Material Non-Valued Seized Property (a)

Category	Balance October 1 Weight (kg.)	Balance October 1 Weight (lbs.)	Balance October 1 Quantity	New Seizures Weight (kg.)	New Seizures Weight (lbs.)	New Seizures Quantity	Remissions Weight (kg.)	Remissions Weight (lbs.)	Remissions Quantity	New Forfeitures Weight (kg.)	New Forfeitures Weight (lbs.)	New Forfeitures Quantity	Adjustments Weight (kg.)	Adjustments Weight (lbs.)	Adjustments Quantity	Balance September 30 Weight (kg.)	Balance September 30 Weight (lbs.)	Balance September 30 Quantity
Cannabis (marijuana)	1,330	2,925	--	445,216	981,523	--	--	--	--	(441,199)	(972,667)	--	370	816	--	5,717	12,597	--
Cocaine	1,351	2,972	--	44,253	97,560	--	--	--	--	(42,410)	(93,497)	--	(341)	(752)	--	2,853	6,283	--
Heroin	14	31	--	1,393	3,071	--	--	--	--	(1,343)	(2,961)	--	(12)	(26)	--	52	115	--
Firearms	--	--	4,729	--	--	3,175	--	--	(3,008)	--	--	(4,006)	--	--	3	--	--	893
Pornography	--	--	21,272	--	--	5,259	--	--	(873)	--	--	(6,598)	--	--	3,131	--	--	22,191
Total Material Non-Valued	2,695	5,928	26,001	490,862	1,082,154	8,434	--	--	(3,881)	(484,952)	(1,069,125)	(10,604)	17	38	3,134	8,622	18,995	23,084

(a) This schedule is presented for material non-valued property only. The balance for cannabis, cocaine and heroin are presented by weight seized. The ending balance for firearms includes only those seizured items, which can actually be used as a firearm.

Analysis of Change in Forfeited Property

The following information is consolidated with other Treasury bureaus and the U.S. Coast Guard and reported on the financial statements of the Treasury Forfeiture Fund. An analysis of change in forfeited property during Fiscal Year 2000 is as follows (dollars in thousands):

	Balance October 1 (a)		Forfeitures		Deposits/Sales		Disposals/Transfer		Destroyed		Adjustments (b)		Value Change		Fair Value Adjustment		Balance September 30 (a)	
	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.
Currency and monetary instruments	$ 4,880	–	$ 94,225	–	$ (94,370)	–	$ –	–	$ –	–	$ (2,060)	–	$ –	–	$ –	–	$ 2,675	–
Marketable securities	20	–	110	–	(100)	–	–	–	–	–	(13)	–	–	–	–	–	17	–
Real property	5,533	39	3,955	21	(4,732)	(38)	–	–	–	–	1,743	5	(752)	–	345	–	6,092	27
General property	2,488	3,179	23,261	12,823	(18,777)	(2,251)	(4,856)	(527)	(144)	(10,530)	9,306	352	(399)	–	(8,594)	–	2,285	3,046
Vessels	1,099	51	3,197	92	(2,612)	(75)	(513)	(17)	–	(16)	281	7	(183)	–	(317)	–	952	42
Aircraft	537	4	133	3	(217)	(3)	(325)	(2)	–	–	(70)	–	–	–	7	–	65	2
Vehicles	3,915	1,849	13,213	5,273	(11,419)	(5,568)	(1,665)	(125)	(2)	(51)	1,157	137	(152)	–	(1,514)	–	3,533	1,515
Totals	$ 18,472	5,122	$ 138,094	18,212	$ (132,227)	(7,935)	$ (7,359)	(671)	$ (146)	(10,597)	$ 10,344	501	$ (1,486)	–	$ (10,073)	–	$ 15,619	4,632

(a) The October 1 and September 30 balances reflect net realizable values. The Fiscal Year 2000 forfeiture, deposits/sales, disposals/transfers, destroyed, adjustments and value change balances reflect estimated values.

(b) Adjustments include reclassification of property categories and adjustments to beginning balances.

Material Non-Valued Forfeited Property (a)

Category	Balance October 1 Weight (kg.)	Weight (lbs.)	Quantity	New Forfeitures Weight (kg.)	Weight (lbs.)	Quantity	Transfers Weight (kg.)	Weight (lbs.)	Quantity	Destroyed Weight (kg.)	Weight (lbs.)	Quantity	Adjustments Weight (kg.)	Weight (lbs.)	Quantity	Balance September 30 Weight (kg.)	Weight (lbs.)	Quantity
Cannabis (marijuana)	231,771	509,896	--	441,199	972,667	--	(5,016)	(11,058)	--	(483,735)	(1,066,442)	--	(41,218)	(90,869)	--	143,001	314,194	--
Cocaine	24,728	54,402	--	42,410	93,497	--	(3,658)	(8,064)	--	(38,140)	(84,083)	--	(6,670)	(14,705)	--	18,670	41,047	--
Heroin	2,623	5,771	--	1,343	2,961	--	(20)	(44)	--	(1,414)	(3,117)	--	(767)	(1,691)	--	1,765	3,880	--
Firearms	--	--	670	--	--	4,006	--	--	(4,260)	--	--	(9)	--	--	40	--	--	447
Pornography	--	--	3,243	--	--	6,598	--	--	(4)	--	--	(7,257)	--	--	(608)	--	--	1,972
Total Material Non-Valued	259,122	570,069	3,913	484,952	1,069,125	10,604	(8,694)	(19,166)	(4,264)	(523,289)	(1,153,642)	(7,266)	(48,655)	(107,265)	(568)	163,436	359,121	2,419

(a) This schedule is presented for material non-valued property only. The balance for cannabis, cocaine and heroin are presented by weight seized. The ending balance for firearms includes only those seizured items which can actually be used as a firearm.

6. Property, Plant and Equipment

Property, plant and equipment as of September 30, 2000 and 1999, consists of the following (in thousands):

Categories	Useful Life (in years)	2000 Acquisition Cost	2000 Accumulated Depreciation/ Amortization	2000 Net Book Value
Aircraft	12 to 20	$ 409,417	$ (205,962)	$ 203,455
ADP Mainframe	5	37,394	(26,051)	11,343
ADP Non-mainframe	5	14,883	(11,913)	2,970
ADP Software	5	8,630	(3,201)	5,429
Vehicles	6	57,638	(38,883)	18,755
Vessels	5 to 10	24,186	(22,346)	1,840
Land	N/A	4,728	--	4,728
Structures, Facilities (a)	30	50,861	(15,317)	35,544
Leasehold Improvements	2 to 30	49,351	(17,919)	31,432
Construction in Progress	N/A	107,526	--	107,526
Radio Communications	5	37,588	(36,227)	1,361
X-Ray/Lab Equipment	7	39,144	(22,223)	16,921
Assets under Capital Lease	5	10,440	(9,206)	1,234
Office Equipment and Other	5	81,857	(56,730)	25,127
Totals		$ 933,643	$ (465,978)	$ 467,665

Categories	Useful Life (in years)	1999 Acquisition Cost	1999 Accumulated Depreciation/ Amortization	1999 Net Book Value
Aircraft	12 to 20	$ 418,730	$ (197,900)	$ 220,830
ADP Mainframe	5	83,639	(69,434)	14,205
ADP Non-mainframe	5	18,990	(13,477)	5,513
ADP Software	5	9,899	(2,405)	7,494
Vehicles	6	61,503	(48,659)	12,844
Vessels	5 to 10	28,675	(23,408)	5,267
Land	N/A	4,781	--	4,781
Structures, Facilities (a)	30	48,656	(13,924)	34,732
Leasehold Improvements	2 to 30	46,904	(14,984)	31,920
Construction in Progress	N/A	42,472	--	42,472
Radio Communications	5	44,986	(43,793)	1,193
X-Ray/Lab Equipment	7	27,646	(19,424)	8,222
Assets under Capital Lease	5	37,377	(33,485)	3,892
Office Equipment and Other	5	64,107	(55,665)	8,442
Totals		$ 938,365	$ (536,558)	$ 401,807

(a) Includes four multi-use heritage assets located in Puerto Rico with an acquisition value of $534 thousand.

7. Refunds Payable

Refunds payable consist of amounts owed for refunds and drawback claims. These liabilities are principally funded from the Refunds and Drawback account. The September 30, 2000 and 1999, accrued liability consists of the following (in thousands):

	2000	1999
Refunds	$208,293	$ 219,535
Drawback claims	15,223	28,953
Totals	$223,516	$ 248,488

The Fiscal Year 2000 refunds payable includes a $43.1 million accrued liability relating to the Trade and Development Act of 2000. This Act requires refunds of duties paid on certain wool products to importers over the next three years. The Fiscal Year 1999 refunds payable includes a $103 million liability, relating to the renewal of the Generalized System of Preference (GSP) legislation. This Act required refunds of amounts collected by Customs for specific trade activity occurring after June 30, 1999. The Fiscal Year 2000 refunds payable does not include a similar liability. The remaining difference is primarily attributable to an increase in the accrual for anti-dumping and countervailing duty refunds for cases resolved by the Department of Commerce.

The Entry Reconciliation Program prototype, implemented October 1, 1998, allows importers to make entry of merchandise when certain information elements, such as dutiable value, are not fully determined at time of release of goods into the U.S. commerce. The importer files a reconciliation entry up to 15 months after the imported goods enter the U.S. commerce, which finalizes the entry data, and makes the appropriate financial and statistical adjustments. Since the program began, over 2.8 million individual entry summaries were entered into the reconciliation program. Customs has received 36,019 reconciliation entries associated with over 1.3 million entry summaries, which include claims for over $42 million in refunds. Customs expects to begin liquidating the reconciliation entries in Fiscal Year 2001. Until the reconciliation entries are received and liquidated, Customs can not determine actual amounts owed to the importers.

8. Commitments and Contingencies

Customs is party to various administrative proceedings, legal actions, and claims brought by or against it. Any financially unfavorable administrative or court decision will normally be funded from either: (1) Customs appropriation for refunds and drawback; (2) various claims and judgement funds maintained by Treasury; or (3) Customs salary and expense appropriation. It is the opinion of Customs management and legal counsel, that the ultimate resolution of these proceedings, legal actions, and claims will not materially affect the financial statements.

Entity

Customs is involved in various actions incidental to its operations. The probable and reasonably possible liabilities as of September 30, 2000 and 1999, consists of the following (in thousands):

Funded By:	2000		1999	
	Probable	Reasonably Possible	Probable	Reasonably Possible
Customs Appropriations	$ 319	$13,648	$ 641	$12,262
Other Claim/Judgment Funds	3,827	49,577	4,358	46,885
Totals	$4,146	$63,225	$4,999	$59,147

The National Treasury Employees Union has selected nine individual claims as test cases for their contention that Customs inspectors and canine enforcement officers are entitled to law enforcement officer coverage, including special law enforcement retirement provisions in the Federal Employees Retirement System and the Civil Service Retirement System. Customs denied the claims and the claims were appealed to the Merit Systems Protection Board (MSPB). The MSPB issued decisions on seven of the claims determining the employees were not entitled to law enforcement officer coverage. The seven claims have been, or are expected to be, appealed to the Court of

Appeals for the Federal Circuit. The individual claims do not include a specific claim amount, however, should it be determined that Customs inspectors and canine enforcement officers are entitled to law enforcement officer coverage the amount of potential loss could exceed $30 million.

Customs is generally liable to the Department of Defense (DoD) for damage or loss to aircraft on loan to Customs from DoD. As of September 30, 2000 and 1999, Customs had 16 and 24 loaned aircraft with an acquisition value of $94.4 million and $105.5 million, respectively.

In accordance with Public Law 101-510, Customs is required to automatically cancel obligated and unobligated balances of appropriated funds five years after a fund expires. Obligations that have not been paid at the time an appropriation is canceled may be paid from an unexpired appropriation that is available for the same general purpose. At September 30, 2000, Customs canceled $20.1 million from Fiscal Year 1995 annual appropriations, of which $7.4 million was obligated. At September 30, 1999, Customs canceled $23.2 from Fiscal Year 1994 annual appropriations, of which $10.3 million was obligated. For the years ended September 30, 2000 and 1999, Customs paid $978 thousand and $495 thousand, respectively, for obligations associated with appropriations that were canceled in prior years. Based on historical activity, Customs estimates obligations related to canceled appropriations that will be paid from future appropriations would not exceed $1 million in any fiscal year.

Customs was authorized to issue various grants and cooperative agreements totaling $6.2 million and $17.4 million through September 30, 2000 and 1999, respectively, of which $6.2 million and $17.4 million was obligated. As of September 30, 2000 and 1999, a total of $5.2 million and $15.7 million has been disbursed. The remaining grant and cooperative agreement funds are available for expenditure through December 31, 2002.

Non-Entity

There are cases filed against Customs relating to trade litigation. As of September 30, 2000 and 1999, Customs recorded a probable liability associated with these cases of $12.4 million and $47.0 million, respectively. Customs counsel determined that it was reasonably possible for Customs to be liable as of September 30, 2000 and 1999, for an additional $57.7 million and $166.3 million, respectively, as a result of trade litigation.

Customs estimated future drawback claims and refunds relating to custodial revenue collections received during Fiscal Year 2000 and in prior years, at $964 million and $890 million, respectively. As of September 30, 1999, Customs estimated future drawback claims and refunds relating to custodial revenue collections received during Fiscal Year 1999 and in prior years, at $975 million and $888 million, respectively.

The Continued Dumping and Subsidy Offset Act of 2000, P.L. 106-387, Title X, enacted in Fiscal Year 2001 calls for Customs to disburse monies received in connection with antidumping and countervailing (AD/CV) duty orders and findings to qualifying domestic parties. As of October 1, 2000, Customs had over 700,000 AD/CV entries that were unliquidated, pending liquidation instructions from Commerce. These entries, plus approximately 20,000 new AD/CV entries per month are now potentially subject to the disbursement provisions of the Act. In Fiscal Year 2000 Customs collected approximately $420 million in AD/CV duties. Customs is reviewing and analyzing AD/CV entry program activity to establish estimated liabilities for future financial reporting. Customs estimates that disbursements will be made beginning Fiscal Year 2002.

There are various other trade issues resolved by other Federal Agencies, such as the Department of Commerce, which may result in refunds of duties, taxes, and fees from the Refunds and Drawback Account. Until such time as a decision is reached by the other agencies, Customs does not have sufficient information to estimate a contingent liability amount.

9. Other Liabilities Not Covered by Budgetary or Other Resources

Other liabilities not covered by budgetary or other resources as of September 30, 2000 and 1999, consists of the following (in thousands):

	2000	1999
Contingencies (See Note 8)	$ 4,146	$ 4,999
Capital Leases	286	66
Continuation of Pay	58	49
Totals	$ 4,490	$ 5,114

Operating Leases

Customs leases various facilities and equipment under leases accounted for as operating leases. The lease expense under these arrangements totaled $172 million and $160 million for the years ended September 30, 2000 and 1999, respectively.

The leased items consist of offices, warehouses, vehicles, and other equipment. Much of the office space occupied by Customs is either owned by the Federal government or is leased by the General Services Administration (GSA) from commercial sources. Customs is not committed to continue to pay rent to GSA beyond the period occupied providing proper advance notice to GSA is made and unless the space occupied is designated as unique space only for Customs operations. However, it is expected that Customs will continue to occupy and lease office space from GSA in future years and that the lease charges will be adjusted annually to reflect operating costs incurred by GSA. Lease amounts paid to GSA during Fiscal Year 2000 and 1999 were $172 million and $160 million, respectively.

As of September 30, 2000 and 1999, future minimum lease commitments under non-cancelable operating leases for equipment are as follows (in thousands):

FY	2000	1999
2000	$ --	$ 166
2001	48	46
2002	--	--
2003	--	--
2004	--	--
2005	--	--
Total future minimum lease	$ 48	$ 212

Capital Leases

Customs has a number of capital lease agreements primarily involving mainframe computer equipment and other office equipment. The liabilities associated with capital lease agreements are reflected in the accompanying financial statements based upon the present value of the future minimum lease payments. As of September 30, 2000 and 1999, the aggregate capitalized cost of the equipment still subject to lease is $1.9 million and $1.4 million, respectively. These capitalized items are included in the total assets acquired under capital lease in the amount of $10.4 million and $37.4 million, respectively. Certain leases are cancelable upon certain funding conditions.

Future minimum lease payments under the capitalized leases and the present value of the minimum lease obligation as of September 30, 2000 and 1999, are as follows (in thousands):

FY	2000	1999
2000	$ --	$ 220
2001	257	60
2002	40	--
2003	--	--
2004	--	--
2005	--	--
Total future minimum lease	297	280
Less: Imputed interest	(11)	(214)
Total net present value of capital lease	$ 286	$ 66

Substantially all of the net present value of capital lease obligations is expected to be funded from future sources and is presented as a component of entity liabilities not covered by budgetary or other resources on the balance sheet.

10. Net Position

Net Position as of September 30, 2000 and 1999, consists of the following (in thousands):

	2000			
	Special Funds	Trust Funds	Appropriated Funds	Totals
Unexpended Appropriations				
Unobligated – Available	$ --	$ 70,319	$ 211,938	$ 282,257
Unobligated – Unavailable	--	(275)	33,214	32,939
Obligations/Undelivered Orders	--	36,889	336,481	373,370
Total Unexpended Appropriations	--	106,933	581,633	688,566
Cumulative Results of Operations	804,617	22,286	109,188	936,091
Totals	$ 804,617	$ 129,219	$ 690,821	$ 1,624,657

	1999			
	Special Funds	Trust Funds	Appropriated Funds	Totals
Unexpended Appropriations				
Unobligated – Available	$ --	$ 72,559	$ 234,970	$ 307,529
Unobligated – Unavailable	--	49	43,557	43,606
Obligations/Undelivered Orders	--	24,261	348,555	372,816
Total Unexpended Appropriations	--	96,869	627,082	723,951
Cumulative Results of Operations	854,428	13,656	104,143	972,227
Totals	$ 854,428	$ 110,525	$ 731,225	$ 1,696,178

11. Statement of Net Cost

The programs displayed are equivalent to the missions listed in the U.S. Customs Service Fiscal Year 1997-2002 Strategic Plan.

Passenger Processing

To ensure compliance by targeting, identifying, and examining high-risk travelers, and to allow the expeditious movement of low-risk travelers. The goal of Passenger Processing is to achieve at least a 99 percent rate of compliance with Customs laws and regulations for passengers and crew of commercial and non-commercial conveyances entering or leaving the United States.

Trade Compliance

To maximize compliance through a balanced program of informed compliance, targeted enforcement actions, and the facilitation of complying cargo. Customs key goals are to: (a) increase compliance with U.S. trade laws to at least 90 percent overall and to at least 98 percent in primary focus industries, (b) continue to collect at least 99 percent of the revenue, (c) increase customer satisfaction, (d) decrease per unit cost, and (e) improve the accuracy of key statistics.

Outbound

To facilitate international trade, while achieving the highest degree of compliance with United States export requirements in order to protect the U.S. national security, economic interests, and health and safety of the American people. The Outbound Process is responsible for the series of Customs operations related to the movement of merchandise and conveyances outbound from the United States.

Enforcement

To prevent the smuggling of narcotics and other contraband into the United States by creating an effective interdiction, intelligence, and investigation capability that disrupts and dismantles smuggling operations. Also to identify, disrupt, and dismantle the systems and criminal organizations that launder the proceeds generated by smuggling, trade fraud, and export violations.

Gross costs and earned revenue by budget functional classification for the years ended September 30, 2000 and 1999, consists of the following (in thousands):

	2000		
Functional Classification	Gross Cost	Earned Revenue	Net Cost
Administration of Justice	$2,623,300	$(151,235)	$2,472,065
General Government	36,234	(39,339)	(3,105)
Totals	$2,659,534	$(190,574)	$2,468,960

	1999		
Functional Classification	Gross Cost	Earned Revenue	Net Cost
Administration of Justice	$2,468,275	$(175,623)	$2,292,652
General Government	43,375	(38,293)	5,082
Totals	$2,511,650	$(213,916)	$2,297,734

Customs and Treasury have a $27.9 million and $28.2 million interagency agreement for the Interagency Crime and Drug Enforcement (ICDE) appropriation to reimburse Customs for the expenses necessary for the detection and investigation of individuals involved in organized crime drug trafficking as of September 30, 2000 and 1999, respectively. Customs expenses for the years ended September 30, 2000 and 1999, to support this activity totaled approximately $38 million and $35 million, respectively, and were funded from the ICDE and Customs salaries and expense appropriation.

Expenses by object class code classification for the years ended September 30, 2000 and 1999, consist of the following (in thousands):

Expenses	2000	1999
Personnel compensation and benefits	$ 1,745,840	$ 1,613,221
Travel and transportation	60,574	56,849
Rent, communication, and utilities	222,946	209,905
Printing and reproduction	3,948	3,590
Purchases of evidence and information	15,615	18,112
Contractual services	310,164	303,993
Supplies and materials	41,973	36,005
Equipment not capitalized	140,519	199,146
Depreciation expense	52,155	54,052
Other expenses	65,800	16,777
Totals	$ 2,659,534	$ 2,511,650

12. Statement of Net Position – Other/Prior Period Adjustments

Customs adjusted the cumulative results of operations account balance during Fiscal Year 2000 and 1999 for corrections relating to prior year activity associated with appropriations used for capital investment, parts and materials inventories, and future funding requirements. The net effect of the adjustments to the Fiscal Year 2000 and 1999 cumulative results of operations account balance totaled $465 thousand and ($167) thousand dollars, respectively.

13. Statement of Budgetary Resources

As of September 30, 2000 and 1999, budgetary resources obligated for undelivered orders total $504.7 million and $562.6 million, respectively. Customs did not have any borrowing or contract authority, and did not have any repayment requirements, financing sources for repayments, or any other terms of borrowing authority used.

Adjustments to budgetary resources available at the beginning of Fiscal Year 2000 and 1999, consist of the following (in thousands):

	2000	1999
Recoveries of prior year obligations	$ 560,082	$ 205,060
Cancellation of expired and no-year accounts	(20,100)	(23,248)
Enacted recisions of prior year balances	(18,637)	--
Totals	$ 521,345	$ 181,812

14. Statement of Financing

The Financing Sources Yet to be Provided presented on the Statement of Financing represents the change between the beginning and ending balances for Liabilities Not Covered by Budgetary and Other Resources presented on the balance sheet.

15. Refunds and Other Payments

Disbursements from the Refunds and Drawback account for the years ended September 30, 2000 and 1999, consist of the following (in thousands):

	2000	1999
Refunds	$ 812,038	$ 757,238
Drawback	420,114	402,315
Totals	$ 1,232,152	$ 1,159,553

The disbursements include interest payments of $130.4 million and $157.5 million for Fiscal Years 2000 and 1999, respectively. In certain instances, a refund may be identified prior to liquidation for amounts remitted by the importer. These refunds are funded from the collections rather than the Refunds and Drawback account. During Fiscal Years 2000 and 1999, these refunds totaled $38 million and $17 million, respectively.

Amounts refunded during Fiscal Years 2000 and 1999 identified by entry year consist of the following (in thousands):

Entry Year	2000	1999
2000	$ 512,181	$ --
1999	283,741	402,835
1998	117,894	277,140
1997	--	92,261
Prior Years	318,336	387,317
Totals	$1,232,152	$1,159,553

The disbursement totals for refunds includes antidumping and countervailing duties collected that are refunded pursuant to rulings by the Department of Commerce (Commerce). Antidumping duties are collected when it is determined that a class or kind of foreign merchandise is being released into the U.S. commerce at less than its fair value to the detriment of an U.S. industry. Countervailing duties are collected when it is determined that a foreign government is providing a subsidy to its local industries to manufacture, produce, or export a class or kind of merchandise for import into the U.S. commerce to the detriment of an U.S. industry. These duties are refunded when Commerce issues a decision in favor of the foreign industry.

The total amounts of antidumping and countervailing duties vary from year to year depending on decisions from Commerce. Antidumping and countervailing duty refunds and associated interest refunded during Fiscal Years 2000 and 1999 were as follows (in thousands):

	2000	1999
Antidumping and countervailing duty refunds	$ 217,515	$ 169,634
Interest	70,211	92,670
Total antidumping and countervailing duty refunds	$ 287,726	$ 262,304

Required Supplementary Information

A. Federal Account Symbols and Titles

ENTITY FUNDS – Customs entity operations are funded principally through the following accounts.

General Funds

20X0602	Salaries and Expenses, U.S. Customs Service
20 0602	Salaries and Expenses, U.S. Customs Service
20X0604	Operation and Maintenance, Air and Marine Interdiction Program, U.S. Customs Service
20 0604	Operation and Maintenance, Air and Marine Interdiction Program, U.S. Customs Service
20X0608	Customs Air Interdiction Facilities, Construction, Improvements and Related Expenses
20X0609	Air and Marine Interdiction Programs, Procurement, U.S. Customs Service

Special Funds

20X5694	Customs Services at Small Airports
20X5695	Customs User Fees Account, U.S. Customs Service
20X5687	Refunds, Transfers and Expenses of Operations, Puerto Rico, U.S. Customs Service

Trust Funds

20X8529	Salaries and Expenses Trust Fund, U.S. Customs Service, Treasury
20 8529	Salaries and Expenses Trust Fund, U.S. Customs Service, Treasury
20X8789	Refunds, Transfers, Expenses, Unclaimed, Abandoned and Seized Goods, U.S. Customs Service
20X8870	Harbor Maintenance Fee Collection

NON-ENTITY FUNDS – Customs records non-entity activity in the following accounts.

General Fund Receipt Accounts

121010	Fines, Penalties & Forfeitures, Agriculture Laws, Department of Agriculture
200152	Excise Taxes
200310	Duties on Imports
200311	Tonnage Duty Fees
201040	Fines, Penalties and Forfeitures, Customs, Commerce and Antitrust Laws
201060	Forfeitures of Unclaimed Money and Property
201210	Contributions to Conscience Fund
201435	General Fund Proprietary Interest, Not Otherwise Classified
203200	Collections of Receivables from Canceled Accounts
203220	General Fund Proprietary Receipts, Not Otherwise Classified, All Other
20F3845.06	Proceeds of Sale, Personal Property
613220	General Fund Proprietary Receipts, Not Otherwise Classified, All Other, Consumer Product Safety Commission
753220	General Fund Proprietary Receipts, Not Otherwise Classified, All Other, Dept. of Health & Human Services

Deposit Funds

12X6148	Assessments on Imports of Beef and Pork Products, Agriculture Marketing Services, Dept. of Agriculture
20X6157	Duties Collected for the Virgin Islands Government, U.S. Customs Service, Treasury Department

Revolving Funds

04X4505.01	Revolving Fund, Government Printing Office

Special Funds and Special Fund Receipt Accounts

12X5161	Agriculture Quarantine Inspection User Fees Account, Animal and Plant Health Inspection Service, Department of Agriculture
14X5137.2	Import Duties on Arms and Ammunition, Migratory Birds Conservation Account, U.S. Fish and Wildlife
205209	30% of Customs Duties, Funds for Strengthening Markets, Income and Supply
205687.001	Deposits, Duties and Taxes, Puerto Rico, U.S. Customs Service
205694	User Fees – Small Airports
205695.3	Customs Merchandise Processing Fee, U.S. Customs Service

Trust Funds

208789.001	Proceeds of Sales of Unclaimed, Abandoned, and Seized Goods, U.S. Customs Service
20X8863	Harbor Maintenance Trust Fund

General Funds

20X0603	Refunds and Drawback, U.S. Customs Service
20X0903	Refunding Internal Revenue Collections (Indefinite)

B. Statement of Budgetary Resources

Budgetary resources disaggregated by major accounts for the years ended September 30, 2000 and 1999, consists of the following (in thousands):

	2000			
	General Funds	Trust Funds	Special Funds	Totals
Budgetary Resources				
Budget authority	$1,920,246	$ 64,000	$ 299,542	$2,283,788
Unobligated balance	277,952	72,608	753,552	1,104,112
Spending authority from offsetting collections earned	154,734	256	42,690	197,680
Adjustments, anticipated for rest of year	506,006	1,473	13,866	521,345
Total Budgetary Resources	$2,858,938	$138,337	$1,109,650	$4,106,925
Status of Budgetary Resources				
Obligations incurred	$2,613,786	$ 68,293	$ 394,912	$3,076,991
Unobligated balances available	211,938	70,319	75,098	357,355
Unobligated balances not available	33,214	(275)	639,640	672,579
Total Budgetary Resources	$2,858,938	$138,337	$1,109,650	$4,106,925
Outlays				
Obligations	$2,613,786	$68,293	$394,912	$3,076,991
Spending authority from offsetting collections and adjustments	(699,173)	(2,053)	(56,556)	(757,782)
Obligated balance, net-beginning of period	493,621	25,378	57,592	576,591
Obligated balance, net-end of period	(499,001)	(39,864)	(40,480)	(579,345)
Total Outlays	$1,909,233	$51,754	$355,468	$2,316,455

	1999			
	General Funds	Trust Funds	Special Funds	Totals
Budgetary Resources				
Budget authority	$2,076,804	$68,472	$274,217	$2,419,493
Unobligated balance	124,549	21,211	799,381	945,141
Spending authority from offsetting collections earned	143,148	5,772	41,464	190,384
Adjustments, anticipated for rest of year	174,937	952	5,923	181,812
Total Budgetary Resources	$2,519,438	$96,407	$1,120,985	$3,736,830
Status of Budgetary Resources				
Obligations incurred	$2,240,911	$23,799	$ 367,434	$2,632,144
Unobligated balances available	234,970	72,559	113,911	421,440
Unobligated balances not available	43,557	49	639,640	683,246
Total Budgetary Resources	$2,519,438	$96,407	$1,120,985	$3,736,830
Outlays				
Obligations	$2,240,911	$23,799	$ 367,434	$2,632,144
Spending authority from offsetting collections and adjustments	(341,326)	(6,724)	(47,387)	(395,437)
Obligated balance, net-beginning of period	398,669	28,980	52,906	480,555
Obligated balance, net-end of period	(493,621)	(25,378)	(57,592)	(576,591)
Total Outlays	$1,804,633	$20,677	$ 315,361	$2,140,671

C. Petitioned and Protested Schedule

An analysis of the changes in petitioned and protested assessed amounts during Fiscal Years 2000 and 1999 is as follows (in thousands):

	2000					
	Balance October 1	Additional Assessments	Protest in Favor of Debtor	Net Reduction Administrative Process	Additional Receivable	Balance September 30
Duties	$ 53,783	$ 231,609	$ (20,212)	$(53,640)	$ (168,314)	$ 43,226
Taxes	31	849,192	(7,710)	(1,418)	(839,434)	661
Fees	346	18,296	(686)	(1,362)	(16,000)	594
Fines/Penalties	2,006,233	1,064,582	(972,674)	(3,927)	(481,930)	1,612,284
Interest	21,453	56,294	(16,217)	(569)	(32,892)	28,069
Totals	$2,081,846	$2,219,973	$(1,017,499)	$(60,916)	$(1,538,570)	$1,684,834

	1999					
	Balance October 1	Additional Assessments	Protest in Favor of Debtor	Net Reduction Administrative Process	Additional Receivable	Balance September 30
Duties	$103,300	$ 253,427	$ (76,683)	$ (37,133)	$ (189,128)	$ 53,783
Taxes	290	774,910	(12,289)	(1,913)	(760,967)	31
Fees	240	14,619	(84)	(21)	(14,408)	346
Fines/Penalties	1,022,078	1,753,894	(376,578)	(126,289)	(266,872)	2,006,233
Interest	39,136	40,310	(15,839)	(4,918)	(37,236)	21,453
Totals	$1,165,044	$2,837,160	$(481,473)	$(170,274)	$(1,268,611)	$2,081,846

Customs reviews selected entry documentation to determine whether importer payment estimates of duties, taxes, and fees were accurate or whether additional supplemental amounts are owed and should be billed. Customs regulations allow the importer 90 days from the bill date in which to file a protest to be reviewed by the Port Director and an application requesting further review of the protest by Customs Office of Regulations and Rulings challenging the assessment of supplemental duties, taxes, and fees. If the protest and application for further review are denied by the Port Director, the protestor has an additional 60 days from the denial date for a review of the application by the Commissioner of Customs. Consequently, Customs recognizes accounts receivables only when the protested period has elapsed or when a protest decision has been rendered in Customs favor.

Additionally, importers and their sureties also have the option to petition for relief after receipt of Customs notice that a fine or penalty has been assessed when a violation of law or regulation is discovered. The importer or surety has 60 days to file a petition for relief or make payment of the assessed amount. If a petition is received and Customs finds there are extenuating circumstances, such as an incorrect assessment, which warrants mitigation, relief is granted as prescribed by Customs mitigation guidelines and directives. Consequently, Customs recognizes accounts receivables only when the petition period has elapsed or when a petition decision has been rendered.

D. Deferred Maintenance

Deferred maintenance is maintenance that was not performed when it should have been or was scheduled to be performed, and is delayed until a future period. Maintenance includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable service and achieves its useful life. Deferred maintenance on property, plant and equipment as measured by condition assessment survey, is comprised of (in thousands):

	2000		1999	
	Condition Assessment	Deferred Maintenance	Condition Assessment	Deferred Maintenance
Building and Structures		$ --	Fair	$ 759
Aircraft		--	Poor	600
Vehicles	Fair	20	Fair	6
Vessels	Fair	1,800	Poor	1,500
Total		$1,820		$2,865

E. Intra-governmental Assets, Liabilities, Revenue and Costs

Balances representing intra-governmental asset, liability, revenue and cost activity consist of the following (in thousands):

Intra-governmental Amounts – Assets

Partner Agency	2000 Fund Balance with Treasury	2000 Accounts Receivable/ Advances	1999 Fund Balance with Treasury	1999 Accounts Receivable/ Advances
Department of the Treasury	$1,864,229	$ --	$2,724,698	$ --
Treasury Forfeiture Fund	--	13,533	--	8,813
Financial Crimes Enforcement Network	--	48	--	84
U.S. Secret Service	--	272	--	136
Alcohol, Tobacco & Firearms	--	79	--	289
Bureau of Public Debt	--	--	--	1
Departmental Offices	--	18,414	--	15,960
Totals Department of the Treasury	1,864,229	32,346	2,724,698	25,283
Department of Defense	--	1,073	--	2,145
Department of Health & Human Services	--	3	--	32
Agency for International Development	--	123	--	12
Department of Transportation	--	60	--	483
United States Information Agency	--	--	--	10
Federal Deposit Insurance Corp	--	3	--	6
General Services Administration	--	1,938	--	836
Department of State	--	320	--	1,135
Department of Justice	--	1,192	--	5,800
Department of Interior	--	--	--	1,391
Department of Agriculture	--	--	--	135
Government Accounting Office	--	--	--	176
Social Security Administration	--	25	--	--
Office of Housing & Urban Development	--	50	--	--
Central Intelligence Agency	--	1	--	--
Environmental Protection Agency	--	2	--	--
Totals	$1,864,229	$37,136	$2,724,698	$37,444

Additionally, Customs advanced $11.3 million and $10.03 million to other Federal sources in Fiscal Years 2000 and 1999, respectively, which is expected to be returned without expenditure.

Intra-governmental Amounts – Liabilities

Partner Agency	2000 Accounts Payable	2000 Other	1999 Accounts Payable	1999 Other
General Fund	$ --	$1,060,504	$ --	$1,727,782
Internal Revenue Service/Revenue	--	--	483	--
Bureau of Public Debt/Franchise Funds	12	--	5	--
Alcohol, Tobacco & Firearms	--	--	2	--
Internal Revenue Service	193	--	393	--
Federal Law Enforcement Training Center	535	--	276	--
Departmental Offices	--	(104)	6	--
Financial Management Service	2	--	--	--
Totals Department of the Treasury	742	1,060,400	1,165	1,727,782
U.S. Equal Employment Opportunity Commission	1	--	--	--
Department of Defense	3,198	7,721	1,712	13,898
Department of Energy	--	--	26	--
National Aeronautics & Space Administration	11	--	11	--
Department of Health and Human Services	143	--	367	--
Department of Transportation	2	--	--	1
General Services Administration	2,760	75	16,243	75
Social Security Administration	--	3,960	3,525	1
Office of Personnel Management	49	11,073	11,758	--
Department of State	839	6,468	555	2,495
Department of Labor	--	43,008	109	41,452
Department of Justice	(13)	--	78	--
Department of Interior	--	--	9	--
Department of Commerce	--	--	19	--
Department of Agriculture	6	--	86	--
Government Printing Office	309	--	236	--
Library of Congress	33	--	--	--
Department of Veterans Affairs	1	--	--	--
National Security Agency	34	--	--	--
Totals	$8,115	$1,132,705	$35,899	$1,785,704

Intra-governmental Amounts – Revenue and Costs

Budget Functions	2000 Exchange Intra-governmental Revenue	2000 Cost to Generate Exchange Intra-governmental Revenue	1999 Exchange Intra-governmental Revenue	1999 Cost to Generate Exchange Intra-governmental Revenue
Administration of Justice	$109,280	$119,385	$148,380	$155,169

Non-Exchange Revenue

Partner Agency	2000 In	2000 Out	1999 In	1999 Out
Department of Defense	$18,480	$ --	$15,455	$ --
Department of Justice	13	10	16	--
Department of Transportation	31	--	11	32
Department of State	--	--	--	91
General Services Administration	14	--	28	6
Executive Office of the President	--	--	30	--
Department of Agriculture	1	--	7	--
Federal Emergency Mgmt Agency	16	--	--	--
Executive Office for Asset Forfeiture	28,739	--	--	--
Alcohol Tobacco and Firearms	12	--	--	--
Totals	$47,306	$10	$15,547	$129

Other Accompanying Information

Entity Receivables

An aging of entity receivables as of September 30, 2000 and 1999, is as follows (in thousands):

2000	Aged Period: <=90 days	91days–1 year	1-2 years	2-3 years	3+ years	Total
Reimbursable services	$ 2,589	$ 32	$ 22	$ 15	$ 4	$ 2,662
User fees	61,716	4,539	2,494	2,524	4,206	75,479
Gross receivables	64,305	4,571	2,516	2,539	4,210	78,141
Less uncollectible amounts	(478)	(124)	(1,176)	(902)	(4,046)	(6,726)
Net receivables	$ 63,827	$ 4,447	$ 1,340	$ 1,637	$ 164	$ 71,415

1999	Aged Period: <=90 days	91days–1 year	1-2 years	2-3 years	3+ years	Total
Reimbursable services	$ 3,459	$ 170	$ 153	$ 57	$ 196	$ 4,035
User fees	65,503	2,906	2,623	972	3,359	75,363
Gross receivables	68,962	3,076	2,776	1,029	3,555	79,398
Less uncollectible amounts	(5,038)	(224)	(202)	(75)	(259)	(5,798)
Net receivables	$ 63,924	$ 2,852	$ 2,574	$ 954	$ 3,296	$ 73,600

Non-Entity Receivables

An analysis of the changes in accounts receivable during Fiscal Years 2000 and 1999 is as follows (in thousands):

2000

Receivable Category	Balance October 1	Receivables Recorded During the Fiscal Year	Collections	Write-offs	Adjustments	Balance September 30
Duties	$ 834,436	$ 20,322,447	$ (20,293,633)	$ (1,014)	$ (32,711)	$ 829,525
Excise Taxes	32,661	1,938,047	(1,934,811)	–	4,403	40,300
Fees	56,785	1,581,322	(1,569,446)	(372)	(3,061)	65,228
Fines/penalties	404,130	3,607,827	(118,956)	(25,381)	(3,130,294)	737,326
Interest	41,680	54,351	(35,180)	(1,808)	(1,741)	57,302
Refunds/drawback	3,374	3,030	(3,376)	–	–	3,028
Totals	1,373,066	$ 27,507,024	$ (23,955,402)	$ (28,575)	$ (3,163,404)	1,732,709
Less uncollectible amounts	(451,739)					(784,195)
Net receivables	$ 921,327					$ 948,514

1999 Receivable Category		Balance October 1		Receivables Recorded During the Fiscal Year		Collections		Write-offs		Adjustments		Balance September 30
Duties	$	757,526	$	18,806,689	$	(18,725,778)	$	(1,618)	$	(2,383)	$	834,436
Excise Taxes		26,657		1,733,355		(1,726,083)		(7)		(1,261)		32,661
Fees		57,755		1,458,923		(1,455,345)		(19)		(4,529)		56,785
Fines/penalties		294,250		3,392,077		(52,555)		(15,209)		(3,214,433)		404,130
Interest		36,510		44,217		(31,033)		(1,901)		(6,113)		41,680
Refunds/drawback		5,268		3,491		(5,268)		–		(117)		3,374
Totals		1,177,966	$	25,438,752	$	(21,996,062)	$	(18,754)	$	(3,228,836)		1,373,066
Less uncollectible amounts		(306,765)										(451,739)
Net receivables	$	871,201									$	921,327

An aging of non-entity Intra-governmental receivables as of September 30, 2000 and 1999 is as follows (in thousands):

		Aged Period										
2000		<=90 days		91days–1 year		1-2 years		2-3 years		3+ years		Total
Duties	$	768,458	$	10,856	$	2,577	$	18,341	$	29,293	$	829,525
Excise taxes		39,800		277		–		–		223		40,300
User fees		63,874		813		5		501		35		65,228
Fines/penalties		84,183		524,872		19,956		19,029		89,286		737,326
Interest		638		8,411		1,224		8,994		38,035		57,302
Refunds and drawback		3		937		126		818		1,144		3,028
Gross receivables		956,956		546,166		23,888		47,683		158,016		1,732,709
Less uncollectible amounts		(67,903)		(527,765)		(18,246)		(37,451)		(132,830)		(784,195)
Net receivables	$	889,053	$	18,401	$	5,642	$	10,232	$	25,186	$	948,514

		Aged Period										
1999		<=90 days		91days–1 year		1-2 years		2-3 years		3+ years		Total
Duties	$	777,547	$	6,703	$	17,262	$	1,831	$	31,093	$	834,436
Excise taxes		32,336		99		13		21		192		32,661
User fees		56,174		17		498		2		94		56,785
Fines/penalties		136,947		60,834		67,283		14,743		124,323		404,130
Interest		53		1,570		6,769		454		32,834		41,680
Refunds and drawback		–		373		1,230		64		1,707		3,374
Gross receivables		1,003,057		69,596		93,055		17,115		190,243		1,373,066
Less uncollectible amounts		(125,957)		(61,814)		(83,710)		(14,916)		(165,342)		(451,739)
Net receivables	$	877,100	$	7,782	$	9,345	$	2,199	$	24,901	$	921,327

Customs Collections by Category
(Dollars in thousands)

	1996	1997	1998	1999	2000
Duties					
Consumption entries	$18,465,609	$18,720,977	$18,537,332	$18,405,248	$19,857,605
Warehouse withdrawals	142,729	146,247	121,593	136,902	115,097
Mail entries	9,487	9,076	8,419	8,022	5,976
Passenger baggage entries	18,677	20,117	20,474	20,866	21,470
Crew baggage entries	97	87	105	100	100
Military baggage entries	61	42	51	37	34
Informal entries	31,103	28,890	31,209	40,590	45,102
Vessel repair entries	19,930	9,847	14,896	14,660	16,067
Other duties	516,233	301,275	384,058	428,968	494,450
Total Duties	19,203,926	19,236,558	19,118,137	19,055,393	20,555,901
Miscellaneous					
Violations of Customs law	52,717	43,377	56,554	56,089	111,703
Testing, inspecting & grading	84	40	32	25	31
Miscellaneous taxes	63,350	64,882	67,169	68,738	70,419
USDA collections	49,444	53,160	62,847	66,487	68,219
Harbor maintenance fee	676,804	732,759	645,023	551,146	673,324
Fees	1,769	1,940	2,488	2,368	2,916
User fee account	1,171,402	1,287,174	1,241,614	1,208,258	1,277,505
Unclaimed funds	47	940	1,529	2,175	850
Recoveries	54	43	30	27	56
Interest	30,008	13,882	26,900	31,437	38,603
Other Customs receipts	7,540	10,828	13,672	11,908	6,983
Total Miscellaneous	2,053,219	2,209,025	2,117,858	1,998,658	2,250,609
Internal Revenue Taxes	1,067,316	1,152,855	1,171,844	1,351,749	1,541,419
Total Collections	$22,324,461	$22,598,438	$22,407,839	$22,405,800	$24,347,929

Total Collections include both custodial, duty, tax, fee and interest collections, and entity user fee collections recorded by port locations during the period October through September, as follows:

Custodial collections	$21,903,020	$22,143,578	$22,071,957	$22,132,062	$24,049,336
Entity collections	421,441	454,860	335,882	273,738	298,593
Total Collections	$22,324,461	$22,598,438	$22,407,839	$22,405,800	$24,347,929

Customs Collections by Major Processing Port Locations
(Dollars in thousands)

	1996	1997	1998	1999	2000
Boston	$ 546,342	$ 545,441	$ 528,748	$ 500,925	$ 511,237
Buffalo-Niagara Falls	229,941	183,606	153,804	155,041	164,036
Ogdensburg	124,786	112,551	85,939	78,847	86,102
Portland, Maine	40,102	39,994	42,974	40,216	43,509
Providence	41,161	49,568	38,731	41,322	39,541
St. Albans	56,971	49,580	39,099	28,913	34,022
Baltimore	510,508	496,313	500,656	503,445	494,200
Philadelphia	564,226	500,473	500,449	525,247	545,958
New York	171,766	185,181	226,988	296,256	462,477
Newark	3,009,692	3,154,876	3,194,299	3,150,573	3,226,830
JFK Airport	1,340,597	1,384,536	1,329,737	1,293,669	1,474,054
Charleston	496,976	549,792	604,678	575,912	629,969
Miami	653,342	754,570	837,987	919,150	1,063,756
San Juan	123,484	121,066	125,822	115,908	105,467
St. Thomas	11,225	9,404	9,129	10,444	11,883
Savannah	609,357	626,611	640,669	659,185	752,055
Tampa	339,321	354,564	326,666	372,144	403,311
Wilmington	317,410	324,952	322,603	331,555	310,507
Norfolk	333,931	352,811	368,490	382,301	443,377
Washington, DC	707,876	762,730	509,253	351,186	461,158
Mobile	66,703	54,904	64,367	61,324	92,364
New Orleans	785,787	832,394	834,440	761,820	797,544
Dallas/Ft. Worth	336,532	327,187	301,545	274,542	286,031
El Paso	102,558	103,601	107,708	103,953	75,033
Houston	473,335	448,137	464,907	437,079	472,332
Laredo	370,447	396,701	366,933	356,370	351,374
Port Arthur	30,683	31,700	31,178	28,035	29,097
Nogales	118,714	117,279	109,816	106,129	86,925
Los Angeles	4,225,403	4,285,908	4,499,699	4,616,494	5,183,813
San Diego	120,875	165,473	176,009	191,405	230,064
Anchorage	103,535	104,096	88,297	96,252	107,240
Honolulu	46,234	45,174	38,600	41,923	54,610
Portland	274,653	330,242	310,182	289,660	328,474
San Francisco	1,138,605	893,218	817,569	820,212	867,415
Seattle	622,937	634,502	642,053	713,242	845,930
Chicago	1,227,717	1,229,959	1,248,647	1,258,832	1,340,274
Cleveland	1,015,673	1,034,749	1,003,474	990,196	984,020
Detroit	552,423	502,606	438,979	430,802	447,904
Duluth	1,817	1,978	1,322	1,393	1,398
Milwaukee	54,565	48,270	45,794	40,967	36,396
Minneapolis	104,836	106,829	101,115	94,402	99,008
Pembina	20,195	15,440	9,990	10,941	11,497
St. Louis	222,584	228,010	237,332	231,650	257,673
Great Falls	96,877	95,286	90,801	96,049	107,613
Total Collections	22,342,702	22,592,262	22,417,478	22,385,911	24,357,478
Net Financial Statement Adjustments (a)	(18,241)	6,176	(9,639)	19,889	(9,549)
Total Revenues Collected	$22,324,461	$22,598,438	$22,407,839	$22,405,800	$24,347,929

(a) Total collections represent collections recorded by the port locations during the fiscal year. Net financial statement adjustments primarily represent adjustments for timing differences for collections received during the fiscal year but not recorded until the next fiscal year.

SECTION III

STATUS OF RECOMMENDATIONS FROM PRIOR YEARS' FINANCIAL STATEMENT AUDITS

SECTION III STATUS OF RECOMMENDATIONS FROM PRIOR YEARS' FINANCIAL STATEMENT AUDITS

Customs' financial statements are subject to audit pursuant to the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. Beginning with fiscal year 1994, the Office of Inspector General (OIG) has performed the examinations of these financial statements. The following listing consists of unresolved OIG recommendations to correct internal control weaknesses identified by our previous examinations and their status as of the completion of our FY 2000 audit. We determined the status of the recommendations based on our audit fieldwork at Customs and discussions with Customs officials. The status of Customs' actions is also discussed in Section I of this report.

Reports/Recommendations	Action Complete	Action in Progress	Action in Planning or Planning Complete	No Specific Action Planned
Report on the U.S. Customs Service's Fiscal Year 1999 Financial Statements (OIG-00-050)				
Finding 1, Recommendation 1. The Commissioner of Customs should ensure that the source data input into CMIS is refined to allow Customs to evaluate the accuracy of the budget estimates related to reimbursable charges for certain inspection positions and other reimbursable services.		X		
Finding 3, Recommendation 1. The Commissioner of Customs should ensure that the Boston CMC processes drawback disbursements in accordance with the drawback policy.	X			
Finding 3, Recommendation 2. The Commissioner of Customs should ensure that the Boston CMC rearranges its current filing system to enable reasonable access and retrieval of documentation.	X			
Finding 4, Recommendation 1. The Commissioner of Customs should ensure that Customs completes its study of cargo valued by importers at under $2,001 that was conducted during FY 1999.	X			
Finding 4, Recommendation 2. The Commissioner of Customs should ensure that Customs finalizes and implements its draft policy on the Foreign-Trade Zone Compliance Check Program.		X		

SECTION III STATUS OF RECOMMENDATIONS FROM PRIOR YEARS' FINANCIAL STATEMENT AUDITS

Reports/Recommendations	Action Complete	Action in Progress	Action in Planning or Planning Complete	No Specific Action Planned
Finding 4, Recommendation 3. The Commissioner of Customs should ensure that improvements are made to the Tinman CMP post-audit review process to verify the appropriate resolution of in-bond transactions, e.g., review of entry and export documents.		X		
Finding 4, Recommendation 4. The Commissioner of Customs should ensure that procedures for the Tinman CMP are implemented to provide a random sample of shipments selected for examination.			X	
Finding 4, Recommendation 5. The Commissioner of Customs should ensure that AMS is enhanced to allow for the entry of remarks relating to non-discrepant Tinman examinations and require all inspectors to report any details that would facilitate post audit reviews.		X		
Finding 4, Recommendation 6. The Commissioner of Customs should ensure that the results of the Tinman CMP are analyzed to include the determination of the sufficiency of the number of physical examinations performed during the fiscal year.	X			
Finding 4, Recommendation 7. The Commissioner of Customs should ensure that once the draft procedures for post-audit reviews are implemented and have been in place for a reasonable period of time, the results of the post-audit reviews are summarized and analyzed to determine whether the number of reviews is sufficient and the propriety of the 120-day in-bond closure policy.		X		
Finding 5, Recommendation 1. The Commissioner of Customs should ensure that Customs reviews its FY 1999 testing of open in-bond transactions to determine the reason that supporting documentation for certain transactions in its sample could not be provided either in a timely manner or at all, and that appropriate policies and procedures be implemented to correct the problem.	X			

SECTION III STATUS OF RECOMMENDATIONS FROM PRIOR YEARS' FINANCIAL STATEMENT AUDITS

Reports/Recommendations	Action Complete	Action in Progress	Action in Planning or Planning Complete	No Specific Action Planned
Finding 6, Recommendation 1. The Commissioner of Customs should ensure that the investigation into the missing seizures determines the reason that the six seizures identified as missing during the FY 1998 annual physical inventory verification were not reported to IA.	X			
Finding 6, Recommendation 2. The Commissioner of Customs should ensure that the current investigation is completed expeditiously, and that appropriate actions is taken as a result of the investigative findings.	X			
Finding 7, Recommendation 1. The Commissioner of Customs should ensure that the risk assessments task project be given a high priority and that adequate resources are made available in FY 2000 to conduct a formal risk assessment for the Newington Data Center computer site configurations, the 20 CMCs, and the other mission critical remote data entry locations.		X		
Finding 7, Recommendation 2. The Commissioner of Customs should ensure that Customs fully implements the CSO position to cover all major areas of information systems security.		X		
Finding 7, Recommendation 3. The Commissioner of Customs should ensure that Customs' OIT training management assigns a high priority to the development and implementation of training for CSOs and NSAs.		X		
Finding 7, Recommendation 4. The Commissioner of Customs should ensure that Customs' management completes the review and approval of the CSIRC policy.		X		
Finding 7, Recommendation 5. The Commissioner of Customs should ensure that Customs' management develops and implements the CSIRC Operations Handbook.		X		

SECTION III STATUS OF RECOMMENDATIONS FROM PRIOR YEARS' FINANCIAL STATEMENT AUDITS

Reports/Recommendations	Action Complete	Action in Progress	Action in Planning or Planning Complete	No Specific Action Planned
Finding 7, Recommendation 6. The Commissioner of Customs should ensure that Customs completes the certification and accreditation of its new systems and applications and the re-accreditation of its existing (legacy) systems and applications.		X		
Finding 7, Recommendation 7. The Commissioner of Customs should ensure that the guidance in the Automated Information Systems Security Policy Handbook is expanded to address on-going maintenance (life support) of legacy security certification and accreditation requirements and ensure integration with the SDLC handbook.		X		
Finding 9, Recommendation 1. The Commissioner of Customs should ensure that the OIT establishes and implements a strong configuration management policy that covers all aspects of Customs automated resources, specifically ensuring the application of and adherence to SDLC policies and procedures for infrastructure systems.		X		
Report on the U.S. Customs Service's Fiscal Year 1998 Financial Statements (OIG-99-050)				
Finding 5, Recommendation 2. The Commissioner of Customs should ensure that cargo valued by importers as under $2,000, the formal entry limit, are included in the population of cargo subjected to the consumption entry CMP.				X[1]

[1] Based on the results of our FY 2000 financial statement audit, this recommendation has been superseded by Finding 4, Recommendation 1 in Section I of this report. Accordingly, we will track Customs' corrective action under this new recommendation in future audits.

SECTION III STATUS OF RECOMMENDATIONS FROM PRIOR YEARS' FINANCIAL STATEMENT AUDITS

Reports/Recommendations	Action Complete	Action in Progress	Action in Planning or Planning Complete	No Specific Action Planned
Finding 6, Recommendation 1. The Commissioner of Customs should ensure that Customs accounting and covert operation personnel initiate a joint effort to determine the correct status and continued need for open investigative advances.	X			
Report on the U.S. Customs Service's Fiscal Years 1997 and 1996 Financial Statements (OIG-98-050)				
Finding 2, Recommendation 1. The Commissioner of Customs should ensure that SEACATS is enhanced to fully automate both currency and property functions to (a) enable users to process and update transactions, (b) generate relevant reports to better manage its seizures and forfeitures, and (c) generate the complete analysis of changes in seized and forfeited property.	X			
Finding 2, Recommendation 2. The Commissioner of Customs should ensure that procedures are implemented to ensure system development efforts are consistently in compliance with the system development life cycle standards.		X		
Finding 3, Recommendation 1. The Commissioner of Customs should ensure that the national policy on drawback processing is implemented and consistently followed.		X		

SECTION III STATUS OF RECOMMENDATIONS FROM PRIOR YEARS' FINANCIAL STATEMENT AUDITS

Reports/Recommendations	Action Complete	Action in Progress	Action in Planning or Planning Complete	No Specific Action Planned
Finding 3, Recommendation 2. The Commissioner of Customs should ensure that the national policy on drawback processing be amended to specifically require, in a consistent manner, drawback specialists to (1) statistically sample proof of export for ESP claimants before liquidating drawback claims, (2) review all prior claims against a selected import entry to determine whether, in the aggregate, excessive amounts had been claimed against the import entry(s) and, if applicable, the import entry line item or invoice, and (3) establish standard guidelines/thresholds where evidence of supervisory review is required.		X		
Finding 5, Recommendation 1. The Commissioner of Customs should ensure that the air carrier manifest CMP is conducted throughout the fiscal year, results fully analyzed, and appropriate actions are taken.				X
Finding 5, Recommendation 2. The Commissioner of Customs should ensure that the results of the bonded warehouses and FTZ survey are fully analyzed and appropriate actions are taken. Additionally, Customs should conduct the survey annually.		X		
Finding 5, Recommendation 3. The Commissioner of Customs should ensure the results of the CMP for bonded warehouses are fully analyzed and appropriate actions taken.		X		
Finding 6, Recommendation 4. The Commissioner of Customs should ensure that application owners are notified of all known automated information system weaknesses, and are provided with a schedule for resolving those weaknesses.		X		

SECTION III STATUS OF RECOMMENDATIONS FROM PRIOR YEARS' FINANCIAL STATEMENT AUDITS

Reports/Recommendations	Action Complete	Action in Progress	Action in Planning or Planning Complete	No Specific Action Planned
Report on the U.S. Customs Service's Fiscal Years 1996 and 1995 Financial Statements (OIG-97-054)				
Finding 3, Recommendation 2. The Commissioner of Customs should ensure that standard procedures are implemented to record refunds or payments to the individual import entries associated with cost submissions.	X			
Finding 3, Recommendation 3. The Commissioner of Customs should ensure that standard procedures, and requisite changes to ACS, are implemented to provide for appropriate supervisory review and authorization of critical ACS warning messages and other edit checks that can be overridden.		X		
Finding 5, Recommendation 1. The Commissioner of Customs should ensure that a comprehensive security requirements analysis is performed to identify the database table access needs of major application systems users. Once completed, user database table access should be restricted in accordance with the analysis.	X			
Finding 7, Recommendation 1. The Commissioner of Customs should ensure that ACS systems documentation is updated to an acceptable level so as to allow users to adequately operate and maintain the system.		X		
Finding 7, Recommendation 2. The Commissioner of Customs should ensure that procedures are implemented to ensure that appropriate documentation is maintained for all major application and general support systems.		X		
Finding 7, Recommendation 3. The Commissioner of Customs should ensure that procedures are implemented to provide for appropriate end-user training and communication of system changes.		X		

SECTION III STATUS OF RECOMMENDATIONS FROM PRIOR YEARS' FINANCIAL STATEMENT AUDITS

Reports/Recommendations	Action Complete	Action in Progress	Action in Planning or Planning Complete	No Specific Action Planned
Additional Information on Reportable Matters Related to the Audit of the U.S. Customs Service's Fiscal Year 1995 Consolidated Financial Statements (OIG-96-098)				
Finding 1, Recommendation 3. The Commissioner of Customs should ensure standard procedures are implemented providing for appropriate supervisory review of refund payments.			X	
Finding 1, Recommendation 4. The Commissioner of Customs should ensure standard procedures are developed to verify the eligibility of refunds identified through automated routines before payment is made.			X	
Finding 2, Recommendation 1. The Commissioner of Customs should ensure standard procedures are implemented to resolve items on ACS exception reports in a timely manner, such as for "open" bills of lading and "open" in-bond shipment transactions.	X			
Finding 2, Recommendation 2. The Commissioner of Customs should ensure the planned tests of "open" in-bond shipment transactions in ACS are sound, and implemented. Once the reasons for the high volume of "open" in-bond shipment transactions are determined, appropriate follow-up actions should be taken and any systemic weaknesses identified should be corrected.	X			
Finding 2, Recommendation 3. The Commissioner of Customs should ensure appropriate edit checks are incorporated in ACS for recording in-bond shipments that would prevent the acceptance and posting of illogical transactions.		X		

SECTION III STATUS OF RECOMMENDATIONS FROM PRIOR YEARS' FINANCIAL STATEMENT AUDITS

Reports/Recommendations	Action Complete	Action in Progress	Action in Planning or Planning Complete	No Specific Action Planned
Finding 3, Recommendation 1. The Commissioner of Customs should ensure objective programs are developed and implemented to effectively measure compliance for all areas of trade and user fee laws that have significant revenue gap implications.		X		
Finding 4, Recommendation 1. The Commissioner of Customs should ensure that new systems initiatives include a comprehensive "account based" accounts receivable subsidiary ledger that interfaces with the general ledger system.			X	
Finding 5, Recommendation 1. The Commissioner of Customs should ensure control procedures are modified to include the use of independent emergency libraries for programs. The procedures should limit (a) the useful life for emergency program changes (24 to 48 hours) and (b) access to the emergency libraries to specific personnel. Additionally, emergency program changes should be moved to production through standard change control procedures.		X		
Management Letter for the Audit of U.S. Customs Service's Fiscal Year 1994 Financial Statements (OIG-95-130)				
Chapter 1, Recommendation 2. The Commissioner of Customs should develop and implement a statistically-sound program to measure compliance with export trade laws.	X			

SECTION III STATUS OF RECOMMENDATIONS FROM PRIOR YEARS' FINANCIAL STATEMENT AUDITS

Reports/Recommendations	Action Complete	Action in Progress	Action in Planning or Planning Complete	No Specific Action Planned
Chapter 1, Recommendation 4. The Commissioner of Customs should ensure that the proposed Automated Commercial Environment will include effective automated controls to prevent excessive, duplicate, and unauthorized drawback payments. These controls should provide for: (a) linking of drawback claims to the invoice line item level of the import entry to prevent excessive or duplicate claims for individual commodities, and (b) automated checks against an account-based claimant profile for approvals to use special privileges and for adverse information about the claimant that should be considered by drawback specialists when processing a claim.			X	
Chapter 1, Recommendation 11. The Commissioner of Customs should implement a process to objectively measure importer compliance with in-bond requirements. The process should be statistically valid and include sufficient procedures to meaningfully compare examination data produced by the ports of origin and destination against in-bond and entry documentation.		X[2]		
Chapter 1, Recommendation 12. The Commissioner of Customs should ensure that ports are performing spot checks of bonded warehouses and foreign trade zones in accordance with Customs' directives and using the revised spot check worksheet when performing the spot checks.		X		
Chapter 1, Recommendation 13. The Commissioner of Customs should consider recording goods entering foreign trade zones in the Automated Commercial System with adequate correlation to supporting documentation so that Customs can reference this data to foreign trade zone operators' inventory records.		X		

2 Based on the results of our FY 2000 financial statement audit, this recommendation has been superseded by Finding 4, Recommendation 4 in Section I of this report. Accordingly, we will track Customs' corrective action under this new recommendation in future audits.

SECTION III STATUS OF RECOMMENDATIONS FROM PRIOR YEARS' FINANCIAL STATEMENT AUDITS

Reports/Recommendations	Action Complete	Action in Progress	Action in Planning or Planning Complete	No Specific Action Planned
Chapter 3, Recommendation 1. The Commissioner of Customs should develop a comprehensive plan to identify what modifications are needed to the general ledger system so that the system (a) properly and completely captures financial transactions as the events leading to the transactions occur, and (b) produces timely and reliable financial statements in conformance with Federal accounting principles, with minimal adjustments at year end. Modifications should provide, for example, the proper recordation of: (a) appropriations expended for operations, (b) accounts payable upon receipt and acceptance of goods and services, and (c) inventory transactions. Once identified, the necessary modifications should be implemented.		X		
Chapter 3, Recommendation 4. The Commissioner of Customs should develop and implement a methodology to determine actual costs for employee compensation and other expenses eligible for reimbursement to Customs' appropriation from the Customs User Fee account. As an interim measure, estimates used for these reimbursements should be valid and supportable.		X		
Chapter 3, Recommendation 16. The Commissioner of Customs should ensure that appropriate corrective actions are implemented resulting from the contractor's review of the Customs surety bond management program.		X		

SECTION III — STATUS OF RECOMMENDATIONS FROM PRIOR YEARS' FINANCIAL STATEMENT AUDITS

Reports/Recommendations	Action Complete	Action in Progress	Action in Planning or Planning Complete	No Specific Action Planned

U.S. Customs Service's EDP General Controls Continue to be Weak (OIG-95-131)

During our audit of Customs' FY 1994 financial statements, we evaluated Customs' general controls over its major computer systems. This report included our detailed findings and recommendations regarding a material weakness and the reportable conditions we found in the general controls. Because the details of these findings were of a sensitive nature, we issued the report with limited official use and distribution. We have tracked Customs' corrective actions on these and other findings identified in our later audits of Customs financial statements. As part of the audit of Customs' FY 2000 financial statements, we followed up on Customs progress to implement unresolved prior recommendations. Customs had completed actions on 25 of the 26 recommendations cited in the report. For the 1 outstanding recommendation, Customs had initiated corrective action. In Section I of this report, we have summarized the reportable conditions that continued to exist during fiscal year 2000, and provided additional information and recommendations for corrective action based on our evaluation of general and application controls during the audit.

U.S. Customs Service's Continuity of Operations Capability (OIG-99-109 & OIG-00-115)

During our audit of Customs' FY 1999 financial statements, we evaluated Customs' general controls over its major computer systems. OIG-00-115 included our detailed findings and recommendations regarding a material weakness we found in the general controls. This material weakness was identified the prior year in OIG-99-109, and continued to exist in FY 2000. Because the details of this finding were of a sensitive nature, we issued the report with limited official use and distribution. As part of the audit of Customs' FY 2000 financial statements, we followed up on Customs progress to implement unresolved prior recommendations. Customs had not completed actions on the 5 recommendations cited in the report; however, Customs had either initiated corrective action or was in the process of planning the actions to be taken.