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CUSTOMS SERVICE

The Self-Inspection Program Shows Promise but Remains a Work in Progress

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Accountability * Integrity * Reliability

Contents

Abbreviations

CEO	Canine Enforcement Officer
CMC	Customs Management Center
LAX	Los Angeles International Airport
MID	Management Inspections Division
OFO	Office of Field Operations
OI	Office of Investigations
RA	Resident Agent
RAIC	Resident Agent-in-Charge
SAIC	Special Agent-in-Charge
SIP	Self-Inspection Program
SIRS	Self-Inspection Reporting System

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United States General Accounting Office
Washington, DC 20548

June 1, 2001

The Honorable Charles E. Grassley
Chairman
Committee on Finance
United States Senate

The Honorable Bill Thomas
Chairman
Committee on Ways and Means
House of Representatives

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

Various governmental and private sector organizations use a self-inspection program (SIP) as a mechanism to provide management oversight of programs and processes to build accountability and to foster integrity throughout their organizations. Because of the U.S. Customs Service's diverse responsibilities and geographic dispersion, the former Commissioner wanted such a program for Customs that placed primary responsibility for reviewing operations and identifying corrective actions on the managers and supervisors overseeing the activities. As its name denotes, SIP emphasizes self-assessment by managers and supervisors responsible for the activity, rather than an assessment performed by outsiders. Under Customs' program, the Management Inspections Division (MID) was to independently verify and validate the self-inspections.

We reported to you last year about Customs' SIP design, the first of two issues that we agreed with your offices to address.[1] This report focuses on the second issue, program implementation and discusses (1) SIP's use as a mechanism for oversight and accountability, (2) problems relating to SIP implementation, and (3) improvements and refinements underway to enhance the value of the program.

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[1] *Customs Service: Information on the Design of the Self-Inspection Program* (GAO/GGD-00-151, June 23, 2000).

Results in Brief

Our visits to eight Customs entities and review of 127 MID verification and validation inspection reports showed that SIP is a useful mechanism for managers to identify and correct problems at the local level and to obtain more control over activities that they oversee. Local self-inspections and MID verification and validation inspections discovered several areas of vulnerability in Customs' activities, including weak controls over imprest fund,[2] seized property, and collections and deposits activities, and helped prompt corrective action at the local level. In addition, at every entity we visited managers and supervisors told us that the program has made a positive contribution to oversight and accountability.

These positive conditions notwithstanding, our review also disclosed several problems relating to SIP implementation. For example, MID reported that about 23 percent of the SIP worksheets that they reviewed had no or insufficient documentation to support managers' conclusions that activities were being performed properly; 16 percent of the worksheets had questions incorrectly answered.[3] MID attributed these problems to a lack of detailed instructions on how to complete worksheets and inadequate worksheet review by responsible officials. Our review found incomplete documentation to support the majority of worksheet results at three of the eight entities that we visited and a lack of key internal control questions on the worksheets. In addition, more than half of the 54 managers and supervisors we interviewed told us that

- SIP has been very paperwork-intensive, burdensome, and time-consuming;

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[2]An imprest fund is a fixed-cash or petty cash fund in the form of currency or coin. The funds are charged against a government appropriation by a federal government agency official and advanced to an authorized cashier. The fund may be revolving, replenished to the level of a fixed amount as spent or used, or stationary such as a change-making fund. See Department of the Treasury, Financial Management Service, *Manual of Procedures and Instructions for Cashiers*, p. 19 (March 2000).

[3]Self-inspection worksheets are designed to evaluate financial vulnerability and corruption, mission performance and resource utilization, and internal/external relationships. During self-inspections, managers and supervisors are to complete worksheets for all areas under their control. This involves assessing their operations and answering questions on the worksheets as "yes," "no," or "N/A" ("No Activity" or "Never Applies"). They are to then rate their areas of responsibility as either "acceptable" or "needs improvement."

- too much time was being spent on low-risk activities, such as internal and external relations;[4] and
- reporting requirements for some low-risk activities were too frequent.

Customs is taking steps to correct these deficiencies. For example, key internal control questions are being incorporated into the worksheets, and the time spent self-inspecting low-risk activities is being reduced. In addition to addressing deficiencies, Customs plans to have its automated Self-Inspection Reporting System (SIRS) fully implemented in early 2002, which should allow for monitoring the status of the self-inspections, tracking corrective actions, and identifying trends nationwide. However, another program deficiency still needs corrective action. Not all worksheet guidance and instructions are sufficient or clear enough to ensure accurate and complete self-inspection results. This report contains a recommendation to the Acting Commissioner of Customs concerning actions needed to clarify self-inspection worksheet guidance. Customs will shortly be implementing an action plan to fully address our recommendation.

Background

The U.S. Customs Service has a diverse mission spanning a large geographic area. Customs' responsibilities include (1) collecting revenue from imports and enforcing Customs and other U.S. laws and regulations, (2) preventing the smuggling of drugs into the United States, and (3) overseeing export compliance and money-laundering issues. At the close of fiscal year 2000, Customs had a permanent workforce of about 20,000 employees. These employees carry out Customs' mission at its headquarters, 20 Customs Management Centers (CMC), 20 Special Agent-in-Charge (SAIC) offices, 301 U.S. ports of entry, 5 Strategic Trade Centers, and over 25 international offices. Customs processed over 23 million import entries, with a value of $1.17 trillion; 140 million conveyances;[5] and 489 million land, sea, and air passengers in fiscal year 2000.

Principal Features of SIP

Every manager and supervisor is responsible for conducting a self-inspection of the activities, such as entry processing, that they oversee,

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[4]The internal relations worksheet covers how Customs' managers communicate and interact with subordinates. The external relations worksheet covers how Customs' personnel communicate and interact with other agencies such as the Immigration and Naturalization Service.

[5]Conveyances include aircraft, trucks, trains, passenger vehicles, and ocean vessels.
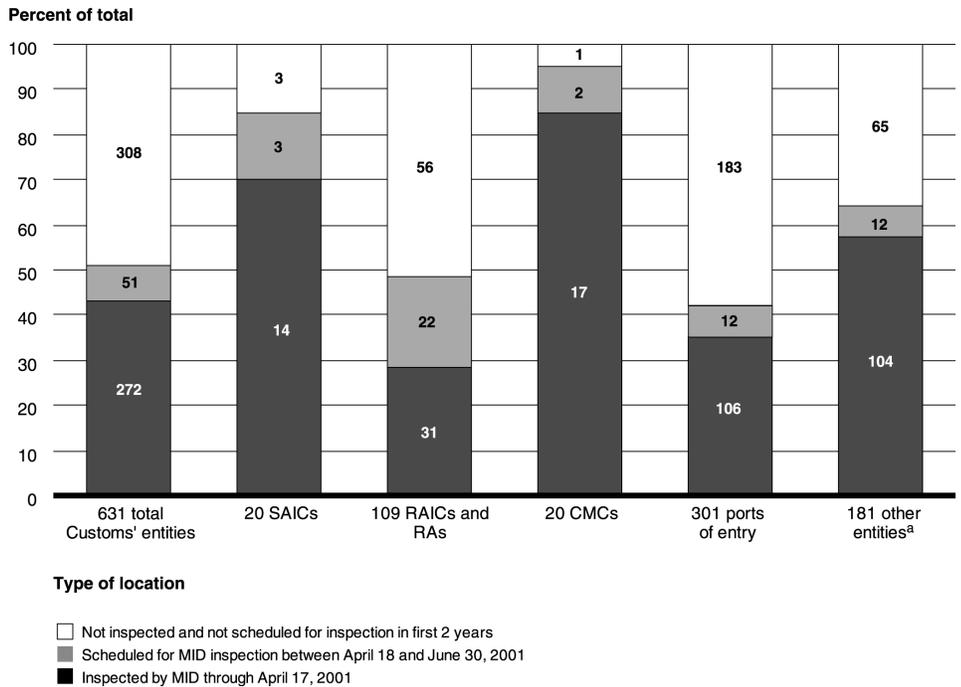
using uniform self-inspection worksheets. The worksheets are used to evaluate the key internal control points in a particular program or process, assess mission/program accomplishments, and better define priorities and identify areas needing improvement. Customs' entities are to conduct self-inspections every 6 months, which are referred to as self-inspection cycles. At the time of our review, four self-inspection cycles had been completed, with the fifth cycle due to start in July 2001.

Self-inspection results, including problems identified and potential corrective actions, are to be funneled up the chain of command. For example, worksheet results addressing port activities are to be certified by approving officials at the ports of entry. The officials are to send results to the CMC, which in turn sends the results to the cognizant assistant commissioner at Customs headquarters. The assistant commissioners are to report SIP results to MID after ensuring that self-inspection worksheets have been completed, are accurate, and have been analyzed; key issues have been identified; corrective actions have been determined; and timeframes for completing corrective actions have been established.

MID is responsible for monitoring and directing SIP worksheet development and managing the program. In addition, MID is to conduct independent verification and validation inspections of the completed self-inspection worksheets to ensure that they are correct and accurate. MID's inspections are more in-depth for certain areas than the local self-inspection reviews in order to verify that all problems in those areas have been found.

MID performs its verification and validation inspections with a staff of 65 professionals, located at headquarters and at seven field offices around the country. MID also supplements its staff by detailing managers and supervisors from other entities to help conduct the inspections. In addition to managing SIP, MID's staff devotes about 30 percent of their time to auditing funds involved in undercover operations. Figure 1 shows that MID has inspected or is scheduled to inspect, more than half of Customs' entities by June 30, 2001. In particular, MID has inspected or is scheduled to inspect 19 of the 20 CMCs, 17 of the 20 SAICs, and several of its subordinate entities, including ports of entry, Resident Agent-in-Charge (RAIC) offices, and Resident Agent (RA) offices.

Figure 1: MID Completed and Scheduled On-Site Verification and Validation Inspections

Percent of total

	631 total Customs' entities	20 SAICs	109 RAICs and RAs	20 CMCs	301 ports of entry	181 other entities[a]
Not inspected and not scheduled for inspection in first 2 years	308	3	56	1	183	65
Scheduled for MID inspection between April 18 and June 30, 2001	51	3	22	2	12	12
Inspected by MID through April 17, 2001	272	14	31	17	106	104

Type of location

☐ Not inspected and not scheduled for inspection in first 2 years
▨ Scheduled for MID inspection between April 18 and June 30, 2001
■ Inspected by MID through April 17, 2001

[a]Includes Internal Affairs Special and Regional Agent in Charge, air and marine branches, Customs' attaches, field laboratories, preclearance ports, strategic trade centers, regulatory audit, and headquarters divisions.

Source: U.S. Customs Service's Management Inspections Division.

Scope and Methodology

To identify (1) SIP's usefulness as a mechanism for oversight and accountability and (2) problems relating to SIP implementation, we interviewed officials from several Customs' organizations, including MID, which oversees SIP and is within the Office of Internal Affairs. In addition to MID, during our review, we interviewed officials from the Office of Field Operations (OFO), which oversees CMCs and ports of entry, and the Office of Investigations (OI), which oversees SAICs, RAICs, and RAs, because these are geographically dispersed components with the responsibility for completing a large number of self-inspection worksheets. Also, we judgmentally selected seven ports of entry and one

SAIC office from these components for field visits[6] and accompanied MID on inspections of four of the entities. We also visited the CMCs affiliated with the two San Diego ports of entry and Los Angeles International Airport (LAX). At the ports of entry and SAIC office, we interviewed supervisors and managers responsible for implementing SIP at the local level. We also reviewed relevant agency documents, including nationwide results of several self-inspection cycles, self-inspection results at the field entities visited, and the results of MID verification and validation inspections.

We reviewed MID verification and validation inspection reports for 144 Customs' entities. We summarized the results of these reports using spreadsheets, detailing the number of areas MID reviewed, the number of documentation errors MID identified, the number of self-inspections with questions answered incorrectly, and MID's assessments and observations of SIP implementation. Because we could not glean such specific information from reports for 17 of these entities, these reports were not included in our analysis. MID's results from inspections of 127 entities and over 2,000 self-inspection worksheets were used in our analysis. Because the MID reports did not follow a consistent format and it was often difficult to extract the appropriate information, we used the reports only to validate overall assessments given by MID. Because the entities inspected were judgmentally selected by MID, the findings from these reports and our analysis of these reports may not be representative of the entire Customs Service.

To identify improvements and refinements that could enhance the value of the program, we worked closely with directors, managers, and supervisors at selected Customs sites. We also interviewed MID, OFO, and OI officials to obtain their views and plans for improving and refining the program. In addition, we reviewed MID documentation concerning changes and refinements to the program.

We performed our work between June 2000 and April 2001 in accordance with generally accepted government auditing standards. We provided the Customs Service with a draft of this report. Customs' written comments

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[6] The ports selected were John Fitzgerald Kennedy International Airport, LAX, Miami International Airport, land border ports of Detroit, Mich., Laredo, Tex., San Ysidro and Otay Mesa near San Diego, Calif., and the San Francisco SAIC.

are discussed in our agency comments section and are included as appendix I to this report.

SIP Shows Promise as a Useful Mechanism for Oversight and Accountability

Our visits to eight Customs' entities and review of 127 MID verification and validation inspection reports found SIP to be a useful mechanism for managers and supervisors to identify and correct problems at the local level and to obtain more control over activities they oversee. During self-inspections, the entities uncovered areas of vulnerability and identified numerous areas needing improvement in their local operations. The MID also identified areas needing improvement through their verification and validation inspections. The managers and supervisors we talked with said that SIP had made a positive contribution to oversight and accountability and to improving their operations.

Self-Inspections Uncovered Vulnerable Areas Needing Improvement

SIP has been a useful mechanism for identifying and correcting problems. The Customs' entities that we visited had uncovered numerous areas of vulnerability in their local operations as a result of self-inspections. For example, all eight entities had identified weak controls over seized property and were implementing corrective actions. Corrective actions included developing evidence and sign-in logs for property rooms and vaults and improving processes for transferring seized property to secure vaults in a timely manner. In addition, at one port of entry we visited, Customs officials discovered problems in the imprest fund as a result of a self-inspection. According to the port director, the self-inspection raised questions about a cashier's handling of the fund, which led to a determination that the cashier had embezzled $1,000 from the fund.

According to an OFO report, CMCs and ports of entry identified approximately 3,000 items needing improvement with corresponding corrective actions nationwide during the second SIP cycle. The OFO SIP Program Coordinator tracks the status of the corrective actions for issues that occur at many ports. Financial management, trade programs, passenger processing (including personal searches), and fines, penalties, and forfeitures (including seized property) were the areas identified most frequently as needing improvement.

In addition, all the entities we visited had identified numerous areas needing improvement and had implemented a number of corrective actions. For example, one port of entry identified 37 areas needing improvement out of 54 they inspected during the second SIP cycle. Of the 37 areas, corrective actions for 31 had been completed at the time of our

visit; the rest were in process. During the third SIP cycle, the port identified 27 different areas needing improvement out of 64 inspected. Of the 27 areas, corrective actions for 23 had been completed by the time of our visit; the rest were in process.

MID Identified Areas Needing Improvement

In addition to problems uncovered through local level self-inspections, MID verification and validation inspections identified additional areas needing improvement. For example, at one port of entry, MID inspectors found late filing of travel vouchers, security checks not being conducted, and personal search facilities having privacy and safety shortcomings. In response, MID made numerous recommendations to port management for corrective actions. MID officials explained that the recommendations were based on problems identified during their inspection that the port should have found during its self-inspection or MID found in areas it reviews but are not addressed by the self-inspection worksheets. MID officials further explained that while on-site at a port of entry or other entity, they conduct more in-depth reviews that go beyond the scope of the worksheet questions. These in-depth reviews have been targeted toward higher-risk areas, such as airport security programs, and may lead to worksheet revisions where warranted.

MID also conducts follow-up activities to ensure that its recommendations have been completed. MID generally sends a follow-up memorandum to the applicable entity about 6 months after the inspection to determine the status of the corrective actions taken in response to the recommendations. The entity then provides MID with a letter stating the status of the corrective action(s) and provides supporting documentation. After receiving this letter, MID may close out the recommendation, require more documentation, or visit the entity to obtain more documentation. For example, during the second and third SIP cycles, MID made a total of 65 recommendations to improve imprest fund management. At the time of our review, 17 of the 65 recommendations had been implemented and were closed out. Forty-one recommendations were pending; MID sent out follow-up memorandums to determine the status of the pending recommendations but had not received responses at the time of our review. MID officials told us that it was too soon to send out follow-up memorandums on the remaining seven recommendations.

Managers and Supervisors Believed SIP to Be Useful as an Oversight Mechanism

Managers and supervisors at every port of entry and SAIC office we visited told us that SIP was useful as a mechanism for oversight and accountability and that it had contributed to improving their operations. They said that they had uncovered and corrected problems they would not have discovered had they not performed the self-inspections.

For example, one port director said that SIP highlighted problem areas in the port's operations and brought them to the attention of managers and supervisors more effectively than had Customs' prior management inspection program. Under one component of the prior program, teams of officers from areas such as passenger processing would inspect different areas such as fines, penalties, and forfeitures. Because these teams did not work in the areas being inspected, they generally had limited knowledge and expertise of the activities they were inspecting. With this limited knowledge, they were often unable to verify the information they were given or investigate any problems in the activities further.

In contrast, under SIP, supervisors inspect their own activities and their immediate superiors review the results. According to this port director, SIP helps supervisors maintain accountability for their area of responsibility because it requires them to "back-up" the results of their self-inspection with supporting documentation. The next level of local management is to certify that the results are correct and, should MID inspect their area of responsibility, managers and supervisors will be asked to explain how they determined worksheet answers. Many supervisors told us that these different levels of review helped give the process integrity.

Managers and supervisors also said that self-inspections assisted them in uncovering and correcting problems that they would have otherwise not known about, and that SIP helps to keep them informed and current on Customs' policies and directives. For example, at one entity, purchase cardholders were not locking up their purchase cards as required, but were carrying them in their wallets. The cardholders reported that they were not aware of the requirement to keep the cards secured, but because of SIP, they now lock up the cards.

Several Problems Have Surfaced During SIP Implementation

Notwithstanding the positive aspects of the program, several problems have surfaced during SIP implementation. During its verification and validation inspections, MID found insufficient supporting documentation for some worksheet answers and inaccurate reporting of some self-inspection results. Largely due to these findings, MID was also concerned

that some officials may not have conducted adequate reviews of completed self-inspection worksheets before certifying them as accurate. We also found insufficient documentation to support worksheet answers and questions answered incorrectly to some extent at the entities that we visited. In addition to problems with worksheet completion and accuracy, many of the managers and supervisors we interviewed believed the program to be burdensome and time-consuming.

Worksheet Answers Lack Adequate Support and Self-Inspection Results Inaccurately Reported

MID inspections and our analysis of MID inspection reports identified problems concerning insufficient documentation to support worksheet answers and incorrectly answered questions. According to the results of inspections conducted since January 2000, MID reported finding insufficient supporting documentation on 23 percent of the worksheets reviewed and questions answered incorrectly on 16 percent of the worksheets. Results from our review of MID inspection reports were consistent with MID's assessment.

Insufficient documentation and inaccurate worksheet results indicated to MID inspectors that approving officials may not have sufficiently reviewed completed worksheets in order to certify their accuracy. MID inspectors explained that by signing worksheet certifications, approving officials, such as port directors, are indicating that they reviewed the self-inspection and that they agree that the results are accurate. However, MID inspectors believed that if support for answers was not indicated on the worksheets, it was not clear how the officials could have determined that the results were accurate. In effect, MID inspectors believed that some approving officials might be "rubber-stamping" self-inspection results.

According to MID inspection reports, problems at some entities with insufficient supporting documentation and inaccurate worksheet answers resulted, in part, from a lack of detailed guidance and instructions on how to complete and review worksheets and determine appropriate sample sizes. Many managers and supervisors that we interviewed agreed with MID's assessment and believed that more guidance and more specific instructions were necessary to answer some worksheet questions. Specifically, they mentioned having difficulty determining the proper supporting documentation for answers to some questions, the appropriate universe from which to draw a sample, and the appropriate sample size.

We also found worksheets lacking supporting documentation and with incorrect answers, to some extent, at all the entities that we visited. At three of the eight Customs entities that we visited, the majority of the

worksheets we analyzed either lacked supporting documentation or had incorrectly answered questions. We found instances of managers and supervisors having difficulty determining (1) proper support for worksheet answers, (2) appropriate sampling universe and timeframes, and (3) appropriate sample sizes.

For example, at one entity we visited with MID inspectors, a purchase cardholder answered "yes" to a worksheet question asking whether the monthly purchase card statements were reconciled within 10 days after their receipt. While it is a requirement to provide supporting documentation for worksheet answers, the purchase cardholder did not indicate that any records, reports, or other documents were reviewed to support the answer. During their inspection, MID accessed a report that showed some purchase card statements had not been reconciled within the prescribed timeframe. According to the MID inspector, the report should have been reviewed when answering the question and a copy included with the self-inspection worksheet as supporting documentation. The purchase cardholder explained that he was unaware of this report and, lacking documentation, had answered the question based on what he remembered. As a result, MID inspectors concluded that incorrect results had been funneled up the chain of command. Purchase cardholders at two of the other three entities we visited with MID also said that they were unaware of this reconciliation report.

We also found supervisors having difficulty determining the appropriate sampling universe and timeframes. For example, at one entity we visited, a MID inspector found that a supervisor completing the collections and deposits worksheet had sampled supporting documents from only 1 month in the 6-month reporting period. The MID inspector explained that this was not representative of the activity in the review period. The supervisor explained that he had received no training or guidance on how to conduct the self-inspection and only had instructions on the worksheet for guidance. We reviewed the self-inspection worksheet and found that the instructions read "Review at least 10 documents randomly selected from the day's deposit and collection documents." The instructions do not explain that the sample of documents should be from every month or describe how the documents should be representative of the entire reporting period. At another port of entry, we found that supervisors had sampled collection and deposit activity from only 1 day in the 6-month reporting period, which appeared to be consistent with the limited instructions referenced above.

In addition, we found examples of difficulties in determining appropriate sample sizes. For example, questions on one worksheet ask about controls over narcotic training aids for canines. The worksheet did not contain specific instructions or guidance about how to support answers to these questions. At one entity we visited, the supervisor who completed the worksheet used control documents from one canine enforcement officer's (CEO) file as supporting documentation for the worksheet answers. We interviewed the supervisor and found that there were 16 CEOs at the port of entry in possession of narcotic training aids, although only one file had been reviewed for the self-inspection. The supervisor said that no guidance or instructions had been provided on how many files needed to be reviewed to support the worksheet answers, so the supervisor randomly picked one file to answer the worksheet questions.

At another port of entry, the supervisor who completed the canine narcotics training aid worksheet indicated that without guidance on how to determine the sample size, the local CMC instructed that a 5-percent sample should be taken. The supervisor drew a 5-percent sample of CEOs in possession of narcotic training aids, which resulted in only 2 out of 53 files being included in the self-inspection.

Many Managers and Supervisors Believed SIP to Be Burdensome and Time-Consuming

At six of the eight entities we visited, more than half of the 54 managers and supervisors we interviewed said that SIP can be paperwork-intensive, burdensome, and time-consuming. In particular, some self-inspection worksheets have more questions than others, from only 1 to 15 questions, and some worksheets require extensive research to determine and support worksheet answers. For example, a supervisory import specialist we interviewed explained that to answer one worksheet question, a data query of over 120,000 records had to be retrieved before a sample could be taken. According to the supervisor, other questions on this worksheet required similar efforts, taking several days to gather the information. Although other worksheets may not require such extensive research, neither MID nor any of the entities we visited tracked the amount of time required to complete various self-inspections. Consequently, we were unable to determine the actual time burden of the program or to what extent completing self-inspection worksheets may impact primary job duties.

About three-quarters of the managers and supervisors who told us that SIP was time-consuming and burdensome said that too much time was being spent on low-risk activities, such as internal and external relations, and reporting requirements for low-risk activities were too frequent. At several

of the entities we visited, managers and supervisors said that Customs needed to prioritize the activities covered by the worksheets and focus on high-risk activities such as collections and deposits and seized narcotics. One port director said that based on the port's activities, the areas of collections and deposits of cash/checks and seized currency should be the two highest priorities under the port's self-inspection. These are risky areas that could be vulnerable to abuse, making them good candidates for continuous scrutiny under SIP. The port director also believed that other areas are not as important and should receive less scrutiny during the SIP cycles. As discussed later in this report, MID is taking action to address these concerns.

SIP Improvements and Refinements Are Underway

Based on feedback MID received from our review, its own inspections, and comments from managers and supervisors, several improvements and refinements to SIP are being implemented. These include (1) adding key internal control questions to worksheets, (2) reducing the time spent self-inspecting low-risk activities, (3) standardizing MID's verification and validation inspection reporting format, and (4) developing and implementing a computerized self-inspection reporting system.

Key Internal Control Questions Being Incorporated Into Worksheets

During our review, we found that some key internal control concepts were not being addressed by self-inspection questions. According to the Comptroller General's *Standards for Internal Control in the Federal Government* (Nov. 1999), a key factor in helping federal managers improve accountability and minimize operational problems to better achieve agencies' missions and program results is to implement appropriate internal control. Internal control is a series of actions and activities that occur throughout an entity's operations and on an ongoing basis as part of its infrastructure to help managers run the entity and achieve their aims. An organization's internal control provides reasonable assurance that its operations are effective and efficient, its financial reporting is reliable, and it is in compliance with applicable laws and regulations. Management sets the objectives, puts the control mechanisms and activities in place, and monitors and evaluates the control.

Not all self-inspection worksheet questions, however, fully address the concepts in the internal control standards. On the imprest fund worksheet, for example, we found a question that read: "If there is no separation of duties for a cashier who performs other procurement/change making functions, does management perform any extra reviews?" This question,

however, was not specific enough to address the segregation of duties internal control activity.

The Comptroller General's internal control activity states that:

"Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event."

We believed that the question on the imprest fund worksheet should be revised to address the fundamental concept by specifically asking whether key duties and responsibilities were segregated among different people in the imprest fund area. We also noted that the worksheet for the purchase card program did not have a question about segregation of duties.

In addition, we noticed that a key internal control question had been removed from the third cycle imprest fund worksheet. The question was whether quarterly unannounced cash counts were being conducted. This pertains to the Comptroller General's internal control activity on safeguarding vulnerable assets:

"An agency must establish physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment which might be vulnerable to risk of loss or unauthorized use. Such assets should be periodically counted and compared to control records."

We discussed our internal control concerns with the MID Director at Customs headquarters, who added the question on unannounced cash counts back into the imprest fund worksheet for the fourth SIP cycle, and began a reassessment of all SIP worksheets to ensure that questions cover basic internal controls.

As a result of our discussion and the MID Director's reassessment, MID issued worksheet revision guidelines that describe and outline internal control concepts that must be in place for a federal agency to have assurance that it is running efficiently and effectively. In all, MID's guidance outlines 10 key internal control concepts to consider when revising the worksheet questions. For example, as we suggested in the imprest fund example noted above, MID's guidance for including segregation of duties worksheet questions essentially states:

Key duties and responsibilities are divided to reduce the risk of error or mismanagement. No one individual should control all key aspects of a transaction or event. Examples of programs requiring key functions to be separated include procurement (approving, purchasing, and receiving), imprest fund (cashier and approver), and collections and deposits (preparer, verifier and receiver); and

Individuals who account for assets are not the same as those that have custody of the assets. Preventing this assures that individuals who record assets can not misappropriate the asset and conceal its whereabouts in the inventory records.

MID left the implementation of the revision to the discretion of each assistant commissioner and said that for the revised worksheets to be available for the January 2002 SIP cycle; the worksheets should be completed by October 2001. We were concerned about the lengthy implementation timeframe, but after discussing the issue with program manager representatives of the OFO and OI Assistant Commissioners, we were assured that work on the revisions was well underway. In fact, both the OFO and OI program managers told us that their goal is to complete the revised worksheets in May 2001 so that they can be used for the next SIP cycle beginning in July 2001.

In these instances of key internal control questions missing from worksheets whose programs could be subject to financial vulnerability and corruption, we worked closely with MID officials to correct the deficiencies. Because the officials were very responsive to our concerns and took corrective action during this engagement, we will not be making a recommendation on this issue in this report.

Reducing the Time Spent Self-Inspecting Low-Risk Activities

A second area where improvements are being made is by reducing the time spent self-inspecting low-risk activities. To help reduce the SIP paperwork burden and time requirements, Customs' activities are being prioritized for self-inspection based on risk level. Many worksheets covering activities considered to be low-risk are to be completed on an annual, instead of semiannual basis. Worksheets covering activities that are vulnerable to fraud and abuse, however, are being retained for semiannual completion. For example, OFO began prioritizing its activities and associated worksheets after the first SIP cycle because they found that it was too burdensome to complete all the worksheets during one cycle. According to the OFO Acting SIP Program Coordinator, worksheets covering high-risk areas such as money, narcotics, or seized property, were retained on a semiannual cycle. OFO placed low-risk activities on an annual cycle, an example being customer service operations. In all, OFO

placed the majority of their worksheets—52 out of 78—on an annual, instead of semiannual cycle.

OI began prioritizing its activities and worksheets by risk level for the fourth SIP cycle that began in January 2001 for field offices such as SAICs because they have the most worksheets to complete. Like OFO, OI placed activities considered low-risk on an annual, instead of semiannual cycle; an example would be whether a threat analysis has been conducted to determine the potential for fraud investigations. Similar to OFO, the OI SIP Program Coordinator said that worksheets covering high-risk areas such as money, narcotics, seized property, and other sensitive areas were retained on a semiannual cycle. In all, OI placed the majority of its worksheets—16 out of 22—on an annual, instead of semiannual cycle.

MID Is Revising its Inspection Report Format

A third area where MID is making improvements is in the way it reports inspection results. MID is to prepare a management inspection report after each inspection it performs at Customs entities. The report is used to document the identification and correction of management and operational deficiencies and contains various sections such as executive digest, national issues, and SIP verification summaries. Our review of MID inspection reports showed a wide range of reporting formats as well as inconsistent information included in the various report sections. For example, while accompanying MID inspectors to various ports of entry, we asked three MID field directors where in their subsequent reports they would place shortcomings they might find with worksheet questions. Each field director gave us a different section of the report where they would report the findings.

MID identified the problem and has recently developed a draft standard operating procedure and format for its verification and validation inspection reports. After consultation with its field directors, MID will finalize the report format, which is to standardize identification of national issues, recommendations, and best practices sections. According to the MID Director, standardizing MID inspection reports should make it much easier to track national trends and subsequent corrective actions, as well as to identify and disseminate best practices among the various Customs' entities.

An Automated Self Inspection Reporting System Is Being Implemented

A final area where progress is being made is developing and implementing a computerized self-inspection reporting system, SIRS. SIRS should make it easier to record and analyze SIP data and track nationwide trends and corrective actions. An important part of the system is operational but the remaining components are under software development or have not yet entered the development process. With the completion of the first component, the results of each SIP worksheet, including corrective actions and certifications, may be entered into SIRS via a personal computer. However, the SIRS component that will allow analyses of SIP data to identify regional, national, and systemic issues is currently being developed with an expected rollout date in August 2001.

The final SIRS component, which is not yet under development, is intended to allow MID to track whether corrective actions from MID inspection reports have been taken. MID officials told us that they are unsure when this final component will be available, but they believe it will be early in 2002. Completion of all SIRS components is critical to achieving the full potential of SIP in identifying overall problems and trends and institutionalizing solutions, according to the MID officials.

Conclusions

SIP is a work in progress; a program under continuous change and refinement. Although many managers recognized that SIP enables them to obtain more control over the activities that they oversee, many also view it as somewhat burdensome and time-consuming. These and other implementation concerns have been identified and addressed as SIP enters its third full year of operation and completes its fourth self-inspection cycle. Several projects are underway which should contribute to a more streamlined, effective, and less burdensome program. Until SIRS is fully implemented, however, it will be difficult to determine the full extent of the program's impact on identifying problems and trends and institutionalizing corrective actions.

One primary benefit of self-inspection is that as activities are reviewed and results certified as accurate, management should have confidence that problems are being identified and corrected at the local level. This is not the case, however, if worksheet guidance is insufficient and instructions are unclear. Because of inadequate guidance, inaccurate and incomplete self-inspection results can and do occur, reducing the credibility of the program. More can be done to ensure that all worksheets contain complete and clear guidance and instructions for making determinations such as sampling sizes and timeframes. Clarifying and refining all worksheet guidance and instructions will not only assist managers and

supervisors in conducting self-inspections, but will also provide approving officials and MID inspectors with a clear set of criteria for determining whether self-inspections were done correctly and completely. This could go a long way toward ensuring that the self-inspection program meets its goals of building accountability and fostering integrity throughout the agency.

Recommendation for Executive Action

To help improve SIP, we recommend that the Acting Commissioner of Customs direct the Management Inspections Division Director to review all worksheets and provide clear guidance for

- proper documentation to support worksheet answers and
- determining the universe of activity to include in the self-inspection and the appropriate sample size, if required.

Agency Comments

We requested comments on a draft of this report from the Acting Commissioner of Customs or his designee. On May 22, 2001, the Director, Office of Planning, provided us with written comments, which are reprinted in appendix I. The Director said that most of Customs' concerns relating to the report had been addressed through discussions with our audit team during the engagement. The Director also said that Customs will shortly be implementing an action plan to fully address our recommendation.

We will send copies of this report to Senator Max Baucus, Ranking Member of the Senate Committee on Finance; Representative Charles Rangel, Ranking Minority Member of the House Ways and Means Committee; and Representative Sander Levin, Ranking Minority Member of the House Ways and Means Subcommittee on Trade. In addition, we are providing copies to the Honorable Paul H. O'Neill, the Secretary of the Treasury; Charles W. Winwood, the Acting Commissioner of Customs; and other interested parties. Copies of this report also will be made available to others upon request. This report will also be available on GAO's homepage at http://www.gao.gov.

The major contributors to this report are acknowledged in appendix II. If you or your staff have any questions about the information in this report, please contact me on (202) 512-8777 or Darryl W. Dutton on (213) 830-1000.

Richard M. Stana
Director, Justice Issues

Appendix I: Comments From the U.S. Customs Service

U.S. Customs Service

Memorandum

DATE: May 22, 2001

FILE: AUD-1-OP BAB

MEMORANDUM FOR RICHARD M. STANA
                                 GENERAL ACCOUNTING OFFICE

FROM: Director,
                      Office of Planning

SUBJECT: Draft Audit Report on the United States Customs
                      Service's Self Inspection Process

Thank you for providing us with a copy of your draft report entitled
"Customs Service: The Self-Inspection Program Shows Promise but
Remains a Work in Progress" and the opportunity to discuss the issues in
this report.

We believe that our concerns about the substance of the audit report
have been addressed through discussions with the audit team and
appreciate their cooperation during the course of this audit.

We will shortly be implementing our action plan to fully address the
recommendation. Should you have any questions or need additional
information, please do not hesitate to call Ms. Brenda Brockman at (202)
927-1507.

William F. Riley

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HONOR

Cc: Assistant Commissioner, Office of Internal Affairs
                        Chief of Staff
                        G. Zawadski
                        Audit Program Coordinator (IA)

Appendix II: GAO Contacts and Staff Acknowledgments

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