June 1989

CUSTOMS AUTOMATION

Cargo Examinations Targeted by Automated Cargo Selectivity System

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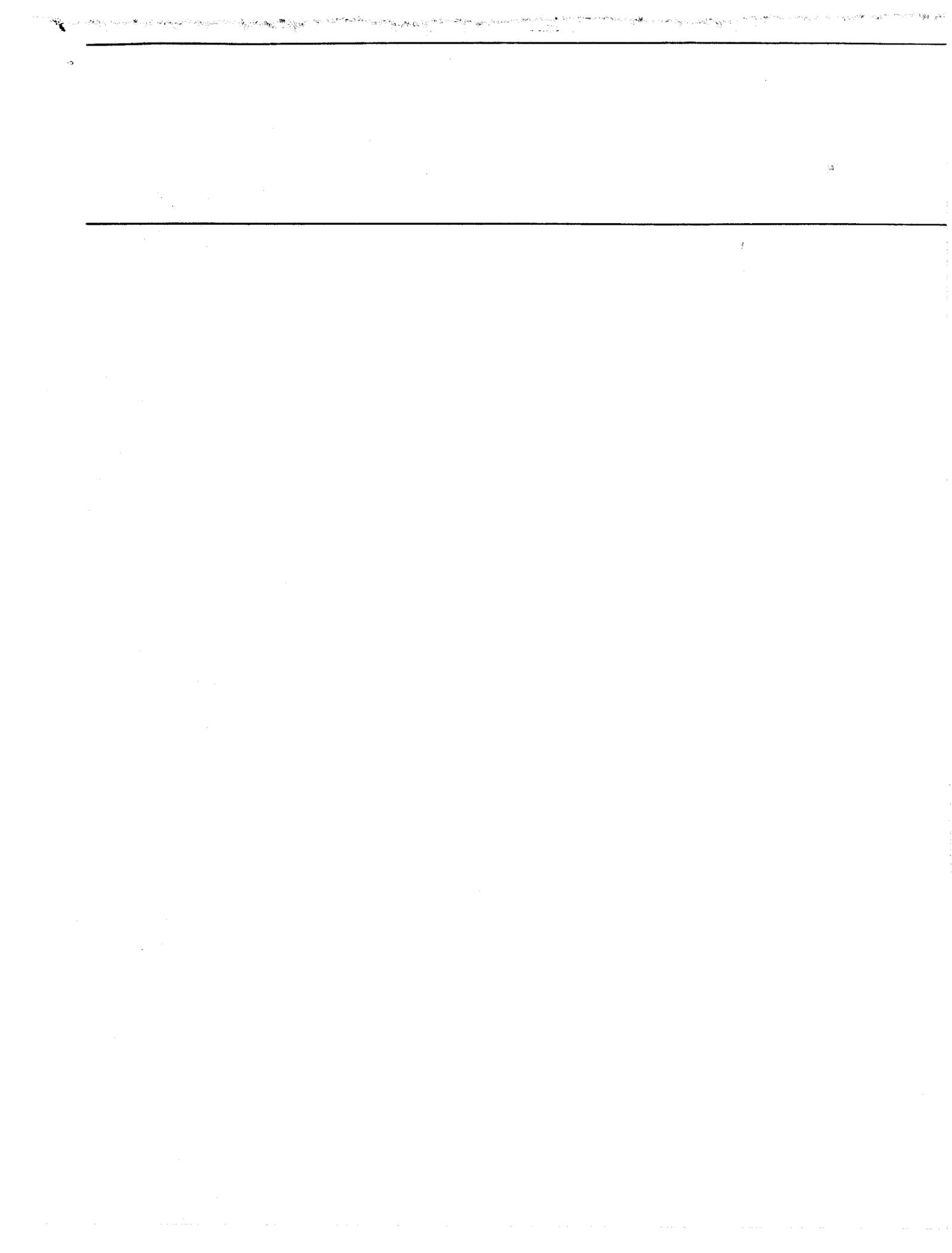
United States
General Accounting Office
Washington, D.C. 20548

Information Management and
Technology Division

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June 27, 1989

The Honorable Dennis DeConcini
Chairman, Subcommittee on Treasury, Postal
    Service, and General Government
Committee on Appropriations
United States Senate

The Honorable J. J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

The Senate Report on the Treasury, Postal Service, and General Government Appropriations Bill for 1988[1] required that we conduct a detailed review of the U.S. Customs Service's Automated Commercial System (ACS). In December 1988, we provided a report on our interim observations on three principal ACS modules that support the processing, inspection, and release of merchandise being imported into the United States.[2] In that report we noted several potential weaknesses with the cargo selectivity module, and stated that we were continuing our evaluation.

In a February 10, 1989, letter, the Chairman of the Subcommittee on Oversight, House Committee on Ways and Means, asked us to determine whether the cargo selectivity module of ACS is effective, fully utilized, and well-suited for targeting international shipments for examination. In subsequent meetings with your offices, it was agreed that we would provide concurrently to the chairmen descriptive information on the cargo selectivity module and summary statistics on the number of examinations made and discrepancies found as a result of using this module. As agreed, we did not attempt to form any conclusions on the adequacy of Customs' management, activities, or systems described in this report. We will be coordinating later with your offices, as requested, about additional work on ACS.

Background

ACS is Customs' single, comprehensive automated system for handling its commercial operations, which include reviewing documents that importers submit before importing goods, inspecting shipments, and collecting

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[1]S. Rep. No. 160, 100th Cong., 1st Sess., p. 31 (1987).

[2]Customs Automation: Observations on Selected Automated Commercial System Modules (GAO/IMTEC-89-4BR, Dec. 21, 1988).

duties owed to the United States. The cargo selectivity system—a critical module of ACS that is already operational—is designed to assist Customs inspectors in determining the appropriate level of examination to be performed on each shipment of goods imported to the United States. According to a Customs official, the system is not used in determining whether to inspect the baggage of international passengers.

When information pertaining to a shipment (referred to as an entry) is processed through the cargo selectivity system, the system recommends one or more of three levels of examination: a general examination, a document review, or an intensive examination.[3] In a general examination, inspectors are not required to take any specific action and the system automatically assigns a release date for the cargo. In a document review, inspectors or other Customs personnel review documents supporting the entry to determine, among other things, whether a physical examination of the imported goods is warranted. In an intensive examination, inspectors are notified that a physical inspection of the merchandise may be warranted unless a supervising inspector overrides the system's recommendation and downgrades it to a general examination.[4]

How the Cargo Selectivity System Works

The cargo selectivity system selects cargo for intensive examination in one of three ways. First, it randomly selects entries for inspection. Second, all cargo entries, including those randomly selected, are compared with selectivity criteria. During this process, the system targets a shipment for inspection if it meets certain criteria contained in the ACS data base. The criteria are designed to identify high-risk shipments[5] for inspection and can be used to target shipments entering all ports (national criteria) or a specific port or district (local criteria). Finally, the system scans a historical data base of previous entries and targets for inspection shipments entering a particular port for the first time by an importer.

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[3]The system could target the same cargo for different levels of examination for several reasons. For example, a commodity could generate a document review message to ensure that a form required for that type of commodity by another federal agency is included, while the importer's history could lead to an intensive examination message.

[4]Inspectors are also permitted to override a system recommendation for a general examination or document review to upgrade it to an intensive examination. According to Customs officials, these overrides are permitted without approval by a supervising inspector because Customs still expects inspectors to exercise judgment based upon information provided by the cargo selectivity system, a review of the documentation, and their experience.

[5]High-risk shipments are those likely to violate Customs regulations or federal laws.

The cargo selectivity system became operational in April 1985 and, as of March 1989, was available in 159 of the 292 U.S. ports of entry. According to Customs officials, all of the busiest ports use the system, with the exception of land ports on the northern border between the United States and Canada. These ports do not use the cargo selectivity system because the volume of vehicle traffic is very high, and, in many cases, entries are not filed in advance. The officials said that, if the cargo selectivity system, as currently designed, were used at these ports, the time required to enter the data and to receive a response from the system would cause prohibitive traffic tie-ups. Customs is developing plans to expand automated cargo selectivity to these major northern border ports of entry and to further enhance the capabilities of the system to assist in researching importers with prior violations. Appendix I provides detailed information on how the system works and the expansion and enhancements being considered.

Statistics on Use and Results of Cargo Selectivity

Statistics provided by Customs show that, during fiscal year 1988 and the first quarter of 1989, over seven million entries filed with Customs were processed through the cargo selectivity system.[6] In this same period, Customs inspectors performed intensive examinations on about 14 percent, or about 980,000, of the entries processed through cargo selectivity. As shown in table 1, the majority of the intensive examinations were made because of a match with criteria or because an inspector overrode a cargo selectivity recommendation for a general examination or a document review and upgraded it to an intensive examination. For example, an inspector may choose to override such recommendations if, as a result of a general examination or document review, the inspector concludes that an intensive examination is warranted.

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[6]According to Customs officials, ACS can process both formal and informal entries. In general, a formal entry must be filed to import merchandise valued at over $1,000. Some commodities, particularly those subject to quotas, such as textiles, also require formal entries. Informal entries may be filed on commercial merchandise valued at less than $1,000. Some commercial informal entries are processed through cargo selectivity. These officials estimated that about 95 percent of the entries processed through cargo selectivity are formal entries.

Table 1: Intensive Examinations Performed and Discrepancies Found Through Cargo Selectivity, October 1987 to December 1988[a]

Basis For Intensive Examination	Entries Examined[b]		Discrepancies Found	
	Number	Percent	Number	Percen
Criteria	427,127	43.5	17,935	4.:
First-Time Importer	228,019	23.2	8,884	3.(
Random	47,921	4.9	919	1.(
Inspector Overrides	313,162	31.9	20,158	6.‹

[a]The statistics reported here differ from those reported by Customs' ACS Examinations Report, Discrep ant Findings, CY 1988, Office of Inspection and Control, March 3, 1989, because these are based on entries as opposed to those in the ACS Examinations Report, which are based on each line item on an entry.

[b]The number of entries examined do not add up to 980,000, the figure cited above, because these statistics include double counting since an intensive examination can be recommended by cargo selectivity for more than one reason. Also, because of double counting, the percent of entries examined does not equal 100 percent.

Source: U.S. Customs Service statistics

Examinations resulting from overrides identified a higher proportion of discrepancies—such as improperly marked merchandise or attempts to import restricted, prohibited, or illegal merchandise—than any of the other triggers for intensive examinations. Customs officials emphasized, however, that overrides do not necessarily represent a failure of the cargo selectivity system because it is intended to provide the inspector with pertinent information to assist in determining whether a higher level of examination is warranted. For example, the system notifies the inspector when an established importer imports merchandise from a new foreign manufacturer for the first time. This information may influence an inspector's decision to override the system.

In certain cases, upon reviewing entry documentation, inspectors may determine that it is unnecessary to physically inspect cargo recommended by the system for intensive examination. With supervisory approval, inspectors can override the intensive examination designation and downgrade it to a general examination. In fiscal year 1988 and the first quarter of 1989, these overrides were performed on about 200,000, 3 percent, of the entries processed through cargo selectivity.

Another statistic that may indicate how the system assists inspectors is the number of major commercial seizures related to cargo selectivity. Customs defines major commercial seizures as actions taken to hold merchandise that is intended for commercial use and is valued in excess of $4,000. The merchandise may be seized if it is found to be deliberately misdescribed or undervalued, or to have understated quantities, or if the product itself is restricted, prohibited, or illegal. In fiscal year 1988 and

the first quarter of fiscal year 1989, Customs reported 4,481 major commercial seizures of cargo, valued at over $265 million. During this period, Customs' Commercial Fraud reports show that about 33 percent of the major commercial seizures made by Customs resulted from inspections recommended by cargo selectivity.

Appendix II provides statistics on the number of examinations recommended by cargo selectivity, the discrepancies found, and major commercial seizures made.

Scope and Methodology

To obtain information presented in this report, we interviewed Customs officials at headquarters and Customs' New York region. We reviewed ACS documentation and procedures describing how the cargo selectivity system works. We also obtained statistical data on inspections and discrepancies for entries processed through cargo selectivity, which were extracted by Customs from ACS files. We compared this information to statistics previously provided to us by cargo selectivity officials and found some differences. However, a Customs data processing official, responsible for maintaining the cargo selectivity system, stated that the statistics provided to us are the most accurate available within Customs. Statistics on major commercial seizures were obtained from Customs' Commercial Fraud Reports for fiscal year 1988 and the first half of fiscal year 1989. We did not attempt to verify the accuracy of these data. Our work was performed in accordance with generally accepted government auditing standards, from December 1988 to March 1989. Further discussion of our objectives, scope, and methodology is contained in appendix III.

We discussed the contents of this report with responsible Customs officials, who generally agreed with the facts presented, and have included their comments where appropriate. We are sending copies of the report to the Secretary of the Treasury, the Commissioner of Customs, and other interested parties. This report was prepared under the direction of James R. Watts, Associate Director. Other major contributors are listed in appendix IV.
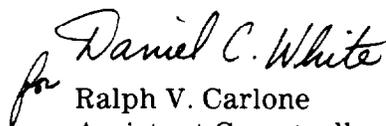
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Abbreviations

ACS   Automated Commercial System
GAO   General Accounting Office
IMTEC   Information Management and Technology Division

Information on the Cargo Selectivity Module of the Automated Commercial System

Background

The U.S. Customs Service, an agency within the Department of the Treasury, has a mission to ensure that importers and brokers comply with the trade laws when importing goods into the United States. Prior to 1981, it was Customs' policy to examine a portion of each shipment of cargo. In 1978, we reported that because inspections were normally cursory, they did not ensure compliance with the trade laws, and we recommended that Customs perform fewer but more intensive examinations.[1] In 1981, the Department of the Treasury amended regulations to allow Customs to physically examine only high-risk shipments;[2] other shipments could be released without examination.

The Automated Commercial System (ACS) is Customs' single, comprehensive automated system for handling its commercial operations of inspecting imported cargo and collecting assessed duties, excise taxes, fees, and penalties. A critical portion of ACS that became operational in April 1985—referred to as the cargo selectivity system—is designed to assist Customs inspectors in identifying what type of examination to perform. According to a Customs official, the system is not used in determining whether to inspect the baggage of international passengers. An overview of how this system works, as explained by Customs documents, is described below and illustrated in figure I.1.

How the Cargo Selectivity System Works

When goods are imported to the United States, an importer or authorized broker goes through a process, called making an entry, which involves filing certain documents with Customs officials at the port of entry.[3] Once entries are received, Customs personnel enter information from the entry documents into the ACS cargo selectivity system. Some entries' data are submitted electronically by importers or brokers for direct entry into ACS and the selectivity system. The information entered into the system includes the type of commodity, manufacturer, person, or organization filing the entry, importer, and country of origin of the merchandise.

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[1]Customs Cargo Processing—Fewer But More Intensive Inspections Are in Order (GGD-78-79, Sept. 7, 1978).

[2]High-risk shipments are those likely to violate Customs regulations or other federal laws.

[3]According to Customs officials, ACS can process both formal and informal entries. In general, a formal entry must be filed to import merchandise valued at over $1,000. Some commodities, particularly those subject to quotas, such as textiles, also require formal entries. Informal entries may be filed on commercial merchandise valued at less than $1,000. Some commercial informal entries are processed through cargo selectivity. These officials estimated that about 95 percent of the entries processed through cargo selectivity are formal entries.

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Figure I.1: ACS Cargo Selectivity Processing
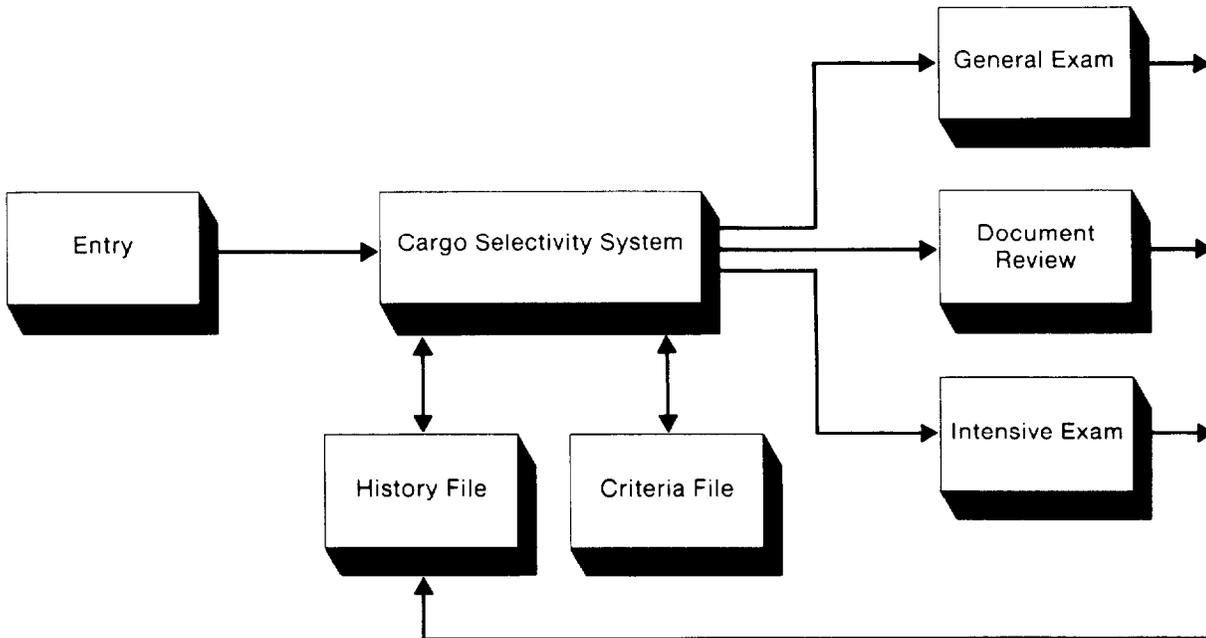
Once the information pertaining to a shipment (referred to as an entry) is entered into the cargo selectivity system, an entry can be randomly selected for inspection. All cargo entries, including those randomly selected, are compared with selectivity criteria and historical information in the ACS data base to recommend a type of examination. These two data bases provide the following types of information:

• Selectivity criteria: Selectivity criteria identify particular types of information, such as type of commodity, manufacturer, person or organization filing the entry, importer, and country of origin, or combinations of information (for example, a type of commodity and a country of origin) which, if present in an entry, will require some level of examination. As a hypothetical example, the criteria may require that all umbrellas be examined, or only those umbrellas imported from a particular country. The criteria can be set up to target shipments entering all ports (national criteria), or only a specific port or district (local criteria). According to Customs officials, national criteria generally identify merchandise for which a quota has been established, such as steel or textiles; a violator

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of federal laws; or specific documents required by other federal agencies. Local criteria usually are specific to a single district, according to these officials.

Entry information is also compared to an address alert file. This file consists of addresses of suspected violators entered by Customs personnel. All address alert records on file act as national criteria.

* Historical information: The history file provides information to determine whether an importer is importing for the first time, or whether some other first-time relationship exists. Other first-time relationships could include, for example, an established importer who is importing a particular commodity for the first time, or is dealing with a particular manufacturer for the first time.

Results of Cargo Selectivity Processing

As a result of the above processing, ACS will display at least one of three messages for action by inspectors or other Customs personnel: general examination, document review, or intensive examination.

General examination: This message tells the inspector that cargo selectivity has not found a reason to examine the cargo: there were no criteria that applied to the shipment, it was not a first-time importer, and it was not randomly selected for intensive examination. Thus, no physical examination of the merchandise is required and the system automatically assigns a release date for the cargo. After reviewing the entry data, however, the inspector can override the system's message and require an intensive examination. Under Customs' new electronic entry filing procedures, when some entries filed electronically are designated for general examination, no hard copy documentation is required by Customs.

Document review: This message notifies the inspector that a criterion in the data base has targeted the entry for examination. The message directs Customs personnel to review documents relating to the entry to determine whether all necessary documentation is included, and whether the forms contain data that might suggest an inspection of the merchandise is warranted. If the inspector is satisfied that all documentation requirements are met, no physical examination is required. However, in the judgment of the inspector, if further examination is needed, the inspector can override the system's message and upgrade the recommendation to intensive examination. According to Customs officials,

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these overrides are permitted without approval by a supervising inspector because Customs still expects inspectors to exercise judgment on the basis of information provided by the cargo selectivity system, a review of the documentation, and their experience.

Intensive examination: This message notifies inspectors that a physical inspection of the cargo may be warranted unless a supervisory inspector approves overriding the system to downgrade the recommendation to a general examination. The system generates the intensive examination message if the entry

- contains data that match criteria (including address alerts) in the cargo selectivity data base,
- involves a party importing for the first time in a port, and/or
- is selected randomly.

In addition, the system, through a link with the Automated Manifest System, notifies the inspector to hold for intensive examination merchandise covered by the entry if it has been judged to represent a narcotics risk during a manifest review.[4]

On the basis of the information provided in the intensive examination message, the inspector is directed to conduct one of four levels of inspection. These include:

- Compliance—other agency: When a shipment is subject to other federal agency requirements that demand visual inspection or sampling, up to 10 percent of the shipment should be examined. If there is reason to suspect the attempted introduction of prohibited or restricted goods, the examination levels applicable to "enforcement—commercial" (see below) should be implemented.
- Compliance—Customs:[5] When it is necessary to determine compliance with federal laws by visual inspection or sampling, up to 10 percent of

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[4]When a ship, airplane, train, or truck carrying cargo reaches the United States, a manifest, which includes bills of lading providing information on the cargo aboard, must be provided. The Automated Manifest System is a module of ACS that is intended to allow the electronic exchange of information concerning cargo shipments between Customs and carriers. Using some of this module's automated features as well as other information, Customs enforcement personnel review manifest data to identify cargo that may contain narcotics.

[5]Intensive examinations of randomly selected shipments and shipments destined to first-time importers fall into this category.

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the shipment should be examined. If there is reason to suspect a violation, or one is discovered, the examination levels applicable to "enforcement—commercial" should be implemented.

- Enforcement—commercial: When there is evidence of a known or suspected violation of commercial laws or regulations, 10 to 100 percent of the shipment should be examined. Examination techniques should include counting individual pieces of merchandise (if applicable), verifying that markings of the merchandise are in accordance with regulations, and comparing actual inspection results to the entry documentation received by Customs.
- Enforcement—narcotics: When there is evidence that illegal narcotics may be present in a shipment, 100 percent of the merchandise should be examined. Examination techniques include removing merchandise for inspection from containers and counting the pieces of cargo. Inspectors are authorized to probe, drill, or cut open the containers, packages, and sometimes the merchandise itself. The examination should continue until narcotics are found or there is a certainty that they are not in the shipment.

The system automatically updates the history file with the results of cargo selectivity processing. In the case of intensive examinations, inspectors are directed to enter their findings into ACS.

Expansion and Enhancements Being Considered

Customs is planning to expand coverage of cargo selectivity and enhance the system's capabilities.

As of March 1989, none of the northern land border ports between the United States and Canada had access to the automated cargo selectivity system, because the volume of traffic at some of the larger ports is very high, and in many cases, entries are not filed in advance. Normally, the information is submitted to Customs when the vehicle, usually a truck, carrying the cargo arrives at the border. According to Customs officials, the time necessary to input information from the entry documents into ACS and then wait for the selectivity messages would cause enormous traffic congestion. Thus, cargo selectivity is not used.

To complete a national system, Customs officials have decided to tailor cargo selectivity to the operational environment of the northern land border ports. According to Office of Data Systems status reports, existing cargo selectivity data input requirements will be reduced, and enhanced hardware and new procedures to make response time as fast as technically possible will be implemented. According to Customs, this

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modified cargo selectivity system, known as border selectivity, will standardize cargo and revenue control and make enforcement criteria available to the northern border. Customs officials also stated that they are planning to pilot test this system at two northern border land ports. Although cargo selectivity is operational at some southern border ports, Customs is including one land port on the southern border in the pilot test because, similar to the northern border, it has a high volume of vehicle traffic where entries are not filed in advance. The pilot test for the northern and southern border ports is planned to start in November 1989.

Customs is also considering additional enhancements to the cargo selectivity system. Proposals have been made to increase users' ability to research the history of violations by a particular importer by linking cargo selectivity to additional ACS systems, as well as to the Treasury Enforcement Communications System. This system contains information on individuals suspected of committing violations of Customs laws or who are of interest to other law enforcement agencies.

Statistical Information on Coverage and Utilization of Cargo Selectivity

Cargo Selectivity Coverage

According to Customs reports, the number of ports with access to cargo selectivity has increased every year since it became operational in April 1985. As of March 1989, cargo selectivity was operational in 159 of the 292 U.S. ports. Customs officials told us that all of the busiest ports use selectivity, with the exception of land ports on the northern border between the United States and Canada. The percentage of all formal entries processed through cargo selectivity has also increased to almost 69 percent. Figure II.1 shows the growth in the number of entries processed through cargo selectivity.

Figure II.1: Percentage of Formal Entries Processed Through Cargo Selectivity—Fiscal Year 1985 Through First Quarter of Fiscal Year 1989
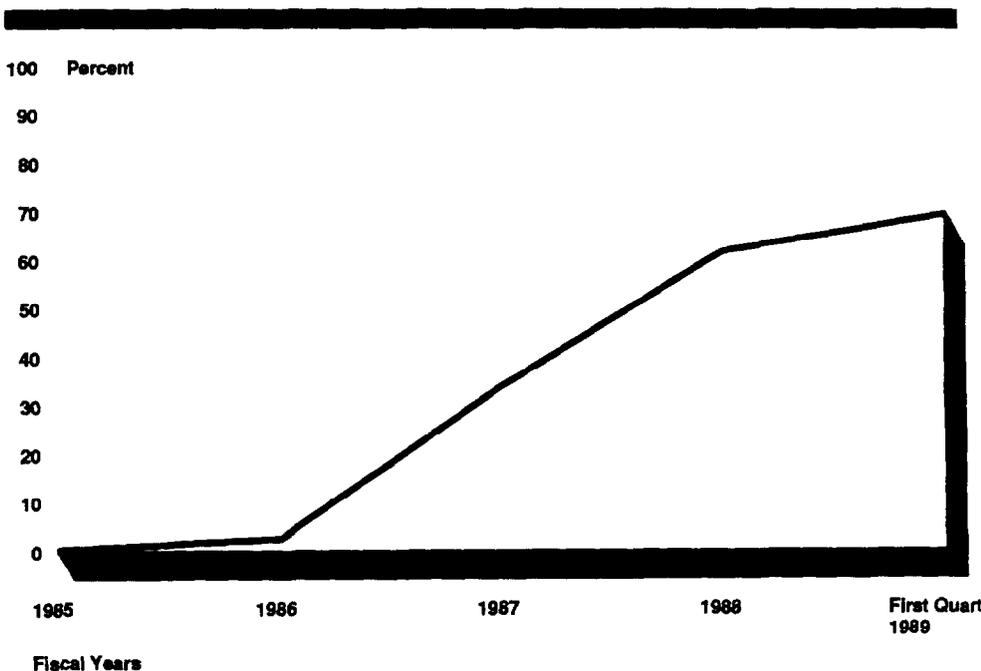
Source: U.S. Customs statistics

Cargo Selectivity Entries Found With Discrepancies

Statistics provided by Customs show that inspectors performed intensive examinations on about 14 percent, about 980,000, of the more than seven million entries processed through cargo selectivity during fiscal year 1988 and the first quarter of 1989. These inspections resulted in inspectors discovering over 45,000 discrepancies. Discrepancies are possible violations of Customs regulations or federal laws discovered during cargo inspection, which could include merchandise that is improperly

marked, restricted, or prohibited from being imported, or is illegal, such as narcotics.

As explained in appendix I, cargo processed through the selectivity system is targeted for inspection for one or more of several reasons, including criteria match, first-time importer designation, and random selection. In addition, inspectors are authorized to override the system's recommendation and physically inspect any shipment. For example, an inspector may choose to override a recommendation if, as a result of a general examination or document review, the inspector concludes that an intensive examination is warranted.

At our request, Customs provided us with statistics, extracted from ACS, concerning examinations performed, the reasons for examinations, and the discrepancies found during inspections. The statistics reported here differ from those reported by Customs' ACS Examinations Report, Discrepant Findings, CY 1988, Office of Inspection and Control, March 3, 1989, because these are based on entries, as opposed to those in the ACS Examinations Report, which are based on each line item on an entry. We did not independently verify the accuracy or completeness of these statistics. Tables II.1 through II.3 show, for fiscal year 1988 and the first quarter of 1989, the number and percentage of cargo selectivity entries inspected because of criteria matches, first-time-importer designations, and random selection, and the rate at which the entries were found to be discrepant. An examination and/or discrepancy may be included in more than one table, since examinations can be performed for more than one reason.

Table II.1: Intensive Examinations Performed and Discrepancies Found as a Result of Cargo Selectivity Criteria

	Fiscal Year 1988	First Quarter Fiscal Year 1989	Total
Cargo Selectivity Entries Inspected	799,455	182,882	**982,337**
Entries Inspected as a Result of Criteria	348,955	78,172	**427,127**
Percentage of Entries Inspected as a Result of Criteria	43.6%	42.7%	**43.5%**
Entries With Discrepancies	14,268	3,667	**17,935**
Percentage of Inspected Entries With Discrepancies	4.1%	4.7%	**4.2%**

Source: U.S. Customs Service statistics

Table II.2: Intensive Examinations Performed and Discrepancies Found as a Result of First-Time-Importer Designation

	Fiscal Year 1988	First Quarter Fiscal Year 1989	Total
Cargo Selectivity Entries Inspected	799,455	182,882	**982,337**
Entries Inspected as a Result of First-Time-Importer Designation	179,264	48,755	**228,019**
Percentage of Entries Inspected as a Result of First-Time-Importer Designation	22.4%	26.7%	**23.2%**
Entries With Discrepancies	6,904	1,980	**8,884**
Percentage of Inspected Entries With Discrepancies	3.9%	4.1%	**3.9%**

Source: U.S. Customs Service statistics

Table II.3: Intensive Examinations Performed and Discrepancies Found as a Result of Random Selection

	Fiscal Year 1988	First Quarter Fiscal Year 1989	Total
Cargo Selectivity Entries Inspected	799,455	182,882	**982,337**
Entries Inspected as a Result of Random Selection	37,914	10,007	**47,921**
Percentage of Entries Inspected as a Result of Random Selection	4.7%	5.5%	**4.9%**
Entries With Discrepancies	716	203	**919**
Percentage of Inspected Entries with Discrepancies	1.9%	2.0%	**1.9%**

Source: U.S. Customs Service statistics

Table II.4 shows similar statistics for those entries where inspectors overrode the cargo selectivity system's general examination or document review message and physically inspected the cargo.

Table II.4: Intensive Examinations Performed and Discrepancies Found as a Result of Inspector Overrides[a]

	Fiscal Year 1988	First Quarter Fiscal Year 1989	Total
Cargo Selectivity Entries Inspected	799,455	182,882	**982,337**
Entries Inspected as a Result of Inspector Override	255,215	57,947	**313,162**
Percentage of Entries Inspected as a Result of Inspector Override	31.9%	31.7%	**31.9%**
Entries With Discrepancies	16,177	3,981	**20,158**
Percentage of Inspected Entries With Discrepancies	6.3%	6.9%	**6.4%**

[a]Overrides may have resulted because the system advised of a first-time relationship or a criterion requiring a document review existed. The first-time relationship message or information obtained during the document review may have indicated to the inspector that an intensive examination was warranted.

Source: U.S. Customs Service statistics

If, based on professional judgment, an inspector chooses not to perform an intensive examination recommended by the cargo selectivity system, with supervisory approval he can override the intensive examination and downgrade it to a general examination.[1] Table II.5 shows statistics for those entries where the system's intensive examination message was overridden.

Table II.5: Intensive Examinations Overridden to General Examinations

	Fiscal Year 1988	First Quarter Fiscal Year 1989	Total
Total Cargo Selectivity Entries	5,546,731	1,523,233	**7,069,964**
Overrides From Intensive To General	163,712	45,202	**208,914**
Percentage of Entries Overridden	3.0%	3.0%	**3.0%**

Source: U.S. Customs Service statistics

Table II.6 shows the number and percentage of entries processed through cargo selectivity subjected to a document review.

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[1]In the case of intensive examinations selected randomly, overrides are not permitted. Also, if the system identifies the shipment as going to a first-time importer, inspectors must examine the shipment. A Customs directive generally prohibits inspectors from overriding the requirement to inspect such shipments. In June 1988, ACS was modified to enable Customs inspectors to override this requirement for up to five shipments to an importer.

Table II.6: Document Reviews Performed

	Fiscal Year 1988	First Quarter Fiscal Year 1989	Total
Total Cargo Selectivity Entries	5,546,731	1,523,233	**7,069,964**
Entries Subjected to Document Review	3,063,802	818,329	**3,882,131**
Percentage of Entries Subjected to Document Review	55.2%	53.7%	**54.9%**

Source: U.S. Customs Service statistics

In comparing these statistics, results show for fiscal year 1988 and the first quarter of 1989 that cargo selectivity entries inspected through random selection resulted in the lowest proportion of discrepancies found. The results also show that cargo selectivity entries inspected through inspector overrides of the system led to the highest proportion of discrepancies. Customs officials emphasized, however, that overrides do not necessarily represent a failure of the cargo selectivity system because it is intended to provide the inspector with pertinent information to assist in determining whether a higher level of examination is warranted. For example, the system notifies the inspector when an established importer imports merchandise from a new foreign manufacturer for the first time. This information may influence an inspector's decision to override the system.

Major Commercial Seizures Related to Cargo Selectivity

Customs defines major commercial seizures as actions taken to hold merchandise that is intended for commercial use and is valued in excess of $4,000. The merchandise may be seized if it is found to be deliberately misdescribed or undervalued, or to have understated quantities, or where the product itself is restricted, prohibited, or illegal.

In fiscal year 1988 and the first quarter of fiscal year 1989, Customs reported 4,481 major commercial seizures of cargo valued at over $265 million. Approximately one-third of these major commercial seizures were the result of inspections related to cargo selectivity. Customs reported inspections related to cargo selectivity as those that were the result of first-time importers, prior violators, cargo selectivity criteria, or random selections. The numbers of major commercial seizures made as a result of each of these four reasons in fiscal year 1988 and the first quarter of fiscal year 1989 are provided in table II.7. The numbers of major commercial seizures made as a result of inspector overrides of ACS are also provided in this table. We did not independently verify the accuracy or completeness of these numbers.

Table II.7: Major Commercial Seizures

	Fiscal Year 1988	First Quarter Fiscal Year 1989	Total
Total Major Commercial Seizures	3,627	854	**4,481**
Value of Major Commercial Seizures (millions)	$215.7	$49.4	**$265.1**
Major Commercial Seizures Related to Cargo Selectivity			
First Time Importers	68	9	**77**
Criteria	671	196	**867**
Prior Violator	451	110	**561**
Random	8	1	**9**
Totals	**1,198**	**316**	**1,514**
Percentage of Major Commercial Seizures Related to Cargo Selectivity	33.0%	37.0%	**33.8%**
Major Commercial Seizures Related to Inspector Overrides of Cargo Selectivity[a]	150	38	**188**
Percentage of Major Commercial Seizures Related to Inspector Overrides of Cargo Selectivity	4.1%	4.4%	**4.2%**

[a]According to Customs officials, these overrides may have resulted because the system advised of a first-time relationship or a document review criterion showed an intensive examination was warranted.

Source: Customs Commercial Fraud reports

Objectives, Scope, and Methodology

The Senate Report on the Treasury, Postal Service, and General Government Appropriations Bill for 1988[1] requested that we conduct a detailed review of the U.S. Customs Service's Automated Commercial System (ACS). In December 1988, we provided a report on our interim observations of three principal ACS modules that support the processing, inspection, and release of merchandise being imported into the United States.[2] In that report we noted several potential weaknesses with the cargo selectivity module, and stated that we were continuing our evaluation.

In a February 10, 1989, letter, the Chairman of the Subcommittee on Oversight, House Committee on Ways and Means, asked us to determine whether the cargo selectivity module of ACS is effective, fully utilized, and well-suited for targeting international shipments for examination. In subsequent meetings with your offices, it was agreed that we would provide a report concurrently to the chairmen describing how the cargo selectivity module works and summarizing statistics on the number of examinations made and discrepancies found as a result of using this module. As agreed, we did not attempt to form any conclusions on the adequacy of Customs' management, activities, or systems described in this report. We will be coordinating later with your offices, as requested, about additional work on ACS.

To obtain information on how the cargo selectivity system works, we interviewed officials in the Office of Inspections and Control, the Office of Data Systems, the Office of Automated Commercial Systems Operations, and the Office of Enforcement, at Customs' headquarters in Washington, D.C.; we also interviewed officials in Customs' New York region, including the Operations Analysis Staff in New York City, New York. The New York Operations Analysis Staff is responsible for development and maintenance of the national criteria file. We also reviewed background documentation concerning ACS.

To obtain the statistical data presented in this report, we requested Customs to provide us with statistical data on inspections and discrepancies for entries processed through cargo selectivity for fiscal years 1985 through the first quarter of fiscal year 1989. We compared this information to statistics previously provided by cargo selectivity officials and found some differences. For example, the number of entries processed through cargo selectivity in fiscal year 1988 was over 9 percent greater

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[1]S. Rep. No. 160, 100th Cong., 1st Sess., p. 31 (1987).

[2]Customs Automation: Observations on Selected Automated Commercial System Modules (GAO/IMTEC-89-4BR, Dec. 21, 1988).

in the ACS Daily Entry Activity Statistical Report on selectivity. A Customs data processing official, responsible for maintaining the cargo selectivity system, stated that the statistics prepared for GAO are the most accurate that are available within Customs. Since the variance in the figures for fiscal years 1985 through 1987 was even greater, we did not present this information. The official stated that the difference was the result of double counting in the file used for the ACS Daily Entry Activity Statistical Report. Statistics on major commercial seizures were obtained from Customs' Commercial Fraud Reports for fiscal year 1988 and the first half of fiscal year 1989.

Beyond checks on the reasonableness of these statistics, we did not verify their accuracy or attempt to draw any conclusions on the adequacy of Customs' management, activities, or systems described in this report. We discussed the contents of this report with Customs officials, who generally agreed with the facts presented. Our audit work was performed from December 1988 to March 1989 in accordance with generally accepted government auditing standards.

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