

NARCOTICS INTERDICTION:

United States Customs Service Needed Better Controls Over Operation Hard Line Funds

OIG-01-096

September 27, 2001



Office of Inspector General

The Department of the Treasury

Contents

Audit Report	2
Results in Brief	2
Background	3
Findings and Recommendations	5
Finding 1 Improved Controls and Documentation are Needed	5
Recommendation	8
Finding 2 Timely Reviews of Unliquidated Obligations are Needed	9
Recommendation	9
Finding 3 Controls Over Carryover Funds Need Improvement	9
Recommendation	10

Appendices

Appendix 1:	Objectives, Scope, and Methodology	12
Appendix 2:	Schedule of Monetary Benefits	13
Appendix 3:	Management Comments	14
Appendix 4:	Major Contributors To This Report	17
Appendix 5:	Report Distribution	18

Abbreviations

ACS	Automated Commercial System
AIMS	Asset Information Management System
ATS	Automated Targeting System
BASC	Business Anti-Smuggling Coalition
Customs	United States Customs Service
FY	Fiscal Year
GAO	General Accounting Office
NII	Non-Intrusive Inspection
OIG	Office of Inspector General
OMB	Office of Management and Budget
POE	Ports of Entry
SPS	Strategic Problem Solving

September 27, 2001

Robert C. Bonner
Commissioner
U.S. Customs Service

During fiscal years 1995 through 1998, Congress provided the United States Customs Service (Customs) with \$155.3 million to support Operation Hard Line, a long-term enforcement strategy. This strategy involved intensified inspections, improved port facilities, and increased use of technology in drug interdiction efforts. Funds provided were no-year funds originating from several sources, with certain amounts earmarked by Congress for specific items.

This audit was performed to determine if fund controls were adequate to ensure that Operation Hard Line funds were used as planned. The audit scope focused on Operation Hard Line activities from FY 1995 through FY 1998. The fieldwork was performed at Customs Headquarters in Washington, D.C. A more detailed description of our objective, scope, and methodology is provided as Appendix 1.

Results in Brief

Our review of Operation Hard Line funding disclosed that \$155.3 million in no year funds had been provided from several sources, with certain amounts earmarked by Congress for specific items. Congress designated these funds without fiscal year limitation because the appropriations can be used for large acquisitions that require long procurement lead times, or for unique operations that transcend fiscal years.

Our review showed that Hard Line funds needed improved controls to better track initiatives and ensure they were allocated and spent in accordance with the initial intent of their appropriations. For example,

Hard Line initiatives, funded from the Violent Crime Reduction Trust Fund (Crime Bill) were commingled with other enforcement initiatives also funded from the bill. This made it difficult, if not impossible, to separately track the obligations and expenditures of these initiatives. In addition, better documentation of the required monthly and quarterly reports, and justifications for the \$13.8 million allocated to the Commissioner's Reserve were needed. More timely reviews of unliquidated obligations¹ were also needed to deobligate funds and make them available sooner for other narcotic interdiction needs. As a result, Hard Line funds may not have been used in the most effective manner, and were more vulnerable to fraud, waste, and abuse.

We made three recommendations to improve fund controls and ensure that periodic reviews are properly documented along with the purpose of holding unallocated funds in the Commissioner's Reserve Account.

Customs concurred with our recommendations and provided comments concerning additional on-going actions and a number of steps taken to address the issues identified during the review. Customs response to our draft report is provided in Appendix 3.

Background

As the principal border agency that ensures all goods and persons entering the United States comply with laws, Customs has a fundamental role to play in the national narcotics strategy. Customs pursues this enforcement mission through a multi-pronged strategy of interdictions, investigations, intelligence gathering, and industry partnerships. During FY 1995, Customs developed and initiated Operation Hard Line, a long-term strategy to disrupt and deter narcotics smuggling via passenger vehicles and cargo at southwest border ports of entry (POEs). The second phase of Operation Hard Line (also referred to as Hard Line II) began in March 1996. This effort concentrated on high-risk areas along the southern tier, which includes Florida, the Gulf of Mexico, the Caribbean and Puerto Rico.

To support these Hard Line enforcement efforts, Congress appropriated over \$155 million during fiscal years 1995 through 1998. The Hard Line strategy involved intensified inspections, improved port

¹ Unliquidated obligations - matching expenditure is not posted.

facilities, and increased use of technology in drug interdiction efforts. Hard Line initiatives at the ports included enhanced pre-primary inspections, performing more secondary inspections, and conducting more intensive cargo searches. Customs dedicated additional resources to targeting high risk cargo for examinations by: using the ACS Cargo Selectivity database; forming Intelligence Collection Analysis Teams; supporting the domestic Business Anti-Smuggling Coalitions (BASC)²; implementing the Automated Targeting System (ATS); and installing concrete barriers to manage traffic flow. In addition, Hard Line promoted “Strategic Problem Solving” (SPS) by relying on internal experts at each port to develop and test creative new ways to prevent drug smuggling.

The following chart identifies the source of these funds and shows the related obligations and expenditures along with the amounts allocated to the FY 1999 spending plan, and the Commissioner’s Reserve.

² Customs partnership with U.S. businesses along the southern border of the U.S.

OPERATION HARD LINE FUNDING (MILLIONS)

INITIAL FUNDS		OBLIGATED FUNDS			UNOBLIGATED FUNDS	
Initial Funding <u>Source</u> <u>Amount</u>		Obligations	Expenditures	Unliquidated Obligations At 09/30/98	FY 99 Spending Plan	Commissioner's Reserve
FY 95 Rescission Bill \$13.2		\$12.3	\$10.5	\$1.8	\$3.3	\$6.6
FY 96 Crime Bill 25.7		21.8	20.4	1.4	3.8	.1
FY 97 H.L. (102) 65.0		54.2	47.0	7.2	10.5	.3
FY 97 Gateway (103) 28.0		22.3	18.4	3.9	1.2	4.5
FY 98 Crime Bill H.L. & Gateway 23.4		11.3	9.3	2.0	3.8	8.3
Total \$155.3		\$121.9	\$105.6	\$16.3	\$19.6	\$13.8

Findings and Recommendations

Finding 1 Improved Controls and Documentation are Needed

Improved Controls are Needed to Track Initiatives

Operation Hard Line funds needed improved monitoring and controls to ensure they were being spent as originally intended. We found the Customs Asset Information Management System (AIMS) could track Hard Line funds when the funding that year was used specifically for Hard Line and no other initiatives. However, when sources of funding, such as the Crime Bill, were used for several initiatives, AIMS tracked the overall fund activities, but not by specific initiatives. When this occurred, control was lost over individual initiatives such as Hard Line, and the way earmarked funds were spent. In addition, when Hard Line

funds were carried over from their initial to subsequent years, similar control problems existed. Hard Line funds from different appropriations were combined with other funding initiatives, and thereby lost their identity.

The AIMS Detailed Budget Status Reports (7041A) worked well, monitoring and tracking Hard Line fund balances and their related obligations and expenditures, when a fund was used exclusively for Hard Line transactions. Good examples of this were the \$65 million appropriated in FY 1997 and tracked in Hard Line Fund 102, and the \$28 million also appropriated in FY 1997 and tracked in Hard Line II (Gateway) Fund 103.

However, AIMS did not function well in tracking Hard Line when funding sources such as the Crime Bill were also used for various other initiatives. This occurred because AIMS status reports did not monitor and track these initiatives individually, but combined them under a single fund, not distinguishing between Hard Line and other initiative activities. For example, total funds provided under the FY 1998 Crime Bill were \$60.6 million, but only \$23.4 million were earmarked for Hard Line activities. The other \$37.2 million were intended for various other initiatives including vehicle replacement, the redeployment of agents and inspectors to high threat drug zones, and vehicle and container inspection systems. Activities for all of these initiatives were tracked by AIMS as Crime Bill Fund 180 transactions. This made it very difficult to identify which transactions were using Hard Line funds, and whether they were being spent as intended.

To obtain an estimate on how much of the Crime Bill funds were spent on Hard Line, Customs budget personnel performed a detailed analysis of suballottee obligations and expenditures. Their analysis showed that at the end of FY 1998, \$12.2 million of the FY 1998 Crime Bill funding remained, including \$9.7 million for technology, and \$2.5 million for anti-smuggling inspectors. In addition, \$3.8 million in FY 1996 Crime Bill funding still remained, including \$200,000 for technology and \$3.6 million for personnel costs. The combined carryover funds from above that were intended for Hard Line use totaled \$16 million, including \$9.9 million for technology and \$6.1 million for additional personnel costs.

According to Customs budget personnel, approximately \$8.4 million of the above \$9.9 million in Hard Line technology funds is in the Commissioner's Reserve pending allocation for x-ray equipment. However budget personnel could not provide proper support and documentation for the reserve funds. The FY 1999 Spending Plan Proposal for Crime Bill Carryover Funds also did not contain any provision for the \$6.1 million initially intended for additional personnel costs.

Documentation of Periodic Review Reports Needs Improvement

Customs budget personnel stated that controls over Operation Hard Line funding include preparation of comprehensive quarterly reviews and monthly fund status reports. We were also told that for multi-year accounts such as Hard Line, an annual analysis of year-end balances is also prepared, together with proposed spending plans for the continuation of approved activities for the following fiscal year. When prepared timely, these reports should provide valuable management insight for making decisions to ensure Hard Line funds are properly spent. We found that the required annual analysis and spending plans were prepared for Operation Hard Line, but the performance of quarterly reviews were not documented, and only 4 out of the last 12 monthly progress reports, reflecting amounts obligated and committed, could be provided.

Unallocated Funds Need Improved Documentation

Our review of the Commissioner's Reserve for Operation Hard Line showed that funds totaling \$13.8 million are not being allocated timely to authorized spending plans, and the purpose of holding these funds was not adequately documented to ensure they would be used within the intent of their initial appropriation.

The Operation Hard Line reserve was comprised of funds carried over from previous appropriations, going back to FY 1995. Customs budget personnel explained that \$4.5 million, for the purchase of a Puerto Rico Sea Container x-ray system, was being held in reserve until the Office of Information Technology completed a study to evaluate the systems feasibility. In addition, \$8.4 million for Non-Intrusive Inspection (NII) x-ray equipment is awaiting an approved spending plan. The remaining \$900,000 in funding was from prior year deobligations.

However, a more timely disposition of Hard Line reserve funds is needed along with supporting documentation to ensure that the use of funds is consistent with the original intent of the appropriation.

Recommendation

1. The Assistant Commissioner, Office of Finance, should ensure that funds earmarked for specific items, including reserve funds, are properly monitored and controlled and that carryover funds are allocated to spending plans in a timely fashion. All required analyses of initiative funding should also be properly performed and documented.

Management Comment. Customs concurred and has instituted a quarterly report on the status of approved initiatives, including carryover funds, to ensure that funds are allocated and obligated in a timely fashion. The next update to the Customs Budget Manual will include improved reporting and tracking guidelines.

Customs also stated that the accounting structure within AIMS allows for tracking of activities at the lowest possible level. In addition, since a large portion of initiative funding was for procurement of technology that typically takes more than one fiscal year to obligate, Customs maintains a five-year technology plan that is regularly updated. Customs uses that reserve suballotment as an administrative methodology for keeping track of funds pending their allocation to other suballotments. This reserve is not used as a contingency fund.

OIG Comment. We consider this recommendation to have a satisfactory management decision with final action pending revision of the Customs Budget Manual. We recognize that AIMS is capable of tracking funds as long as funding is not commingled with other initiatives as was the case with the FY 1998 Crime Bill, where a portion of the total funds provided was earmarked by Congress for specific Hard Line initiatives. The fact that a large portion of initiative funds was for long term procurement actions and that these funds were held in the Commissioner's Reserve Account exemplifies the need for proper documentation and tracking to ensure that funds are spent for their intended purpose.

Finding 2**Timely Reviews of Unliquidated Obligations are Needed**

A more timely review of Hard Line unliquidated obligations is needed to deobligate funds and make them available sooner for other narcotic interdiction efforts. For example, at the end of FY 1998, Hard Line unliquidated obligations totaled \$16.3 million. A memorandum from the Assistant Commissioner, Office of Finance, dated March 22, 2000, has addressed this issue, and according to Customs Budget personnel, Hard Line unliquidated obligations have since been reduced by \$7.8 million as of December 2000.

A review of the remaining \$8.5 million for potential deobligations could represent a potential source of funds to be used for other enforcement efforts. Since deobligated no-year funds are available for reobligation³ it is important that Customs ensure that unliquidated obligations continue to be more timely reviewed. See Appendix 2 for discussion of potential monetary benefits.

Recommendation

1. The Assistant Commissioner, Office of Finance, should continue to ensure the analysis of unliquidated obligations are performed timely, including a specific review of the remaining \$8.5 million Hard Line unliquidated obligations.

Management Comment. Customs concurred and instituted guidelines and procedures to ensure that analysis of unliquidated obligations are reviewed in a timely fashion.

OIG Comment. We agree with Customs actions to date and continued timely review of unliquidated obligations, including the \$8.5 million attributed to Hard Line, should satisfactorily address this issue.

Finding 3**Controls Over Carryover Funds Need Improvement**

Our review of Customs spending plans for Crime Bill funds disclosed that funds from different appropriation years and funding sources were being commingled. This increased the risk that funds for special

³ GAO/OGC-91-5 Appropriations Law pages 5-7.

initiatives such as Hard Line would not be spent within the intent of their original appropriations. For example, the FY 1999 Spending Plan Proposal combined the FY 1996 and FY 1998 Crime Bills along with the FY 1998 Interagency Agreement carryover funds. This resulted in a balance of \$21.2 million Customs said was available for various enforcement initiatives.

**SPENDING PLAN PROPOSAL
VIOLENT CRIME REDUCTION TRUST FUND
CRIME BILL FUND 180 (\$000)**

Sources of Funds, Expenditures, and Remaining Balance (000)

FY 1996 Hard Line (Crime Bill)	\$25,690
FY 1998 (Crime Bill) ⁴	60,648
FY 1998 Interagency Agreement	<u>10,890</u>
Total:	\$97,228
Obligated in FY 1996	\$(11,352)
Obligated in FY 1997	(9,232)
Obligated in FY 1998	<u>(55,419)</u>
Total:	\$(76,003)
Available Balance for FY 1999	\$21,225

The initiatives planned for these funds included non-intrusive technology, anti-smuggling training, Strategic Problem Solving, license plate readers and Operation Meathook. However, the plans did not specifically account for the \$16 million (discussed in Finding 1) in Hard Line funds, carried over as part of the \$21.2 million above, including \$6.1 million initially intended for additional Hard Line personnel costs.

Recommendation

1. The Assistant Commissioner, Office of Finance, should ensure that there is improved tracking of carryover funds and they have sufficient supporting documentation to verify funds are being spent within the intent of their initial appropriation.

⁴ \$23.4 of the \$60.6 million in Crime Bill funding was earmarked for Operation Hard Line.

Management Comment. Customs concurred. Corrective actions to improve the tracking of carryover funds and ensure sufficient supporting documentation is maintained are discussed in the response to Finding 1.

OIG Comment. We consider this recommendation to have a satisfactory management decision with final action pending revision of the Customs Budget Manual.

Please be advised that we are recording potential monetary savings from funds put to better use totaling \$8.5 million in the Inventory, Tracking and Closure system (ITC) for our recommendation relating to more timely review of unliquidated obligations. This recommendation is identified in Appendix 2 of our report. We will also include the potential savings from funds put to better use in the OIG Semiannual Report to the Congress. Customs management is responsible for recording the actual amount of funds put to better use as a result of the audit in the ITC.

We appreciate the courtesies and cooperation provided to our staff during the audit. If you have any questions, please contact me at (713) 706-4611 or a member of your staff may contact Kenneth W. Coleman, Audit Manager, at (713) 706-4611. Major contributors to this report are listed in Appendix 4.

George W. Tabb
Regional Inspector General for Audit

Appendix 1

Objectives, Scope and Methodology

The objective of this audit was to determine if fund controls were adequate to ensure that Hard Line funds were used as planned. The audit scope focused on activities from FY 1995 through FY 1998. The fieldwork for this audit was performed at Customs Headquarters in Washington, DC.

To accomplish our objective, we:

- Obtained applicable policies and procedures and reviewed documentation on the funding process.
- Interviewed Customs headquarters officials and knowledgeable personnel responsible for Hard Line activities
- Reviewed applicable Treasury Appropriation Acts, justifications, and language.
- Documented Customs budget formulation and allocation of funds process, and reviewed financial plans and fund distribution documents.
- Reviewed Hard Line obligations and expenditures to include staffing and equipment acquisitions, and review of the five-year technology plan.

We conducted the audit between April 1999 through October 2000 in accordance with generally accepted government auditing standards.

Appendix 2
Schedule of Monetary Benefits

A recommendation that funds be put to better use is a recommendation that funds could be used more efficiently if management took actions to implement and complete the recommendation. The following potential monetary savings from funds put to better use will be recorded in the Inventory, Tracking and Closure system (ITC) and included in the OIG Semiannual Report to the Congress.

<u>Recommendation Number</u>	<u>Potential Funds Put to Better Use</u>
-------------------------------------	---

Finding 2 - Recommendation 1	\$8.5 million
------------------------------	---------------

The potential savings represents unliquidated obligations which, if reviewed on a more timely basis, may be deobligated and made available for other narcotic interdiction efforts.

It is Customs management's responsibility to record the actual amount of funds put to better use as a result of its implementation of the recommendation in the ITC.

Appendix 3 Management Comments



U.S. Customs Service

Memorandum

DATE: August 30, 2001
FILE: AUD-1-OP CN

MEMORANDUM FOR GEORGE W. TABB
REGIONAL INSPECTOR GENERAL FOR AUDIT

FROM: Director,
Office of Planning

SUBJECT: Draft Audit Report on the United States Customs Service
Operation Hard Line

Thank you for providing us with a copy of your draft report entitled "United States Customs Needed Better Controls Over Operation Hard Line Funds" and the opportunity to discuss the issues in this report.

Customs has taken a number of steps to address the issues identified during your review. These steps, and additional on-going actions, are outlined in the attached document, as are Customs comments on this draft report.

We have determined that the information in the audit does not warrant protection under the Freedom of Information Act.

If you have any questions regarding the attached comments, please have a member of your staff contact Ms. Cecelia Neglia at (202) 927-9369.

A handwritten signature in black ink, appearing to read "William F. Riley".

William F. Riley

Attachment

TRADITION



SERVICE



HONOR

Appendix 3

Management Comments

Attachment

Attachment

Responses to Audit Recommendations OIG Draft Report on the USCS Operation Hard Line

Finding 1 - Improved Controls and Documentation are Needed

Recommendation 1 - The Assistant Commissioner, Office of Finance, should ensure that funds earmarked for specific items, including reserve funds, are properly monitored and controlled and that carryover funds are allocated to spending plans in a timely fashion. All required analyses of initiative funding should also be properly performed and documented.

Response: Concur. Customs has instituted a quarterly report on the status of approved Initiatives such as Hard Line, including carryover funds, to ensure that funds are allocated and obligated in a timely fashion. Customs is also in the process of developing improved guidelines for the next update to the Customs Budget Manual that will prescribe the content and timing of this report and the need for quarterly tracking of the Initiative funds, including carryover funds.

Although we are in concurrence with the recommendation, we disagree with some of the underlying findings related to this recommendation. The report states that the Customs Asset Information Management System (AIMS) does not allow for adequate tracking of Initiative funding. We believe that this is not the case, since the accounting structure within AIMS allows for tracking of activities at the detailed suballotment, budget plan, and transaction level. This system enables Customs organizations to track and report on the use of Initiative funding at the lowest level possible.

Customs assures that the Initiative funds have been used to fulfill the intent of the appropriations as prescribed by Congress. A large portion of the Initiative funding was for procurement of technology to support the inspection process and the interdiction of drugs and other illegal materials crossing the Southwest Border. Due to the complex nature of these procurements, it will typically take more than one fiscal year to obligate the funds. In addition to being able to track funds at the detailed transaction level, Customs maintains a five-year technology plan of Customs resource requirements that is regularly updated and documented. Customs has kept Congressional staff informed regarding the status of the five-year plan and progress made in acquiring this technology through responses to questions for the record, briefings, and meetings.

Appendix 3

Management Comments

The audit report questions Customs use of a "reserve" account in controlling the Initiative funds. On the contrary, Customs use of the reserve suballotment is an administrative methodology for keeping track of funds pending their allocation to the various suballotments, while detailed spending plans by office and object class are prepared. This methodology allows Customs to improve its ability to track the allocation of Initiative funds. By no means should this administrative account be seen as a contingency fund that will not be used for the original purpose for which funds were appropriated.

Finding 2 - Timely Reviews of Unliquidated Obligations are Needed

Recommendation 2 - The Assistant Commissioner, Office of Finance, should continue to ensure the analysis of unliquidated obligations are performed timely.

Response: Concur. As the draft report states, Customs has instituted guidelines and procedures to ensure that analysis of unliquidated obligations are reviewed in a timely fashion. Customs reiterates that the procurement, installation, testing and deployment of large technology purchases with no-year Initiative funds occur over multiple fiscal years. Therefore, it should be expected that unliquidated obligations will remain for multiple fiscal years.

Finding 3 - Controls Over Carryover Funds Need Improvement

Recommendation 3 - The Assistant Commissioner, Office of Finance, should ensure that there is improved tracking of carryover funds and they have sufficient supporting documentation to verify funds are being spent within the intent of their initial appropriation.

Response: Concur. We have discussed the measures Customs is taking to do so under the discussion of Finding 1 above. Again, we disagree with the finding that Customs could not appropriately track Initiative funds. The AIMS account structure enables us to track obligations and expenditures at the detailed transaction level, and therefore enables Customs to account for the funds used under the appropriations.

The report mentions funding governed by an Interagency Agreement, which was awarded under the Crime Bill that could not be distinguished from other Initiative funds. However, this agreement had a specific suballotment, budget plan, and project code assigned so that Customs could claim reimbursement for services provided under the Agreement. Likewise, other obligations occurring under the Crime Bill were tracked and obligated by the suballottees under specific budget plans.

Finally, Customs submits an annual financial plan and mid-year review of resources to the Department of Treasury on all current year and no-year appropriations. In these submissions, Customs tracks and reports on the use of Initiative funds, in accordance with Congressional intent.

Appendix 4
Major Contributors To This Report

George W. Tabb, Regional Inspector General for Audit
Southern Region
Kenneth W. Coleman, Audit Manager
Robert F. Edwards, Auditor-In-Charge
Clara J. Veal, Auditor

The Department of the Treasury

Office of Strategic Planning and Evaluations
Office of Accounting and Internal Control
Office of Budget

U.S. Customs Service

Commissioner of Customs
Assistant Commissioner, Office of Finance
Director, Office of Planning and Evaluations

Office of Management and Budget

OIG Budget Examiner