Integrated Support Services

Survey of Office Systems Services’ Handling of Imported Materials

Survey Report No. 2008-AT-901
February 2008
TO: James H. Billington  
Librarian of Congress  
February 29, 2008  
FROM: Karl W. Schornagel  
Inspector General  
SUBJECT: Survey of Office Systems Services’ Handling of Imported Materials  
Survey Report No. 2008-AT-901  

This transmits our survey report on Office System Services’ (a division of Integrated Support Services) handling of imported materials. A survey consists primarily of inquiries and preliminary work leading to an audit or attestation. An audit ordinarily follows a survey if sufficient evidence indicates breakdowns in process or weakness in internal control structures. In this case however, the evidence we developed during our survey did not indicate a problem of sufficient scope to merit a full audit. Accordingly, we concluded this review with a survey report. Our work did, however, develop findings and recommendations.

The Executive Summary begins on page i, and complete findings and recommendations appear on pages 4 to 8. The Integrated Support Services response to our draft report is briefly summarized in the Executive Summary and in more detail after individual recommendations appearing on pages 6 and 8. The complete response is included as an Appendix.

Based on ISS’ response to the draft report, we consider all three recommendations resolved.

We appreciate the cooperation and courtesies extended by ISS and the Office System Services staff during the review.

cc: Chief Operating Officer  
Assistant Chief Operating Officer for Support Services  
Director, Integrated Support Services
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EXECUTIVE SUMMARY

This report documents our review of the Library’s customs clearance process for materials received from foreign countries. We undertook the review because of a complaint we received about the process. Specifically, the complaint indicated that the Library’s effort to facilitate the clearance process is less than adequate. During our preliminary inquiries with acquisition offices, another staffer expressed a similar complaint. The complainants believed that many Library-intended shipments that arrive at Customs are not retrieved for months and other such shipments might even go unclaimed.

Accordingly, we undertook this review to assess the validity of the complaints and determine whether the Library’s efforts to facilitate clearance of Library-intended shipments through Customs could be improved. Our objectives were to determine whether Office Systems Services (OSS), the Library of Congress organization responsible for handling mail, effectively ensures that (1) all foreign shipments intended for the Library are efficiently retrieved at a port of entry and (2) all charges submitted by its customs broker are proper and correct.

Goods that are imported into the United States are required to be “entered” (i.e., declared) to the Department of Homeland Security, U.S. Customs and Border Protection (CBP). The Library uses John S. Connor, Inc. (JSC), a “certified CBP broker,” to handle customs processing for its air and ocean freight shipments and to ensure it complies with complex customs requirements. JSC submits the necessary information and appropriate payments to CBP on behalf of the Library and collects fees from the Library for its services.

We found that OSS and JSC are, for the most part, efficiently processing the Library’s materials through customs and arranging inland freight to the Library’s headquarters, according to staff of the Library’s various acquisition offices. When shipment delays occur, we determined that they are most often attributable to the shipments’ recipients, not OSS or JSC. However, we also determined that OSS was not appropriately processing invoices that JSC had submitted for its services.
This report is based on an audit survey. A survey consists primarily of inquiries and preliminary work leading to an audit or attestation. At the conclusion of a survey, OIG determines whether or not to further explore a subject with a full audit or attestation. The evidence we developed during our survey did not indicate a problem of sufficient scope to merit a full audit. Accordingly, we are concluding this project with a survey report. Our work did, however, develop findings and recommendations, as summarized in the following paragraphs.

Better Addressing Instructions to Shippers Are Needed—JSC could not efficiently process some shipments while others may be irretrievable by the customs broker, according to a JSC representative. This situation exists largely because shippers do not provide sufficient detail in addressing some shipments. Consequently, the Library is unnecessarily incurring storage charges for shipments that JSC cannot easily retrieve from customs and other shipments intended for the Library may go unclaimed. OSS is now aware of and is drafting written procedures to resolve this situation.

OSS is Not Verifying JSC Invoices—JSC invoices (1) reflected no indication that OSS had verified that the Library had received corresponding shipments and (2) were not effectively reviewed by OSS to ensure that the customs broker’s charges were correct. Invoices that we reviewed were approved by OSS for payment even though they included unnecessary and questionable charges and generally lacked supporting documentation. We recommended that OSS officials scrutinize the invoices more closely.

OSS Should Evaluate Other Customs Brokers—JSC has been the Library’s customs broker for 18 years and, helped by the working knowledge it has acquired regarding the Library’s various divisions, has provided the Library efficient service. Nevertheless, it is a good business practice to periodically consider other customs brokers to ensure the Library continues to receive the most cost effective and efficient service. We recommended that the OSS Chief contact other customs brokers and evaluate whether using JSC services continues to be in the Library’s best interest.

Integrated Support Services generally concurred with our findings and recommendations, and has drafted new
procedures which it plans to distribute to the LOC mail liaisons and make available on the Integrated Support Services website. ISS is the parent organization of OSS.
BACKGROUND

Goods that are imported into the United States are required to be “entered” (i.e., declared) to the Department of Homeland Security, U.S. Customs and Border Protection (CBP). They are subject to detention and examination by CBP officers to ensure the requirements of customs laws and regulations are met. The importer of record is responsible for using “reasonable care” to “enter,” “classify,” and “value” the goods and for providing any other information to CBP that the agency needs to properly assess duties, collect accurate statistics, and determine compliance with applicable requirements.

Customs regulation 19 C.F.R. §10.100 states that government agencies and offices are subject to the usual customs entry and examination requirements. Government imports are also subject to duty unless they qualify for certain exemptions. The Library of Congress is specifically referenced in 19 C.F.R. §10.46 which states that books imported for the use of the Library shall be admitted free of duty upon written request. However, customs regulations do not exempt the U.S. Government from paying warehouse fees imposed for shipments that are delayed in Customs for reasons such as lack of proper paperwork.

The Library uses John S. Connor, Inc. (JSC), a “certified CBP customs broker,” to handle customs processing for its air and ocean freight shipments and to ensure it complies with the complex customs requirements. Certified brokers have expertise in the entry procedures, admissibility requirements, classification, valuation, and the applicable duties, taxes, and fees for imported merchandise. JSC submits the necessary information and appropriate payments to CBP on behalf of the Library and collects fees from the Library for its services.

Office Systems Services (OSS), an organizational element of the Library’s Integrated Support Services (ISS), has responsibility for the “management and services of mail, distribution, and freight.” The office works closely with the Library’s acquisition offices and JSC to help expedite deliveries. OSS also reviews the invoices submitted by JSC before they are paid.
OBJECTIVES, SCOPE, AND METHODOLOGY

We initiated this review as a result of a complaint concerning the handling of foreign mail by ISS/OSS. Specifically, an acquisitions office manager complained that several shipments from the Library’s Norwegian book dealer had arrived at Customs and remained there for months. During our preliminary inquiries, another acquisitions office manager expressed a similar complaint. Concerns were raised that other materials intended for the Library might also sit at Customs for long time periods after they arrive or could even go unclaimed. Our objectives were to determine whether OSS (1) has established internal controls which ensure that all shipments intended for the Library which arrive at a port of entry are efficiently retrieved and (2) effectively reviews invoices submitted by its CBP customs broker to ensure that all charges identified are proper and correct.

We reviewed all 46 of the fiscal year (FY) 2007 invoices that were submitted by JSC. We also interviewed officials in OSS, the former head of the Mail Services unit, a JSC representative, and staff from the various acquisition offices. Acquisitions staff are responsible for the majority of shipments passing through customs.

For expertise and benchmarking purposes, we contacted the National Customs Brokers and Forwarders Association of America. We also spoke with three certified customs brokers at Dulles International Airport: Cargo Transport, Inc., Cavalier International Air Freight, Inc., and Laing International.

A survey consists primarily of inquiries and preliminary work leading to an audit or attestation. At the conclusion of a survey, OIG determines whether or not to further explore a subject with a full audit or attestation. The evidence we developed during our survey did not indicate a problem of sufficient scope to merit a full audit. Accordingly, we are concluding this review with a survey report.

We conducted our work in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States (the “Yellow Book”), which incorporate financial audit and attestation standards established by the American Institute of Certified Public Accountants. We also followed guidance in Library of Congress Regulation (LCR)
211-6, Functions, Authority, and Responsibility of the Inspector General.
FINDINGS AND RECOMMENDATIONS

Staff from the various acquisition offices told us that the OSS and JSC are, for the most part, efficiently processing shipments intended for the Library through customs and arranging inland freight for that material to the Library’s headquarters. Moreover, JSC has gained a working knowledge of the Library’s various divisions over the last 18 years which has helped the customs broker improve its service.

We determined that when they occur, shipment delays are most often attributable to recipients (usually the acquisition offices) that do not (1) ensure that shippers properly address shipments to the Library and (2) provide the Library’s customs broker with advance copies of invoices when possible that specify the contents of shipments. We also determined that OSS was not effectively attesting the receipt of services from the Library’s customs broker or ensuring that the broker’s invoices were correct for legitimate expenses and proper for payment. The following sections provide additional details on the significant findings of our review and three recommendations to improve OSS’ activities.

I. Better Addressing Instructions to Shippers Are Needed

For the most part, JSC is efficiently retrieving and processing overseas shipments intended for the Library through customs. However, a JSC representative confirmed suspected concerns that some shipments are not efficiently processed in some cases and that some shipments could go unclaimed by the customs broker. OSS is aware of the issue and is drafting written procedures that should reduce the probability of these problems occurring in the future.

CBP does not notify the importer of a shipment’s arrival. Therefore, the Library must do everything it can to ensure that its agent, JSC, is immediately informed of a shipment’s arrival so that its entry can be filed and delays in the Library’s receipt of the goods can be avoided. However, action the Library can take is limited in some cases because it is not always aware of shipments en route, especially materials for which purchase orders were not
used (e.g., shipments made using approval plans, gift materials, etc.) Accordingly, JSC has two runners who go to and ask each airline for Library-intended shipments four or five times a day. Prompt shipment retrieval by JSC is significant because airlines charge to store shipments 48 hours after they arrive.

The customs process involves several steps. JSC must declare the dutiable value of merchandise for all shipments. For shipments over $2,000, JSC completes an Immediate Delivery Entry Form (IDEF) and pays the duty charges, if applicable. After it files the IDEF, JSC has ten days to file an entry summary, the commercial invoice, and other documents with a check for the duty charge. Customs then has 30 days to respond to JSC’s submission. If a shipment is successfully processed through CBP, JSC arranges the inland freight to ship the materials to the Library.

Customs processing is generally expedited if the shipment includes: (1) a bill of lading, airway bill, or carrier’s certificate (naming the consignee for customs purposes) as evidence of the consignee’s right to make entry; (2) a commercial invoice obtained from the seller which shows the value and description of the merchandise (an invoice is usually attached to the outside of a shipment); and (3) packing lists, if appropriate, and other documents necessary to determine whether the merchandise should be admitted.

Delays occasionally occur for shipments intended for the Library primarily because some acquisition offices and other Library staff who are expecting overseas shipments have not provided adequate instruction to shippers on addressing shipments intended for the Library. Without adequate instruction, shippers have not always identified the organizational units within the Library for which shipments have been intended and, even worse, have not included the name “Library of Congress” as part of the addresses at all. In one case, the address of a FY 2007 shipment did not specify “Library of Congress” and only indicated that the shipment was for “Anna Ho, Acting Sec Head, Chinese Acquisitions.” As a result, the Library is unnecessarily incurring storage charges for shipments that its customs broker cannot

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1 An approval plan is an arrangement by which a publisher or wholesaler assumes the responsibility for selecting and supplying, subject to return privileges, all publications, as issued, fitting a library’s collection profile specified in terms of subjects, levels, formats, prices, languages, etc.
easily retrieve from customs and other shipments intended for the Library may go unclaimed.

OSS is taking action to better ensure that JSC is informed immediately of arrivals so that it can promptly file the customs entry or minimize delays in obtaining the goods. OSS is drafting written procedures on how overseas shipments should be addressed. The procedures call for staff, who are expecting overseas shipments, to direct the shipper to record in the body of the Bill of Lading that “John S Connor, Inc.” is the company that should be notified. In our view, all paperwork related to a shipment (i.e., the bill of lading, airway bill, ocean bill of lading, commercial invoice, the packing list, etc.) should also note that the Library of Congress is the consignee and include the Library’s address.

We believe JSC provides the Library efficient service when shipments are properly addressed. JSC routinely screens the cargo in the customs hold area to discover any Library freight about which it was not notified or designated to handle. We estimated that JSC processes and delivers about 50 percent of the shipments within 2 weeks of entry and about 85 percent within 3 weeks. We believe this is reasonable given the complexity of the customs process – a process that is generally time-consuming and cumbersome.

Recommendation

We recommend that OSS promptly draft and promulgate procedures for shippers of materials which, among other things, specify how overseas shipments intended for the Library should be addressed.

ISS Response

ISS concurs with the finding and recommendation and responded that it has drafted new procedures which it plans to distribute to the LOC mail liaisons and make available on the ISS website.

II. OSS is Not Verifying JSC Invoices

JSC submitted 46 invoices totaling $22,217.51 to OSS in FY 2007. OSS is responsible for reviewing and certifying these invoices for
payment. We identified two control weaknesses in the OSS certification process in our review. First, the invoices do not indicate that OSS verified that the acquisition offices had received the corresponding shipments. Second, OSS did not effectively review the invoices to ensure that the charges were correct.

Our review of the invoices indicated one instance in which JSC charged the Library twice for one formal entry, three instances in which JSC claimed questionable charges for clearing goods through customs, and numerous other instances in which JSC submitted charges that lacked sufficient support for OSS to determine if the charges were correct. OSS approved payments for all of these invoices despite the questions that surrounded them. As the certifying office, OSS should have responsibly attested to the services provided and claimed by JSC and ensured that the invoices were correct, for legitimate expenses, and proper for payment.

We also found that JSC was not aware that the Library is not subject to customs duty on its book materials, noting a JSC invoice which charged the Library $388.39 for such a duty. OSS officials met with JSC to advise the customs broker about the Library’s exemption status during the time of our fieldwork and now, JSC is using the duty free tariff number for the Library’s collection materials.

We also noted that OSS officials and JSC representatives discussed obtaining a continuous bond for the Library’s shipments which would allow the Library to avoid bond fee charges for formal and informal entries of its shipments. The Library paid JSC a total of $1,270 in FY 2007 for bond charges. Such fees generally range between $30 and $60 per shipment when they are required.

In view of the information we collected and the invoices we reviewed, we concluded that OSS could scrutinize the invoices it receives from JSC more closely. Moreover, it should work with the Library’s Office of the General Counsel and carefully evaluate the Library’s liability for government taxes whenever it receives charges claimed for them.

**Recommendation**

We recommend that OSS officials more closely scrutinize the invoices it receives from its customs broker and request a
supporting explanation and/or documentation for any line item charge when the nature of the charge is not clear.

**ISS Response and OIG Comments**

ISS concurs with the recommendation but disagreed with our finding that OSS did not verify that the acquisition offices had received the corresponding shipments. ISS contends that OSS has always verified delivery of the shipment prior to certifying invoices for payment. OSS could not, however, provide us with any supporting documentation for this verification. GAO’s *Standards for Internal Control in the Federal Government* require that “[i]nternal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination.”

**III. OSS Should Evaluate Other Customs Brokers**

JSC has been the Library’s customs broker since about 1989. OSS has not explored switching to another customs broker.

Considering the importance of customs broker services to overall Library operations, we believe it would be good business practice to periodically consider the services available of other customs brokers. Such a practice would ensure that the Library receives the most cost effective and efficient service. However, any service comparison that OSS makes with other vendors should recognize the importance of the working knowledge of the Library that JSC has acquired over the past 18 years.

**Recommendation**

We recommend that OSS competitively bid the customs broker contract.

**ISS Response**

ISS concurs with the finding and recommendation.
CONCLUSION

Time delays in retrieving materials from customs and storage charges related to these delays are expected to diminish when OSS completes drafting written procedures on how shipments intended for the Library should be addressed. However, the procedures’ effectiveness will depend on their implementation by the Library’s acquisition offices and the cooperation that is received from material vendors and donors.

During our fieldwork, the OSS Chief assigned the duty of monitoring shipping charges to a newly-hired Supervisory Program Specialist. It is critical that the new employee address weaknesses in the invoice review process. With greater scrutiny, the probability of wasteful spending and fraudulent expense claims will be reduced, thereby providing greater assurance that the government obtains what it paid for.

Major Contributors to This Report:

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APPENDIX: ISS RESPONSE

UNITED STATES GOVERNMENT

Memorandum

TO: Karl W. Schornagel
   Inspector General

FROM: Mary Levering
      Director, Integrated Support Services

DATE: February 11, 2008


This document provides written response to the subject in accordance to LCR 211-6, Functions, Authority, and Responsibility of the Office of the Inspector General, Section 10.B.

In reviewing the Draft Survey Report, three recommendations were made regarding the custom clearance process for materials received from foreign countries.

1. Executive Summary:
   Over the years, ISS has provided an invaluable service to the Library of Congress by facilitating the receipt of imported materials. The impetus of the OIG report concerning this issue can be narrowed to the complaint of one individual, John Broadbent. Mr. Broadbent admittedly failed to supply the necessary documentation to ISS to facilitate the clearance of his material through the customs clearance process. As a direct result of this, his shipment(s) incurred additional storage fees, or were returned to the shipper.
   Mr. Broadbent chose to elevate this self-generated shipping problem to the Office of the General Counsel without satisfaction. He then chose to elevate this issue to the Office of the Inspector General, which in final analysis determined that the root cause of Mr. Broadbent’s problem was his failure to supply ISS the appropriate documents. Therefore, it is a mischaracterization to describe the OIG’s involvement resulting from complaints received by OIG regarding the customs clearance process. It would be appropriate to state that the OIG’s involvement was in response to one complaint.

2. Better Addressing Instructions to Shippers Are Needed.
   ISS Agree with Finding and Recommendation. After reviewing and analyzing the process involved with items moving from international locations to the Library of Congress, Office Systems Services developed procedures to address this issue. These procedures document the process from end to end, and will help streamline and make for efficient movement of materials through the customs process.
   The purpose of the drafted procedure is to communicate to the Library of Congress departments the steps necessary to ensure a smooth movement of material from overseas locations through Customs to the final destination at Library of Congress offices. These procedures provide instructions to Library officials that expected shipments should specifically name and direct John S Connor as the company to be notified of the shipment and the Library of Congress as the consignee. Further, instructions in regarding specific shipping language, necessary contact information, and airway bill destination information is included in these instructions. ISS is confident that disseminating this information to Library of Congress staff and officials will, in the majority of cases, ensure expedited delivery of materials. There are materials which are shipped to the Library without the Library’s prior knowledge; efforts should be made by the intended recipients of this category of material to communicate the newly documented process to those entities.
These new procedures are currently being reviewed and edited for the ISS website and distribution to the LOC Mail Liaisons. The dissemination of this information should be completed within 10 working days from the date of this response.

3. OSS is Not Verifying JSC Invoices
   ISS Does Not Agree with Finding as written, however agree with the recommendation. OSS has always verified the delivery of the shipment prior to certifying invoices for payment. Additionally, each invoice was reviewed for correctness although apparently OSS had experienced an unacceptable 6% error or questionable charges rate. As a result, OSS instituted additional safeguards to enhance the accuracy of the invoice certification process. The process was emphasized so that all invoices would be delivered to OSS management (John Nave or Rob Williams) however additional steps were taken to ensure accuracy. Each invoice will contain specific and current back up documentation illustrating the detailed charge amounts and verifying delivery of the specific items on the invoice with a copy of the delivery ticket. In the past, OSS relied on outdated parametric measures or rates. This procedure was put in place with John S Connor Company early January 2008. We agree with this recommendation, all invoices continue to be checked for accuracy and now will have proof of delivery of goods.

4. OSS Should Evaluate Other Custom Brokers
   ISS Agrees with Finding and Recommendation: The John S Connor Company has been handling overseas shipments for a considerable amount of time (over 18 years) for the Library of Congress. As part of the survey report the recommendation was made to contact other custom brokers and evaluate if JSC continues to be in the best interest of the Library of Congress. OSS agrees with this recommendation and as a best practice will initiate communication with other business concerns in the customs industry to evaluate other custom broker’s services and costs.

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