

GAO

Report to the Honorable
Alfonse M. D'Amato
United States Senate

September 1986

CARGO IMPORTS

Customs Needs to Better Assure Compliance With Trade Laws and Regulations



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

General Government Division

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September 8, 1986

The Honorable Alfonse M. D'Amato
United States Senate

Dear Senator D'Amato:

This report responds to your July 24, 1985, request and subsequent meetings with your representative asking us to review Customs' cargo inspection process to determine whether this process assures adequate enforcement of U.S. import laws. The report evaluates Customs' cargo examination process at the New York Seaport, the John F. Kennedy International Airport, and to a limited extent, seven representative ports around the United States.

As arranged with your office, unless you publicly release its contents earlier, we plan no further distribution until 30 days after the date of this report. At that time, we will send copies to the Secretary of the Treasury, Commissioner of the U.S. Customs Service, and other interested parties.

Sincerely yours,

A handwritten signature in cursive script, appearing to read 'James S. Anderson'.

William J. Anderson
Assistant Comptroller General

Executive Summary

Purpose

In a letter dated July 24, 1985, Senator Alfonse M. D'Amato expressed his concerns about the possibility that the U.S. Customs Service's cargo processing system may not assure adequate enforcement of U.S. import laws. In subsequent discussions with Senator D'Amato's representative GAO was asked to evaluate Customs' cargo examination process at the New York Seaport, the John F. Kennedy International Airport, and to a limited extent, other representative ports around the United States. GAO was specifically requested to provide information on whether

- Customs' examination techniques assure that the imports are in compliance with U.S. trade requirements,
- Customs has sound criteria for selecting cargo to be examined since it cannot examine all cargo because of the volume, and
- Customs has adequate internal management controls to assure that its cargo examination system is effective.

Background

Customs functions as a primary border enforcement agency with responsibility for

- assessing, collecting, and protecting revenue accruing to the United States from duties, taxes, and fees;
- controlling, regulating, and facilitating carriers, persons, and articles entering or departing the United States to ensure compliance with laws and regulations; and
- enforcing all statutes, regulations, and rulings governing the admission of merchandise into the United States.

Increases in the volume of imports, without corresponding increases in the number of inspectors positions, coupled with increased use of containers and other innovations in transporting and packaging merchandise, have placed heavy demands on Customs inspectors. In addition, Customs' dual responsibilities for enforcing the import requirements and for facilitating the flow of trade create a challenging dilemma. (See pp. 12 and 13.)

In 1978, GAO reported that Customs' cargo inspections did not ensure compliance with the laws and regulations governing imports. The inspections were normally cursory as inspectors attempted to adhere to provisions of the law which required that a portion of every cargo shipment be inspected. GAO recommended that the Department of the Treasury require Customs to perform intensive inspections of shipments selected on the basis of sound criteria.

Treasury agreed with the recommendation and in 1981 amended the Customs regulation relating to the examination of imported merchandise. The amended regulation allows Customs to physically examine only those shipments that are most likely to involve violations. The remaining shipments can be released without a physical examination. (See p. 9.)

Results in Brief

The manner in which physical examinations of import shipments are conducted at the New York Seaport and John F. Kennedy International Airport does not assure that importers are complying with importation laws and regulations. GAO found similar conditions at other ports of entry, where Customs has instituted innovative techniques for cargo inspection. In addition, the manner in which examinations are performed does not provide reliable information for determining whether similar shipments should be examined in the future. Furthermore, the manner in which examinations are performed does not provide reliable information for Customs management to measure its effectiveness in assuring import compliance. (See pp. 18 and 32.)

To improve the quality of the examinations and to better assure importers compliance, policy and procedures are needed for inspectors that establish criteria for basing examination intensity on the potential risk of the shipment and the purpose of the examination. (See p. 29.)

Principal Findings

Cargo Examinations

The Customs Service is responsible for ensuring that imported merchandise complies with the trade laws of the United States. Customs relies on physical examinations of the merchandise as the primary means of ensuring compliance.

At the New York Seaport and John F. Kennedy International Airport, GAO observed that most physical examinations of cargo shipments are superficial in that regardless of the reason for examining the cargo or the size of the shipment, the inspectors (1) usually examined one or two packages selected from the most accessible location in the shipments, (2) often allowed non-Customs employees to select the merchandise to be examined, and (3) usually did not verify that the quantity in the shipment was equal to the amount declared by the importer. Conversely,

special enforcement teams established to ferret out narcotics violations and commercial fraud generally selected the merchandise to be examined from various parts of the shipments and opened more packages in the shipments they examined, but examined far fewer shipments than other inspectors. (See pp. 22 to 28.)

GAO also observed inspectors examining cargo at seven other selected ports of entry. Although GAO's review was less intensive and therefore less conclusive than the results of work in New York, the quality of examinations appears to be similar to those in New York.

Principal Findings

Selectivity System

Not all shipments are physically examined. Treasury's 1981 revision to Customs' regulations allowed Customs to develop systems to identify high-risk shipments for physical examination. Although the implementation of the systems varied by location, common to all the locations visited was Customs' use of the results of physical exams when determining the need to examine importers' shipments in the future. Because of the manner in which physical examinations were performed, their results do not provide reliable information for determining whether similar shipments should be examined.

In addition to targeting high-risk shipments, Customs management relies, in part, on the physical examination of a randomly selected sample of cargo shipments to measure its effectiveness in assuring that imports comply with trade laws and regulations. Again, because of the manner in which examinations are performed, the results of the randomly selected samples do not provide reliable management information. (See pp. 29 and 30.)

Recommendation

GAO recommends that the Secretary of the Treasury direct the Commissioner of Customs to develop specific policy and procedures for inspectors to use in determining the intensity of cargo examinations. The degree of intensity should be based on the risk of the shipment and the purpose of the examination. (See p. 39.)

Agency Comments

GAO discussed the findings contained in this report with officials from the U.S. Customs Service and their comments are incorporated as appropriate. These officials generally agreed with the findings; however, GAO did not request official agency comments on a draft of this report.

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Abbreviations

GAO	General Accounting Office
ACS	Automated Commercial System
JFK	John F. Kennedy International Airport

Introduction

The U.S. Customs Service, a component of the Department of the Treasury, has the responsibility for enforcing U.S. import laws and collecting duties. At the request of Senator Alfonse M. D'Amato, we reviewed Customs' cargo examination¹ process in the New York City area and, to a limited extent, in seven other ports around the United States. In his July 24, 1985, request, Senator D'Amato expressed concern about the possibility that the U.S. Customs Service's cargo processing system may not assure adequate enforcement of U.S. import laws.

Background

When the U.S. Customs Service was founded 200 years ago its mission was to collect revenue on imports and to prevent improper entry of goods. Almost 200 years later, Customs' mission is generally the same:

- To assess, collect, and protect revenue accruing to the United States from duties, taxes, and fees.
- To control, regulate, and facilitate carriers, persons, and articles entering or departing the United States to ensure compliance with laws and regulations.
- To enforce all statutes, regulations, and rulings governing the admission of articles into the United States.

As a principal border enforcement agency, Customs' mission has been extended over the years to assist in the administration and enforcement of some 400 provisions of law. In addition to administering the Tariff Act of 1930, as amended, Customs is responsible for enforcing various provisions of laws aimed at protecting American agriculture, business, and public health. These include statutes relating to motor vehicle safety and emission control standards, radiation and radioactive material standards, illegal narcotics and pornography, animal and plant quarantine requirements, and food and hazardous substance prohibitions.

How Customs Processes Imported Cargo

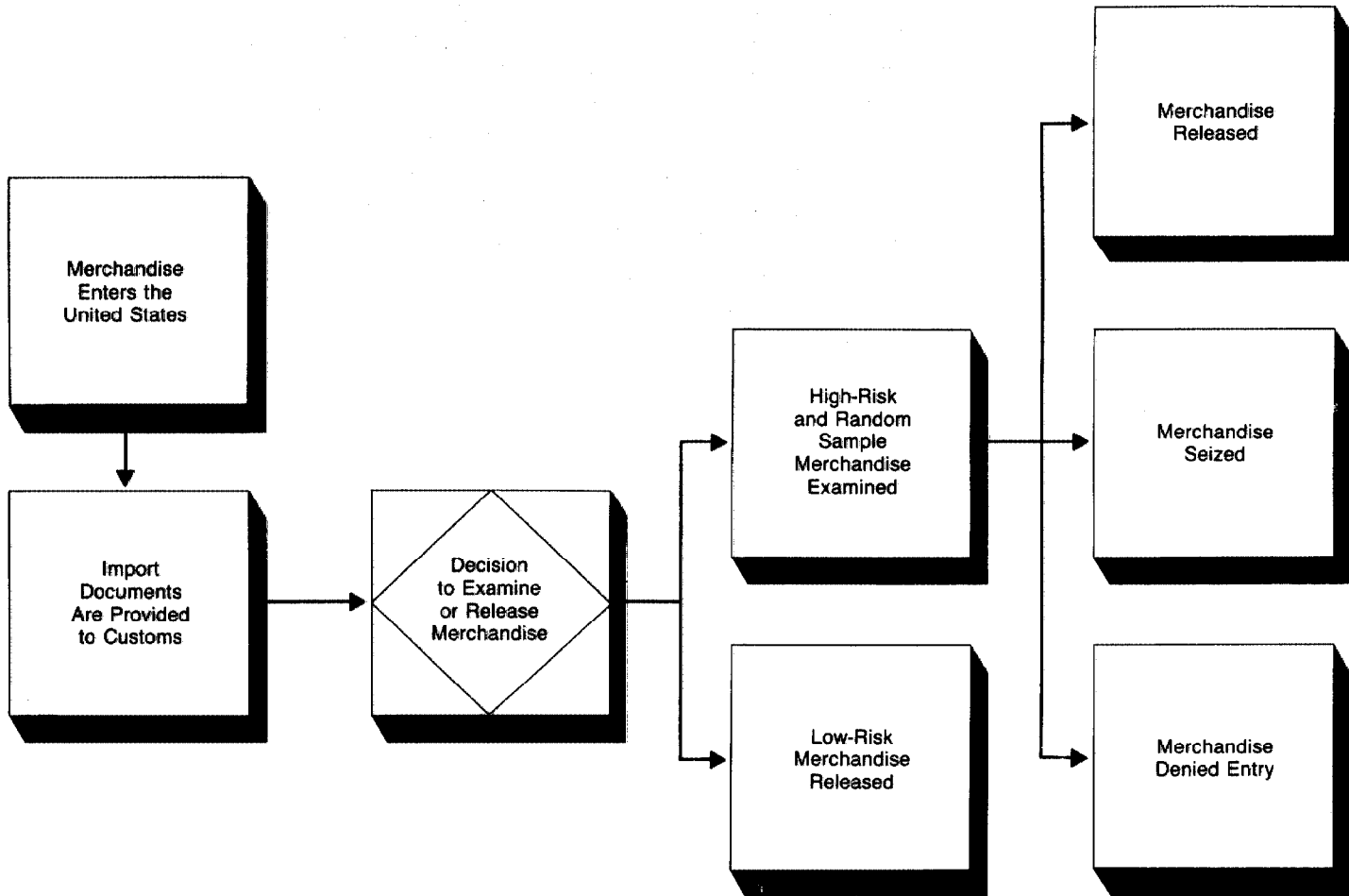
Customs is a decentralized agency with field operations in seven regions, 45 districts and areas, and about 300 ports of entry. All cargo imported into the United States must enter through a Customs port. When a ship, plane, train, or truck carrying cargo arrives within the limits of the country, its arrival must be reported to Customs.

¹We use the terms examination and inspection interchangeably in this report because they are usually performed simultaneously by Customs inspectors to ensure that imports comply with U.S. import laws.

From 1842 to the early 1980s, Customs' policy was to examine a portion of every importer's shipment. In 1978, we examined the inspection process and reported² that Customs' cargo inspections did not ensure compliance with the laws and regulations governing imports because the inspections were usually cursory. We recommended that fewer but more intensive examinations be performed. In 1981, the Department of the Treasury amended Customs' regulation relating to the examination of imported merchandise. The amended regulation allows Customs to establish systems whereby only high-risk shipments are physically examined by inspectors. Other shipments may be released without physical exam. Figure 1.1 depicts the general movement of imported merchandise through Customs.

²Customs Cargo Processing—Fewer But More Intensive Inspections Are in Order (GGD-78-79, Sept. 7, 1978).

Figure 1.1: Customs Cargo Processing System



The intensity of the physical examinations before merchandise is released is determined by Customs inspectors. According to instructions, inspectors are to

“...utilize professional discretion to determine the reasonable expenditure of time and resources appropriate to each examination of imported commodities to ensure and effect full compliance with the laws governing importations.”

In June 1986, Customs issued a directive to clarify cargo examination procedures. The directive defined four levels of examinations as guidelines for the examination of cargo:

“General Examination - This consists of a manifest and/or document review and the processing of an entry through cargo selectivity (where available). When a shipment is designated for general examination, no further review is necessary unless the general examination is overridden to an intensive examination.”

“Regulatory Compliance Inspection - This consists of the inspection of one or more items within a shipment for regulatory compliance purposes when it can be reasonably assumed that the review of a minimal amount of merchandise will represent the balance, e.g., a tail-gate [sic] inspection versus an examination of goods from the interior of a container.”

“Classification and Value Examination - This consists of a thorough physical examination of imported cargo for classification and/or value purposes in support of import specialists and pursuant to instructions of the appropriate import specialist. Random ACS integrity and importer compliance examinations would normally be considered in this group.”

“Enforcement Examination - This is a very detailed examination and involves partial-to-total unstuffing of a shipment because of an identified risk for narcotics, fraud, [sic] or other prohibited or restricted importations. This may include examination of the container as a potential smuggling device. No enforcement examinations will be tailgates.”

To facilitate the movement of cargo into the country, Customs established the Automated Commercial System (ACS). The system assists Customs employees with merchandise processing and release, cargo selectivity and examination, duty collection, and liquidation. Through a number of integrated functions, it provides information on bonds, quotas, fines, penalties, forfeitures, calculation of interest on bills, and statistical data for use by Customs and other agencies such as Census. Customs began implementing the system in 1984.

One part of ACS is an automated selectivity system which assists inspectors in selecting shipments for physical examination by identifying high-risk shipments based on the importer's reputation, the country of origin of the merchandise, the manufacturer of the merchandise, and the type of merchandise being imported. It uses previous examination results, in part, to obtain this information. In May 1985, Customs implemented the ACS selectivity system at 34 ports. It has increased the number of ports using the system to 45 and expects to add others. In July 1986, the New York Seaport and John F. Kennedy International Airport were connected to this nationwide system. Six of the seven other ports which we visited are also connected.

In fiscal year 1985, Customs also established the centralized devanning facilities program. The program requires that the examinations of cargo

in containers be performed at centralized cargo facilities located within the port of entry. Customs believes that this better utilizes inspectors' time and provides for the optimum use of examination strategies, such as enforcement teams, electronic detection devices, and detector dogs.

Enforcing Trade Laws Is Difficult

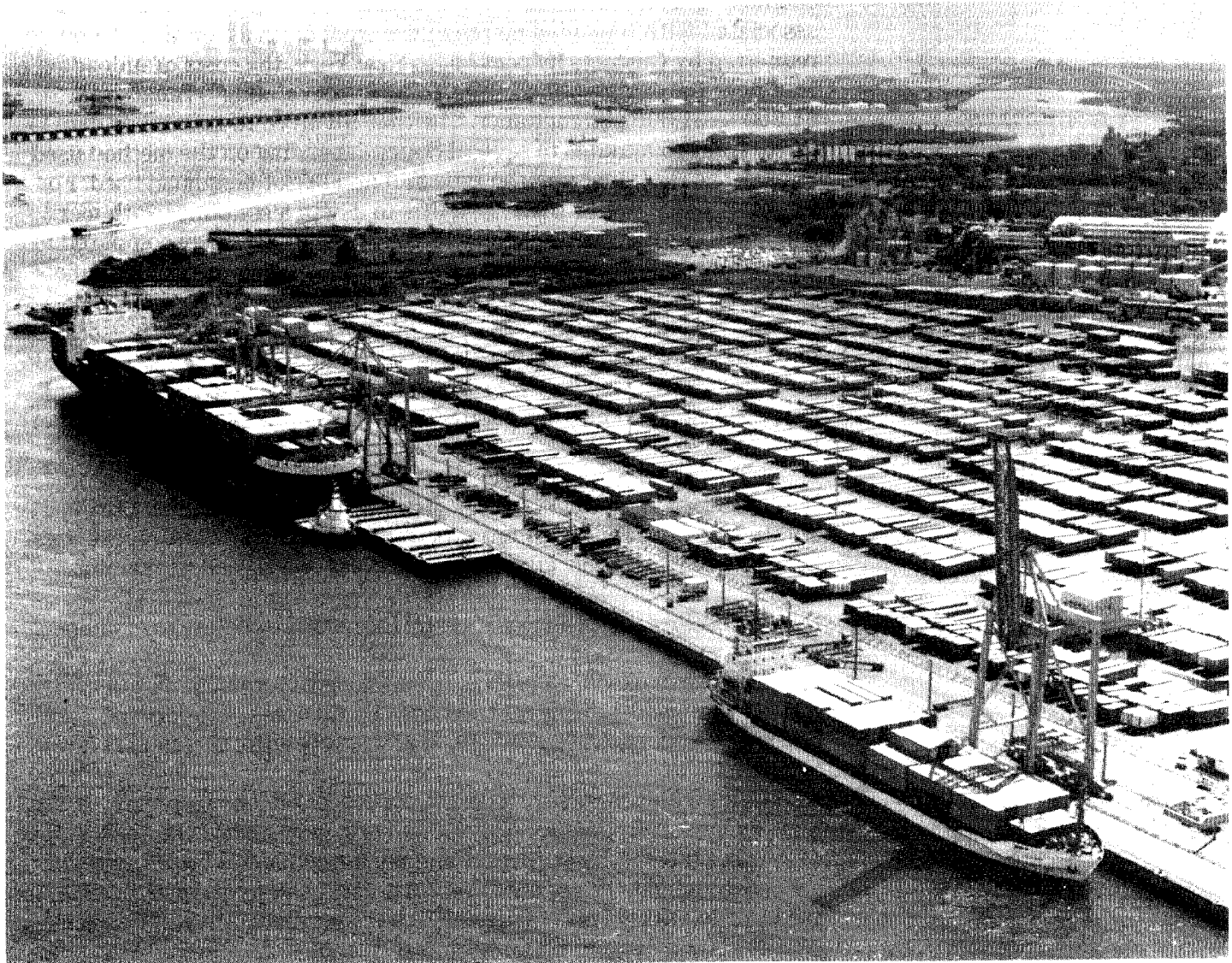
Increases in the volume of U.S. imports without similar increases in the number of inspectors' positions, coupled with technological innovations in transporting and packaging merchandise, have placed demands on Customs inspectors. In addition, Customs' dual responsibility for enforcing the trade laws and for facilitating the flow of trade creates a challenging dilemma.

A large volume of imports enters the United States annually. During fiscal year 1985, over \$335 billion worth of merchandise was imported. Customs processed 6.8 million shipments during fiscal year 1985 which was a 56-percent increase over 1979. Over the same period of time, the number of inspectors' positions has remained constant. At the end of fiscal year 1985, Customs had 4,458 full-time inspectors performing various duties, such as cargo processing, passenger processing, and controlling exports.

Technological innovations in the packaging and transporting of goods in larger quantities and at increasing speeds have placed heavy demands on inspectors examining cargo. Merchandise is frequently transported in jumbo jets, stacked on pallets, or packed in containers, and may be released by Customs within hours after its arrival in the U.S.

Merchandise also arrives in the United States in containers transported by cargo ships or as the trailer portion of tractor trailers entering at land border ports. The containers used to transport merchandise can be 20 or 40 feet in length and may hold thousands of packages. Figure 1.2 shows the arrival of containers awaiting Customs processing at Howland Hook Terminal near New York City.

Figure 1.2: Containers of Cargo Awaiting Customs Processing, Source: Port Authority of New York



While Customs is responsible for insuring that imported merchandise complies with the trade laws of the United States government, it is also responsible for facilitating the flow of trade. Balancing these two often conflicting responsibilities poses a difficult problem for Customs officials. When Customs identifies a need to perform a 100 percent physical examination of a containerized shipment, it risks impeding the flow of trade due to the time required to remove the merchandise from the container, conduct the examination, and repack the containers. Such

examinations can be costly to the importer in terms of delaying merchandise delivery. In addition, the importer must pay the labor costs associated with removing merchandise from a large container when requested by Customs inspectors. In New York, the costs of unloading a container for examination (referred to as "devanning") range from \$1,500 to \$1,800 per container. The time involved in devanning can range from 15 minutes to several hours depending on the method used to pack the container and the type and number of personnel used. For example, using two or three fork lifts to devan a container with merchandise on pallets is not nearly as time-consuming when compared to manually handling as many as 10,000 packages that are not on pallets.

Objectives, Scope, and Methodology

In a letter dated July 24, 1985, Senator D'Amato informed us of his concern about the possibility that the U.S. Customs Service's cargo processing system may not assure adequate enforcement of U.S. import laws.

In discussions with the Senator's office, we agreed to review Customs' ability to ensure that its cargo processing system enforces import laws. In evaluating Customs' examination process, we agreed to examine

- the procedures and practices used by Customs inspectors to examine cargo,
- the procedures used by Customs to select cargo for examination, and
- the internal management controls used by Customs to determine whether the examination process is effectively enforcing import laws.

As agreed with the Senator's office, we concentrated our review of Customs examination process at the New York Seaport and the John F. Kennedy (JFK) International Airport and performed limited work at seven ports throughout the country that Customs' headquarters officials in the Office of Inspection and Control said were representative of Customs' examination activities nationwide.

To obtain information on how Customs inspectors physically examine cargo, we observed inspectors and special teams examining cargo for 5 days at three representative inspection sites at the New York Seaport and three representative sites at the JFK Airport between November 1985 and January 1986. We also made a limited number of observations at inspection sites at seven other Customs ports during April 1986 to determine whether the practices for physically examining cargo were similar to those in New York. The ports were Los Angeles, California;

Atlanta and Savannah, Georgia; Laredo and Houston, Texas; and Blaine and Seattle, Washington.

The seven ports we visited were representative of the various types of imports processed through the ports, modes of transporting cargo (plane, ship, train, and truck), and port organizational structures and operating procedures. The workload also varied significantly among the ports. Several ports have implemented an automated selection process under the Automated Commercial System and have devanning facilities.

In observing the physical examinations at these locations, we recorded our observations only when it was possible for us to be present for the entire examination. Therefore, we did not collect information on every examination being performed during the period of our observations. For example, in some instances, an inspector would start an examination of the cargo while we were observing another ongoing examination or recording our observations for a previous examination. We did not collect information on such examinations because we could not observe them from start to finish. When two or more inspectors started examining different cargo entries at the same time, we randomly selected one inspector to observe.

By observing the inspectors, we may have encouraged some of them to examine merchandise more intensively than usual. This was suggested by statements from several stevedores and truckers who asked why they were suddenly required to open more packages of merchandise for examination than normal.

Except as described below, we have not included any other information that we gathered on the results of examinations (i.e., improper classification of merchandise, improper marking of country of origin, etc.) because the number of violations was too small (8 percent) to make analysis meaningful.

To obtain information on the procedures used to identify cargo shipments for examination and the controls used to assure that the examination process is effective, we interviewed Inspection and Control officials at Customs headquarters and officials in the appropriate regional and district offices. We also analyzed how the results of Customs' physical examinations are used to provide information for identifying types of cargo or cargo from specific importers that should be physically examined in the future and to provide Customs officials with information to measure the effectiveness of Customs' examination process.

We conducted our review from September 1985 to June 1986 in accordance with generally accepted government auditing standards.

Customs' Examinations of Cargo Being Imported Into New York City Are Superficial

Most of the physical examinations of imported cargo which we observed at selected locations at the New York Seaport and JFK Airport were superficial in that regardless of the reason for examining the cargo or the size of the shipment, the inspectors (1) usually examined one or two packages selected from the most accessible locations in the shipment, (2) often allowed non-Customs employees to select merchandise to be examined, and (3) usually did not verify that the quantity in the shipment was equal to the amount declared by the importer. Conversely, special enforcement teams established to ferret out narcotics violations and commercial fraud generally selected the merchandise to be examined from various parts of the shipment and opened more packages in the shipments they examined, but examined far fewer shipments than other inspectors. These examination results are used to provide information to identify types of cargo or cargo from specific importers that should be physically examined in the future and to provide management with information to measure its effectiveness in assuring that importers comply with trade laws and regulations.

Customs Procedures for Examining Imported Cargo

According to the Tariff Act of 1930, as amended (19 U.S.C. 1499)

"Imported merchandise...shall not be delivered from Customs custody...until it has been inspected, examined, or appraised. (A)...(Customs) officer...shall designate the packages or quantities covered by any invoice of entry which are to be opened and examined.... Not less than one package of every invoice and not less than one package of every 10 packages of merchandise shall be so designated unless the Secretary...is of the opinion that the examination of a less [sic] proportion of packages will amply protect the revenue...."

In 1981 the Department of the Treasury amended the Customs regulation relating to the examination of imported merchandise. The amended regulation allowed Customs to use a selective inspection system allowing only those shipments categorized as "high risk"—most likely to involve violations—to be physically examined and the remaining shipments released without a physical examination.

The New York Seaport received 182,000 shipments in fiscal year 1985 while the JFK Airport received 2,220,000 shipments. At the end of fiscal year 1985, the seaport was releasing 45 percent of the shipments and the airport was releasing 35 percent without a physical examination. At 67 airport inspection sites, 18 were using a selective system and the other 49 sites were examining a portion of every shipment. At the seaport and airport there was a total of 328 inspectors involved in cargo examinations (some of these inspectors also help to process passengers).

In New York, inspectors who perform physical examinations were usually given a reason for the exam by other inspectors who review the paperwork associated with the shipment. These reasons were based on criteria, developed by the Office of Operational Analysis within the region, for identifying high-risk shipments. These reasons generally fall into the following categories:

- First-time importer or new supplier: Inspectors have not previously processed merchandise from an importer and do not have sufficient information to determine the extent of the importer's voluntary compliance.
- Random sample: Shipments are randomly selected for examination to guarantee that every importer and commodity are examined at intervals to ensure the integrity of the selective process.
- Requirements of another agency: The inspectors are required to ensure that the merchandise meets the requirements of another federal agency (e.g., United States Department of Agriculture, Consumer Product Safety Commission, or Environmental Protection Agency).
- Commodity team (import specialists) requested sample: A commodity team directs inspectors to sample a particular shipment or a specific type of merchandise. The commodity team uses the sample to determine the merchandise's classification or value.
- Inspector's option: The inspectors are instructed to use their judgment as to whether or not to examine the shipment.
- Suspected violations: The shipment is suspected of one or more specific violations, such as overstating/understating quantities, containing illegal drugs, exceeding prescribed quota, and not adhering to trademark/copyright regulations.

Inspectors who perform the physical examinations do not have detailed guidelines for determining how intensive an examination should be nor do they have a definition of or directions for performing intensive examinations. Instead Customs inspectors use their own judgment for determining how intensive each physical examination should be. In New York, inspectors have been told that to properly conduct examinations, they must understand why cargo is being examined. The intensity of the examinations is left up to the inspectors who must verify that the cargo is in compliance with U.S. trade laws and regulations.

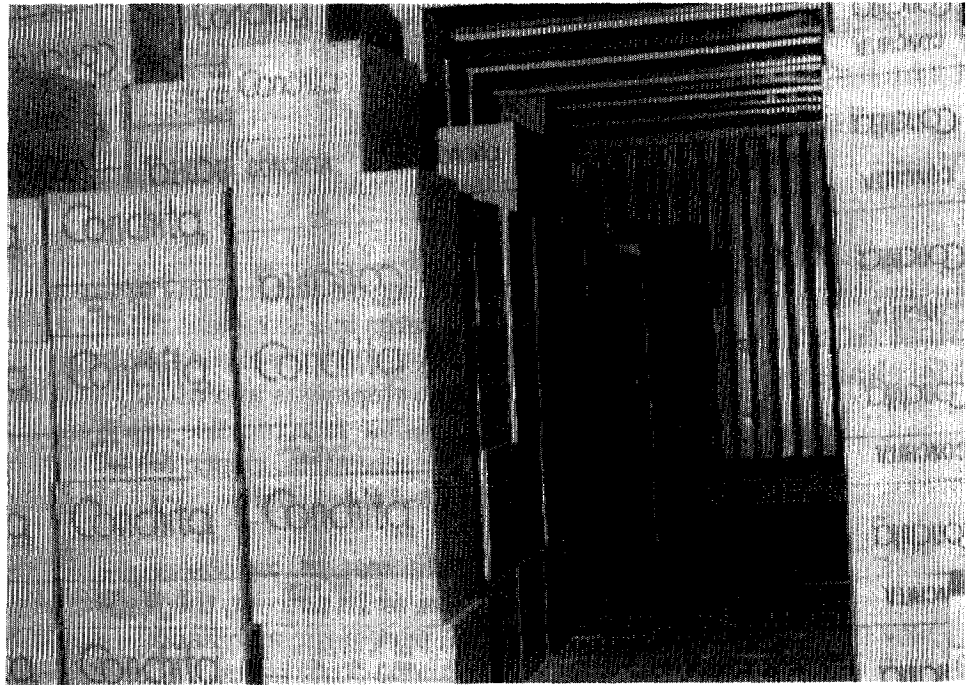
Customs inspectors physically examine cargo in many ways, depending on the type and makeup of the shipment. Cargo entering the country in containers may be examined by opening the container and selecting a package at the door. The containers may also be partially or fully

stripped of their contents and some or all packages examined individually. Figures 2.1 and 2.2 show a container being examined at the door and a partially stripped container.

Figure 2.1: Inspector Examining Shipment of Merchandise at the Door of a Container at the New York Seaport, Source: GAO



Figure 2.2: Partially Stripped Container Provides Inspector With Access to Merchandise at the New York Seaport, Source: GAO



Cargo entering the country in smaller quantities may be packed on pallets or in one or several packages. Customs inspectors may examine some or all of the packages in such shipments. Some merchandise enters the country in bulk such as oil or steel. Customs inspectors may sample the shipment or verify the quantity of merchandise according to the invoice.

Of the 328 Customs inspectors assigned to examine cargo at the New York Seaport and JFK Airport, 226 were line inspectors who screen import documentation and select shipments for physical examination or who perform the physical examinations. These inspectors may also be assigned temporarily to process passengers arriving in the U.S.

The other 102 inspectors were assigned to special enforcement teams. These teams examine shipments suspected of having narcotics or fraudulent merchandise and only secondarily check for other violations such as marking or classification. Their examinations usually are performed before the importer has any access to the shipment.

How Inspectors Conduct Physical Examinations in New York

During the period November 1985 to January 1986, we observed 635 examinations performed by Customs inspectors at the New York Seaport and JFK Airport. Although the stated reasons for the examinations varied (e.g., first-time importer, possible smuggling of illegal narcotics, possible violation of quotas on textiles, etc.), the actions of the inspectors in conducting the examinations did not appear to vary.

Inspectors Examine the Most Accessible Merchandise

Customs inspectors can require importers or their agents to make all of the cargo in a shipment readily accessible for physical examination. However, we observed that inspectors usually did not seek full access to cargo shipments and usually examined only a few packages of the most accessible merchandise in a given shipment. Even where all cargo was fully accessible, inspectors usually examined the most conveniently located merchandise.

At the seaport, we observed 289 examinations. In 211 of the examinations, or 73 percent, the inspectors did not have full access to the cargo, i.e., part of the merchandise would have to be moved in order to examine other parts of the shipment. In 158 (75 percent) of the 211 examinations, the inspectors selected the package most accessible and did not request that the merchandise be moved for greater access.

The inspectors at the airport were usually provided with only a portion of the shipment for examination, therefore, they did not have an opportunity to examine merchandise from different locations in the shipments. Nevertheless, in those examinations where inspectors had access to the entire shipment and in those examinations where only a portion of the shipment was presented, inspectors most often chose to examine the most accessible items in 183 (53 percent) of the 346 examinations we observed. In the remaining 163 examinations, inspectors examined packages from various parts of the shipment or the part of the shipment provided for examination.

We analyzed 134 of the 346 examinations at the airport and 233 of the 289 examinations at the seaport where the shipments contained more than 10 packages to determine the number of packages in a shipment physically examined. Most of the physical examinations consisted of inspectors examining none of the merchandise or one package in shipments that ranged in size from 11 items to 10,000 items. During the period of our observations at the seaport, the shipments averaged 456 packages with a median of 300 packages. At the airport, the shipments

averaged 490 packages with a median of 42.5 packages. The frequency of the number of packages examined by inspectors is shown in table 2.1.

Table 2.1: Frequency of the Number of Packages Examined by Inspectors
 (Shipments With More Than 10 Packages)

Number of packages examined per shipment	Number of physical exams	
	Seaport	Airport
0 ^a	21	2
1	107	101
2	72	20
3	23	9
4 or more	10	2
Total	233	134

^aInspectors compared the labeling on the containers or packages to the invoice rather than physically examining the merchandise.

In 92 percent of the examinations we observed at the airport and in 86 percent of the examinations we observed at the seaport for which the shipments contained more than 10 packages, the inspectors examined no more than two packages or items.

The reasons which the inspectors were given for performing the examinations did not seem to affect the number of packages or items selected for each examination. In 31 examinations of shipments which had more than 10 packages (21 had more than 100 packages), the inspectors told us that they were examining the shipments because of the possibility of narcotics concealed within the shipments. In 17 of the 31 examinations, the inspectors examined one or no packages.

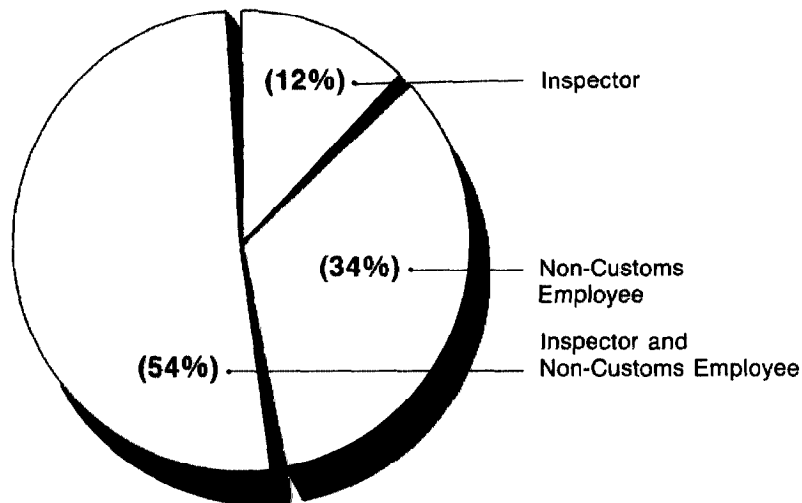
As noted in table 2.1, we observed that inspectors did not examine the contents of any specific packages during 23 examinations. The inspectors told us that they did not examine any packages because of safety hazards or because of the possibility of damaging the merchandise. In such examinations, the inspectors' actions were limited to comparing the labeling on the exterior of the containers or packages with the invoice. One such shipment, for example, containing 32 bags of chemicals was selected for an examination because Customs inspectors determined that the importer was a first-time importer and questioned the quantity and classification of the merchandise. They also suspected concealed narcotics. During the examination, the inspector only verified the marking on the bags of the chemicals. The inspector told us that he had no equipment for drawing samples of such merchandise and that even if he did have the equipment, he would be concerned about the danger of handling the chemicals.

Inspectors Do Not Always Physically Select the Merchandise to Be Examined

Customs has no written procedures regarding who is to make the selection of the merchandise to be examined. We observed that inspectors at the airport usually allowed a non-Customs employee, such as a warehouse handler or a carrier representative, to select the specific packages to be examined.

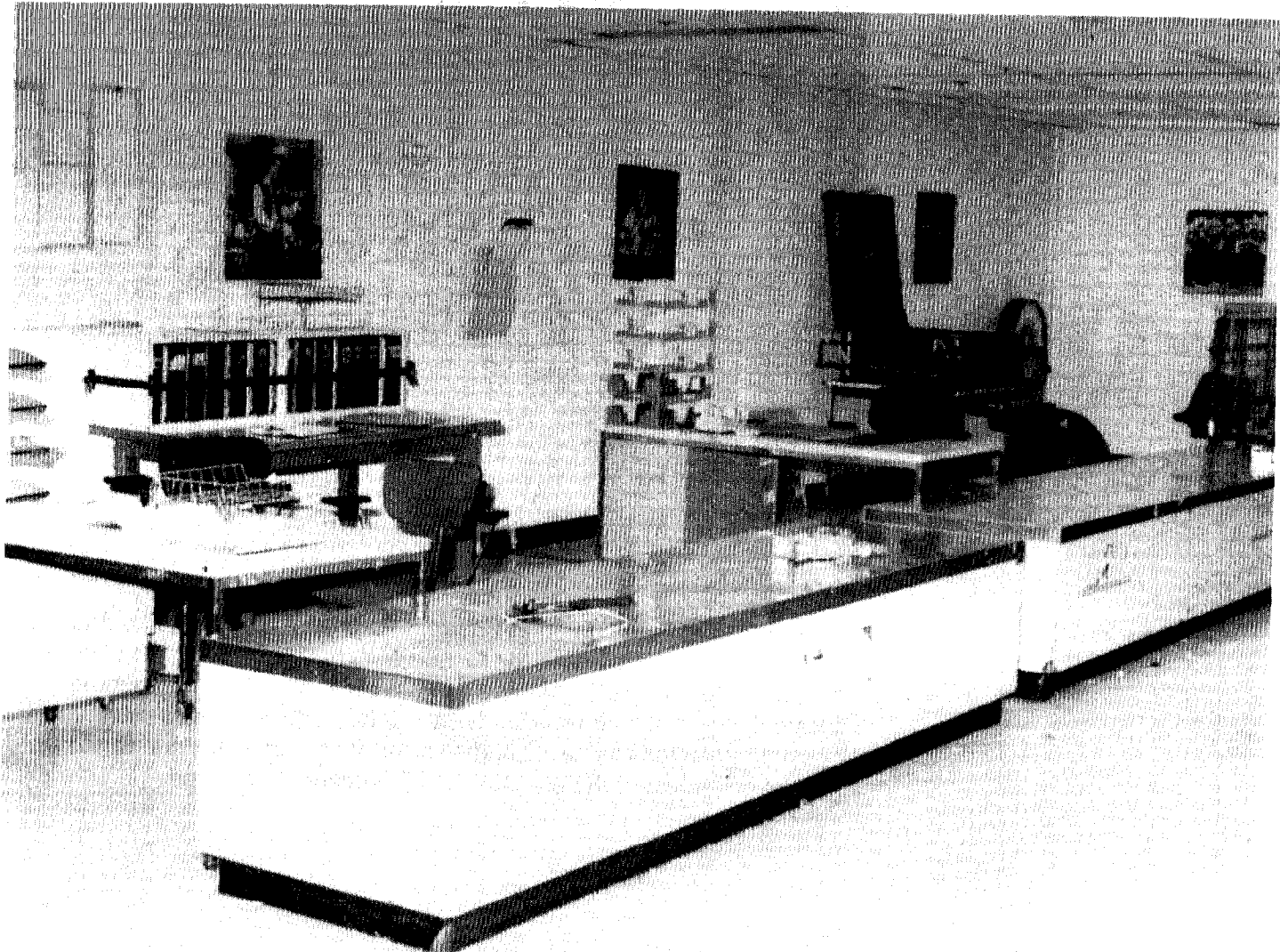
Of the 346 examinations we observed at the airport, 96 involved shipments of one package or item, eliminating the need for a selection among a number of packages or items. Figure 2.3 shows that non-Customs employees made the selection in most of the remaining 250 examinations.

Figure 2.3: Who Selects the Merchandise for Examination at the JFK Airport (250 Exams)



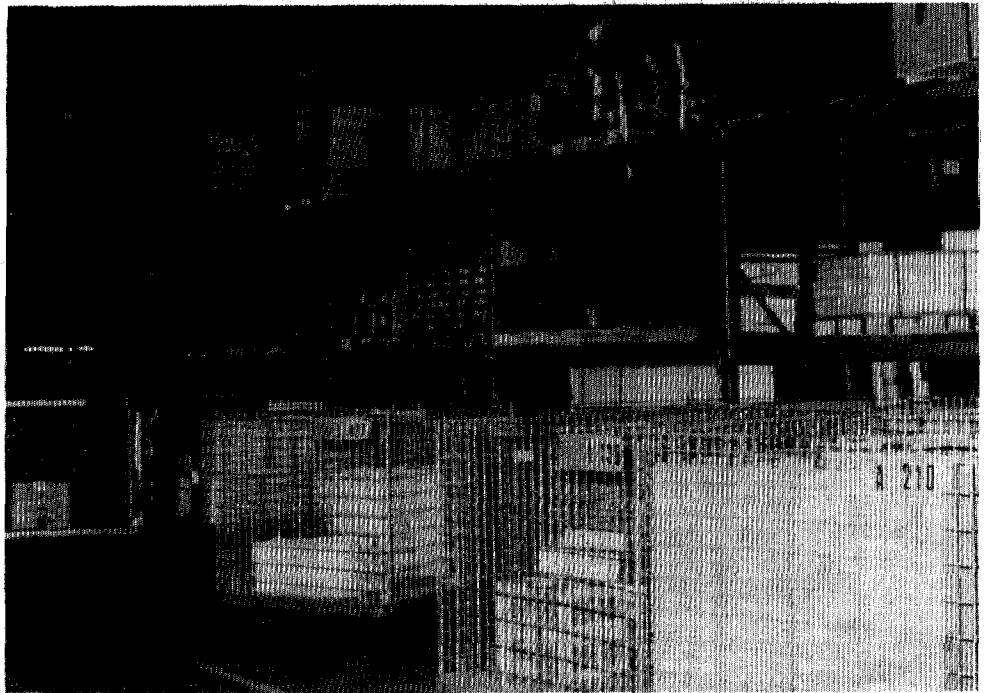
Based on our observations, it appears that the selection of merchandise by non-Customs employees generally occurs when inspectors perform their examinations in a part of the terminal or warehouse set aside for Customs operations. When Customs identified a need to inspect a specific shipment, the carrier employee located the shipment in the terminal or warehouse and took one or two packages to the inspectors' location for examination. Figures 2.4 and 2.5 show the Customs work area and warehouse at one terminal at JFK Airport. This work area is at one end of the warehouse and does not allow for physical observation of activities in the warehouse.

Figure 2.4: A Customs' Examination Room at JFK Airport, Source: GAO



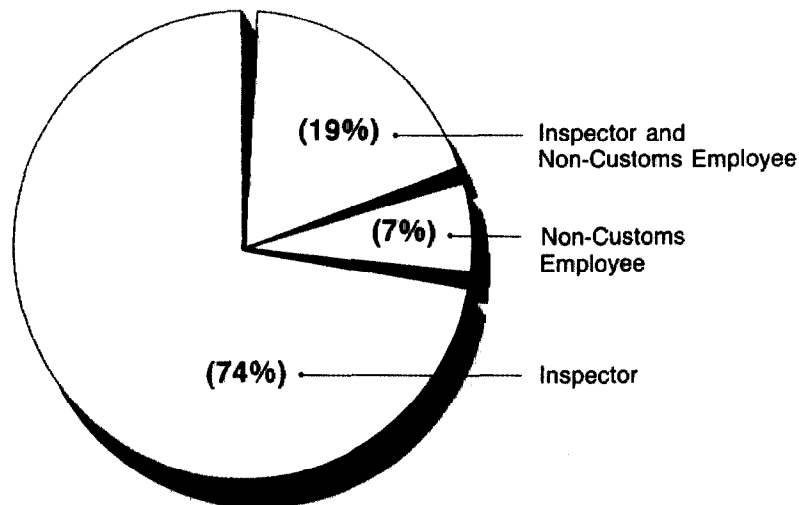
Chapter 2
Customs' Examinations of Cargo Being
Imported Into New York City Are Superficial

Figure 2.5: Cargo in Warehouse at JFK Airport, Source: GAO



The practice of allowing non-Customs employees to select merchandise for examination did not occur to a large extent at the seaport because the inspectors usually examine cargo where the entire shipment is located. Figure 2.6 shows that Customs inspectors, when a selection is possible, selected the merchandise most of the time, but non-Customs employees selected the merchandise 7 percent of the time.

Figure 2.6: Who Selects the
Merchandise for Examination at New
York Seaport (253 Exams)



Inspectors Do Not Verify Quantities of Imported Merchandise

Customs Inspector's Handbook requires inspectors to ascertain whether the quantities of merchandise entering the country agree with those shown on the invoice. This action is designed to help protect revenue and to enforce quota requirements. In 194 of the 289 examinations we observed at the seaport and 277 of the 346 examinations we observed at the airport, inspectors did not count, weigh, or estimate the merchandise quantity.

Our observations included 130 examinations involving quotas. Of the 32 examinations with quota requirements at the seaport, inspectors told us that they did not count, weigh, or estimate the merchandise quantities in 23 (72 percent) of the examinations. At the airport, where 98 examinations were performed with quota requirements, the inspectors said that they did not count, weigh, or estimate quantities in 90 of the examinations.

We identified two main reasons why inspectors did not count, weigh, or estimate the merchandise quantities during their examinations:

- Many quotas are set by weight and the inspectors had no equipment for weighing.
- Much of the merchandise was inaccessible to the inspectors.

**Special Enforcement Teams'
Examinations of Cargo
Shipments**

During November 1985 to January 1986 there were 102 inspectors in New York assigned to special enforcement teams. Enforcement teams examine shipments suspected of having narcotics or fraudulent merchandise. Our observations of the special enforcement teams at the seaport and the airport disclosed that the teams generally selected the merchandise to be examined from various parts of the shipments and opened more packages of merchandise per shipment than the other inspectors.

We observed 116 examinations performed by special enforcement teams. In 77 examinations, the shipments contained more than 10 packages. We observed that the teams examined three or fewer packages in 36 (47 percent) of these examinations that ranged in size from 12 to 2,385 packages, with a median number of 90.

At the seaport, we observed that the special teams selected packages to be examined at the door of full containers in 30 percent of the 30 examinations. We also observed that in 43 examinations involving the examination of loose freight, they examined the packages that were most accessible 44 percent of the time.

On January 23, 1986, the Office of Internal Affairs, New York Region, issued an audit report relating to contraband enforcement teams in the region which included the New York Seaport, JFK Airport, and Newark.¹ The report conclusions on the teams effectiveness were that

- with the exception of several recent large narcotics seizures at Newark, the teams have not been particularly effective in stemming the flow of narcotics in commercial cargo,
- the majority of narcotics seized by the teams is not the result of successful inspectional interdiction techniques but rather from special strategies such as detector dog teams or prior information, and
- the teams at the airport are devoted almost exclusively to narcotic interdiction which has resulted in less effective regulatory enforcement.

¹Newark was not included in our review.

Effect of Superficial Physical Examinations on the Selectivity System

As previously stated, in 1981 the Department of the Treasury amended the Customs regulation in 1981 relating to the examination of imported merchandise. The amended regulation allowed Customs to use a selective inspection system in which only those shipments that are most likely to involve violations and are categorized as high risk would be physically examined and the remaining shipments would be released without a physical examination.

Under the New York selectivity system, inspectors at the seaport were releasing 45 percent of the shipments without a physical exam, and at the airport they were releasing 35 percent of the shipments without physical exam at the end of fiscal year 1985. The criteria for selecting which shipments to physically examine and which to release without physical exam were developed and maintained by the Office of Operational Analysis within the region. The criteria were based on (1) information obtained from import specialists who develop profiles of shipments that may contain violations and (2) historical information on the importer or manufacturer which includes the results of previous cargo examinations.

The results of cargo examinations can provide Customs with valuable information for identifying future high-risk shipments if physical examinations are thorough and provide accurate data. As discussed previously, however, the manner in which current high-risk cargo examinations are performed does not provide reliable information.

To illustrate, Customs examines shipments by first-time importers because it lacks sufficient information to determine whether the importers voluntarily comply with the United States trade requirements. We observed 177 examinations of first-time importers with an average shipment size of 318 packages or items. The inspectors examined no or one package in 64 percent of the exams. Customs uses these results of the examinations to determine the need to examine these importers' shipments in the future.

Once a first-time importer's shipment is physically examined, future shipments by the same importer are selected from time to time for physical examination to evaluate the integrity of the importer. These random examinations are performed in the same manner as the other examinations. In 24, or 73 percent, of the 33 random examinations we observed, the packages selected for examination were at the rear door of a container or at the top of a stack of packages.

During our review, the New York Seaport and JFK Airport did not have an adequate system for evaluating the integrity of the selectivity process. Customs uses random examinations as a control to assure the integrity of the selectivity process and to provide a measure of the system's effectiveness. We recommended² in 1978, and Customs agreed, that the random examinations should be thorough and conducted on a scientific basis to assure that all shipments are subject to examinations at intervals not specifically predictable. The New York Region official responsible for overseeing the selectivity process agreed that the results of the physical examinations, in which inspectors examine a package at a container's doors, cannot assure the integrity of the selectivity process.

A Customs audit report of selective cargo inspection systems dated March 24, 1982, stated that the Automated Cargo Clearance and Enforcement Processing Technique (a manual version of the system which was being used in New York) was not designed to provide for a scientific statistical sample of shipments. The report recommended that the procedures for the random selections of shipments for examination should be redesigned as a projectable scientific random sampling system. A New York official responsible for maintaining the selectivity criteria told us that scientific statistical sampling is still not used to select random cargo shipments for examinations.

A later internal audit report (May 1985) on the Automated Cargo Clearance and Enforcement Processing Technique stated that the results of examinations are not useful in setting criteria for selectivity. It stated that the results are highly suspect because there is no uniform definition of a physical cargo examination. It stated that "Most examinations consist of opening container tailgates and randomly examining cargo from the last two rows."

In July 1986 inspectors in New York have begun using ACS as a means of selecting cargo for examination. The Deputy Assistant Regional Commissioner for Inspection and Control told us that the documentation for cargo entering through New York is processed centrally and only documentation supporting shipments selected for physical examination are sent to the inspection sites. We have not evaluated ACS but we have observed the inspection process in other ports that have been using the

²Customs Cargo Processing—Fewer But More Intensive Inspections Are in Order (GGD-78-79, Sept. 7, 1978).

Chapter 2
Customs' Examinations of Cargo Being
Imported Into New York City Are Superficial

system. Our observations on the inspection process in those ports are discussed in chapter 3.

Observations of Cargo Examinations at Other Representative Ports

Because we found that cargo examinations in New York were superficial, we performed a limited review of the procedures followed by Customs inspectors in examining cargo at seven other ports of entry and observed 234 physical examinations. Customs officials agreed that these seven ports were representative of the nearly 300 ports nationwide. Although the results of our work at these seven ports are less conclusive than the results of our work in New York, it appears likely that the quality of many Customs examinations at these ports are similar to those in New York and do not assure import compliance.

At most of the ports, we observed that cargo examinations typically consisted of inspectors examining a few items from the most accessible location in each shipment regardless of the reason for the examinations. Inspectors often did not select the merchandise examined. In addition, inspectors did not regularly count or estimate the quantity of the merchandise in the shipment to verify that the quantity equals the amount claimed by the importer. Similar to the New York system for identifying high-risk shipments for examination, these examination results are used to determine the need to examine importers' shipments in the future and to measure the effectiveness of Customs' examinations in assuring that imports comply with trade laws and regulations.

Cargo Examinations in Los Angeles, California

The Port of Los Angeles is one of the largest ports in the country. It includes the Los Angeles and the Long Beach harbors and the Los Angeles International Airport. The port receives a wide range of commodities including steel, electronic and computer equipment, textiles, and passenger vehicles. A total of 1,295,534 shipments were received in the port in fiscal year 1985, and Customs inspectors physically examined 210,102 of these. Inspectors at the harbors use the ACS selectivity system to select shipments for physical examination while inspectors at the airport select shipments based on their judgment. At all locations within the Port of Los Angeles, inspectors are told to use their judgment regarding the thoroughness of the examinations.

There are 51 inspectors at the harbors; 31 perform physical examinations at 40 locations. Until May 1986, the procedures for examining shipments at the largest inspectional site did not require inspectors to examine entire containerized cargo shipments. Instead, truck drivers or carriers selected a package from the container and brought it to the inspectors' office for examination. In May 1986, the port changed the procedure and now requires inspectors to examine entire containerized

shipments at the docks instead of examining a sample of the shipments at the inspectors' office.

Examinations are also conducted by a mobile enforcement team. The mobile enforcement team is a special group of inspectors that examines containers; they perform 13 percent of the total examinations at the harbor. These inspectors perform more thorough examinations than the other inspectors because the merchandise in all the containers they examine is removed and is partially or completely reviewed. According to the statistics maintained by the team, violations were identified in 1,567 of the 4,697 examinations conducted from October 1984 through March 1986. In 69 of the 1,567 examinations, or 4 percent, the merchandise in violation was located at the rear door of the container.

Of the 163 inspectors at the airport, 64 are responsible for physical examinations of cargo at 26 locations. At two locations, we observed 48 examinations of shipments having more than one package or item. In 45 of the 48 examinations, a non-Customs employee selected the merchandise to be examined. This occurred because the inspectors were performing their examinations in one part of the terminal and the shipments were kept in another part. Because the inspectors usually did not view the entire shipment in performing examinations, they did not count or estimate the quantities of merchandise in 36 of the 48 examinations we observed.

Cargo Examinations in Atlanta, Georgia

Cargo being imported through the Port of Atlanta arrives by airplane or is transported by truck following its arrival in the United States through a seaport. The cargo arriving by truck is usually containerized. The imports include textiles, machine parts, toys, shoes, and electronic equipment. In fiscal year 1985, Atlanta received 76,008 shipments and, through the use of the ACS selectivity system, selected and physically examined 10,358 of them. Atlanta has 29 inspectors of which 2 to 12 may be responsible for performing physical examinations of imported cargo at any one time. Most examinations are performed at a devanning station or at major airline terminals. Although Atlanta uses the national automated selectivity system to identify the high-risk shipments for examination, we found no guidance for inspectors relating to the thoroughness of the examination.

We observed 22 examinations of containerized cargo in which there was more than one package or item in the container. In 15 of the 22 examinations, inspectors examined the merchandise at the rear doors of the containers. In eight of the examinations the inspector looked at one package or item. The inspectors told us that they did not count or estimate the quantity of the shipment in 16 of the 22 examinations.

Cargo Examinations in Savannah, Georgia

The Port of Savannah is a seaport and is considered by officials in Customs headquarters' Office of Inspection and Control to be one of the best operations for examining cargo. In fiscal year 1985, the port processed 56,154 shipments and 5,908 of these were identified as high-risk shipments by the ACS automated selectivity system and were physically examined by inspectors. Savannah had 15 inspectors 7 of which normally performed the physical examinations at a centralized devanning facility and three other locations. Most of the merchandise imported arrives in containers and consists of textiles, automobiles, steel, and oil.

Statistics maintained by Customs at the devanning facility showed that of the 166 examinations conducted at the devanning facility between February 28 and March 27, 1986, 112, or 67 percent, were examinations in which the inspector only examined the merchandise located at the rear door of the container. In addition, at another location where an inspector was assigned full-time, Customs statistics indicate that this inspector conducted 23 examinations in February 1986. In 10 of these examinations, the inspector examined the merchandise at the door of the container.

In Savannah we observed 31 examinations of containers having more than one package or item packed with merchandise or items, such as steel. In 17 of the 31 examinations, the inspectors examined packages or items at the container doors. In 13 examinations the inspectors examined merchandise from more than one location in the container. In 18 of the 31 examinations, the inspectors did not count or estimate the quantity of merchandise in the shipment.

Cargo Examinations in Laredo, Texas

Laredo was the only southern border crossing port of entry included in our review. Most of the 139,217 shipments of cargo entering the U.S. in fiscal year 1985 through Laredo were transported by truck. Trains were also used, but this form of transportation constituted about 8 percent of the shipments through Laredo.

The Customs cargo examination procedure in Laredo does not rely on a formalized system to identify high-risk shipments for examination. Instead, inspectors rely on their experience and judgment to select cargo for examination. We observed that some inspectors, with limited experience as inspectors, made the selection of which shipments to examine.

We observed 52 examinations at Laredo involving shipments having more than one package or item. The inspectors conducted 16 of these examinations and 36 were performed by the special enforcement team. Of the 16 inspectors' examinations, 5 involved containerized shipments. We observed that the inspectors examined the merchandise located at the rear door of the container in four examinations and in the middle of the container in one examination. In the 16 examinations of containerized and noncontainerized shipments, the inspectors estimated or counted the quantity of the merchandise in 13 examinations and did not count or estimate the quantity in the other 3 examinations.

In 23 of the 36 examinations we observed in Laredo by the special team, the cargo was packed in containers. In 10 of the 23 examinations the team examined the merchandise in all locations of the container. In seven examinations, the team examined the merchandise located at the rear door of the container.

We also observed inspectors examining cargo entering the country on trains. The inspectors did not examine every shipment and for those shipments that they did examine, the practice was to open the box car door slightly to determine whether the merchandise resembled what was claimed on the invoice. Contraband can be shipped in empty containers as well as ones containing merchandise. Inspectors have been instructed to examine empty train cars if possible. We were told by the inspectors that they do not examine train cars that have been declared to be empty.

In addition to observing the physical examinations of cargo, we observed some of the techniques Customs uses to control the truck traffic entering the country. We observed that passes, intended to be collected at an exit gate by a Customs inspector to assure that trucks entering the country have been released by Customs, are easily accessible to any person entering the Customs office. We also observed instances where the inspector, responsible for collecting the passes at the gate, left the gate unattended, and truck drivers left the examining area unquestioned. Several inspectors in Laredo told us that maintaining

control over the trucks leaving the examining station is a security problem.

Cargo Examinations in Houston, Texas

Inspectors at the Port of Houston are responsible for examining cargo at the seaport and airport. In fiscal year 1985, 258,355 cargo shipments were processed by Houston inspectors and 35,183, or 14 percent, were examined. These shipments included vehicles, textiles, petroleum oil, and steel. The port uses the ACS selectivity system to identify high-risk shipments for examination. As in other ports, the inspectors have the responsibility for determining the thoroughness of the examinations.

At the airport, inspectors conduct examinations at the airlines' warehouses which are located within 3 miles of the Customs office. We observed five examinations at the airport of shipments containing more than one package or item. The shipment sizes were small ranging from 2 to 12 packages. The inspectors selected the merchandise examined and counted or estimated the quantity of merchandise in four of the five examinations.

At the seaport, there are four groups of inspectors and one special enforcement team responsible for examining cargo. We observed 17 examinations conducted by two of the four groups. One group is responsible for examining cargo at over 300 locations, some as far as 38 miles from the Customs office. The examinations are usually of both containerized and noncontainerized shipments. The second group we observed examines merchandise packed in containers.

In 15 of the 17 examinations we observed, the inspectors made the selection of the merchandise examined and they counted or estimated the quantity of the merchandise. In 2 of the 10 container examinations, inspectors examined the merchandise located at the rear door.

Cargo Examinations in Blaine, Washington

Inspectors at the Port of Blaine, a northern border port, most often examine shipments of wood and wood products being transported by truck or train. In fiscal year 1985, the port received 238,346 shipments and physically examined 87,140 (37 percent) of the shipments. Although the inspectors use the ACS selectivity system to select high-risk shipments for examination, we were told by the Port Director that inspectors use the system as a guide and may or may not physically examine cargo selected by the system.

In 6 of the 29 examinations we observed at the port, the inspectors counted or estimated the quantity of merchandise in the shipments. In 22 examinations that we observed, the merchandise was containerized. In 3 of the 22 examinations the inspectors examined the merchandise located nearest the rear door of the containers, in 12 examinations the inspector examined merchandise at the middle, and in 4 of the 22 exams, inspectors examined merchandise in more than one location.

The inspector responsible for examining trains during our review told us that train cars with cargo are seldom examined because most of the cargo imported by train is free of duty. He also told us that train cars claimed to be empty are examined to ensure that they do not contain cargo or contraband.

Cargo Examinations in Seattle, Washington

The Port of Seattle is divided into waterfront and airport branches. At the waterfront there are 43 inspectors, 6 of whom perform physical examinations of cargo. At the airport there are 33 inspectors, 3 of whom perform physical examinations of cargo. Many of the inspectors clear passengers. In fiscal year 1985, the port's inspectors examined 48,851, or 16 percent, of the 303,478 shipments they received. A large percentage of these shipments contained textiles. The inspectors use the ACS selectivity system to identify the high-risk shipments for examination.

We observed 30 examinations of shipments conducted by inspectors at the airport and at the seaport in which there was more than one package or item in the shipment. In 28 of the 30 examinations, the inspector let a non-Customs employee select the item to be examined.

Conclusions and Recommendation

Conclusions

Customs' physical examinations in New York do not provide adequate assurance that imports comply with U.S. trade laws. Our review indicates that Customs' physical examinations at the New York Seaport and JFK Airport are superficial because regardless of the reason for examining the cargo or the size of the shipments, inspectors examine only a few accessible packages in the shipment which are often selected by non-Customs employees. Further, inspectors usually do not verify or estimate the merchandise quantity in the shipment. It appears likely that many physical examinations in representative ports around the United States are performed in a manner similar to those in New York.

We agree with the Customs initiative to improve cargo processing by establishing a national selectivity system and centralized examination facilities. Whether these initiatives will enhance Customs' assurance of importer compliance with trade laws, however, depends on the thoroughness of Customs' physical examinations. Thorough physical examinations not only provide the assurance that particular shipments being examined meet U.S. trade laws but also provide valuable information for the selectivity system for determining the integrity of importers' shipment practices in the future.

We believe that the high volume of merchandise requiring examination, the need to keep commerce moving, and the lack of specific guidelines for inspectors to follow when performing physical examinations have reduced the quality of Customs' examinations.

We agree with Customs that inspectors should have some discretion in determining the thoroughness of an examination; however, we believe guidelines are needed for determining the intensity of examinations based on the potential risk of the shipment and the purpose of the examination. Such guidance would also assist inspectors in balancing the need for assuring importers' compliance with the need for facilitating the flow of trade.

By way of illustration, inspectors looking for illegal drugs should be provided with specifics on how many packages or items should be closely examined from the shipment and how the selection should be made. We believe that inspectors should not allow non-Customs employees to make the selection.

Inspectors examining shipments by first-time importers should be provided with specifics on how many packages should be examined, where

in the shipment to select the packages, techniques for comparing quantities to the invoice, and what should be done if time or facility limitations prevent the performance of intensive exams.

Recommendation

To enhance Customs assurance that cargo entering this country is in compliance with the import requirements, we recommend that the Secretary of the Treasury direct the Commissioner of Customs to develop specific policy and procedures for inspectors to use for determining the intensity of cargo examinations. The degree of intensity should be based on the risk of the shipment and the purpose of the examination.

Glossary of Terms

Classification	The selection of an item number in the Tariff Act which legally describes the merchandise offered for import in order to arrive at the appropriate rate of duty.
Container	A unit of transport equipment which can be 20 to 40 feet in length, specifically designed to facilitate the movement of goods by one or more modes of transport without rehandling or reloading individual pieces of merchandise.
Devanning	Partial or complete removal of imported merchandise from a container for physical examination. A facility established for devanning is called a devanning facility.
Examination	A review of the documentation which lists, for example, the items contained in the shipment, country of origin, or manufacturer and can also include a physical examination of all or some of the merchandise.
Import Specialist	Customs employees responsible for determining whether importers or their brokers have properly classified and valued imported merchandise, correctly calculated duties owed, and provided all data and documents required to admit merchandise into the country.
Manifest	A list of the quantity, description, and destination of all cargo entering the United States by a carrier.
Marking	A clear indication of the country of origin or other required information on imported merchandise to be commercially sold.
Port of Entry	Any place designated by an act of Congress, executive order of the President, or order of the Secretary of the Treasury, at which a Customs officer is assigned with authority to accept entries of merchandise, to collect duties, and to enforce the various provisions of the Customs laws.

Glossary of Terms

Quotas	A limitation on the quantity of a commodity which may be entered for consumption during a specified period of time or at less than the regular rate of duty for a specific period of time.
Release of Merchandise	The transfer, with Customs' permission, of merchandise from carrier or warehouse proprietor to importer.
Tailgate Examination	Viewing of cargo closest to the rear doors of a container.



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