

**UNITED STATES CUSTOMS SERVICE
SUPPORT FOR THE BUSINESS ANTI-SMUGGLING
COALITION**

OIG-00-109

July 17, 2000



Office of Inspector General

United States Department of the Treasury



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 17, 2000

MEMORANDUM FOR RAYMOND KELLY, COMMISSIONER
UNITED STATES CUSTOMS SERVICE

FROM: Dennis S. Schindel *Dennis Schindel*
Assistant Inspector General for Audit

SUBJECT: Audit Report on the United States Customs
Service's Support for the Business
Anti-Smuggling Coalition

This memorandum transmits the final report of the Office of Inspector General's (OIG) *Audit of the United States Customs Service's Support for the Business Anti-Smuggling Coalition (BASC)*. This audit is the second in a series of planned audits covering various aspects of the United States Customs Service (Customs) Operation Hard Line, a long-term strategy to disrupt and deter narcotics smuggling.

Our report discusses the limited success of BASC along the southern border and the minimal Customs support of the domestic program. We recommend that Customs reinforce the BASC organization along the Southern U.S. border by providing sufficient resources and jointly developing policies and procedures with U.S. business entities. Customs management stated that Customs will take every opportunity to reemphasize the roles and responsibilities of both the U.S. Customs Service and the business community with respect to the Coalition. In addition, Customs will strongly encourage the business community to develop policies and procedures to ensure the long-term viability of BASC along the U.S. Southern border.

We appreciate the courtesies and cooperation provided to our auditors. If you wish to discuss this report, you may call me at (202) 927-5400 or a member of your staff may contact Charles Mataya, Director, Program Audits at (713) 706-4611.

Attachment

TABLE OF CONTENTS

OVERVIEW	1
BACKGROUND	2
OBJECTIVE, SCOPE, AND METHODOLOGY	3
AUDIT RESULTS.....	3
The BASC Partnership Was Never Formalized	4
The BASC Suffered From a Lack of Leadership.....	5
Customs' Support of the U.S. BASC Partnership was Minimal.....	6
APPENDICES	
Appendix 1 Abbreviations.....	10
Appendix 2 Management Response.....	11
Appendix 3 Major Contributors to this Report	14
Appendix 4 Report Distribution	15

OVERVIEW

The United States Customs Service (Customs) is faced with the significant challenge of reducing the threat of narcotics smuggling while facilitating a rapidly increasing flow of legitimate trade. This increased workload is the result of the implementation of trade agreements, such as the North American Free Trade Agreement (NAFTA), and an overall increase in trade. Customs has entered into several partnerships with the business community to reduce the threat of using legitimate trade to smuggle drugs.

This audit focused on one of these partnerships, the Business Anti-Smuggling Coalition (BASC), which was organized and established in the United States (U.S.) in April of 1996. This partnership emphasized the creation of a security-conscious environment by U.S. businesses at their foreign manufacturing plants to reduce product vulnerability to narcotics smuggling. The audit was conducted to determine if sufficient support was provided to this coalition to ensure its success in reducing the threat of smuggling via commercial trade along the southern U.S. border. In performing the audit, we reviewed Customs operations in Washington, DC; Otay Mesa, California; and Miami, Florida; and interviewed BASC members representing the business community.

The BASC as implemented along the southern border has had only limited success. The concept was developed by a domestic business entity in April 1996 and proposed to Customs out of self-interest. The business entity did not want its name associated with drug shipments and proposed to strengthen security at their foreign plants. In return, the company expected certain benefits from Customs, such as site security surveys and expedited cargo processing. Customs recognized the value of the U.S. business community's assistance in combating smuggling via commercial trade and endorsed the concept. The business entity proposed implementing the partnership using written agreements that clearly defined the roles and responsibilities of the partners. This however, was not achieved and the partnership was never formalized nor funded. Therefore, Customs' support was limited to promoting membership at various U.S. trade meetings and conferences. Without a clearly defined role, Customs could neither adequately determine the extent of resources required, nor establish specific policies and procedures for accomplishing their responsibilities. This lack of structure also directly impacted the U.S. business community's ability to provide the leadership necessary to ensure the universal success of the coalition along the southern U.S. border.

As of September 1998, membership by U.S. businesses in the BASC, consisted of only 51 businesses, 27 of which were in the state of Florida. In our opinion, this coalition had not made significant progress toward reducing the threat of smuggling via commercial trade. An increased level of Customs support is needed to ensure the success of this initiative. Customs must take a more active role and provide additional resources if the BASC is to survive in a domestic setting.

BACKGROUND

In April of 1996, the BASC, a business led and Customs supported alliance, was created in San Diego, California, to combat narcotic smuggling via commercial trade. The goal of this coalition was the creation of a security-conscious environment by U.S. businesses at their foreign manufacturing plants to eliminate, or at least reduce, product vulnerability to narcotics smuggling. Customs supported the coalition in achieving this goal through public meetings to raise the awareness level of U.S. businesses that their products are vulnerable to drug smuggling. Also, by providing a forum in which the business community and Customs can exchange ideas and information, the BASC makes available to its members the best security practices in use. This coalition, therefore, complements the Carrier Initiative Program (CIP)¹ to provide coverage for the entire process of manufacturing and shipping merchandise from foreign countries to the United States. At the time of our audit, there were 105 air, 2,870 sea, and 854 land carriers participating in the CIP while only 51 U.S. businesses had applied for membership in the domestic BASC.

In February 1998, Customs began to change the focus of its efforts and resources within the Industry Partnership Program to high-risk foreign locations. This led to implementing another partnership between Customs and the business community, the Americas Counter Smuggling Initiative (ACSI). This initiative builds on the CIP and BASC by expanding the anti-narcotics security programs to foreign businesses located in Central and South America. Under ACSI, teams of Customs officers from the Offices of Field Operations, Investigations, International Affairs, and Intelligence assist foreign business entities and law enforcement officials in developing and implementing security programs and initiatives in Central and South America and Mexico. Funding for this initiative is provided by Customs. Also, high level officials, including the Commissioner

¹ A joint effort between commercial carriers and Customs which encourages carriers to improve their security practices in striving to prevent narcotics from being placed onboard their conveyances.

of Customs, have been directly involved with foreign officials and business executives in developing the ACSI partnership.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of the audit was to determine if Customs provided sufficient support to the BASC to ensure its success in reducing the threat of smuggling via commercial trade along the southern U.S. border. This audit was limited to a review of the BASC as implemented by U.S. businesses, and did not include other industry partnerships, such as the CIP and ACSI. Our audit included operations from inception of the program in April of 1996 through September 30, 1998, and was performed at Customs' Headquarters in Washington, DC, and the Ports of Otay Mesa, California, and Miami International Airport, Florida.

Our fieldwork also included visits to business partners in El Segundo, California, and Miami, Florida. At each location, we interviewed personnel and reviewed data on policies, procedures and operational results. We reviewed information on individual U.S. business members maintained by Customs Headquarters, and interviewed selected business members concerning the benefits and services received.

The audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and included such audit tests as were deemed necessary.

AUDIT RESULTS

Neither Customs nor the U.S. business community provided sufficient support to ensure the success of the domestic BASC. A formal written agreement establishing a viable organizational structure was not executed; and, each had different expectations as to the roles and responsibilities of the other. The business community did not provide the leadership anticipated by Customs, and Customs did not provide the services expected by the business community. As a result, the success of the domestic coalition has been marginal. In our opinion, a fully functioning BASC along the southern U.S. border has the capability of achieving results similar to the Carrier Initiative Program which, during a two year period, was credited with the seizure of 18,437 pounds of narcotics and the interception of an additional 59,181 pounds of narcotics that were destined for the United States.

The BASC Was Never Formalized

Customs entered into the BASC without formally executing a written agreement concerning the roles and responsibilities of the members. Instead, Customs adopted the philosophy that the coalition should be a voluntary program for businesses, with no Customs-imposed mandates. As a result, the BASC did not have a firm organizational structure or specific policies and procedures within which to operate.

At a BASC development meeting held in San Diego, California, in April 1996, a major U. S. business entity proposed written agreements that set forth specific roles and responsibilities, designed to encourage collaboration among members. This coalition member had successfully implemented similar written agreements with its business clients. Based on the coalition member's experience, the proposal was accepted by the Southern California Customs Management Center and a draft BASC document was written. This document included an action plan that outlined short-term, mid-term, and long-range objectives. Also the document provided written agreements for the coalition members, a resource and budget outline, an employee information sheet, and a site survey questionnaire. This document, however, was never finalized or formally adopted by either Customs or the business community. In our opinion, this left the coalition without a formal organizational structure and uniform set of policies and procedures within which to operate.

From the inception, Customs promoted the BASC as an industry-driven Customs-supported initiative. Customs encouraged the U. S. business community to share the responsibility of enforcement and increase their involvement in self-governing, without Customs mandates. The goal of the coalition was to allow industry "best practices," not Customs, to create industry standards. However, these concepts were not fully accepted by all business members. Some members expected more Customs involvement. A formal written agreement outlining the responsibilities of each participant would serve to clarify both Customs' and the U.S. business community's role in the coalition.

The BASC Suffered From A Lack of Leadership

The U.S. business community did not provide sufficient leadership to ensure that a viable coalition was established and maintained along the southern U.S. border. Customs encouraged business participants to establish self-imposed business standards. However, standards were not developed and adopted. As a result, the success of the BASC program at each U.S. location depended on the strength and commitment of local business leadership.

Initially, three major U.S. businesses assumed responsibility for leading the organization of BASC membership at the Ports of San Diego, California; Laredo, Texas; and Miami, Florida. This effort, however, was minimal and resulted in very limited success. For example, in San Diego, California where the BASC concept originated, the coalition became inactive in July 1996 approximately 3 months after initiation. Customs, because of other priorities, stopped actively promoting the partnership. The originator became disinterested in leading the implementation of the BASC because the company did not receive certain expected benefits² from Customs. This coalition remained inactive until October 1997 when Customs, with the assistance of the Border Trade Alliance³, took action to revitalize the coalition. This action merely resulted in a series of promotional meetings; however, a specific framework for governing the coalition was not established.

At the Port of Laredo, Texas, the local business leader, who initially assumed responsibility for working with Customs to organize the membership, never became actively involved. Only recently have efforts been made to establish a BASC in Laredo; through the combined efforts of Customs and the Border Trade Alliance. Again, this effort has been limited to promotional meetings.

² The BASC member anticipated receiving benefits, such as those enjoyed by CIP carriers. Prominent among these benefits is expedited processing of cargo and mitigation of sanctions in the event of unexpected violations by carriers in good standing.

³ An organization of private sector trade businesses conducting import and export business along the United States and Mexico border.

In a similar manner, the initial business leader in Miami, Florida, never became actively involved. It was only after an extensive search by Customs that another business representative was recruited to lead in the development of a coalition. In November 1997, this business member joined with the World Trade Center in establishing a local BASC. Although this has been one of the more successful partnerships, it also represents a high degree of risk for Customs. The BASC charges businesses a membership fee, which is only partially refunded if an applicant does not become a member. Advertised benefits of membership include discounted BASC training seminars by the World Trade Center, free employee background investigations, expedited processing of cargo through Customs ports of entry in the Miami area, and mitigation of penalties. A Customs Headquarters representative stated that only limited site security surveys would be provided by Customs, although it continues to be prominently listed as a sponsor of the BASC in the brochure advertising these benefits.

Customs' Support Of The U.S. BASC Was Minimal

Customs' primary commitment to the domestic BASC has involved the promotion of the coalition through public meetings. This limited support was necessitated by a lack of specific funding for the domestic program. Also, at the port level, inspectors were assigned BASC responsibilities as a collateral duty. As a result, Customs has limited resources to support additional domestic activities, such as security inspections.

Customs participated in only seven promotional meetings along the southern U.S. border during the period July 1996 to April 1998. These meetings were dependent on receipt of sponsorship from large U.S. corporations because funding was not provided by Customs. At some of these meetings, Customs offered to conduct security inspections of member facilities as an incentive to membership, and 51 U.S. business members were successfully recruited.

However, there were no procedures or plans developed as to how or when security inspections would be performed and Customs did not maintain documentation on the number of inspections performed. Similar security inspections were also offered for two other industry partnerships, the CIP and the ACSI. Management at Customs Headquarters and port levels agreed that sufficient resources were not

available to honor this commitment for all current industry partnerships. Therefore, presentations at public meetings created expectations of benefits from Customs, which could not be delivered.

Customs also needed to implement policies and procedures in addition to those concerning the actual performance of the security inspections. For example, policies and procedures were needed to specifically address such items as: periodic security updates, documentation and reporting requirements, record maintenance, and the imposition of sanctions if recommended security improvements are not made. These are some of the considerations to be taken into account when determining resource requirements. However, before progressing to this level, agreement must be reached and documented as to the responsibilities of each partnership group. For example, the U.S. business community should establish policies and procedures to address such items as: the management structure, and how officers are elected or appointed; membership qualifications, and the fees and dues to be charged; when, where, and how often meetings are held; records to be kept; and methods of disseminating information concerning best practices and law enforcement intelligence.

CONCLUSION

In our opinion, the BASC can provide an increased opportunity to reduce the threat of smuggling via commercial trade along the southern U.S. border. However, similar to their efforts with ACSI, Customs must take a more active role in the domestic BASC to ensure its success. Customs needs to work with U.S. business leaders to develop uniform policies and procedures, which define the roles and responsibilities of both the public and private sectors. These jointly developed policies and procedures would not impose mandates on the U.S. businesses, but would serve to clarify each group's expectations. Also, Customs management must assess the impact the domestic BASC will have on available resources and develop written procedures for accomplishing their responsibilities. Likewise, the U.S. business community should establish written policies and procedures for the operation of the domestic BASC organization. These actions are necessary to provide the structure needed to ensure the success and longevity of the U.S. BASC, and for Customs to deliver its implied commitment of conducting security reviews for U.S. businesses.

RECOMMENDATION

The Commissioner of Customs should reinforce the domestic BASC through the commitment of sufficient funding and personnel and jointly with U.S. business entities implement policies and procedures needed to ensure that BASC will continue as a viable organization along the southern U.S. border.

Management Response and OIG Comment

Customs management stated that Customs will take every opportunity to reemphasize the roles and responsibilities of both the Customs and the business community with respect to the BASC. In addition, Customs will strongly encourage the business community to develop policies and procedures to ensure the long-term viability of the BASC along the southern U.S. border. Based on Customs' accomplishments to date with ACSI in foreign locations, Customs feels that any short-term action should be to continue program development in the foreign locations. After reevaluating the program and upon obtaining the objectives at the foreign locations under ACSI, Customs will look to reinforce the BASC program domestically with particular emphasis along the southern U.S. border. Customs seriously considered but decided against developing a written agreement between the business community and Customs. Unlike the CIP which was an outgrowth of statutory authority that governed narcotic-related civil penalties, BASC is an attempt to have export/import companies voluntarily become involved in addressing contraband-related issues. Customs feels that a written agreement with the business community and Customs will contradict the concept of a voluntary program for businesses.

The OIG believes that until Customs devotes its efforts and resources to the domestic BASC program, the growth of this program will be stifled. This is indicated by the fact that only two BASC chapters have been formed in the U.S. since 1996. In contrast, the ACSI program has resulted in the organization of six chapters during the period October 1997 to October 1999. The progress with the ACSI is directly attributable to the resources and written guidelines Customs provided for the program. Written guidelines have not impeded ACSI's progress, but have served to define the roles and responsibilities of Customs in the program without imposing mandates on the foreign business community. The OIG acknowledges Customs decisions not to enter into written

agreements with the business community. However, Customs needs to ensure there is a clear understanding between it and the business community regarding their roles and responsibilities, and that participation does not include things such as expedited cargo processing and mitigation of penalties.

ABBREVIATIONS

ACSI	Americas Counter Smuggling Initiative
BASC	Business Anti-Smuggling Coalition
CIP	Carrier Initiative Program
Customs	United States Customs Service
NAFTA	North American Free Trade Agreement
OIG	Office of Inspector General

MANAGEMENT RESPONSE



U.S. Customs Service

Memorandum

DATE: MAY 5 2000

FILE: AUD-1-OP BAB

MEMORANDUM FOR DENNIS SCHINDEL
ASSISTANT INSPECTOR GENERAL

FROM: Director,
Office of Planning

SUBJECT: Report on U.S. Customs Service Support for the
Business Anti-Smuggling Coalition

Thank you for providing me with a copy of your draft report entitled "United States Customs Service Support for the Business Anti-Smuggling Coalition" and the opportunity to discuss the issues in this report.

In response to the report's recommendation, Customs will take every opportunity to reemphasize the roles and responsibilities of both the U.S. Customs Service and the business community with respect to the Coalition. In addition, Customs will strongly encourage the business community to develop policies and procedures to ensure the long-term viability of the Business Anti-Smuggling Coalition (BASC) along the U.S. Southern border.

The Business Anti-Smuggling Coalition (BASC) program was conceived as an unconventional, 21st Century, cooperative approach by the public and private sectors to deal with companies that have the potential of being compromised by narcotic traffickers. It was never the intent of the U.S. Customs Service to run BASC. For that reason, the program was designed to be business-led and Customs supported.

Because BASC is business-led and Customs supported, Customs has decided against developing a written agreement between the business community and this agency. Serious consideration was given to the need and or advantages of having such agreements. However, unlike the Carrier Initiative Program (CIP) which was an outgrowth of statutory authority that governed narcotic-related civil penalties, BASC is an attempt to have export/import companies voluntarily become involved in addressing contraband related issues. Therefore, BASC complements the common carriers' efforts that are being put forth under the auspices of the CIP. Establishing written agreements between the private sector

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MANAGEMENT RESPONSE

- 2 -

participants and the U.S. Customs Service contradicts the concept of a voluntary program for businesses, with no Customs-imposed mandates.

To date, the U.S. Customs Service has had success without such agreements and feels the imposition of contractual documentation would deter many businesses from becoming involved.

This long-running audit encompassed three domestic sites and indicates that there has been marginal success. However, in late 1997 the Customs Service applied risk management methodologies to the smuggling of narcotics in the commercial environment and determined that the efforts and allocation of resources expended within the Customs Industry Partnership Programs should be done in high-risk foreign locations. This enabled us to address the narcotic concern in the commercial environment at a very vulnerable stage of the export/import process - the place of manufacture and the transport of the product from factory to port-of-exportation.

The mechanism utilized to achieve this objective remains the Americas Counter Smuggling Initiative (ACSI), which is an expansion of BASC. Through this initiative, the U.S. Customs Service has been able to help numerous business communities establish BASC Chapters in six foreign countries. This is in addition to the two BASC Chapters that have been established in the United States. As a result of this success, the World Customs Organization (WCO) and International Chamber of Commerce (ICC) have supported BASC as a program that they endorse as a worldwide model. This concept was finalized at a meeting of the WCO during the first week of January 2000 and is being put forth under the auspices of the "WCO Business Partnership".

During the time period of October 1997 through October 1999, there have been over 50 ACSI/BASC related foreign team visits and an expenditure of approximately \$800,000. The monies have covered travel-related expenses, some equipment, and the production of seven videotapes to assist in the promotion and education of BASC participants. There was approximately \$300,000 budgeted in FY 2000 to fund similar activities in connection with the Customs Industry Partnership Programs. Fiscal year to date there has been an additional ten-plus ACSI/BASC related foreign visits of Customs teams in furtherance of this program.

In addition to allocating these resources, Commissioner Kelly attended the inaugural BASC event in Cartagena, Colombia and directed the establishment of a Colombian working group to include the development and expansion of industry partnerships within Colombia. He also

MANAGEMENT RESPONSE

- 3 -

expanded this working group to an Andean plan (Colombia, Bolivia, Ecuador, Peru and Venezuela), and is supporting Customs involvement with the WCO and ICC to establish a worldwide Customs partnership program.

Based on the accomplishments to date, it is felt that any short-term action should be to continue developing the program in those foreign locations (Colombia, Peru, Ecuador, Venezuela, Panama, Costa Rica, Mexico, and Bolivia) that pose the highest risk. As prescribed under risk management methodologies, the program will be reevaluated to determine its effectiveness and any necessary changes. Possible foreign expansion will be to high-risk Caribbean locations. Additionally, upon attaining our objectives at these high-risk foreign locations, we will look to reinforce the BASC program domestically with particular emphasis along the U.S. Southern border.

We believe that there is currently nothing in the Inspector General draft report that warrants protection under the Freedom of Information Act or applicable exemption.

Thank you again for the opportunity to comment on this report. If you have any questions regarding these comments, please have a member of your staff contact Ms. Brenda Brockman at (202) 927-1507.


William F. Riley

Cc: Chief of Staff
G. Zawadski

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