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Report to Congress

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**CUSTOMS SERVICE**  
**Trade Enforcement**  
**Activities Impaired by**  
**Management Problems**



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

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**Comptroller General  
of the United States**

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**The President of the Senate and  
The Speaker of the House of Representatives**

This report is one of a series containing the results of GAO's management reviews of major departments and agencies. It discusses the need to address management problems at the U.S. Customs Service to ensure that Customs is adequately meeting its trade enforcement responsibilities and mission.

We are sending copies of this report to the Secretary of the Treasury, the Commissioner of Customs, the Director of the Office of Management and Budget, the Treasury Inspector General, and other interested parties.

This report was prepared under the direction of J. William Gadsby, Director, Federal Management Issues, who may be reached on (202) 275-8387 if there are any questions. Other major contributors are listed in appendix V.

A handwritten signature in cursive script that reads "Charles A. Bowsher".

**Charles A. Bowsher  
Comptroller General  
of the United States**

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# Executive Summary

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## Purpose

The American public relies upon the U.S. Customs Service—a key agency responsible for guarding the nation's borders—to enforce trade laws and policies against the introduction into the country of foreign goods that threaten our health, safety, or economic well-being. In the course of enforcing the trade laws, Customs collects duties on imported merchandise, taking in over \$19 billion in fiscal year 1990. As world trade has steadily increased and evolved, the importance of Customs' import control mission as a means to protect the American public and economy has grown.

The objective of this general management review was to assess Customs' ability to fulfill its important trade enforcement mission. To address this objective, GAO analyzed Customs' management processes, management of its people, and its organizational structure.

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## Background

Since its creation in 1789, Customs' trade enforcement efforts have evolved in response to the increasing complexity of the world trade environment. Customs faces continuing challenges to its trade enforcement efforts. Customs confronts demands to effectively enforce the trade laws in the face of imports that more than doubled between 1980 and 1990, rapidly changing world business patterns that increase the complexity of the import control function and heighten demands on Customs to release goods quickly, and the demands on Customs' resources posed by increasing involvement in the war on drugs.

Customs plans to meet the challenges of the changing world trade environment by increasing its reliance on automation to process customs transactions, which represents a major change in how Customs has operated.

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## Results in Brief

Customs currently cannot adequately ensure that it is meeting its responsibilities to combat unfair foreign trade practices or protect the public from unsafe goods. Customs is finding only a small percentage of the estimated violations in imported cargo, allowing the vast majority of cargo with violations to pass into U.S. commerce. Further, it does not have adequate information to assess its effectiveness in collecting applicable duties or penalizing violators of the trade laws.

These problems arise because of a series of interrelated problems in Customs' management culture, including weaknesses in mission planning,



information management, human resource management, performance measurement, and organizational structure. Collectively, these problems threaten Customs' ability to successfully transition to a new, largely untested, automated import processing environment. Customs' current leadership has initiated some actions to address identified management weaknesses. However, the problems are longstanding, and effective, constant management attention will be required to ensure that Customs fulfills its trade enforcement responsibilities now and in the fully electronic operating environment it plans to achieve.

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## GAO's Analysis

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### Questionable Effectiveness of Enforcement Efforts

GAO estimates that Customs did not detect about 84 percent of the total trade law violations in imported cargo during fiscal year 1991, allowing these goods to pass into domestic commerce. Further, Customs does not have an institutional standard to gauge the significance of violations. Marking violations—inaccurate representations of required information on imports—represent over 60 percent of violations discovered for the past 3 years, and key Customs officials say that most marking violations are not very significant. Without an agreed upon standard to assess the significance of the violations it discovers, Customs is not well-positioned to judge the results of its operations. (See pp. 24 to 30.)

Customs' ability to determine whether goods entering the country are properly classified and valued suffers from serious problems in its automated system that determines which import documents will be reviewed. The system does not readily identify why entry documents are selected for review, and system design limitations make it difficult for Customs personnel to use the system, thus discouraging diligent enforcement efforts. Further, Customs cannot assess the effectiveness of the criteria in the automated system in targeting high-risk entry documents because the system does not allow Customs to compare the entry document review results with the specific criteria prompting the review. Customs has agreed to develop this capability, which is fundamental to its modernization plans. (See pp. 32 to 33.)

Customs also has inadequate information to assess how effectively it is investigating and penalizing violators of trade laws. For example, it cannot

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determine whether it is collecting all the penalties it should. (See pp. 37 to 38.)

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### Strategic Direction for Operations Lacking

Customs' trade enforcement efforts have not been guided by a clearly defined objective. Its 5-year plan does not provide an objective for trade enforcement that enables someone to understand what constitutes good trade enforcement and measure progress toward it. Further, Customs' management processes do not establish adequate accountability for performance. Customs has not developed management information to determine the effectiveness of its trade enforcement efforts. For example, it has not developed estimates of the violations in cargo imports, and it lacks the information to assess the effectiveness of either its process for checking if proper duties have been paid on imports or its efforts to penalize violators of the trade laws. Further, its internal management assessments are usually too narrowly focused to identify the root cause of program management problems. Finally, vague performance standards in senior executive plans have made it difficult to adequately measure managers' success in achieving agency goals. In response to findings by GAO and others, Customs has initiated a number of corrective actions, including forming a task force to develop a trade enforcement strategy. (See ch. 3.)

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### Ineffective Information Resources Management Hampers Mission Accomplishment

Customs cannot ensure that its trade enforcement efforts are effective because (1) its information resources management planning efforts are focused on achieving efficient transaction processing for the importing community rather than on supporting trade compliance efforts, (2) federal systems development guidelines are not followed, and (3) insufficient attention is given to assessing information management practices. As a result, Customs has implemented automated systems with weaknesses that often leave Customs' staff without the basic information needed to meet their trade enforcement responsibilities and policymakers without the management information needed to assess the results of Customs' trade enforcement efforts. (See pp. 59 to 64.)

While Customs has initiated a number of corrective actions, more are needed. These include identifying information needs for achieving trade enforcement objectives, developing an information systems architecture to guide systems development efforts, adhering better to systems development guidelines, and instituting effective evaluations of information management efforts. (See pp. 64 to 68.)

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**Insufficient Attention  
Given to Human Resource  
Management**

Customs staff and outside observers have major concerns about Customs' management of its human resources. Among these concerns are (1) the performance management process is ineffective in improving personnel and organizational performance, (2) both the quantity and quality of training is inadequate, and (3) frequent staff changes adversely affect service quality. Customs has yet to put in place the human resource management processes and structures needed to address these issues and achieve its objectives of increasing the quality and professionalism of its workforce. (See ch. 5.)

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**Organizational Structure  
Complicates Mission**

Changes in Customs' organizational structure must accompany efforts to improve management processes. Successful accomplishment of the trade enforcement mission requires effective coordination of the efforts of the Offices of Inspection and Control, Commercial Operations, and Enforcement. However, 49 percent of Customs' managers feel there is not a high level of cooperation or coordination among programmatic units. Further, Customs' reliance on the 7 regions to oversee operations in the 44 districts is not ensuring consistent policy implementation. For example, headquarters inspection and control program managers were unable to overcome field opposition to instituting a standardized method for tracking the quality of cargo examinations.

These problems arise, in part, because of two related aspects of the current organizational structure. First, Customs' headquarters structure emphasizes job function over agency mission, thus complicating efforts to develop an integrated perspective on Customs' mission. (See pp. 86 to 89.) Second, the policymaking responsibility of the headquarters offices is separated from the line authority of the regions. (See pp. 89 to 91.) As a result, the Office of the Commissioner is the only office in a position to manage objectives and programs that cross geographic and functional lines to produce nationally consistent, mission-related outcomes.

Customs' studies also have identified the need for revisions to the field structure based on findings of wide variations among districts' workload and resources. However, Customs is prohibited by law from planning or implementing any reorganization that would reduce the number of regions or districts or result in the consolidation of key duty assessment functions. (See pp. 92 to 96.)

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## Management Problems Threaten Transition to Electronic Environment

Customs' management problems threaten the success of its efforts to move from partial to full electronic transaction processing and cargo release as the means of meeting its trade enforcement responsibilities in the face of increasing import volume. For 3 years, Customs has attempted to implement electronic cargo release and increase importer participation without effective management controls to assess trade compliance. It did not develop a capability in its automated cargo selectivity system to monitor the violation rate for cargo subject to paperless release. Further, headquarters did not monitor field implementation of management controls intended to assess trade compliance. Field practices varied, leaving Customs without an adequate basis for assessing trade compliance. (See pp. 99 to 102.)

Customs has yet to formulate an integrated strategy for achieving full electronic processing, leaving many questions about how it will be implemented, how it will affect Customs personnel and the trade community, and how much it will cost. (See pp. 102 to 105.)

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## Recommendations

GAO recommends that Congress remove existing legislative provisions that prohibit Customs from planning changes to its field structure. (See p. 97.)

GAO makes a number of specific recommendations to the Commissioner of Customs, which fall within two broad areas.

First, Customs should institute a strategic management process that sets mission priorities, establishes measurable performance objectives, and monitors progress toward achieving them. This process should define a clear trade enforcement strategy that is supported by comprehensive human and information resources planning. (See pp. 57 and 58.)

Second, Customs should evaluate the adequacy of its current headquarters organizational structure to support the new trade enforcement strategy. This evaluation should consider the benefits of realigning its organizational structure along mission lines and vesting reorganized headquarters offices with line authority over field implementation of its trade enforcement efforts. (See pp. 97 and 98.)

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## Agency Comments

Customs and Treasury each provided written comments on a draft of this report (See app. IV). Customs said that many of the improvements GAO outlined would substantially improve selectivity, that it had established a

team to review the report, and that it plans to act on many of the valid conclusions. However, Customs also stated that GAO failed to understand its approach to its trade enforcement mission. Customs listed several elements of its strategy that it thought GAO had not adequately considered and pointed out that these elements, taken together with its Automated Commercial System, had enabled it to achieve a remarkable trade compliance rate in excess of 96 percent. Treasury said that it did not believe GAO gave Customs sufficient credit for achievements.

GAO is pleased that Customs plans to act on this report and is aware that it has already created some teams to examine problem areas. But, considering both Customs' and Treasury's written responses to the draft report, GAO fears that they may have misunderstood the nature and significance of GAO's message.

GAO believes that Customs should not be satisfied with a given compliance rate; rather, it should continuously strive to narrow the noncompliance gap. The essence of GAO's message is that, given Customs' limited resources, it must (1) be able to target those resources for maximum effectiveness by knowing what areas of noncompliance exist and which of its enforcement efforts best deals with each area, and (2) use this information to formulate a strategy through which it brings its efforts to bear to achieve the maximum effect.

GAO notes that Customs does not meet these requisites, the size of the noncompliance gap is increasing, and Customs' record in detecting violations is declining. Thus, Customs does not have adequate assurance that it is enforcing the nation's trade policies as effectively as it should or could. (See pp. 41 and 42.)

On August 19, 1992, the Commissioner of Customs sent a letter to the Chairman, Subcommittee on Oversight, Committee on Ways and Means, detailing specific actions that either had been taken or were planned in response to many of GAO's recommendations as well as those contained in other congressional and internal reports. GAO is encouraged by the Customs letter and will continue to work with Customs as it formulates and implements these actions.

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**Abbreviations**

ACS	Automated Commercial System
AD/CV	Antidumping and countervailing duties
ADP	Automated data processing
AIMS	Asset Information Management System
CMS	Case Management System
CSS	Cargo Selectivity System
ESS	Entry Summary Selectivity
FNIS	Field National Import Specialist
FP&F	Fines, Penalties, and Forfeitures
FTE	Full-time equivalent
HRM	Human Resource Management
I&C	Inspection and Control
IG	Inspector General (Treasury)
IRM	Information Resources Management
MIS	Management information system
NCAP	National Customs Automation Program
NEP	National Entry Processing
NFC	National Finance Center
NTEU	National Treasury Employees Union
OHR	Office of Human Resources
OIM	Office of Information Management
OOE	Office of Organizational Effectiveness
OMB	Office of Management and Budget
OPM	Office of Personnel Management
QA	Quality assurance
SAC	Special agent-in-charge
SES	Senior Executive Service
TRAEN	Treasury Records and Enrollment Network

# Customs' Evolving Trade Enforcement Mission

The U.S. Customs Service is responsible for protecting United States borders from imports that do not comply with trade laws and policies and from illegal smuggling activities, such as narcotics. This report focuses on Customs' responsibilities for administering the laws and policies regarding imports. Customs' mission has evolved over time in response to the increasing importance of trade to our economy and the changing views on the extent to which the flow of imports into the country should be controlled. Customs contends with continuing questions from the trade community, domestic industry, and Congress regarding its ability to effectively meet its enforcement responsibilities while minimizing disruptions to the normal flow of trade.

## An Overview of the Trade Enforcement Mission

Since its inception, Customs has played a significant role in protecting the domestic economy and regulating commerce with foreign nations. The original rationale for creating Customs was to ensure the financial solvency of the federal government and to stabilize the domestic economy. In 1789, when the Department of the Treasury was created, Customs' revenue collection responsibility was established to serve two interrelated purposes: (1) to provide revenues for the federal treasury and (2) to assist in improving domestic commerce by administering tariff laws and duties on foreign imports.

Over the years the importance of Customs collections as a major source of revenue for the federal government has decreased. Between 1789 and 1860, Customs duties were the principal revenue source for the federal government, accounting for 85 percent of all federal receipts. However, when the income tax was introduced in 1913, Customs duties were no longer a major revenue source. By 1950, Customs duties as a proportion of total federal receipts had dropped to about 2 percent, where they remain. In 1990, Customs collected about \$19.1 billion in revenue.

While the relative importance of Customs collections as a major source of federal revenue has decreased, the importance of its import control responsibilities has grown. Today, the consequences of Customs' import control activities go well beyond the mere loss or gain of revenue for the Treasury. These activities have a direct bearing on the viability of our economy and the health and safety of our citizens. In this regard, Customs works with approximately 40 other federal agencies to enforce some 400 laws governing international trade. For example, the American public depends on Customs to

- protect us from unsafe products, such as misbranded or adulterated food that could end up on our dinner tables;
- eliminate the sale and use of substandard and dangerous products that threaten our health and safety;
- identify and seize imitation products that tarnish the reputation of the U.S. manufacturer and reduce the appeal of these and other American goods wherever they are sold;
- prevent the introduction of products to be sold at less than their fair market value (i.e., dumping) by foreign producers in order to obtain unfair advantage in the U.S. market over U.S. manufacturers of the same product; and
- detect fraud involving textile and apparel imports that threaten American jobs.

## Customs Trade Enforcement Mission Is Increasingly Challenging

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Customs trade enforcement mission has grown increasingly more challenging over the years as the volume of imports has increased significantly. From 1980 to 1990, the level of imports doubled, rising from about \$253 billion to \$518.5 billion. The rise in import activity has translated into a substantial increase in Customs' workload. Between fiscal years 1980 and 1990, the number of entries<sup>1</sup> processed by Customs increased by over 100 percent, from about 4.4 million to 9.2 million.

The growing complexity of the trade environment has also contributed to making Customs' trade enforcement mission more challenging. The sharp increase in the U.S. trade deficit during the 1980s and the growing interdependence of the U.S. economy with that of U.S. trading partners have focused increasing attention on U.S. trade programs, such as quotas on textiles, in which Customs plays a major role. World market conditions, such as the rising levels of trade with newly industrializing nations and integration of capital markets, have created a radically different trading environment. Actions to reduce trade barriers, such as free trade agreements, also present challenges to Customs' trade enforcement activities. For example, with free trade agreements, Customs will probably contend with more instances of importers falsely portraying their goods as being substantially produced in countries that are parties to these agreements in order to enter the goods duty free. Further, growing cargo industry trends towards "Just in Time" inventory management systems, which focus on time as their most important element, challenge Customs to clear and release cargo within time-definite periods. This heightens

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<sup>1</sup>Customs defines an entry as a document filed by an importer or a bonded carrier as a record and description of a given lot of imported merchandise.

demands by the trade community (primarily importers and the brokers that file their entry documents) that the agency enforce trade laws in a manner that facilitates trade.

At the same time that Customs' trade enforcement mission is becoming more demanding, there are heightened demands on the agency to perform other activities. Customs is faced with the demands of growing passenger traffic and pressures to process passengers' Customs declarations more quickly. From 1980 to 1990 the number of air passengers rose from 29.9 million to 48.4 million, and it may reach 96 million by the year 2000. In addition, land-border passenger traffic increased by 30 percent from 1980 to 1990 and is expected to rise by another 19 percent by the year 2000 to a projected 410 million land-border passengers.

However, the increasing Customs' involvement with narcotics interdiction poses the most notable pressure on Customs. During the 1980s, resources for narcotics enforcement increased 324 percent compared to a 115-percent increase for trade activities. Emphasis on narcotics interdiction was seen by the trade community and within Congress as diverting resources from trade activities. In response to complaints by the trade community, Commissioner Carol Hallett has reemphasized the importance of trade facilitation in addition to continuing involvement in combatting the nation's drug problem.

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## **Customs Faces Competing Pressures in Pursuing Its Trade Enforcement Mission**

Customs continues to confront the enduring issue of effectively balancing the requirements of its trade enforcement mission and the expectation that it minimize disruptions of the normal flow of trade. Despite current efforts to improve working relationships with the trade community, Customs is subject to continuing questions from the trade community, domestic industry, and Congress regarding how it is meeting these expectations and the effectiveness and efficiency of its trade enforcement efforts.

Customs' problems involving relationships with the trade community are documented back to at least the 1940s. A 1948 management study<sup>2</sup> found numerous opportunities for improving the economy of operations and providing better information and service to the public. The report specifically noted that the trade community and other members of the public expressed dissatisfaction with the amount of time required to

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<sup>2</sup>McKinsey & Company, Inc., Management Survey of the Bureau of Customs, Department of the Treasury, 1948.

process transactions. Standards and performance measures were recommended to address this problem.

A 1964 internal study documented trade community criticisms of cargo delays, additional charges, and unnecessary seizures. The report recommended that Customs communicate changes in policies in a timely manner in order to better facilitate travel and trade.<sup>3</sup> The report disclosed different treatment of brokers and importers by Customs offices and ports resulting in "port shopping." Port shopping is the practice of exporters and importers choosing a particular port on the basis of their assessment of Customs' treatment rather than on the quality of physical facilities and efficiency.

A 1989 Treasury Advisory Committee<sup>4</sup> attributed a lack of uniformity in the interpretation and administration of Customs' regulations by district offices to Customs' failure to provide clear and concise guidelines governing the interpretation of its rules. The report documented disparities in both clearance times and duties levied at various locations. The Committee concluded that uneven enforcement practices at individual ports of entry were significant enough to affect business decisions on the importer's choice of ports.

A 1990 report by the House Ways and Means Committee's Subcommittee on Oversight found that the relationship between the trade community and Customs had deteriorated substantially in recent years.<sup>5</sup> The report noted that trade representatives felt that Customs had an "enforcement mentality" in which they were assumed guilty of violating Customs laws and regulations until proven innocent. Trade representatives also stated that they did not receive adequate notice of changes in policies and procedures. The Subcommittee also found that Customs had not been effective in enforcing antidumping and countervailing (AD/CV) duty laws<sup>6</sup>

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<sup>3</sup>Bureau of Customs, An Evaluation of Mission, Organization, Management, 1964.

<sup>4</sup>U.S. Department of the Treasury, 1989 Annual Report of the Treasury Advisory Committee on Commercial Operations of the U.S. Customs Service, 1989.

<sup>5</sup>U.S. House of Representatives, Committee on Ways and Means, Abuses and Mismanagement in U.S. Customs Service Commercial Operations, February 1990.

<sup>6</sup>Antidumping duties are levied against products that have been brought into the United States at less than what their fair market value would be in the country where they were produced. Countervailing duties are assessed when a foreign government has paid subsidies on merchandise exported to the United States in order to lower its price below fair market rates. Antidumping and countervailing duties are imposed if the Department of Commerce determines an unfair trade practice exists and the International Trade Commission determines the practice causes or threatens material injury to, or materially retards establishment of, a United States industry.

intended to protect domestic businesses from unfairly priced imports due to an inaccurate and archaic system for collecting key information. The report recommended that Customs improve the balance between enforcement and facilitating the movement of cargo.

Since assuming office in November 1989, Commissioner Hallett has given priority attention to improving Customs' relationship with the trade community. She has initiated numerous actions toward this goal, including establishing a Trade Ombudsman, conducting trade fairs and conferences, and working to reach agreement with the trade community on legislation (H.R. 3935) that would provide for full electronic processing of Customs transactions.

The trade community recognizes the Commissioner's effort to improve working relationships. Our survey of customs brokers<sup>7</sup> showed that 72 percent were satisfied with Customs' efforts to improve working relationships with the trade community over the past 12 months ending April 1991. Discussions with brokers' associations and focus groups with importers also elicited positive comments on improving relationships under Commissioner Hallett.

At the same time, our review showed that the trade community remained cautious about the current efforts and believed that longstanding issues remained. Just 52 percent of brokers indicated in our survey that they were satisfied with the overall quality of Customs' service. Some trade community representatives expressed the view that the positive tone set at the top has yet to fully penetrate to the field level where most day-to-day contact is made. A representative of one trade association expressed concern that Commissioner Hallett's successor could adopt policies reverting to the aggressive enforcement mentality of the 1980s.

Our review identified continuing concerns within the trade community about delays in cargo release and instances in which brokers felt they were not notified promptly of changes in Customs' policies and regulations. Further, a theme in the written comments by Customs brokers to our questionnaire was the need to continue to improve relationships at the field level. This was expressed in a variety of ways, ranging from calls for Customs' personnel to see the broker as a partner in ensuring that Customs' regulations are complied with, to charges that some Customs personnel were unnecessarily adversarial, vindictive, and unprofessional.

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<sup>7</sup>Customs broker: A person or firm licensed by Customs to transact business with Customs on behalf of importers.

The trade community also continues to express concerns about perceived nonuniformity in Customs operations. Our survey of brokers asked for perceptions of the extent to which Customs' policies and procedures were uniformly applied in regard to 12 operational areas, such as inspecting cargo, classifying merchandise, and assessing duties. When asked whether policies and procedures were applied uniformly, the percentage of brokers responding "To a very great/Great extent" ranged from 25 percent for handling protests to 60 percent for enforcing laws regarding contraband such as drugs. The percentage of brokers responding to "Some extent/Little or no extent" ranged from 13 percent for contraband enforcement to 41 percent for seizing merchandise. (See app. II.)

Both importers and brokers have indicated in focus groups that Customs' field offices are inconsistent in their treatment of the trade community. They voiced concerns about disparities among Customs' districts in clearance times, duties levied, and in the uniform application of rules, regulations, and fines.

However, many Customs managers do not believe the lack of uniformity is a real problem. When asked whether policies and procedures were applied uniformly, the managers perceived greater uniformity than did brokers. (See app. III.) The percentage of managers responding "To a very great/Great extent" that policies and procedures were applied uniformly ranged from 48 percent for assessing fines, penalties, and forfeitures to 82 percent for administering quotas.

While trade community concerns with Customs' operations persist, Customs also is subject to continuing questions regarding the effectiveness of its trade enforcement efforts. Customs' efforts to enforce AD/CV duty laws have been criticized recently. Industry representatives testified before Congress in 1991 that they were unable to obtain AD/CV duty information and had not obtained relief from unfair trade practices. The 1990 annual report of the Treasury Advisory Committee<sup>8</sup> on Commercial Operations cited a number of concerns regarding the effectiveness of Customs' enforcement efforts, particularly the reduced physical inspection of containers; transshipments—routing imports through a third country—of quota articles to permit entries that otherwise might be precluded from entry; and uncertain enforcement of country-of-origin labeling. The National Treasury Employees Union also has expressed formal concerns about the adequacy of Customs' trade

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<sup>8</sup>U.S. Department of the Treasury, 1990 Annual Report of the Treasury Advisory Committee on Commercial Operations of the U.S. Customs Service, 1990.

enforcement efforts. It stated its belief that a "... systemic bias toward facilitation. ." existed in Customs in which "... employees who hold up shipments or carry entry backlogs are considered troublemakers, and called on the carpet by supervisors who receive phone calls from irate importers."<sup>9</sup>

Throughout, Congress has maintained an active interest in Customs operations. Thus, Congress has urged Customs to both improve its trade enforcement efforts and minimize intrusion into the normal flow of trade, increase attention to both trade operations and drug interdiction, and apply its policies uniformly while ensuring that service in certain locations is maintained or improved.

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## **Customs' Trade Enforcement Efforts Have Evolved to Meet Demands of the Trade Environment**

Recognizing that it must contend with increasing levels of imports, numerous demands, and limited resources, Customs has shifted its trade enforcement efforts from a strategy of checking all imports for compliance with tariff and trade requirements to one of checking only selected imports. This section introduces the various elements of Customs' trade enforcement efforts and briefly describes how these activities have evolved.

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### **Cargo Inspection**

Customs inspects cargo to ensure that it is not in violation of trade laws or restrictions and therefore admissible into the country. From 1842 to the early 1980s, Customs policy for enforcing import laws was to examine a portion of all cargo shipments, although most of these examinations were cursory. In the early 1980s, Customs regulations were amended to allow the establishment of systems to select only high-risk shipments for physical examination. In 1980, Customs instituted an automated system known as ACCEPT to aid in assessing the risk of shipments. In 1983, Customs began implementing the current Cargo Selectivity System (CSS), part of its overall Automated Commercial System (ACS), which is ultimately intended to automate all aspects of Customs import processing.

Since the institution of CSS, cargo entries are selected for examination by three methods. The predominant one uses the automated selectivity criteria of CSS. In conjunction with related programs in ACS, CSS is used to process entry documents, assess the risk posed by cargo, identify cargo for inspections, and store management information about the results of these inspections.

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<sup>9</sup>Statement of Robert M. Tobias, National President, National Treasury Employees Union, before the Subcommittee on Trade, House Committee On Ways and Means, March 10, 1992, on H.R. 3935, Customs Modernization and Informed Compliance Act.



In addition, Customs inspectors have the discretion to examine cargo not selected randomly or by CSS criteria. Inspectors may decide to examine cargo bypassed by ACS for a number of reasons. They may doubt the authenticity of the import documentation, be suspicious about the way merchandise is packaged, or they may be aware of previous violations by an importer and want to make sure that the importer is currently in compliance.

Customs also selects a random sample of cargo for examination. Customs officials believe the random examinations both deter importers from bringing cargo that is not in compliance with the trade laws into the country and allow them to assess the operation of the cargo selectivity system. According to Customs, 552,000 cargo shipments were inspected during fiscal year 1991, which was about 8 percent of all shipments.

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## **Review of Classification and Value**

The purpose of Customs' classification and value reviews is to ensure that the proper amount of duties and fees is paid on merchandise and to verify that imports comply with various quota and other restrictions. All of these activities are done by Customs import specialists who make their classification and value determinations by reviewing a variety of documents importers are required to submit. Among these documents are a Customs form known as the entry summary, which describes the classification and value of the merchandise for duty assessment and import statistics purposes, and the shipment invoice.

Since 1967, Customs has sought to eliminate import specialist reviews of routine low-risk entry documents in order to keep up with the increasing workload. The early bypass systems depended on import specialists to manually identify low-risk documents. Those low-risk documents designated for bypass would either be subject to only cursory reviews or would be accepted without any review. By 1983, Customs was bypassing about 50 percent of entries using manual systems.

In 1988, Customs implemented the Entry Summary Selectivity (ESS) system as part of ACS. ESS is designed to automatically select documents for import specialist review on the basis of risk criteria. Risks include underpayment of duties, noncompliance with trade quotas, and other merchandise restrictions. ESS also selects a random sample of about 2 percent of entry summaries. In fiscal year 1991, approximately 8 million entry summaries were submitted to Customs. About 50 percent of the entry documents pertaining to these entries were bypassed by ESS.

Inspections and document reviews are supposed to identify imports that are not in compliance with tariff and trade requirements before they enter, or soon after they have entered, the U.S. economy. Customs has other programs that are intended to identify and penalize importers and others involved in trade who have violated these requirements. The following information briefly describes these enforcement programs.

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### **Regulatory Audit**

The Office of Regulatory Audit was established in 1974 and employs about 300 auditors. These individuals audit importers, Customs brokers, Customs warehouses (where imported goods are stored), and other businesses or facilities involved in the importation of merchandise. The audits are a post-importation control designed to determine whether importers and others under audit have paid the appropriate amounts of duties and fees and have complied with trade laws and regulations. The audit reports issued by regulatory audit are advisory, and it is up to the district director or other appropriate Customs officials to collect recommended revenue recoveries or penalties or to take appropriate legal action against those found in noncompliance. In fiscal year 1990, regulatory auditors performed 561 audits with recommended revenue and penalty recoveries of \$154 million. According to Regulatory Audit officials, historically, about 85 percent of recommended recoveries are actually collected by Customs.

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### **Commercial Fraud Enforcement Efforts**

Import specialists, inspectors, regulatory auditors, and Customs agents all play some role in detecting or investigating commercial fraud. Section 592 of the Tariff Act of 1930, as amended, authorizes Customs to assess civil monetary penalties and take action for fraud, gross negligence or negligence when merchandise is entered, introduced, or attempted to be entered or introduced into the commerce of the United States, by means of (1) any document, written or oral statement, or act that is material and false, or (2) any material omission. Criminal fraud charges may also be brought against importers or their agents under 18 U.S.C. 542 for making false statements to Customs officers about imported merchandise. Customs essentially has a multidisciplinary organizational arrangement for its civil and criminal commercial fraud efforts. Field units have instituted ad hoc mechanisms for coordinating the two under general agency guidelines. Customs operates a headquarters Commercial Fraud Center, which is staffed by personnel from Enforcement, Commercial Operations, and Inspection and Control.

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## **Assessment of Fines and Penalties**

The assessment and collection of fines and penalties and the processing of seizure actions are important for ensuring compliance with Customs regulations and the trade laws. Customs assesses liquidated damages<sup>9</sup> when an importer does not comply with regulations, e.g., failure to file entry summary within 10 days. Civil monetary penalties, on the other hand, are assessed for violations such as misclassification, knowingly falsifying the country of origin, and other fraudulent acts. Customs usually takes seizure actions when merchandise is illegal or not admissible, but Customs can also seize merchandise for misclassification or failure to submit import documents. Liquidated damages are subject to a 6-year statute of limitations, but the statute of limitations is 5 years for penalties and seizures.

While agents, inspectors, and import specialists assess penalties and make seizures, it is the Fines, Penalties, and Forfeitures (FP&F) staff that makes sure civil enforcement cases are prepared correctly and that penalties are collected. The FP&F offices are responsible for administrative processing and tracking of all liquidated damages, penalty, and seizure cases.

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## **Customs Proposals for Meeting Future Trade Responsibilities**

By the late 1980s, Customs had concluded that full automation of its commercial operations was required to meet the demands of its burgeoning workload. Customs predicted that between 1991 and 1995 it would face a 50-percent increase in entries and 25-percent growth in cargo container and land-border passenger processing activity.

In 1988, McKinsey and Company, Inc.<sup>10</sup> prepared a comprehensive analysis of Customs' commercial operations that recommended several opportunities to modernize commercial operations. These are summarized into three broad actions: (1) fully automate the processing of all paper documents and transactions; (2) provide consistent classification decisions before importation (i.e., pre-import classification); and (3) increase post-audit resources to ensure trade compliance in a totally automated environment.

Customs' modernization effort focuses mainly on the first recommended action, namely fully automating the processing of the entry, entry

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<sup>9</sup>Liquidated damages: money assessments made for breach of one or more conditions in bonds posted with Customs to ensure protection of the revenue or to guarantee compliance with laws and regulations administered by Customs.

<sup>10</sup>Developing A Strategic Vision of U.S. Customs' Commercial Operations, McKinsey and Company, Inc. (February 1988).

summary, and invoice documents. Customs contends that full automation of these documents would make it possible for importers or brokers to file entries in any Customs district, regardless of where the cargo actually arrives. This process is generally referred to as National Entry Processing (NEP). Currently, all entries are filed in the same district where the cargo arrives. According to a Customs official, implementation of NEP would represent a dramatic change to how Customs has done business for the past 200 years.

As is the case for most of the initiatives required to achieve fully automated processing, NEP cannot be implemented without changes to the current trade law. Customs, in conjunction with representatives of the trade community, has developed a legislative package to amend the Tariff Act that establishes the legal foundation for substituting electronic data for paper-based documents and for national entry processing. This legislation, the Customs Modernization and Informed Compliance Act, H.R. 3935, was introduced and referred to the House Ways and Means Subcommittee on Trade in November 1991. H.R. 3935 would establish the National Customs Automation Program (NCAP), an automated and electronic system for processing the documentation associated with commercial imports, which includes entry, entry summary, and invoice documents. The bill also would establish a goal for NCAP of ensuring that all regulations and rulings are administered and enforced in a manner that (1) is uniform and consistent, (2) is as minimally intrusive upon the normal flow of business activity as practicable, and (3) improves compliance. The bill would require Customs to complete within 6 months of enactment of the legislation an overall plan for NCAP that details the ultimate configuration of the program and provides estimates for introducing on-line the various elements of the program. The bill would also require that the plan include a statement that describes how NCAP will meet the goals established for the program and what effect NCAP will have on Customs occupations, operations, processes, and systems.

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## **Objective, Scope, and Methodology**

The objective of this general management review was to assess Customs' ability to fulfill its important trade enforcement mission now and in the future. This review was prompted by recent critical congressional attention on Customs' performance in this area. We did our audit work at Customs headquarters in Washington, D.C.; 5 regional offices; and 15 district offices. Our work was done from May 1990 to November 1991 in accordance with generally accepted government auditing standards.

We used a variety of research techniques to evaluate Customs' management. To gain an understanding of Customs' environment, history, operations, organization, and programs, we reviewed agency documents, budget material, consultant reports and studies, Customs' internal management assessments, prior Department of the Treasury and General Accounting Office reports, legislation, literature on Customs, regulations, and transcripts of congressional hearings on various aspects of Customs' management. We interviewed numerous Customs and Treasury officials. We gathered and analyzed Customs' data concerning planning, budgeting and accountability processes, information management, human resource management, and organizational structure. To examine how these processes and systems affected mission performance, we reviewed Customs' cargo examination procedures and classification and value reviews.

We obtained the views of Customs personnel and developed an understanding of Customs' operating environment. To obtain internal perceptions of current Customs management, we sent questionnaires to a sample of 1,125 career and appointed Customs managers and senior staff. Recipients were drawn from Customs managers and senior staff at or above the grade 13 level, as well as individuals designated as managers or supervisors by Customs at grades 11 and 12. Our response rate was nearly 81 percent. We also conducted focus groups of import specialists at five district offices in which we obtained perspectives on such issues as information resources, training, and communication.

We undertook a variety of efforts to obtain trade community perspectives on Customs' operations. In order to obtain the views of Customs brokers on issues such as organizational effectiveness and quality of service provided by Customs, we sent questionnaires to a random sample of 424 brokers. Our response rate was 81 percent. To obtain importers' perspectives of Customs' operations, we held focus groups with importers in New York, Chicago, and Los Angeles. We also interviewed representatives of trade groups. We conducted interviews with other federal agencies in order to gauge Customs' effectiveness in coordinating inspection policies and automation projects. We also obtained perspectives from congressional staff on Customs' environment and operations. Further details about the surveys and results are presented in appendix I.

# Customs Lacks Assurance That Trade Laws Are Effectively Enforced

Customs is not focusing sufficient attention on ensuring that the Nation's trade laws are effectively and efficiently enforced. Consequently, it cannot adequately ensure that it is meeting its responsibilities to combat unfair foreign trade practices or protect the public from unsafe goods. Specifically, Customs (1) is not effectively preventing the entry of cargo that violates trade laws; (2) does not know how effectively it is assessing and collecting duties, fees, and penalties; and (3) lacks the information needed to assess its effectiveness in investigating and penalizing violators of trade laws.

These problems arise because of several management problems. First, Customs has not clearly defined effective trade enforcement. Second, it is not effectively using its automated selectivity processes to ensure effective and efficient operations. And third, Customs has developed information systems that do not have adequate data to support trade enforcement efforts or management oversight.

## Customs Does Not Have a Clear Trade Enforcement Strategy

In May 1991, Customs issued a 5-year plan to guide its operations, which was subsequently updated for 1992. However, this plan does not provide an effective strategy regarding Customs' efforts to enforce the trade laws. As the objective for Customs' trade enforcement efforts, the plan states that Customs will "develop the information resources necessary to achieve and support an effective trade and revenue enforcement program." Trade enforcement is not defined in a way that enables someone to understand what constitutes good trade enforcement and measure progress toward it. Trade enforcement could be defined in terms of increased detection of violations, increased duties collected, increased voluntary compliance, or some comparable objective.

## Systems for Assessing Risk of Cargo and Selecting It for Examination Are Seriously Flawed

Over the past several years, Customs has found about the same number of violations from year to year while conducting fewer cargo examinations. Customs managers concluded that this increased efficiency represented increased effectiveness.

However, key managers responsible for cargo selectivity were not aware that Customs is discovering less than a quarter of the estimated trade violations entering the country. Further, Customs has no institutional method for determining the significance of the violations. The majority discovered are marking violations—inaccurate representations of required information on imports, such as country of origin—which are

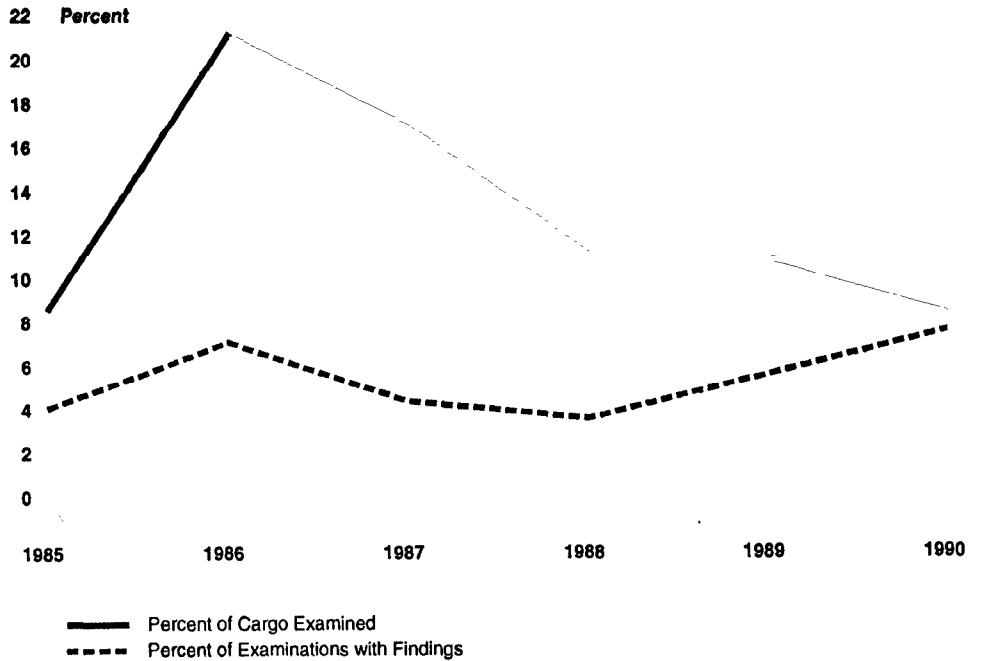
considered by key Customs officials to be relatively insignificant. Also, the number of random examinations performed by Customs is far larger than necessary to produce valid results. A smaller sample could make more effective use of resources to test trade compliance.

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**Customs Emphasizes  
Inspection Efficiency**

Customs' officials told us that the performance of the cargo examination program had improved because inspectors were conducting fewer examinations than in the past to get the same results. Figure 2.1 shows Customs' analysis supporting this contention over the period 1985 to 1990. Managers considered these statistics to be indicators of increased effectiveness.

Figure 2.1: Percentage of Cargo Examined Compared to Percentage of Examinations With Violations, 1985-1990



Source: Customs Briefing to Treasury

We agree that Customs has improved cargo examination efficiency, and there is broad agreement among the Customs workforce and members of the trade community that ACS meets their current needs for cargo processing. But, as the next section explains, the Customs inspection process is not very effective in discovering the majority of the cargo that violates trade laws and regulations.

### Inspection Process Fails to Discover Most Violations

Our analysis shows that Customs' inspection process is discovering less than a quarter of the estimated cargo that violates U.S. trade laws and regulations. For calendar year 1988 through fiscal year 1991, we estimated the total number of cargo shipments with violations using data from

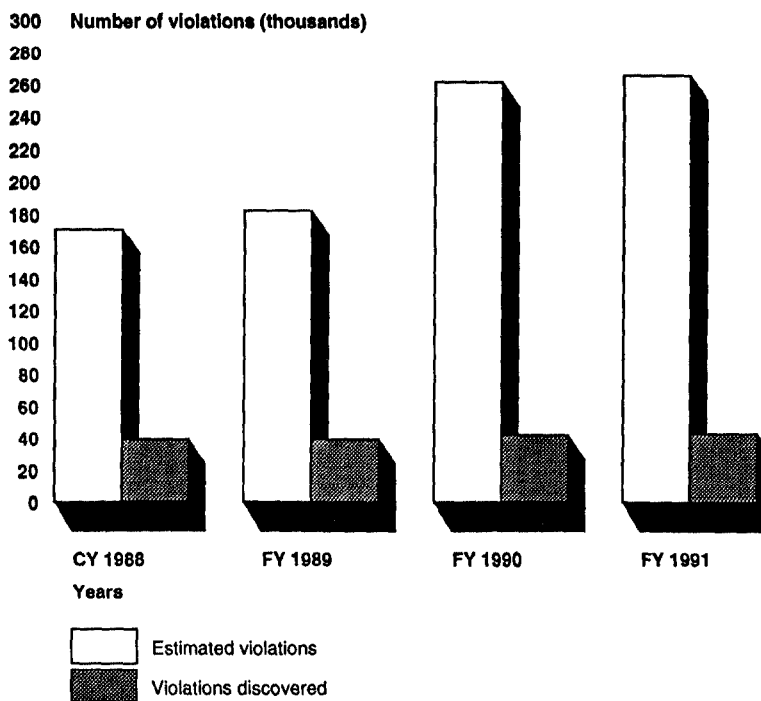


Customs' randomly selected cargo inspections.<sup>1</sup> We compared the results of this standard statistical analysis with the results from actual cargo examinations for the same period. Figure 2.2 displays the results of this analysis. We estimate that in calendar year 1988, 170,494 cargo shipments in violation of trade laws were submitted for entry into the U.S. economy. Customs discovered 39,206, or 23 percent, of these violations. This means that an estimated 130,000 entries with violations passed undetected by the inspection process. In fiscal year 1991, we estimate there were 265,680 entries that violated trade laws—a 56-percent increase over 1988. Customs discovered 42,706, or 16 percent. Thus, an estimated 220,000 entries with violations passed into the marketplace undetected by inspections.

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<sup>1</sup>In fiscal year 1991, Customs randomly selected .7 percent of cargo entries for examination. This sample was of sufficient size to provide a reliable estimate of the universe of cargo entries. If we assume that the results obtained from these examinations are representative of the universe of cargo imports, we can then estimate the number of violations in the total population.

**Figure 2.2: Cargo Violations  
 Discovered Compared to Total  
 Estimated Cargo Violations**



Our finding is troubling for several reasons beyond the fact that Customs is discovering a small and declining percentage of estimated violations. First, our analysis indicates that the level of voluntary compliance—those cargo shipments meeting Customs' rules and regulations—declined slightly, from an estimated 97 percent of shipments in calendar year 1988 to an estimated 96.2 percent in fiscal year 1991. Second, evidence suggests that the level of voluntary compliance may be lower than stated in these figures, and therefore the number of cargo shipments in violation of trade laws may be higher. Our analysis of the violation rates in the random sample (see app. I) supports the speculation of one assistant regional commissioner that the random examinations are not done as well as other types of inspections. This would mean that random examinations discover

a smaller percent of violations than actually exist in the population. By extension, this means that the number of estimated violations in imported cargo may be greater than stated above and that the level of voluntary compliance may be lower. As we discuss in appendix I, Customs does not have the necessary data for GAO to isolate and estimate this effect. Third, despite reliance since the early 1980s on selectivity processes to enforce trade community compliance with tariff and trade requirements, Customs was not making use of its own data to assess trends in overall trade compliance. We believe this is basic information needed by policymakers in the executive branch and Congress to assess the effectiveness of Customs' trade enforcement efforts.

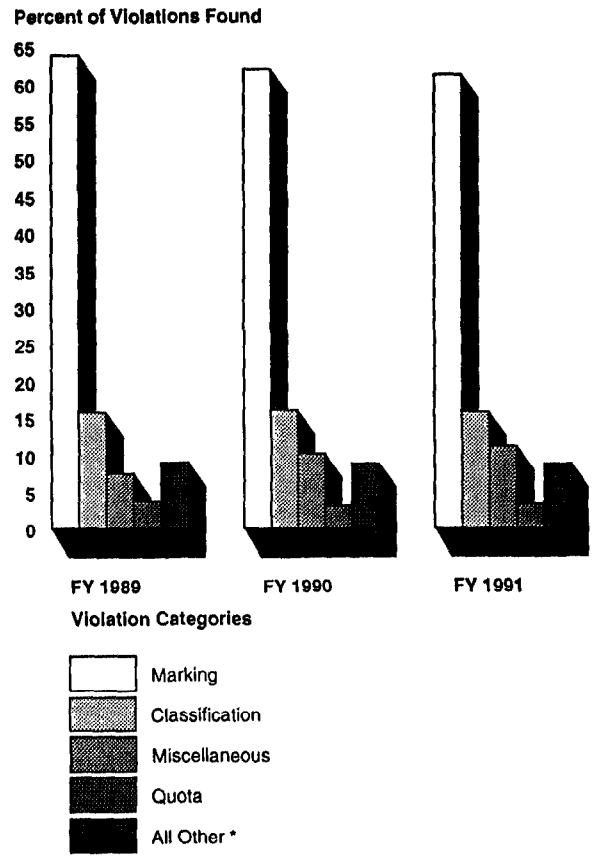
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**Customs Is Unable to  
Judge the Significance of  
Violations It Discovers**

Customs has no institutional standard for measuring the significance of the violations it discovers. Without a standard to gauge the significance of violations, Customs cannot determine whether it is focusing its limited resources on the most important violations, nor can it assess the levels of risk associated with cargo entries. Customs classifies violations by eight categories: quantity, quota, marking, classification, restricted/prohibited, narcotics, other agency, and miscellaneous. Figure 2.3 shows the proportion of the four largest categories of violation findings among all violations found.

Marking violations represent over 60 percent of the violations discovered in the past 3 years. Key Customs officials generally agree that marking violations are the least significant category. However, these officials note that there is variation in the significance of individual violations within each category, so that a particular marking violation could be more important than a particular quota violation. Nevertheless, the indicators used to measure the overall performance of the inspection process weighted each violation equally.

**Figure 2.3: Proportion of Violations Found in Cargo Examinations**



\* Includes prohibited/restricted, narcotics, other agency and quantity violation categories.

Customs needs to develop objective measures of the significance of the violations it discovers and use this information to measure the effectiveness of its operations. This would allow the agency to better understand the results of the inspection process and focus its limited inspection resources on those considered most critical.

**Customs' Examination  
 Strategy Needs  
 Improvement**

Customs has three primary methods for selecting cargo for examination. First, the Cargo Selectivity System (CSS) of ACS chooses cargo on the basis of risk factors, such as country of origin, that Customs has entered into the system. Second, CSS selects a random sample of cargo both to deter importers entering merchandise into the country in violation of laws or

restrictions and to assess the risk-targeting capabilities of CSS. Third, inspectors can override a CSS directed bypass of a shipment and direct an examination if they suspect it may be in violation. Our analysis shows that random examinations are the least effective at detecting violations, yet Customs conducts an inordinately large number of them. Customs could significantly reduce the number of random exams it conducts to meet its objectives and still develop reliable estimates of the violations within the universe of cargo imports.

In fiscal year 1991, Customs performed 52,898 random examinations—about .7 percent of the cargo shipments entering the country. However, by applying accepted statistical sampling techniques, Customs could reduce the number of random exams to as few as 400 and still develop reliable estimates of the national level of compliance with trade laws regarding the national characteristics of these entries.<sup>2</sup> We estimate that in 1991, Customs incurred more than \$12 million in direct inspector labor costs to do random examinations not needed for estimating the level of compliance in all entries filed.

Customs could also make more effective use of its resources by reducing the number of random examinations, as currently conducted. Our analysis of Customs data shows that random examinations are the least effective, detecting violations only 3.8 percent of the time in fiscal year 1991. In contrast, criteria-generated examinations detected violations 7.9 percent of the time, and for exams where the inspector exercised his or her authority to override the CSS decision to let a shipment pass without inspection, the rate was 13.1 percent. While it is reasonable to assume that random examinations have a deterrent value, the magnitude of the deterrent impact cannot be accurately assessed. We believe that a more effective approach for identifying violations, based upon an improved sampling strategy, would be a greater deterrent than the current inspection process. Reducing the level of random examinations, as currently conducted, could also be viewed as better facilitating the flow of trade because cargo examinations are expensive for the trade community, both in terms of labor costs as well as cargo delay.

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<sup>2</sup>Alternatively, by performing 5,625 random examinations, Customs can estimate very precisely (99 percent confidence level) the extent of violations among total cargo imports.

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## Classification and Value Reviews Not Effective

Customs' current processes for ensuring that merchandise entering the United States is properly classified and valued are not effective. The ESS system, which chooses the import documents that are to be reviewed by import specialists, has longstanding problems. It is not providing key information for either risk assessment or conducting classification and value reviews. To help compensate for this, Customs does tens of thousands of random entry summary reviews that are yielding few results. Import specialists report that ESS limitations, combined with their increasing workload, seriously limit their effectiveness. In this environment, Customs does not have a consistent nationwide process to monitor the quality of import specialists' reviews.

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## Classification and Value Reviews Are Hampered by System Limitations

Customs' classification and value review program relies on the ESS system to select the entry documents that import specialists review to verify that proper duties have been paid and that trade restrictions such as quota limits have not been violated. ESS was designed to identify and bypass entry documents considered to be low risk so import specialists could focus their attention on those documents posing the highest risks. ESS was also intended to help Customs achieve greater uniformity in processing entry documents. Customs officials acknowledged that ESS development has emphasized the rapid processing of entry documents more than the objective of helping import specialists carry out the agency's trade enforcement mission.

Since it was implemented nationwide in 1988, ESS has experienced several operational problems that limit its usefulness as an enforcement tool. First, ESS does not readily identify why an import specialist receives entry documents for review. Without this information, an import specialist does not know what needs to be reviewed or why the entry summary needs review. To obtain this information, an import specialist must take the time to go through a series of computer screens. ESS design limitations also make it very difficult for import specialists to search for and access historical data relating to a specific importer, such as commodities imported, ports of entry used by an importer, or origin of the manufactured goods. In a separate review of ESS,<sup>3</sup> we found numerous instances where these design limitations, as well as the lack of computer terminals, led import specialists to accept high-risk entry documents without a complete review.

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<sup>3</sup>Customs Automation: Effectiveness of Entry Summary Selectivity System Is Unknown (GAO/IMTEC-92-20, Mar. 24, 1992).

Second, the entry documents that ESS selects for review often contain multiple items of imported merchandise. The system routes these documents to the import specialist team whose item had the highest aggregate dollar value, even though an item with a lower dollar value may be high risk. For example, if an importer files an entry summary for \$10,000 worth of housewares and \$5,000 worth of electronics, the entry summary is routed to the housewares team even if ESS selected electronics as the high-risk item needing review. Therefore, summaries may be reviewed by one team that may not have the proper expertise, when the summary should have been reviewed by a different team that does have the necessary expertise.

Third, ESS stops looking for additional high-risk items after the first "hit" even though additional high-risk commodities may be included. A 1991 review of ESS by Customs' Quality Assurance Branch found that this system characteristic prevents all appropriate review teams from examining the entry documents.

Customs' ability to assess the effectiveness of the ESS program and its related selectivity criteria has been impeded by a delay in the development of a system capability to record all instances when entry documents were rejected by import specialist review teams for filing errors or misrepresentations of the merchandise involved. This information could be used to improve selectivity criteria. This system limitation has not only handicapped the compliance efforts of import specialists, but also denied other segments of the organization—such as inspectors and regulatory auditors—useful intelligence on trends in import violations and commercial fraud. The ability to analyze activity trends is fundamental to Customs' modernization plans, which call for a shift from transaction-by-transaction reviews to greater emphasis on detecting patterns of noncompliance. This capability cannot be achieved as long as ESS does not allow Customs to compare the entry document review results with the specific criteria prompting the review.

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### **Limited Benefits From Random Reviews**

In fiscal year 1990, Customs randomly selected about 93,700 entry documents for review—about 2.4 percent of all entries not already targeted for review. According to a Customs directive, import specialists are to do thorough reviews of the randomly selected documents to ensure the integrity and soundness of the ESS selection criteria. However, according to the 1991 Customs Quality Assurance review of the ESS

program, there is no standardized method in place for capturing and analyzing the results of these random reviews.

Further, the value of the random reviews in terms of recovery of duties owed has been minimal. For example, the randomly selected entry documents accounted for about \$105 million in voluntary duty payments prior to review. The random reviews resulted in the payment of about \$354,000 in additional duties, an increase of about .3 percent. On the basis of Customs' data, we estimated that the import specialist time to perform these reviews cost about \$700,000.

Given the limited cost benefit of the random reviews, we believe Customs should reduce the size of the random sample. A sample of about 400 documents would be sufficient to estimate the level of compliance by all importers.<sup>4</sup> Customs could then use freed-up import specialists to conduct reviews that were part of a more targeted sampling strategy. Such a strategy would enable Customs to both target high-risk segments of the import community and continually refine its selectivity criteria.

Ultimately, we believe that a sampling strategy that coordinates the efforts of inspectors and import specialists would represent the most efficient and effective use of Customs resources and would provide benefits toward facilitating trade. Such an approach would be part of a comprehensive trade enforcement strategy directed at checking compliance with all the trade laws. This would contrast with the current segmented effort in which the cargo examination efforts of inspectors and the entry summary reviews by import specialists are separately targeted and conducted. Such a coordinated approach should provide a more comprehensive picture of where compliance problems exist and should permit Customs to better target noncompliance areas. One result of better targeted examination and review efforts would be fewer reviews of imports that comply with trade laws. The benefit of this approach should be that Customs is better positioned to effectively detect noncompliance with the trade laws while also better achieving its goal of facilitating the flow of trade.

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### **Adequacy of Entry Reviews Is Questionable**

In addition to the limited effectiveness of ESS, there are concerns about the quality of the document reviews actually performed by import specialists. Import specialists have been faced with a growing number of entry documents. Because of the increasing complexity of the international

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<sup>4</sup>As with random cargo exams, by doing 5,625 random entry summary reviews, Customs could estimate very precisely (99 percent confidence level) the extent of discrepancies among total imports.



trade environment, these documents have become more difficult to accurately assess for classification and value. Customs regulatory audit officials involved in post audits of importer records have expressed concerns that import specialists lack the information to adequately review many of the entries.

Also, import specialists' workload is growing. The number of entry documents processed per import specialist increased from 4,046 to 7,964 (97 percent) between fiscal years 1981 and 1990. Most supervisory import specialists responding to our questionnaire said that staffing was insufficient to allow Customs to give adequate attention to all entry documents and still keep up with the workload. Specifically, 67 percent said that their unit did not have enough staff to do its work, while 92 percent said that additional staff were needed to improve working relationships with the trade community.

During our field visits, import specialists in two districts told us that increasing workload and other responsibilities, such as answering brokers' and importers' questions, leave them with limited time to review import documents. We were also told of instances where import specialists accepted entry documents targeted by ESS without review if the value was below \$50,000 or accepted importers' classification and value because they did not have the expertise to determine whether the information was correct. The import specialists attributed these problems to heavy workload and inexperience in their commodity lines. They said that this last problem was caused by frequent rotations among commodity teams and lack of training in commodities.

Not only has the entry document workload of import specialists increased, it has also become more complex due to the constant introduction of new products to the market and the growing complexities of international trade. Free trade agreements, multiple countries being involved in the manufacturing of products, and product quotas are some of the aspects of international trade that influence the classification and valuation of merchandise and the resulting duty assessments on the merchandise. Determining the proper duty and product admissibility in the face of these factors requires a great deal of commodity knowledge.

Regulatory audit officials told us that import specialists normally lack the access to documents necessary to determine the effect of complex trade patterns—such as transactions involving multiple parties—on the value of a product. A detailed review of an importer's business records is often

required to make an accurate determination in such cases. However, officials said import specialists often have neither the time nor training to do such reviews. As a result, they said, regulators' audits of importers sometimes identify import transactions that an import specialist has reviewed without detecting such mistakes as undervaluation of the merchandise.

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**No National Process for  
Assuring Entry Summary  
Review Quality**

Despite questions regarding the effectiveness of import specialist reviews in assuring compliance with trade laws and regulations, Customs does not have a national postreview process sufficient for assuring the quality of import specialists' reviews. National import specialists<sup>5</sup> conduct an entry summary review program, but, according to the Customs directive establishing the program, it is aimed at making commodity classification decisions consistent across the country, not at monitoring the quality of import specialists' reviews. According to the directive, postreviews of processed entry documents are accomplished, to some extent, by managers in all districts. However, we were able to identify only one region that captured the results of these reviews in order to track the quality of the entry document review process.

The New York Region has performed import specialist postaudits since 1973. The local regulatory audit branch reviews selected entry documents, including both those reviewed and not reviewed by import specialists, to determine if mistakes were made by the filer or the import specialists. In our draft report on Customs financial management<sup>6</sup> we noted that this program resulted in the assessment of \$4.8 million in additional duties and fees, net of refunds identified, to importers. According to the Director of the Office of Regulatory Audit at Customs headquarters, the postaudit by regulatory auditors in New York is the only one of its kind done in Customs. He told us that Customs has not implemented the program agencywide because Customs has not determined its full benefits.

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<sup>5</sup>These import specialists represent the key source of commodity knowledge within Customs and are responsible for monitoring and assuring the uniformity and accuracy of classification decisions made by field import specialists. They are also responsible for adding and deleting national ESS bypass criteria.

<sup>6</sup>Financial Management: Customs Needs to Establish Adequate Accountability and Control Over Its Resources (GAO/AFMD-92-30, Aug. 25, 1992).

## **Customs Lacks Critical Information on Programs Aimed at Trade Law Violators**

While cargo inspections and entry summary reviews are Customs' major programs for assuring compliance with trade laws, its commercial fraud, fines, penalties and forfeitures (FP&F) and AD/CV duty programs are its major weapons against violators of these laws. As with the cargo inspection and entry document review programs, Customs lacks critical information on the results of these programs, and therefore has little indication of how well it is investigating and penalizing abusers of the trade laws.

For example, Customs cannot adequately monitor the status of penalty cases and lacks a comprehensive picture of how effectively it is collecting penalties. The system it uses to manage the program—the FP&F module in ACS—contains incomplete, inaccurate, and outdated data. Customs' Office of Internal Affairs reported in February 1991 that the FP&F system allows districts to enter cases into the system using arbitrary and inconsistent codes. As a result, the study concluded, it is impossible to use the system to obtain accurate information on the types of penalties Customs is assessing and how timely penalty cases are being processed. This was evident when Customs was unable to respond to a House Ways and Means Subcommittee on Oversight request in 1990 for statistics on seizures resulting from commercial fraud violations.

Customs also cannot produce accurate and comprehensive information on penalty collections due to inadequate controls for posting collections and a lack of integration of the systems used to track them. Penalty collections are normally made by the district where the penalty was assessed and are supposed to be posted in the FP&F system. However, Customs often collects or receives payment at the Customs National Finance Center (NFC) in Indianapolis. Collections are posted in a separate system intended to record all Customs collections. However, importers often do not specify the penalty case to which their payment pertains, and if the payment is made to the NFC, they do not always specify that it is a penalty payment. Therefore, Customs officials told us, neither the FP&F system nor the NFC collections system contains accurate data on collections, although Customs uses the data from the NFC system to report penalty collections to Treasury.

Customs is in the process of redesigning the FP&F system. However, the project is not scheduled to be completed until October 1993, and the new system, as designed, will still lack what we believe are essential management information capabilities. For example, the system will not be able to show how penalty assessments compare to actual collections, nor

will it provide information on collection performance by field locations. Further, in our report on Customs' financial operations, we recommended that an integrated accounts receivable system be developed that would enable Customs to identify all amounts (duties, fees, fines, and penalties) owed by importers and brokers for appropriate collection action.<sup>7</sup> Customs has started to coordinate the efforts to revise the FP&F module with financial managers.

Customs also cannot reliably capture the results of commercial fraud enforcement activity on a national or regional basis. Consequently, Customs' headquarters has limited knowledge about how effectively commercial fraud enforcement is being carried out in the field.

Commercial fraud activities are tracked by two separate methods. The first is the Office of Enforcement's automated Case Management System (CMS)<sup>8</sup> which captures information pertaining to investigations, such as agent time spent, arrests, indictments, and penalties. The second method is the monthly fraud reports, which are compiled by each of the district fraud teams,<sup>9</sup> and report information on fraud cases, such as case status and investigation results. These reports do not track the amount of Commercial Operations and Inspection and Control staff time devoted to commercial fraud since neither office has the capability to account for staff time charges to different activities. They also do not consistently capture commercial fraud data since each district fraud team developed its own report. Moreover, the district fraud reports are not compiled by the regions or headquarters and therefore they do not contribute to a comprehensive picture of agencywide commercial fraud enforcement activities.

Two reports by Customs' Office of Internal Affairs, one in 1988 and one in 1990, criticized the quality of information available on commercial fraud enforcement. Both concluded that the tracking of civil and criminal commercial fraud enforcement results was inadequate for management information purposes. The 1990 study recommended that Customs establish internal controls to periodically test accuracy of the information in the CMS and the monthly fraud reports. It also recommended that

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<sup>7</sup>Financial Management: Customs Needs to Establish Adequate Accountability and Control Over Its Resources (GAO/AFMD-92-30, Aug. 25, 1992).

<sup>8</sup>Part of the Treasury Enforcement Communications System (TECS II).

<sup>9</sup>Groups in Customs' districts composed of import specialists, agents, in some districts, regulatory auditors and/or inspectors, and other staff that coordinate commercial fraud cases.

reporting systems be refined. To date, Customs has not acted on these recommendations.

A recent congressional oversight review and our work also indicate that information problems are hampering effective management of AD/CV duty programs intended to protect domestic industry from unfair pricing strategies by foreign competitors. These problems stem from inadequacies of two ACS systems designed to help Customs administer the program. One system contains information on the status of AD/CV duty cases and is supposed to be used by districts to determine when a case has been decided by the Department of Commerce<sup>10</sup> so that final duties can be assessed and collected. The other system was designed to help Customs track entries awaiting the disposition of the AD/CV duty cases.

We found that some import specialists responsible for assessing AD/CV duties and for closing out AD/CV duty entries do not use these modules because they find them cumbersome, preferring instead to use manual systems. During a 1991 congressional oversight review, it was revealed that Customs field offices were holding many AD/CV duty entries that should have been closed. If AD/CV duty entries are not closed out within 90 days of the disposition of the case to which they pertain, assessment of additional AD/CV duties may be at risk.

When trying to determine how many of an estimated 500,000 entries on hold should be closed, headquarters found the automated systems to be of little use. It was forced to request that each district perform a manual inventory of AD/CV duty entries to compare with closeout notices received from Commerce. The inventories revealed that numerous entries should have been closed out and that final duties should have been assessed. Customs acknowledges that revenue has been lost as a result of these AD/CV duty management problems, but it is unable to estimate how much.

In July 1991, Customs established an internal task force responsible for identifying and recommending solutions to problems with the AD/CV duty program. The group has recommended improvements in 12 areas. Strategies have been developed for each area, but to date little action has been taken to implement these recommendations.

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<sup>10</sup>The Department is responsible for countervailing duty (CV) statutes, including determining whether an unfair trade practice exists. AD/CV duties are imposed only if the Department of Commerce determines an unfair trade practice exists and the International Trade Commission determines the practice causes or threatens material injury to, or materially retards establishment of, a United States industry.

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## Conclusions

Customs does not have adequate assurances that its trade enforcement efforts are effective and efficient. It lacks critical information on how effectively it is preventing the entry of illegal cargo, collecting duties, and investigating and punishing violators of trade laws. We believe that the problems described in this chapter can only be solved if Customs' leadership makes a stronger commitment to enhancing trade enforcement. This will require that Customs develop an agency plan that clearly states the agency's trade enforcement goals and sets forth a cohesive approach for meeting them. This plan should focus on improving Customs' ability to target shipments and importers posing the greatest threat to the country's trade and economic policy objectives. The plan should also focus on assessing the results of Customs' enforcement efforts by establishing an agencywide framework for measuring efficiency and effectiveness. Such a plan will not only result in a more efficient and effective trade enforcement program, but should also improve Customs' facilitation of legitimate imports. As we will discuss in subsequent chapters, this plan should be part of an overall strategic management process that will enable Customs to better meet its diverse mission responsibilities.

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## Recommendations

The Secretary of the Treasury should direct the Commissioner of Customs to reassess Customs' trade enforcement activities and develop measurable objectives for Customs' trade enforcement mission.

As part of an overall strategy to achieve its trade enforcement objectives, the Commissioner should identify and prioritize areas of noncompliance with the trade laws. Analysis of the results of its own enforcement efforts should be an integral part of this risk assessment process.

To improve Customs' ability to analyze the results of its trade enforcement efforts, the Commissioner should take the following actions:

- Improve Customs' means of assessing the significance of the cargo violations it detects, including an evaluation of the usefulness of the current violation categories.
- Develop the capability within the Entry Summary Selectivity System for analyzing results of classification and value reviews and use this analysis to gauge the effectiveness of these reviews, reassess its high-risk priority areas, and revise its enforcement strategies.
- Test compliance with the laws Customs enforces using accepted statistical techniques and redirect any freed-up resources toward testing compliance in areas of highest risk.

- Implement a consistent national program to assure the quality of entry summary reviews.
- Involve import specialists and inspectors in analyzing problems with trade enforcement processes.
- Expedite the improvement of FP&F information, as part of the development of an integrated accounts receivable system, to improve oversight of Customs' collection activities.
- Improve the process for identifying AD/CV duty entries that can be liquidated and institute controls to ensure that AD/CV duty entries that can be, are liquidated within 90 days.
- In response to Customs' own findings, develop comprehensive information systems to oversee agencywide commercial fraud enforcement efforts.

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## Agency Comments

Customs and Treasury each provided written comments on a draft of this report (See app. IV). Customs said that many of the improvements we outlined would substantially improve selectivity, that it had established a team to review the report, and that it plans to act on many of the valid conclusions. However, Customs also stated that we entirely missed the point; failed to understand its approach to its trade enforcement mission; got lost in the details and micromeasures used to measure voluntary compliance; did not consider the macromeans Customs also uses; and made sweeping generalizations about Customs management, planning, human resources, strategy, and organization based on our flawed understanding. Customs listed several elements of its strategy that it thought we had not adequately considered and pointed out that these elements, taken together with its ACS, had enabled it to achieve a remarkable trade compliance rate in excess of 96 percent. Treasury said that Customs is working to improve its trade enforcement capabilities, is trying to catch 100 percent of violators, has achieved a 96 percent voluntary compliance rate, and that it did not believe we gave Customs sufficient credit for achievements.

We are pleased that Customs plans to act on our report, and we are aware that it has already created some teams to examine problem areas that we pointed out during the course of our work. But we are concerned with whether the actions that will be taken will be sufficient to deal with the issues we have raised. Considering both Customs' and Treasury's written responses to the draft report, we fear that they have either misunderstood or do not appreciate the nature and significance of our message and that, because of this, the actions taken may fall short of what is needed.

We do not believe that Customs should be satisfied with a given compliance rate; rather, it should continually strive to narrow the noncompliance gap. The essence of our message is that, given its limited resources. Customs must

- be able to target those resources for maximum effectiveness by knowing what pockets of noncompliance exist and which of its enforcement efforts best deals with each form or pocket,
- use this information to formulate a strategy through which it brings its efforts to bear to achieve the maximum effect, and
- be able to change its strategy as circumstances warrant.

However, Customs meets none of these requisites. Its lack of needed information has left it poorly positioned to know whether it has identified the imports posing the highest risks and how effectively its programs address those risks. Thus, it does not have adequate assurance that it is enforcing the nation's trade policies as effectively as it should or could.

Given Customs' limited resources, our message is sound regardless of the size of the noncompliance gap. However, we are further concerned with Customs' response to our report because Customs does not seem to understand that the 96-percent compliance rate it cites is an incomplete indicator for the current environment. For example, the 96-percent rate for 1991 represents a decline from 97 percent in 1988. At first glance, a 1-percent decline may not seem significant. However, this represents a 56-percent increase in estimated imported cargo violations over the same period. This indicates an undesirable decline in Customs' effectiveness in deterring violations. This decline is further evidenced by the fact that the percentage of estimated violations detected by Customs over the same period declined from 23 percent in 1988 to 16 percent in 1991. Thus, it appears that the size of the noncompliance gap is increasing. And, regardless of whether Customs' objective is to achieve the highest practical rate of voluntary compliance or, as Treasury indicates, to catch 100 percent of violators, the strategy has fallen short.

On August 19, 1992, the Commissioner of Customs sent a letter to the Chairman, Subcommittee on Oversight, Committee on Ways and Means, detailing specific actions that either had been taken or were planned in response to many of our recommendations as well as those contained in other congressional and internal reports. We are encouraged by the Customs letter and will continue to work with Customs as it formulates and implements these actions.



# Strategic Management Framework Needed to Direct Operations

Customs needs a strategic management process to effectively direct and control its operations. Currently, Customs' plans do not effectively address its essential trade enforcement mission, provide a clear sense of priorities among numerous objectives, or contain adequate implementation strategies. Deficiencies in its plans, along with a range of communications problems, contribute to continuing confusion among Customs' managers on organizational priorities and how to balance the goals of trade enforcement with trade facilitation.

Serious questions have been raised about Customs' accountability processes. There are longstanding management information problems that prevent effective management oversight of trade enforcement efforts. Congressional and Customs-initiated reviews have characterized Customs' management assessments as being too narrowly focused to identify the source of problems, not done routinely, and lacking adequate management attention to the implementation of corrective actions. Finally, senior executive performance plans were not useful for measuring managers' performance because of goals and standards that were too general.

Customs has initiated corrective actions in response to criticisms of its strategic management processes. It is too soon to tell what effect these changes will have on Customs' ability to control its operations. However, we believe that if Customs is to implement an effective strategic management framework approach to managing its operations, it must overcome a penchant for operational over strategic concerns, establish strong central institutional management processes, and gain essential support from the Department of the Treasury, the Office of Management and Budget (OMB), and Congress.

## Key Elements of a Strategic Management Framework

Our reviews of management at other agencies have demonstrated that a strategic management framework helps focus the attention of an agency head on identifying and resolving key issues. Through this process, a clear agencywide direction can be set and the agency can move toward achieving its goals while avoiding crisis management. The basic elements of a strategic management framework are common to any complex private or government organization. They include:

(1) **Clearly articulated vision and planning.** Top management must provide the leadership to determine what exactly the agency is trying to achieve and its primary reason for being. It also needs to establish long-range plans to direct and coordinate actions on the agency's various interrelated

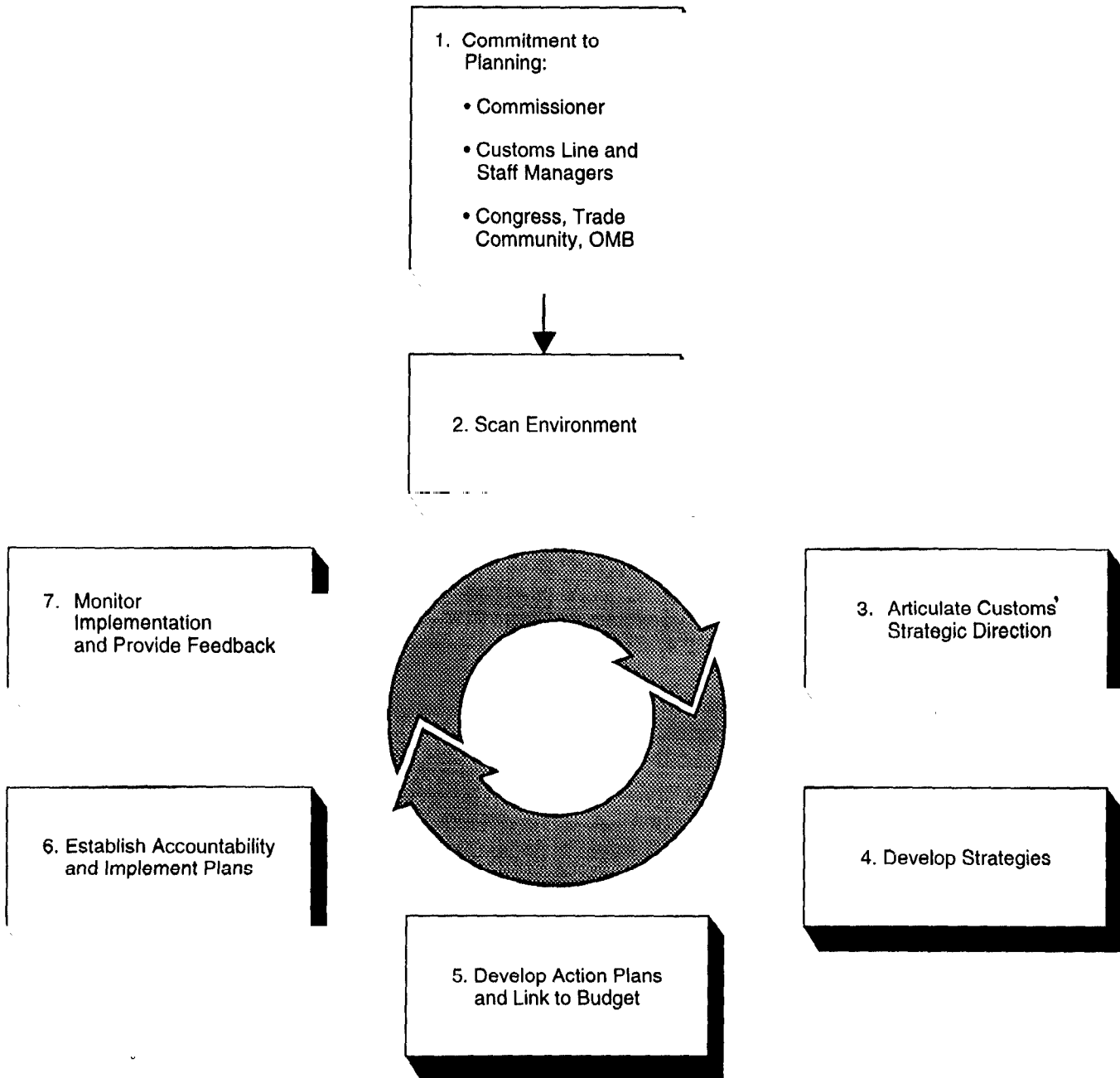
policies and functions to achieve priorities and goals. In addition to long-range planning, management must develop specific short-range plans to efficiently direct resources among functions and to assist in making decisions regarding day-to-day operations. These plans should be linked to the budget to ensure that priorities are adequately supported. An agency must define priorities, goals, and plans in concert with other agencies, Congress, and outside interest groups, while also considering the interrelationships among its internal operating groups.

**(2) Effective communication.** Effective communication is essential to build support for changes from within the organization and from affected outside parties. Agency leadership must clearly communicate its goals, priorities, and plans to managers and staff and must demonstrate commitment to their accomplishment. Also, communication between managers responsible for setting policies and those responsible for assuring that they are implemented is essential.

**(3) Accountability structure.** Managers must be held accountable for operational and programmatic results. An accountability structure translates priorities, goals, and plans into clear and measurable performance statements; provides adequate management information about program and individual performance for assessment against performance statements; and permits an allocation of rewards and sanctions to managers based on an assessment of performance. A necessary component of an accountability structure is a viable mechanism to monitor the agency's performance in achieving mission goals.

In adopting a strategic management process, an agency's leadership needs to recognize that the process cannot operate effectively unless the elements are linked together to form a management cycle. For example, information on program performance developed as part of the accountability structure should be fed back into the planning process so any needed adjustments can be made to organizational priorities and goals. Figure 3.1 depicts the cyclical nature of an ideal strategic management process.

**Figure 3.1: Proposed Strategic Management Process**



## **Plans Do Not Provide Strategic Direction**

In May 1991, Customs issued a 5-year plan that was updated in December 1991. However, this plan has problems that could diminish its usefulness in providing effective strategic direction. First, it does not clearly articulate strategic direction. As reported in chapter 2, the plan's objective for trade enforcement is not defined in a way that enables someone to understand what constitutes good trade enforcement and measure progress toward achieving it. Trade enforcement could be defined in terms of increased detection of violations, increased duties collected, increased voluntary compliance, or some comparable objective.

Second, the plan could more clearly highlight what is important. The 28 objectives that are presented are not prioritized<sup>1</sup> and not all of them reflect Customs mission objectives. In fact, some of the 28 are actually subobjectives of others. For example, the plan includes objectives for such programs as regulatory audit, fraud investigations, and intellectual property rights. These should be components of its trade enforcement program and integrated into a comprehensive trade enforcement objective.

Our survey of Customs managers shows concerns about the agency having numerous goals and objectives with no prioritization. Comments from respondents included the following:

"[We need] clear priorities at the headquarters level... If new programs are to be implemented without additional resources or funding, then headquarters should inform the field of what can be dropped in order to implement them."

"Customs needs to get back to the basics of its mission and reduce the number of new initiatives and special projects."

A third problem is that the 5-year plan was issued without detailed plans for accomplishing its objectives. For example, as discussed in detail in chapter 7, there is no agencywide action plan for attaining Customs' objective of processing 75 percent of all Customs transactions and collections in a paperless mode. Therefore, it is not clear how Customs will meet this objective, nor how the paperless program overall will help Customs process cargo more effectively and efficiently while continuing to meet its trade enforcement responsibilities.

<sup>1</sup>The plan does list 12 goals of particular emphasis in FY 1992, including improved commercial service and expansion of paperless processing. However, the 12 goals are not stated in order of priority.

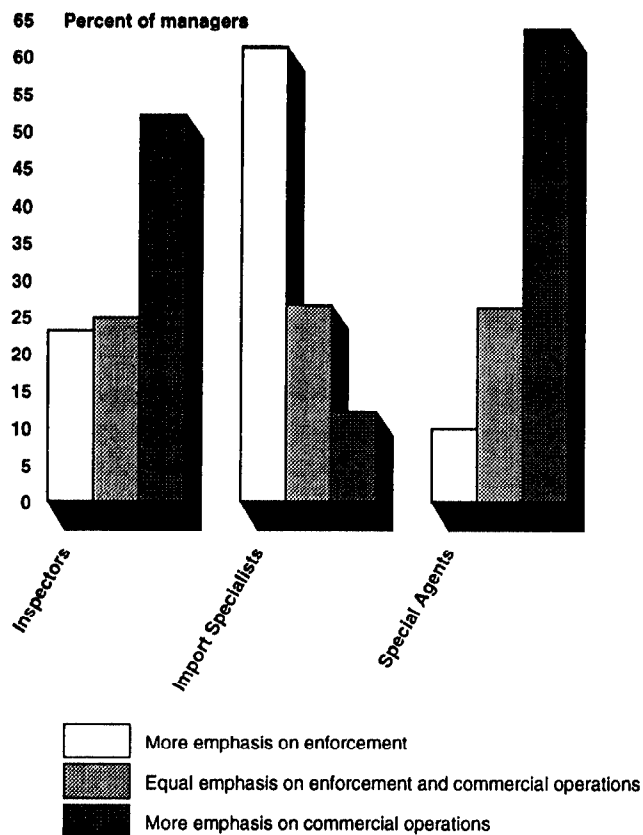
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**Realization of  
Commissioner's Goals  
for Improved  
Operations Requires  
Better  
Communication**

Good communication is important for Customs as it seeks to adapt to the growing complexity of international trade. If changes such as the modernization of commercial operations are to succeed, Customs management must be able to communicate a vision of how these changes will improve operations.

However, our study indicated that greater efforts are required to communicate a clear sense of Customs' strategic direction. In responding to our survey, a majority of managers said that Customs was establishing a viable plan to implement the Commissioner's stated priorities and said they were clear as to where Customs is headed in the next 5 years in terms of its overall mission or objectives. However, our survey also clearly shows wide variation among different Customs components in perceptions of the current organizational priorities. When asked to characterize the current setting of priorities at Customs between criminal law enforcement and commercial operations, the majority of agents and inspectors felt that there was heavier emphasis on commercial operations than on law enforcement. The majority of import specialists, on the other hand, felt that law enforcement was receiving heavier emphasis (see fig. 3.2).

**Figure 3.2: Managers' Views of the Relative Emphasis by Customs on Enforcement vs. Commercial Operations**



Note: See appendix I for the sampling error.

Our survey found continuing concerns among Customs' managers about the adequacy of headquarters direction regarding what they perceive as conflicting goals of enforcing the trade laws and facilitating the flow of trade. For example, a supervisory inspector responding to our survey suggested that Customs "clarify the role of Customs' inspectors—[it is] still very very unclear as to enforcement vs. facilitation role . . . Clarify ambiguities such as co-equal priorities—[they] cannot exist." Another respondent said that:

**"Law enforcement is not a separate activity distinguishable from commercial operations...However, the inappropriate labeling of [a] division as 'Enforcement' has succeeded in obscuring the enforcement role common to all Customs officers and creating the misconception that there is such a thing as 'enforcement vs. commercial operations'. The real question is whether to adopt an adversarial or facilitative attitude toward the importing community."**

**One district director said that the current headquarters direction was to emphasize both enforcement and facilitation, which he felt could not be done with existing resources.**

**Discussions with groups of import specialists from three districts also elicited concerns regarding the adequacy of policy direction from headquarters. Import specialists located in one district expressed concerns with what they felt was a lack of management support for their enforcement efforts. They said that Customs management does not back them when they find importers in noncompliance. Import specialists in a second district felt they cannot do their job effectively with so many competing pressures. They are directed to facilitate the movement of cargo while being subject to audits that scrutinize their decisions to release merchandise. Import specialists in two district offices said that headquarters does not always inform them of changes in rules and regulations. Rather, they said, importers and brokers know about changes before they do. One import specialist said that they are often informed of changes by brokers.**

**Finally, as shown in table 3.1, managers' responses to a number of questions regarding communications show the need for efforts to improve in this area.**

**Table 3.1: Managers' Views on  
Communication Issues**

	Percentage	
	Agree/strongly agree	Disagree/strongly disagree
Headquarters is in touch with field's problems and concerns.	27	47
Headquarters clearly communicates policies and procedures to the field.	41	33
Headquarters efficiently disseminates policies and procedures to the field.	36	38
Headquarters ensures policies and procedures are implemented agencywide.	25	43
Communications between headquarters and regions is good.	31	31
Communications between regions and districts is good.	41	24
There is good dissemination of information throughout the agency.	36	46

### **Weak Accountability Hinders Customs' Ability to Improve Trade Enforcement**

Once Customs establishes and communicates the strategic direction it will follow, it then needs to establish accountability for achieving it. However, serious questions have been raised about accountability processes. The Blue Ribbon Panel report on integrity and management issues at Customs, released in August 1991, cited "a notable lack of accountability among Customs managers at all levels for actions which are taken or which fail to be taken with respect to management issues. The systems to deal with ineffective supervisors and managers do not work." (See ch. 5 for a more detailed discussion of concerns about managerial performance.) In written responses to our survey, some Customs managers also disclosed various concerns regarding the effectiveness and integrity of Customs' accountability processes. For example:

"Progress reports and accomplishments are routinely provided to senior Customs management officials which are either erroneous or inflated. These reports and accomplishments are accepted, publicized and routinely utilized to justify budget requests for additional resources. Senior Customs management...generally appear to accept these reports and accomplishments at 'face value', nothing is ever questioned which perpetuates the reporting of erroneous and/or inflated data. There exist no 'cost-effectiveness' concerns relative to various programs."



"Even though Customs tries to self-audit itself, unless word is given to go after a manager, problems are not surfaced. The internal audit process needs to be improved to have more integrity."

Weaknesses in accountability processes contribute to Customs' inability to accurately measure and assess program and managerial performance.

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**Longstanding Management  
Information Problems  
Persist Despite Current  
Efforts**

In its February 1990 report on Customs commercial operations, the House Ways and Means Subcommittee on Oversight concluded that most Customs management decisions were made without supporting data or analysis. The report found such information problems as data did not exist or had to be developed from manual document searches or by survey, management information was available but was not used by Customs officials, some program measures were either inaccurate or inappropriate, new programs were launched without information being collected to determine whether the programs accomplished their goals, and Customs had not created management control systems that ensured nationally uniform enforcement standards.

Our review found that such problems continue. As we showed in chapter 2, Customs has not

- used information from its random cargo examinations to develop estimates of the violations in all cargo imports;
- established institutional standards for measuring the significance of the cargo violations it discovers;
- developed the capability within the ESS program to assess the effectiveness of its criteria in targeting high-risk imports; and
- developed critical information on the results of its FP&F, commercial fraud, and AD/CV duty efforts.

In May 1991, in response to a Subcommittee on Oversight recommendation, Customs began developing a Management Information System (MIS) to track and monitor program performance in the Offices of Commercial Operations and Inspection and Control. Custom's goal is to develop a system that provides Customs management with information on the results of programs. The MIS, as it is currently being developed, is a good first step to the achievement of this goal, but its ultimate success depends upon whether a number of key issues are adequately addressed.

First, some potential performance information users were not adequately involved in the system's development. For example, although middle management identified their information needs, the objectives, expectations, information needs, and priorities of top-level managers were not obtained prior to developing indicators.

Second, the MIS as it is currently being implemented will not provide a comprehensive picture of Customs' performance. According to the Director of the MIS project, Customs has decided not to aggregate district performance reports into regional and national reports because it believes that districts are sufficiently different in terms of the nature of their workload such that their performance cannot be aggregated into meaningful reports on regional or national performance. However, we believe the development of aggregate data on agencywide and regional performance is important if different strategies to improve Customs' operational efficiency and effectiveness are to be assessed.

Third, the performance measures being developed are not closely linked to the Customs planning process. Such linkage is important if the measures are to help management assess program effectiveness and efficiency. However, as we noted earlier in discussing the trade enforcement objective in the 5-year plan, objectives must be expressed in terms that lend themselves to measurement and hence performance monitoring.

Fourth, Customs does not have specific plans for generating the information for the MIS. The Office of Information Management has been enlisted to devise ways to automate information needed for the MIS that is currently manually generated. However, the Office has not assigned the MIS project a high priority, and as a result does not expect to complete automating the MIS for at least 2 years. Moreover, Customs has not determined who in the organization will be responsible for maintaining the MIS.

Finally, financial management deficiencies hamper Customs' ability to develop effective performance measures. The Chief Financial Officers Act of 1990 requires that agency financial management systems provide for the systematic measurement of performance. However, Customs does not have a cost accounting system, and accounting and budget information is not integrated to a point where it is adequate for management control and planning purposes. Further, Customs allocates its budget by object class, which does not correspond to program operations. As a result, Customs

cannot assess managerial performance by comparing program expenditures to program results.

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**Full Potential of  
Management Assessments  
Not Achieved**

A good performance measurement system can give managers a general indication of program problem areas. However, to determine the causes and to find solutions, managers need the capability to delve deeper into operations. A comprehensive management assessment program can provide this capability, but Customs has lacked such a program. Instead it has had a fragmented array of audits, evaluations, inspections, and management assessments performed by a number of different groups. Customs was recently criticized by the Blue Ribbon Panel and the Treasury IG for its failure to deal with serious management and integrity problems in the Southwest Region. In response to this criticism, it is attempting to institute a management inspection process to assure greater accountability. This effort will require the full support of management to be successful.

Both the House Ways and Means Subcommittee on Oversight and Blue Ribbon Panel reports were critical of Customs management and operational assessments. These reports and our own work point to three basic problems. First, there is a tendency for the assessments to be too narrowly focused to provide the comprehensive view of program management and operations necessary to identify the source of problems. The Blue Ribbon Panel report noted that “. . . Customs’ assessment efforts within Internal Affairs limit their focus to specific programs or issues . . . [and] do not look at the overall management of an office or organization.” During the course of our review, a Customs official said that the management assessments done by his unit were quick, narrowly focused fact-finding efforts.

Second, the reviews are not done routinely. The House Ways and Means Oversight Subcommittee’s report concluded that program reviews conducted by Customs tend to be done on a fire-fighting basis. It cited the example of Customs forming a task force to review the operations of its seized property program only after the Oversight Subcommittee presented evidence of abuses during a hearing on the program. The Blue Ribbon Task Force report also discussed problems with the frequency of inspections. The report noted that inspections of Customs’ Southwest Region done by the Office of Enforcement were 5 years apart. Our work uncovered a similar example. For example, the FP&F headquarters office does surveys at the district offices to gauge operations, observe

procedures, and examine file cases. However, the office had surveyed only 11 of 44 Customs' districts since 1988.

Third, Customs often does not ensure that recommended corrective actions are implemented. The Treasury Inspector General's September 1991 report<sup>2</sup> noted that:

"Many current management problems were previously identified in a 1985 internal review. However, because Customs did not take adequate corrective actions, these conditions persisted and were identified again in a 1990 internal review."

As noted in chapter 2, problems still exist in the overall management of the commercial fraud program despite the findings of management assessment studies in 1988 and 1990. These studies noted that there was inadequate management information on combined commercial fraud results.

The Blue Ribbon Panel made a number of specific recommendations directed toward helping Customs establish a strong and viable management inspection program to evaluate and monitor all aspects of the organization. The Commissioner accepted these recommendations. A recent reorganization established an Office of Organizational Effectiveness (OOE), headed by an Associate Commissioner who will report to the Commissioner. Among its responsibilities, OOE is to review all evaluations, audits, studies, and reviews of Customs in order to provide a composite assessment of problems and progress. OOE has begun implementing a management inspections program that incorporates the aspects of an inspection program recommended by the panel. These are positive actions that, if implemented properly, can appreciably help the Commissioner detect and correct management deficiencies.

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### **Senior Executive Performance Plans and Appraisals Do Not Foster Accountability**

Customs is not effectively using senior executives' performance plans to hold managers accountable. The Treasury Inspector General's (IG) September 1991 report on the Southwest Region's problems noted:

"... performance standards must reflect organizational goals and actual work to be performed. The standards should include tasks or work units which can be measured in terms of timeliness, quality and/or quantity. However, Customs' standards were very general and included no empirical measurement of performance. For example, the

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<sup>2</sup>U.S. Customs Service: Greater Management Attention Needed for Southwest Region Problems, Inspector General, Department of the Treasury, (OIG-91-067, Sept. 16, 1991).

**Regional Commissioner's standards included 'Implementation of Updated Threat Assessments' without reference to when or how the task should be done."**

The report also noted that "Although internal reviews identified significant problems in the Office of Enforcement's operations, the 1989 and 1990 performance appraisals of Southwest Region managers did not reflect the need for improvement." The report went on to state that most of the managers and supervisors in the chain of command received excellent or superior ratings during the time of the study. Even the agent who supervised the unit where significant management problems were identified received a fully successful rating.

We found similar problems. Although most plans contained the Commissioner's goals and objectives, they were so general and the standards used to gauge progress on them were so vague that it was impossible to adequately measure managers' success in achieving agency goals. For example, one manager's standard for trade enforcement directs him to "emphasize and support regional efforts to assure current commercial trade practices and patterns are an integral part of Customs trade enforcement actions." Another manager's standard for trade facilitation tells him to "expand and improve cargo facilitation and service to the importing community."

Customs concurred with the Treasury IG's recommendation that regional performance objectives contain measurable standards and said it planned to initiate actions to ensure that performance standards were measurable and to achieve greater accountability through the performance review process. The development of measurable objectives in Customs' 5-year plan would be an important foundation for efforts to better measure senior executive performance.

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## **The Challenge of Establishing a Strategic Management Process**

Current Customs leadership has initiated or plans to initiate a number of actions intended to address problems in the critical elements of the strategic management process. These actions include forming a task force to develop a trade enforcement strategy, establishing the Office of Organizational Effectiveness to coordinate evaluation activity and to direct a management inspection process, and plans for developing measurable performance standards for senior executive plans. It is too soon to tell whether these efforts will prove successful for providing better strategic direction and accountability to Customs' operations.

Customs' history indicates that several factors in its management environment will make the task of establishing a strategic management process difficult. First, Customs is an organization that tends to focus on operational rather than strategic concerns. As one senior Customs official said, Customs is not good at asking itself the right questions. This is evident in its inability to define effective trade enforcement and balance the goals of effective trade enforcement and facilitating the flow of trade.

Second, Customs faces the task of establishing strong central institutional management processes. These have not always existed. Customs' Office of Planning and Research was abolished in 1973 because it was in conflict with every Assistant Commissioner. An official said that since then, Customs' long-term plans have been based on plans developed in the program divisions. This was how the current 5-year plan was put together and may explain the large number of objectives and the lack of integration among objectives.

In 1980, a study performed by a consulting firm found that Customs' central management systems lacked cohesiveness. It recommended that "all management systems—planning, budgeting, controlling, and monitoring—be linked together in a logically consistent manner if they are to provide useful management information."<sup>3</sup>

However, interviews with Customs officials indicate that institutional management processes were abandoned or given little attention under the prior Commissioner. They said that he had little interest in strategic planning as a management tool and was not concerned with linking plans to budgets or with developing tracking systems to gauge process toward long-range plan objectives. Also, a management inspection program was discontinued during the prior Commissioner's administration. The current efforts to establish strong institutional management processes will have to overcome this history of weak central management capabilities.

Finally, efforts to establish strategic direction for Customs must gain support from Treasury, OMB, and Congress. Treasury and OMB oversight has not identified and resolved problems in Customs' trade enforcement efforts surfaced by our review. Further, congressional support for local Customs operations can constrain Customs' efforts to reallocate resources. The 1980 consulting firm study of Customs noted that Customs' work in the field is closely intertwined with the economic life of the local community, provides employment, fosters trade, and helps control

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<sup>3</sup>Consolidated Long-Range Strategic Plan (Peat, Marwick, Mitchell and Company, Feb. 29, 1980).

narcotics. The report stated: "For these and other reasons, federal and local elected officials are generally supportive of Customs Service activities and likely to oppose actions aimed at reducing or removing its presence from their jurisdiction."<sup>4</sup> Congressional concern with Customs' operations was also evident during fiscal year 1990, when Congress imposed 32 different legislative requirements on Customs. Specifically, Congress mandated minimum employment floors for the entire agency (16,976 Full-time Equivalent [FTE]), commercial operations (10,385 FTE), and the air program (960 FTE). Moreover, Congress set specific service levels for certain locations around the country by mandating the assignment of additional inspectors to districts and requiring that Customs continue to provide service at a location.

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## Conclusions

An effective strategic management process is key to identifying emerging issues, developing rational strategies for addressing them, and monitoring organizational performance. Such a process is imperative if Customs is to effectively balance trade enforcement and facilitation. In issuing a 5-year plan, developing performance measures for trade operations, establishing OOE to manage evaluation and management inspection activities, and planning to write more measurable executive performance standards, Customs is taking steps to improve its ability to manage and control its operations.

However, Customs' success in developing an effective strategic management process is dependent on the long-term commitment from the Commissioner's office to ensuring that the various components of the strategic management process are integrated and mutually supportive. Customs has much to do to make this happen. While the Commissioner bears primary responsibility for improving Customs' management, valuable assistance can also come from constructive oversight by Treasury, OMB, and Congress directed at clarifying mission objectives, improving strategies, and reassessing operations.

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## Recommendations

We recommend that the Secretary of the Treasury and the Commissioner of Customs work together to develop a strategic management framework that integrates planning, budgeting, performance monitoring, and other essential functions for directing and controlling operations.

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<sup>4</sup>Consolidated Long-Range Strategic Plan (Peat, Marwick, Mitchell and Company, Feb. 29, 1980).

In developing a strategic management framework we recommend that the Commissioner:

- Reassess the 5-year plan with a view towards establishing measurable objectives and setting mission priorities. An important part of this effort will be defining effective trade enforcement and developing a viable enforcement strategy.
- Ensure that current efforts to develop performance measures are integrated with the 5-year plan and receive the necessary automated systems support. Measures of both efficiency and effectiveness should be developed that permit the assessment of agencywide performance.



# Customs' Mission Is Hampered by Poor Management of Information Resources

Customs has not managed its information resources effectively, with the result that information needed for program execution and monitoring is often not available. Customs' personnel often lack basic information needed to meet their trade enforcement responsibilities. Further, Customs does not have the information necessary to assess the effectiveness of its trade enforcement efforts. We found three major problems with the way Customs has managed its information resources. First, planning efforts focused on achieving efficient transaction processing for the importing community rather than on developing an agencywide system that could also effectively support Customs' trade compliance efforts. Second, deficient systems were developed because federal systems development guidelines were not followed. Third, insufficient attention was given to assessing the effectiveness of the agency's information management practices. As a result, Customs cannot ensure that the nation's trade laws, intended to protect domestic industry from unfair foreign trade practices, are enforced as effectively as they should be.

Customs has initiated a number of activities that could improve its use of information. However, these efforts are likely to be insufficient unless Customs' management takes several essential additional steps. The long-range information management strategic plan needs revision once Customs develops a clearer statement of its trade enforcement objectives. Also, Customs needs to comprehensively assess user information needs and develop an information systems architecture, or blueprint, depicting how Customs' systems will meet user needs. Further, federal guidance governing systems development should be followed in the future, and the effectiveness of Customs' information management practices should be evaluated on a continuing basis. Fundamental to all these efforts is the need for top management's involvement in, and commitment to, improving the agency's management of information resources.

## Mistakes in Information Management Led to Information Problems

Federal agencies typically experience problems when they move from an information environment that is driven by manual systems to centrally controlled, agencywide electronic information systems. To gain perspective on how to deal with these governmentwide problems, we sponsored a symposium<sup>1</sup> of leaders from industry, Congress, and executive agencies to discuss what private and public sector organizations such as Customs could do to improve their management of information and technology. The symposium participants agreed that a successful

<sup>1</sup>Meeting the Government's Technology Challenge: Results of A GAO Symposium (GAO/IMTEC-90-23, Feb. 1990).

Information Resources Management (IRM) begins with top management who has a clear vision of how effective management of information resources can benefit the organization and a commitment to making this vision a reality. Integral parts of this process for strategically managing the agency's information resources include

- top management leadership to provide overall direction to an agency's automation activities;
- preparation of an information management plan describing how automation will contribute to the agency's mission;
- a well-conceived information systems architecture that explains the structure and relationships among the agency's information resources and identifies needed systems, as well as systems that must exchange or share data in satisfying an "agency's" information needs; and
- an IRM review process to assess whether information management activities are being conducted efficiently and effectively.

Customs' efforts over the past decade to develop effective and efficient information management systems to support its trade enforcement mission have been poorly focused and mismanaged. Essentially, (1) minimal attention has been directed toward developing effective information systems to improve Customs' trade enforcement capability and satisfy management's critical need for information to monitor and measure field office performance, (2) rapid development and deployment of information systems took precedence over meeting the information needs of users, and (3) a key management tool—the Information Resources Management Review Program<sup>2</sup>—was not effectively used.

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### **Information Management Planning Lacked Sufficient Focus on Trade Enforcement Mission**

According to managers involved in the initial Automated Commercial System (ACS) development, efforts to automate Customs' commercial operations were floundering in late 1981 when William von Raab became Commissioner. The new Commissioner acted quickly, directing staff to develop and complete major portions of the system within a year. The announced objectives of commercial operations automation were to (1) develop a more efficient electronic system for processing the escalating volume of transactions associated with importing goods and (2) detect high-risk shipments that might violate U.S. laws. However, the automation efforts proceeded in a way that contributed to a number of problems.

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<sup>2</sup>The IRM Review Program was mandated by the Paperwork Reduction Act of 1980, because Congress wanted assurance that each federal agency had a means to assess how well and whether it is carrying out its information management activities in an efficient, effective, and economical manner.

System development and implementation proceeded without a strategic plan directed at achieving both efficient transaction processing and effective trade enforcement. According to Office of Information Management (OIM) and other Customs' officials, little if any attention was directed toward developing an agencywide information system that could serve as a resource for managers and field staff to enforce compliance with the multitude of trade laws or to measure the effectiveness of the agency's programs. Instead, Customs' focus in developing the ACS was to expedite the release of cargo entering the country and facilitate the movement of trade. The result, discussed in chapter 2, was that the current ACS has some serious flaws that adversely affect its usefulness in carrying out Customs' enforcement mission and in supporting management oversight. For instance, some field personnel experience obstacles and frustration researching and analyzing ACS data. Also, the data cannot be easily retrieved or shared among the various groups responsible for processing import entries and enforcing trade laws and government regulations.

Further, Customs' failure to develop effective agencywide information systems for meeting its enforcement and other information needs has led some units within headquarters and field offices to independently develop information systems. Over 42 percent of Customs' executives and mid-level managers indicated that they used other means to collect, manipulate, or otherwise make better use of the data residing in Customs' agencywide information systems. For example, they indicated that they had manually prepared supplemental records, purchased commercial software packages, and developed databases. We noted in our field visits that ad hoc, local systems were created to help operational units enforce compliance with the trade laws and agency regulations. For example, the New York Region developed, in conjunction with headquarters systems experts, software programs to help its inspectors efficiently extract ACS data needed in analyzing import entries. However, these programs were not generally available for use outside the New York region.

Customs' systems development effort became very fragmented and loosely managed. The agency encountered significant problems in managing the proliferation of ACS automation projects as development proceeded within a very compressed time schedule imposed by the Commissioner. Further, the agency experienced backlogs in the development and deployment of modules, partly because it did not have the resources to accommodate the number of projects initiated. Another contributing factor was priority

setting, which several Customs officials said shifted according to the degree of influence wielded by the various program officials.

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**Haste and Poor Systems  
Development Practices  
Have Limited the  
Usefulness of Systems**

Customs experienced system, operational, and implementation problems that limited the usefulness of its information systems in enforcing trade laws. Further, its practices may be causing unnecessary systems development costs, as well as lost revenue. The problems are primarily the result of Customs adopting the approach of quickly developing and implementing its information systems without adhering to acceptable system development guidelines. For example:

- In developing ESS, Customs rushed implementation and did not follow federal systems development guidelines. Phase I was implemented throughout Customs even though it had not been fully tested. Also, from initial design in 1987 until now, Customs has not prepared feasibility studies, risk or cost-benefit analyses, or development/implementation plans. As discussed in chapter 2 (see p. 32), classification and value reviews are being hampered because Customs staff are experiencing difficulty getting key information on why an entry summary was selected for review. Also, they cannot ensure that the appropriate import specialist team reviews the entry summary.
- Customs has experienced delays in addressing longstanding financial management problems because of its failure to comply with federal financial systems requirements.<sup>3</sup> For example, in 1989, it proceeded to develop an in-house Asset Information Management System (AIMS), which lacked adequate operating and reporting requirements and sufficient testing. Further, implementation problems occurred with three of the modules because Customs took shortcuts. For instance, to meet planned milestones, the developers of the Funds Control Module told us they compressed what ideally would have been 3 months of testing into 3 weeks. A January 1991 Office of Management study prepared by Customs found that "top management repeatedly stressed rapid implementation of new systems. With priority established for meeting target completion dates, less emphasis was placed on management control, testing, and documentation or insuring systems integrity."

In December 1990, Customs set up a study group to revisit its development effort. The group performed a feasibility study and reported in April 1991 that use of an off-the-shelf software package would be less costly and

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<sup>3</sup>Financial Management: Customs Needs to Establish Adequate Accountability and Control Over Its Resources (GAO/AFMD-92-30, Aug. 25, 1992).

enable Customs to have a financial system that complied with federal financial systems requirements in less time. Therefore, after working 3 years and incurring estimated costs of over \$4 million, Customs terminated its in-house systems development efforts on AIMS.

- Hastily designing and implementing the FP&F module to meet management's tight schedule led to the introduction of an ACS module that could not adequately track Customs' efforts to pursue aggressive collection of delinquent debts. The FP&F module does not permit Customs to age fines and penalties billed. This module also does not facilitate management's oversight or measurement of the program's effectiveness in collecting penalties or deterring violations. Customs' systems personnel stated that initial attempts to enhance the module's usefulness were thwarted because Customs had not fully documented the system specifications or the programming changes that occurred after the module became operational. Since the modifications were creating as many problems as they solved, headquarters decided to completely redesign the module.

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### **IRM Review Program Not Used Effectively**

Customs started participating in the Federal IRM Review Program in fiscal year 1987. Our analysis of the self-assessments completed since the start of the program showed that the agency has not taken advantage of a key management tool to effectively detect information and technology-related problems and to identify potential solutions. In fact, the program has provided little indication as to how well Customs is managing its information resources. For example, virtually all self-assessments focused on such matters as the forms clearance process, automatic data processing (ADP), security and disaster recovery planning, or the deliberations of the ADP Steering Committee. Since 1987, Customs has neither assessed nor commented on how well it has managed its information and technology in accomplishing its trade enforcement mission.

However, five of the internal studies done by Customs' Office of Quality Assurance (QA) did address information or systems-related problems. But neither the specific weaknesses identified by the QA assessments nor the cumulative results were mentioned in Customs' annual reports on its IRM review activities, even though such internal assessments represent what Congress anticipated when it mandated the IRM review program.

The Quality Assurance studies, covering six of the ACS modules (Entry Summary Selectivity, Protest, In-Bond, AD/CV, Holding Codes, and (FP&F) alerted management that these modules were not fulfilling the information needs of program managers and field operational staff. More importantly, these studies offered strong evidence of larger, systemic problems with the overall management of information and technology that were not being adequately considered. Collectively, the five studies showed that ACS was not an effective information system for enforcing compliance with the trade laws, and they provided evidence of an absence of top management commitment to effectively managing information and technology.

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### **Top Management Has Not Focused on Agencywide Information Needs**

The ADP Steering Committee was established to provide top management direction for Customs' information resources management activities. Its responsibilities were to include (1) reviewing and approving all significant requests for information systems, (2) establishing overall systems development priorities, (3) monitoring the progress of ongoing projects, and (4) evaluating the performance of completed systems to ensure that they meet original objectives. Further the steering committee was to give agency management a means of evaluating the need for long-term changes to ACS and facilitating greater cross-functional communication within Customs on ACS.

However, the ADP Steering Committee has not provided effective leadership. The Committee has focused on systems projects that support individual program needs and has not yet ensured that the scope of project planning encompassed the agency's cross-functional needs. Also, it has not ensured that individual projects are implemented effectively and meet the original project objectives. For example, one of the objectives of developing ESS was to enhance import specialists' compliance efforts through targeted reviews. As explained in chapter 2, field staff do not have ready access to key information needed to ensure that merchandise entering the United States is properly classified and valued.

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### **Further Action Needed to Improve Information Resources Management**

Customs has taken steps to address some of its information management problems as it prepares to make more effective use of the vast amounts of trade data residing within ACS. However, to avoid the problems of the past decade and to ensure that its modernization goals are achieved, Customs needs to further strengthen the process for managing the agency's information resources. Its long-range information management strategic plan requires clarification of the objective for Customs' trade enforcement

efforts, objectives of the agency's various enforcement programs that support the overall trade enforcement mission, and implementation strategies to reach Customs' objectives. A more effective IRM review process is required to monitor performance against plan objectives. Finally, top management must provide the committed leadership to ensure that information and technology are managed effectively and efficiently.

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### **Recent Initiatives to Improve the Management of Information and Technology**

Commissioner Hallett made three important shifts in the development of ACS when the OIM was established in 1990. First, she slowed the pace of ACS development and implementation because the broker community informed her that they were not able to keep pace with the changes taking place in the electronic processing of imported cargo. Second, she moved the responsibility for defining information needs from the ACS systems analysts to the program personnel. Third, she directed OIM to explore ways of making more effective use of the trade data residing in this commercial system without impeding progress toward ACS' primary function of expediting the release of cargo.

As a result, OIM took the following actions:

- It developed and published the agency's first long-range information management strategic plan in August 1991 to organize and coordinate the activities relating to meeting program needs.
- It hosted a conference in November 1991 to identify and define information management problems and to explore ways of making better use of the agency's information resources. The conference brought together, for the first time, managers responsible for law enforcement and trade enforcement programs; field staff who daily use investigative and trade enforcement data; experts in designing, developing, and programming Customs' major information systems; and information analysis staff who are responsible for coordinating the activities of technicians and system users.
- It started exploring ways to resolve the technical problems that have constrained ACS' use for researching potential trade violations and effectively analyzing the trade data residing within this information system.

While these represent positive steps, further efforts are required to ensure that information resources are managed effectively.

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**Revised IRM Strategic Plan  
Needed**

While the development of a strategic long-range information management plan represents a positive step, Customs will need to revise it to effectively guide the agency's development and use of information and technology. OIM's development of the plan was not driven by a clearly articulated strategic direction for Customs' trade enforcement mission. For instance, the information management plan uses the same vague objective for trade enforcement as Customs' 5-year plan: "Provide automated support to develop information resources necessary to achieve and support an effective trade and revenue enforcement program." However, effective trade and revenue enforcement is not defined.

Another weakness of OIM's information management plan is the lack of clarity in the strategies to be employed in achieving the agency's trade enforcement mission objective. There are two dimensions to this problem. First, the information management plan does not provide objectives for numerous programs within the Offices of Commercial Operations and Inspection and Control that support the agency's trade enforcement mission. For instance, the Office of Inspection and Control has such programs as the special enforcement teams and intensified cargo examinations. Additionally, the Office of Commercial Operations has several programs, such as pre-classification, classification and value reviews of merchandise, and detection of unfair trade practices, that are part of Customs' enforcement efforts. However, the OIM plan does not discuss these programs nor address how they will support the overall trade enforcement mission.

Second, the information management plan does not describe how any of the specific information-related activities or strategies to be pursued in the next 5 years will support the accomplishment of Commercial Operations' and Inspection and Control's trade enforcement programs. For example, one strategy is to "enhance existing data bases to improve analysis and targeting of high risk shipments using distributed processing, artificial intelligence, imagery, and statistical sampling." This strategy is not specific in terms of either the programs to be supported or the various technologies to be applied in achieving the various trade enforcement program objectives. For instance, the plan does not show how artificial intelligence is to serve as a tool to assist inspectors in targeting high-risk shipments or why artificial intelligence was selected over other alternatives. Further, there is no delineation of relative priorities nor specification of measurable milestones or standards for establishing accountability for meeting objectives in the plan.



Once Customs has revised its long-range information management strategic plan, it will need to develop an information systems architecture based on its information needs. This architecture, or blueprint, should (1) provide a clear plan for how information technology should fit into the agency's overall trade enforcement strategy and (2) prescribe critical characteristics of the equipment and resources needed to meet current and future needs. Participants in our symposium on the management of information and technology regarded an architecture as providing the guidance necessary to prevent systems initiatives from becoming loose collections of independent systems or modules.

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**Top Management  
Commitment Is Essential  
to Effective Management  
of Information Resources**

Improved management of information and technology will not occur unless Customs' top management provides the leadership and commitment needed to undertake and complete the activities previously mentioned. Despite recent initiatives, Customs' planning and systems development efforts continue to exhibit the same problematic characteristics of the past. For example:

- Two independent efforts to develop capabilities for targeting suspected violations of trade laws provide indications that the ADP Steering Committee is not meeting its responsibility of facilitating cross-functional communication. The Office of Regulatory Audit is independently developing an automated capability for profiling and targeting importers suspected of misclassifying imported goods. This office's effort has a cross-functional application because other agency programs, such as contraband and fraud enforcement, profile and target suspected violators. OIM, which serves as a focal point for identifying and evaluating new techniques of analyzing automated information, is also seeking ways to use agency data and technology in profiling and targeting suspected violators. Yet, OIM had not actively coordinated these independent efforts within the past year.
- Customs was proceeding with the agencywide implementation of Phase II of ESS (i.e., developing the capability to capture the results of entry summary reviews) without first correcting a major problem that was disclosed in pilot testing. The history summary files were not completely operational in the pilot test and could not capture the history of an entry that was rejected by the import specialist and subsequently corrected. In response to a GAO report on ESS, Customs agreed to correct this problem prior to implementing Phase II agencywide.<sup>4</sup> Historical data needed for

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<sup>4</sup>Customs Automation: Effectiveness of Entry Summary Selectivity System Is Unknown (GAO/IMTEC-92-20, Mar. 24, 1992).

classification and value reviews will not be readily available for agencywide use by field staff until this operational problem is corrected.

- The Office of Commercial Operations is proceeding with a redesign of the FP&F module, but it will not show how penalty assessments compare to actual collections or provide information on collection performance by field locations.

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## **Conclusions**

Customs is taking a number of positive steps to improve planning and make more effective use of its information resources enforcing the trade laws, collecting revenues, and processing cargo quickly. However, these actions will not likely be successful until Customs clearly defines its trade enforcement objectives, identifies program and cross-functional information needs, prepares an information and systems architecture to guide systems development efforts, follows federal system development guidelines, and evaluates the effectiveness of its IRM activities. Establishing the capability to effectively and efficiently manage the agency information and technology will require strong leadership and dedicated resources.

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## **Recommendations**

The Commissioner should provide the top management commitment to effectively manage Customs' information resources by

- revising the long-range information management strategic plan so that it communicates a clear and measurable trade enforcement objective, describes how various programs will support the mission objective, relates information development strategies to program objectives, and establishes project priorities;
- exerting leadership in ensuring that Customs' information needs are defined and an architecture is developed to guide Customs in creating efficient and effective information management systems;
- ensuring that Customs adheres to federal systems development guidelines; and
- emphasizing the importance of IRM reviews as a means of testing the adequacy of information management plans and systems development and implementation practices.

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# Customs Not Well-Prepared to Address Human Resource Management Concerns

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Customs is confronting a number of human resource management issues that threaten to undermine its ability to effectively enforce trade laws and improve organizational performance. These issues include concerns raised by its staff, Customs brokers, and other groups that the performance management process is ineffective in improving personnel and organizational performance, both the quantity and quality of training is inadequate, and the number of staff changes adversely affects service quality.

Customs management has initiated a number of actions to address identified problem areas. However, these efforts are proceeding without basic elements of a human resource management (HRM) process. HRM responsibilities are dispersed throughout the organization and Customs' central training and human resources offices have weak capabilities to lead and oversee these decentralized efforts. Customs has made limited progress in developing plans to address HRM issues. In addition, it is not developing and analyzing information needed to monitor HRM activities across Customs and to identify emerging issues.

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## Widespread Human Resource Management Concerns Exist

Although Customs' workforce indicated overall pride in their agency and in their work, studies of Customs operations and survey data from Customs employees and brokers revealed a variety of human resource concerns throughout the Customs workforce. Notable concerns included the fairness and credibility of the performance management system, the adequacy of the training program, and the impact of the number of staffing changes on Customs' mission.

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## Concerns About Performance Management System

A number of concerns exist about the adequacy of the current performance management process. Such a process generally covers expectation setting, performance feedback, appraisals, accountability, promotion decisions, and awards. The Blue Ribbon Panel report<sup>1</sup> on enforcement and internal affairs functions within the Southwest Region disclosed, among others, widespread performance management problems that resulted from an absence of management accountability. It found the following:

- Performance ratings had no relationship to actual performance.

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<sup>1</sup>Review of Integrity and Management Issues of the United States Customs Service, Blue Ribbon Panel, August 1991.

- The process for dealing with ineffective supervisors and managers did not work; employees whose performance was considered inadequate did not receive such feedback from their supervisors.
- Various networks of personal relationships among managers—so-called “old boy” networks—strained relationships between managers at headquarters, the region, and Special-Agent-In-Charge (SAC) offices; and ineffective communication diminished respect for, and authority of, managers at every level.

As a result, the panel found that longstanding management problems remained unresolved because no manager accepted responsibility for addressing them.

The concurrent Treasury Inspector General review<sup>2</sup> of the Southwest Region discovered similar problems. For example, the study concluded that performance ratings and rewards for regional management and SACs did not reflect organizational performance, and performance standards were too general to measure managers' success in achieving organizational goals.

The responses to our questionnaire raised similar concerns throughout the organization. Concerns about the performance management process were among those most frequently expressed by managers who provided written comments. Managers expressed concerns that personal relationships—the “old boy” network—counted more than demonstrated performance in promotion decisions, unqualified personnel were promoted, and upper management did not deal with poor performing managers.

Concerns about the performance management system also surfaced when we asked Customs managers a series of questions regarding the performance appraisal system. Although about 52 percent thought the system rewarded good performers, 53 percent did not feel that the system was effective in either measuring performance or serving as a mechanism for improving performance (see tab. 5.1).

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<sup>2</sup>U.S. Customs Service: Greater Management Attention Needed for Southwest Region Problems, OIG-91-067, Sept. 16, 1991.

**Table 5.1: Managers' Views on  
 Performance Appraisal System**

Questions	Percent responding		
	Very/ somewhat effective	Neither effective nor ineffective	Somewhat/ very ineffective
How effective is the performance appraisal system in:			
Rewarding good performers?	51.7	9.6	38.6
Holding managers and supervisors accountable for their staff's performance?	43.2	18.2	38.7
Holding staff accountable for their performance?	46.9	17.3	35.8
Accurately measuring performance?	30.8	16.6	52.6
Serving as a mechanism for improving performance?	28.1	18.6	53.3

Customs' Office of Human Resources (OHR) is responsible for providing overall guidance for the performance management function. Responsibility for implementing the guidance rests, in part, with the regional commissioners and assistant commissioners in headquarters. A few managers responding to our questionnaire suggested that this delegation of responsibility contributes to a lack of consistency among regional offices in assessing performance standards.

**Concerns About Adequacy  
 of Training**

Although Customs has expanded its training program by offering more courses and revamping some existing courses, Customs managers and brokers expressed concerns regarding the adequacy of Customs' training efforts. As shown in table 5.2, over 40 percent of the managers across Customs expressed concerns about the management training they received, training for their staffs, time provided for training, and funding for training.

**Table 5.2: Managers' Responses  
Concerning Training**

	Percent responding		
	Strongly agree/ agree	Neither agree nor disagree	Disagree/ strongly disagree
Adequate funding for training is available.	32.7	17.8	49.5
Adequate time for training is allocated.	38.1	16.1	45.8
Staff in my unit are provided with needed training.	35.3	19.8	44.9
I am provided the management training needed.	38.1	18.5	43.3

In questionnaire responses and during interviews in the field, some Customs personnel volunteered comments questioning the quality of the training and the quality of the instructors. They raised concerns about the depth of coverage in courses, their relevance to daily work, and the way computer courses were taught. They thought more on-the-job-training was needed for computer systems, as opposed to classroom work. Regarding instructors, some Customs personnel commented about their (1) inexperience as instructors and (2) insufficient subject expertise resulting from a lack of job experience. A 1991 consultant's report indicated that some Customs managers believed the increased training effort at Customs has resulted in "a lot" of unnecessary training. This viewpoint also surfaced in some manager responses to our questionnaire.

Concerns expressed by Customs staff about training have resulted in a study of Customs' training which was done by the National Treasury Employees Union (NTEU) in collaboration with Customs staff. According to the Customs/NTEU 1991 labor agreement, a 1-year task force will examine programs, course evaluations, and other data at the Glynco, Georgia, training facility and make recommendations to Customs and NTEU officials later this year.

The need for improved Customs training was also a concern raised by brokers responding to our questionnaire. The brokers commented that adequate training should be provided Customs personnel to make them (1) more proficient in using Customs' computer systems, (2) more uniform in their interpretations of Customs regulations and administrative procedures, and (3) less adversarial in normal dealings with the brokers. About 69 percent of the Customs managers responding to our

questionnaire concurred that more training was needed to improve Customs' working relationship with the trade community.

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### Staff Changes Perceived to Adversely Affect Performance

Customs' does not have an agencywide rotation policy for its employees. Rather, the criteria for rotation and rotation time frames is left to the discretion of managers in the headquarters and field offices. Although these reassignments may help to ensure independence, staff changes can jeopardize organizational continuity. Customs brokers, managers, the Treasury Inspector General and the Blue Ribbon Panel reports on Customs' Southwest Region, and NTEU all mentioned some detrimental aspects of these staff changes.<sup>3</sup>

Fifty-four percent of the brokers responding to our questionnaire viewed Customs staff changes as having a negative impact on service quality. A general theme in their comments and in interviews with us was that they were receiving less than desirable service because Customs staff were not in their jobs long enough to gain sufficient experience to become knowledgeable in their responsibilities.

Many Customs employees thought staff changes were excessive. Import specialists (54 percent) thought such changes had a negative impact on their work. Some import specialists told us that these changes hampered their efforts to develop expertise in a commodity area. Inspectors (60 percent) and agents (57 percent) also said staff changes had an adverse impact on their work. The NTEU also agreed that there is a problem.

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### Improvements in HRM Processes Required

Customs has set important HRM objectives for increasing the professionalism of its workforce through recruiting, training, and maintaining a motivated and highly skilled workforce. As discussed below, Customs has not put in place the human resource management processes and structure needed to achieve these objectives and address employee concerns.

Customs' ability to address its workforce problems will be limited unless it institutes the basic elements of a human resource management system. This will require the development of (1) a planning process that targets key HRM issues threatening agency goals and develops plans and budget estimates; (2) workforce planning capability that identifies the number of

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<sup>3</sup>The term turnover is used interchangeably in Customs to refer to reassignments, rotations, attrition, details, or other similar staffing changes. Throughout this report, we use the term staff changes to refer to such personnel changes, which indicate internal and external staff movement.

people and types of skills needed and areas where problems may occur; (3) a training program to enhance employee development and productivity; and (4) capability to monitor, evaluate, and update information that affects HRM goals. As subsequently discussed, instituting this management system will require top-level commitment, which Customs must demonstrate by addressing problems in the personnel and training offices and by emphasizing HRM performance expectations for Customs' managers.

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## **HRM Planning Needed**

The 5-year Customs plan establishes objectives for

- developing a training program that will ensure professionalism and personal attainment among Customs' staff; and
- implementing quality employer initiatives that will enable Customs to recruit, develop, and maintain a highly skilled and motivated workforce for the 1990s and beyond.

Customs is addressing these objectives, but it does not have a comprehensive HRM plan to integrate these efforts with organizational goals. At the time of our work, Customs planned to contract out the development of a strategic HRM plan.

Other important issues affecting the Customs workforce, however, have not been fully addressed from an HRM planning perspective. For example, Customs' plan to complete electronic processing of import documentation could lead to changes in the role of import specialists, who in the future would concentrate on detecting patterns of noncompliance in importer filings as opposed to the current focus on transaction-by-transaction reviews. Import specialists we spoke to in Customs regions expressed concerns about what the future held in store for them. One concern, discussed in chapter 7 (see p. 105), dealt with the possible relocation of import specialists to do national entry processing in centralized locations. They were also concerned about their ability to develop and maintain expertise in industry operations while processing import paperwork. This view was also shared by regulatory auditors and customs brokers.

Customs' experience with its pre-entry classification program (pre-class) exemplifies the problems that can arise when there is inadequate linkage between program and human resource planning. Customs implemented pre-class in March 1989. Pre-class was intended to provide greater uniformity in classification rulings and to minimize import specialist



reviews of entry summary documents accompanying imports. Customs designated a group of import specialists, to be known as Field National Import Specialists (FNIS), to develop product knowledge and do these reviews. By making the FNIS responsible for field visits to importers, pre-class reviews, and rulings, as well as for supervising their import specialist staffs, pre-class increased rather than decreased the workload and added considerable stress to the work environment. The stress was compounded for those FNIS who had to focus their efforts on importers already subject to quota restrictions. The additional workload in turn required trade-off decisions between making field visits to develop product knowledge and supervising their staff's work. Although pre-class has been modified several times to compensate for inherent problems, the impact on the workload, we believe, will be minimal because FNIS responsibilities will not change.

Another aspect of HRM—workforce planning—is not being done agencywide. Although OHR divisions are to analyze long-range workforce and staffing trends, Customs officials said workforce planning is not done. As discussed on page 80, OHR has serious operational problems that negatively affect its ability to carry out an effective HRM role or to address organizational goals and plans.

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**Agencywide Information  
Not Developed or Analyzed**

Customs neither develops nor routinely analyzes information that would enable it to assess HRM issues. Notable examples involve training, staff changes, and workforce allocation.

**Customs Not Collecting  
Adequate Information to  
Monitor Training**

Despite widespread concerns about training, Customs is collecting very little information to monitor its training efforts. A training official said that Customs does not budget or account for its training effort on an agencywide basis out of concern that detailed training budgets are an inviting target for budget cutting.

We tried to reconstruct from several sources Customs' total training expenditures, which Customs estimated at from \$10-\$12 million in fiscal year 1991. Through a data query of Customs' object class accounting system, we determined that training expenditures in fiscal year 1991 were \$6,783,272, of which \$5,725,707 was for travel and per diem. This total is 11 percent less than training expenditures in fiscal year 1988 (see tab. 5.3). A Customs training official said our figures appear to be low, but he has not provided additional cost data. The failure to maintain training data seriously complicates management efforts to monitor training

expenditures. Further, we were unable to determine whether training obligations of \$809,728 in fiscal year 1990 and \$945,178 in fiscal year 1991 were used to pay for training expenses.

**Table 5.3: Agencywide Training Expenditures**

	<b>FY 1988</b>	<b>FY 1989</b>	<b>FY 1990</b>	<b>FY 1991</b>
OPM training:	\$ 91,466	\$ 204,514	\$ 67,250	\$ 84,830
Other training:	857,030	1,107,866	608,721	950,949
Glynco training:	1,783,457	1,174,143	4,002	21,786
Total training	\$2,731,953	\$2,486,523	\$ 679,973	\$1,057,565
Total training-related travel	\$4,907,776	\$5,433,323	\$4,136,458	\$5,725,707
<b>Total</b>	<b>\$7,639,729</b>	<b>\$7,919,846</b>	<b>\$4,816,431</b>	<b>\$6,783,272</b>

Customs does not have reliable information on the considerable number of courses offered in Customs' headquarters offices, regions, and Glynco facility, nor can it track the training histories of Customs personnel or provide routine management reports. Customs' current training database, Treasury Records and Enrollment Network (TRAEN), is an attempt to develop a database on training courses and attendance. However, after several years of operation, it still contains errors and incomplete data. System revisions to be completed by the end of 1992 are intended to allow Customs to extract employee training histories and other training-related management information from the TRAEN database, according to a training official.

Also, Customs has a limited basis for assessing the quality of instruction. Customs did not start requiring student post-course assessments of Glynco classes and instructors until mid-1991. This could provide a potentially valuable source of feedback on student perceptions of course content and instructor performance. However, Customs has not been able to provide us with a synopsis of these assessments. Further, some Customs training takes place in regional and headquarters offices, which further decentralizes the training function and could lead to a lack of standardization.

OHR is responsible for monitoring senior executives' training and developmental activities. OHR personnel reviewed the personnel files of Customs' 58 senior executives<sup>4</sup> and prepared for us a list of executives' training courses as they appear in the files. Twenty-one of the 58 executive files contained no record of executive training. An OHR official advised us

<sup>4</sup>Customs had 66 Senior Executive Service positions, 4 of which were vacant; 4 executives' files were not available at the time for review.

**Customs Not Analyzing  
Information on Staffing  
Changes**

that most senior executives receive OPM, Federal Executive Institute, or Harvard training. However, because of the condition of the files, it is difficult to determine the training received.

Although Customs employees and customs brokers are concerned about the frequency of staff changes, Customs is not doing analyses to determine how severe the problem may be. Our analysis of Customs' data indicates that staffing changes in Customs could at some point affect organizational performance and service quality. Table 5.4 shows the percentage of Customs employees (measured in terms of average on-board strength) who experienced changes that could have affected their duties, responsibilities, or work locations. Analysis of staffing changes by region, district, grade level, or job series could provide meaningful information to assess the extent to which staff changes are occurring and whether management attention is needed. Without such analyses, Customs management cannot identify problems that may be emerging.

Personnel actions for employees leaving Customs are called separations; these include retirements, deaths, resignations, and removals. Resignations and removals were about 50 percent of the separations shown for each year in table 5.4. We found that Customs was not routinely doing exit interviews when employees left Customs. Exit interviews would afford insight into potential problems for management's attention. According to the Customs/NTEU 1991 labor agreement, Customs was to test an exit survey procedure by surveying one-third of the union members who left Customs during the agreement period ending May 1992.

**Table 5.4: Number/Percent of Customs Staff Experiencing Staff Changes**

Types of staff changes	FY88		FY89		FY90		FY91	
	Number of staff changes	Percent of average on-board strength	Number of staff changes	Percent of average on-board strength	Number of staff changes	Percent of average on-board strength	Number of staff changes	Percent of average on-board strength
Separations	1,844	11.5	1,973	11.8	1,619	9.5	1,240	7.2
Reassignments	2,758	17.2	2,831	16.9	5,082	29.9	2,350	13.7
Realignments	3,747	23.4	2,126	12.7	1,221	7.2	932	5.4
Temporary promotions	266	1.7	192	1.1	166	1.0	218	1.3
Changes to lower grades	306	1.9	233	1.4	231	1.4	300	1.7
Promotions	1,235	7.7	910	5.4	726	4.3	662	3.9
<b>Total staff changes</b>	<b>10,156</b>		<b>8,265</b>		<b>9,045</b>		<b>5,702</b>	

Note 1: The staff changes shown result from the movement of personnel between different organizational units within Customs, transfers from Customs to other federal agencies, or separations from federal service. We did not include temporary assignments to which Customs can detail personnel for a maximum of 120 days. Customs made 239 temporary assignments in fiscal year 1991, 333 in fiscal year 1990, and 281 in fiscal year 1989.

Note 2: During the 4-year period there were 67,212 staff changes of all types. About 95 percent of all personnel affected by these changes experienced from one to six changes per person and accounted for 86 percent of all changes. About 5 percent of the affected personnel had from 7 to 17 changes per person, which accounted for the remaining 14 percent of staff changes.

Note 3: The percentages in the table are based on the number of staff changes expressed as percentages of the average on-board strength for each fiscal year. The average on-board strength was computed by dividing by 2 the sum of the beginning and ending yearly personnel totals, resulting in average on-board strengths of 16,005 for fiscal year 1988, 16,785 for fiscal year 1989, 16,977 for fiscal year 1990, and 17,190 for fiscal year 1991.

### **Workforce Allocation Methodology Could Be Improved**

Customs' process for allocating import specialists does not adequately support management decisionmaking. Customs uses a model that is not statistically defensible because the workload factors used as a basis for the model were developed subjectively, and there is no empirical evidence that these factors account for differences in the complexity of import specialist workload among districts. We developed a model using multiple regression analysis that enabled us to test workload factors, using Customs data, to see how well they predict import specialist staffing levels. Our findings by Customs region differ from the Customs model in terms of the relative degree of under- or overstaffing by Customs region. We found the overstaffing in the New York Region to be much more pronounced than did the Customs import specialist model, and we found that the North Central Region was the most understaffed relative to other regions. In contrast, Customs' model found the Pacific Region to be the

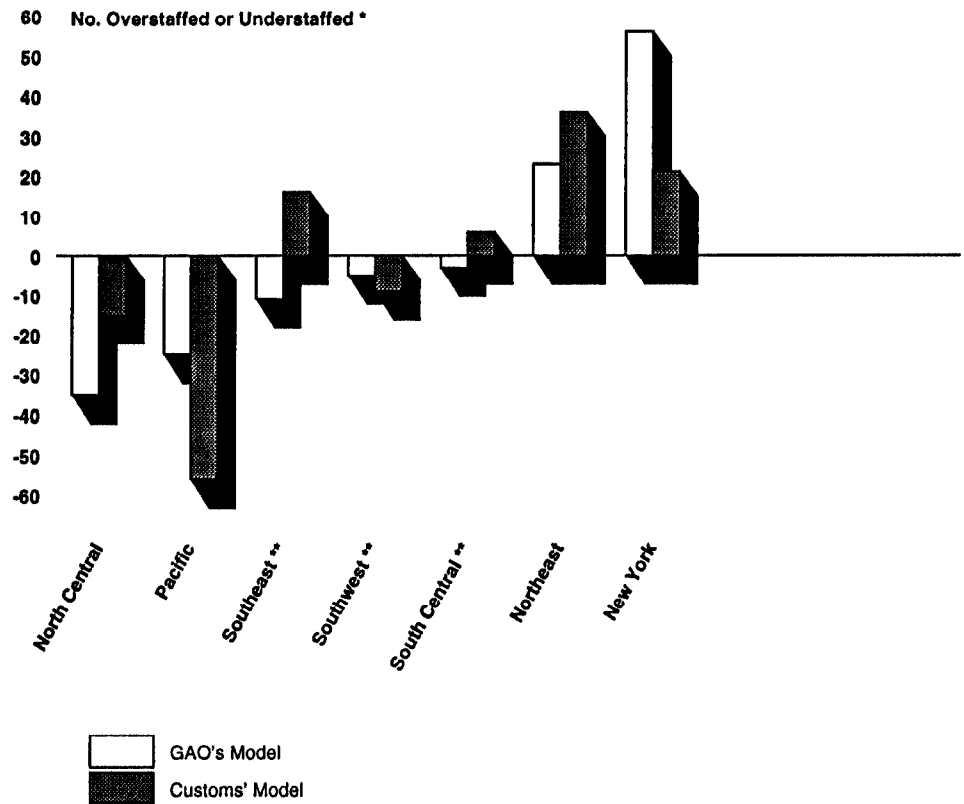
most understaffed, as shown in figure 5.1. The weakness in Customs' import specialist model is that Customs officials assign subjective weights to various indicators of workload, such as the number of reviews, the number of protests, and their complexity. Our approach allows us to determine statistically what factors, such as reviews, filers, and protests, best explain staff workload by district. This approach removes managers' subjective opinions from the data analysis and can provide baseline performance data that can assist Customs managers in raising questions as to relative operational efficiency among its districts. The technical appendix to this report provides a more detailed description of our import specialist model.

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**Sustained  
Management  
Commitment  
Necessary**

Customs officials have initiated a number of HRM actions. One effort is the inclusion of the training and quality employer objectives in its 5-year plan. A second is the formation of an Office of Organizational Effectiveness headed by an Associate Commissioner to act on recommendations made in the Blue Ribbon Panel and Treasury Inspector General reports on the Southwest Region. Third, an OHR consultant surveyed employees to determine job benefits they would like.

**Figure 5.1: GAO and Customs Import Specialist Staffing Models Compared**



\* A number greater than 0 indicates that a region is overstuffed relative to the other regions. A number less than 0 indicates that a region is understuffed relative to the other regions.

\*\* In GAO's model the results for this region are not statistically different from 0.

**Sustained top management commitment will be required to make lasting changes in Customs' human resource practices. Top management must address problems in the Office of Human Resources and Office of Training and emphasize line managers' performance management and employee development responsibilities.**

**Problems in Central Management Support Need to Be Addressed**

Customs' central personnel and training offices are not now capable of leading an effective agencywide HRM effort. OHR suffers from serious organizational problems, and the Office of Training has limited effectiveness due to the decentralized approach to Customs training.

A recent Customs internal review of OHR documented numerous serious problems, including an ineffective organizational structure, erroneous data in automated systems, paperwork processing delays, understaffing, inadequate staff training, a high turnover rate, unacceptable recruiting delays, and an inability to assess its own efficiency. These problems undermine OHR's effectiveness and its ability to recruit quality Customs employees, and they perpetuate continuing criticism of its performance. Similar criticisms of OHR's performance—particularly slow service—were provided in managers' written responses to our questionnaire. Officials expect it will take several years to fully implement the report's recommendations. If effectively implemented, these corrective actions will improve OHR's capacity as a personnel office. But these actions will not establish a capacity for OHR to function in a broader role as the central focus of an agencywide human resource management program.

The Office of Training was removed from OHR in 1990 and placed under the Office of Management, equal organizationally with OHR. The Office was created in response to employee requests for more training and to provide greater emphasis on Customs' training activities. However, the Office has limited capacity to lead an agencywide training effort. Training activities are dispersed among Customs' regional offices; its National Finance Center; major headquarters divisions; and at the Customs training facility at Glynco, Georgia. The Office has not demonstrated the capability to oversee these decentralized operations. A 1989 study for Customs' Training Advisory Board<sup>6</sup> found that regions had developed independent training programs for their own needs to compensate for the lack of adequate or timely training leadership from headquarters. The report said that training had become decentralized to the point that organizations other than the Customs training facility were responsible for planning, developing, implementing, and coordinating training efforts. The limited information available to monitor agencywide training efforts further complicates establishing accountability for Customs' training efforts.

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### **Line Managers' HRM Responsibilities Need to Be Emphasized**

If Customs is to fundamentally improve its human resource management environment, major improvements are required in line management's practices regarding performance management and in demonstrating sensitivity to employee concerns. Drawing from the findings of the Blue Ribbon Panel and the Treasury Inspector General and written comments from Customs managers, this chapter demonstrates a pattern of activities

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<sup>6</sup>A Study of Customs Staffing at the Federal Law Enforcement Training Center, Office of the Comptroller, U.S. Customs Service, June 1989.

indicating that Customs management has not devoted adequate attention to its performance management responsibilities. These findings include inadequate attention to establishing measurable performance standards, performance counseling, and tying employee appraisals and bonus decisions to organizational performance. Breakdowns in these basic management responsibilities led the Blue Ribbon Panel to conclude that there was a notable lack of accountability among managers at all levels for actions that were taken, or were not taken, with regard to management issues. The reports stated that there were no management systems or safeguards in place that would ensure that the problems of the Southwest Region could not occur elsewhere. The managers' written comments to our questionnaire also indicated that concerns about Customs' human resource practices extend across Customs.

There is varying concern at different levels of Customs management regarding the significance of HRM issues. Our analysis of manager questionnaire responses, for example, shows differences among the perceptions of managers at the Senior Executive Service (SES), GS/GM-15, and GS/GM-14 levels and below regarding training, performance appraisals, and the organization's receptivity to new ideas. As indicated in table 5.5, Customs' lower level managers generally were less positive than upper level managers on these issues.

**Table 5.5: Perception Differences  
 Among Management Levels**

Questions	Percent that strongly agree/agree		
	SES respondents	GS/GM-15 respondents	GS/GM-14 and lower respondents
Is adequate funding for training available?	40	70	30
Does your staff receive needed training?	43	58	34
Is the performance appraisal system effective in holding managers accountable?	71	52	43
Does Customs reward innovative thinking and ideas?	65	43	30

Note: Some of these differences are not statistically significant at the 95 percent confidence level. See appendix I, table I.3.



The varying perceptions at different levels also surfaced in a 1991 Customs directed study.<sup>6</sup> The study found high levels of mistrust between employees and managers at different levels in the agency. Mistrust was attributed to several sources, including prior administrations, favoritism in personnel decisions, and an entrenched "old boy" network. The study noted that the "key to successful implementation of management improvement programs is a concerted vision of the change and clear support for it in the upper levels of management."

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## Conclusions

Sustained top management leadership is required if Customs is to address widespread workforce management concerns and achieve the Commissioner's objectives for increasing the professionalism of the workforce and making Customs a quality employer. This commitment must be demonstrated in several forms. First, it is fundamentally important for top management to exercise its performance management responsibilities and to ensure that the Customs manager corps gives renewed attention to these responsibilities. Second, top management needs to improve agencywide planning, monitoring, and evaluation processes. Third, top management will have to develop central management capabilities to support its HRM processes.

Progress in solving Customs' human resource problems will depend upon the agency's success in reconciling the different perspectives among its managers and employees. Improved HRM would help prepare the agency for addressing problem areas and help unify its HRM processes.

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## Recommendations

In addition to continuing to address the recommendations of the Blue Ribbon Panel, the Treasury Inspector General, and the internal study of OHR, we recommend that the Commissioner:

- Develop a central capability for leading an agencywide human resource management program.
- Institute a human resource management program that identifies agencywide workforce issues affecting accomplishment of Customs' mission, establishes measurable goals, develops implementation plans, and monitors and evaluates progress toward achieving these goals.
- Develop central control over training budgets to account for all training programs, course expenditures, reporting, and attendance.

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<sup>6</sup>Survey of Benefits Preferred by Customs Service Employees, U.S.C.S Office of Management with George Mason University, 1991.

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- **Develop empirically based staff allocation models that more closely correlate resources with workload.**
  - **Measure and evaluate the extent of staff changes and their impact on the organization.**
  - **Evaluate the quality of Customs' training program and staff training needs from an agencywide perspective.**

# Customs' Organizational Structure Hinders Mission Accomplishment

Customs' organizational structure is poorly suited to the task of focusing its managers on the agency's trade enforcement mission. The current structure, at its topmost levels, emphasizes differences between organizational units rather than the relationships among overall goals. Just below the Office of the Commissioner, Customs is divided into units whose areas of responsibility and span of control do not correspond with the agency's mission requirements. This unnecessarily places the entire burden of producing nationally consistent, mission-related outcomes in the Office of the Commissioner of Customs.

Improvement of the various processes of Customs management—including planning, budgeting, human resources, information management, and performance measurement—can alleviate Customs' programmatic difficulties to some extent. But the full benefit of these improvements will not be realized unless Customs deals with the issues of responsibility and accountability brought about by Customs' organizational structure.

## Customs' Structure Obstructs Effective Management

Two interrelated aspects of the organizational structure contribute to the lack of mission accountability in the agency. First, Customs divides policymaking offices by job function, such as inspections, duty assessment and collection, and criminal enforcement, rather than combining them according to common, mission-oriented purposes. This encourages top policymakers to focus on operational concerns, as opposed to strategic effectiveness, and places the responsibility for managing conflicting priorities and integrating cross-office activities in the Commissioner's office. It thereby limits the mission-related support available to the Commissioner's office.

Second, a structural emphasis is placed on geographic diversity by the dispersion of line authority from the Commissioner's office directly to regional offices, which develop independent policies based upon regional priorities. This structure emphasizes geographic differences over national consistency. It conflicts with the agency's objective to maintain uniform programs and places the responsibility to ensure consistent policy implementation in the Commissioner's office.

The result is an overload of management circuits in the Office of the Commissioner and Deputy Commissioner, which is the only office with the formal authority to ensure agencywide consistency and coordinate the functionally divided components that carry out the agency's mission.

Figure 6.1 shows the top management structure at Customs. The left-hand side of the chart indicates the separation of top-level policy offices into roles defined by the type of work done. The right-hand side of the chart depicts the geographic dispersion of authority directly below the Commissioner's office. The exception to this pattern is the newly reorganized Office of Enforcement, which is discussed later in this chapter.

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### **Headquarters Structure Focuses on Functions, Not Mission**

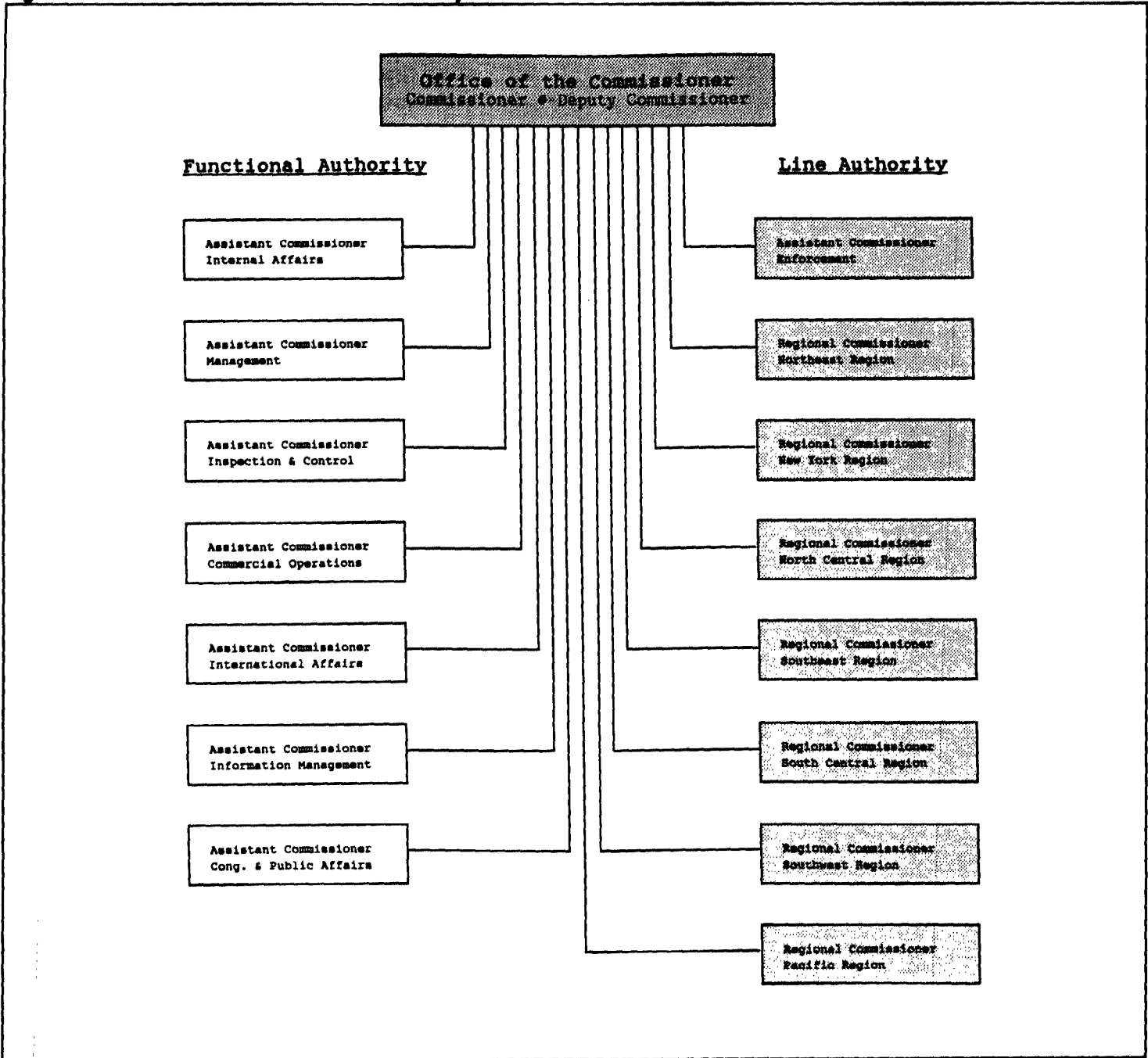
In Customs, the organizational structure does not contribute to a focus on agencywide goals. Instead, it emphasizes job function over agency mission. This complicates efforts to develop an integrated perspective on Customs' missions, such as trade enforcement.

The division of authority in headquarters is determined primarily by what the work unit does (i.e., inspections, classification and value reviews, criminal investigations) as opposed to why the unit performs that task (i.e., narcotics interdiction, assurance of trade law compliance). In other words, the headquarters management of Customs is organized primarily along functional lines, as opposed to a mission-oriented alignment.

The impact is that the task of cross-office coordination is formally placed solely on the Office of the Commissioner and Deputy Commissioner. Not only does this office have the responsibility to create, issue, and monitor implementation of policy, it also has the additional burden of ensuring that individual programs that serve larger, cross-functional objectives are properly coordinated with related programs that fall under the direction of other Customs offices.

When an organization is structured along functional lines, the pressure to manage conflicting priorities and integrate cross-office activities falls upon the manager who oversees and coordinates the functional offices. Functional offices, by their nature, are tasked with the accomplishment of narrowly defined operational goals. The structure does not provide functional managers with the incentive or the authority to ensure the achievement of broader goals. In Customs, this is the role of the Commissioner and Deputy Commissioner, who are the only officials with the formal authority to secure results for missions and objectives that cross functional lines.

Figure 6.1: Customs' Functional and Line Authority



Note: The line authority of regional commissioners includes functional authority within their geographic area.

Our survey of Customs managers indicates that problems exist in interoffice coordination. About 49 percent of all managers surveyed disagreed with the statement: "A high level of cooperation/coordination among programmatic units exists (e.g., between Inspection and Control, Office of Enforcement, and Commercial Operations, etc.)," while 30 percent agreed. Twenty-eight percent of headquarters managers agreed with this statement, while 45 percent disagreed.

We found a number of examples of problems Customs is experiencing in integrating cross-office activities within the current structure. As shown in chapter 3, the necessary mission orientation is also not reflected in the agency's most fundamental planning documents. Customs' 5-year plan fails to provide a clearly defined objective for Customs' trade enforcement efforts. Instead, the plan reflects the narrow programmatic goals of the functional offices.

Customs' 5-year planning process is divided by design. Program officers in headquarters devise 5-year plans individually, and the results are collated into the agency's plan. The plan begins as distinct pieces in functional offices, and any effort to chart an integrated vision for the agency comes after the establishment of these subsidiary goals. The result is a plan in which the various functional plans are presented as co-equal and independent, rather than prioritized and interdependent. This strategic process is shaped to fit the structure. The resulting problems in the strategic plan reflect the shortcomings of the structure in addressing the agency's mission.

Customs' efforts to increase paperless processing represents another example. Agencywide goals for paperless processing are to be accomplished by separate programs being carried out in the Office of Inspection and Control and the Office of Commercial Operations. According to the Deputy Commissioner's performance plan, responsibility to integrate these two programs, and thus to ensure that Customs' overall goals are reached, rest with him. The Assistant Commissioners for Inspection and Control and Commercial Operations are responsible only for the accomplishment of electronic processing goals in their functional areas, and they do not, in the current organization, have responsibility for the integration of related efforts in the other office.

Customs' enforcement of commercial fraud legislation provides another example of problems that arise in coordinating the efforts of functional offices toward a single objective. The Offices of Enforcement and

Commercial Operations have differing approaches to this broad objective. The Office of Enforcement seeks criminal cases against offenders. The Office of Commercial Operations seeks duty rate increases and seizures as a way of deterring violations. Both methods reflect the priorities and incentives of the functional area in which they are fostered. The Office of Enforcement measures its success in terms of arrests, indictments, and convictions, and the Office of Commercial Operations measures its success by duties collected.

The managers and employees of both of these offices must work together to make the most effective use of Customs' resources in combatting this complicated fraudulent activity, yet the pursuit of commercial fraud has been marked in the past by competition for resources and interoffice disputes about fraud investigation techniques. Customs still has no unit with clear accountability for this important work, which crosses the functional boundaries of the agency. The Office of the Commissioner is thus solely accountable for the coordination of the commercial fraud effort.

An example of the kind of impact that this lack of cross-functional integration can cause is found in the lack of coordination between Enforcement, Inspection and Control, and Commercial Operations staff in assessing civil penalties. A May 1991 Customs White Paper noted that the FP&F program is the foundation on which Customs' enforcement mission rests because all of the resources expended in initiating any enforcement action are wasted unless they result in a penalty, fine, or forfeiture. While concluding that a successful FP&F program depends upon communication, cooperation, and coordination among all customs disciplines, the White Paper noted that a February 1991 review by the Office of Internal Affairs found a general lack of understanding among Customs disciplines "...of the interrelationship between their functions and the FP&F program in the achievement of the overall Customs mission." FP&F officials said poor coordination and untimely case processing have resulted in cases lost due to the statute of limitations.<sup>1</sup> In the last 10 years, Customs has lost a total of 341 cases due to the expiration of the statute of limitations.

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### **Geographic Divisions Hinder Consistent Trade Enforcement Efforts**

The geographic structure, which distributes line authority from the Commissioner directly to the field, is another fundamental organizational problem. This creates a structural emphasis on the differences between geographical areas at the top level of the organization. Efforts to ensure

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<sup>1</sup>Depending on the type of violation, the statute of limitations is 5 or 6 years.

**national consistency and implement agencywide programs must overcome this emphasis in order to succeed.**

**Geographically divided line authority increases the risk of inconsistent policy implementation because of a potential focus on local pressures rather than on national priorities. This has manifested itself in the way Customs' regional offices exercise de facto control over policy.**

**Combined policy and line authority in headquarters, on the other hand, can lead to "better uniformity . . . improved measurement . . . better control," according to the Commissioner's recent proposal to give such responsibilities to the Office of Enforcement in headquarters. The need for improvement in uniformity, measurement, and control throughout Customs has been demonstrated by the findings described earlier in this report.**

**In the present structure, except for the Office of Enforcement, the Office of the Commissioner and Deputy Commissioner is the only place in which line authority for Customs' primary activities is clearly held at the headquarters level. The Mission and Organization Handbook<sup>2</sup> describes the limitations of functional authority:**

**. . . functional officials may properly issue instructions of general application prescribing how lower level officials shall handle specific kinds of actions within the delegated authority, but they may not issue "line" instructions directing the responsible officials on the handling of specific cases. Orders to take the action may be issued only by a line officer to subordinate supervisors or to employees subordinate to him, such as the Regional Commissioner to the District Director, or Area Director, and from him to the field officer concerned.**

**Policy created and approved by Assistant Commissioners and their subordinates is, according to the handbook, "to be regarded, in those functional areas corresponding to each office, as directed by the Commissioner of Customs." Thus, Assistant Commissioners act on behalf of the Commissioner. The impact of this structural alignment is that only the Commissioner and Deputy Commissioner are solely, formally accountable for the uniformity and coordination of Customs' actions nationwide.**

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<sup>2</sup>United States Customs Service Mission and Organization Handbook: Book One Headquarters, October 1, 1987; with revisions (p. 15).



Operational problems have arisen from this separation of policy and line authority and from the dispersion of line authority through the geographical structure. For example, Customs does not have a nationally consistent way of obtaining information to track the depth and quality of cargo examinations. Inspection and Control program management drafted a directive in early 1991 that would have developed a standard method of collecting this information, but regional comments reflected widespread disagreement with the proposed policy. In the face of this opposition, the final directive removed all reference to a standardized reporting method; instead, it reinforced the current lack of uniformity by encouraging "local procedures." As a result, there remains no nationally consistent way of collecting this information.

In another important area, headquarters has not established an agencywide policy for assessing the enforcement risk of releasing cargo approved for paperless entry. Currently, management controls for paperless releases are left to the field offices, and evidence indicates inconsistent practices in the field. Certain districts have conducted special programs to better understand the risks associated with paperless cargo release. Others are examining few or no paperless entries. Headquarters program managers have not comprehensively assessed the enforcement risks of the paperless release program.

The AD/CV duty program has been hampered by the lack of centralized authority. Responsibility for processing entries subject to AD/CV duties rests with district management. A 1990 internal Customs assessment found variations in district operating procedures and performance in carrying out this responsibility. The study also found that headquarters had not monitored whether the field had processed all entries that had been on hold but should have been closed because the cases to which they pertained had been decided by the Department of Commerce. In 1991, in response to a congressional inquiry, Customs found that over 500,000 entries were on hold, but it could not readily determine how many should be closed. Customs has initiated a number of actions to correct identified problems with the administration of AD/CV duty cases. However, a headquarters official responsible for the AD/CV duty program stated that without line authority, it is difficult to ensure that districts implement corrective actions.

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## **Wide Recognition of Problems in Current Organizational Structure**

Customs' organizational structure has been criticized by both external oversight groups and internal assessments. There is also evidence of dissatisfaction with the structure within the ranks of Customs managers. The criticisms center around the structure's inability to ensure national uniformity of operations and establish accountability for the accomplishment of overall goals.

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## **External Recognition of Structural Problems and Effects**

The February 1990 report of the Subcommittee on Oversight of the House Committee on Ways and Means—"Abuses and Mismanagement in U.S. Customs Service Commercial Operations"—identified organizational structure problems:

Customs is organized at the local level with vast discretion vested in the local district directors. As a result, local management focuses, to a large degree, on local issues and has developed independent methods of operation. Also, over its long history, Customs has developed a rather rigid internal bureaucratic structure, with its inherent organizational conflicts. As a result, management controls have been focused myopically within each organizational subgroup. It is not surprising that over the years Customs has not created management control systems geared to ensuring nationally uniform enforcement standards, or evaluation systems that cut across program and organizational lines.<sup>3</sup>

The Blue Ribbon Panel found similar problems that it attributed to organizational structure. In testimony before the House Committee on Ways & Means, Subcommittee on Oversight, the chairperson of the panel indicated that in the current structure the management burden on the Commissioner was too large, saying "the Commissioner needs help." In its report, the panel cited a "notable lack of accountability among managers at all levels . . ."<sup>4</sup> and "confused and competing lines of authority"<sup>5</sup> as two of the causes for its findings.

The Blue Ribbon Panel recommended that the Commissioner's support staff be reorganized to place additional emphasis on the task of performance analysis. This effort would be focused in the Office of Organizational Effectiveness, a newly created office directly under the Commissioner.

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<sup>3</sup>House Ways and Means, p. 14.

<sup>4</sup>Blue Ribbon Panel, p. 7.

<sup>5</sup>Blue Ribbon Panel, p. 3.

Previous chapters of our report have shown weaknesses in Customs' planning, information management, and human resource management. These weaknesses in critical support areas may help to explain why the Blue Ribbon Panel determined that the Commissioner requires help. Currently, these functional support areas are divided by the organizational structure, increasing the burden of coordination on the Office of the Commissioner.

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Customs Managers Report  
a Number of  
Organizational Problems

Customs' managers themselves are aware of structural problems in the current organization. In response to our survey, about 42 percent did not believe that the structure at the time of the survey worked well.

Many written comments volunteered by managers provide additional perspective on some of the organization's shortcomings. The following comments provide good examples of the opinions expressed:

"Apply more direct line authority to the field. The regional system is outdated and causes splintering of national priorities. The regional system is also confusing as to who is in charge. A more direct line organization is also necessary to drive a uniform application of national priorities."

"Customs has long been hampered in its ability to effect policy changes by the fact that the Headquarters offices have no line authority over the field offices....As representatives of the Commissioner, the Assistant Commissioners should be able to direct a field office or reprimand them for not performing as directed."

"Realize that Enforcement and i&c [Inspection and Control] are two different entities with differing, sometimes conflicting priorities, forced to work, not together, but in spite of each other. Enforcement and regulatory functions don't understand each others functions or importance. [There] should be more interaction to encourage cooperation."

"Integrate fully the functions of the Inspector and the Import Specialist (i.e. Trade Inspector Program). One division/organizational entity should have control over all commercial operations (i.e., inspection of incoming cargo through [acceptance] of the entry). Cargo inspectors would develop commodity specific expertise similar to the import specialist. [This] would eliminate any turf wars between i&c and Commercial Operations."

"Law enforcement is not a separable activity distinguishable from commercial operations. Commercial Operations officers identify suspect activity and initiate criminal and civil investigations in the areas of white collar crime and fraud. Officers trained as investigators are necessary and to recognize them organizationally realizes many benefits. However, the

inappropriate labeling of their division as 'Enforcement' has succeeded in obscuring the enforcement role common to all Customs officers and creating the misconception that there is such a thing as 'enforcement vs. commercial operations'."

Customs' internal studies reveal some of the organizational problems. In 1989, the Office of the Comptroller issued a series of reports describing organizational problems.<sup>6</sup> These problems included overlayering, decentralized policymaking, and unclear management responsibilities. One of the reports concluded that the current structure may too strongly influence the way that work is done in the agency, potentially impeding "communications, control, direction or information requirements." This report suggested that the way work is done in the agency should dictate the organizational structure, rather than the reverse.

A key point in these reports is that Customs' districts are not established according to sound operating principles. There is wide variation in the amount of workload and resources controlled by districts, yet the structure provides each district with the same status and position in the organization. Almost 93 percent of the current workload, and 91 percent of the workforce, is managed by 28 of the 44 districts. These reports recommend that districts be consolidated to improve internal accountability and reduce unnecessary expenses.

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### **Enforcement Reorganization to Provide Better Management**

The reorganizations of Customs' Office of Enforcement followed internal and external recognition of structural problems in 1990 and 1991. The first of these reorganizations was driven by the findings of the Customs "CAMEL" task force, which was given the responsibility to examine the future priorities of Customs' enforcement operations and to determine the "manner and methods by which to accomplish these priorities." The task force's primary recommendation to the Commissioner was to provide the Office of Enforcement in Customs headquarters with centralized line authority over field enforcement offices and the elimination of regional line authority. This change was seen as necessary in order to coordinate and unify criminal enforcement efforts. The Commissioner responded by providing the headquarters Office of Enforcement greater budget oversight, internal evaluation capabilities, and personnel authority, while leaving line control of activities in the regions.

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<sup>6</sup>Management Levels - A Vertical and Horizontal Approach, April 1989; Customs Management in the 90's, August 1989; A Strategy for Streamlining the Organization of the U. S. Customs Service, no date.

The second reorganization was proposed in 1991 after the Blue Ribbon Panel reiterated the recommendations of the CAMEL report concerning the Office of Enforcement. The panel was critical of the partial solution that had been put into place, and the report stated: "The increased responsibility and authority of the headquarters Office of Enforcement does not function effectively with the field line of authority reporting through the regional commissioner. The current arrangements intensify the accountability problems . . ." In response, the Commissioner vested full line authority in the headquarters Office of Enforcement and eliminated the regional enforcement positions.

According to the Commissioner's formal request to Treasury for this reorganization, the benefits will be "better uniformity of policy and strategy, improved measurement of and impact on productivity, better control over both personnel and resources, and implementation of national policies for employee mobility and career path development."

There are currently no plans pending that would provide these same benefits to Customs' other operational units, including the Office of Commercial Operations and Office of Inspection and Control. As a result, Customs now has an asymmetrical structure, with centralized headquarters line authority for certain enforcement activities and distributed field line authority for the remaining enforcement and regulatory activities. It remains to be seen whether the current structure, with its differences in status and responsibilities between field and headquarters units, will exacerbate existing problems. A 1991 study commissioned by Customs found divisive conflict between staff within the Office of Enforcement and staff of Inspections and Control and Commercial Operations. The report states that the agency was "deeply split" in both structure and culture and also said that there was a common perception that "we (in Customs) are really two organizations."<sup>7</sup>

Clearly, the current organizational structure needs to be examined thoroughly and objectively and a more effective alternative implemented. But current legislation restricts Customs from planning or implementing changes to the current field structure. Section 617 of Public Law 102-141 (the Treasury, Postal Service and General Government Appropriations Act, 1992) states:

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<sup>7</sup>Survey of Benefits Preferred by Customs Service Employees, U.S. Customs Service Office of Management with the George Mason University, 1991, p. 26.

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None of the funds made available in this Act may be used to plan, implement or administer (1) any reduction in the number of regions, districts or entry processing locations of the United States Customs Service; or (2) any consolidation or centralization of duty assessment or appraisement functions of any offices in the United States Customs Service.

Customs will not be able to restructure its field operations while this restriction remains in place.

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## Conclusions

Customs' structure does not effectively focus on the accomplishment of the trade enforcement mission. Policymakers in headquarters have national perspective, but they lack cross-functional vision. Regional Commissioners and District Directors have cross-functional understanding, but they lack agencywide authority. The result is a structure that places its emphasis, directly below the Commissioner, on the pieces rather than on the whole. The Commissioner and Deputy Commissioner are the only officials in a position to manage objectives and programs that cross geographic and functional boundaries.

The burden placed on the Commissioner and Deputy Commissioner by the current structure is to accomplish the combined tasks of coordinating programs, integrating operations, and evaluating results for all objectives that cross organizational lines, as well as monitoring the national implementation of policies and programs for consistency. Further, functional support offices are divided, making the coordinated and mission-focused management of key agency resources the responsibility of the Commissioner as well. This overall burden seems unnecessarily large.

The primary tasks of the Commissioner and Deputy Commissioner should be the overall leadership of Customs. As leaders, their responsibilities are to determine the goals and priorities of the entire agency and to ensure that those goals are achieved. Instead, the current structure requires that they manage the details of the work of the agency—jobs that should be delegated to subordinate managers.

The recent reorganization of the Office of Enforcement seems to be a step in the right direction. It provides line authority to a central organization that can ensure consistency of policy and uniformity of action and accountability for results. It leaves the primary responsibility for operational decisions in the field, which allows for rapid and responsive implementation. The reorganization does not go far enough, though, as the

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rest of Customs remains in the old structure, and the Office of Enforcement itself is still a functional division.

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## **Recommendations**

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### **Recommendation to Congress**

To enable Customs to undertake an objective review and realignment of its current structure, we recommend that Congress remove those legislative restrictions that prohibit Customs from planning changes to the current field structure.

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### **Recommendations to Customs**

Our fundamental recommendation is that the Commissioner of Customs closely examine the agency's current structure in light of the problems described in this report and, on the basis of this analysis, reorganize the agency in a way that more adequately supports the achievement of the trade enforcement mission. To accomplish this, we believe Customs should adopt a mission-based structure, which might be composed in a number of ways.

In our opinion, the following options should be seriously considered as a framework for a new organization.

- First, to combine national perspective with mission responsibility, Customs should consider organizing headquarters offices according to broadly defined mission components and vesting the top officials in these offices with line authority over field operations.
- Second, to provide better support to the Commissioner in planning, management analysis, resource management, and external relations, Customs should consider the consolidation of these functions into an Office of Management, able to create coordinated solutions to the agency's long-term needs.

One option that illustrates how this might be accomplished is that Customs establish three offices reporting directly to the Commissioner—the Office of Trade Enforcement, the Office of Contraband Enforcement, and the Office of Management—at the newly created level of Associate Commissioner. The first two units would be operations offices in headquarters with line authority over field operations; the third would provide staff services to the Commissioner.

The Office of Trade Enforcement would include those program offices devoted to aspects of this mission, such as the determination of the duty and admissibility of cargo shipments and fraud investigations. The Office of Contraband Enforcement would manage narcotics and other contraband enforcement operations. The Office of Management would combine the remaining support functions to provide coordinated staff services to the Commissioner.

Any Customs reorganization should be based on a clearly communicated statement of Customs' mission and a translation of this mission into goals developed from a thorough, analytical assessment of the current international trade environment.

In addition to this fundamental change, if Congress removes legislative restrictions, we recommend that Customs examine its field office structure and consider consolidating districts to improve accountability and reduce unnecessary expenses. This will support the changes suggested above by reducing the span of control for headquarters offices and thereby improve communications with, and measurement of, field operations.



# Management Problems Threaten Success of Customs' Efforts to Modernize Operations

Faced with a continuous increase in imports and a leveling in the amount of staff and other resources to process them, Customs is developing the capability to electronically accept and process all import documents, including the entry, entry summary, and invoice. However, several of the operational, managerial, and structural problems discussed throughout this report threaten the success of this paperless processing effort. First, Customs has proceeded with plans to process cargo electronically, without inspector review, under the incorrect assumption that CSS could effectively identify qualifying low-risk shipments. Second, Customs' fragmented organizational structure hinders headquarters' ability to assure that field units are effectively enforcing trade laws when processing entries electronically. Finally, Customs has not formulated an integrated strategy for achieving electronic processing, leaving many questions unanswered about how it will be implemented, how it will affect Customs and the trade community, and how much it will cost. Considering that Customs has staked the effectiveness of its future trade operations on electronic processing, it is imperative that Customs institute the recommendations in this report. They represent needed improvements to the foundation upon which paperless processing will be built.

## Customs Has Not Adequately Monitored Risks Under Electronic Processing

As part of its electronic processing initiative, Customs has proceeded to automatically release merchandise without adequate management controls to ensure importer compliance with the trade laws. Customs has been granting automatic release under the assumption that its cargo selectivity system is effective in determining which shipments are of low enough risk to be eligible for the program. However, as we have shown, Customs' cargo selectivity system does not effectively determine the risk of shipments. In addition, while headquarters established agencywide procedures to monitor Customs' experience with paperless cargo release, it did not oversee field implementation of these procedures. As a result, field practices varied to the point that Customs could not develop a nationwide perspective on trade compliance.

## Paperless Processing Proceeded Under False Assumptions Concerning CSS Effectiveness

For 3 years, Customs has been attempting to implement paperless cargo release and increase participation by importers. The 5-year plan set a goal to allow automatic release for 30 percent of cargo entries by the end of fiscal year 1991. Paperless cargo processing allows importers to receive immediate release of merchandise by transmitting entry documentation electronically instead of sending paper documents. Such paperless entry release is intended only for that cargo considered low risk by Customs.

Cargo is considered low risk if it passes through CSS without being designated for examination. However, as shown in chapter 2, CSS may not be an effective means of determining risk since it is not detecting the large majority of high-risk cargo.

Proceeding under the assumption that CSS was effective, Customs did not establish adequate management controls to ensure that the entries passing without review were indeed low risk. As we reported in chapter 2, Customs was not using the results from its random exams to estimate the level of violations in imported cargo. This, as well as the failure to establish a capability within CSS to identify randomly examined cargo that would otherwise have been subject to paperless release, precluded Customs from monitoring the violation rate for cargo released without inspections.

Because Customs had limited data available on paperless cargo violations, we analyzed the results of inspector-generated examinations to provide an indication of compliance among cargo released without inspections. Inspector-generated examinations are those in which inspectors override a decision by CSS not to inspect because they suspect that the cargo may be in violation. We found that the violation rate for inspector-generated examinations of cargo qualifying for paperless release was 13.3 percent, nearly identical to the 13.1 percent violation rate for inspector-generated exams of all other cargo.

After we provided Customs with our analysis, Customs instituted procedures that permit the tracking of violation rates for randomly selected cargo that would have been released automatically without submission of paper documents. As of January 1992, data was available only for the month of December 1991, when the violation rate for the random sample of potential paperless releases was 2.5 percent. The violation rate for all cargo randomly selected for examination during fiscal year 1991 was 3.8 percent. Customs has yet to determine what is an acceptable level of risk for paperless cargo.

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**Organizational Structure**  
**Contributes to Inadequate**  
**Management Controls**

Despite shortcomings in its selectivity systems, Customs headquarters has not adequately monitored the risk of paperless cargo. Headquarters established broad policy guidance regarding controls to monitor the risk of paperless cargo. However, it has not effectively monitored implementation of these controls. This is an example of one of the organizational structure problems discussed in chapter 6 where

policymakers in headquarters are unable to establish accountability for the implementation of agencywide programs.

In order to monitor risk, headquarters recommended that districts review entries for electronically processed cargo on a computer monitor at least once daily. However, we were told that ports were not consistently conducting these computer reviews. In our field contacts, we found that one major airport had dedicated an inspector to the task of reviewing the computer monitor; at another major port, these reviews were conducted infrequently because of the constraints on inspectors' time. Further, some of Customs' field staff said this review is impractical because there is little time to review electronically processed entries before the cargo leaves the port.

Headquarters also recommended in June 1991 that each district develop a meaningful audit program for paperless cargo. However, headquarters has not monitored district audit efforts. Our contacts with field locations revealed that several districts have instituted special controls, post-audits, and integrity programs. However, we were told that headquarters does not oversee these audit programs to gauge their effectiveness in assuring the integrity of electronic cargo processing. According to headquarters officials, it is the function of regional commissioners to enforce policy set at the national level. Several regional officials we spoke with told us that they leave it to the districts to develop their own programs on electronic cargo processing.

Our review of audit programs at two districts highlights the varying audit methodologies used and the lack of headquarters oversight. During 1990, two districts within the Southeast Region launched integrity tests of paperless cargo processing. At one district, violations were found in 30 percent of the 93 entries targeted by the district commercial fraud team. The other district launched its own integrity test to determine if the high violation rates at the first district were pervasive. The violation rate was much lower—1.4 percent of the 140 entries reviewed. However, Customs officials attribute the lower rate to the fact that a different testing methodology was applied.

Because different methodologies were used in the two studies, Customs was precluded from comparing the data to develop indications of the level of trade compliance. The field was not provided guidance as to how to interpret the findings of these tests, nor was any action taken to address

the enforcement implications of these audits because the responsible headquarters officials were not aware of these tests until we told them.

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## **Customs Has Not Developed a Comprehensive Plan for Modernization**

Customs' approach for implementing electronic merchandise processing leaves many unanswered questions regarding mission objectives, implementation strategies, and costs. This situation reflects continuing problems with Customs' mission and its information resource and human resource planning.

Although full automation of merchandise processing is Customs' vision for the future of its trade operations, Customs has not developed a comprehensive plan to guide its modernization effort. During our review, we asked Customs officials for their implementation plans for the modernization effort. We were told by the Assistant Commissioner for Commercial Operations that the development of a comprehensive modernization plan, including detailed implementation strategies and cost estimates, would be premature because Congress had not yet passed legislation that would authorize Customs to accept electronically filed import documents. He said that a task force was being formed to start discussing development of a strategy for modernization. However, according to a senior Customs' official the task force had not been formed as of March 1992.

In the absence of a detailed implementation plan, we reviewed the objectives within the 5-year plan for commercial service, paperless processing, national entry processing, international standardization, regulatory audit, and trade enforcement, all of which are relevant to Customs' modernization plans. The plan does not integrate these objectives or show how they would contribute to an overall modernization goal. Further, the objectives are not stated in ways conducive to measuring progress, and the plan is vague on how they will be achieved. For example, the paperless objective is to "continue development of automated systems to make the transition from paper to an electronic environment." However, the strategy for this objective does not clearly indicate what systems will be developed or modified to achieve the transition or the likely time frames for implementation.

As might be expected, many questions remain regarding the ultimate configuration and the likely time frames for proceeding toward fully automated processing of Customs transactions. A major question is whether Customs can fix weaknesses in ESS that prevent it from

adequately supporting the enforcement needs of the import specialists. One of the most significant weaknesses is the lack of capability to compare entry document review results with the specific criteria prompting the review. The ability to analyze violation trends is fundamental to Customs' modernization plans, which call for a shift from transaction-by-transaction reviews to greater emphasis on detecting patterns of noncompliance. In response to our report on ESS,<sup>1</sup> Customs agreed to correct the systems problems preventing the analysis of review results.

Beyond technical considerations, cost factors could also influence the ultimate configuration of Customs' electronic processing system. Customs has yet to adequately address this issue. The 5-year plan does not describe the cost of any future initiative, including modernization. The Commissioner has indicated that several improvements will be required before modernization can be fully implemented. Customs estimates that these improvements will take at least 3 years to implement, but it has not estimated how much they will cost.

The trade community also has concerns regarding which of the elements of electronic processing receive emphasis. Some members are concerned that Customs will devote disproportionate attention to implementing national entry processing (NEP),<sup>2</sup> which they feel is applicable to only a few importers. They believe this would delay other aspects of modernization, such as full automation of the entry process, that would benefit most segments of the trade community.

There are also questions regarding the implementation time frames. Customs' May 1991 5-year plan set targets for industry participation in paperless processing. For 1991, the targets for paperless processing were 30 percent of all cargo releases and 15 percent of entry summaries. By 1996, Customs expected to achieve 75 percent electronic processing for all Customs transactions and collections. Managers responsible for paperless processing told us that the targets were not developed in consultation with program managers and the trade community. Instead, they were established arbitrarily on the basis of the anticipated level of participation in Customs paperless initiatives from importers identified as low risk.

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<sup>1</sup>Customs Automation: Effectiveness of Entry Summary Selectivity System Is Unknown (GAO/IMTEC-92-20, Mar. 24, 1992).

<sup>2</sup>As noted in chapter 1, NEP would allow importers and brokers to electronically file entries in any Customs district, not just in the district containing the port where the goods arrived.

Customs has also not been consistently tracking progress toward paperless targets. Analysis of Customs data shows that Customs achieved 25 percent paperless cargo release—close to the 30-percent target. However, for the 15 percent entry summary target, Customs officials did not know whether the target was met because it did not track the level of entry summaries filed electronically. On the basis of its first-year efforts, Customs has revised its plans and now hopes to reach its goal of processing 75 percent of all Customs transactions electronically by the year 2000, instead of by 1996.

Customs' lack of information resource planning will likely hinder its ability to implement capabilities to receive and analyze electronically submitted invoices, which are required for participation in elements of Customs' electronic processing proposal, such as NEP. Customs has not addressed trade community concerns about developmental and operating costs. According to a representative of an importers' association, the initial investment for implementing automated invoices can be significant even for larger companies with sophisticated automated systems. Also, commercial software packages that offer the prospect of lower developmental costs and thus greater trade community participation are being developed, but when these software packages will be completed is uncertain.

Currently, only a few companies have installed an automated system for transmitting invoices to Customs. One company attempted to implement a similar automated invoice system but cancelled the project. These systems currently have limited application since Customs is not legally authorized to accept electronic invoices. When Customs decides that it needs to review one of these companies' invoices, the company must submit a paper copy. Customs contends that many more companies will begin to implement automated invoice systems if the Customs Modernization and Informed Compliance Act, which would authorize Customs to accept electronic invoices, is enacted. Many companies are apprehensive about investing in electronic invoice technology until they are assured that Customs has full authority to accept electronic invoices.

Another set of issues concerns the effects modernization could have on business patterns and staffing levels for Customs personnel. Members of the Treasury Advisory Committee as well as a representative from a major brokers association have stated that NEP could force major changes to trade patterns. They feel this could have negative economic impacts on the communities surrounding small ports, which may become less competitive

with larger ports and lose importing business. However, Customs' plans do not address the implications of modernization for the country's port system.

Customs also has yet to address important human resource management issues surrounding electronic processing. One issue involves the placement of import specialists. Under NEP, import specialists in one location could review entry documents submitted electronically in another location. Thus, theoretically, it would no longer be essential for Customs to station import specialists in close proximity to each port and the agency could possibly centralize this function. Customs has not addressed in the 5-year plan the issue of where import specialists will be located. The Assistant Commissioner for Commercial Operations told us that import specialist staffing will change in response to change in importer practices. Some members of the Treasury Advisory Committee on Customs have concluded that centralization of import specialists is inevitable. This is a sensitive issue within both Customs and the trade community. Import specialists are concerned about being transferred to another location, while some in the trade community feel import specialists are needed near the port of entry to give on-the-spot advice on import classification and Customs regulations. However, Customs will be discouraged from exploring this issue as long as Congress continues, as discussed in the previous chapter, to prohibit Customs from planning changes in its field structure.

Another human resource issue involves the future role of the inspector in the cargo examination process. Our analysis of CSS shows that when an inspector becomes actively involved in the process of selecting cargo, the system produces greater results. In 1991, inspector-initiated cargo examinations led to findings 13 percent of the time. This compares to findings 7.8 percent of the time from examinations of cargo targeted by CSS. This indicates that inspectors' involvement in the selection of cargo for examination may improve the effectiveness of the selection process. Nevertheless, Customs is planning to increase its reliance on CSS and thereby decrease inspectors' role in selecting cargo. It has not considered the feasibility of integrating inspectors' input into the cargo selection process to increase its effectiveness in identifying violations.

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## **Conclusions**

The existence of questions about Customs' capability to manage the transition to electronic processing of entries is not, in itself, sufficient reason to prevent Customs from proceeding with this important initiative.

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**Chapter 7**  
**Management Problems Threaten Success of**  
**Customs' Efforts to Modernize Operations**

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However, they do signal the urgent need for Customs to adopt the management, operational, and structural improvements recommended throughout this report. By instituting a strategic management process, Customs will be in a better position to develop a clear vision of how electronic processing will improve its ability to simultaneously control and facilitate the flow of imports into the country. It can then formulate a comprehensive plan for implementing this vision that addresses costs, information resources, staffing, and mechanisms for assuring performance and accountability. At the same time, Customs will need to modify its organizational structure to improve management's ability to monitor the implementation of electronic processing.





# Technical Discussion of Review Methodology

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A variety of approaches were used to meet the objective of assessing Customs' ability to fulfill its trade enforcement mission. We surveyed a sample of Customs' managers and supervisors to determine their perceptions of the organization's effectiveness and quality of service. We also surveyed a sample of brokers to determine their perceptions regarding Customs' performance in terms of its customers. We analyzed the comparative effectiveness of the random examination program and cargo selectivity by reviewing copies of the regular management reports prepared and used within Customs to report the results of their inspection programs. We reviewed the staffing allocation model used within Customs to assign import specialists and developed an alternative procedure.

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## Customs Managers Survey

To obtain the views of a wide range of Customs managers, we developed and pretested a questionnaire that covered such issues as organizational effectiveness, performance monitoring, and human resource management, as well as other important issues affecting Customs trade enforcement efforts. For purposes of the survey, we defined manager as any employee with a grade of 13 or above or whom Customs designated as managers or supervisors on the basis of their position or title, for example, supervisory inspector.

From a list of all staff fitting this description, we grouped individuals into 5 categories according to position title (table I.1). By stratifying the universe into these 5 groups prior to sample selection, we were able to ensure that all types of positions were adequately represented within the sample. To have taken a simple random sample would have resulted in there being too many inspectors, import specialists and special agents in the sample because these three classifications represent approximately 62 percent of the total Customs staff. These three classifications of staff represent only 37 percent of the respondents.

**Appendix I  
 Technical Discussion of Review  
 Methodology**

**Table I.1: Strata as Defined by Position  
 Titles**

<b>Strata</b>	<b>Position title</b>
1	Assistant Commissioner and Immediate staff
	Assistant Regional Commissioner and immediate staff
	District Directors and Immediate staffs
	Special Agents-in-Charge and immediate staffs
	Program Managers for Enforcement
	Program Managers for Commercial Operations
	Program Managers for Inspection and Control
2	Inspectors
3	Import Specialists
4	Special Agents
5	Entry Control staff
	Operational Analysis staff
	FP & F officers
	Systems analysts
	Financial managers, including budget officers
	Other

We sent the survey to a stratified random sample of 1,125 Customs managers. The universe, sample, and number of responses are shown in table I.2. The sample was designed to provide a 95 percent confidence level with an error rate not to exceed 5 percent.<sup>1</sup>

<sup>1</sup>The 95 percent confidence interval for the sample ensures that if we had surveyed the universe of staff within each of the categories there is a 95 percent probability that the results would be within the defined confidence limits.

**Appendix I  
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**Table I.2: Number in Universe and Sample and Number of Respondents**

Strata	Number in universe	Number in sample	Respondents	Response rate
Administrators	256 <sup>a</sup>	256 <sup>a</sup>	361 <sup>a</sup>	<sup>b</sup>
Inspectors	763	191	121	63.4%
Import Specialists	327	78	52	66.7
Special Agents	1,235	313	159	50.8
Entry Control	1,147	287	215	74.9
<b>Total</b>	<b>3,728</b>	<b>1,125</b>	<b>908</b>	<b>80.7</b>

<sup>a</sup>We identified 256 top-level managers at the grades 15 and above. However, individuals who were immediate staff of these managers were included in the same strata and could not subsequently be removed because the necessary information was not identifiable due to anonymity. This did not affect the interpretation of the results of our survey because results are reported primarily for the total sample of respondents, not for individual strata. In addition, the sampling errors based upon the final response rates are within the desired confidence level.

<sup>b</sup>Because the computed response rates would have been greater than 100 percent, it was not appropriate to compute this value.

In order to obtain managers' candid opinions and insights about Customs' management, we promised anonymity to the questionnaire recipients. Therefore, individual respondents could not be identified. Each respondent indicated on the returned survey only their position title, thereby enabling us to identify the strata and determine strata response rates.

The overall response rate was 81 percent. This response rate was sufficient to ensure the desired level of confidence—95 percent with an error rate not to exceed 5 percent. Only for the items shown in table I.3 do the sampling errors exceed the desired level. These sampling errors show, for example, with a probability of 95 percent, that if we had surveyed all import specialists and received a 100 percent response rate, for the survey item that asked if staff changes were excessive, between 67 and 41 percent of this universe of respondents would have indicated that staff changes hindered their work.

**Table I.3: Selected Sampling Errors That Exceeded the 5-Percent Level**

Survey Item	SES	Sampling error + or -	GS/GM 15	Sampling error + or -	GS/GM 14 And lower	Sampling error + or -
24 part 1	40%	11.9%	70%	6.0%	30%	1.6%
24 part 3	43	12.0	58	6.5	34	1.6
25 part 2	71	11.0	52	6.6	43	1.7
27 part 3	65	12.2	43	6.7	30	1.6

To analyze the written comments provided by many managers, we first reviewed the comments and developed a coding classification procedure that allowed us to determine the number of respondents who commented on a particular topic. Individuals were not identified with their comments.

## Brokers' Survey

To obtain the views of some members of the trade community who deal with Customs on a daily basis, we surveyed a simple random sample of 1,035 customs brokers. We sent the survey to 442 brokers and obtained a response rate of 81 percent, which was sufficient to achieve the desired 95 percent confidence level with a sampling error not to exceed 5 percent. We employed the same procedure to assure anonymity as we used for the Customs managers survey.

## Staff Allocation Methodology

As part of our evaluation of Customs human resource management, we reviewed its methodology for allocating import specialists to district offices. We found this methodology to be flawed and developed an alternative, which we present here for Customs' consideration.

## Current Customs Allocation Method

Customs currently uses a modified, subjective approach to determine the staffing requirements of U.S. Customs districts. In this approach, Customs officials assign subjective weights to various indicators of workload, such as the number of reviews and the number of protests. These weights are based upon the subjective opinions of the officials and upon the results of negotiations among the different officials.

Customs' current model is presented below:

$$\text{TOTAL SCORE} = \text{COMPLEXITY} \times [(1 \times \text{REVIEWS}) + (3 \times \text{QUOTAS}) + (1 \times \text{ADA}) + (1 \times \text{"806"}) + (1 \times \text{"807"}) + (1 \times \text{"SUPER 807"}) + (1 \times \text{STEEL}) + (1.5 \times \text{PROTESTS})]$$

In the Customs model the "total score" is primarily based upon type of cargo.<sup>2</sup> The Customs model is additive except for the factor "complexity", which multiplies the weighted sum of the remaining indicators. According to Customs officials, "complexity" gauges the effect of the number of "filers."

<sup>2</sup>For example "806", "807" and "SUPER 807" refer to provisions of the tariff code governing imports which contain some American content or on which some duties have already been paid. Under these provisions, importers are liable for Customs duties only on the incremental change in value to the products from manufacturing or repair work performed in foreign plants.

To allocate positions using the model, Customs first computes the "total score" of each district using the model presented earlier and then assigns a number of positions to each district that is proportional to its "total score." In practice, the model-based allocations are often modified on the basis of managerial discretion.

The current Customs approach has two major flaws. First, there is no allowance for the accumulation of factual knowledge about the factors that affect staffing needs. Second, the accuracy and appropriateness of the assigned weights can not be measured.

**GAO Proposal for an Improved Model**

We propose that Customs adopt an empirical or statistical approach to developing a staffing model. As an example of the process used, we developed such a model. Under this model, various combinations of factors were examined and compared using multiple regression statistical procedures to find the set of factors that best "explained," in the sense of accurate description or prediction, the reported staff times within the districts. The model selected for use in allocating import specialists would be the one that most accurately and completely accounted for the empirical relationship between the workload of a district and the reported import specialist staff times for this district. All of the tested models showed the potential for making accurate predictions based upon conventional measures of goodness-of-fit.<sup>3</sup>

Table I.4 shows the regression coefficients and their standard errors for three of the models GAO tested.<sup>4</sup> It also shows the subjective weights applied to each factor in the model Customs currently uses. Since the Customs model is subjective, the coefficients of that model are not directly comparable to those estimated for the GAO models. Since the Customs model is not a statistical model, there are no standard errors for the coefficients or R values.

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<sup>3</sup>Goodness-of-fit tests are measures that determine the statistical relationship between one or more factors. The high goodness-of-fit results from the fact that many of the indicators of workload are highly correlated with reported staff time.

<sup>4</sup>The models that GAO tested were generated from fiscal year 1990 data for 40 of the 44 Customs districts. Data were not available for the other four districts.

**Appendix I  
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Methodology**

**Table I.4: Estimated Regression Coefficients and Standard Errors of Estimated Coefficients**

Predictor	1 predictor	GAO model 3 predictors	9 predictors	Customs model
Intercept	-6.21 (.56)	-4.60 (.55)	-4.17 (.90)	0
Reviews	.81 (.05)	.50 (.07)	.43 (.12)	1
Filers		.31 (.06)	.38 (.09)	NA <sup>a</sup>
Protests		.10 (.04)	.09 (.08)	1.5
Quotas			.00 (.06)	3
ADA			.00 (.06)	1
"806"			.01 (.03)	1
"807"			.02 (.05)	1
"Super 807"			.00 (.02)	1
Steel			.01 (.06)	1
<b>ADJUSTED R<sup>2</sup></b>	<b>.86</b>	<b>.93</b>	<b>.92</b>	<b>NA<sup>a</sup></b>

Note: Standard errors of coefficients are given in parentheses.

<sup>a</sup>NA indicates that this statistical computation is not a part of the Customs model.

The main conclusion from table I.4 is that the three factors—"reviews", "filers", and "protests"—are sufficient to explain the variability in the required staff time. In the GAO model, each of the estimated coefficients is at least twice as large as its standard error. In the model with nine predictors, none of the six variables omitted from the selected model has a coefficient that is larger than its standard error. The adjusted R<sup>2</sup> is smaller when nine predictors are used than when the selected three predictors are used.<sup>5</sup>

Our selected model explains 93 percent of the variance of reported staff time among districts. As shown, the estimated regression coefficients computed for these predictors were 0.50, 0.31, and 0.10. Specifically, each of these coefficients measures the percent increase in "ptime" (staff time required) associated with a 1-percent increase in a specific component of work.

From this information, we can calculate the change in staff size needed to process the changing workloads. For example, if reviews increase by 1 percent while "filers" and "protests" increase by 0 percent, the number of import specialist positions should increase by 0.5 percent to maintain the

<sup>5</sup>Because the R<sup>2</sup> can be misleading when there are few observations and the factor being estimated is skewed, we further tested the value of the three factors as predictors by examining the plots of the residuals. Our examination of the residual plots further confirmed the usefulness of these factors to predict the needed number of staff.

same relative level of staffing. If "reviews" increase by 3 percent, "filers" increased by 2 percent, and "protests" increase by 1 percent, the number of positions should increase by  $(3 \times .5) + (2 \times .31) + (1 \times .1) = 2.22$  percent. If "reviews" decrease by 1 percent, "filers" increase by 2 percent, and "protests" remain constant, the number of positions should increase by  $(-1 \times .5) + (2 \times .31) = .12$  percent.

### Application of Model

After selecting the staffing model, we used an allocation algorithm to generate an equitable allocation of Customs import specialist positions. To reduce workload disparities among districts as much as possible, our algorithm allocates relatively more new positions to districts that are "understaffed," i.e., districts with predicted time greater than reported time, than to districts that are "overstaffed," i.e., districts with predicted time less than reported time. Specifically, our allocation algorithm ensures that the "staffing ratios" of the districts, i.e., the ratios of allocated positions to predicted staff times of the same offices, are as equal as possible. All inferences about the overstaffing or understaffing of districts are "relative" inferences, i.e., relative to other districts. Our staffing model says nothing about the absolute needs of the districts.

The following example demonstrates how the allocation algorithm is applied. In the Buffalo district for fiscal year 1990, "reviews" equalled 274,210, "filers" equalled 23, and "protests" equalled 5,163. By applying the regression coefficients shown in table I.4, we compute the following:

$$PTIME(\text{Buffalo}) = .0117 \times (274,210)^{.50}(23)^{.31}(5,163)^{.10} = 38.0$$

Because Buffalo currently has 51 authorized positions, the staffing ratio equals  $51/38.0 = 1.34$ . Since 1.34 is greater than 1, our model implies that Buffalo is one of the relatively overstaffed districts.

A comparison of our model with the total scores computed using the Customs model indicates substantial differences at the district level. For example, the Customs model would allocate 47.5 of the 1,085 currently allocated positions to Buffalo, whereas our model would allocate only 38.0. Our model would allocate 53.2 positions to Chicago, whereas the Customs model would allocate only 39.1.

The application of empirical models like the one described above would not substitute for managerial discretion in making staffing determinations. However, empirical models would focus attention on districts that have



unusual staffing situations and could prompt Customs officials to explore possibilities for more efficient operations.

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## **Analysis of Cargo Selectivity Programs**

To determine the effectiveness of the random and cargo selectivity programs in terms of the number and type of discrepancies identified, we reviewed a series of computerized reports generated for use by Customs management.

We used Custom's data for 1988 through 1991 as the basis for our estimates of the number of violations in the total universe of cargo entries. For example, in fiscal year 1991 the random selection program examined 52,898 entries; 1,928 (3.75 percent) were found to be in violation. By applying this percentage to the total number of ACS entries (7,076,509), we estimate that there were 265,680 violations in the total universe of ACS entries for fiscal year 1991.

We used standard statistical techniques—chi-square tests of independence—to determine whether the difference between the programs was attributable to more than chance errors.<sup>6</sup> We found that the random program identified significantly fewer violations than did the cargo selectivity program. The proportion of violations identified by the random sample program was approximately one-half that found by the cargo selectivity program for each year. The actual and expected values for the random and cargo selectivity programs are shown in table I.5.

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<sup>6</sup>All tests were performed using a 95 percent probability level.

**Appendix I  
Technical Discussion of Review  
Methodology**

**Table I.5: Comparison of Difference Between the Random Selection and Cargo Selectivity Programs in Numbers of Violations Found**

Fiscal year	Type of review	Result of exam	Actual	Expected*
1989	Random	discrepant	1,164	2,205
		nondiscrepant	38,883	37,842
	Cargo	discrepant	39,427	38,386
		nondiscrepant	657,671	697,098
1990	Random	discrepant	989	1,819
		nondiscrepant	24,447	23,617
	Cargo	discrepant	41,961	41,131
		nondiscrepant	533,152	533,982
1991	Random	discrepant	1,986	4,195
		nondiscrepant	50,912	48,703
	Cargo	discrepant	42,706	43,780
		nondiscrepant	509,307	508,233

\*The expected values are computed during the calculation of the chi-square statistic; these values are based upon the total distribution within the frequency table. All chi-square tests of the random versus the cargo selectivity programs were significant at least at the .95 probability level.

Using the same statistical procedure, we found that significant differences existed among the examination programs in terms of the types of violations identified. As shown in table I.6, the random program identified a higher proportion of marking violations than did the other programs. However, it was less successful in the identification of the other types of violations than were the other programs.

**Table I.6: FY 1991 Types of Violations Identified by the Random Selection Program Compared to All Other Programs**

Types of violations	Actual other programs	Expected other programs	Actual random program	Expected random
Quantity	1,591	1,631	114	74
Quota	2,143	2,121	74	96
Marking	39,569	39,767	1,992	1,794
Classification	10,142	10,066	378	454
Other agency	2,496	2,431	45	110
Prohibited	1,506	1,466	26	66
Miscellaneous	7,175	7,139	286	322
Drugs	33	33	2	2

The random selection program during fiscal year 1991 identified a significantly higher number of marking violations than would be expected by chance. Although the random selection process also identified more

quantity type violations in fiscal year 1991 than would be expected by chance, a similar difference was not found for fiscal year 1989.

Since random selection is intended to be objective in the manner in which cargo is chosen for examination, we would usually conclude that the program would provide an unbiased assessment of the level of voluntary compliance within the industry. However, when considered in conjunction with the evidence from the other programs, other factors, such as the quality of the inspection, appear to be different for the randomly selected cargo. Comments from Customs personnel indicate that, for the most part, the random selectivity program is not viewed as a top priority activity. Thus, we cannot determine precisely the true violation rate or the level of voluntary compliance.

One change that Customs could make to improve the current random selection program would be to reduce the number of cargo entries selected for review. Statistically, a sample of 400 random selections would be sufficient to allow Customs to report nationwide data regarding the number and type of violations. This level of random selection would be sufficient to ensure a 95 percent confidence level with a sampling error of no more than 5 percent. If the sample were increased to 5,625, a 99.7 percent confidence level with a sampling error not to exceed 2 percent could be achieved. We therefore question the effectiveness and efficiency of Customs' current random selection program, which examined almost 53,000 cargo entries during fiscal year 1991.

By reducing the number of random selectivity examinations currently performed, Customs would have the flexibility to use inspector resources in more targeted efforts to establish compliance levels among high-risk imports. By doing so, it could also chart the effectiveness of its enforcement efforts over time.

# Survey of Customs Brokers



U.S. General Accounting Office

## Survey of Customs Brokers

### INTRODUCTION

The U.S. General Accounting Office (GAO), an investigative agency of Congress is conducting a study of the U.S. Customs Service. As a member of the trade community, this survey is important to understand how Customs' operations can be improved.

One of the objectives of this review is to ascertain the views of Customs Brokers on issues such as organizational effectiveness and the quality of service provided by Customs. Most of the questions in this survey can be easily answered by checking boxes or filling in blanks. Space has been provided for any additional comments at the end of the questionnaire. If necessary, additional pages may be attached.

This questionnaire is anonymous. There is nothing on this form that can show how you or any other individual responded. In order to ensure anonymity, we ask that you separately return the enclosed postcard indicating that you have completed your questionnaire. There will be no way to link the postcards with individual questionnaires. We need these cards returned so that we can follow-up with those who do not respond to our first mailing. Your participation is very important. We cannot provide meaningful information without your frank and honest answers.

The questionnaire should take about 15 minutes to complete. If you have any questions, please call Ms. Kim McGregor at (202) 634-4792 or Mr. Ed Laughlin at (202) 634-1956.

Please return the completed questionnaire in the enclosed pre-addressed envelope within 10 days of receipt. Also, do not forget to mail back the postcard. Do not return the postcard in the envelope with the questionnaire. In the event the envelope is misplaced, the return address is:

U.S. GENERAL ACCOUNTING OFFICE  
 Ms. Kim McGregor  
 441 G Street, N.W.  
 Room 3660  
 Washington, D.C. 20548

Thank you for your assistance.

### GLOSSARY

CUSTOMS - Refers to the agency as a whole, that is, service-wide.

### I. BACKGROUND INFORMATION

1. What is your current job title?

\_\_\_\_\_

2. How many years have you been working as a broker?  
 (Please check one)

N = 1,018

15.1            1 to 5 years

20.8            6 to 10 years

17.2            11 to 15 years

16.3            16 to 20 years

30.3            21 or more years

3. In how many Customs districts are you currently operating? (Enter number.)

\_\_VOID\_\_\_\_\_  
 (Custom districts)

4. Over the past 12 months, approximately how many entries per month have you handled? (Please Enter Number.)

Mean = \_\_\_\_\_

Median = \_\_\_\_\_

\_\_\_\_\_  
 (Entries per month)

**Appendix II  
Survey of Customs Brokers**

5. Approximately, what percentage of goods that you currently handle as a broker are quota and non-quota? (Enter percentage.)

1. All goods that are quota

2. All goods that are non-quota

Percentage N = 985

Percentage N = 1,018

0 - 20 = 78.8

0 - 20 = 3.0

21 - 40 = 12.3

21 - 40 = 2.7

41 - 60 = 4.3

41 - 60 = 4.7

61 - 80 = 3.1

61 - 80 = 17.2

81 - 100 = 1.5

81 - 100 = 72.6

*Please answer the following questions based on your experience with the Customs District where you conduct most of your business.*

6. Based on your experiences over the past 12 months, how would you generally describe the following services and activities currently performed by Customs? (Check one box in each row.)

	Excellent /Good	Adequate	Poor/ Very poor	Number of responses
a. Responding to your questions and complaints	43.7	39.6	16.7	1,015
b. Processing entries	63.2	31.2	5.6	1,018
c. Selecting cargo for inspection	39.6	39.6	20.9	985
d. Inspecting cargo	38.8	42.7	18.5	997
e. Classifying merchandise	50.3	38.3	11.4	1,003
f. Appraising and assessing duties	52.6	40.1	7.4	942
g. Assessing fines, penalties, and forfeitures	39.3	33.3	27.3	906
h. Administering quotas	60.4	33.3	6.2	824
i. Processing manufacturing drawback claims	36.0	32.9	31.1	495
j. Handling protests	25.2	34.8	40.0	921
k. Seizing merchandise	34.0	42.8	23.3	649
l. Protecting intellectual property rights (copyrights)	49.2	42.8	8.0	565
m. Enforcing laws pertaining to drugs and other contraband	75.6	20.7	3.8	643
n. Enforcing export control laws	50.5	38.2	11.3	640
o. Other (Please specify)	18.6	14.0	67.4	130

**Appendix II  
Survey of Customs Brokers**

7. Currently, how satisfied or dissatisfied are you with the following aspects of the Customs' service? (Check one box in each row.)

	Very satisfied/ Satisfied	Neither satisfied nor dissatisfied	Dissatisfied/ Very dissatisfied	Number of responses
a. Accessibility of Import Specialist	55.4	15.5	29.2	1,015
b. Accessibility of Inspectors	54.3	23.0	22.7	1,012
c. Accessibility of Entry Control Staff	62.0	21.6	16.5	1,009
d. Cooperativeness of Import Specialists	66.9	16.1	17.0	1,012
e. Cooperativeness of Inspectors	54.6	23.3	22.1	1,012
f. Cooperativeness of Entry Control Staff	65.6	21.0	13.5	1,006
g. Competency of Import Specialists	62.3	22.5	15.3	1,009
h. Competency of Inspectors	48.5	28.4	23.1	1,021
i. Competency of Entry Control Staff	56.1	27.5	16.4	1,012

8. Thinking about the people you deal with on a day to day basis, has turnover of Customs' staff had a positive or negative, or no impact on the quality of service provided to you by Customs? (Check one.)

N = 969

15.0            Very positive/ Positive  
31.5            No impact  
53.6            Negative/Very negative

9. Overall, how satisfied or dissatisfied are you with the quality of Customs' service? (Check one.)

N = 1,012

52.2            Very satisfied/Satisfied  
29.3            Neither satisfied nor dissatisfied  
18.5            Dissatisfied/ Very dissatisfied

**Appendix II  
Survey of Customs Brokers**

**II. GENERAL QUALITY OF CUSTOMS SERVICE**

*Please answer the following questions based on your experience with all the districts in which you are familiar.*

10. In your opinion, how positive or negative an impact, if any, does or would the following have on the overall quality of Customs' service? (Check one box in each row.)

	Very positive/ Positive	No impact	Negative/ Very negative	Number of responses
a. National Entry Processing (Triangle Processing)	53.6	9.3	37.1	716
b. Expanding the Automated Manifest System to include all carriers	86.6	9.2	4.2	924
c. Expanding "pre-approved" processing for identical shipments - line release	90.9	7.3	1.8	831
d. Entry summary by account for periodic payment	60.9	25.7	13.4	764
e. Electronic messages providing status of shipment holds and release	92.7	6.4	0.9	988
f. Preclassification of merchandise	85.8	11.9	2.3	936

11. Currently, how high or low a rating would you give Customs on the following elements of their service? (Check one box in each row).

	Very high/ Generally high	Neither high nor low	Generally low/ Very low	Number of responses
a. Timeliness	36.4	39.1	24.6	1,021
b. Efficiency	30.4	41.5	28.1	1,012
c. Cooperativeness	42.7	34.4	22.8	1,018
d. Accessibility	36.8	35.9	27.3	1,018
e. Competency	36.5	43.3	20.2	1,018

**Appendix II  
Survey of Customs Brokers**

**III. OPERATIONAL EFFECTIVENESS**

12. Based on your experiences over the past 12 months, to what extent, if at all, are these policies or procedures applied uniformly at the district(s) with which you are familiar? (Check one box in each row.)

	To a very great extent/ Great extent	Moderate extent	Some extent/Little or no extent	Number of responses
a. Processing entries	40.8	33.4	25.8	948
b. Selecting cargo for inspection	29.6	32.6	37.8	927
c. Inspecting cargo	29.8	32.1	38.0	921
d. Classifying merchandise	36.7	40.3	23.0	906
e. Assessing duties	42.4	37.4	20.2	897
f. Assessing fines, penalties, and forfeitures	31.0	31.4	37.6	770
g. Administering quotas	53.7	32.5	13.8	725
h. Processing drawback claims	32.1	35.3	32.6	658
i. Handling protests	25.0	34.9	40.1	761
j. Seizing merchandise	25.1	33.9	41.0	553
k. Enforcing laws pertaining to drugs and other contraband	59.7	27.8	12.5	532
l. Enforcing export control laws	38.5	32.4	29.1	550
m. Other (Please specify.) _____	25.0	4.2	70.8	72



**Appendix II  
Survey of Customs Brokers**

13. Over the past 12 months, how often, if at all, have you experienced delays in getting cargo cleared? (Check one.)

N =1,009

- 13.2 Rarely (Skip to PART IV, below.)
- 61.4 Occasionally
- 9.9 As often as not
- 12.3 Often
- 3.3 Very often

14. To what extent, if at all, would you say that delays in Customs' cargo clearance are attributed to the following? (Check one box in each row.)

	Little or no extent/ Some extent	Moderate extent	Great extent/ Very great extent	Number of Responses
a. Transport of merchandise to Centralized Examination Stations for review	57.1	16.1	26.8	788
b. Quota processing procedures	49.0	29.0	22.0	728
c. Paper document requirements of other agencies	43.3	25.4	31.3	858
d. Examinations by multiple operational groups in Customs	32.5	29.6	38.0	827
e. Outdated Customs' physical facilities	66.3	18.7	15.0	743
f. Customs' workload	42.9	24.3	32.9	846
g. Inefficient examination methods	52.3	21.9	25.8	773
h. Low productivity of Customs' staff	43.7	17.8	38.5	815
i. Other (specify) _____	18.9	8.1	73.0	112

**IV. COMMUNICATION AND COORDINATION**

15. In general, how satisfied or dissatisfied are you with Customs' effort over the past 12 months to improve its working relationship with the trade community? (Check one.)

N =1,006

- 71.5 Very satisfied/ Somewhat satisfied
- 18.6 Neither satisfied nor dissatisfied
- 9.9 Somewhat dissatisfied/ Very dissatisfied

16. In your opinion, how effective or ineffective is the process for addressing your complaints? (Check one.)

N =954

- 52.5 Very effective/ Somewhat effective
- 19.3 Neither effective nor ineffective
- 28.2 Somewhat ineffective/ Very ineffective

**Appendix II  
Survey of Customs Brokers**

17. In your opinion, how effective or ineffective are the following Customs' mechanisms for disseminating information to the trade community? (Check one box in each row.)

	Very effective/ Somewhat effective	Neither effective nor ineffective	Somewhat ineffective/ Very ineffective	Number of responses
a. Conferences/ trade conferences	69.9	17.2	12.8	894
b. Local meetings	77.8	11.3	10.9	966
c. News release	58.1	24.1	17.8	915
d. Interactive committees (e.g. ABI, Customs Electronic Systems Advisory Committee)	78.1	14.2	7.6	912
e. Publications (e.g. <u>Global Talk</u> , <u>Trade Quarterly</u> )	73.0	18.3	8.7	939
f. Other (Please specify.) _____ _____	82.9	----	17.1	106

**V. CUSTOMS' AUTOMATED COMMERCIAL SYSTEM (ACS)**

18. In general, how satisfied or dissatisfied are you with Customs' efforts over the past 12 months to improve the Automated Commercial System? (Check one.)

N = 997

- 77.0 Very satisfied/ Somewhat satisfied
- 17.0 Neither satisfied nor dissatisfied
- 6.1 Somewhat dissatisfied/ Very dissatisfied\_

19. In your opinion, how effective or ineffective is Customs' Automated Commercial System (ACS) for meeting your needs when dealing with Customs? (Check one.)

N = 997

- 85.2 Very effective/ Somewhat effective
- 9.7 Neither effective nor ineffective
- 5.2 Somewhat ineffective/ Very ineffective

**Appendix II  
Survey of Customs Brokers**

**VI. COMMENTS**

20. What suggestions, if any, can you offer for improving Customs' operations? *(Please explain.)*

N = 1,024

38.6 No Comments

61.4 Comments

**Appendix II  
Survey of Customs Brokers**

21. If you have any additional comments regarding any previous questions or comments concerning Customs' managerial practices or specific problems that need to be addressed, please use the space below.

N= 1024

72.6      No Comments

27.4      Comments

Thank you for your assistance. Please return the questionnaire in the pre-addressed envelope.

Also, please return the postcard separately. Thank you.

# Survey of U.S. Customs Service Managers



U.S. General Accounting Office

## Survey of U.S. Customs Service Managers

### INTRODUCTION

The U.S. General Accounting Office (GAO), an investigative agency of Congress, is conducting a general management review of the U.S. Customs Service. This review will cover a wide range of management issues at the Customs Service.

One of the objectives of this review is to ascertain the views of Customs managers on issues such as organizational effectiveness, quality of service, as well as other important issues. Most of the questions in this questionnaire can be easily answered by checking boxes or filling in blanks. Space has been provided for additional comments at the end of the questionnaire. If necessary, additional pages may be attached.

This questionnaire is anonymous. There is nothing on this form that can show how you or any other individual responded. In order to ensure anonymity, we ask that you separately return the enclosed postcard indicating that you have completed your questionnaire. We need these cards returned so that we can follow-up with those who do not respond to our first mailing.

No linkage between the postcard number and the questionnaire can be made. Your participation is very important. We cannot provide meaningful information without your frank and honest answers.

The questionnaire should take about 30 minutes to complete. If you have any questions, please call Ms. Kim McGregor at (202) 634-4792 or Mr. Ed Laughlin at (202) 634-1956.

Please return the completed questionnaire in the enclosed pre-addressed envelope within 10 days of receipt. Also, do not forget to mail back the postcard. Do not return the postcard in the envelope with the questionnaire. In the event the envelope is misplaced, the return address is:

U.S. GENERAL ACCOUNTING OFFICE  
Ms. Kim McGregor  
441 G Street, N.W.  
Room 3660  
Washington, D.C. 20548

Thank you for your assistance.

### GLOSSARY

**Unit** - The staff and resources you have the responsibility for managing and/or supervising. For example, a Regional Commissioner's unit would be the entire region. A District Director's unit would be the staff and resources in that district. A first-line supervisor's unit would be those employees he or she supervises. If you do not directly supervise staff, consider your unit as those persons you work with on a daily basis.

**Customs** - Refers to the agency as a whole, that is, service-wide.

**Field** - Refers to all segments of Customs, except headquarters.

**District** - Refers to all district operations, including port operations.

**Special Agent-In-Charge** - Refers to all SAC operations outside of headquarters.

**Trade Community** - Includes importers, brokers, exporters, freight forwarders, carriers, trade associations, domestic industry, etc.

**Appendix III  
Survey of U.S. Customs Service Managers**

Numbers entered are percents unless otherwise indicated.

**I. BACKGROUND INFORMATION**

1. To which of the following are you currently assigned? (CHECK ONE.)

N = 3,732

- 25.4 Headquarters
- 8.7 Regional Office
- 30.8 District Office (Includes Port Offices)
- 24.2 SAC Office (Includes RAC Offices)
- 10.9 Other (Specify)

2. In which geographic area are you currently physically located? (CHECK ONE.)

N = 3,732

- 20.9 Washington, D.C.
- 6.9 Northeast Region
- 12.1 New York
- 17.0 Southeast Region
- 5.4 South Central Region
- 15.2 Southwest Region
- 10.9 Pacific Region
- 9.0 North Central Region
- 2.7 Outside United States

3. How long have you worked at Customs Service?

N = 3,681

- 12.0 5 Years or less
- 12.7 6 to 10 years
- 18.0 11 to 15 years
- 57.2 16 or more years

4. What is your current grade or ES level?

N = 3,698

- 1.8 SES
- 6.1 GM/GS-15
- 92.2 GM/GS-14 or lower

5. What position do you currently hold at the Customs Service? (Includes acting position) (CHECK ONE.)

N = 3,732

- .5 Assistant Commissioner or above or immediate staff
- .7 Assistant Regional Commissioner or above or immediate staff
- 2.9 District Director and immediate staff
- 1.2 Special Agent-In-Charge and immediate staff
- .5 Program Manager (Enforcement)
- .5 Program Manager (Commercial Operations)
- .5 Program Manager (Inspection and Control)
- 20.6 Inspector
- 8.8 Import Specialist
- 33.1 Special Agent
- .9 Entry Control
- 2.9 Operational Analysis Staff
- .3 FP & F Officer
- 3.0 Systems Analyst
- 2.0 Financial Manager (including Budget Officer)
- 21.7 Other (Please Specify)

**II. PRIORITY SETTING, PLANNING AND BUDGETING**

6. How familiar or unfamiliar are you with the Commissioner's stated priorities? (CHECK ONE.)

N = 3,724

- 77.8 Very familiar/ Somewhat familiar -->(CONTINUE WITH QUESTION 7.)
- 22.2 Somewhat unfamiliar/ Very unfamiliar --> (SKIP TO QUESTION 10.)

**Appendix III  
Survey of U.S. Customs Service Managers**

7. In your opinion, to what extent, if at all, is Customs establishing a viable plan to implement the Commissioner's stated priorities? (CHECK ONE.)

N = 2,669

- 55.8 To a very great/great extent
- 31.6 To a moderate extent
- 12.6 To some/little or no extent

8. How clear or unclear to you are your unit's responsibilities for implementing the Commissioner's stated priorities? (CHECK ONE.)

N = 2,912

- 85.2 Very/somewhat clear
- 14.8 Somewhat/very unclear

9. In your opinion, how adequately or inadequately are you kept informed by the agency as to your unit's progress in implementing the Commissioner's stated priorities? (CHECK ONE.)

N = 2,838

- 57.5 Very/somewhat adequately informed
- 19.5 Neither adequately nor inadequately informed
- 23.0 Somewhat/very inadequately informed

10. Given the following options, how would you characterize the current setting of priorities at Customs between law enforcement and commercial operations? (CHECK ONE.)

N = 3,480

- 28.3 Much/somewhat heavier emphasis on enforcement than on commercial operations
- 29.1 About equal emphasis
- 42.6 Somewhat/much heavier emphasis on commercial operations than on enforcement

11. In your opinion, how should law enforcement vs. commercial operations priorities be set at Customs? (CHECK ONE.)

N = 3,629

- 39.2 Much/somewhat heavier emphasis on enforcement than on commercial operations
- 51.1 About equal emphasis
- 9.7 Somewhat/much heavier emphasis on commercial operations than on enforcement

12. How clear or unclear are you as to where Customs is headed in the next 5 years in terms of its overall mission or objectives? (CHECK ONE.)

N = 3,733

- 61.4 Very/somewhat clear
- 38.6 Somewhat/very unclear

**Appendix III  
Survey of U.S. Customs Service Managers**

13. Thinking about Customs' budgeting and financial management system, would you agree or disagree with the following statements?

	Strongly agree/ Agree	Neither agree nor disagree	Disagree/ Strongly disagree	Number of Responses
Overall, the Customs budget appropriately directs resources towards the Commissioner's stated priorities.	50.3	27.5	22.2	2,550
Overall, the distribution of funding among Customs' programs is appropriate.	25.3	20.5	54.2	2,830
Overall, the distribution of personnel among Customs' programs is appropriate.	24.4	15.0	60.6	3,172
My unit's operational/program funding levels are adequate.	28.2	9.4	62.4	3,560
My unit has the necessary equipment to meet its goals, objectives and mission.	31.9	9.4	58.7	3,657

14. Based on your experiences in Customs, do you agree or disagree with the following statements?

	Strongly agree/ Agree	Neither agree nor disagree	Disagree/ Strongly disagree	Number of responses
Overall, the current organizational structure of Customs works well.	38.5	19.9	41.6	3,636
Headquarters offices such as the Office of Commercial Operations or the Office of Enforcement should have more control over their respective field operations.	46.3	18.1	35.6	3,502
Regions should have more control over District Office operations.	23.4	27.6	49.0	3,224
Regions should have more control over SAC office operations.	25.8	20.6	53.7	2,946
Regional Offices serve an important function at Customs.	39.5	20.6	39.9	3,605
Overall, Customs' managers consistently encourage participation and teamwork by the staff.	47.7	18.8	33.4	3,653
Overall, Customs' top management is receptive to individual ideas for operational improvement.	43.3	20.3	36.3	3,443
Overall, Customs' managers develop and implement processes that adequately address operational problems.	40.4	25.5	34.1	3,635



**Appendix III  
Survey of U.S. Customs Service Managers**

15. Based on your experience at Customs, would you agree or disagree with the following statements?

	Strongly agree/ Agree	Neither agree nor disagree	Disagree/ Strongly disagree	Number of responses
The lines of authority at Customs are clear.	66.6	8.7	24.7	3,728
The chain-of-command at Customs tends to be followed.	61.3	11.1	27.6	3,733
Headquarters provides adequate guidance to the field for implementing policies and procedures.	35.6	26.3	38.1	3,605
Communications between headquarters and the regions is good.	31.2	37.7	31.1	2,487
Communication between the regions and the districts is good.	40.7	35.7	23.6	2,616
A high level of cooperation/coordination among programmatic units exists (e.g., between Inspection and Control, Office of Enforcement and Commercial Operations, etc.).	29.7	21.7	48.7	3,517
There is good dissemination of information throughout the agency.	35.5	18.6	45.8	3,695
Headquarters is in touch with issues, problems, or concerns in the field.	27.3	26.0	46.7	3,425

**Appendix III  
Survey of U.S. Customs Service Managers**

16. Based on your routine activities, how would you describe the level of coordination or cooperation between Customs and the other federal agencies listed below?

	Excellent/ Good	Adequate	Poor/ Very poor	Number of responses
Consumer Product Safety Commission	49.7	40.0	10.2	1,395
Food and Drug Administration	54.9	37.1	8.0	2,077
Department of Commerce	38.5	36.8	24.7	2,774
Department of State	43.9	40.9	15.3	2,353
Department of Agriculture	65.3	30.4	4.3	2,341
Department of Transportation	40.9	42.1	16.9	1,804
Drug Enforcement Administration	43.1	30.1	26.8	2,800
Coast Guard	54.7	31.6	13.8	2,253
Immigration and Naturalization Service	54.4	31.5	14.1	2,840
Federal Communications Commission	41.4	45.4	13.2	1,079
Federal Bureau of Investigation	41.2	34.0	24.7	2,445
Federal Aviation Administration	57.9	33.5	8.6	2,246
Treasury Department	57.5	34.2	8.3	2,757
Fish and Wildlife Service	67.5	29.5	2.9	2,469

17. Thinking about service-wide policies and procedures, would you agree or disagree with the following statements?

	Strongly agree/ Agree	Neither agree nor disagree	Disagree/ Strongly disagree	Number of responses
Policies and procedures for carrying out Customs' mission are clearly communicated by headquarters to the field.	41.4	26.0	32.6	3,574
Policies and procedures for carrying out Customs' mission are disseminated from headquarters to the field in an efficient manner.	35.6	26.3	38.1	3,541
Regions and districts implement service-wide policies and procedures consistently.	25.9	22.4	51.7	3,223
Regions and districts should have more discretion in implementing service-wide policies and procedures.	40.2	22.7	37.1	3,326
Headquarters ensures that policies and procedures are implemented service-wide.	25.0	32.1	42.9	3,167

**Appendix III  
Survey of U.S. Customs Service Managers**

18. Based on your experience in the past 12 months, to what extent, if at all, are policies and procedures for the following processes or activities applied uniformly?

	Very great/ Great extent	Moderate extent	Some/ Little or no extent	Number of responses
Processing entries	64.9	23.5	11.6	1,573
Denying entries	54.2	28.7	17.1	1,381
Selecting cargo for inspection	51.6	27.3	21.1	1,795
Inspecting cargo	48.8	27.6	23.6	1,676
Classifying merchandise	67.3	20.2	12.6	1,477
Assessing duties	66.6	24.5	8.9	1,547
Assessing fines, penalties, and forfeitures	47.8	26.4	25.8	1,757
Administering quotas	82.3	12.0	5.7	1,219
Processing drawback claims	57.0	30.2	12.7	969
Handling protests	61.1	23.6	15.3	1,090
Seizing merchandise	55.6	24.3	20.1	2,212
Protecting intellectual property rights	55.4	28.7	15.9	1,700
Enforcing laws pertaining to drugs and other contraband	73.5	16.7	9.8	2,770

19. Thinking about your unit's responsibilities or mission, would you consider the following groups as major customers, minor customers, or not customers of your unit?

	Major customer	Minor customer	Not a customer	Number of responses
The trade community (See glossary)	54.3	18.3	27.4	3,690
The general public (i.e., passengers and other citizens)	47.2	28.2	24.5	3,698
Other units within Customs	60.5	25.2	14.3	3,656

**Appendix III  
Survey of U.S. Customs Service Managers**

20. Using the scale below, how would you rate your unit in terms of the service provided in the following areas?

	Excellent/ Very good	Adequate	Poor/ Very poor	Number of responses
Quality of service provided	80.8	15.7	3.6	3,652
Timeliness of service provided	73.0	23.3	3.7	3,659
Efficiency of service provided	71.8	21.6	6.6	3,659
Accessibility of unit's staff	76.5	16.7	6.8	3,651
Cooperativeness of staff	80.6	13.8	5.6	3,673
Competency of staff	70.8	22.4	6.8	3,680
Responding to questions or complaints from parties outside of Customs	74.4	20.7	4.9	3,463
Overall effectiveness of the unit in carrying out Customs' mission	74.9	20.8	4.3	3,664

21. Overall, in your opinion, how high or low is Customs' commitment of necessary resources to ensure quality service to the trade community? (CHECK ONE.)

N = 2,781

- 67.1 Very high/high commitment
- 26.8 Moderate commitment
- 6.1 Low/very low commitment

22. Over the past 12 months, how would you describe Customs' working relationship with the trade community? (CHECK ONE.)

N = 2,713

- 76.1 Excellent/very good
- 20.9 Adequate
- 3.0 Poor/very poor

**Appendix III  
Survey of U.S. Customs Service Managers**

23. To what extent, if at all, do you feel that the following are needed to improve Customs' working relationship with the trade community?

	Definitely/ Probably not needed	Unsure at this time	Probably/ Definitely needed	Number of responses
Additional staff.	18.5	23.6	57.9	3,580
Increase in the quantity and types of <u>formal</u> training for staff.	13.8	17.7	68.5	3,574
Increase in the amount of <u>on-the-job</u> training for staff.	11.6	19.2	69.2	3,568
More routine and more frequent meetings with the trade community.	26.8	38.4	34.9	3,565
Increase in computers/work stations	13.9	23.1	63.0	3,576
More system improvements (e.g., E-Mail, Voice Mail, etc.)	23.4	27.0	49.7	3,581
Improved physical facilities	12.9	18.9	68.2	3,573

24. Thinking about your unit's current ability to accomplish its mission, would you agree or disagree with the following statements?

	Strongly agree/ Agree	Neither agree nor disagree	Disagree/ Strongly disagree	Number of responses
<b>STAFFING</b>				
My unit can recruit qualified employees.	58.6	12.9	28.5	3,575
My unit can retain qualified employees.	54.3	13.2	32.5	3,678
My unit currently has adequate staff to do its work.	27.4	9.3	63.3	3,720
<b>WORKFORCE PLANNING</b>				
My unit is able to adequately plan for its future staffing needs.	38.0	17.3	44.7	3,518
The staff in my unit have the needed skills to do their jobs well.	69.5	11.4	19.0	3,692
Staff assignments within my unit correspond well to the unit's workload.	46.9	15.0	38.1	3,657
<b>TRAINING</b>				
Adequate funding for training is available for my unit.	32.7	17.8	49.5	3,408
Adequate time for training is available for those in my unit.	38.1	16.1	45.8	3,670
Staff in my unit are provided with the types of training courses they need.	35.3	19.8	44.9	3,657
I am provided with the types of management training that I need.	38.1	18.5	43.3	3,456

**Appendix III  
Survey of U.S. Customs Service Managers**

25. In your opinion, how effective or ineffective is the performance appraisal system (e.g., expectation setting, ratings, etc.) in accomplishing the following?

	Very/ Somewhat effective	Neither effective nor ineffective	Somewhat/ Very ineffective	Number of responses
Rewarding good performers	51.7	9.6	38.6	3,717
Holding managers and supervisors accountable for the performance of their staff	43.2	18.2	38.7	3,613
Holding staff accountable for their performance	46.9	17.3	35.8	3,681
Accurately measuring performance	30.8	16.6	52.6	3,717
Serving as a mechanism for improving performance	28.1	18.6	53.3	3,682

26. What suggestions would you offer to improve the performance appraisal system at Customs?

27. Based on your experiences at Customs, would you agree or disagree with the following statements about the employee reward system at Customs?

	Strongly agree/ Agree	Neither agree nor disagree	Disagree/ Strongly disagree	Number of responses
Customs rewards employees for effectively facilitating trade.	27.2	34.2	38.6	2,228
Customs rewards employees for effectively interdicting drugs.	62.2	15.5	22.2	3,179
Customs rewards employees for innovative thinking and ideas.	31.0	26.5	42.4	3,519

28. To what extent, if at all, has turnover of staff within your unit hindered its ability to complete its work? (CHECK ONE.)

N = 3,511

- 48.0 To some/little or no extent
- 19.9 To a moderate extent
- 32.2 To a great/very great extent

29. To what extent, if at all, has turnover of executive leadership and managers (i.e., Commissioner, Assistant Commissioners, Regional Commissioners, District Directors, SACs, etc.) hindered your unit's ability to complete its work? (CHECK ONE.)

N = 3,485

- 67.6 To some/little or no extent
- 16.9 To a moderate extent
- 15.5 To a great/very great extent

**Appendix III  
Survey of U.S. Customs Service Managers**

30. In your opinion, to what extent, if at all, does Customs have a problem with employees engaging in illegal activities? (CHECK ONE.)

N = 3,227

- 89.3 To some/little or no extent
- 6.8 To a moderate extent
- 3.8 To a great/very great extent

**VI. PERFORMANCE MONITORING AND EVALUATION**

31. Over the past 12 months, has your unit been reviewed, evaluated, or audited by either Customs or the Treasury Inspector General's Office? (CHECK ONE.)

N = 3,708

- 45.7 Yes (CONTINUE WITH QUESTION 32.)
- 54.3 No (SKIP TO QUESTION 33.)

32. In general, how adequate or inadequate have these reviews, evaluations, or audits been in assisting your unit in the following areas?

	More than/ Generally adequate	Neither adequate nor inadequate	Generally/ Very inadequate	Number of responses
Identifying problems in your unit	60.8	15.8	23.4	1,526
Recommending solutions to problems in your unit	43.1	20.7	36.2	1,506
Stimulating the taking of corrective actions by your unit based on recommendations	53.8	19.1	27.1	1,500

33. Do you think that the current measures used to assess your unit's effectiveness are adequate or inadequate? (CHECK ONE.)

N = 3,315

- 53.8 More than adequate/generally adequate
- 18.7 Neither adequate nor inadequate
- 27.5 Generally/very inadequate

**Appendix III  
Survey of U.S. Customs Service Managers**

**VII. OPERATIONAL AND MANAGEMENT INFORMATION**

34. How often or rarely does your unit use the following Customs' automated systems to accomplish its program goals and objectives?

	Very often/ Often	Occasionally	Rarely/ Very rarely	Not at all	Number of responses
Automated Commercial system (ACS)	54.0	17.3	11.8	16.9	3,709
Treasury Enforcement Communications System (TECS)	71.4	9.0	6.9	12.7	3,710
Interagency Border Communications System (IBIS)	9.5	10.3	17.1	63.1	3,032
Customs Accounting Management Information System (CAMIS)	21.5	11.0	17.1	50.4	3,613
Customs Logistics Automated System (CLAS)	9.2	8.5	16.6	65.6	3,565
Automated Receiving Report System (ARRS)	11.9	6.2	19.3	62.6	3,535
Personnel Action Requests Tracking System (PARTS)	13.7	9.2	18.4	58.7	3,550

35a. Would you agree or disagree with the following statements about the Automated Commercial System (ACS) at Customs?

ACS ...	Strongly agree/ Agree	Neither agree nor disagree	Disagree/ Strongly disagree	Number of responses
Is easily accessible.	69.0	8.4	22.6	2,800
Is available in a format that is convenient for me to use.	52.4	12.1	35.4	2,789
Is kept up-to-date.	63.9	27.7	8.1	2,723
Is accurate.	58.2	33.0	8.8	2,714
Adequately meets my information needs.	56.7	23.0	20.3	2,760
Allows my unit to accomplish its program goals and objectives.	62.4	25.4	12.1	3,755
Allows me to make well thought out decisions.	49.1	36.6	14.3	2,744
Assists me in my ability to measure my unit's performance.	32.4	40.0	27.7	2,657
Allows me to use my resources (e.g., time/people/money) efficiently.	40.1	41.3	18.6	2,684



**Appendix III  
Survey of U.S. Customs Service Managers**

35b. Would you agree or disagree with the following statements about the Treasury Enforcement Communications System (TECS) at Customs?

TECS...	Strongly agree/ Agree	Neither agree nor disagree	Disagree/ Strongly disagree	Number of responses
Is easily accessible.	87.3	5.2	7.5	2,939
Is available in a format that is convenient for me to use.	78.7	12.0	9.3	2,933
Is kept up-to-date.	74.0	18.2	7.8	2,927
Is accurate.	68.3	26.1	5.6	2,933
Adequately meets my information needs.	77.5	14.8	7.7	2,943
Allows my unit to accomplish its program goals and objectives.	75.5	19.2	5.3	2,944
Allows me to make well thought out decisions.	56.3	36.1	7.6	2,932
Assists me in my ability to measure my unit's performance.	39.3	36.1	24.6	2,838
Allows me to use my resources (e.g., time/people/money) efficiently.	43.9	38.2	18.0	2,834

35c. Would you agree or disagree with the following statements about the Customs Accounting Management Information System (CAMIS) at Customs?

CAMIS...	Strongly agree/ Agree	Neither agree nor disagree	Disagree/ Strongly disagree	Number of responses
Is easily accessible.	56.3	32.4	11.3	878
Is available in a format that is convenient for me to use.	45.6	38.1	16.3	843
Is kept up-to-date.	43.1	46.4	9.5	832
Is accurate.	47.8	43.9	8.8	834
Adequately meets my information needs.	53.3	36.4	10.2	835
Allows my unit to accomplish its program goals and objectives.	47.5	45.4	7.0	834
Allows me to make well thought out decisions.	39.0	52.5	8.5	832
Assists me in my ability to measure my unit's performance.	24.9	57.2	17.9	824
Allows me to use my resources (e.g., time/people/money) efficiently.	32.8	56.8	9.7	833

**Appendix III  
Survey of U.S. Customs Service Managers**

36. To your knowledge, is there a procedure or mechanism at Customs whereby an employee can propose additional systems or propose changes to existing systems? (CHECK ONE.)

N = 3,705

67.5 Yes --> (CONTINUE WITH QUESTION 37.)

32.5 No --> (SKIP TO QUESTION 38.)

37. In your opinion, to what extent, if at all, does Customs' management consider proposals made using this procedure or mechanism? (CHECK ONE.)

N = 2,180

31.2 To a very great/great extent

32.0 To a moderate extent

36.9 To /some little or no extent

38. In the past 12 months, have you had to develop the means to collect, manipulate, or otherwise make better use of data contained in any Customs' database? (CHECK ONE.)

N = 3,690

42.6 Yes --> (CONTINUE WITH QUESTION 39.)

57.4 No --> (SKIP TO QUESTION 40.)

39. What means were used to collect, manipulate, or make better use of this data? (CHECK ALL THAT APPLY.)

N

817 Supplemental records or files were manually prepared and maintained

837 An electronic database was developed locally

408 Specific software was developed locally

540 Commercially available software was used

178 Other means (Please describe)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Appendix III  
Survey of U.S. Customs Service Managers**

**VII. COMMENTS**

Please use the space provided below. If necessary, you may attach additional sheets.

40. What suggestions can you offer for improving Customs' operations in your unit,  
as well as service-wide?

In your unit:

Service-wide:

N = 3,719

N = 3,734

Comment - 49.0%  
No comment - 51.0

Comment - 48.6%  
No comment - 51.4

**Appendix III**  
**Survey of U.S. Customs Service Managers**

41. If you have any additional comments regarding any previous question or comments concerning Customs' managerial practices or specific problems that need to be addressed, please use the space below.

N = 3,717

Comment - 20.7%  
No comment - 79.3

Thank you for your assistance. Please return the questionnaire in the pre-addressed envelope.

Also, please return the postcard separately. Thank you.

# Comments From the U.S. Customs Service and the U.S. Department of the Treasury

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



**THE COMMISSIONER OF CUSTOMS**

WASHINGTON, D.C.

May 20, 1992

Mr. Richard L. Fogel  
Assistant Comptroller General  
General Accounting Office  
General Government Division  
Washington, D.C. 20548

Dear Mr. Fogel:

Thank you for providing to us for comment your draft report entitled "Customs Service: Strong Leadership Needed to Address Trade Enforcement Problems." First of all, we must state frankly that GAO entirely missed the point and failed to understand Customs approach to our trade enforcement mission. By focusing on our Automated Commercial System (ACS), in general, and our selectivity system, in particular, GAO got lost in the details and micro level measures that Customs uses to ensure voluntary compliance with our trade laws. Customs uses a variety of means at the macro level to achieve its trade enforcement mission.

The following are the trade enforcement initiatives that Customs has used to achieve a voluntary compliance rate in excess of 96%:

- Overseas initiatives - a major responsibility of our Customs attaches overseas is to work with senior level officials of host nations on major trade violations both on a program and case-by-case basis. The idea is to bring pressure on the host nations and their industries and exporters to prevent violations country-wide. Customs personnel cooperate with STR and Commerce in these initiatives.

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Comments From the U.S. Customs Service  
and the U.S. Department of the Treasury**

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- Industry Cooperation - Customs has forged partnerships with domestic industry for which we provide protection. As a result, industry experts provide Customs with general and specific information on trade violations that we use to combat trade fraud.
- Major Investigations - Customs diligently pursues major fraud cases both domestically and internationally and highly publicizes the results which frequently involve high penalties, loss of quota and other privileges, and sometimes jail sentences. For example, the DAEWOO Steel investigation resulted in criminal prosecutions and a civil fine of \$34,000,000. The result of such an investigation is a deterrent effect felt throughout an industry.
- Jump Teams - Multi-disciplinary and highly visible Jump Teams are dispatched around the world to investigate potential fraud and transshipment violations and to determine the capacity of countries to produce in a particular industry. Textile jump teams prevented over \$600,000,000 of illegal textile shipments from entering the U.S. market.
- Regulatory Audit - In 1991, regulatory audits returned over \$30,000,000 to the Treasury while serving as a deterrent in trade fraud by targeting multinational corporations and major importers. These are violations that cannot be detected at time of entry or by the ACS in selectivity.

These are some of the major elements of our trade enforcement strategy by which we have achieved a high level of voluntary compliance. Unfortunately, GAO erroneously equates trade enforcement solely with ACS selectivity. The GMR has completely overlooked the major factors that have enabled us to achieve our high success level in trade enforcement and voluntary compliance.

See comment 1.

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The error is further compounded by the fact that GAO uses this flawed understanding, as well as selective and self-serving excerpts from individual interviews and survey data, to make sweeping generalizations about management, planning, human resources, strategy and organization.

This is not to say that selectivity is unimportant. It is important and essential. ACS and selectivity provide information to the inspector and import specialist at the time of entry and entry summary. It is a repository of information collected from intelligence sources and the major trade enforcement initiatives outlined herein. We believe that many of the improvements you have outlined will substantially improve selectivity, and we will consider these along with other modifications and enhancements currently underway.

Finally, your report credits Customs with having achieved a remarkable trade compliance rate in excess of 96%. We have outlined for you some of the measures we employ to achieve that level of compliance and explained that major enforcement initiatives domestically and internationally are typically conducted prior to or after importation. We acknowledge that our selectivity module in ACS needs improvement. However, it is important to note that the most significant violations of trade laws are identified and prevented prior to entry and through audits, not at the moment of entry into the U.S. commerce. In fact, your own figures indicate that with selectivity and our other trade enforcement initiatives, the incidence of non-compliance is at most 3.8%. We hope that this has put our selectivity system in perspective for you.

See comment 2.

We are unsure of the degree to which our comments can be of assistance inasmuch as the draft has already been provided to Congress, GAO has testified before Congress, and the draft's contents released to the press. Nonetheless the report contains some useful observations, recommendations, and conclusions. We have established a team to review the report and plan to act on many of the valid conclusions. We request that this letter be made a part of the published General Management Review.

Sincerely,



Carol Hallett  
Commissioner

**Appendix IV  
Comments From the U.S. Customs Service  
and the U.S. Department of the Treasury**



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY  
WASHINGTON

JUN 9 1992

Mr. Richard L. Fogel  
Assistant Comptroller General  
General Accounting Office  
General Government Division  
Washington, D.C. 20548

Dear Mr. Fogel:

See comment 3.

Thank you for giving my office and the U.S. Customs Service an opportunity to respond to your draft GAO report, Customs Automation, March 1992. When I and other Treasury officials met with you and your staff to discuss this report, I thought that we had a fruitful discussion of these issues. Unfortunately, Chairman Pickle's remarks at the hearing on May 21, 1992 reflect that he was apparently misinformed about my interest in this area of Customs enforcement.

See comment 4.

As you know, Customs is working to improve its trade enforcement capabilities, including a trade enforcement strategy. The Customs Service is trying to catch 100% of violators. Therefore, I do not think your review gives Customs sufficient credit for what it is currently achieving.

See comment 5.

The Border is not a sieve, your statistical analysis notwithstanding. There is 96% voluntary compliance which I believe is due not only to the honesty of our customers but also to our enforcement program. Of the four percentage points that represent violators, 2.4 represent marking violations, a relatively minor infraction. In addition, Customs apprehends another .6 of the violators. Thus, only about 1.0 percentage points of serious violators avoid detection at entry. Customs' regulatory audit program, moreover, picks up an additional number of serious violators after entry.

See comment 6.

Since I assumed my present duties in early 1990, I have made a point of emphasizing the importance of trade enforcement. I have met with Commissioner Hallett and her entire senior staff to emphasize my belief that trade enforcement must be given a higher priority. I have met with Department of Justice officials to be sure that their prosecutors give priority to trade enforcement cases. In addition, I proposed to the Attorney General's Economic Crime Council that trade fraud be designated as a priority for prosecution, a proposal that was adopted in 1991. And I have directed that Customs establish a joint training program at the Federal Law Enforcement Training Center where DOJ prosecutors and Customs Agents can be trained in working trade fraud cases. For a more elaborate discussion of my commitment to trade enforcement, I enclose a copy of a speech I recently gave to the Customs Lawyers Association.

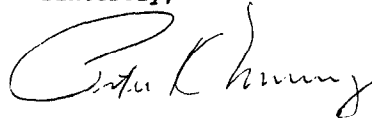


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and the U.S. Department of the Treasury**

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Of course, there is always more to be done, but I believe more than a good start has already been made.

Sincerely,



**Peter K. Nunez  
Assistant Secretary  
(Enforcement)**

Enclosure

We did not reproduce the enclosure.

The following are GAO's comments on the U. S. Customs Service's comments dated May 20, 1992, and the U.S. Department of the Treasury's comments dated June 9, 1992.

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## **GAO Comments**

1. As we state in chapter 2, the efficacy of the cited programs in helping Customs achieve a high level of voluntary compliance is subject to question because the size of the noncompliance gap is increasing, Customs' record in detecting violations is declining, and Customs does not have essential information to know whether it has identified the imports posing the highest risk and how effectively its programs address these risks.

2. As we state on pages 28 and 29, our statistical analysis of Customs' data supports the concern expressed within Customs that inspectors may not be diligent in performing randomly generated cargo examinations. This evidence led us to conclude that the incidence of noncompliant cargo imports was at least 3.8 percent, not at most 3.8 percent as Customs writes. Until Customs management emphasizes the importance of random examinations as a means to gather intelligence on compliance trends and puts incentives in place to ensure that these examinations receive adequate attention, Customs' ability to assess compliance is constrained.

3. The letter mistakenly refers to another GAO draft report, Customs Automation: Effectiveness of Entry Summary Selectivity System Is Unknown (GAO/IMTEC-92-20).

4. In asserting that Customs is trying to catch 100 percent of the violators, Treasury raises questions about whether its perception of trade enforcement strategy agrees with Customs' stated intent to implement a strategy that aims to ensure a high level of voluntary compliance. The two objectives, while related, may require significantly different implementation strategies. For example, pursuing 100-percent detection of violations using Customs' current mix of programs would necessitate an increase in resources and a more single-minded focus on enforcement that could be detrimental to Customs' efforts to facilitate trade. On the other hand, pursuing increased voluntary compliance might require a less resource-intensive approach, perhaps featuring a mixture of education, investigation, and enforcement practices. This type of strategy could more harmoniously exist with the objective of trade facilitation.

5. As we have stated in the report on page pages 41 and 42, the 96 percent overall compliance rate is an incomplete indicator of Customs' performance that does not reflect that the compliance rate and Customs' performance in detecting violations have declined. Further, Treasury incorrectly extrapolates the findings from Customs' cargo examination program in asserting that 2.4 percent of cargo has marking violations. The cargo examination results reflect the judgment of Customs personnel and cannot be projected to the universe of cargo imports. There is a statistical basis for Treasury's statement that Customs detects violations of 0.6 percent of all cargo shipments. However, these include marking violations, rather than being in addition to marking violations as Treasury suggests. While Treasury differentiates between relatively minor infractions—which is how it characterizes marking violations—and serious violations, we note that the indicators Customs uses to measure the overall performance of the inspection process weighted each violation equally (see p. 29).

6. As we state on page 20, regulatory audit does produce additional revenues and penalties for noncompliance. However, the deterrent effect of these audits is unknown. Despite these efforts, Customs continues to experience a decline in both the compliance rate and in its ability to detect the estimated violations in imported cargo.

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# Related GAO Products

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Customs Automation: Effectiveness of Entry Summary Selectivity System Is Unknown (GAO/IMTEC-92-20, Mar. 24, 1992).

Financial Management: Customs Faces the Challenge of Establishing Adequate Accountability and Control Over Its Resources (GAO/AFMD-92-30).  
(Draft)

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