



Department of Homeland Security Office of Inspector General

Management of CBP Revenue Analysis Functions





Homeland
Security

February 12, 2009

MEMORANDUM FOR: The Honorable W. Ralph Basham
Commissioner
U.S. Customs and Border Protection (CBP)

FROM: *Richard L. Skinner*
Richard L. Skinner
Inspector General

SUBJECT: *Letter Report: Management of CBP's Revenue Analysis
Functions*

We performed an audit of the management of CBP's revenue analysis functions. The objective of our audit was to determine how well CBP monitors the analytical efforts of its Account Management Program and National Targeting and Analysis Groups to improve revenue collection compliance.

One of the key goals of CBP is to increase compliance by commercial importers with the revenue collection laws. In FY 2007, CBP collected \$33 billion in duties, taxes, and fees. In FY 2007, the estimated amount of revenue loss due to noncompliance was \$374 million. CBP's Office of International Trade has two analytical functions to help reduce the amount of lost revenue: (1) the Account Management Program, which focuses on increasing compliance by selected companies; and (2) the National Targeting and Analysis Groups, which focus on increasing compliance for Priority Trade Issues.

CBP management does not have the information necessary to measure the effectiveness of the revenue analysis functions. CBP has not required Account Managers to report to its headquarters on work performed, progress in improving compliance with revenue laws, or other accomplishments. The National Targeting and Analysis Groups do not report on the effectiveness of their processes for improving trade compliance or on the success of their analytical efforts to reduce the revenue gap from year to year. Due to organizational and management changes, the Office of International Trade has not maintained a consistent effort or focus on establishing data reporting requirements or developing performance measures for the Account Managers and National Targeting and Analysis Groups. As a result, CBP cannot determine whether its analytical efforts are effective in improving compliance and reducing the amount of lost revenue.

Background

In FY 2007, CBP processed 31.4 million entries for commercial imports, valued at over \$2 trillion. Overall, CBP collected \$33 billion in revenue, of which \$26.7 billion was for duties. The duty rates are set by Customs law and are assessed based on entered value, quantity, classification, and country of origin of imported merchandise. Based on an annual statistical analysis, CBP estimated the FY 2007 loss due to noncompliance with duty rates at \$374 million.

Pursuant to the *Security and Accountability for Every Port Act of 2006*, CBP established the Office of International Trade to provide greater consistency for CBP's international trade programs and policies and to facilitate the flow of legitimate trade across U.S. borders, while at the same time protecting the American economy from unfair trade practices and illicit commercial enterprises. The Office of International Trade consolidates the trade policy, program development, and compliance measurement functions of CBP into one office. The Office of International Trade works closely with the Office of Field Operations, which manages core CBP activities such as inspecting cargo; collecting duties, taxes, and fees; and assessing fines and penalties at the ports of entry. The Office of International Trade includes two analytical components directly responsible for increasing revenue collection compliance.

Account Management Program

In 1997, CBP, then the U.S. Customs Service, established the Account Management Program in the Office of Field Operations to shift the agency's revenue collection activities from a transaction-based approach to an account-based approach. The program also is expected to improve account management and revenue compliance by viewing a company and its trade performance in the aggregate rather than by individual shipments and import transactions.

The Account Management Program consists of two groups: full-time National Account Managers under the Office of International Trade and Port Account Managers under the Office of Field Operations, who both perform account management functions as a collateral duty. Account Managers are involved in account management, outreach, and risk analysis. In general, Account Managers are responsible for the following:

- Maximizing account compliance;
- Ensuring national uniformity;
- Increasing informed compliance;
- Improving communication between companies and CBP; and
- Increasing efficiencies in account management.

National Targeting and Analysis Groups

In October 2007, CBP renamed its five Strategic Trade Centers, formerly established under the Office of Strategic Trade, as National Targeting and Analysis Groups under the

Office of International Trade. The National Targeting and Analysis Groups focus on increasing compliance for Priority Trade Issues that involve significant risk to the U.S. economy. Typically, Priority Trade Issues warrant extra attention because they are problematic to administer and have a history of noncompliance.

Each National Targeting and Analysis Group is comprised of International Trade Specialists who perform a variety of analytical functions to identify areas of noncompliance among the Priority Trade Issues, recommend corrective actions, and ensure accurate revenue collection. The National Targeting and Analysis Groups are involved with strategic planning, risk analysis, import pattern analysis, and compliance monitoring. CBP headquarters oversees the Penalties Priority Trade Issue, which is responsible for overseeing the assessment of fines imposed due to trade violations. The National Targeting and Analysis Groups located across the country oversee the following five Priority Trade Issues:

Priority Trade Issue	Location
Agriculture	Dallas, TX
Anti-Dumping and Countervailing Duties	Fort Lauderdale, FL
Intellectual Property Rights	Los Angeles, CA
Textiles and Wearing Apparel	New York, NY
Revenue	Chicago, IL

Results of Audit

CBP does not have effective processes in place to measure the performance of either of its two analytical components responsible for increasing revenue collection compliance. A central purpose of the *Government Performance and Results Act of 1993* was to help federal managers improve service delivery by requiring that they plan for meeting program objectives and by providing them with information about program results and service quality. Also, according to the Government Accountability Office’s (GAO) *Standards for Internal Control in the Federal Government* (GAO/AIMD-21.3.1, November 1999), measures and indicators need to be established to assess the quality and quantity of work performed and measure progress in achieving program goals.

Management of the Account Management Program Could Be Improved

CBP management does not collect the information necessary to assess the effectiveness of the Account Management Program. There were no performance reporting requirements in FY 2007 because the Office of International Trade headquarters had not yet determined what information should be reported. In October 2007, 10 years after the program’s inception, CBP officials said that they were still in the process of developing reporting requirements for Account Managers as part of a number of ongoing initiatives. Account Managers were not required to report to the Office of International Trade headquarters officials on their accomplishments and work performed. Therefore, there was no way to determine progress in preventing revenue loss.

For example, CBP does not have the data to measure its progress in transitioning from transaction-based to account-based processing under the Account Management Program or the impact this change has had on reducing the revenue gap. GAO reported in 1999 that CBP had not evaluated whether its investment in the Account Management Program had had any positive impact on improving importers' compliance rates. Although the Customs Service planned in 1997 to increase its National Account Manager staffing to manage 1,000 accounts, in early FY 2008 CBP was still working toward that same goal, with only 31 National Account Managers in place to manage 596 individual accounts.

A number of factors have contributed to the absence of performance measures for the Account Management Program. There was no written vision for the end state of the Account Management Program or action plan for how and when it was to be accomplished. Repeated turnover in senior-level CBP leadership resulted in inconsistent direction and priorities for program activities. Further, a single Office of International Trade manager at headquarters was responsible for supervising all National Account Managers in 22 locations nationwide, overseeing the efforts of part-time import specialists responsible for 1,071 accounts, as well as monitoring efforts to transition to account processing. With such extensive responsibility, a single individual could not provide the direction needed to monitor and measure overall Account Management Program progress.

CBP recognized these deficiencies and noted during the progress of our review that it implemented a number of initiatives to improve the effectiveness of its Account Management Program. According to CBP management, as of January 2009, the following initiatives were implemented:

- A quarterly report was developed and implemented for all National Account Managers to use;
- A "Risk Assessment" annual report was developed and implemented for Account Managers to annually report the identified risks and review of each of their accounts;
- Nine additional National Account Managers were hired; and
- Four new Supervisory National Account Managers were selected.

These initiatives should result in improvements to the Account Management Program.

National Targeting and Analysis Group Reporting Could Be Improved

National Targeting and Analysis Group reporting to the Office of International Trade management on its trade analysis efforts could be improved. While the reports track the monetary effects on a local basis, they do not measure the revenue gap from a national perspective. Specifically the reports do not: (1) track the actual amount of revenue collected, (2) measure the effectiveness of the targeting system used to detect revenue noncompliance, (3) compare the results of criteria developed, and (4) identify how much of the revenue gap is collected each year. Because of reorganizations and management changes, the Office of International Trade had not completed a reevaluation of the

reporting and performance measures for the National Targeting and Analysis Groups. As a result, the Office of International Trade management did not have complete data to evaluate whether the program was effectively assessing trade risks that could result in revenue loss.

To improve this area, in October 2008 the Office of International Trade issued its CBP Trade Strategy to address current Priority Trade Issues and programs that pose a significant risk to the U.S. economy.

Recommendations

We recommend that CBP:

1. Use the newly established periodic reporting requirements and performance measures to monitor progress and determine the results of activities to meet Account Management Program goals.
2. Require that National Targeting and Analysis Groups include information on revenue collection and targeting in periodic progress reports on meeting program goals.

Management Comments and OIG Analysis

We obtained written comments on a draft of the report from the Commissioner of CBP. We have included a copy of the comments in Appendix B. As appropriate, we made several changes to the report to reflect the minor technical comments provided.

The Commissioner concurred with both of our report recommendations and outlined steps that CBP is taking to address them. For the Account Management Program, CPB now uses the quarterly report for all National Account Managers, and an annual Risk Assessment report to monitor progress toward meeting program goals. For the National Targeting and Analysis Groups, CBP created an internal website to share data that could be used to measure and improve targeting effectiveness nationally and locally. These actions combined should help CBP more effectively assess and manage risk. We believe the actions taken by CBP resolve our recommendations and therefore our recommendations are closed.

Appendix A

Purpose, Scope, and Methodology

The objective of our audit was to determine how well CBP monitors the analytical efforts of its Account Management Program and National Targeting and Analysis Groups to improve revenue collection compliance.

We performed the audit at various Office of International Trade locations. We visited three of the five National Targeting and Analysis Groups in New York, New York; Chicago, Illinois; and Ft. Lauderdale, Florida. We visited eight National Account Manager offices in Chicago, Illinois; New York, New York; Buffalo, New York; Los Angeles, California; San Francisco, California; Cleveland, Ohio; Pittsburgh, Pennsylvania; and Ft. Lauderdale, Florida. In addition, we visited the Office of Field Operations headquarters in Washington, D.C. Our review included analysis of the work processes, procedures, data sources, and reports for these locations as of October 2007. We compared the information obtained and examined consistencies and differences among the various locations.

We evaluated internal controls relevant to our audit objective. To accomplish this we gathered information about the programs through interviews, analysis, and document reviews. We researched applicable laws and regulations. We evaluated the various planned initiatives. We identified the missions and objectives of each program through interviews with Office of International Trade headquarters. We reviewed the Account Manager handbook, standard operating procedures, and training manuals. Through interviews and a review of their databases, we determined the methods that Account Managers and International Trade Specialists use to do their jobs. We reviewed work processes and systems used by the Account Managers and International Trade Specialists. We observed International Trade Specialists training and analyzed training records. We evaluated reporting requirements for the Account Managers and the National Targeting and Analysis Groups. Finally, we also evaluated the draft CBP Trade Strategy.

We conducted our audit fieldwork from August 2007 to October 2007 under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government audit standards.

Appendix B Management Response

U.S. Department of Homeland Security
Washington, DC 20229



U.S. Customs and
Border Protection

January 6, 2009

MEMORANDUM FOR RICHARD L. SKINNER
INSPECTOR GENERAL
DEPARTMENT OF HOMELAND SECURITY

FROM: Director, Office of Policy and Planning *William H. Hornstein*
U.S. Customs and Border Protection

SUBJECT: Response to the Office of Inspector General Draft Letter Report
Entitled, "Management of CBP's Revenue Analysis Functions"

Thank you for providing us with a copy of the Office of Inspector General's (OIG) Letter Report entitled, "Management of CBP's Revenue Analysis Functions". U.S. Customs and Border Protection (CBP) appreciates the opportunity to review the draft letter report and provide comments.

Over the last year, CBP has undertaken a thorough review of the Account Manager Program, to include a review of the purpose and function of the program, its goals, performance assessments, reporting standards, and staffing levels. An implementation plan was developed in conjunction with this review. The results of these efforts have yielded significant improvements in analysis of our targeting efforts, risk assessments, staff performance and workload, and collections.

The OIG report indicated that the Account Manager Program does not have an effective process in place to measure the performance of increasing revenue collection compliance. CBP does not agree with this statement and would like to clarify the role of the Account Manager. The Account Manager's responsibility is to facilitate legitimate trade while ensuring compliance in CBP's efforts to protect the economic security of the nation and protecting its citizens against unsafe imports and unfair trade practices. While the Account Manager may improve revenue compliance indirectly by improving the account's compliance overall, that is not a specific function of the position. Finally it is critical to note that the Account Manager position does not fall into the revenue position category, as defined by the Homeland Security Act of 2002 (P.L. 107-296) section 412(b)(2).

The OIG also noted that CBP was still working toward a 1997 U.S. Customs goal of increasing National Account Manager staffing to manage 1,000 accounts. CBP has reassessed this goal and determined that the management of accounts encompassing approximately 65% of all imported value would be the most effective use of resources. In addition, CBP will be

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working with the Commercial Operations Advisory Committee to reassess Account Management's long term goals.

The OIG also pointed out that there was no written vision for the end state or action plan of the Account Management Program. CBP has established a vision for the Account Management Program and developed an annual plan for 2008 and 2009 to implement this vision and accomplish plan goals.

The OIG also determined that the CBP Account Manager Program could be improved by collecting information necessary to assess the effectiveness of the program. In early 2008 CBP developed Account Manager quarterly reports to assess the work performed by the Account Managers. A "Risk Assessment Template" was also developed for the Account Manager to review each of their accounts and assess the identified risks, compliance indicators, and trends to determine if further corrective action was required. In addition, new electronic research tools have been provided for the Account Managers.

During 2008, the following items were accomplished:

1. A quarterly report was developed and implemented for all National Account Managers to use. This has been in place on a secure shared server for CBP management to collect and review their reports.
2. A "Risk Assessment" annual report was developed and implemented for Account Managers to annually report the identified risks and review of each of their accounts.
3. The Compliance Measurement Report provides a breakout of managed accounts. Changes in reporting the results of the Compliance Measurement program have provided a breakout for the Account Management Program. During FY2007, the National Account Managers covered 48% of the imported value, and overall their accounts were over 99% compliant, and nationally managed accounts had only 4% of the total revenue gap.
4. Announcements were issued and nine National Account Managers were selected in December 2008.
5. A vacancy announcement was issued and four new Supervisory National Account Managers were selected.

CBP recognizes and shares the concern highlighted by OIG on oversight of revenue and collections issues, and the impact of targeting efforts to narrow the Revenue Gap. The issues raised by OIG focus on a lack of reporting in this area. CBP notes that the report does not acknowledge existing efforts, and would like to address each in turn.

- 1) Many reports already exist that track collections on national and local levels, including bills and refunds issued and collections made from summary reviews, audits, and as part of the penalty process. Reports are produced by National Targeting and Analysis Groups (NTAG) or are made available to the NTAGs by other divisions within CBP's Office of International Trade and the Office of Finance. Since the area of responsibility of each NTAG is on a particular Priority Trade Issue, they may only use the portion of this data that is pertinent to their area of expertise, but national figures

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are readily available and monitored at the headquarters level on a regular basis, monthly in most cases.

- 2) Each month, CBP produces reports on the collective outcome of targeting for revenue and other issues, and measures the effectiveness and workload of targeted versus non-targeted summary reviews. Again, these are national measures, but NTAGs have access to these reports, and reports are broken out by Priority Trade Issue so that pertinent information is shared with the appropriate NTAG.
- 3) As part of the reporting for item 2 above, criteria reports are broken down further by category of targeting, and further down to the individual criteria level. Any summary criteria created by an NTAG or other body within CBP can be monitored monthly for the workload generated, outcomes, and effectiveness in addressing the issue being targeted. Outcomes from this have resulted in expansion of successful targeting and the reduction of workload due to the removal of obsolete or inefficient targeting.
- 4) Lastly, based on the above reporting, CBP does have some ability to monitor enforcement collections as an offset to the estimated Revenue Gap, but the difficulty comes in the timing of the Revenue Gap as an annual estimate for a given fiscal year, compared to enforcement activities undertaken by CBP which in the case of audit and penalties (and even summary review) that might not even be initiated at the time the Gap is measured, and are often not closed out until well into the following fiscal year. Simply put, the impact of some of these activities against the fiscal year measure of the Revenue Gap will not fully be known until several months after the close of the fiscal year.

In an effort to address the recommendations found in the draft letter report, please find our responses and completion dates.

Recommendation 1: Use the newly established periodic reporting requirements and performance measures to monitor progress and determine the results of activities to meet Account Management Program Goals.

CBP Response: Concur. CBP is utilizing the reporting requirements as detailed in the recommendation and monitoring progress toward program goals as noted on page 2.

Completion Date: December 2008

Recommendation 2: Require that National Targeting and Analysis Groups include information on revenue collection and targeting in periodic reports on progress in meeting program goals.

CBP Response: Concur. Reports already exist that track collections on national and local levels, including bills and refunds issued, collections made from summary reviews, collections made via audit, and collections made as part of the penalty process. National figures are readily available and monitored at the HQ level on a regular basis, monthly in

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most cases. CBP produces monthly reports on the collective outcome of targeting for revenue and other issues, and measures the effectiveness and workload of targeted versus non-targeted summary reviews. Outcomes from this have resulted in expansion of successful targeting and the reduction of workload due to the removal of obsolete or inefficient targeting. We add however, that the impact of some of these activities against the fiscal year measure of the Revenue Gap will not fully be known until several months after the close of the fiscal year.

CBP agrees that continued improvement and integration of new and existing reporting would help to improve risk management. In addition to what is indicated above, CBP created CBPTradePulse, an internal website that details trade measures nationally and locally. Many of the analytic projects mentioned above feed into this repository on a quarterly basis. The expected plan for the remainder of FY09 would be to shift to monthly reporting, to further expand measures for specific Priority Trade Issues, and to create backend databases so that HQ and NTAGs can better share and cross-reference enforcement data. Ultimately this would serve to improve reporting for identifying enforcement impacts and would enhance the use of reporting for risk management as OIG suggests. In addition, CBP developed a standardized report format for the NTAGs. They will continue to report monthly in order to support the measures for CBPTradePulse.

Completion Date: December 2008

Thank you again for the opportunity to comment on this report. If you have any questions, please have a member of your staff contact Ashley Wetenkamp at (202) 344-2539.

Appendix C
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