U.S. CUSTOMS SERVICE REORGANIZATION AND MODERNIZATION EFFORTS

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

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U.S. CUSTOMS SERVICE REORGANIZATION AND MODERNIZATION EFFORTS

MONDAY, JANUARY 30, 1995

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, D.C.

The subcommittee met, pursuant to call, at 12:58 p.m., in room B–318, Rayburn House Office Building, Hon. Philip M. Crane (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE
January 11, 1995
No. TR-1

CONTACT: (202) 225-1721

CHAIRMAN CRANE ANNOUNCES HEARING ON U.S. CUSTOMS SERVICE REORGANIZATION AND MODERNIZATION EFFORTS

Congressman Philip M. Crane (R-IL), Chairman of the Subcommittee on Trade of the Committee on Ways and Means today announced that the Subcommittee will hold a hearing on the U.S. Customs Service reorganization plan and the implementation of the Customs Modernization Act. The hearing will take place on Monday, January 30, 1995, in room B-318 of the Rayburn House Office Building, beginning at 1:00 p.m.

Oral testimony at this hearing will be heard from both invited and public witnesses. Invited witnesses will include Commissioner George Weise, U.S. Customs Service, and representatives from the General Accounting Office. Also, any individual or organization may submit a written statement for consideration by the Committee or for inclusion in the printed record of the hearing.

BACKGROUND:

On September 30, 1994, Customs announced a major reorganization plan. The Committee on Ways and Means, through its oversight efforts in recent years and passage of the Customs Modernization Act, directed this change. Customs originally stated four goals for its reorganization effort: to make the organization more effective; to improve agency management; to secure more stable sources of funding (i.e., user fees); and to comply with the goals of the National Performance Review. The plan recommends: concentrating service delivery at existing port facilities; reducing headquarters staff and restructuring the headquarters organization; eliminating all regional and district offices and establishing Customs Management Centers to manage field operations; and establishing Strategic Trade Centers to target trade enforcement efforts.

The Customs Modernization Act (known as the Mod Act) was enacted as part of the North American Free Trade Agreement implementing legislation on December 8, 1993. The primary purpose of the Act was to provide Customs with the legal authority to automate and modernize its commercial processing procedures while providing for improvements in Customs enforcement. The legislation resulted from an extensive legislative and oversight review of Customs commercial operations conducted by the Committee. It included provisions to streamline and automate all aspects of import processing, authority to establish the National Customs Automation Program, and improvements in compliance with customs laws. Improvements in uniformity and due process rights for importers were also included. Originally introduced by Mr. Crane and Congressman Sam Gibbons (D-FL), the Mod Act was a bipartisan Committee initiative.

Customs is now working out the detailed regulatory and operational steps required to implement the massive organizational change and to implement the Mod Act.

In announcing the first hearing under his Chairmanship, Crane said: "I commend Commissioner Weise for his leadership in reorganizing and modernizing Customs operations. This effort is also the direct result of the Committee's work and the legal framework created by the Customs Modernization Act, of which I was a prime sponsor. The significant changes at Customs promise to improve services for the trade community and benefit the American taxpayers. They are critically important, because of the expected increase in trade volumes and business activity from recently completed trade agreements.

"Customs management has truly come full circle. In contrast to past efforts, I am gratified that Customs has demonstrated a more objective and scientific approach to this reorganization, and consulted widely with the trade community about its modernization plans. However, Customs faces the challenge of coordinating all its many ambitious initiatives. Because the private sector and the taxpayers have a large stake in these plans, we must make every effort to ensure a successful outcome. The Subcommittee plans to follow these plans closely as they unfold, beginning with this hearing."

FOCUS OF THE HEARING:

The focus of the hearing will be to highlight Customs' reorganization and modernization efforts, and review what steps need to be taken to ensure successful implementation.

DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:

Requests to be heard at the hearing must be made by telephone to Traci Altman or Bradley Schreiber at (202) 225-1721 no later than the close of business, Thursday, January 19, 1995. The telephone request should be followed by a formal written request to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The staff of the Subcommittee on Trade will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee staff at (202) 225-6649.

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are required to summarize briefly their written statements in no more than five minutes. **THE FIVE MINUTE RULE WILL BE STRICTLY ENFORCED.** The full written statement of each witness will be included in the printed record.

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 200 copies of their prepared statements for review by Members prior to the hearing. Testimony should arrive at the Subcommittee on Trade office, room 1104 Longworth House Office Building, no later than 1:00 p.m., Friday, January 27, 1995. Failure to do so may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) copies of their statement by the close of business, Monday, February 13, 1995, to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Trade office, room 1104 Longworth House Office Building, at least one hour before the hearing begins.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

*****

Chairman CRANE. Those of you folks that cannot be accommodated with chairs, all I can suggest is find standing room. And we apologize, but the committee room over in Longworth is occupied by another subcommittee hearing, and they are part of the Contract, and inasmuch as we are not part of the Contract, we got relegated to B–311—or 318.

First, I want to welcome to this first hearing of the Trade Subcommittee in the 104th Congress our distinguished Commissioner and good friend, George Weise. And today we will highlight Customs' reorganization and modernization efforts and review what steps need to be taken to ensure successful implementation.

It is fitting that our first hearing concerns the Customs Service, for the agency's history is closely intertwined with that of the Ways and Means Committee. Over 200 years ago, both the committee and Customs were created by the First Congress back in 1789. At that time, Customs revenues were the sole source of income for our fledgling Nation. Tragically, that ceased to be after awhile.

Today, the importance of Customs in our ever-expanding global trade cannot be underestimated. We rely on Customs to guard our borders, fight the war on drugs, and enforce over 400 laws and regulations. In 1994 alone, Customs processed nearly 40 million import entries and more than 50 million passengers and collected over $22 billion in revenue. Oh, that our budget were still there. With the passage of NAFTA and GATT, that workload will only grow.

Given the importance of its mission, Customs' reorganization and modernization plan should be of great interest to the taxpayers, as well as consumers and businesses throughout the Nation. The effort to modernize and streamline is a direct result of the committee's work over the past several years and the legal framework created by the Customs Modernization Act. I was proud to have been its prime sponsor, along with my good friend, Sam Gibbons. The Mod Act is a model of bipartisanship and it is very gratifying to see it is now bearing fruit.

Customs management has truly come full circle. Not too long ago, the agency was suffering under antiquated systems and poor management. Under Commissioner Carol Hallett, many improvements began to be made. Now, under Commissioner Weise's leadership and with the passage of the Mod Act, Customs is well positioned to move into the next century. But we should not underestimate the challenges that lie ahead in coordinating these many ambitious initiatives. As they say, the Devil is always in the details.

What Customs is proposing is nothing short of a complete change in the culture of the organization, from gotcha-style enforcement to informed compliance, from bureaucracy to consumer or customer service, rather, from archaic paper to modern electronic technology. It will take a sustained and well planned effort to pull it all off.

Because the private sector and the taxpayers have such a large stake in these plans, we must take every effort to ensure a successful outcome. That is why the subcommittee will follow these plans closely as they unfold, beginning with this hearing.

Today, along with the Commissioner, we have brought together representatives from the GAO and the Treasury Employees Union, both of whom played a major role in the modernization and reorga-

nization effort. Also, appearing today are representatives of the trade community, those most directly affected by these endeavors.

Commissioner Weise, congratulations on a job well done. Welcome back to the subcommittee.

And I will now yield, before we hear your testimony, to my distinguished colleague, Charlie Rangel.

Mr. RANGEL. Let me join the Chairman in his welcome to our old friend, Commissioner Weise. Certainly the U.S. Customs Service over the years has had a terrific history and has done a great job for the United States. Walking a tightrope in facilitating trade and at the same time interdicting drugs in this country, has been difficult in the past. As we move on throughout history, changing times means reorganization.

So I look forward to your plans for the future of the U.S. Customs Service and working with you, Mr. Chairman, and the other members of this committee. I might add, you should feel proud that your agency is not included in the Contract With America.

[The prepared statement follows:]

OPENING STATEMENT
CONGRESSMAN CHARLES B. RANGEL
RANKING MINORITY MEMBER
SUBCOMMITTEE ON TRADE
HEARING ON CUSTOMS REORGANIZATION
JANUARY 30, 1995

Mr. Chairman, I would like to join you in welcoming Commissioner Weise and our other witnesses today to review the proposed reorganization plan of the Customs Service and the implementation of the Customs Modernization Act.

As we all know, the Customs Service and its approximately 18,000 employees perform a variety of tasks that are essential to the economic health and well-being of this country. Its diverse mission includes collecting duties, taxes, and fees on imports; enforcing laws intended to prevent unfair trade practices; and protecting public health by interdicting narcotics and other hazardous goods before they enter the country. Customs is also the initial source of information for trade statistics on imports used in monitoring and formulating trade policy, which is the primary responsibility of this Subcommittee.

While the Customs Service has a long and proud history, and has carried out its mission with distinction over the years, it has become evident in recent years that major changes in the way Customs manages its affairs are needed. Rather than deny that such changes are needed, I am pleased to say that the Customs Service, under the leadership of Commissioner Weise, has accepted the challenge of remaking itself to meet the demands of the 21st Century.

I would like, therefore, to congratulate Commissioner Weise and the Service on the way they have gone about the task of reorganization. They have reached out to their employees, their customers, the public at large, the Congress, and other Executive branch agencies in formulating a reorganization plan that makes sense for the Service and for the country as a whole. In my view, the proposed reorganization plan is a sound one. While we may discover during the course of our review that some fine-tuning is appropriate, the plan as a whole deserves the support of this Subcommittee.

Mr. Chairman, I look forward to reviewing the essential elements of this plan with Commissioner Weise and the other witnesses, and to working with you and Commissioner Weise to ensure that the American people have the best Customs Service possible.

Chairman CRANE. Are there any other members that would like to welcome Commissioner Weise?

Well, then I think we will proceed. And if I may, George, suggest, because you indicated to me that your testimony might go on for 1 hour, if you could summarize it in approximately 5 minutes and the rest will be a part of the record.

I now yield to you, Honorable George.

STATEMENT OF HON. GEORGE J. WEISE, COMMISSIONER, U.S. CUSTOMS SERVICE

Mr. WEISE. Well, thank you very much, Mr. Chairman, and I will do my best to keep to the 5-minute rule.

May I first say, it is a real pleasure to have my first appearance as a Commissioner of Customs back before my old subcommittee also be the first hearing of this subcommittee, newly conformed. It is really a great honor to be here. I have spent an awful lot of moments with all of you over many years, and it is a real pleasure to have the opportunity to work as we always have closely between the Customs Service and this subcommittee and the full committee.

As a matter of fact, before I get into any of the details about the reorganization, I think I must commend not only this subcommittee but the entire Ways and Means Committee. For more than 4 years now, the committee has been pushing the U.S. Customs Service in the direction that I think that you will see we are resulting in, in this "People, Processes, & Partnerships Report," that all of you have before you.

[The report follows:]

PEOPLE, PROCESSES, & PARTNERSHIPS

A REPORT ON THE

CUSTOMS SERVICE FOR

THE 21ST CENTURY

COMMISSIONER

US CUSTOMS SERVICE

SEPTEMBER, 1994

REORGANIZATION MESSAGE FROM THE COMMISSIONER

It has been nearly 30 years since the U.S. Customs Service has experienced significant changes to its present structure and management approaches. With the cooperation of Congress in lifting the statutory restrictions on Customs reorganizations, we now have the unique and much needed opportunity to modernize and streamline our operations and structure. Also the Administration's National Performance Review (NPR) provides the additional encouragement to initiate bold reforms to improve our ability to meet our mission objectives and to best serve the nation. The time is right for making our commitment to a fundamental "restructuring" of the U.S. Customs Service.

This Report is the Customs "blueprint" for comprehensive change. The hallmark of this change is centered on the way we organize, manage, operate, lead our agency, and deal with our customers. Stated another way, it is about People, Processes, and Partnerships. The report also sets a vision to achieve 100% compliance, to become the most facilitative Customs Service in the world, to form partnerships with our customers, and to become the nation's supplier of international trade information. Our vision and our new focus on People, Processes, and Partnerships will enable Customs to meet the challenges of the 21st century as a more efficient, effective, and adaptable public sector organization.

There are many basic changes proposed in the Report. Two of the changes are so important that they deserve special mention. Probably the most important feature of the plan is the emphasis Customs will place upon the needs of its customers and stakeholders. All of our organizational changes are being proposed with this concept in mind. Another very critical concept is that there will be no reduction of existing services or personnel resources at the Ports of Entry. In fact, we anticipate improved services and performance by establishing customer service standards.

Powerful improvements are envisioned in the plans. They will make the kind of differences we have been waiting for. I firmly believe that we have developed plans that incorporate the hopes expressed by Congress, our customers and stakeholders and most importantly our dedicated employees.

Whether fighting the drug war, or protecting American industry from illegal trade practices, Customs and its people have made vast contributions to almost every aspect of American life over the history of the nation. This reorganization is intended to ensure the continuation of that proud tradition and to ensure even greater contributions in the future. Our collective understanding, support and active participation are essential in enabling Customs to achieve its vision and full potential for service to the nation.

George J. Weise

Commissioner, U.S. Customs Service

INTRODUCTION & OVERVIEW

INTRODUCTION

True leadership creates an environment which enables employees to make their best contribution to the goals of the organization. In the autumn of 1993, the Commissioner of Customs created such an environment for a diverse group of twenty career Customs employees, providing them with a simple but broad mandate: To design an organizational structure for the Customs Service that would prepare it to meet the challenges of the nation at our borders in the 21st century. In October of 1993, the study team assembled to begin its work. Following are statements of the goals and methodology used to conduct the study, and the findings and recommendations of the study team.

TEAM GOALS

- To develop an organizational structure that will enable Customs to meet the challenges of the 21st century and to become a more efficient, effective, and adaptable organization with high employee involvement.

- To define our core business processes and to develop a portfolio of management tools to provide for continuous improvement, including business process re-engineering (BPR), business process improvement (BPI), process mapping, benchmarking, and workout.

- To take advantage of the opportunities provided by the Vice President's National Performance Review (NPR), and to implement the NPR in substance and spirit.

- To explore ways to fund the Customs Service by user fees in order to provide our customers with the level, quality, and certainty of service they require.

METHODOLOGY

The following are the essential elements of the methodology used in conducting the study.

- The study team conducted a review of management literature from which it developed a conceptual framework. This review was supported by seminars on process management techniques, conducted by the Brookings Institution, which included participation by 50 top executives from the Customs Service.

- Partnerships were established with the Federal Quality Institute (FQI) and the National Academy of Public Administration (NAPA) which assembled panels of executives from both the private and public sectors who are experts in organizational change.

These executives represented such organizations as Ford, AT&T, Corning, Xerox, the Air Force, the National Security Agency, and the Internal Revenue Service. These panels provided guidance on project initiation, change implementation, reorganization in the federal environment, and improvement of support services.

- The study team conducted group interviews and town meetings, at Headquarters and in the field, with Customs employees, other government agencies, and industry members to gather their views on relationships with Customs.

- A summary of major concerns was drawn from these interviews and this summary was used to develop criteria to design various organizational alternatives.

- Visioning sessions were conducted and facilitated by Brookings and NAPA on various issues related to future needs of Customs such as the development of an Automated Export System (AES).

- Close coordination with and observation of the activities of the Treasury Reinvention Team and the Vice President's NPR were maintained throughout the study.

- The core operational and support processes of the Customs Service were identified and a theory of organization was designed to facilitate the core processes.

FINDINGS

One executive familiar with the Customs Service stated "Customs is not a sick organization; you're a healthy organization trying to perform even better." We agree; however, the review revealed compelling reasons to make major changes to Customs organization and operations. The recent enactment of the Customs Modernization and Informed Compliance Act ("Mod Act"), and the North American Free Trade Agreement (NAFTA), and the conclusion of the Uruguay Round of the General Agreement on Tariff and Trade (GATT) talks will substantially change the Customs operating environment, and provide opportunities and challenges for Customs. Travel, trade, and tourism to the United States are increasing substantially each year, translating into large increases in Customs workload, at a time when our budget and staffing are more likely to be reduced than increased. Factors prompting Customs to streamline its organization and modernize its management include the concerns captured from our group interviews, opportunities provided by new communications and computer technologies, an altered attitude regarding interdiction as a solution to the narcotics problem, and the fact that the Customs organization has not been restructured in 30 years.

RECOMMENDATIONS

Numerous recommendations for change to the Customs organization are made throughout the report. Approval and implementation of these recommendations would result in the following:

- A streamlined organization with fewer management layers, with more emphasis on the operational field level (especially the ports), and a Customs-wide orientation on processes at Headquarters and the field.

- A new approach to managing Customs through processes that would include the identification of our core business and major support processes, process improvement using a portfolio of management tools, and the institution of a system to measure our performance against quantitative goals and customer satisfaction.

- A more inclusive approach to dealing with our employees, other agencies, and customers in industry by forming a partnership with the National Treasury Employees Union (NTEU), including customers in other agencies and industry in our process management and goal setting, and developing standards for providing internal support services.

- A proactive approach to dealing with the major trade issues facing the nation with the establishment of Strategic Trade Centers (STC's) staffed by cross-functional teams of analysts, auditors, trade specialists, and agents, whose objective will be identifying the major trade enforcement issues and developing strategies to prevent trade fraud rather than merely treating the symptoms of problems after they appear.

- An increased emphasis on information technology that would build on and enhance Customs Automated Commercial System (ACS).

- A reinvestment of resources in front line operational programs achieved by retraining our employees and reallocating resources to high priority operational activities.

FINAL COMMENTS

Perhaps no agency in government is as rich in history, tradition, and accomplishment as Customs. From the American Revolution to its present-day reinvention, Customs has protected this nation's borders and collected the revenue that finances the government. The study team is privileged to propose an organizational structure and management approach to guide the agency into its third century of service.

These concepts, implemented in partnership with our employees and customers, will serve to carry Customs into the next century. We would like to thank the Customs employees (both current and retired) trade and industry representatives, and staff from Brookings, FQI and NAPA for their assistance. We also worked closely with the Treasury Department in refining this report and received valuable input from their Commercial Operations Advisory Committee (COAC). A special thanks to Gary Taylor of American President Companies, who suggested the theme: People, Processes and Partnerships. The participation of all of these individuals and groups reflects our emphasis on People, Processes and Partnerships, which is the hallmark of this report.

CHAPTER ONE

EXECUTIVE SUMMARY

BACKGROUND AND INTRODUCTION

In October 1993, the Commissioner of Customs, George J. Weise, established the Customs Reorganization Study Team and endowed it with a broad and simple charter: Develop an organizational structure that will enable the Customs Service and its employees to make their maximum contribution to the nation. In response to that charter, a report was produced which recommends management approaches and an organizational structure that will enable Customs to meet the challenges of the 21st Century as a more efficient, effective, and adaptable organization with high employee involvement.

Being fully aware that demands for service from its customers will continue to increase, and that increases in resources will not keep pace, the study team sought to find ways to move staff from support functions to operational functions. This emphasis on cost avoidance, rather than increases in appropriations, is especially well suited to the national need for deficit reduction balanced with customer service. To that end, the concept of reinvestment is accentuated.

The reinvestment strategy directs available resources toward the resolution of global trade issues, providing increased attention to ensuring voluntary compliance with trade laws through enhanced informed compliance efforts, improving the use of information technology by building on and enhancing Customs' Automated Commercial System, and providing the employee training necessary to enable us to implement process management and customer focused approaches to our mission.

FINDINGS AND RECOMMENDATIONS

We have concluded that the number and scope of mission challenges facing the Customs Service, combined with the numerous concerns expressed by employees about the current management environment, make a compelling case for significantly changing the Customs management structure. In order to achieve the new vision we have for the Customs Service, to increase its service to the nation and to meet the challenges of the future, we need to transform our culture to one focusing on People, Processes and Partnerships. By this we mean a culture which is characterized by:

- managing essential core processes, a change that will require integrating the many disciplines within the Customs Service into more coordinated efforts to achieve Customs mission goals;
- serving the legitimate needs of our many customers as the focus of our process management efforts, and forming partnerships with them as a means of meeting their needs and improving our mission performance; and,
- building a workforce for the 21st century, working cooperatively to develop strategies to tap the potential of our people so that, working together, they can meet the mission challenges facing the Customs Service.

To this end, Customs will define its core processes and move to a management approach centered around these processes, identify our customers and their needs,

develop methods for defining customers' needs as process goals, improve our workforce through empowerment of our employees and an elevated Human Resources Management program, realign the organizational structure to reduce layers and support the core processes, and reinvest our resources into priority mission areas. These proposals, and the findings that led to them, are described as follows:

- Numerous factors in the Customs operating environment translate into a clear call to action to develop new management and organizational approaches. The challenge is to meet the demands of a mission which is rapidly growing more complex in nature and broader in scope. This mission is complicated by rapid world economic and political changes; the influx of illegal immigrants; trade deficits; the epidemic of drug abuse; looming budget shortfalls; the increase in international trade, travel, and tourism; the rapid advances in information technology; and the demands imposed by new legislation and international trade agreements such as NAFTA and GATT. Addressing these challenges is further complicated by conditions within the Customs management environment such as non-uniform application of policies; ambiguities in program priorities; a lack of accountability for mission accomplishment; deficiencies in administrative services; breakdowns in important operational programs; and an organization characterized by layers and internal barriers. (See Chapter 2)

- In response to the call to action, Customs seeks to define a vision for itself which builds upon its mission and establishes the broad goals of achieving enhanced compliance with the laws it enforces. The goal is to become the most facilitative Customs Service in the world; to form partnerships with our customers to meet our mission goals; and to become the nation's supplier of international trade information. The foundation for this vision will be the creation of the best working environment in the government, one which allows our employees to make their maximum contributions to the agency and the nation. (See Chapter 3)

- Achieving our vision depends on our ability to transform our culture to one based on People, Processes, and Partnerships. We must form partnerships with our people and our customers, and transition from previously adversarial relationships to positive ones. This involves strengthening our partnership with NTEU; involving employees, managers, and customers in management by process; organizing around processes; building partnerships with customers in trade, domestic industry, and other agencies; training employees in techniques for managing by process; changing performance appraisals to reward improved customer service and achieving agency objectives; introducing effective measurement techniques; and using outside consulting resources to assist us in the transformation. (See Chapter 4)

- Customs should formally move to and implement a system of management by process. This approach establishes a framework for seeking major improvements in organizational performance through a focus on improving service to customers. Process management will emphasize the integration of our diverse functions into a coordinated strategy for improving service delivery to customers. We will emphasize horizontal integration, breaking down barriers that often develop among functional organizational components. The measurement of customer satisfaction will be a core element of our new management culture. Responsibility for leading the overall agency effort rests with the Commissioner, but responsibility for developing and implementing strategies for improving core processes will rest with the senior executives who are designated as process owners. (See Chapter 5)

- In recognition of the concerns and recommendations of the NPR, and in response to the problems and issues raised by our workforce and customers, Customs should establish partnerships with our customers to enhance organizational effectiveness. Process owners will be responsible for identifying the full range of customers, determining customer needs, developing measurable customer service goals and standards, developing strategies to achieve

the goals, and maintaining systems for obtaining continuous customer feedback. (See Chapter 6)

- Achieving dramatic improvement in process operations and customer service will require significant attention to improving our human resources environment. The characteristics of this new environment will stress our partnership with NTEU; establish cross-functional teams as the routine way of staffing process operations; provide extensive training in process management techniques and customer service concepts; ensure performance appraisals encourage teamwork and reflect contributions to process goals; and ensure that all employees and managers are treated with dignity, trust and respect. (See Chapter 7)

- Customs should implement organizational changes to facilitate pursuit of our vision. The new structure emphasizes customer service, execution of processes, and the bringing of employees together along processing lines, while minimizing management overhead. The new organization:

  - maintains the current number of ports to ensure continued service delivery;

  - replaces regions and districts with 20 Customs Management Centers (CMC's) to provide training, evaluation and oversight of ports and port processes;

  - creates five Strategic Trade Centers to enhance our capability to address such major trade initiatives as textile transshipment, antidumping, value, and intellectual property rights issues;

  - collocates Special Agents in Charge (SAC's) with the CMC's to foster the development of integrated strategies for improving service to our customers;

  - restructures Customs Headquarters to provide a Customs-wide focus, to reduce the number of issues requiring resolution by the Office of the Commissioner, to facilitate management by process, and to provide the framework for pursuing a significant reduction in Headquarters staffing. (See Chapter 8)

- The changes and vision in this report will require a long-term commitment of resources, energy, and management attention. The transition is being carefully planned. On April 4, 1994, the Transition Management Team was established and tasked with achieving cultural conversion, implementing process management, and providing our employees with the necessary training. Throughout this effort, we will continue to listen to the concerns of our workforce and customers, and establish incentives for change to the new culture. (See Chapter 9)

CONCLUSION

The full report follows, containing detailed findings and recommendations. These recommendations represent a synthesis of the concerns and ideas expressed by employees and customers, and reflect, as well, the opportunities made available by the changes in the trade environment, the sweeping reforms envisioned in the NPR and the exciting management approaches being successfully applied in the private sector. We firmly believe that this synthesis accurately reflects a desire for change and improvement on the part of our stakeholders and employees, and that the resulting recommendations will create a better Customs Service for the 21st century.

CHAPTER TWO

THE CALL TO ACTION, A COMPELLING CASE FOR CHANGE

INTRODUCTION

During the course of this study, team members met with several thousand employees, members of the trade community, and advisors to the study team from business and academia. A frequent question from all groups was "Why change?" Change is disruptive. It can be destructive. It causes anxiety. Some, particularly Customs managers, argue for the status quo. If you must change, they have said, change deliberately and incrementally. We are a successful organization. This is not an agency in crisis; it is not broken.

Others, particularly those in industry who have embarked on dramatic change, including reorganization and reengineering, argue just as forcefully that change, and dramatic change, is needed now. They believe that organizations that do not make change and learning a way of life are destined for obsolescence. Many believe that any organization not able to adapt to today's rapidly changing environment is an organization in crisis.

We recognize that change is difficult. A consultant from FQI advised that bringing about change in an organization that views itself as successful is particularly difficult. For good reasons Customs does view itself as successful; however, we also believe that change is imperative.

In this chapter we discuss the general environment in which Customs exists, and then the "push" (i.e., the problem areas and negative factors) and "pull" (i.e., the potential opportunities) factors leading Customs to change.

GENERAL ENVIRONMENT OF CHANGE

Never in history has mankind experienced such a climate of change. In the recent past, the world has witnessed:

- the collapse of the Soviet Union;
- the fall of the Berlin Wall;
- the liberation of Eastern Europe;
- the establishment of the European Union;
- the emergence of Japan and other powerful economies throughout the Pacific rim;
- the skyrocketing of population growth;
- unprecedented world emigration patterns; and,
- the exponential growth of new knowledge and data, and the means to communicate it.

As the world's greatest economic power, and largest importer and exporter, the U.S. is intimately involved with and affected by all of these changes. The rate of change at our borders is increasing as well, as evidenced by:

- substantial increases in international trade, travel, and tourism;
- a major trade agreement encompassing all of North America;

- the erosion of the leadership position of many of our leading industries and companies from automobiles to high technology;
- an increasing emphasis on unparalleled trade and budget deficits;
- epidemics of drug abuse, violent crime and new illicit enterprises such as money laundering; and,
- new, large influxes of legal and illegal immigrants.

Customs is significantly impacted by these changes. Each has a tie to our nation's borders and hence to Customs itself. In addition, even more specific factors compel Customs to improve its operations and service to its customers.

FACTORS "PUSHING" CUSTOMS TO CHANGE

Customs prides itself in being a high performance, responsive and agile organization. Nevertheless, our people and a variety of external observers of Customs suggest areas for management improvement. Further, over the years, there have been a variety of examples in which Customs performance has been lacking, has not met customer expectations or has failed. The study team identified the following problems and deficiencies:

- a periodic and high visibility breakdown in important operational programs, e.g., antidumping, international trade statistics, and enforcement of value laws;
- a lack of uniformity in Customs application of laws, policies, and procedures;
- an antiquated organization characterized by layers and internal barriers that has not been updated in 30 years;
- a consensus among our people that mission goals are not clearly defined, and that there are too many priorities;
- a persistent occurrence of intra-agency squabbling and destructive internal competition;
- a history of adversarial relationships with other agencies and customers;
- a pattern of non-compliance with the Chief Financial Officers (CFO) Act, and weak internal controls despite proliferating internal control requirements;
- a workforce that too often feels that management does not welcome suggestions for improved operations and is burdened by a lack of understanding of how their work is contributing to mission accomplishment;
- a widespread concern that we do not effectively allocate our workforce to meet workload requirements;
- a training program that is seen as ineffective in helping employees develop technical and supervisory competencies; and,
- a chronic failure to meet the needs of internal customers for administrative support services.

While disappointing, there is nothing surprising here. The Congress, the General Accounting Office, the Department of the Treasury, the Treasury Inspector General, and a number of internal studies have repeatedly identified these and other deficiencies. These problems and issues were confirmed in our group interviews and emphasized in our visioning sessions with employees, the trade and other agencies. In many areas, remedial actions are under way to correct these problems. But, in many cases, the existing structure and our approach to management is ineffective. In these cases, more comprehensive solutions are required.

FACTORS "PULLING" CUSTOMS TO CHANGE

While a focus on problems is sobering, a focus on opportunity is uplifting. Customs is blessed with a number of opportunities to serve its customers and the nation, and a variety of new tools to do it with:

- the NPR provides the opportunity for re-engineering our critical support services in budget, personnel, and procurement;
- GATT and NAFTA represent challenging new opportunities for Customs to meet increasing trade demands for increased service;
- the Customs Modernization Act relieves the agency of anachronistic requirements dating back two centuries, mandates reports on importer compliance with the trade laws, and provides a new framework for service under the "Informed Compliance" provisions;
- an increasingly competitive international trade environment requires Customs to be constantly alert to more sophisticated fraudulent import practices jeopardizing the health, safety, environment, security, and economy of the nation;
- new advances in information and communication technology provide an opportunity to revolutionize our systems; and,
- new business management techniques and measurement systems, such as process management, re-engineering and benchmarking, can improve customer service and can be applied to the public sector.

These are exciting times to be in the federal sector, and there are few agencies in government with greater opportunities to serve the nation.

RESOURCES

U.S. Customs is not the world's largest customs service; however, we face a larger volume of trade than any other customs administration. The size of our workload is compounded by its complexity, as the U.S. trades in almost every commodity in the tariff schedules and with almost every nation on earth. The geographic scope of U.S. trade and the breadth of commodities covered result in a myriad of multilateral and bilateral trade agreements that further compound the difficulty of U.S. Customs responsibilities. The U.S. role as the world's most sophisticated economy places additional burdens on U.S. Customs to protect our environment and the health, safety and security of our citizens. This is not to argue for increases in Customs staffing. Customs believes it can meet these challenges, providing it has the latitude to reduce overhead and reinvest its resources in front-line operations at the ports of entry, and in state-of-the-art systems and information technology to increase its efficiency and effectiveness.

CONCLUSION

Crisis or opportunity? Or both? Does it matter? It is clear that if we do not address the problems and take advantage of the opportunities and challenges on a large scale we will become an obsolete, hollow and impoverished organization. If we accept the challenge and embark on a bold journey of change, we have every opportunity to make our next century of service as meaningful as the first 200 years.

CHAPTER THREE

A CUSTOMS VISION

INTRODUCTION

In the private sector, the entrepreneur has great latitude in selecting the type of business and market in which he wishes to operate. In government, every agency's mission, which effectively defines the agency's "business" and the market in which it will operate, is determined by Congress through legislative mandate. An agency with a broad mission, including many and diverse responsibilities, is naturally more prone to organizational confusion than an agency with a more narrowly defined mission. Nevertheless, such an agency is empowered with opportunities for providing a broader range of public services.

THE CUSTOMS MISSION

Customs is one of those agencies with a more expansive mission and the agency has experienced both the advantages and disadvantages that accompany the broader scope. Customs current five year plan reemphasizes our mission:

As the Nation's principal border agency, the mission of the United States Customs Service is to ensure that all goods entering and exiting the United States do so in accordance with all United States laws and regulations. This mission includes:

- *Enforcing U.S. laws intended to prevent illegal trade practices;*
- *Protecting the American public and environment from the introduction of prohibited hazardous and noxious products;*
- *Assessing and collecting revenues in the form of duties, taxes and fees on imported merchandise;*
- *Regulating the movement of persons, carriers, merchandise and commodities between the United States and other nations while facilitating the movement of all legitimate cargo, carriers, travelers, and mail;*
- *Interdicting narcotics and other contraband; and,*
- *Enforcing certain provisions of the export control laws of the United States.*

For 200 years, Customs officers have used a similar statement of mission in protecting our borders. The challenge today is to derive from that broad charter a vision to guide and inspire our employees. This is neither an easy nor a one-time task.

DERIVING THE VISION

Customs derives its vision from the law, the mission, the priorities of the Administration and the Congress, and the needs of our customers. We use a variety of techniques and sources, e.g., interviews with customers and stakeholders, the media, our strategic planning process, and review of Congressional and Executive Branch proceedings. Developing the vision depends on the dynamic, ongoing, and sometimes messy process wherein Customs matches its mission and capabilities against the needs of the nation and our customers. As a result of this process, the following vision has been proposed for the Customs Service.

- **To achieve compliance with Customs and other agency laws at the border at a rate approaching 100% by the end of the century.**

  Achieving this goal will protect industries from predatory trade practices, ensure the health, safety, and security of our citizens, protect the environment, and provide accurate and timely statistics on international trade. Our predominant method of operation will be to work effectively with the business community and other federal agencies to enable people and commerce to voluntarily comply with requirements for legal entry into the United States. However, at the same time, we will direct special investigative efforts toward thwarting attempts to smuggle substances into the country that threaten public health and safety. Process management (as defined in Chapter 5), partnerships with our customers, informed compliance, investigations and intelligence, automation, and compliance measurement will be the tools used to achieve this goal.

- **To become the most facilitative Customs Service in the world.**

  The U.S. is the world's largest trader and a worldwide champion of free trade. U.S. Customs should serve as a role model for border agencies throughout the world by maintaining the highest compliance and enforcement rates, while using the latest electronic technology to clear passengers and cargo more expeditiously than any other customs service in the world. In most cases, this will mean clearance before arrival in the U.S. As other more restrictive and deliberately protectionist Customs administrations follow our lead, U.S. exports will receive fairer treatment. Partnerships with our customers, advanced information, automation, and compliance measurement will be the tools used to achieve this goal.

- **To form partnerships with our customers in industry and government to meet our compliance, enforcement, and facilitation goals.**

  Establishing partnerships means recognizing all of our customers, accepting them as extensions of our agency, determining and understanding their needs, devising strategies responsive to their needs, and measuring our performance in addressing their needs. We commit to improving our nation's effectiveness in combatting international drug trafficking and money laundering by pledging to cooperate with any organization, public or private, international or domestic, that is committed to the fight. Process management, on-going customer feedback mechanisms, shared data systems, data exchanges, and task force arrangements will be the tools and techniques we will use to determine customer needs, meet customer requirements, and serve as the basis for partnership.

- **To become the nation's supplier of international trade information.**

  Success in business and government is achieved by those with access to the most accurate and timely information. The Customs Service has a powerful base of technological achievement which we can build upon to provide this edge for the business and governmental interests of the United States that intersect at our borders. Our goal will be the creation of ITIS which will make the Customs Service the nation's provider of reliable, timely and comprehensive import/export statistics, and other information related to trade and travel.

CONCLUSION

The vision proposed in this report forms the basis for the development of strategies, goals and objectives that will effectively serve the Customs Service through the end of this century and beyond. In order to move toward this vision, Customs will attempt to create the best working environment in government, one which will allow our employees to make their maximum contribution to the goals of our agency and the government. We value our people and the diversity they bring. We are committed to identifying their concerns and implementing strategies to address their needs. We have established a partnership with NTEU. We will clarify the roles of all employees and organizational units, and emphasize cross-functional teams as tools and techniques to achieve our vision.

CHAPTER FOUR

TRANSFORMING TO A CULTURE BASED ON PEOPLE, PROCESSES, & PARTNERSHIPS

INTRODUCTION

It is quite possible that the Customs Service, in its 200 years, has never examined its culture. Our definition of culture would include not only our values and what we hold important, but also the ways in which we interact with each other, with our customers, and with other agencies. The way we treat our employees, and how we manage and lead are also important cultural "markers." In this chapter we take on the task of describing the current state of culture in Customs, our desired future state, and strategies for moving toward a culture that centers on people, processes, and partnerships.

CURRENT STATE

A trillion dollars worth of goods and almost one billion people cross U.S. borders every year. Customs is responsible for all of them. We are an action agency, not particularly given to introspection. But 200 years of service has endowed our organization with a definite character, one with both positive and negative aspects. Among these are:

- **Loyalty** - Customs people are committed to the nation, to the agency, to their discipline, to each other. "Customs takes care of its own."

- **Pride** - Customs people are proud to serve the nation and their agency. They are proud of their tradition of service and achievements.

- **Service** - There is a "can do" attitude in Customs. From implementing the Canadian Free Trade Act to interdicting drugs on the southern border, and from supporting the Andean drug war to enforcing Bosnian sanctions, nobody does it better than Customs.

- **Creativity** - When a national need arises Customs frequently finds a way to contribute to the solution at the borders. This has been demonstrated in areas ranging from international money laundering to intellectual property rights, from chlorofluorocarbons to flammable pajamas.

- **Expertise** - Customs has acquired a tradition of expert knowledge about commodities, trade practices, and border issues.

Some elements of the Customs culture are not so positive. The agency's loyalty to discipline, function, and occupational series sometimes becomes excessive, leading to divisive internal competition. In the past Customs has engaged in destructive and high visibility turf battles with other agencies. Our management style would be characterized as one of control, our relationship with our union as adversarial. In recent years Customs has developed something of a customer focus, but there is a long history of antagonistic relations with the trade community. No concerted effort to develop an agency wide customer focus has been undertaken. While Customs has aggressively and successfully automated and applied other technology, we manage subjectively, and intuitively. Only in the past few years have we initiated efforts to institute strategic planning and to develop measurements of statistical compliance with the trade laws.

DESIRED FUTURE STATE

A culture evolves and emerges in an organization over a period of time; in our case a very long time. It is a product of our mission, our traditions, and our people. A culture is neither created out of whole cloth nor produced in a vacuum. It cannot be transferred from one organization to another. It cannot be transformed overnight, nor should it be. There should be a gradual and deliberate transformation in our culture to build upon the positive and replace the negative. The desired future state of the culture of Customs is to:

- build upon the positive aspects of the Customs culture including loyalty, pride, service, creativity, and expertise; and,
- transform our management approach to one of People, Processes and Partnerships.

What do we mean when we say we should replace the negative aspects of our culture with a management approach based on People, Processes and Partnerships? We envision a future state in which Customs:

- manages the agency by process, i.e., concentrates management attention on its core business processes, develops goals for the processes based on customers' needs, aligns employees with the processes and provides the necessary support, develops and uses a system of metrics to evaluate process outcomes and efficiency, and, based on employee input and customer feedback, determines the need for process improvement and utilizes the appropriate management tools for the improvement effort;
- involves its people in process improvement efforts, trains them in techniques for process improvement, and creates an environment in which our employees can make their maximum contribution to the goals of our customers and the agency, free from bias and harassment of any kind; and,
- interacts with our customers as partners with the objective of working cooperatively with them to improve the processes, to meet customer needs and to improve mission performance.

This future state is attainable and realistic. Customs has already laid the groundwork for this direction by its strategic planning initiatives, improved customer relations, and introduction of a compliance measurement program.

STRATEGIES FOR ACHIEVING THE DESIRED FUTURE STATE

Creating a culture of People, Processes and Partnerships will be a long-term transformation requiring thought, conviction, and hard work. The following strategies will help with this transformation:

- a commitment from senior management, including the Commissioner, Assistant Commissioners and key field managers, to embrace this culture in both their speech and their actions;
- train all managers, beginning at the top, on the values they must incorporate in this culture; and,
- revise our appraisal process to reinforce the precepts of this culture.

CONCLUSION

Much time and commitment will be required to achieve the cultural transformation we have described. On the other hand, success in moving toward such an environment provides the potential to make Customs one of the most effective and successful organizations in government, and to provide the finest and most satisfying work environment for its employees.

CHAPTER FIVE

FOCUSING ON CUSTOMS PROCESSES

INTRODUCTION

Corporations and federal agencies are increasingly focusing on identifying and analyzing their operational processes to achieve gains in efficiency and effectiveness. An understanding of core processes is critical to organizations working to achieve their visions, to satisfy their customers, to create meaningful work for their people, and to maintain their vitality. This chapter presents the theory of processes, introduces the process management concept to the Customs environment, and identifies our core business and support processes.

WHAT IS A PROCESS?

As defined by Hammer and Champy in their book Re-engineering the Corporation, a business process is "a collection of activities that takes one or more kinds of input and creates an output that is of value to the customer." A process typically cuts across several functional boundaries. The elements of a process include the inputs to the process, the suppliers of those inputs, the outputs from the process, the customers of the process, and the outcomes in terms of value added for the process customers.

The focus on the customer is a critical element of the new theory of business processes. By aiming to produce value for the customer, the organization changes its focus from the traditional focus up the organization to a focus across the organization toward the customer, creating a more open and flexible management environment.

A process orientation focuses on outcomes, not tasks. It directs attention to how individual disciplines or components within an organization contribute toward the achievement of organizational goals and customer satisfaction. This provides an impetus for breaking down barriers that often develop among the various functional organizational components, thereby helping to achieve organizational unity.

CUSTOMS AND MANAGING BY PROCESS

Should Customs move to a system of managing by process? What will that mean to the agency, its customers, our managers, and our employees? How will it differ from how we operate today? Is this just another management fad or "flavor of the month," like quality circles or the "one minute manager"? What are the advantages to working in processes? Let's address these issues.

In one sense Customs already works in processes. Consider our system for processing at international airports. The system is composed of the following elements:

- suppliers in the form of carriers and port authorities;
- inputs, e.g., passengers and conveyances;
- processes, e.g., inspection and collection of duty;

- outputs resulting in cleared passengers, collections, and other agency referrals;

- customers that include the passenger, the carrier, other agencies, and the public; and,

- outcomes, or the goals of the process, which in this case would be facilitative processing for the traveller in compliance with all U.S. laws.

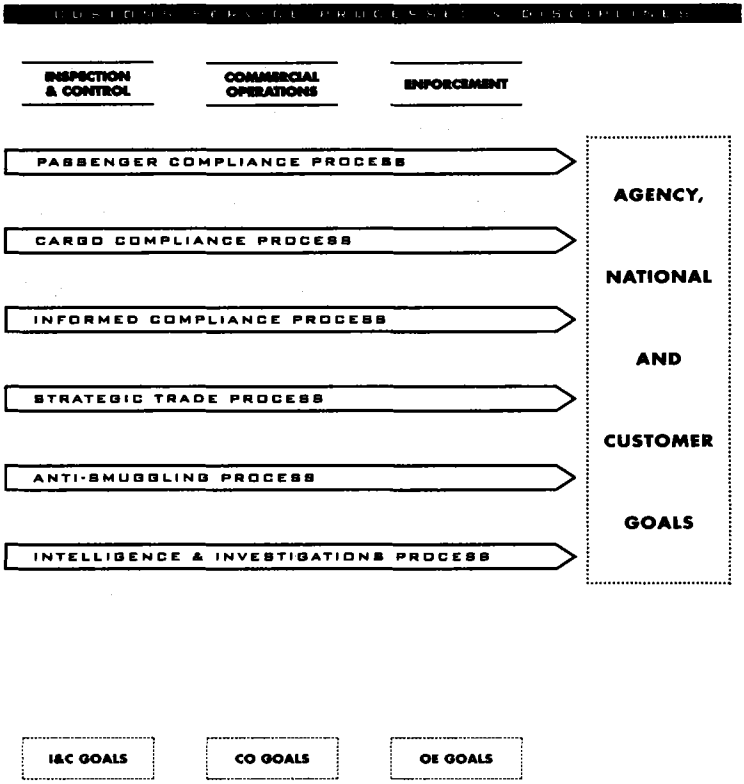
Passenger processing works well largely because it is handled by one discipline, i.e., Inspection and Control. Other processes and sub-processes, such as cargo processing or fines, penalties and forfeitures, do not work as well because they involve almost every discipline in Customs and require "hand-offs" from one function to another. Frequently, one office attempts to optimize its output at the expense of the overall goals of the agency. Process management, with its horizontal orientation across the agency, will help ensure that all disciplines within the organization understand and value the work of their counterparts, and that we all strive to contribute to overall agency goals. The chart on the next page illustrates this contrast between the core processes and the vertical orientation of our major organizational units.

Applying the theory of process management would represent several significant changes in how we manage.

- First, our management efforts will be driven by a focus on achieving ambitious goals derived from discussions with our customers. In the past, we have not committed ourselves to goals such as achieving compliance with Customs and other agency laws at a rate approaching 100 percent.

- Second, we will establish partnerships with our customers, incorporating their needs into our goals. We will make customer feedback central to how we manage and assess our performance. We have never attempted to achieve the close relationship that we now intend to establish, and we have never before incorporated customer feedback into our system of performance measurement.

- Third, to achieve the ambitious goals we will set for ourselves, we will emphasize cross-functional teams to establish comprehensive and integrated strategies. In the past we have focused on managing programs devised within our functional disciplines, which has resulted both in our people not feeling part of a common team and in a lack of focus on the outcomes of our efforts.


INSPECTION & CONTROL
COMMERCIAL OPERATIONS
ENFORCEMENT
PASSENGER COMPLIANCE PROCESS
CARGO COMPLIANCE PROCESS
INFORMED COMPLIANCE PROCESS
STRATEGIC TRADE PROCESS
ANTI-SMUGGLING PROCESS
INTELLIGENCE & INVESTIGATIONS PROCESS
AGENCY, NATIONAL AND CUSTOMER GOALS
I&C GOALS
CO GOALS
OE GOALS

Several steps will be needed to achieve the successful conversion to managing by process. The following elements will need to be incorporated into Customs management systems:

STEP	ACTIVITY
1	Identify all core business processes and major support processes.
2	Establish Executive Improvement Team (EIT), chaired by Commissioner, to provide policy leadership.
3	Designate Process Owners to develop and implement plans to achieve major improvement goals.
4	Form Process Improvement Teams (PIT) to propose detailed improvements in processes and sub-processes.
5	Use a portfolio of management tools, including flow charting each process, to begin the systematic improvement of the processes.
6	Establish a system of measures for each process to evaluate organizational performance and customer needs.
7	Develop methods for surveying customer satisfaction, both internally and externally.
8	Gear training toward helping employees understand processes and the tools for improving them.
9	Reconcile the 5 Year Plan with the processes and design it as a guide for improving the processes.
10	Better integrate the delivery of information technology (IT) with the improvement of our processes

CUSTOMS CORE BUSINESS AND SUPPORT PROCESSES

An effective organization must have a shared understanding of its core processes. This comes from analysis and debate within the organization and through discussions with its customers. Deliberations within the study team led to the identification of six core mission related processes which are depicted in the chart entitled "Customs Core Processes." The chart includes the suppliers, inputs, work activities, outputs, customers, and outcomes that are the essential elements of a process view of our work.

Focus group interviews identified our support processes as problem areas. They were viewed as unresponsive, inefficient, control oriented, inordinately complicated, and lacking in customer service. To better understand the magnitude of these concerns, each of the key support processes was mapped by cross functional teams which included operational personnel. Improvements in many of these support processes are under way, and further dramatic improvements are anticipated through reengineering and NPR implementation. In the implementation process we will redesign, automate, and re-engineer the support processes to the satisfaction of our internal customers. Some of the key mission support processes are presented in the chart entitled "Customs Service Key Support Processes."

Both the core business and mission support processes represent a first cut at defining Customs core processes. Customs, like other organizations, may go through a series of refinements in its definition of its processes as it gains more experience and insights into the interrelationships of its processes. This is all part of a continuing process of organizational learning.

CONCLUSION

Managing by process is fundamental to realizing our vision and addressing many of the concerns of our workforce and customers. Process management provides the framework for focusing on organizational goals developed in partnership with our customers, and for integrating the efforts of our various disciplines into a coordinated strategy for achieving our goals. Process management provides the means to clarify agency mission goals and priorities, and to clarify roles and responsibilities within the organization for accomplishing the goals. Finally, process management also fosters a culture of teamwork. We will establish mission goals based on customer needs and develop measures for assessing our performance in achieving those goals. By so doing, we will provide a system that enables both our customers and our people to understand what level of performance we expect to achieve. This same system will allow our customers and our employees to join in analyzing ways to improve our performance.

CUSTOMS SERVICE CORE PROCESSES

SUPPLIERS	INPUTS	WORK ACTIVITIES	OUTPUTS	CUSTOMERS	OUTCOMES
PASSENGER COMPLIANCE					
▪ Carriers ▪ Port Authorities	▪ Passengers ▪ Conveyances	▪ Inspections ▪ Targeting/Analysis	▪ Cleared Passengers ▪ Arrests, Narcotics, & Currency ▪ Other Agency Violations	▪ Taxpayers ▪ Passengers ▪ Carriers ▪ Other agencies	▪ Voluntary Compliance with Customs & Other Agency Laws at the Border
CARGO COMPLIANCE					
▪ Carriers ▪ Port Authorities ▪ Brokers	▪ Cargo ▪ Conveyances ▪ Documentation ▪ Compliance Measurement	▪ Examinations ▪ Targeting/Analysis	▪ Cargo Release ▪ Revenue ▪ Narcotics ▪ Currency ▪ Contraband	▪ Taxpayers ▪ Brokers/Carriers ▪ Importers ▪ Domestic Industry ▪ Other Agencies	▪ Voluntary Compliance with Customs & Other Agency Laws at the Border
INFORMED COMPLIANCE					
▪ Importers ▪ Brokers ▪ Carriers ▪ Other Agencies	▪ Trade Request ▪ Compliance Measurement ▪ Trend Analysis	▪ Pre-Importation Review Program ▪ Seminars ▪ Audits ▪ Electronic Processing	▪ An Informed Trade Community ▪ Pre-Classified Cargo	▪ Taxpayers ▪ Importers/Brokers ▪ Domestic Industry ▪ Other Agencies ▪ Drawback Claimants ▪ Carriers	▪ Informed Compliance ▪ CFO Compliance ▪ Expedited Processing ▪ Resolved Trade Issues ▪ Improved Data Quality
STRATEGIC TRADE					
▪ Brokers ▪ Importers ▪ Carriers	▪ Referrals ▪ Audit Plan ▪ ACS Data	▪ Trend Analysis ▪ Jump Teams ▪ Audits	▪ Audit Findings ▪ Jump Team Reports ▪ Analytical Reports	▪ Taxpayers ▪ Domestic Industry ▪ USTR ▪ Commerce ▪ Other Agencies	▪ Deterrence to Trade Violators ▪ Compliance with Trade Laws ▪ Resolved Trade Issues
ANTI-SMUGGLING					
▪ Carriers ▪ Port Authorities	▪ Passengers ▪ Conveyances ▪ Imported & Exported Goods	▪ Interdiction ▪ Inspection ▪ Targeting ▪ Investigations	▪ Arrests ▪ Seizures	▪ Taxpayers ▪ Other Agencies	▪ Prevention of Smuggling ▪ Border Protection
INVESTIGATIONS & INTELLIGENCE					
▪ Customs Units ▪ Other Agencies ▪ Informants	▪ Requests ▪ Referrals ▪ Violators	▪ Investigation ▪ Intelligence	▪ Intell Reports ▪ Arrests ▪ Indictments ▪ Convictions	▪ Taxpayers ▪ Customs ▪ Other Agencies ▪ US Attorney ▪ Courts	▪ Deterrence to Criminal Activity ▪ Increased Compliance

CUSTOMS SERVICE KEY SUPPORT PROCESSES

SUPPLIERS	INPUTS	WORK ACTIVITIES	OUTPUTS	CUSTOMERS	OUTCOMES
BUDGET FORMULATION EXECUTION					
▪ Process Managers ▪ Administration	▪ Funding Requests ▪ Program Initiatives ▪ Appropriations ▪ User Fees ▪ Reimbursements	▪ Formulation ▪ Allocation ▪ Analysis/ Monitoring	▪ Budget Requests ▪ External Relations ▪ Financial Plans ▪ Decision Packages ▪ Services	▪ Administration ▪ Congress ▪ General Public ▪ Operations Managers ▪ Commissioner	▪ Appropriations ▪ Funding Authority ▪ Program Resources ▪ Funding Flexility ▪ Redirected Resources
HUMAN RESOURCES					
▪ Vendors ▪ OPM ▪ Federal Law Enforcement Training Center	▪ Requests ▪ Referrals ▪ Applications ▪ Appraisals ▪ EEO	▪ Hiring ▪ Promotion ▪ Payroll ▪ Training	▪ Filled Positions ▪ Pay and Benefits ▪ Retirements ▪ Trained Customs Officers	▪ Supervisors/ Managers ▪ Applicants/ Employees	▪ Quality Employees ▪ Proper Benefits & Retirement Execution ▪ Educated Workforce ▪ Culturally Diverse Workforce
FINANCIAL MANAGEMENT					
▪ Vendors ▪ Employees	▪ Revenue Collections ▪ Invoices ▪ Travel Requests ▪ Financial Plans	▪ Planning ▪ Accounting ▪ Reporting ▪ Paying	▪ Travel Payments ▪ Paid Invoices ▪ Revenue Deposits ▪ Internal Controls ▪ Reports	▪ Employees ▪ Other Agencies ▪ Administration	▪ Accurate Accounts ▪ CFO Compliance ▪ Satisfied Customers
PROCUREMENT					
▪ Customs Units ▪ Vendors ▪ Contractors	▪ Requests ▪ Proposals	▪ Small Purchase ▪ Pre-award ▪ Post Award	▪ Contracts ▪ Purchase Orders ▪ Interagency Agreements ▪ Modifications	▪ Customs ▪ GAO ▪ Congress ▪ Treasury ▪ Other Agencies	▪ Goods and Services Provided at a Reasonable Price and Time Within Rules and Regulations
LOGISTICS					
▪ Customs Units ▪ GSA	▪ Requests ▪ Requirements	▪ Space and Facilities ▪ Management	▪ Leases ▪ Construction ▪ Free Space	▪ Customs ▪ Public ▪ Brokers/Importers ▪ Other Agencies	▪ Space and Facilities Provided Timely at Reasonable Cost
INFORMATION MANAGEMENT					
▪ Vendors	▪ Requests ▪ Requirements ▪ Standards	▪ Software Development ▪ Equipment Installation ▪ User Support	▪ Software ▪ Installed Equipment ▪ Response to User Requests for Help	▪ Employees ▪ Management ▪ Other Agencies	▪ Satisfied Users of Functional Systems

CHAPTER SIX

ESTABLISHING PARTNERSHIPS WITH OUR CUSTOMERS TO ENHANCE ORGANIZATIONAL EFFECTIVENESS

INTRODUCTION

Focusing the organization's attention on satisfying the customer is an essential element of process management. While customer service is a prevalent operating philosophy in business, the concept is newer in the government, where it is supported by the Government Performance and Results Act and the National Performance Review. While recognizing that there are fundamental differences between the private and public sectors, the NPR also recognizes that a focus on satisfying the customer can be instrumental in increasing the responsiveness of the bureaucracy to taxpayer concerns that government costs too much and provides too little.

In previous studies of the Customs organization and at the outset of this study, the initial focus was on developing ways to make Customs more efficient. As a result of group interviews and visioning sessions, however, more emphasis was placed on ways to better meet the needs of our customers. Ideas such as closing low volume ports, centralizing FP&F or consolidating classification and value functions were replaced with proposals to maintain or increase customer service levels through technology or automation. We ultimately determined that focusing on customer service produces true efficiency by directing our resources where they can best meet customer and mission needs.

This chapter explains how we will establish partnerships with customers in order to satisfy their requirements.

CURRENT STATE

Customs has given considerable attention to its external customers in the past. The broker and importer communities give Customs high marks for the Automated Commercial System (ACS) as a means of transacting the business necessary for filing Customs entries. Our customer group interviews reaffirm the sense that Customs has made great strides in improving relationships with the trade community during the early 1990's, and they recognize Customs as one of the most responsive federal agencies with which they deal. Passage of the Modernization Act, with its informed compliance tenet, has accented Customs need to interact even more closely with its customers so that they can attain higher levels of compliance with import requirements, through educational initiatives.

Nevertheless, the concept of customer service has been a continuing source of controversy within Customs. This controversy has been embodied in the continuing debate over achieving the right balance between enforcing the law and facilitating the flow of conveyances, merchandise, and people into the country. Further, the agency has tended to focus on one customer at a time to the exclusion of other customers. At various times, priority has been given to the concerns of brokers, importers, and domestic industry. But Customs has never incorporated customer service goals into its goal setting and performance measurement processes.

As a result, our customers made numerous recommendations for improved performance, which are depicted in the following table.

Implement trade enforcement programs that more effectively combat serious non-compliance and fraud issues.
Improve uniformity of policy application.
Increase the predictability of regulations, rulings, interpretation, and enforcement.
Provide advanced information on policy changes.
Release cargo efficiently and expeditiously.
Increase responsiveness to questions about status of shipments and protests.
Provide more consistent and reliable responses to information requests.
Improve training of the Customs workforce.
Adopt more of a customer service attitude.
Make the Fines, Penalties and Forfeiture process more consistent and responsive to customer needs.
Ensure access to people for quick problem resolution.
Emphasize greater interaction and communication with customers.
Increase effectiveness of automated systems.
Increase coordination efforts with other agencies.

Internally, employees expressed concerns about ineffective administrative support and did not feel that they are recognized as customers of our administrative support processes. Instead, they complained of being burdened with supporting the systems that were intended to support them. And they share the concerns of the external customers about the adequacy of the Customs training programs, coordination with other agencies, and a lack of uniformity in operations. The result is that our past efforts have not proven satisfactory to either external customers or Customs personnel.

DESIRED STATE

It is clear that achieving our vision of forging more effective partnerships to accomplish our mission will require a more sophisticated approach to managing customer relationships than we have exercised to this point. Understanding our customers and their needs is the key to re-engineering our existing processes to make them more effective and efficient.

Our vision of how we will relate with our customers in the future calls for recognizing all of our customers, accepting them as extensions of our agency, determining and understanding their needs, and devising strategies responsive to their needs which are consistent with our ability to deliver.

Like other organizations, we will face numerous challenges to achieving our vision because we are often faced with conflicting customer interests. Importers want all imports to clear Customs without examination, while domestic interests might desire 100 percent examination. Our goal for dealing with such instances of competing customer interests will be to minimize customer dissatisfaction with our operations. The way to realize this goal is by continually measuring the efficiency and effectiveness of our business processes.

Clearly stated and tangible customer service standards or outcomes for all processes need to be established for both our internal and external customers. This involves setting targets for improvement and committing the efforts of the organization to their achievement, especially in the area of informed compliance. This also requires a commitment by the agency leadership both to external customers and to agency employees. Only in this way can we ensure that Customs is incorporating outside perspectives into its judgments about the value of its processes in accomplishing the agency's mission. It is important to be clear that, in our attempts to satisfy all of our customers, our first priority is to protect the health, safety and security of the public.

Some examples of customer service standards for core processes are depicted in the table on the next page. These standards are for illustrative purposes only. Actual standards need to be developed based on customer needs, mission requirements and process outcomes. Further, we have much work to do to develop reliable baseline performance data.

EXAMPLES OF CUSTOMER SERVICE STANDARDS FOR CORE PROCESSES	
[illegible]	[illegible]
Passenger Compliance	Increase compliance with all laws from 96% to 99%
	Increase the percentage of passengers cleared with in 15 minutes from 82% to 90%
Cargo Compliance	Increase compliance with all laws from 85% to 95%
	Improve targeting efficiency so that examinations producing discrepancies increase from 9% to 25%
Investigations & Intelligence	Increase the percentage of inspectors who said they were satisfied with overall coordination with Special Agents from 85% to 95%
	Increase the number of respondents who are satisfied with the relevance and timeliness of intelligence analyses from 60% to 80%
Personnel	Increase customer satisfaction with the speed, accuracy and efficiency of personnel services from 75% to 90%
Logistics	Reduce space acquisition cycle time from 9 months to 4 months
	Increase compliance with CFO Act by accounting for 100% of capitalized equipment as verified by the annual inventory
Information Management	Raise the percentage of employees who are satisfied with the delivery of automated equipment, availability of training, and responsiveness to programming needs from 80% to 90%

The development of performance standards to satisfy customer requirements will be the responsibility of process owners. Systematic discussions with customers are a key to determining their needs and providing the basis for deciding what strategies to undertake and what performance measures to establish.

We held such discussions for five mission-related activities and five administrative processes. Called process visioning, these sessions involved customers and Customs managers in the assessment of the future environment and a definition of performance objectives, such as cost, time, quality, and service responsiveness levels. For illustrative purposes, the performance criteria developed during the cargo compliance session are summarized in the following table.

ILLUSTRATIVE PERFORMANCE OBJECTIVES FOR CARGO COMPLIANCE	
1	Broadly define compliance in terms of industries or companies, rather than on a transaction basis.
2	Provide incentives for compliance in terms of reduced cost and time for compliance.
3	The cargo compliance process should be electronically driven.
4	Resolve issues in the penalty process faster and in an impartial manner.
5	Industry enforcement goals should be clarified.
6	Improve responsiveness to customers with easy access, one point of contact, and one documented answer.
7	Promote the value of partnership toward the goal of compliance through an emphasis on information and analysis.
8	Ensure equitable treatment of large and small players.
9	Provide the flexibility to recognize geographic distinctions where they are a factor, national emphasis where they are not, and move away, wherever possible, from the border/point of entry emphasis of the past.
10	Differentiate more between industry sectors in the compliance process with Customs personnel becoming industry risk assessment specialists.

The results of all visioning sessions will be made available to the Executive Improvement Team and to designated process owners to serve as a starting point in identifying customer needs and developing appropriate performance measures.

STRATEGIES FOR ACHIEVING THE DESIRED STATE

FQI has provided the study team with concepts to enable Customs to develop a more rational and systematic approach to identifying our customers, determining their needs, incorporating those needs into our performance goals and strategies, and measuring the effectiveness of our strategies in satisfying those needs.

The following strategies will achieve the desired future state.

- Train key managers in customer service concepts.

- Charge process owners with incorporating customer service goals into operating plans to support the Five Year Plan. Process owners will identify the full range of customers, determine customer needs, develop measurable customer service goals, and develop strategies to achieve the goals.

- Use the performance evaluation phase of the annual planning cycle to assess process owners' performance in attaining customer service goals.

- Make achievement of customer service goals an integral part of institutional efforts to assess organizational and individual performance.

- Provide for regular contact with customers to obtain their assessment of our performance, and to engage in a continuing dialogue about how Customs, in cooperation with its customers, can continue to improve its service delivery.

- Ensure that Customs has the necessary expertise in survey evaluation and statistical methodologies to support its efforts to develop customer service information.

CONCLUSION

Establishing partnerships to address customer needs will have many benefits for Customs. It will represent a welcome change from the often antagonistic relationships of the past. Developing partnerships with our sister agencies will help to improve our mission performance and to meet a persistent desire of the private sector for more coordinated federal enforcement policies and procedures. Partnerships with the private sector will provide us with a better basis for clarifying our goals and priorities for our people, and developing integrated Customs-wide strategies to satisfy customer needs. Through the use of agreed upon measures of performance, we will be in a better position to assess the benefits of various programs and make better resource allocation decisions. We will also have a better basis for clarifying roles and responsibilities for goal achievement. Thus, the application of customer service concepts not only addresses the concerns of our partners, but many of the concerns of our people.

CHAPTER SEVEN

BUILDING A WORKFORCE FOR THE 21ST CENTURY

INTRODUCTION

Developing an agency culture based on people, processes, and partnerships is a formidable challenge. The essential element in achieving such a culture is, of course, human resources. We cannot hope to achieve our vision or desired culture without the understanding and commitment of our employees. However, a human resources plan cannot be developed in a vacuum, rather it must be derived from our vision for the agency, from the processes which represent the work of the agency to achieve that vision, and from the requirements of our customers.

In this chapter we outline the current state of our human resources program in Customs, describe the desired future state, and develop recommendations and strategies for realizing the desired state.

CURRENT STATE

In this difficult economic environment, a secure federal job is a good job. A career in the Customs Service is a rare opportunity to serve the nation. Few federal employees have the opportunity to serve their nation so well as Customs employees. Almost every great challenge facing the country in recent decades has involved Customs. From narcotics trafficking to money laundering, from trade deficits to budget deficits, from predatory trade practices to competitiveness, from protection of traditional manufacturing to high technology industries, from the safeguarding of health, safety, and environment to national security, Customs has been at the forefront in contributing to solutions of the great problems of our times. Our employees have performed superbly whatever the need, crisis, or challenge.

Customs people have been proud to serve. As in the military, "It is not just a job, it's a career." Along with the satisfaction of serving have come secure jobs, fair pay, benefits, retirement programs, advancement opportunities, and the respect and admiration of the people we serve. In many parts of the country and in many small communities, Customs jobs are the best and the best paying. In recognition of these benefits most employees make Customs a career. Few leave Customs and many of those who do, seek to return.

At the same time, as noted in our group interviews with employees, our human resource environment has severe deficiencies. On the negative side, our agency human resource environment could be characterized as follows:

- an adversarial relationship with our employee union;
- a control-oriented management style;
- an Office of Human Resources perceived as non-responsive to employee needs;
- training programs that do not meet employee developmental needs, do not prepare them to improve their performance and are not delivered in a time frame that allows employees to immediately apply what they have learned (i.e., we do not have "just in time" training);

- an organization that too often fails to encourage employees to apply their training on the job;
- an organizational structure with too many layers between top management and front line employees, hindering effective communications; and,
- a loyalty to function and discipline that frequently results in destructive internal competition.

DESIRED STATE

It is the first obligation of leadership to provide an environment in which employees can make their best contribution to the goals of the organization, free from fear, harassment, and bias. The desired state of the Customs human resource program is to achieve such an environment, to maintain the many positive aspects of our working conditions, and to remove the obstacles and negative aspects in our work situation. In summary, our desired future human resources state would include:

- a positive relationship with our elected and appointed employee representatives;
- a more collegial approach to dealing with employees, and a movement toward a management style characterized by supporting and coaching;
- an Office of Human Resources that serves employees as internal customers and supports management in achieving operational goals through strategic human resources planning;
- a streamlined organization without unnecessary layers;
- a better understanding by all disciplines and employees of the goals of the organization, and the role that each discipline and organizational element plays in the achievement of those goals; and,
- an organization in which all employees are provided with quality training designed to improve their performance and delivered "just in time".

STRATEGIES FOR ACHIEVING THE DESIRED STATE

The following elements are strategies for achieving the desired future state:

- elevate the Office of Human Resources within the structure of the new organization to integrate all human resource processes;
- emphasize cross functional teams as a routine approach to Customs operations;
- ensure that training programs are geared toward improving the capacity of employees to contribute to process improvement and customer needs;
- take advantage of the opportunities in personnel management provided by the NPR to reduce costly requirements to comply with extensive federal personnel regulations, and to establish more flexible performance management and reward systems;
- refine the human resources management support process and apply the management tools to improve the process, including re-engineering, to take advantage of the NPR;
- utilize training in process management techniques to explain the value and role of all disciplines within the Customs Service;
- make greater use of the expertise available from our customers in designing and delivering effective training programs;
- involve and train all employees and managers in the techniques of process improvement and customer service;
- develop/modify performance appraisal systems for senior executives, managers and employees to reflect contributions to processes and work in the cross functional team environment;

- provide Customs managers, supervisors and NTEU officers with the training necessary to implement the desired employee-supportive management style; and,
- initiate a system of employee feedback on managerial and supervisory performance to assess our progress in moving toward a management style that supports the development of our people.

NTEU PARTNERSHIP

On June 13, 1994, the U.S. Customs Service and the National Treasury Employees Union entered into a far-reaching labor-management partnership with the aim of building the Customs Service into a successful and efficient organization responsive to the pressing needs of our Nation, and attentive to the concerns of its employees.

Through Partnership Councils and employee empowerment we will strive for those goals that are crucial to the Customs mission, and by obtaining them we will gain a renewed sense of job satisfaction and achievement, while at the same time setting a new and greater standard for others to reach.

CONCLUSION

FQI advised our study team that employee satisfaction begets customer satisfaction. We cannot achieve our vision without acceptance by our people, and without systems that encourage innovation, invite risk taking, and promote efficiencies. We believe that our proposals for changing the Customs Service respond to the concerns expressed by our people. The heightened attention we will give to human resources planning will lead to better linkages with mission planning, resulting in clarifying the roles and responsibilities of our people in mission accomplishment, and encouraging teamwork. Through our partnership with NTEU, we signal an intent to involve our people in both the identification and solution of management problems. Through a renewed commitment to training, we will ensure that our people have both the technical training and the understanding of process improvement techniques to contribute fully to the reinvention of the Customs Service.

CHAPTER EIGHT

ORGANIZATIONAL STRUCTURE

INTRODUCTION

The old axiom that "form follows function" is a fundamental principal of organizational architecture. In designing the organizational structure for Customs, the study team established goals to define the core business processes of Customs and to develop, from the bottom up, an organizational structure that would facilitate achievement of the goals of those core processes. In this chapter we review the current state of Customs organization and present the proposed new structure based on the core processes.

CURRENT ORGANIZATIONAL STRUCTURE

The current structure of the Customs Service has been in place, with only minor changes, since the mid-1960's. This structure is a result of the 1965 "Stover Report" which called for consolidation of the 47 "Collection Districts" into 25 districts, with oversight by a new layer of six (6) regions and a realigned Headquarters with four (4) major offices. The objective was to create an organization with "unity of command" at all levels and responsiveness to the users of Customs services. Although the Stover proposals were not fully implemented (the numbers of districts and regions created exceeded the original plan) the resulting organization has served us for almost 30 years. Through this organization, or in some cases in spite of it, Customs employees made their contributions to the nation by collecting billions of dollars in revenue, seizing tons of narcotics, preventing predatory trade practices, and protecting our borders from a variety of threats to the nation's health, safety, security, and environment.

The current structure includes:

- a Headquarters consisting of 1,800 full-time permanent personnel;
- seven (7) regions;
- 42 districts;
- 27 Special Agent in Charge (SAC) offices;
- 301 ports of entry; and,
- 105 Resident Agent in Charge (RAC) and Resident Agent (RA) offices.

It is the general consensus of Customs personnel and customers that the current structure is now outdated and obsolete, and in some ways actually dysfunctional. The current structure has been characterized as:

- layered and hierarchical;
- lacking the cooperation and coordination among functional units needed to achieve mission goals;
- based on a command and control style of management; and,
- obsolete as a result of new management techniques and computerized communications technology.

A number of changes within Customs and our operating environment have necessitated a review of our organizational structure. The tremendous growth in our workload, the size of the organization, the growth in administrative and overhead positions, changes in technology, new requirements placed on the agency, changes in trade and travel patterns, and unnecessary layers and barriers in the organization growing over time are all factors requiring an organizational restructuring.

DESIRED ORGANIZATIONAL STRUCTURE

Creating an organizational structure that addresses our current problems, facilitates a move to process oriented management, and which allows adaptation to an environment of continuous change requires a bold new design. To this end, the study team built the proposed new structure from the ground up, with a foundation based on the ports. Since the ports are already dedicated to process execution and customer service, streamlining efforts were directed at the remaining parts of the structure, namely, at the districts, regions and Headquarters. As a result, the ports will be empowered with some of the functions and authority now held in the district and regional offices. A graphic view of this transfer of responsibility is shown on the Customer Service Locations chart. The new organization was designed with a customer focus. The result, described as follows, is a simplified, three level organizational structure that emphasizes service delivery at the field level and minimizes management overhead.

Field Operations Level - The key component at this level is the port, with investigative, intelligence and interdiction support provided by the SAC's, RAC's and Air Branches. As noted above, changes at this level will be minimal, and directed toward bolstering the existing resources as follows:

- The number of ports will remain unchanged. Any service currently provided at a port will continue under the reorganization. The intent of the reorganization is to enhance service delivery at each port through business process improvement (BPI) techniques undertaken by systematic consultation with our customers. Customs will maintain or increase port staffing levels as a result of this reorganization.

- The number of RAC's will be increased from 105 to 112 by converting seven (7) SAC's to RAC status. This name change will not affect current staffing levels or the level of investigative effort undertaken at the affected locations;

- The number of air branches will be increased from 9 to 11 by consolidating two C3I centers into a single C3I Branch and converting the Surveillance Support Center into a Branch.

Field Management Level - This level represents a major change from the current organization to produce a streamlined management layer devoted to supporting the employees and processes at the field operations level. These components and the changes from the current organization are discussed below:

- Twenty Customs Management Centers (CMC's) will be created as a single management level between the 301 ports and Headquarters. The 20 CMC's will report to the Assistant Commissioner (Field Operations) in Customs Headquarters. They will oversee execution of the core business processes at the ports within their respective geographic areas shown on the "Customs Management Area" map, and will coordinate with counterpart SAC offices in executing the anti-smuggling core process. Their most important function will be to ensure that Customs delivers high quality uniform service at the ports within each area, but they will not be a formal level of appeal for external matters. Employees at the CMC's will work with Headquarters process owners to develop workable policies for the field, and with port directors to achieve national goals while meeting the challenges posed by the diverse locations where Customs delivers its services. In addition, CMC's will

provide administrative support to ports, and will play a critical role in overseeing national policies intended to improve and develop our most important resource: Our people.

The 20 CMC areas indicated in this report should be understood to be the maximum number for effective and efficient administration. If Customs were required to sub-divide any of the indicated areas, the resulting units would have too small a workload and Customs workforce to be operated effectively. In addition, the opportunities for overhead reduction which are crucial to implementing other streamlining proposals would not be possible. Also, any expansion of that number would disrupt the integration of the functions of CMC's and SAC's.

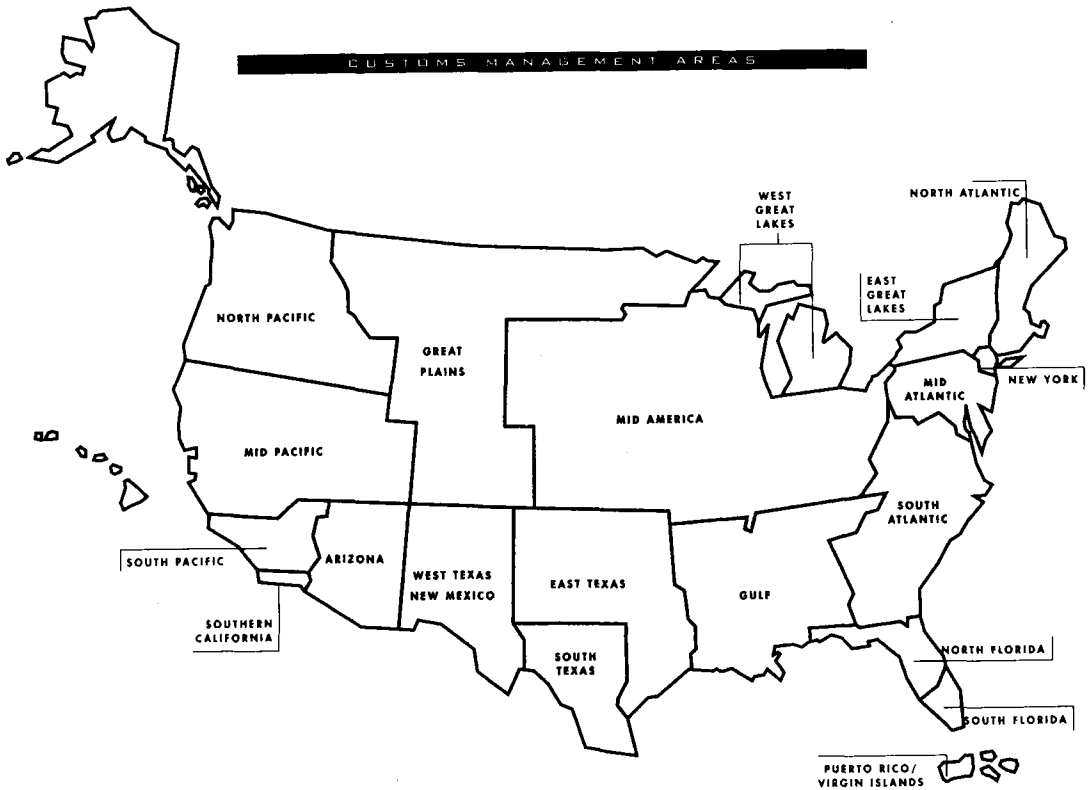
- Five Strategic Trade Centers (STC's), each with a defined area of responsibility, will be created to enhance Customs capacity to address major trade issues such as textile transshipment, value, anti-dumping, and intellectual property rights enforcement. The approach will emphasize cross -functional teams composed of auditors, agents, trade specialists, and analysts. The scope of STC operations will be national and international, with each center taking the lead in analyzing threats and developing strategies for addressing trade issues.

  To assure a global focus and to avoid duplication, the STC's will have assigned areas, for instance NAFTA, textile transshipment, and IPR. Thus they would serve as a national resource for all CMC's and SAC's. Based on their research and analyses, STC's might conclude that significant problems do, in fact, exist. They would then recommend new and creative actions and strategies to deal with the problem. The actions may be jump teams, special operations, joint task forces, creation of special cross functional teams, referrals for criminal investigation, referrals for audit, interaction with other nations' customs services, etc. The efforts of the five centers will be coordinated by an Assistant Commissioner.

- Regions will be abolished and districts as a management layer will be eliminated. Affected staffs will be retrained and reinvested in field operations and strategic initiatives. District offices are located within ports-of-entry and share resources with the ports. All resources and services related to port-of-entry operations will remain. Entries will be filed exactly where they are today, cargo will be cleared exactly where it is today, and passengers and conveyances will be processed at the same locations as today. Employees who perform these services will continue to carry out their responsibilities at the same locations as today.

- The current 27 SAC's will be reduced to 20 and collocated with the 20 CMC's to facilitate coordinated implementation of Customs-wide strategies to achieve process and mission goals. We recognize that there may be some modification necessary in order to respond to unforeseen operational circumstances. The SAC's will provide oversight for the RAC processes, and oversight of investigative personnel in the CMC areas shown on the map.

- The existing C3I centers will be consolidated into a single C3I Branch; the Surveillance Support Center will become the Surveillance Support Branch, and the Air Operations Centers will be reduced/consolidated into a single Air Operations Center at CNAC with responsibility for national coordination of the air program and oversight of the 11 air branches.


CUSTOMS MANAGEMENT AREAS
NORTH PACIFIC
GREAT PLAINS
MID AMERICA
WEST GREAT LAKES
EAST GREAT LAKES
NORTH ATLANTIC
NEW YORK
MID ATLANTIC
SOUTH ATLANTIC
MID PACIFIC
SOUTH PACIFIC
ARIZONA
SOUTHERN CALIFORNIA
WEST TEXAS NEW MEXICO
EAST TEXAS
SOUTH TEXAS
GULF
NORTH FLORIDA
SOUTH FLORIDA
PUERTO RICO/ VIRGIN ISLANDS

Headquarters - There will be major changes to focus Headquarters on its role as the responsible level for development and oversight of nationally consistent policies that are effective in achieving mission goals derived from recognition of customer needs. To ensure that Headquarters remains focused on broad policy issues, major cuts in Headquarters staffing are planned. The major components of the overall organizational structure, including the Headquarters, field management, and field operations levels, are shown on the chart entitled "New Organizational Structure". The new Headquarters structure is described below.

- Establish Assistant Commissioners with a renewed focus on core business processes. The reorganization addresses two problems with the current Headquarters organization which have burdened the Office of the Commissioner and contributed to operating problems. First, the functional focus of operating offices has served to distract top management from assessing progress toward mission goals. Second, the reliance on the regions to oversee field operations has not ensured consistent policy implementation.

  Under the reorganization, Assistant Commissioner level offices will be responsible for policy development and national oversight of field implementation of strategies to improve our core business processes to accomplish mission goals.

  - Office of Field Operations will be responsible for the cargo and passenger core processes, oversight of the CMC's, ports and labs; and shared responsibility for the anti-smuggling and the informed compliance processes;

  - Office of Investigations will be responsible for the investigations and intelligence core process, shared responsibility (with the Office of Field Operations) for the anti-smuggling core process, and oversight of the SAC's, RAC's, air center, and air branches;

  - Office of Strategic Trade (OST) will be responsible for the strategic trade process and will share responsibility for the informed compliance process. OST will take the lead in developing the strategies for assessing the level of trade compliance. Compliance will routinely be assessed through random examinations conducted at the ports. However, OST will also avail itself of the analytical resources resident in the Strategic Trade Centers to address major trade issues, such as transshipment and intellectual property rights, which cannot be effectively addressed through transaction reviews at the ports.

OST will also provide policy leadership for achieving improved informed compliance, and combined with Regulatory Audit and the National Import Specialist Division will provide the core knowledge required to fully inform importers, brokers and others of Customs requirements. Publication of Customs compliance data will also be a key component in enabling the trade to initiate their own efforts to achieve compliance.

  - Office of International Affairs will retain its current responsibilities of managing international activities and programs, and for the conduct of U.S Customs bilateral relations with other countries. The office oversees the negotiation and implementation of all international agreements and is responsible for all foreign training assistance provided by the U.S. Customs Service.

  - Office of Internal Affairs will retain its current responsibilities for ensuring compliance with all Servicewide programs and policies relating to security activities and for executing the internal security and integrity programs. The office will assume the responsibility for the management inspection program.

- Office of Congressional and Public Affairs will retain its current responsibilities and advise Customs managers on legislative and congressional matters, assist members of Congress and their staffs by reviewing the salient points of current and proposed Customs programs, and ensure that the interests of the trade and business community are considered when an operational change or new legislation is under consideration. The office will also assist Customs managers in their relationships with the public, other government agencies and the media.

- Office of Regulations and Rulings will exercise its current responsibilities in addition to building upon the informed compliance capabilities being implemented throughout the field by performing more of an appellate role and less of a rulings issuance role, in conjunction with performance of a regulations review and quality assurance oversight objective.

- Realign management of mission support services. Customs administrative services need to be restructured to respond to widespread criticism, and to achieve the goals for improved services sought by the NPR.

  - Office of Finance, headed by the Chief Financial Officer (CFO), will be responsible for administering the broad range of financial management activities delineated under the Chief Financial Officers Act, including accounting, budgeting, procurement, logistics, and internal controls. These responsibilities are set forth as the Budget Formulation/Execution, Financial Management, Logistics and Procurement Support processes. The reorganization will align the CFO's responsibilities with those called for in OMB guidance.

  - Office of Human Resources Management will be responsible for the human resources support process which includes planning in support of the business process improvement efforts, personnel services, training, labor management relations, and worker safety. This office should play a leading role in working with NTEU in the development of strategies to implement the partnership agreement signed on June 13, 1994. The Assistant Commissioner will also work closely with the Special Assistant for Equal Employment Opportunity in integrating EEO goals into Customs human resources policies.

  - Office of Information and Technical Services is responsible for the information management support processes which will combine current organizationally segregated information technology, communications, and research and development functions, resulting in better coordinated strategies for meeting mission related needs.

- Enhance the strategic management capacity of the Office of the Commissioner. In the current state, the Office of the Commissioner has been heavily burdened because it is the only office in a position to manage objectives and programs that cross functional and geographic boundaries to produce nationally consistent, mission related outcomes. As an additional means to strengthen the overall management and leadership of the Office of the Commissioner, the Deputy Commissioner will assume the new and enhanced role as the Chief Operating Officer (COO). In addition to supporting the Commissioner, the COO will manage and coordinate the day-to-day policy considerations necessary to integrate and improve Customs core and support processes.

- Additional Headquarters changes of vesting responsibility for mission policy development and implementation at the Assistant Commissioner level, focusing on business process and improvement, and establishing an Executive Improvement Team (EIT) to oversee process improvement efforts

represent major enhancements in the capacity of the Office of the Commissioner to focus on strategic issues confronting the Customs Service. Nevertheless, the Commissioner will face major challenges in leading the cultural change efforts while directing mission operations.

An Office of Planning and Evaluation will be established to provide staff support to the EIT in implementing the strategic planning process and in leading the cultural change. This office will provide the statistical and survey research methodologies needed to develop baseline measurements of Customs compliance and to develop better measures of Customs performance, utilizing customer and employee surveys.

- Reduce Headquarters staff from 1800 to 1200 permanent full-time positions. This statement is an ambitious goal, which is largely dependent upon the progress of NPR recommendations. In addition, this goal rests on the premise that Headquarters should be focused on policy formulation and oversight, and not be deeply involved in day-to-day operational issues which are the responsibility of port managers. It is also anticipated that the evolution to process management will result in more streamlined processes, culminating in changes to a number of continuing programs that now require Headquarters staffing. We anticipate greater reliance on field personnel working with a limited cadre of Headquarters staff in the continuing analyses of our processes and sub-processes to ensure the development of strategies that meet mission requirements, satisfy customer needs, and are workable at the field level. The ability to achieve the maximum opportunities for reducing Headquarters in many of the management support areas is dependent upon the progress of NPR implementation. Through this vision of Headquarters operations, we intend to be responsive to the concerns of our people over ever increasing Headquarters reporting requirements and to the expectations throughout the business community and public sector that we improve efficiency. Further, our effort to streamline Headquarters staffing is an essential part of our strategy to reinvest resources to mission areas demanding increased attention. The EIT will charge process owners with developing plans to achieve mission goals with streamlined staffing at Headquarters as well as throughout the agency.

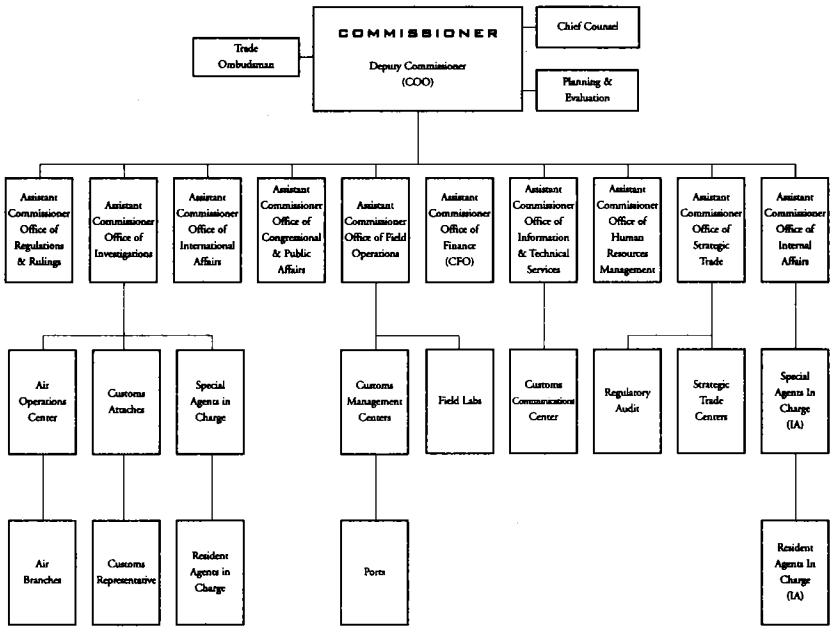
The ultimate development of detailed organizational and staffing plans are to be the responsibility of the process owners. Accordingly, they will be charged with meeting guidelines for ensuring that we achieve our Headquarters staffing reduction goal. For example, the guidance calls for developing plans which:

- create no organizational sub-structures beyond two organizational levels below the Assistant Commissioner,
- consolidate existing elements of less than 15 employees,
- create organizational sub-structures with a supervisor to employee ratio of 1:15 or greater; and,
- create no new administrative type positions or staffs.

CONCLUSION

This proposed structure creates a streamlined, three-tiered organization that emphasizes customer service, facilitates execution of processes, brings our employees together along mission and process lines, and minimizes management overhead. Collocation of the CMC's and SAC's will facilitate cooperation and teamwork. Maintaining our existing port structure, with additional resources reinvested from the reduced management layers, will continue or increase the level of service we provide to customers. In the next chapter we discuss ways to reinvest the resources that will be made available under this new organization.

NEW ORGANIZATION STRUCTURE



CUSTOMER SERVICE LOCATIONS

CUSTOMER SERVICE LOCATIONS	PRESENT STATE			AFTER REORGANIZATION		
SERVICE	DISTRICT	REGION	HEADQUARTERS	PORT	CMC	HEADQUARTERS
Entry/Entry Summary Processing	•			•		
Bond Processing/Approval	•			•		
Broker Licensing/Compliance	•		•	•		•
Line Release Accept/Approve	•			•		
Binding Ruling	•		•	•		•
Pre-Class & PIRP	•			•		
Drawback	•	•		•		
Protest Decision/Appeal	•	•	•	•		•
FP&F Appeal	•	•	•	•		•
Technical Appeal	•	•	•	•		•
WHSE/FTZ Information/Audit	•			•		
Landing Rights	•	•	•	•		•
Overflight Exemptions	•			•		
Airport Security Program	•			•		
Operational Information/Assistance	•	•	•	•		
Uniformity Assistance	•	•	•	•	•	•
Process Execution	•			•		
Process Oversight	•	•	•		•	•
Policy Development	•	•	•			•
Administrative Support	•	•	•		•	•

CHAPTER NINE

TRANSITION & IMPLEMENTATION STRATEGY

Implementation of the strategies developed in this report will be a long and difficult process. Changing the culture of the Customs Service, defining and improving our processes, identifying customers and their needs, retraining our workforce, realigning our organizational structure, introducing a new management strategy, and reinvesting staff and other resources are all major undertakings with deep impact on the Customs workforce. Making these changes will require a long-term commitment of resources, energy and management attention.

This report sets a new direction for the Customs Service to take. Implementation planning and follow through will be accomplished by a long-term transition team or teams. In this chapter we discuss the transition from this report to implementation. There are three major components to the transition:

- cultural conversion
- process management
- organizational change

CULTURAL CONVERSION

Understanding the reasons for change is considered to be of equal importance with the actual organizational changes themselves. Gaining the understanding and acceptance of managers, employees, and our customers and stakeholders will be given the highest priority during the early stages of the cultural conversion and transition. This understanding will come in several ways. We will communicate directly with our managers and employees about the cultural conversion we envision, and the intended benefits to the organization. This will take place in concert with initial extensive training over a six month period and built into all Customs training courses in the long term. There are two strategies for implementing this training.

- Training Partnerships - Customs has entered into a training partnership with the Brookings Institution and the Federal Quality Institute to provide the direction necessary to lead the agency through our cultural transformation. This partnership has developed and has begun training our Executive Management Team, Regional Commissioners, SES personnel, SES candidates, District Directors, Special Agents In Charge, and senior NTEU officials. This training incorporates a blend of theory and specific applications of how that theory relates to the Customs Service. This curriculum addresses, for example, the following issues:
    - process management
    - process improvement and process re-engineering
    - performance standards and measurements
    - cross-functional teams
    - Customs core and support processes
    - customer focus
    - leadership/coach versus command/control
    - NTEU partnership

- Cascading Training - Equally important to the success of the cultural conversion is ensuring the entire Customs workforce understands how and why the organization is changing. Through the use of a variety of means, everyone will be introduced to the cultural and organizational changes. The importance of this training cannot be overstated.

Training alone will not bring about a cultural conversion. A number of other efforts will be required over the long term to achieve the major cultural change that we envision. This will require the continuing demonstration by the leadership of the organization that we are committed to improving the organization. This commitment can and must be demonstrated in a variety of ways, such as:

- selecting process owners from our most talented executives and supporting their efforts to develop and implement radically improved processes;
- establishing performance measurement encompassing customer satisfaction, effectiveness, and efficiency measures as central to organizational decision making;
- ensuring that our reward system recognizes teamwork, customer satisfaction, and the accomplishment of mission goals;
- involving external customers in our planning and performance assessment processes; and,
- listening to the concerns of our employees and involving them in designing solutions.

IMPLEMENTING PROCESS MANAGEMENT

Another essential component of the transition will be the implementation of the new process management approach. This is the foundation upon which Customs will manage in the future. It will begin with a top down approach through the appointment of two key entities:

- Executive Improvement Team (EIT) - The EIT will be formed with senior managers named by the Commissioner and will operate under the chairmanship of the Commissioner. Among the EIT's first tasks will be to name owners for the core and support processes, to define these processes, and to initiate significant improvement projects. Over the long term, the EIT will serve as the top level review for process improvement efforts.

- Process Owners - Ownership of Customs core and key support processes is essential to the successful implementation of the recommendations in this report. The first order of business for the EIT will be to name "Process Owners" for the key processes. The Process Owners will assume responsibility for the process from end to end. They will be responsible for formulating ambitious, measurable goals; identifying the full range of process customers and their needs, building upon preliminary process maps developed during the reorganization study; deciding difficult staffing and organizational issues; developing performance measures; and guiding implementation across the organization. Since the focus in process improvement efforts is to address customer needs, the process owner will be responsible for maintaining effective working relationships with all customers, enlisting their involvement in improvement efforts, and soliciting their feedback on the effectiveness of our strategies. Process Owners will determine the need for improvements to their processes and the appropriate tools to be applied. With approval from the EIT, Process Owners will establish Process Improvement Teams (PIT's), staffed with field personnel with operational expertise in the process, to carry out the improvement effort.

CHANGING THE ORGANIZATIONAL STRUCTURE

The third essential element of the transition period will be the process of changing to the new organizational structure. Revising organization codes, creating functional statements and position descriptions, obtaining management and Treasury Department approvals, and a number of other detailed tasks must be undertaken to officially create the organization structure described in this report. The most important part of this effort will be planning for and carrying out the movement of employees from targeted Headquarters, region and district positions to jobs in ports, CMC's, SAC's, RAC's, and the STC's. A dedicated team will be established to work with senior managers and process owners in performing these important tasks.

SCHEDULE

The chart on the next page lays out milestones and a schedule for the transition period. It is expected that this schedule will be modified by the transition team as they develop more detailed plans. This schedule focuses on the initial activities immediately following the release of this report in an effort to emphasize the need for a quick start to what will be a lengthy implementation process.

CONCLUSION

This report, "People, Processes and Partnerships - A Report on the Customs Service for the 21st Century," presents an ambitious plan to transform the culture of the Customs Service and the way we organize, manage, operate, lead our agency, and deal with our customers. It was developed with the support, cooperation and participation of our employees, managers, customers, and private industry; and can only be implemented with their continued support. Even full implementation of all of the concepts of this report will mark only a beginning in the transformation of the Customs Service into a learning organization. We look forward to the challenges of the next century and the partnership with our employees and customers.

PROPOSED TRANSITION MILESTONES & SCHEDULE

ACTIONS	4/94	6/94	7/94	9/94	10/94	1/95	5/95	9/95
Report to Commissioner	●							
Commissioner's approval of report	● ● ●	● ● ●	● ●					
Treasury approval	● ● ●	● ● ●	● ● ●	● ●				
Form Transition Management Team & develop strategies	●							
OMB review				●				
Notify Congress				●				
Announce reorganization				●				
Congressional briefings at request		at request	● ● ●	● ● ●	● ● ●	● ● ●	● ● ●	● ● ●
Field briefings	● ● ●	● ● ●	● ● ●	● ● ●	● ● ●	● ● ●	● ● ●	● ● ●
Name Assistant Commissioners				●				
Establish formal partnership w/NTEU		●						
Form Executive Improvement Team				●				
Designate Process Owners			● ●	● ● ●	● ● ●	● ● ●	● ● ●	● ● ●
Complete human resource plan				●				
Cultural transformation training		● ●	● ● ●	● ● ●	● ● ●	● ● ●	● ● ●	● ● ●
Prototype Strategic Trade Centers						●		
Establish Planning & Evaluation Staff				●				
Assistant Commissioners develop structure, staffing, costs & savings info for headquarters offices					●			
Identify staffing, costs & savings info for field structure						●		
Ensure process outcome measures reflect 5 year plan goals						●		
Prototype CMC's						●		
Reinvent performance measurement & recognition systems							●	
Establish CMC's and STC's							● ●	● ● ●
Abolish Regions and Districts								●

● action   ● ● ● ongoing action

And I know as someone who has been in a staff role, that often the staff doesn't get all of the publicity about what they have been doing, but they are working behind the scenes. But I can tell you that Chris Smith, who has been working both for this subcommittee and for the Oversight Subcommittee, has taken a tremendous personal interest in all of this and has moved us in a tremendously constructive fashion.

I am proud of the direction the Customs Service is taking. I would like to just spend a very few moments, I won't even read my abbreviated statement since you decided to put the entire statement in the record. I would just like to talk for a few moments about a few of the concepts of what is going on, what we are talking about in the U.S. Customs Service.

We are very excited about being an agency that is not really standing still. We are moving forward and we have been moving almost from the time 4 years ago when this subcommittee began to do very close scrutiny of the operations of the Customs Service. But in the 18 or 19 months since I have been Commissioner, I have been very delighted to have a tremendous support of the U.S. Customs Service.

I think they had gotten out of their mode of denial, in terms of changes that needed to be made in the Customs Service. And as I came on as the Commissioner of Customs, they had already reached the point where they knew that change was necessary. And we began to work in earnest.

And I must say I apologize for such a crowded room, because I have to admit that much of this first row is taken up with U.S. Customs people. This is pretty much my entire executive management team. And obviously in the interest of time, I can't spend a lot of time introducing them, but I do want to let you know that the people of the Customs Service really are what makes it the agency that it is.

And I believe it started out from the basis of being one of the best of all agencies in Federal Government, and I think we are well on our way to making it even better. And a lot of that is because of the fine people that are behind me.

The one I will recognize just behind me to my left, is my Deputy Commissioner, Mike Lane, who took a reorganization study group, 20 people, and put together the outlines, working with the business community, working with people in academia, working with our customers that we interact with, and working with other Federal agencies that we work in partnership with, to come up with the recommendations that are set forth in this report, "People, Processes, & Partnerships."

There is a lot that is going on in the U.S. Customs Service right now. We are trying very hard to avail ourselves of the opportunities that were created by the legislation that you and Mr. Gibbons cosponsored that allowed to us modernize. The Customs Modernization Act was enacted into law as part of the NAFTA bill.

That has tremendous potential to allow us to move in the direction of modern technique, the paperless entry, of allowing our Customs Service to interact with our customers in a way that facilitates the movement of merchandise that is legitimate, but at the same time allowing us to improve our effectiveness of enforcement.

As we are going about that, we are also completely redesigning our automated commercial system. All of our automated systems now are more than a decade old. It is very important that we work with the automated system, with the Customs Modernization Act, the provisions that allow us to move forward, but coupled with that, there is like three prongs to a triangle. Basically it is the reorganization, the restructuring not only of our organization, not only the blocks on the organizational chart, and we will talk a little bit about that, but also a kind of refocusing on the way we do our jobs.

When we talk about "People, Processes, & Partnerships," the processes were so important. We took a step back as this reorganization team took a look at the work of the Customs Service, and they began to try to identify what are the core missions of the Customs Service, what is it that we are responsible for doing.

And when you look at that, you look at the merchandise processing of allowing cargo to come into the country, also we are very responsible for cargo leaving the country, we were very responsible, as Congressman Rangel has pointed out, for ensuring that we have the integrity of our borders to ensure that narcotics and any contraband does not enter this country, if so, we interdict it before it gets there.

We began to look at the way we did our business in the past and we found tremendous inefficiencies, what we call stovepipes in our organization. From top to bottom, we had separate organizational units. One, the inspectional force, the uniformed officers that you see as you travel, as you enter the country, they were separate from our Office of Commercial Operations, which was separate from our Office of Investigations which does a lot of our law enforcement work.

What you see in this new structure is bringing these stovepipes—taking down the stovepipes, focusing on improving our processes and the way we do our jobs, and doing it in a more efficient and effective way. That is the heart and soul, I think, of what we are talking about here.

The structure is important, and as we improve the structure, for example, when I talk about integrating, we no longer have a separate Office of Inspection and Control in Commercial Operations. We have integrated them together in an Office of Field Operations.

But just in a nutshell, some of the things that we are going to be able to accomplish through the restructuring that we are talking about here, we are going to reduce the size of our headquarters operation by at least one-third, from 1,800 people to 1,200 or fewer. We are eliminating two layers of management that exist now, our regional offices and our district offices.

There are currently 7 regional offices, 45 district or area offices. And we are replacing those two intermediate layers with one layer, and it is a very streamlined layer and it is a layer that we call Customs Management Centers. There will only be 20 of those.

So in lieu of the 52 offices that had been before, there will be 20 Customs Management Centers. But a Customs Management Center will be completely different than anything approaching what a regional or district office had been before. These are designed to be extremely small, lean operations, that are there not to interact

with the public, but there to provide the administrative support to our ports of entry. I think that is one of the most fundamental points of this reorganization.

We made a decision that we are going to maintain every single one of our 301 ports of entry around this country. We are not only going to maintain them, but we are going to build our organization on that foundation. It is at the ports of entry where we deliver our service to the customers. That is where entries are filed, that is where merchandise processing goes on.

And what we are going to be able to do through the streamlining that I have already talked about, is take between 800 and 1,400 people that are currently at various levels of management and administrative support functions, and translate those into frontline positions that can in effect carry out our work responsibility more effectively.

The other exciting new development in our reorganization that I think would be of great interest to this subcommittee is we have created an Office of Strategic Trade. We have never had an Office of Strategic Trade in the U.S. Customs Service. We had historically done our work transaction by transaction by transaction, without interdisciplinary cooperative teams, basically various disciplines passing off from one another, trying to do our best to enforce the trade laws in the way that you have enacted them.

I will be honest with you, we have had our successes, but for the most part, we have not done as good a job in enforcing trade laws as we should able to do. This Office of Strategic Trade will give us the opportunity to take a more strategic focus in the way we carry out that very important responsibility.

The Office of Strategic Trade will be made up of a cross section of investigators, of agents, of intelligence analysts, of inspectors and import specialists, people who will come together not to look at transaction by transaction, but take a step back and look at some very difficult trade problems that have been ongoing for many, many years.

We all know how important the responsibility of the Customs Service is in enforcing our intellectual property rights laws, in ensuring that products that enter this country are not contravening intellectual property rights of domestic owners. That is one we can do better at.

Textile transshipment is a tremendous problem. Many don't agree that we need a textile quota system, but we do have one, and it is our responsibility to enforce them as effectively as we possibly can. We have many instances of products being transshipped through intermediate countries to avoid being counted against the quota of the country that produced the goods. These are the types of problems that we are going to be able to be much more successful in addressing in a meaningful and a fundamental way.

We are going about a very significant change in the Customs Service, Mr. Chairman. We are doing more, as I said before, than just changing the blocks on the organizational chart. We are trying very hard to understand that we as a government agency do have customers and that we have a responsibility to our customers and to the American people to serve our customers better.

I heard a statistic recently, and I would just like to conclude with this comment, Mr. Chairman, that 30 years ago, the American people were asked a question, "Do you think that the government serves you, serves you well, and if given the choice, would do the right thing for you?"

Thirty years ago, nearly 80 percent of the American people answered that question in the affirmative. When asked that very same question today, only 17 percent of the American people have any confidence that their government will do what is right for them. That is what is driving us, Mr. Chairman, to make a difference, to make a change, to respond to our customers.

And we have to appreciate that we have customers, even though we are different than a company that sells products, we have customers with competing interests, we have customers who bring merchandise in and want it to be facilitated and moved quickly, while at the same time we have domestic industries who are customers who depend on us to ensure that the merchandise that comes in, comes in in full compliance with the law.

Often that creates mutually conflicting goals and objectives. But working with our customers, we feel we can't satisfy everyone, but we can let them know that we recognize what their needs are and do our best to accomplish those competing interests.

Mr. Chairman, those are some of my—just off the top of my head comments on my reorganization. I am obviously very enthusiastic and very excited about the direction that we are taking the Customs Service. I feel we have been responsive to the direction of the Ways and Means Committee and the Congress who have been pushing us for quite a long time to get into the 20th century so that we can at least be prepared to tackle the next century, which is almost upon us. I think with your support and help, we are going to achieve that.

I would now be happy to answer any questions you and the members might have.

[The prepared statement and attachments follow:]

TESTIMONY
COMMISSIONER OF CUSTOMS
GEORGE J. WEISE
BEFORE THE
SUBCOMMITTEE ON TRADE
HOUSE COMMITTEE ON WAYS AND MEANS
JANUARY 30, 1995

Mr. Chairman and distinguished Members of the Committee. I am excited to be here this morning to brief the Committee on our plans to build the United States Customs Service of the future. This opportunity to discuss the future of Customs may not have been possible without the encouragement and oversight of this Committee and the excellent work of President Clinton and Vice President Gore in prompting the agenda to create a government that works better and costs less. I also want to thank former Secretary of the Treasury Bentsen for his invaluable support and guidance throughout the period in which we sought to improve Customs and enhance the services it provides to the nation. We look forward to continuing our efforts under the leadership of Secretary Rubin.

I personally want to express my appreciation to the Committee for its guidance and leadership in enabling and encouraging the type of self assessment which will enable Customs to achieve its vision and full potential for service to the Nation.

Mr. Chairman, before I address our blueprint for comprehensive change at Customs, I believe it is important to reflect upon the great achievements by the dedicated and hard working Customs employees. During the reorganization study an executive from the trade community stated "Customs is not a sick organization; you're a healthy organization trying to perform even better". This statement is absolutely on target. Under the guidance of the Secretary of the Treasury and the White House, Customs was able to make 1994 a banner year of tremendous achievements which are leading the way for the type of change we envision through our reorganization plan. Our more significant achievements include:

- being presented by American Airlines with its **American Eagle Award** for the effective partnership that has been developed between our organizations, enhancing both our law enforcement compliance responsibilities and our customer service obligations. This award is very special in that Customs is the first federal agency to receive this prestigious honor.

- receiving several Hammer Awards from the Vice President for exceptional initiatives that carry out the spirit and substance of the National Performance Review.

- continuing to function as the second largest revenue producer in the Federal Government, collecting nearly $23 billion.

- continuing to lead all federal agencies in narcotics seized. In FY 1994 Customs made nearly 20,000 narcotic seizures involving over 204,000 pounds of cocaine, over 2,500 pounds of heroin, and nearly 600,000 pounds of marijuana.

- making great strides in furthering cooperative law enforcement efforts, including completion of a Memorandum of Understanding (MOU) with the Department of Commerce on strengthening our export enforcement goals, and completing a comprehensive MOU with the Drug Enforcement Administration (DEA) on Title 21 cross-designation which will further enhance our joint anti-narcotics strategies.

- implementing the North American Free Trade Agreement (NAFTA) with the publication of uniform regulations, and the training of over 2,000 Customs employees and over 5,000 members of the trade community, and completing implementation of NAFTA compliance measurement approaches.

- establishing an Office of Strategic Trade to consolidate and improve our prevention, detection and deterrance responses to trade compliance issues.

- introducing a trade compliance and measurement methodology across the Customs field structure. This methodology will permit us to assess compliance with the trade laws, estimate any revenue gap between what we collect and what we should collect; and provide the information base to work with industry toward the goal of informed compliance, and to better select the targets for law enforcement actions.

- consolidation of the Offices of Commercial Operations and Inspection and Control as a means of eliminating barriers and to improve cross functional collaboration to pursue mission goals and improve customer service.

- completing another successful year in the enforcement of intellectual property rights violations as one of the critical initiatives in our trade enforcement strategy, with seizures totalling more than $44 million.

- establishment of an Office of Finance and appointment of an Assistant Commissioner and Chief Financial Officer (CFO) to give priority attention to responding to the many identified financial management problems within Customs and making the attainment of a clean financial opinion an organizational priority. We have performed a major self assessment of our financial management operations and systems and developed a comprehensive plan to guide our improvement efforts.

- making significant strides in implementing the provisions of the Modernization Act, which provides the basis for Customs to revamp outdated and inefficient operating procedures, and to simplify and streamline regulations.

- signing an agreement with the National Treasury Employees Union (NTEU), to set the framework for a cooperative working relationship. Our mutual aim is to build the Customs Service into a successful and efficient organization which is responsive to the pressing needs of our Nation, and attentive to the concerns of its employees.

Conducting The Study

Sixteen months ago a 20 person inter-disciplinary reorganization study team, which included representatives from the NTEU and a representative from the INS, was assembled to determine if and how the Customs Service should change. The team was headed by Deputy Commissioner Mike Lane, and I gave them a simple but broad mandate: to design an organizational structure for the Customs Service that would prepare it to meet the challenges of the Nation at our borders in the 21st century.

This team set out to find ways both to improve the performance of the Customs Service, and to meet the future demands of a rapidly evolving world trade environment. They reviewed the latest in management literature to develop a conceptual framework, and reinforced it with seminars on process management techniques by the Brookings Institution. They established partnerships with the Federal Quality Institute (FQI), the Brookings Institution and the National Academy of Public Administration (NAPA) to obtain the expertise residing in these highly regarded institutions. In addition, they met with top executives from several private and public organizations, such as Corning Glass, AT&T, Xerox, General Electric, and Ford, all leaders in re-engineering American industry.

The team received extensive support and information from people across the Customs Service, Treasury Department, the Customs Operations Advisory Committee, the trade community, other federal agencies, and congressional committees to develop perspectives on how Customs operations and management could be improved. Sessions

with our "customers" were conducted on various issues related to future needs of Customs such as the development of an Automated Export System (AES). And finally, the Team maintained close coordination with the Vice President's National Performance Review and Secretary Bentsen. The results of the team's efforts and the tremendous support within and outside of the Administration are both bold and far reaching.

While many of the resulting proposals are directed at Customs organizational structure, the real heart of the effort involves fundamentally changing the management culture of the Customs Service. Also critical to our culture change were the goals of the National Performance Review and the clear direction from Secretary Bentsen for all Treasury agencies to focus on more efficient operations and improved service for consumers. These concepts are all embodied in the slogan "People, Processes, and Partnerships". By this we mean an organization characterized by:

- greater attention to our **people**, working to build a work force to better tap its potential so that it can meet the mission challenges facing Customs;

- managing essential core **processes**, a change that will require integrating the many disciplines within the Customs Service into more coordinated efforts to achieve mission goals; and

- forming **partnerships** with our many customers as a means of improving our mission performance.

Customs has existed as an agency for over 205 years. During that time it has developed a rich and sometimes complicated culture. Changing an institution that has developed over more than two centuries is no easy task. We are well aware that changing the culture of the Customs Service will require a long-term effort, but this is one of the most important and lasting changes which we can hope to make.

In my testimony today I will review with you our

- findings about why change is necessary;
- plans to restructure the agency and produce more efficient operations;
- efforts to institute a more customer-oriented approach to service delivery;
- approaches to pursuing the objective of informed compliance called for in the Customs Modernization and Informed Compliance Act, while maintaining effective law enforcement strategies;
- efforts to manage Customs operations in a more unified way; and
- the progress in implementing the Customs Modernization Legislation.

But all plans must start with a purpose, a unifying vision. Our vision is of a Customs Service that is a customer focused, not inwardly focused, organization; a Customs Service that is flexible and responsive, not one that is bound up in its own rules and regulations; a Customs Service that thinks strategically, not an agency enmeshed in individual transactions; a nimble Customs Service that works quickly and efficiently, not a sluggish giant; and a Customs Service that is striving for 100% compliance with the law, not just imposing penalties for individual transactions that may not comply with regulations. The future Customs Service will be responsive to the needs of its customers; it will be responsive to the expectations of Congress; and it will be responsive to the American people whom we have sworn to protect and serve.

We are talking about a Customs Service that works better and gives the American taxpayers value for their hard-earned dollars. This is the Customs Service we are building today.

A Call To Action: Factors Prompting Change

Our strategic vision arose from the 6 month study we made of our

organization, a study made possible by congressional authorization. By the time we were through, skeptics within the trade community, who felt that we could not do a credible self examination, gave us credit for doing just that.

The perspectives we received from this extensive effort were sobering. As I became Commissioner, after years spent serving the House Ways and Means Committee in its extensive legislative and oversight efforts, I was well aware of the challenges Customs faced in improving its internal management. However, this entire experience was a wake up call to agency leadership for a leaner and more effective government.

These challenges only became more stark as I reviewed again the demands posed by our mission of safeguarding the borders and ensuring that all goods and people entering and exiting the United States do so in accordance with the hundreds of United States laws and regulations that we enforce. We are confronted with

- substantial increases in international trade, travel and tourism, with entries and collections rising by more than 10 percent per year;

- recent passage of GATT and NAFTA resulting in industry demands for increased service because of substantial increases in U.S. trade;

- passage of the Customs Modernization Act, which relieves the agency of obsolete operating requirements, but also provides a new framework for service under the "informed compliance" provisions; and

- the demand for reducing the size and increasing the efficiency of government.

Our self examination revealed that we were not as well positioned to meet these challenges as we would like to be. Fortunately, the oversight exercised from the House Ways and Means Committee over the years has moved us in a positive direction to address our managerial weaknesses. Nevertheless, we still identified a long list of problems such as:

- a trade enforcement environment focused on policing individual transactions without providing the basis for a credible assessment of overall trade compliance;

- a lack of uniformity in Customs application of laws, policies, and procedures;

- an organization characterized by layers and internal barriers that has not been updated in 30 years;

- persistent occurrences of intra-agency squabbling and destructive internal competition;

- a history of adversarial relationships with other agencies and customers within the trade community; and

- the inability to fully comply with the Chief Financial Officers Act and continued weak internal controls despite proliferating internal control requirements.

The Promise of Our Vision:
More Effective and Efficient Service Delivery

Our analysis of these conditions resulted in a broad set of recommendations. These recommendations provide specific benefits to the American public and fall within 4 broad categories:

- Restructured Operations
- Enhanced Customer Service
- Informed Compliance
- More Integrated, Coordinated Operations

I will briefly discuss each in turn.

Restructured Operations - Our mission of protecting the Nation's borders is complicated by the sheer volume of trade and people crossing the borders, and the complexity associated with the broad scope of U.S. trading activity. The volume of trade and border crossings continues to grow substantially each year. Further, we face the task of attempting to thwart the constantly changing drug smuggling schemes of the international narcotics cartels.

Under the Administration's reinvention principles and our own reorganization proposals, we believe we can meet these challenges without continually requesting additional resources if we have the latitude to reduce overhead and reinvest resources into front-line operations at the ports of entry, and in state-of-the-art information systems and technology. Consequently, our reorganization calls for

- a major effort to reduce Headquarters staffing by approximately 600 positions, or by one third of its size. Since I have become Commissioner, we have already achieved a reduction in our Headquarters staffing of 132 full-time positions and 27 other than full-time positions or approximately 25% of our goal;

- reducing management layers from 4 to 3 by eliminating 7 regions and 42 districts and replacing them with 20 management centers;

- reinvesting personnel from Headquarters, regions, and districts into operational positions which will enhance our ability to be responsive to our customers for the type and quality of service they demand and deserve;

- reinvesting other resource savings realized through our restructuring efforts and systems improvements toward the resolution of global trade issues, providing increased attention to ensuring voluntary compliance with trade laws through enhanced informed compliance efforts, improving the use of information technology by building on and enhancing Customs Automated Commercial System, and providing the employee training necessary to implement process management and customer focused approaches to our mission;

- flattening the organization by moving from the current supervisor to employee ratio of 1:6 toward a goal of 1:15; and

- developing the cost accounting systems necessary for improved analysis of the cost of operations.

Enhanced Customer Service - Our commitment to business process improvement techniques is grounded in an understanding that we can achieve improved mission performance through more effective working relationships with our customers, which include Customs brokers, importers, domestic business interests, and other federal agencies. Customer service does not mean pleasing all of our customers every time. That is impossible because our customers often have very conflicting interests. Instead, we want to maintain an ongoing dialogue with our diverse customer base to gain perspectives on how we are performing. We can and

do learn from those perspectives; they will enable us to fine tune or re-tune our operations and law enforcement strategies when appropriate. They will enable us to be the more flexible and responsive organization we envision.

We are already doing rather well in that regard. We believe we have a strong reservoir of support within the trade community for our reorganization efforts and our outreach efforts which are designed to educate and involve the trade community in all aspects of Mod Act implementation. Last year, we invested almost 550 hours in Mod Act meetings with various trade groups and the general public.

We are proud that the National Customs Brokers and Forwarders Association of America, Inc., after having participated in numerous Mod Act implementation meetings with representatives from a broad cross-section of Customs constituents, was able to state in a letter to this Subcommittee:

> "We also want the Committee to know that the Customs representatives have been listening and action has been taken in accord with many of the recommendations of the private sector. While everyone cannot be completely happy with any results reached, no group should feel that they have been ignored."

But we have only begun this transformation, and our reorganization will maintain and strengthen customer service through:

- strengthening our 301 ports of entry where the actual mission services are delivered to our customers;

- creating an Office of Strategic Trade to enhance our ability to address and attack the major trade issues facing the Nation and its key industries;

- instituting a new management approach based on defining core business processes and the development of a portfolio of management tools to continuously measure and improve enforcement, compliance, and customer service;

- developing customer service standards; and

- enhancing performance measurement to ensure that we are improving our ability to deliver services uniformly at our 301 ports.

As an example of how we plan to work with our customers, let me use one of our current efforts to define the way we will handle the overall processing of imports within the future environment made possible by the Customs Modernization Act. Headed by our first business process owner, a high level team has defined what we call the Trade Compliance Process as beginning before importation and ending with the archiving of import entry data.

Early on, the team recognized that the internal processing that we are currently performing within Customs is of little concern to the business community or other federal agencies who rely on Customs to nforce their laws. Of interest is whether we can expedite the processing of imports while providing a reliable means of assessing compliance with applicable law. Therefore, in keeping with our intent to establish effective partnerships, we are conducting extensive interviews around the country with representatives from the trade community to ensure that their needs are identified and perspectives incorporated into the detailed proposals we are developing. We are also coordinating with other federal agencies to develop approaches to meeting their information needs in support of enforcement objectives while imposing the minimum reporting burden possible on the importing community.

Informed Compliance - The issue of informed compliance is the driving principle for success to effectively and efficiently deliver on the promise of enhanced customer service. The Customs Modernization Act calls for Customs to pursue a policy of seeking informed compliance with the trade laws, imposing greater responsibilities on the importing community for record keeping and for filing accurate entries. We are proceeding toward this objective on two coordinated fronts.

First, we are implementing an extensive compliance measurement system using statistical sampling methodologies. Such a system will provide credible indicators of compliance with applicable laws by tariff classification and for other important activity areas. Armed with this information, we can direct our efforts to improve compliance levels for those areas deemed to represent the greatest risk in terms of threat to our key industries, to the public health and safety, or in terms of loss of revenue. This provides tangible benefits to compliant businesses because they will receive the minimal scrutiny required to test their continuing compliance. This compliance data is fundamental to how we plan to achieve the Mod Act goal of informed compliance.

An example from some of our recent Compliance Measurement efforts may help illustrate how we can work with industry toward the goal of informed compliance. During recent textile compliance measurement tests, inspectors and import specialists in one of our Districts detected an alarming rate of non-compliance. Our analysis attributed the problems to 1) lack of importer and broker knowledge of classification principles; 2) inadequate invoices and general failure to follow invoicing regulations; 3) shipping errors on the part of the exporter (quality discrepancies); and 4) broker carelessness in preparing Customs documentation. Extensive education and meetings have been conducted with the top two violators. General compliance has been improved due to the Customs proactive response to the compliance measurement test results.

Secondly, the central thrust of our plans for the Trade Compliance Process is built on the ability of the compliance measurement methodology to help us move toward informed compliance. Our view of the future calls for shifting our resource allocation away from the current heavy emphasis on the verification of entries through inspection and review of importation paperwork toward greater emphasis on working with major importers so that we can rely on their internal control processes. In this way, we will minimize the costly and time-consuming inspection of individual transactions.
Thirdly, our base of strategic trade information will enable us to better select and target violators of the trade laws for law enforcement actions where voluntary compliance methods do not work.

More Integrated, Coordinated Operations - This last category is really a means to achieve the service delivery objectives described above. But it is so fundamental to our efforts to address past criticisms of Customs that I want to discuss it. Our reorganization will improve our abilities to function as one united Customs Service in a variety of ways. These include

- a reliance on business process improvement techniques to develop new processes that cut across disciplines to deliver effective and efficient service to customers;

- an organizational structure that emphasizes cross-functional collaboration to pursue mission goals;

- building a partnership with the National Treasury Employees Union (NTEU) to create an environment conducive to employee growth and enhanced mission performance;

- a restructured Headquarters to strengthen our focus on strategic planning, financial management, and human

resources management; and

- creation of an Executive Improvement Team of 11 senior Customs executives and the President of the NTEU to provide the strategic leadership for the entire cultural change and reorganization effort.

Let me again use the Trade Compliance Process redesign effort as an example of how we are doing business differently now. I think it is significant to note that as the process owner and his team began their work, they found more than 35 task-specific headquarters groups addressing such trade-related issues as the Modernization Act, NAFTA, fines and penalties, trade enforcement, revenue, rulings, and many more. These groups were separately chartered and working away, often oblivious to the implications of the work of other groups with related interests. Now, under the process owner, Customs has a comprehensive coordinating mechanism for ensuring the integration of these diverse efforts. The sheer dimensions of Customs operations make for an imposing coordination challenge. Nevertheless, that effort is now underway and should produce a comprehensive proposal for the Trade Compliance Process of the future by October 1995.

We recognize, however, that irrespective of new methods for insuring compliance, we must also maintain an effective enforcement and deterrent mechanism for those occasions on which trade or other border related laws are broken. The reorganization would allow us to put more personnel and resources at the border. In addition to being there to help those who wish to comply with our trade laws, those personnel and resources will be there to help catch those who choose to break the law. Of course, this heightened law enforcement presence also will be extended to our anti-smuggling duties at the border.

Mod Act

Before I close my statement, I think some additional comments relative to our efforts to implement the Mod Act may be useful. First, it is important to assess implementation progress within the framework that the Act establishes a partnership between Customs and the trade. It also recognizes that importing is a very complex business and that importers need help in interpreting and complying with the law rather than Customs previous practice of pursuing importers for their failure to comply with ill-defined requirements.

Between the December 1993 enactment and mid-December 1994, Customs has devoted much of its focus on meetings with trade groups and the general public. These opportunities were twofold: first to provide educational opportunities for a complex Act, and second to seek inputs and ideas for the design of the very procedures and regulations which need to be developed for full implementation. Although progress is slower than we would like, we believe the regulatory process is proceeding reasonably well. We have achieved implementation in several areas. These successes were not dependent on new systems development or regulations. They include:

- New liberalized drawback provisions
- New protest appeals procedures
- New 592 duty demands procedures
- New seizure/detention requirements
- New regulatory audit procedures
- New rulings revocation/modification procedures

From all accounts our efforts at involving the trade community in our implementation efforts have been beneficial for us and the trade seems pleased with them. It has enabled Customs to identify implementation priorities and capabilities from the perspectives of both interests. Some of the provisions that the trade have identified as more critical are remote location filing, reconciliation, record keeping, and penalties in the context of reasonable care and informed compliance. Recognizing these trade critical priorities, Customs will continue to place its emphasis and resources on their expedited implementation.

To provide the trade community at large with an opportunity to respond to modernization-related meeting invitations, concept papers, and draft regulatory documents, Customs makes it a standard practice to post such documents on its electronic bulletin board. To further expand the distribution and minimize trade costs in obtaining these documents, Customs also makes them available to ACS users through its Administrative Message System. We currently are reaching over 2,000 interest groups on a regular basis through these electronic systems.

In areas where new legal changes must be blended with major policy changes, Customs has and will continue to provide the trade community with concept papers for review and comment prior to regulation drafting. From March to December 1994 six comprehensive strategy papers for implementation have been provided to the trade for review and comment. These include:

- Importer Activity Summary Statement (IASS)
- Reconciliation
- Revitalization of record keeping requirements
- Records that must be maintained and produced
- Remote filing
- Reinventing the penalty and liquidated damages program

It must be remembered that Customs is attempting to simultaneously reorganize, implement the Mod Act, make changes necessary to fully comply with the Chief Financial Officers Act, the Government Performance and Results Act (GPRA), redesign our automated commercial system and fully implement the NAFTA and GATT legislation. To say the least, this is a challenging task! Our overall theme is "Do it once and do it right". In the past Congress has criticized Customs for not involving the trade in developing new procedures and for acting hastily without coherent, sufficient, and comprehensive planning. Indeed, the Mod Act contains specific provisions which mandate periodic reports to Congress to insure that we are complying with these mandates.

Perhaps the best way to understand our management approach to dealing with all these changes is to envision a triangle -

- one side being the Mod Act legislation that gave us the legal flexibility, in partnership with the trade, to redesign our procedures to deal with "modern realities".
- one side being the reorganization effort that focuses on the various "processes" and the people rather than just the organizational structure. These redesigned processes are defined in close "partnership" with the trade, the NTEU and our personnel.
- the final side is our automated redesign effort (the Automated Commercial Environment (ACE) project).

First we must define user needs and then we must redesign processes. To accomplish these tasks requires extensive input from the trade, the Mod Act group, and the ACE project. Key members of each group are on the management committees of the reorganization group to insure complete project integration.

Clearly, we cannot write regulations or do computer programming until we decide specifically what it is that Customs needs to do. That sense of mission has been better defined through the reorganization effort. Unfortunately, we could not begin the reorganization process until a statutory prohibition was removed. Various assessment teams are now conducting their evaluations with final recommendations due this summer. At that point the ACE team can finalize their programming schedules. We expect to have the detailed programming estimates available by the end of calendar 1995.

During Mod Act negotiations we estimated that it could take us up to 3 years from passage to complete all the programming. Since we are now going well beyond the changes mandated by the Mod Act,

our current estimate is that it will take up to 5 years (end of FY 99) to have all the redesigned programming implemented.

The Mod Act is an important tool for the modernization of the Customs Service and along with our reorganization initiatives we are positioning ourselves to achieve quantum leaps towards this important modernization effort.

Conclusion

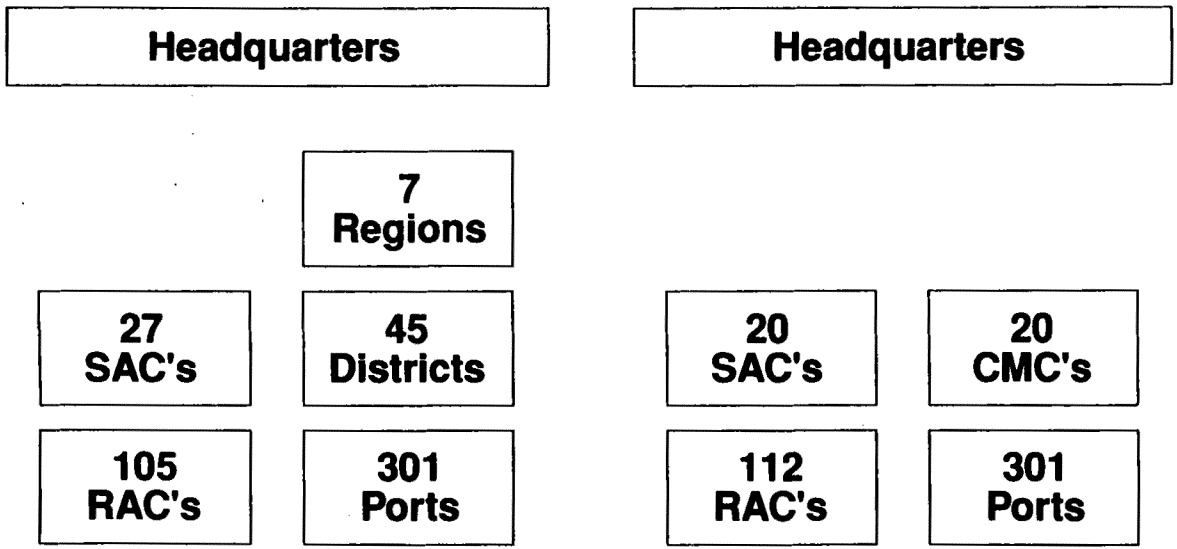
I know that the Customs service is proceeding in the right direction. I also know that achieving the vision we have for the Customs of tomorrow will not come easily. We face many difficult challenges. But I am guided by a simple goal to leave the Customs Service--**the best agency in government**-- an even better agency when I leave. That is the legacy I wish to pass on to the citizens of the United States, and I welcome this Committee's continued support to us in making this goal a reality.

Mr. Chairman, we would be happy to answer any questions you may have.

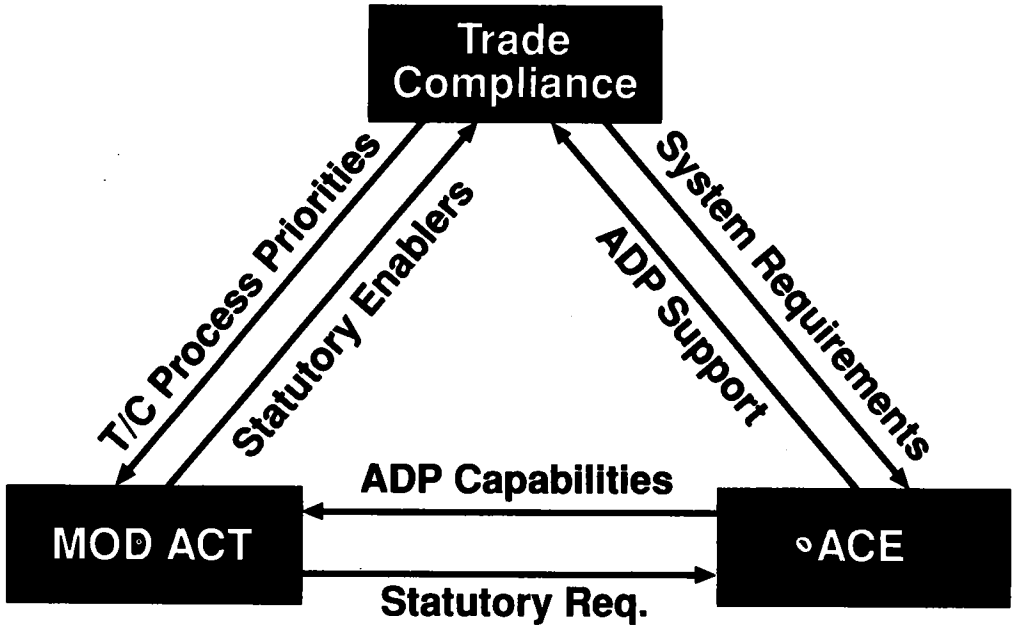
A Vision of a New Customs Service

FROM	TO
Inward Focus	Customer Focus
Rules & Regulations Bound	Flexible & Responsive
Transaction Focused	Strategically Focused
Sluggish & Bureaucratic	Quick and Efficient
Revenue Driven	Information Driven
Making Seizures & Arrests	Seeking Informed Compliance
Functional Stovepipes	Integrated Operations

Reducing Layers of Management



Integration/Coordination of Customs Modernization



Chairman CRANE. Thank you, Mr. Commissioner. When will the key elements of your reorganization be operational?

Mr. WEISE. It is happening in several phases. And first of all, Mr. Chairman, before we can implement any of our field restructuring, under a law that I am somewhat familiar with because I helped craft it when I was on that side of the dais, there is a requirement that the Customs Service notify the Ways and Means Committee and the Senate Finance Committee at least 180 days before implementing any field restructuring that changes the number of people in various offices.

That law was created as a very reasonable response to the House and Senate appropriating committees, which for several years actually prohibited the Customs Service from even studying reorganization. So we made that notification to the Ways and Means and Finance Committees on September 30. It means that none of the field restructuring can occur before March 30.

I will assure you, however, Mr. Chairman, that we don't intend to do any of our field restructuring until October 1. We built in another 180-day cushion, so that if there are problems, that we can address those. But we are beginning to put in place our headquarters restructuring.

As I said earlier, we built this organization from the ground up, from the 301 ports of entry. That is the foundation. But we are trying to implement it from the top down. We have already put in place all of my new key managers. We have put together an executive improvement team. We have put together a process owner for the cargo process, which is already—who has already begun to put together a team and traveled around the country, meeting with the trade community and trying to streamline and improve the way we do our business in the cargo area.

But it will be October 1 when you will see the elimination of regions and districts and the substitution of the Customs Management Centers. The Strategic Trade Centers will become fully operational on October 1. But right now, we are prototyping in New Orleans and in San Diego two Customs Management Centers and we are prototyping a Strategic Trade Center in Washington, just to get some experience before we become fully operational.

Chairman CRANE. So you might anticipate then when we have these hearings next year, that it will be completed?

Mr. WEISE. I think that the structure will be fully in place and we will be well on our way. Much of what we need to be doing, Mr. Chairman, involves culture change, and I think we are going to be still in the midst of changing our culture as we go forward 1 year from now.

But I think you will find, just like if you compare us today with 1 year ago, you will see tremendous progress toward making that culture change, and you will see customer service standards which will be put in place in consultation with our customers, standards that we hope to be held accountable for.

Chairman CRANE. There is a perception that ports located near a Customs Management Center will have an advantage over ports that aren't in close proximity to one.

Could you comment on that?

Mr. WEISE. Mr. Chairman, I am so glad you asked that question. I meant to raise it in my opening statement. In the interest of brevity, I didn't. One of the biggest frustrations I faced in trying to put this reorganization into place is the misunderstanding about what a Customs Management Center is and what it does.

What we have is a situation, as all of us know from experience in past attempts at reorganization in the Customs Service, an instinct that an office that currently exists must be maintained at all costs. One of the reasons that we structured our Customs management in the way that we did is we knew that there would be pressure that be brought to bear politically for any office which had heretofore been either a district office or a regional office, to say I don't want to just be a port of entry now, I want to be whatever there is in between.

And that is the problem I have had as I traveled around the country meeting with the trade community, trying to get people to understand what a Customs Management Center is and how it doesn't serve them as a customer. A Customs Management Center initially will have 20 or fewer people. We are going to try to make it closer to 10 or 15 as we improve our administrative process.

A Customs Management Center is there, as I said before, to serve two very important functions. The one function they serve is to provide administrative support, payroll, personnel, equal employment opportunity issues, those kinds of things. That is what the bulk of the work of the Customs Management Center will be.

Second, the Customs Management Center will have a responsibility to ensure, as we move to process reengineering and process improvement, that they will be trying to ensure that our ports of entry, which is where we deliver our product, are carrying out our processes in an appropriate and uniform way. So they will have some interaction with our ports of entry to ensure that we are serving our customers well.

They will be responsible for being a coach and a guide to our ports of entry, to help them ensure that they are serving our customers and carrying out the responsibilities appropriately. But if problems occur, if something goes wrong in the port, a Customs Management Center director is not the person to fix the problem.

We are trying to empower at the lowest possible level, at our ports of entry, the port directors to be able to resolve those problems. If they can't be resolved in a port level, then we will resolve them in a headquarters level. So having a Customs Management Center proximate to your port of entry will have no bearing on our ability to be able to serve our customers.

No entry will be filed at a Customs Management Center, no protest will be brought to a Customs Management Center. A Customs Management Center is an internal, inwardly focused organization. And what I am having as a problem, Mr. Chairman, is that some of the locations that have received Customs Management Centers, because we placed them where they are most proximate to the most Customs employees because of their administrative support role, the cities that have received them have been touting them, you know, saying come do business here because I am a Customs Management Center.

That creates real problems in other cities that didn't get them, saying I have got to have one of those because my competitor has one of those. I think one of the most constructive things that could come out of these hearings, Mr. Chairman, is getting as clearly as we possibly can on the record that anybody who touts a Customs Management Center as being able to serve a customer better, is being dishonest. And anybody who feels that they can't be served as well because they are not proximate to a Customs Management Center, is ill informed.

And I am going to do everything in my power to continue to work with the trade community to get that message across as loudly and clearly as we possibly can. But that is kind of our Achilles' heel thus far, in moving to this reorganization.

Almost universally, people have looked at our reorganization and said this is the right approach. And it just gets down to the problem that people say, as long as I can have one of those Customs Management Centers, I am with you 100 percent, move forward, young man. That is the problem we have to overcome.

We have 20. If I had to do it over again, maybe we would even try to have fewer. As we improve our process, as we streamline our ability to serve our administrative functions to our internal customers, I hopefully can reduce the size and number of Customs Management Centers in the future, and hopefully after we have had some experience with their operation, we will gain some credibility that they really don't have any bearing on the way we serve our customers.

Chairman CRANE. Well, I thank you very much. And I don't want to monopolize unduly. I have some additional questions that I will submit to you in writing.

And at this point, I yield to Mr. Thomas.

Mr. THOMAS. Thank you very much.

When the Chairman asked if anyone wanted to give opening welcomes to you, George, I refrained because I knew I was in the new regime, I get to talk to you right away.

Mr. WEISE. My feelings weren't hurt.

Mr. THOMAS. In a positive way, can I see a show of hands of everyone who is with the Customs Service here today.

OK. Who turned the lights out?

No, it is an exciting time, and it is good that you are here, sharing this finally begun-to-be-realized change. And I haven't been here all that long, but I have sat through a number of people who talked about the obstacles to making this the kind of service that you indicated it was and it should be.

The question that I have is just a focusing one so that you can explain to me the thinking that you went through. Obviously you are anticipating a NAFTA and a GATT which changes, I guess—flow through ports and you have hung onto the 301 ports. You talked about your strategic trade, which I think is a good idea, so you can anticipate these larger areas.

But if you call that strategic, I need you to talk to me a couple of minutes about tactical, if you will. How are you structuring yourself for mobile response teams? If you keep the 301, and clearly you already had a significant difference in activities at the 301, do you

anticipate—I mean, I guess it was partly for PR reasons you kept the 301. If it wasn't, I need to know that.

And if there is not a rationale for moving or changing, why not? How do you anticipate shifting loads where you weren't prescient enough to anticipate them? What kind of flexibility do we have?

Mr. WEISE. OK. Let me answer that in a couple of different ways. First of all, the decision that was made to keep 301, believe it or not, was actually recommended to me by the reorganization group that we put together to study it.

When I first took this position, as I was traveling around talking about the need for reorganization, one of the things that I talked about is one of the examples as to why we need to reorganize. I used as an example that the workload criteria that we have in place to create a new port of entry, were it applied to our existing port structure, nearly 40 percent of the ports of entry would not be eligible.

Mr. THOMAS. Hence my question.

Mr. WEISE. So I expected there to be a recommendation to consolidate. But what happened is we started reaching out to some of the outside groups for advice. And the Brookings Institution, the Federal Quality Institute, the National Association of Public Academy, they started talking to us and they said, wait a minute, you know, you are supposed to be talking about serving customers better. Closing down and removing yourself, your complete presence, from a location, is that really customer focused?

Why don't you take a harder look at your structure and your layers and your management and see if you can't establish a mechanism that would allow you to keep those ports of entry in place, while at the same time coming up with savings that would allow us to serve customers better?

Frankly, that was the recommendation that came out of the group. I was prepared to take on the fight. And it would have been a difficult fight, as illustrated by just this Customs Management Center issue, and I am not moving people out. So that was the reason that we maintained our 301 ports of entry.

There still is considerable pressure coming out of the Treasury Department that perhaps we ought to do this in two steps, let's get this in place, let's take a look at the way we are able to do our business through these 301 ports of entry. And we are constantly getting pressure to add new ports of entry, so we may need to rationalize the ports of entry in the future.

What we are hoping to do, as we improve our progression, the way we carry out our functions, for example, some of the tools that you gave us through the Customs Modernization Act, to allow us to do remote entry filing, for example, as we get into national entry processing, it doesn't become as relevant that we need to have so many people in each place. Because you can have merchandise that comes through San Francisco, and have the entry made in Houston, if that happens to be where your corporate office is, where your expertise is.

As we improve those processes, we are going to be able to rationalize the location of our people more effectively. As we are reducing layers, we are already going to be able to reinvest our resources into these new offices of strategic trade, into other areas, particu-

larly in the frontlines. I am hoping we will have more people and we will be doing—the other important thing is we are going to be doing work measurement.

As we can see where the demands for our people are the greatest, we are going to do the best to make sure that is where we allocate those resources.

And the final thing I want to say, we tried to work this all—we call this People, Processes, & Partnerships, and we tried to be very somewhat, you know, what is the word, very structured in the way we put forth our process. But as we went to that, we saw that you can't do everything as process.

One of the important things that we learned as we talked to a lot of folks from the outside world, is that we need to be good at problem solving. And that is one of the things, to deal with some of the problems you raised, putting together, we have got problem solving teams that come together.

An example is the narcotics smuggling on the southwest border. We have had a tremendous pressure recently put on the southwest border because of the effective deterrent that the Immigration and Naturalization Service through their border patrol has done, by putting their Operation Hold the Line in place, where they have put their border patrol all across that border, discouraging illegal immigration between ports of entry.

What that has done is put a tremendous pressure on the ports of entry for narcotics smuggling. And it has resulted in a particular type of narcotics smuggling which is very troublesome. It is called port running. Individuals with narcotics visible in their trunk, they don't even try to put in secret compartments, their trunks are loaded with narcotics, they come to the inspection station, the inspector says, please open your trunk. As soon as he says that, they put the accelerator to the floor, they run over anybody or anything who happens to be in the way, causing great threat to human life, as well as to the local cities along that border.

We put together problem solving teams to go in there and try to address that problem. We've come up with, I think, some tremendous approaches, both structurally, by putting some barriers in and working with local communities. But we need to do more of that. Problem solving teams that are flexible and fluid can go to where the problems are, and we are well on our way to solving that particular problem and moving them into another area.

Mr. THOMAS. Thank you very much, Mr. Chairman.

I just want to say, George, that you should never be apologetic for being enthusiastic about an area which, when you do it right, nobody pays any attention to you, and when you do it wrong, you are on the front page. Our goal is to make sure that we are never on the front page.

Chairman CRANE. Mr. Rangel.

Mr. RANGEL. Not that it really matters, but does New York City get a Customs Management Center?

Mr. WEISE. It just so happens that New York is one of the largest locations where there are a great number of Customs employees, which made it necessary to put a Customs Management Center there. But if you would like me to move it, I would be happy to consider it.

Mr. RANGEL. Since you have already done it, you might as well let it stay there. What in fact, if any, have these changes made on the morale, the pay or the titles of the employees?

Mr. WEISE. Mr. Rangel, any time one embarks upon a restructuring as dramatic as the one we are going through, there is going to be anxiety. And I can't hide the fact that there is tremendous anxiety within the organization, people wondering and fearing what does this mean to me. The only thing I can say is that we take very seriously the fact that this report is entitled "People, Processes, & Partnerships." And that first P is without accident, the people of the Customs Service.

I made a commitment that we are going to do everything humanly possible to take care of the people in the Customs Service. And by that, I mean help them to be absorbed into our new organization as painlessly as possible from the old organization. And by that, I mean we are going to try our best to keep people in the very same cities in which they are currently operating, to the extent we can as close to the same job as they possibly can.

If they would like to go to where their function moved, if their function for example moved out of their location, we are going to try do everything we can to retrain them and help them relocate. It is expensive to relocate people, but we are going to try our best to do that.

One of the things that I am most proud of, and you will be hearing later this morning from Bob Tobias, the president of the National Treasury Employees Union, I recognized when we embarked upon this initiative that it was going to have—cause some anxiety to our people. And I sat down with Mr. Tobias and talked about the ideas.

As a matter of fact, before we could even begin this, we had to sit down with the appropriating committees and get them to remove that provision of law that was in their appropriation bill every year, frankly, with NTEU's support, not allowing us to even study our reorganization. We have been working together.

We had two representatives of the National Treasury Employees Union as part of the original reorganization team. They have endorsed this plan. I think it is in the best interests of all of our employees, but there still is anxiety. So we have done everything in our power to try to communicate as effectively as we can.

We are constantly communicating through E-mail messages. We have a broadcast network within the Customs Service now where I can go on and have questions come in from around the country. I have done that on a number of occasions. We have traveled around, town hall meetings and meeting with our people. We are trying our best to help them appreciate and understand.

And unlike most other reorganizations that have taken place that I am aware of, where people are being pushed out the door, thus far all the way through OMB now, we have been successful in getting them to appreciate and understand that this is a reinvestment strategy, that the people and the positions that are freed up through the savings that we create, through reduction of headquarters, elimination of regions and districts, doesn't mean that is that many people that you can take off your rolls.

Because the Customs Service is—pressures are mounting. The volume of trade is increasing. The responsibilities are getting more complex. We just implemented the NAFTA and the Uruguay round is being implemented now. The responsibilities are greater.

So far, we have been given the endorsement that we can reinvest these resources back into more effective, efficient utilization of these people within our agency. Now, budgets are tight, you know, we have to be fiscally responsible. We may need to absorb some cuts in the future, but thus far, there hasn't been a connection of people cutting to this reorganization. We still have to absorb our reductions just like any other Federal agency, but thus far we have kept it as we are not cutting people because of this. So that has been a success.

Mr. RANGEL. Are you getting the full support and cooperation of the U.S. Treasury Department?

Mr. WEISE. Yes, I am, sir.

Mr. RANGEL. And what obstacles, other than the ones that you mentioned about people who are not getting the centers, what major obstacles are you facing in the reorganization and how can the committee help?

Mr. WEISE. Well, I am pleased to report, Mr. Rangel, that that is the first, second, third, and maybe fourth, fifth obstacle. If I can overcome the CMC issue, I think people believe in what we are doing. I have been very delighted that the Vice President, National Performance Review, has spoken highly about the direction that we are taking the Customs Service. Matter of fact, they have used the Customs Service as an example for other agencies to hold up to, to see what direction they can move.

We have gotten, I have seen copies of statements that you have received from some of the institutions that helped us, Brookings and the Federal Quality Institute and others. Our customers, I think, are pleased about the direction we are moving.

I guess the biggest frustration that I have seen expressed from our customers is that the provisions of the Customs Modernization Act have not been implemented quite as quickly as they or perhaps I would have liked.

But if I could just address that point for a moment, Chris and Frank remember this well, that one of the concerns when we were putting the Customs Modernization Act together over the years, was that the trade community felt there was a long history of the Customs Service moving too quickly to implement before they really understood exactly what it was they were implementing. They didn't lay the foundation. And as a consequence of that, we ran into all kinds of problems with the trade community saying, you know, we weren't ready, your computers weren't compatible, our programs had to be rewritten, and they keep surprising us with these things.

So built into that law, that provision I think Chris had a lot to do in drafting, was a provision that required us to really reach out to the trade community to ensure that we laid the appropriate foundation. If we erred in this process, we are erring on that side, of making sure that we pull all these things together.

We can't move too quickly to implement the provisions of the Mod Act and the automated system redesign when we are still re-

designing our fundamental processes. The three have to come together. And it has slowed us down a little bit, and I think there is some concern about that, but for the most part, I think you will find that our customers believe in what we are doing, they understand that at the end of this road we are going to do it once and do it right and we are all going to be better served as a consequence of that.

All I can say is I need you to talk to others, when you hear people talking about needing a Customs Management Center, to let them know that we are moving in the right direction and those Customs Management Centers are silly little things that don't have any impact on customers.

Mr. RANGEL. Thank you.

Thank you, Mr. Chairman.

Chairman CRANE. Thank you.

Mr. Zimmer.

Mr. Hancock.

Mr. HANCOCK. My comments will be real brief.

I would like to point out that a lot of people think of Customs primarily as merchandise importing and exporting. About 3 years ago at a hearing down in Branson, Mo., one of the main things they talked about down there was tourism. And they talked about some of the problems that they were having at the ports of entry with the Customs Service processing people back into the United States. It seemed like traveling from the United States to foreign countries was easier for them than when they were coming back.

I hope as part of this reorganization that your group will recognize that tourism is big, big, profitable business to the United States. These foreigners are coming in with their money, and we want them to stay here long enough to leave their money. We want to treat these people as guests of the United States and make them welcome, rather than creating any difficulty as they are processed in.

I appreciate any work you can do in that area.

Mr. WEISE. Mr. Hancock, I am pleased to respond to that. I think we are moving in the right direction. Years ago, when a traveler came back into the United States, particularly an airport, you had to stand in two lines. You first had to stand in the Immigration and Naturalization Service line to make sure that your passport and your credentials were all well and in order. Then you stood in a second line for the Customs Service, to make sure any merchandise you brought back was properly declared, et cetera.

We have reengineered the passenger processing system over the last several years, and we are still working on it. But what we decided a long time ago, is that it wasn't very efficient, effective, and it certainly wasn't very consumer friendly, to have people standing in two lines. It didn't help tourism in any way.

So what we decided to do quite some time ago is in effect cede the primary inspection lanes to the Immigration and Naturalization Service. If you feel, and they do feel, they still have to interrogate every single person that enters this country, you do that. We are going to find some creative new ways to do our job.

And we started working with the airlines and the carriers, and we came up with something that is called the advance passenger

information system, which allows us through passport readers, which we provide to the airlines at our cost, to have—before the passenger even gets on the plane, the passport is read, information is provided.

We have people who are doing analysis of all the passengers on the airline, and we come up with selected targets of people who maybe need to have a little more scrutiny than the rest of the people. We also came up with a concept, what we call roving, where we have roving inspectors.

As people are getting their luggage, some uniformed officers, some nonuniformed officers, are walking around, some with passive canine dogs that are drug detecting dogs. So the point is that you only have to stand in that line once. We have found that as we now are examining many, many, many fewer passengers than we ever talked to before, our enforcement results have dramatically improved. So we are working smarter, we are working much more effectively, and we are trying our best to serve our customers.

Mr. HANCOCK. Thank you.

Chairman CRANE. Mr. Coyne.

Mr. COYNE. Thank you, Mr. Chairman.

Commissioner, I appreciate your testimony. Pittsburgh and Philadelphia, as I understand it, are going to be a part of the south region CMC. And some of the people in the Philadelphia port, in spite of your very eloquent explanation of CMCs not being invasive of the function of the ports, there are still some concerns about that.

I was wondering if I could submit some questions to you for the record that you might be able to respond to, that would alleviate their fears, as I am sure they would be alleviated if they heard your explanation here today.

Mr. WEISE. I would be happy to respond to those for the record.

I would also like to report to you I did go to Philadelphia, I met with a wide cross section of the business community. We have continued those discussions. We had some of the people come down to Washington. I think that they are slowly, grudgingly, becoming more conversant in what this means to them.

And one of the things that they want to see is clear evidence that we are going to follow through on those frontlines. And they are looking to see, are we going to be filling those vacancies in Philadelphia. And we have a vacancy in our district director, which will be a port director position. We are working to get a top quality person there.

And I think that the people there have been extremely responsible in working with us in a constructive fashion to try to really deal with this problem. Their biggest fear is twofold. One, that others are going to advertise, you know, like I said before. Second fear that they raise, and it is a common fear that I have heard in other cities that didn't become Customs Management Centers, their fear is that someone is going to come in after me to be the Commissioner of Customs that is going to take this structure of Customs Management Centers and make them something completely different than what we are talking about now.

That is a more difficult one to address, because it is something that is out of my control. My response to that is, why don't we work

together to really put these in place and make this system work through the ports of entry, and make it so well entrenched and working so well to be customer friendly, that nobody could possibly without political suicide try to undo it in the future.

But I appreciate those questions. I will be more than happy to respond on the record, and we are going to continue the dialog with the people in Philadelphia and Pittsburgh and all the areas that have to be served through Baltimore.

Mr. COYNE. Very good. Thank you.

[The responses to Mr. Coyne's questions appear in the responses supplied by Customs beginning on page 82.]

Chairman CRANE. Mr. Houghton.

Mr. HOUGHTON. Thank you, Mr. Chairman.

Commissioner, good to see you here. Thanks very much for appearing.

When you reorganize, there are two impacts. One is internal, the other is external. You have really described the internal. What you are going to do is you are going to save money, you are going to cut administration, you are going to fan out and have a flat organization, you are going to keep the centers and—I mean the 301 ports of entry, and try and do a better job.

The other—the other is really what does it do for the customer? And you talked about the Customs Modernization Act and some people felt that you haven't been doing that or implementing that fast enough. And also in your testimony you talk about customer-responsive and state-of-the-art improvements. You know, look out a year or two.

What does this do for the people that you affect, not just the internal organization? What does it mean? Why is it good?

Mr. WEISE. You are going to be hearing from some of them today. Hopefully they will elaborate on this. But, Mr. Houghton, I think we are going to be able to deliver in the next year or two, particularly if you give us the second year, too, that within 2 years I think you are going to see such dramatic change in the way we serve our customers.

Several things are going to be going down. One is we are going to be sitting down with our customers early in the process and setting customer service standards. We have done this in the air passenger area, and I should have raised this with Mr. Hancock's question, where we have committed to several things.

We have got five standards which we now display in all of our large airports. We commit, for example, that within 5 minutes after you get your luggage, you will be cleared and out of the processing area. We also commit that if you have a problem, there will be somebody there, we call a passenger service representative, who will listen to your problem immediately, and within 3 days, you will get a response if you have got a problem that can't be rectified on the scene. We are trying to do the same thing in the commercial arena.

What is a reasonable expectation of time for us to complete our work and what are reasonable measurements of what our success is, both in serving our customers and our passengers, but also not losing sight of the fact that we need to be measuring our results in the enforcement arena.

And one of the things that I think is the most significant, dramatic change that has happened to the Customs Service in many, many years, is in the commercial arena. For the first time we are going to be able to tell you and tell this committee and tell this Congress what is the overall compliance rate in virtually any product or commodity that you want to ask me about.

In the past, Customs Service worked on hunch and intuition. We think that automobile imports are highly compliant. But these other products, we got problems with. We never could tell exactly how compliant they were. We have been pushed in the right direction, again by this committee and by the General Accounting Office, to say that is not good enough. We need to know.

So we are—we have done a pilot program over the course of the past year, of about 20 major commodities, where we have, through stratified sampling, done complete examinations after the fact where we have been able to put on those 20 products what the compliance rates are. As we do that now, we are putting in now for every product in the harmonized system for this base year.

What that will allow us to do, as we look at the range of compliance in various products, from a high of maybe in the nineties to the low in the forties, we are going to be able to do several things. One, in the spirit of informed compliance, try to identify what is the source of the problem.

Is it misinformation, is it something that we can help educate that importer to understand what he is doing wrong so that he can help to help us bring that up? It also would allow us in terms of allocation of our resources, so we will spend less time examining the very highly compliant products and more time examining the low compliance.

And above all that, as we are now reengineering the whole process of commercial merchandise, the way we do our business, we are getting away from transaction by transaction by transaction. And as we work with the trade community to basically—we are going to create something akin to a gold card account.

An importer whose major business, who does a lot of business with us, who will allow us to examine his products for classification purposes, to examine his books and his processes and basically give us assurance that this is a legitimate businessman, that person is going to see very little problems with his merchandise. He is going to be facilitated through Customs very smoothly, very quickly, very efficiently.

Every now and then, we are going to need to do some testing just to make sure that they stay aboveboard. But as we put in place a system like that, you are going to see more and more customers trying to say, I want a gold card, too, how do I go about getting a gold card? Well, you sit down and you work with us so that we have a better appreciation of what you are importing and what your processes are, what your books are. That is going to be much more customer focused.

And within a year or two, you are going to see that fully operational and I would almost guarantee that you are going to see not only customers who import more satisfied, but I think our compliance rate will be measurably better than they have ever been before.

Mr. HOUGHTON. Thanks, Mr. Chairman.

Chairman CRANE. Mr. Gibbons.

Mr. GIBBONS. Thank you, Mr. Crane.

You have honored Mr. Crane and myself by mentioning that we were cosponsors of the Customs Modernization Act for a long time, and you complained about some Members of Congress preventing you from even studying the problem. But I want to say while you are here and while so many other people are here, that without your fine work as Staff Director and without the fine work of the Customs Service and without the fine work of this staff that is behind me, it couldn't have been done.

I know, Mr. Commissioner, full well, your personal input in all of this, and I want to thank you and congratulate you.

Mr. WEISE. Thank you.

Mr. GIBBONS. On the Customs Management Centers that you are setting up, I hope you will let Members of Congress and others know that as you create or are forced to create more of these, you are going to be forced also to close some of them. Try to get the Members of Congress in from the areas that are going to be closed in the same room with those from the areas that are going to be opened, so they can discuss between themselves the merits of opening and closing. Maybe that would be helpful. But I am sure there is already pressure on you in creating more of these centers.

Does the law allow you to create these centers, more of them?

Mr. WEISE. There is no legal impediment, Mr. Chairman, to creating—you know, this is a restructuring. The legal requirement is that we notify the Ways and Means and Finance Committees of what our intended reorganization is. It doesn't require legislative approval. It is kind of what we call, you know, the layover period, to allow Congress to react and respond.

Mr. GIBBONS. Well, make sure that when you are creating more of these centers, you let us know what is going on. Not only as a committee, but individually, and maybe we can arrange some of those meetings between those who want more centers and those who have to give up centers in this regard.

Mr. WEISE. I appreciate that offer of assistance, and I would also say that one of the most frustrating aspects of this, as I dealt with business communities that are pushing to have these, it gets to the point where when I explain to them what they—not only that they are completely administrative, but I also explain to them that in order to create one in your city, I have to take people off the frontlines to man the positions of that Customs Management Center.

In effect, every individual that is in a Customs Management Center is an individual that could otherwise be an inspector, an import specialist, someone that has got hands-on experience moving the merchandise. And some of the locations where I have been visiting are willing to accept that it doesn't matter. It is more to this, it is symbols and it is, you know, the fear that the marketing tools will be used to take business somewhere else, that they are willing to sacrifice frontline positions in order to have one.

So that is one of the things that I think is perhaps built up out of a lack of credibility on the part of the Customs Service. I don't think they believe me when I tell them what they really do. They

feel that they are more than what I describe them to be. I guess they perhaps feel that we have a secret plan that we are not disclosing that really would make them operational when they are not intended to be operational.

And it is frustrating and it is—the thing that is so frustrating to me is that the overall thrust of this is to serve customers better, and the more I have to take resources away from serving customers better to put them in administrative centers, it is counterproductive to our mission to serve them better. And in the long run, it is like, you know, a parent, where I think I know what is best for the children, but they won't listen to it, they know what is best. So that is one of the frustrations I experience.

But I think we are getting there. I think we are making significant headway. I think the more we discuss this openly, the more people appreciate and understand exactly what they are and what they are not. We are beginning to get some buy-in from it.

Mr. GIBBONS. I want to look into the future now, as best we can. As I remember the past, in the 20 years or so that I have been on this committee, our imports have increased more than tenfold in dollar volume. I can't tell you what the weight volume or the item volume is, but at least tenfold as far as dollar volume is concerned.

And the employment of your agency has nowhere kept pace with that kind of increase in volume. As we look forward to the future, we are spending a lot of time talking about downsizing government. But I don't think that any of us ever consider what the volume of imports is going to be into this country 10 years from now, or 20 years from now, as compared to the last 10 or 20 years. As I see it, foreign trade is really beginning to take off now, and there are going to be huge increases in volume of imports.

Can Customs handle this with a downsized budget?

Mr. WEISE. Well, Mr. Gibbons, this is one of the fundamental reasons that we have embarked upon this initiative. It is extremely difficult for us to keep pace with all of the factors that you enumerate. And that is one of the reasons that we feel that we have to reexamine ourselves. And not only the number of people, I think too often too many agencies in the past have always attempted to resolve problems simply by throwing people at the problem. And that isn't always the best solution. It certainly is a solution.

But an example, you know, when the American people started demanding greater access to their money, the answer the banking industry provided was not giving them more tellers, but it was coming up with an automated technique, the ATM machine, something that not that many years ago weren't that prevalent. But now, practically none of us could get by without our ATM machine. So we are trying to improve our processes in that same way of use technology, use improved systems to be able to go further and do more.

We are also trying to act fiscally responsible by saying we don't—we are not looking for more resources, but let us reinvest through this reorganization the 800, the 1,400 positions that we can free up, let us reinvest those in a productive, positive way, and we can then go back to you, the Congress, and say that we are acting fiscally responsible in this environment of tremendous growth of trade, we are not asking for more resources, just let us keep the

ones we have to reinvest more productively. Not just keep them the way they are doing the same things they used to do, we have committed, we are going to improve our process, improve our allocation of these resources, and improve our service to our customers.

Those ought to go hand-in-glove. We are not just saying write us a blank check. We are trying to act very fiscally responsible, as well as responsible in doing our mission.

I think if we are successful through this budget process, I will be appearing before the appropriating committees in the next several weeks, and that is where I fear the greatest pressure is going to be coming to downsizing, not just reorganizing, if we can withstand that, if we can hold the resources that we have, I think we can get tremendously more out of it and be prepared to meet those challenges of growth and trade in the future.

Mr. GIBBONS. Let me ask you, with the proposed balanced budget amendment and the other things that are on the road, it looks to me that we are going to have to reduce Federal expenditures very considerably over what they are now.

How much of a cut can your agency take?

Mr. WEISE. Can I not answer that one? I have to do some analysis of that. It would be very difficult, obviously, Mr. Chairman—excuse me, Mr. Gibbons. The old school.

Mr. GIBBONS. I sometimes have trouble with that myself.

Chairman CRANE. So do I, Sam.

Mr. WEISE. But I would rather not state on the record what cuts I could absorb. I would rather continue to fight to preserve the resources that I have.

Mr. GIBBONS. Well, the reason why I throw that out, I didn't expect you to give me an answer here today, but, you know, I don't see where the cuts are coming from. We are not going to cut Social Security, we are going to increase military spending, we can't control the interest on the debt which is substantial and growing all the time, we are not going to close down any Federal prisons or fire any prison guards. If we do away with the FAA, we have got to finance the replacement somehow by additional user fees or something. We don't ever want to call them taxes.

And it looks like to me agencies such as yours are going to have to take horrendous budget cuts, maybe at least 40, 50 percent in some cases. And I don't—somebody—nobody started thinking about that, that I can see.

Mr. WEISE. Well, Mr. Gibbons, I don't want to appear as if I am not willing to sacrifice. Clearly I think it is important, this administration and this Congress have both talked about the importance of reducing the fiscal deficit.

Certainly we have a responsibility in government as well as outside of government to do our part, and I am not—I have never asked for a complete exemption, that we should never be cut. We certainly have to get more out of the resources that we have and certainly be prepared to be reduced in size.

But one of the things that I have often believed even before I took this position, it could potentially be shortsighted to cut revenue to revenue-generating agencies. We are the second largest revenue-collecting agency, collected about $22 billion in the last year.

I know that maybe pales by comparison to what the Internal Revenue Service collects.

We will continue to try to improve our processes so that we can get the most out of the least, a government that works better and costs less. But at some point, you start cutting, you know, out of the fat and into the muscle and the bone, it will have an impact. And we are not only a revenue-generating agency, but a very important law enforcement agency that has an important responsibility to keep drugs and weapons and other contraband out of this country.

We will continue at whatever resource level we are given to do the best job we possibly can, but it goes without saying, that if you get all the improvements you can out of your processes and out of your people, at some point, there is going to be a point of diminishing returns in terms of what we can provide. But I don't think we have come near reaching that level yet.

I think we are trying to do a very effective job. We are in a difficult transition period right now trying to maintain doing the good job that the Customs Service has been known for doing over its 200-year history, while, at the same time, doing some dramatic changing in the way we are doing our business. I think we are moving in the right direction.

There are some unsettled times right now. But I think we are going to see a more efficient, more effective agency in the course of the next 12 to 18 months.

Mr. GIBBONS. I am sure if it can done, Mr. Weise, you can do it. You have done a fine job here, you have done a fine job in heading that agency. I just wanted to commend you.

Thank you.

Mr. WEISE. Thank you very much.

Chairman CRANE. Mr. Payne.

Mr. PAYNE. Thank you very much, Mr. Chairman.

And, Mr. Commissioner, welcome. I, too, wanted to thank you and your team for the good job you are doing with the modernization thus far, and to say to you that I intend to work with you in any way I can, to be of assistance as we move forward.

I don't have any questions about the modernization or the reorganization. I had some questions that I will submit for the record that perhaps you could answer, regarding an issue that is very important to me and my constituents, which has to do with textile transshipments.

I would like to ask one question, though. New laws and agreements allow us now to charge a nation's quota if that nation violates our transshipment laws, by as much as three times the amount of the violation, if we give them a full year's notice. And we know that criminal cases like this take an awful long time and often they result in no prosecution.

The question that I would have then is whether you would think that it might make sense in view of the fact that we will be dealing with fewer resources, and so forth, that you would turn over these investigations at some point to the USTR or to the Department of Commerce and let them deal with it through a quota-reduction system, as opposed to dealing with this through the Department of

Justice where we have not been as successful as we might have been?

Mr. WEISE. Well, let me say that in the spirit of true partnership, "People, Processes, & Partnerships," we are spending a great deal of time with our counterparts in the Commerce Department and the USTR dealing with this very issue. And the committee, the CITA Commission, the Committee for the Implementation of Textile Agreements, we recognize as a potential problem where there is a competing interest of pursuing a criminal case to its fullest extent, vis-a-vis reporting against the charge-backs, which is very important, obviously, from a domestic policy standpoint.

We have, I think in the near term, have improved that significantly over the way it used to be in terms of sharing information and trying to cooperate as closely as we can. But what you are suggesting is basically fundamentally moving away from the criminal side and that gets a little complicated, as I understand it, because once you get a U.S. attorney involved, it isn't just the Customs Service decision as to whether that will be pursued.

But I guess the best way I can answer that is that an issue we have been discussing, we are discussing, we should continue discussing to see if we can't come up with a method that basically serves the best public purpose of what we are all trying to achieve and that is to discourage this practice as effectively as we can.

And sometimes the criminal prosecution, as we have had some successes with our Operation Q-Tip, has a strong deterrent effect in the future, perhaps exceeding the actual charge-back that may discourage others and may get others to act more responsively, of checking before they deal business—do business with a certain individual. I think that what you may want is an approach that is a mixture of both. It is not all one or the other, but we need to continue to work on that.

Mr. PAYNE. Well, I agree, and I think what we need to do is whatever is most effective.

Mr. WEISE. I agree with that.

Mr. PAYNE. Thank you.

Chairman CRANE. Well, again, George, we congratulate you and wish you well and look forward to working with you in the future. Go about your business now and do something constructive, and thank you very much for testifying.

Mr. WEISE. Thank you very much, Mr. Chairman.

I will take half the audience with me now.

[Questions for the record to Customs and their responses follow:]

DEPARTMENT OF THE TREASURY
U.S. CUSTOMS SERVICE
WASHINGTON, D.C.

The Honorable Philip M. Crane
Chairman
Committee on Ways and Means
Subcommittee on Trade
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

The attached package of questions and answers are in response to the Subcommittee hearing on January 30, 1995, on Customs Reorganization and the Implementation of the Modernization and Informed Compliance Act.

If you have any additional questions, please do not hesitate to contact me.

Sincerely,

Jose D. Padilla
Assistant Commissioner
Congressional & Public Affairs

Enclosure

Ways and Means Committee
Subcommittee on Trade
Hearing on Customs Reorganization and Modernization Efforts
January 30, 1995
Questions for the Record

1. **QUESTION: When can we expect that the major elements of the reorganization effort will be operational? What are the timelines and milestones for those elements?**

   ANSWER: I have attached our key milestones and timelines for implementation of the Customs reorganization as well as implementation of the Customs Modernization Legislation. These documents include the priority actions that we have already achieved. While much of the organizational realignment changes will be completed by the end of this fiscal year, the magnitude of the type culture change we envision will take many years to fully and effectively implement.

2. **QUESTION: How do you plan to limit disruption to the trade community as you implement changes to your operations?**

   ANSWER: Since our new CMCs will be internally focused, the trade will not be affected. In most cases, the Customs contacts in our headquarters and field offices will remain the same. While we are implementing changes to improve our performance, we also plan to work closely with our customers using a variety of tools, standards and measurement techniques to assure service is not only maintained, but improved.

3. **QUESTION: Will the reorganization result in quantifiable cost savings and/or improvements? If so, identify them.**

Answer: The goals of the Customs reorganization emphasize improved customer service. To carry out a strategy of improving customer service in a tight budgetary environment. Customs developed a reorganization proposal to allow Customs to respond to increased workload, customer service needs and operational requirements.

It is important to note that Customs did not undertake the reorganization study as a savings or cutback measure. Our reorganization study proposes that resources saved from the Headquarters restructuring and the elimination of district and regional offices be reinvested to allow Customs to meet increasing workload demands. It will be difficult to quantify the savings that result from process improvements and our organizational restructuring because a significant portion will be reinvested in our front line operations or will be used to absorb other mandated reductions or increased costs.

In order to meet the requirements of legislation such as the Government Performance and Results Act and the Chief Financial Officers Act, Customs began to develop a number of performance measures that will provide a good indication of the effectiveness of our resource investments. We believe that as we implement the phases of our reorganization proposal, we will be able to improve our performance as indicated by these measures, or at the very least, maintain our customer service standards without requesting additional resources.

a. What are the staff savings from closing district offices? Regional offices? What are the cost savings from closing district offices? Regional offices?

ANSWER: See answer to preceding question.

b. Will there be any additional costs? If so, identify them and explain how Customs is planning to pay for them.

ANSWER: We expect that the reorganization will generate additional costs associated with retraining, relocation, employee counseling and placement services, space, and information technology as we implement various phases of our proposal. We intend to absorb these costs without asking Congress for additional funding.

We are trying to minimize the costs associated with the reorganization. By establishing the Customs Management Centers (CMCs) and the Strategic Trade Centers (STCs) in places where we currently have staff the costs of relocation, space, and equipment redistribution will be kept as low as possible.

Customs would be happy to provide Congress with an accounting of our costs. However, a number of undecided variables would significantly affect our ability to provide reliable estimates at this time. When the final plan has been approved, we will be able to provide better estimates.

4. **QUESTION: How should we measure the success of the reorganization effort? What kinds of performance indicators or measures would accurately do this? How will you use them to monitor the process? Have you established baseline measures for each indicator?**

ANSWER: Customs is developing three categories of measures for each of our core processes (e.g. cargo processing, passenger processing):

Effectiveness -- For cargo and passenger processing, we are defining our effectiveness as "compliance": the portion of imports (or passengers) that comply with the laws that Customs is responsible for enforcing. This is a good measure of effectiveness because it captures what we are trying to achieve with our "informed compliance" efforts -- and gets us away form thinking of our effectiveness only in terms of seizures or penalties. In the past year we conducted compliance measurements of selected imported commodities in all major ports; and passengers in a small number of airports and land border crossings.

Customer Service -- Last year Customs established customer service standards for cargo processing and air passenger processing in response to the President's Executive Order. These standards dictate how long Customs will take to process such things as binding rulings, detention notices, and transactions involving quota and AD/CVD. They also cover the responsiveness of the Automated Commercial system and the speed in clearing commercial air travelers and imports. Customs is developing the systems to measure how well we adhere to these standards. Further, we are providing Customs personnel with the tools to gather and assess the perceptions of air and land passengers and members of the trade community regarding our performance.

Efficiency -- Customs is also measuring the general productivity of the cargo and passenger process. We will measure efficiency not only in terms of cost per entry and cost per passenger, but also in terms of the productivity of exams.

With this basic framework of measurement, Customs is trying to measure how well we achieve our mission; how well we serve our immediate customers in the trade community and the traveling public; and how efficiently we expend public funds.

5. **QUESTION: Customs reorganized its special agent force several years ago, eliminated regions, and imposed direct headquarters-line supervision.**

a. How will the new reorganization plan affect the special agent force?

ANSWER: The new reorganization will have little if any direct effect on the special agent force. Customs, as noted, had already streamlined the supervisory structure for special agents.

b. Who will the investigative Customs agents report to?

ANSWER: The current chain of command remains unchanged. Each Special Agent in Charge (SAC) to reports directly to the Headquarters, Director of Operations, Office of Investigations. Prior to the reorganization, which took place in 1993, each SAC reported to the Assistant Regional Commissioner for Enforcement (ARCE) for that geographical area who in turn reported to one of the seven Regional Commissioners.

c. How will the Customs Service ensure there is sufficient supervision over local SAC offices?

ANSWER: The Director of Operations, Office of Investigations, has Assistant Directors each responsible for the oversight of specific programmatic and operational issues relative to each SAC office.

d. Are SAC offices still subject to management inspections?

ANSWER: Yes, they are conducted by an element of the Office of Internal Affairs.

6. **QUESTION: Will any ports lose their rights of entry under reorganization?**

ANSWER: No, we plan to maintain all ports of entry where services are delivered to our customers. Moreover, we plan to strengthen our service to the importing community by enhancing performance measurement to ensure that we are improving our ability to deliver services uniformly at all ports of entry.

7. **QUESTION: Provide a detailed description of how functions now handled by the district and regional offices will be handles as a result of the reorganization.**

a. How will the legal functions such as Regional Counsel be handled as a result of the reorganization? Will the regional counsel be placed in the CMCs or be centralized?

ANSWER: The Chief Counsel's office will not centralize all legal activity. It will continue to have field offices at selected CMCs.

b. Who will assume the legal and operational roles of the District Directors and Regional Commissioners?

ANSWER: In most cases, the operational and legal roles of the District Directors and Regional Commissioners will be assumed by the Port Directors. Since the CMCs will be internally focused operational oversight and administrative support offices, technical appeals, protests, petitions for relief and FP&F matters which are not resolved at the ports will be handled by Customs Headquarters.

c. How will customer complaints that previously were handled by the districts and regions be addressed under the reorganization structure?

ANSWER: Responding to customer complaints will continue to be primarily the responsibility of the ports. Complaints that are not satisfactorily resolved at the port level will be addressed to our Headquarters process owners for resolution. However, the resolution of these inquiries will be channeled back through the port structure for response to the customer. CMCs will not be involved in responding to customer complaints since their primary focus is internal to Customs. If complaints are received at the CMCs they will be forwarded to either the ports or the Headquarters process owners, where appropriate.

d. How can 20 Customs Management Centers absorb the functions of 42 districts and 7 regions?

ANSWER: Many of the functions that had been performed by the districts and regions are no longer needed. Therefore, CMCs will not be absorbing the functions of the districts and regions. The work of the CMCs differ from that of the districts and regions. The role of CMCs is one of facilitating change and providing guidance on core business processes at the ports within their respective geographic areas as well as providing administrative support and guidance to the ports. By eliminating one layer of management and empowering the ports to deal with the trade and the public, we are providing for the execution of day-to-day Customs business closer to the point of transaction. Customs service provided to the trade and the public will continue at the same locations where it is conducted today.

8. **QUESTION: Will the abolition of districts and regions have an adverse effect on the business of any ports currently serviced by Customs? How can you reassure those ports that they will not be adversely affected?**

ANSWER: There will be no adverse effect on business because the shift from the district/region environment to the CMC is internally focused and transparent to the business community. To the contrary, personnel resources that were tied to managerial and administrative functions will be transferred to positions that provide service directly to the public, principally at the port level. The CMCs were created for the sole purpose of providing support to the ports and will have no operational interaction with the trade community. The CMCs will have the mission of collaborating with Headquarters and the ports to improve the uniformity, effectiveness and efficiency of the Service.

9. **QUESTION: How will the supervision and control of the Customs brokers be delineated?**

a. Will brokers be permitted by CMC geographic lines as they were under Districts?

ANSWER: Broker licenses are required by statute. Licenses are national in scope while permits are issued by district. However, district directors, by statute, are the Customs officials responsible for monitoring brokers, issuing broker penalties, and initiating and adjudicating suspension and revocation proceedings.

Since October 1, 1987, a broker is required by statute to employ a licensed individual in each district for which he has been issued a permit. The statute also provides for waiver of that requirement if the broker regularly employs a licensed individual in the Region who can exercise responsible supervision and control over Customs business in the district. When the statutory provision became effective, Customs vigorously enforced it. Brokers who could not meet the requirement were put out of business in that location. As a result, brokers have, since 1987, organized their business to comply with those requirements.

As a result, NCBFAA has proposed that Customs maintain the status quo for licensing and permits under the reorganization. Customs has agreed to maintain the status quo, but only appropriate transitions can be arranged. Broker Regions and Districts which mirror the existing regions and districts would be created until the new scheme can be implemented. The port directors at the former districts/ports would continue to perform the duties of the district director with regard to provisions of 19 USC 1641.

b. Will brokers who operate in multiple CMCs have separate permits? Or will the permits cover the existing territorial boundaries?

ANSWER: A joint task force, made up of Customs and broker representatives, which recently has been created to deal with all broker issues arising from the Mod Act and Reorganization, will pursue a solution to this issue as one of its first items of business. It will be necessary to seek a statutory amendment to 19 USC 1641 as it relates to licensing and permits once agreement has been reached.

c. If permitting is expanded to CMCs geographic areas, how would Customs ensure adequate supervision and control was being administered?

ANSWER: In keeping with the spirit of the Mod Act, the trade will participate fully in the development of a new license and permit scheme for brokers. As a result of Mod Act programs and the increased availability of advanced technology, brokers and importers are rethinking the way that they do business. Customs will do its best to accommodate the desires of the trade while maintaining adequate supervision and control over the conduct of Customs business. We cannot say for certain at this time what the final outcome will be but we believe that there will be a heavier reliance on technology to achieve responsible supervision and control.

10. **QUESTION: Provide a detailed status report on the management inspection process conducted by the Office of Organizational Effectiveness or its successor office.**

a. Summarize the findings of the most recent inspections.

ANSWER: The most recent management inspections were conducted at the Detroit and Tampa, District and Special Agent-in-Charge (SAC) offices. Customs conducts comprehensive inspections to ascertain the overall health of an organization. Inspections evaluate the manager's compliance with published standards identified in national papers and policy guidelines, coupled with an assessment of general management practices, to determine the effectiveness and efficiency of the office. A summary of the above inspections follows:

Detroit District Director - December 1994

The District Director provides Customs operational and administrative services adequately. Perceived shortages in staff compel the District to be satisfied with routine processing of commercial traffic. Content with a small number of complaints, they are not striving for efficiencies and increased effectiveness through continued inward analysis.

Compliance Measurement of automobiles and parts was well executed both internally and externally (trade). The Port Huron operation is exemplary in all areas. EEO efforts are commendable and should eventually prove effective. Trade Enforcement initiatives are properly emphasized. Performance in the FP&F and Seized Property program areas is steadily improving. Oversight of ACS error reports and collections processes, alignment of the I&C work force to actual work and validated threats, and full enforcement coverage of all modes of transportation, are the most serious issues facing the District.

District policy is sometimes constrained by historical precedent and practice, rather than being directed toward progressive strategies to deal with a large workload. The sheer volume of transactions, number of processing locations and diversity of release methodologies yields an organization that is slow to react, unable to measure productivity nor pursue opportunities for improvement.

Supervisory oversight of basic processes, and analysis of resource distribution and utilization, require renewed attention. Threat assessments and analysis efforts could rarely be articulated within Inspection & Control or

Commercial Operations to support strategy decisions. Intra-office communication is steadily improving under the new Assistant District Directors. Trade relations are good. NTEU partnership is working well. The Trade Enforcement Strategy (TES) effort is good as shown by an excellent relationship with the Office of Investigations. Other agency relations are very good due to the external focus of the District Director.

The District Director acknowledged the deficient areas and agreed to corrective actions that will be reviewed during the follow-up inspection.

Detroit Special Agent-in-Charge (SAC) - December 1994

The SAC is effectively accomplishing the Customs mission. Detroit is a well managed office that supports the national enforcement priorities. The inspection revealed no serious management issues.

Current threat assessments are used as a tool to allocate resources. The SAC uses resources effectively in support of national goals, consistent with the threat assessments. While the office has been productive in all priority programs, with prosecution of high quality violators, a downward trend is emerging, beginning with FY'93. Sixty-seven percent of the formal staff hours and 90% of the arrests, during the last two years, were in financial and narcotics smuggling.

Case management is good. Most narcotic smuggling investigations targeted the disruption and dismantling of organizations engaged in long-term conspiracies. Most of the financial cases are productive and narcotics related. The fraud program has recently produced cases for criminal prosecution. The Trade Enforcement Strategy was developed and carried out jointly with the District Director. The export program is viable having generated several cases for criminal prosecution.

The general management climate within the office is positive. Relations with internal and external enforcement counterparts are excellent. Administrative areas are in good shape with few minor exceptions.

Attention to quality source development, regular supervisory case reviews, controlled storage of evidence, improper access to the imprest fund safe, and several formal management controls are cited as areas for improvement.

The Special Agent-in-Charge acknowledged the deficient areas and agreed to corrective actions that will be reviewed during the follow-up inspection.

Tampa District Director - August 1994

The Tampa District Director is doing well in most operational and administrative areas. Trade Enforcement Strategy efforts are quite successful. However, the general outbound enforcement and narcotics enforcement posture is weak, particularly concerning cargo examination, criteria development and intelligence analysis. The Commercial Operations effort could also benefit from ranking duties and improved focus. The North Florida Special Agent-in-Charge (Tampa) is negatively affecting the seized property program by mishandling of documentation, delays in turning over seizures, etc. FP&F, Equal Employment Opportunity, and Labor Management Relations are properly managed.

Relations with the trade community are greatly improved. This is attributable to the efforts of the District management staff to meet with the trade and otherwise open lines of communication.

Burdensome reporting, documentation, and information flow requirements hamper the efficiency of operational and management efforts. Further, a delegation of authority to and span of control commensurate with the management/supervisory chain will empower these employees and enable them to achieve their maximum potential.

The District Director acknowledged the deficient areas and agreed to corrective actions that will be reviewed during the follow-up inspection.

North Florida Special Agent-in-Charge (SAC) - August 1994

The Special Agent-in-Charge (Tampa) is managing the office well and effectively supporting of the national enforcement priorities.

Threat assessments are current. Resources are effectively used to support national goals, but need adjustments to align them more closely with the threat. While enforcement statistics are generally good, a downward trend is emerging, beginning with FY'92. Narcotic smuggling accounts for 60% of the staff hours.

Case management is good; still, some locations need improvement in case file maintenance. The office has several highly complex narcotic smuggling cases, conducted under the purview of the Organized Crime Drug Enforcement Task Force (OCDETF), that produced significant arrests and seizures from major violator organizations. Most of the financial investigations have generated narcotics-related results. The Trade Enforcement Strategy is fully implemented and generates criminal fraud cases in each TES

category. Generally, the Resident Agent-in-Charge (RAC) offices are well managed, except two locations that need attention. Source development in narcotics smuggling is excellent; the SAC needs to expand initiatives in other investigative areas.

The general management climate within the office is positive except at two locations. Relationships with internal and external counterparts approach excellence, but communication with the District FP&F staff needs attention. Administrative areas are in generally good shape with few exceptions.

Case management, records maintenance, operational and administrative issues at two RAC locations, and unliquidated budget issues are cited as areas for improvement.

The Special Agent-in-Charge acknowledged the deficient areas and agreed to corrective actions that will be reviewed during the follow-up inspection.

b. Explain how the inspection process will be affected by the reorganization.

ANSWER: As the implementation for the reorganization begins to affect field operations, the focus of the management inspections will be temporarily shifted from all field offices to the Office of Investigations (OI) field offices, which are least affected by the transition. It is expected that the new organizations will be subject to a management inspection once they are established, become fully functional, and are ready for review as determined by the executive staff. The frequency and scheduling for these inspections will be done in close coordination with the process owners, CMC and STC directors.

c. Will CMCs be subject to the inspection process? If not, why?

ANSWER: All organizations/entities are subject to management inspections. It is envisioned that oversight for the CMC's will be exercised from Headquarters and that CMC's will require periodic office inspections similar to what occurs now under our inspection cycle. It is expected that CMC's will become subject to an office inspection once the transition phase is completed, and when it is determined by the executive staff that the CMC's are fully functional and ready for review.

11. **QUESTION: How will the reorganization affect the Customs in-bond program, that middle American cities such as Chicago and Houston have come to rely on so heavily?**

ANSWER: The reorganization does not affect the Customs in-bond program.

a. Summarize the internal control weaknesses or other problems reported in recent IG and GAO audits concerning the in-bond program.

ANSWER: Recent audits conducted by the General Accounting Office (GAO), the Treasury's Office of the Inspector General (OIG), and Customs Office of Organizational Effectiveness (OOE), have cited three major deficiencies within the current in-bond program. The most current report on these issues is dated June 15, 1994 (GAO/AMID-94-119). Customs concurs that these findings have validity. The audits were conducted to determine Customs compliance with the provisions of the Chief Financial Officers (CFO) Act of 1990. Implicit in all of the reviews was Customs lack of an adequate statistical database to identify the universe of in-bond freight movements and the extent of the cited deficiencies.

The first deficiency cited was Customs inability to adequately track in-bond movements. In-bond records were not always opened and/or closed properly, resulting in cargo not being tracked and generated reports which yield inappropriate pre-penalty actions. As a consequence, both the trade community and Customs have been burdened with unnecessary additional processing and expense.

The second deficiency cited was the potential for loss of revenue. The auditors illustrated that Customs is unable to assess either the proper penalty amounts or determine the correct revenue that should have been collected during any specific time period. Because proper classification and accurate value of cargo is not required prior to in-bond movement authorization, Customs lacks the ability to correctly assess penalty action for in-bond violations.

The third deficiency cited was Customs inability to perform an electronic risk assessment prior to in-bond movement authorization. It was recommended that Customs process in-bond information through electronic selectivity filters prior to cargo arrival at the first port in the U.S.

b. Will the in-bond program be allowed to continue in its existing form?

ANSWER: Yes. Currently proposed changes to the in-bond system involve tightening internal controls and do not

affect the importing community or the current processing of in-bond movements.

c. How does Customs plan on both preserving the benefits of this program, and addressing the audit findings?

ANSWER: The in-bond of imported freight is so popular with the importing community, but causes revenue and drug enforcement concerns as it is currently administered. Customs will attempt to address these concerns by added emphasis on compliance measurement techniques, informed compliance, and random post audits. These techniques should close any potential revenue gaps by penalizing violators in a meaningful fashion.

d. What changes are planned, and when will they become effective?

ANSWER: The only changes planned would be within Customs and not effect the importing community. Even these internal changes (Compliance Measurement, Informed Compliance, and Random Post Audit), would require programming changes, testing at several designated ports, and fine-tuning. It is expected that it would take several years to implement fully at all servicing ports.

e. Summarize comments received to date from the private sector on these proposed changes.

ANSWER: Most of the comments had to do with the perception that in-bond would be eliminated, and that there is nothing wrong with in-bond movements except for Customs inability to track them.

There were several comments regarding Customs inability to perform an adequate electronic risk assessment prior to in-bond authorization.

Several comments believed that importers would be forced to use a representative other than that of their own choice, which would force importers' to divulge privileged commercial information to anyone other than their own chosen representative. This comment reflects a misunderstanding of Customs proposal.

Other comments suggest changes to our examination policy, and that making changes to any system would be unsettling.

f. Will any additional information or requirements be placed on the importer or its agent who processes the in-bond entry?

ANSWER: At this time, there is no additional information nor any change in procedures that would affect the trade

community.

g. If there are additional requirements placed on the importing community, explain how these additional requirements will not pose an undue burden or create congestion at first ports of arrival?

ANSWER: The Customs Service has not published any new rulings or regulations on this issue because we are committed to working closely with the trade community. There are no additional requirements placed on the importing community.

h. What are the consequences of leaving the in-bond program unchanged?

ANSWER: The June 1994 Financial Audit of U.S. Customs, issued by the General Accounting Office (GAO/AMID-94-119), describes ways in which some parties might circumvent Customs enforcement techniques by utilizing transportation in-bond procedures for moving cargo from one United States port to another. GAO has found that such movements, particularly those supposedly transiting the country for ultimate export, pose a serious revenue threat which Customs fails to address under existing procedures. This cited flaw was identified as providing unique opportunities for unscrupulous persons to introduce contraband and to evade quota restrictions, tariffs, and dumping duties. Once the new proposal has met with approval within Customs, GAO will be given an opportunity to decide if this proposal satisfies their revenue protection criteria.

12. **QUESTION: What functions will the new CMCs perform?**

ANSWER: Their most important function will be to ensure that Customs delivers high quality uniform service at the ports by monitoring core processes and devising ways to improve them. The CMCs will also provide mission support services for the ports in that geographic area.

a. Will the CMCs conduct any business with Custom's customers?

ANSWER: Because the CMCs are internally focused, they will seldom deal with Customs traditional customers in the way the regions and districts now do. However, the CMCs will be involved with measuring customer satisfaction, and that will necessitate some contact with external customers. What the CMCs will definitely not do is to act as an appellate office to review decisions made at the port level.

b. What specific role will the CMCs play in ensuring consistent oversight and policy implementation at the ports?

ANSWER: The CMCs will specifically be responsible for ensuring uniformity and the quality of services provided by the ports. They will use a variety of techniques to do so, including customer satisfaction surveys, Business Process Improvement, statistical analysis and measurement techniques.

c. Will Customs Management Centers ever be involved in operational dealings relative to actual Customs entries? If so, explain how. If not, what will the appellate process be for differences of opinion between local field personnel and the importing community? Where will the disputes be solved?

ANSWER: The CMCs will be internally focused operational oversight and administrative support offices. Therefore, technical appeals, protests, petitions for relief, and FP&F matters that are not resolved at the ports will be handled by Customs Headquarters. These new appeal procedures will be set out in amended regulations.

d. Will any headquarter personnel be co-located at CMCs? If so, how many and what will they do?

ANSWER: There will be no Headquarters personnel co-located at CMCs. All personnel located at the CMC will report directly to the CMC Director, but in some cases, will have functional oversight from Headquarters offices in areas such as LAN administration and Equal Employment Opportunity.

13. **QUESTION: There is the perception that ports located near a CMC will have an advantage over ports not in close proximity to a CMC. Please comment on this.**

ANSWER: Ports located in close proximity to a CMC will not have an advantage over other ports. CMCs will not provide service to the trade community. Their focus is internal, not external. In fact, these offices will be invisible to the trade community. All trade activity, which has traditionally been performed at the ports of entry, will continue to be performed at the ports as usual without any consideration being given to their proximity to CMCs.

14. Question: How is the implementation of the pilot program proceeding? What is the proposed implementation timetable for the remaining CMC's and STC's?

a. What obstacles did you face in setting up the prototype STC in Washington, D.C.and the prototype CMCs in San Diego and New Orleans?

Answer: We have been prototyping various strategic trade activities for several months in Washington. This has included extensive outreach programs with customers in affected industries, and other trade agencies. Also, extensive work has been accomplished in implementing and improving our Compliance Measurement systems, and in refining our vast array of analytical and targeting systems. Finally, a number of prototype "interventions" have been designed and conducted. These have covered a variety of sensitive products, source countries, and methodologies.

We are currently developing the national procedures and processes needed to effectively coordinate and execute these interventions. Based on the experience gained, we will refine our methods, train our employees, and will fully implement the five STC's by October 1, 1995.

Two CMC pilot ports - New Orleans and San Diego - have been up and running since mid-January of this year. Though the structure of the two prototypes are quite different their mission is the same in that they are committed to providing service to the internal customer - Customs Ports. Three weeks into the test has revealed the need for very minor adjustment that were necessary for internal Customs management issues; otherwise, the CMC pilot is operating smoothly with no noticeable impact on the trade community.

The remaining 18 CMC locations are scheduled for implementation on October 1, 1995.

15. QUESTION: Who within Customs will be responsible for overseeing or supervising the CMCs?

ANSWER: The CMC Directors will report directly and be supervised by the Assistant Commissioner, Field Operations.

16. **QUESTION: Provide a detailed explanation of all current or planned enhancements to the existing system components as set forth in Section 631 of the Mod Act (19 U.S.C. 1411), including the cost, sequencing and expected operational date for each.**

a. Will you apply the planning, testing, evaluation and consultation provisions of the Mod Act (19 U.S.C. 1413) to these enhancements? If not, explain why.

b. Provide implementation time lines and milestones for each component.

c. Does Customs consider remote location filing to be an enhancement to the current system. If so, provide the legal basis for that interpretation.

ANSWER: We do not plan to make any changes to the current Automated Commercial System (ACS). Only maintenance will be done on ACS, changes required to support operational workload, and other changes required to support our reorganization effort. In addition, we will make changes to ACS that may be required by legislation (for example, GATT). As outlined in the SIMPlan for the Automated Commercial Environment, major system changes will be undertaken in the ACS redesign.

We do plan to test prototypes of remote location filing without making major changes to ACS. The purpose of the prototypes would be to gain operational and system experience on remote location filing that we could incorporate a successful system into the ACS redesign. We do not consider remote location filing an enhancement to the existing system, and do not plan to fully implement remote location filing until design of a successor system to ACS is complete. The prototypes for remote will apply the planning testing, evaluation, and consultation provisions of the Mod Act. The current plan is to offer an initial prototype in June of 1995 with a limited number of participants and ports. It will last for a period of six months and then be evaluated. Depending on the outcome and evaluation of the first prototype, we plan to offer a second prototype in June of 1996. At that time, we would expect to add more participants and ports.

17. **QUESTION: Provide a detailed explanation of the planned system components, including remove location filing, as set forth in Section 631 of the Mod Act (19 U.S.C. 1411), including the cost sequencing, and expected operational date for each.**

ANSWER: The Customs Service has not yet completed the detailed planning for future system components. The ACE SIMPlan describes the overall plan for the new system and the development approach being followed. Details regarding implementation of specific components will not be available until the design phase of the project is underway in late 1995.

a. Provide a detailed explanation of how Customs will meet the planning, testing, evaluation and consultation provisions of the Mod Act (19 U.S.C. 1413) for each of the planned system components.

ANSWER: ACE implementation will comply with the planning, testing, evaluation, and consultation provisions of the Mod Act. Customs planning for the conduct of two prototypes of remote location filing is an example of how it will comply with 19 U.S.C. 1413. Through publication in the Customs Bulletin, Customs intends to announce its test plans and solicit comments regarding its objectives, eligibility criteria, basis for participant selection, and plans for establishment of an evaluation committee made up of Customs, trade and other agency representatives.

Prior to initiating its remote location filing tests, as well as future tests of planned components, Customs intends to submit copies of its final implementation plans to the "Committees." Subsequent to these tests, Customs plans to submit the results of each test and an evaluation report. Finally, in the spirit of the Mod Act, Customs does intend to continue to emphasize trade community consultation.

b. Provide implementation time lines and milestones for each component.

ANSWER: Complete time lines and milestones for programming, testing and implementation will not be available until the fall of 1996. ACE must first complete its analysis of user design requirements during the fall of 1995. The date for overall implementation of ACE is October 1998.

18. **QUESTION: Provide a detailed explanation of any current or planned systems initiatives not addressed under the two previous questions.**

Answer: The ACE SIMPlan describes all components that are currently planned for the new system. These components will be defined in more detail during the requirements definition and design phases of the project.

a. Will you apply the planning, testing, evaluation, and consultation provisions of the Mod Act (19 U.S.C. 1413) or similar requirements to these enhancements? If not, explain why.

ANSWER: Customs will apply the provisions of 19 U.S.C. 1413 to all components of ACE.

19. **QUESTION: When will the overall systems plan, as required by the Mod Act (19 U.S.C. 1413) be submitted to the Committee?**

ANSWER: A copy of the ACE SIMPlan was provided to Subcommittee staff at a pre-hearing meeting on January 13, 1995. The SIMPlan is also incorporated into the Mod Act/NCAP report which is on its way to the Subcommittee via Treasury.

20. **QUESTION: Will you ensure that the basics of the system are working (including the system for selecting high risk cargo) before initiating the more advanced features (including remote location filing)? How?**

ANSWER: As defined in the SIMPlan, ACE is being developed so that all components will work in an integrated fashion. The ACE team, under the overall direction of the Trade Compliance Process Owner, is working with the Selectivity Redesign project and the Mod Act Task Force, among others, to ensure that this integration is built in from the outset. The Information Engineering methodology being used for the ACE project stresses the identification of dependencies between system components so that these components are designed and implemented in the proper order. At this stage, it is not clear that there is a dependency between selectivity and remote filing.

a. Will the selectivity redesign be completed before remote location filing is implemented?

ANSWER: As the Selectivity Redesign project has been in place for over two years and planning for remote filing only began recently, the new selectivity approach is much further along than remote filing. The compliance measurement portion of Selectivity Redesign has already been implemented with a national measurement of all commodities (at the four digit HTS level) in progress for FY 1995. Customs has also completed several "simulations" of new statistical selectivity approaches and numerous targeting prototypes are in operation. A comprehensive targeting prototype, combining the best features of some of the more promising prototypes, is planned for August 1995. Two remote filing prototypes are also planned, but they will not be as comprehensive as the selectivity prototypes. Based on the relative progress of the two efforts, we expect selectivity redesign to be ready for implementation prior to remote filing.

21. **QUESTION: In the past, Customs efforts to ensure compliance with trade laws have been viewed as ineffective.**

    a. **What is Customs doing to correct this?**
    b. **What improvements have been made to the system for targeting high risk cargo (cargo selectivity)? When will they be fully operational?**
    c. **What changes have been made to measure compliance with the trade laws?**
    d. **What is the level of compliance today?**

ANSWER: After several years of effort, Customs has recently revitalized its compliance measurement methodologies, and established an organization to develop and administer the Commercial Compliance Program. This program, which embodies both standardized procedures and automated systems to facilitate data collection, fosters uniform and refined measurement of the levels of compliance obtained from hundreds of thousands of examinations and inspections. The new program is focused on the entirety of U.S. trade agreements, devoting even greater attention to such high visibility agreements as NAFTA. The program's underlying methodologies have been reviewed and approved by various external governmental reviews at each step in its development.

In Fiscal Year 1994, these methods allowed Customs to provide a statistically valid compliance report on over 20 key industries or commodities: that is, industries possessing historical significance to Customs. These measurements have provided invaluable feedback, allowing us to make refinements for nationwide implementation in Fiscal Year 1995. The FY 1994 report to the Committee which reflects the results in the participating Customs districts will be transmitted shortly.

In Fiscal Year 1995, our compliance measurement program will provide comprehensive information on National Compliance rates for each of over 1200 commodity groupings in the Harmonized Tariff Schedules. Also, each district will implement this comprehensive program and provide information for each location. Additionally, there will be national data to support follow-on analysis, as well as information for resource planning and deployment.

During the first quarter of Fiscal Year 1995, the national compliance rate was 83.5% overall. This preliminary overall rate ia a cause for concern because it is much lower than we would like it to be. Further, this non-compliance has revenue implications. On the positive side, early findings highlight that compliance performance in critical areas such as Quota and Intellectual Property Rights is high and reflective of less need in the future for monitoring. Revenue projections have yet to be completed, but will be available shortly.

22. **QUESTION: Provide a copy of the most recent annual national trade and customs law violation estimates and a copy of the most recent trade enforcement strategy (19 U.S.C. 2083).**

ANSWER: A copy of each is attached. The Trade Enforcement Strategy is embodied within the Customs Five Year Plan and the Customs Annual Plan.

a. How frequently are these documents updated? When will the next editions be submitted to the Committee?

ANSWER: The Annual National Trade and Customs Law Violation Estimates Report as well as the Trade Enforcement Strategy are updated annually. The next National Trade and Customs Law Violation Estimates report will be issued at the start of the next fiscal year, while the Trade Enforcement Strategy will be updated in April 1995.

b. How are these documents used by Customs?

ANSWER: The Trade Enforcement Strategy sets forth the Customs framework to achieve the goal to maximize trade compliance through a balanced program of informed compliance, targeted enforcement actions, and the facilitation of complying cargo. The Annual Plan translates these broad goals into concrete actions which will improve our trade enforcement.

c. Has the current violation estimates requirement been replaced or superseded by the new compliance measurement system?

ANSWER: With regard to the National Trade and Customs Law Violation Estimates Report, we find very little value for Customs enforcement purposes. Our new compliance measurement system will provide the statistically valid analysis to provide meaningful reports for our enforcement purposes as well as the interest of Congressional Committees now receiving the National Trade and Customs Law Violation Estimates Report.

Customs is confident that our revitalized compliance measurement methodologies will allow the opportunity to evaluate the continued use of and need for the National Trade and Customs Law Violation Estimates Report. Our Compliance measurement system embodies both standardized procedures and automated systems to facilitate data collection, fosters uniform and refined measurement of the levels of compliance obtained from hundreds of thousands of examinations and inspections. The new program is focused on the entirety of U.S. Trade Agreements, devoting even greater attention to such high visibility agreements as NAFTA.

In FY-1994, the program's operation has allowed Customs to provide a statistically valid compliance report on over 20 key industries or commodities. The report, outlining FY-1994 results in these industries among participating Customs districts, will be made available to the Committee in the near future.

In FY-1995, this program will provide comprehensive information on National Compliance Rates for each of over 1,200 commodity groupings listed in the Harmonized Tariff Schedule. Additionally, each district will implement this comprehensive program and provide information relevant to the location, nationwide data to support follow-on analysis, as well as information to assist Customs resource planning and deployment.

23. **QUESTION: In the past, Customs rushed systems ahead before they were ready, so that they did not work as the users of the systems intended. How will Customs correct that problem this time around?**

ANSWER: Customs is redesigning the Automated Commercial System (ACS) under the Automated Commercial Environment (ACE) development project. The ACE Strategic Information Management Plan (SIMPlan), which was submitted to the subcommittee as part of the report on the Mod Act/National Customs Automation Program, sets forth the approach and schedule for ACE. As documented in the SIMPlan, we are taking a very deliberate and structured approach to developing ACE. A business process improvement effort, headed by a senior executive Process Owner, is defining the operational requirements for ACE, in close coordination with the ACE development team. A Trade Support Network (TSN) and Field Support Network (FSN), representing trade community and Customs field users, respectively, have been established to ensure end-user needs are addressed throughout the project. All requirements are being documented and modelled using an established development methodology support by a CASE tool. No aspect of the system will move forward until it has been approved by the Process Owner and thoroughly tested by end-users.

24. **QUESTION: How will the computer system changes improve Customs ability to meet the goals of "informed compliance: under the Modernization Act?**

ANSWER: The implementation of the Mod Act "informed compliance" concept will be dictated by the Trade Compliance process improvement effort under the direction of the Process Owner. Moving to an informed compliance approach is one of the goals and strategies for the Trade Compliance effort. An important supporting concept is that of an "account based" approach. Although our computer system will continue to process each trade transaction, our focus will now be on the accounts that submit these transactions, rather than each individual transaction. Using our redesigned selectivity system to analyze these transactions, we will monitor the compliance of the accounts. Identified compliance problems will be routed to our new "account servicing" process to perform the necessary informed compliance activities that will bring the account up to the desired level of compliance. By having a readily available account history, we will have a better context for judging how to act on individual problem transactions. Our computer system will track the informed compliance activities and the continuing level of compliance to determine the effectiveness of these activities and the performance of the account.

25. **QUESTION: How will Customs ensure that its system modernization effort will be based on business and customer needs?**

ANSWER: ACE will be developed based on the direction provided by the Trade Compliance process improvement effort. As part of this effort, Process Improvement Teams (PIT) are meeting with both internal and external customers to determine their needs. These needs are being used to design the new trade Compliance processes which, in turn, serve as the requirements for ACE. In addition, the ACE team is working with its Trade Support Network (TSN) and Field Support Network (FSN) on a continuing basis to ensure that the detailed system functions operate in a matter that meet their needs.

26. **QUESTION: In the past, coordination of automation planning was a problem. Yet there are still many different groups within Customs that plan automation.**

a. Describe each group, task force, committee, office or other entity that is responsible for planning any current or proposed automated system.

ANSWER: The Office of Information and Technology (OIT) Program Management Staff currently oversees formal information systems planning activities for the OIT. This function will be transferred to the IRM Division being established as part of OITs reengineered approach to providing service to its customers and will increase emphasis on the planning program. Planning for current or proposed automated systems is initiated at the application working group level. Initiatives are elevated to the ADP Steering Committee when warranted to ensure a coordinated approach and that system development is in synch with agency priorities.

b. What is the role of the ADP Steering Committee?

ANSWER: Development of Customs ADP capabilities and the overall strategies and policies that guide the management of these resources are under the direction of the ADP Steering Committee. This committee is chaired by the Deputy Commissioner and had broad representation of Customs executives and technical personnel. The ADP Steering Committee meets regularly to coordinate Customs ADP support with mission and program priorities, and consider major automation procurement and planning initiatives for the short and longer-term future.
Established priorities and input received from ADP Steering Committee exchanges are used in all long range planning activities conducted by the Office of Information and Technology and are integrated with the U. S. Customs Service Five Year Plan and Office of Information and Technology strategic planning documents.

c. What is the role of the Executive Improvement Team?

ANSWER: A Reorganization Study Team was established on October 1, 1993, to evaluate Customs existing organizational structure and identify possible areas where operational efficiencies could be achieved through restructuring. The Executive Improvement Team currently functions to ensure that the intent of process improvement findings from the Reorganization Study Team are carried out in the implementation of newly established organization structures. The Executive Improvement Team approved the new structure for the Office of Information and Technology which will facilitate the delivery of information resource processing services to the users of Customs automated systems.

d. How are these activities coordinated? Do you have one office or person that is responsible for coordinating all automation planning?

ANSWER: The Assistant Commissioner for Information and Technology has the ultimate responsibility within the U.S. Customs Service for coordinating Customs IRM program planning and related activities.

27. **QUESTION: Provide a status report on the implementation of the Automated Export System (AES).**

a. What is the cost of the system, and when will it be operational?

b. Please explain how you plan to address confidentiality and timeliness concerns in your implementation of the AES.

ANSWER: Status: Development work is underway to re-engineer the export process to improve trade statistics, customer service, management of Harbor Maintenance Fees, and targeting and enforcement of export laws. AES will also provide an information gateway for all U.S. Government agencies involved in export, providing one-stop shopping for information and license validation.

To ensure user participation in the design and implementation of AES, 79 public or industry group meetings have been held to date and many more are already scheduled for 1995. A Trade Resource Group, a Customs Field Resource Group, and a Government Resource Group are regularly convened to provide input to the design of AES.
A phased approach for AES development and implementation is being pursued. The phasing involves both database content and mode of transportation. The proposed AES Phase I, July 1995, will focus on the sea environment. Air and air couriers will be implemented beginning in March 1996. Land borders (truck and rail) will follow in December 1996. An Implementation Plan is currently being reviewed by the Trade Resource Group and our partnership agencies. Once that review is completed, site selections for Phase I will be announced.

Cost: Development and implementation costs are expected to be: $1.5 million in FY 1995, $3.8 million in FY 1996 (forward funding in FY 1995 under consideration), with recurring costs estimated at $1.7 million per year for maintenance, licenses, enhancements and port software.

Confidentiality: The exporter will be responsible for the commodity data and updates; the carrier will be responsible for the transportation data and updates. However, the data can be transmitted by a freight forwarder, service bureau, broker, or port authority acting as an agent for the exporter or carrier. AES will not share data between the carrier and exporter.

All access to data will be on a "need to know" basis. Census laws on disclosure remain in effect and we will continue to be guided by the Privacy Act laws (PL96-275, June 17, 1980). We are researching
the legality of establishing a disclosure code for AES participants.

Data will continue to be downloaded to Port Authorities. The Journal of Commerce will continue to get shipping data on tape. The data will, of course, first be run against the confidentiality database currently used and established privacy data will be taken out.

28. **QUESTION: Provide a status report on implementation of "informed compliance" requirements in the Mod Act, including a brief summary of proposed regulations.**

a. Describe how the concept of informed compliance as implemented by Customs differs with the concept of strict liability.

ANSWER: To date, Customs efforts directed at implementation of informed compliance have been primarily focussed on (1) educating the trade as to the background and significance of the various provisions of the Mod Act, and (2) establishing a reliable compliance measurement capability. When fully implemented, this compliance measurement capability will enable Customs to focus its efforts on improving compliance levels in areas that represent the greatest threat in terms of risk to our key industries, the public health and safety, or in terms of loss of revenue.

To increase public awareness and invite public participation in the formulation of concepts, systems, and regulations, Customs posts copies of pertinent documents on the Customs Electronic Bulletin Board and in the ACS Administrative Message System. In terms of proposed regulations, Customs plans to publish in the Federal Register regulatory documents addressing the following Mod Act related topics before or during the Spring of 1995:

- Drawback
- Recordkeeping
- Laboratory procedures
- Liquidation - extension/suspension
- Warehouse Withdrawals; Aircraft Fuel; and Pipeline transport

During the same time frame, Customs expects to publish final regulations pertaining to "tests" and "couriers," an official notice identifying "entry records," and a draft of reasonable care guidelines. Finally, in the Summer of 1995, Customs plans to publish a comprehensive document containing a variety of "informed compliance" information.

In Customs view, the concept of "informed compliance" differs significantly from the concept of "strict liability." Under the concept of "strict liability," the importer would be automatically liable if there were a violation of law. For example, under 19 U.S.C. 1595a(c), if merchandise is introduced contrary to law, the importer would be liable even if the importer had no involvement with the violation. Concerning "informed compliance," it is essential that an importer and Customs share responsibility in assuring that reasonable care is used in discharging those activities for which the importer has responsibility. If an importer acts with reasonable care, there is a presumption that the importer is not liable under 19 U.S.C. 1592 if the importer made a false statement or omission when entering the merchandise.

29. **QUESTION: In a 1994 report on the audit of Customs financial statements, the GAO determined that the federal government lost money because Customs permitted the issuance of surety bonds in insufficient amounts to adequately protect against importer defaults. Briefly, what steps have you taken to remedy that situation?**

ANSWER: Although the problem is not totally resolved, and will not be totally resolved until we can implement new systems that allow for account based processing on a national basis, Customs has implemented a number of improvements to correct identified deficiencies. These corrective measures include:

- Increase in minimum bond amount for Activity 1, Continuous Bonds, from $10,000 to $50,000
- Revision to the guidelines used for setting bond amounts (Customs directive 0993510-04, effective July 23, 1991).
- Implementation of the Automated Commercial System (ACS) bond liability module in February, 1992, to monitor selected entry and bond activities and provide significantly improved assurance of bond adequacy.

During June 1993, Customs completed a major debt collection initiative aimed at reducing the number and age of delinquent debt. Much of the revenue reported in the subject audit report as lost from bond insufficiency is attributable to entries and bonds filed prior to implementation of the above cited improvements.

30. **QUESTION: The GAO report also references a "Surety Bond Task Force." Has that task force issued a report? If so, may we have a copy?**

ANSWER: The Surety Bond Task Force was disbanded without submitting a formal report. Due to the complexity of the issues and the divergent viewpoints of the interested parties, a more comprehensive review by an independent consultant was necessary. Work is underway to obtain this review, and we currently expect the contract to be in place and work started by early April. If desired, we will be glad to provide a copy of the results to the committee when available.

31. **QUESTION: If bond insufficiency creates losses to the taxpayers, why doesn't Customs just adjust upward the bond levels, especially since the cost of bonds for importers is negligible?**

ANSWER: As stated in the response to question 29, Customs has raised the minimum bond amount from $10,000 to $50,000. Other actions will be studied and taken as appropriate.

32. **QUESTION: This whole surety bond systems seems to me to be an efficient and low cost way to protect the nation's revenue and to lower the administrative costs to the Customs Service. Have you considered other ways to creatively use such bonds such as in the collection of the Harbor Maintenance Fees?**

ANSWER: We do not believe that, as currently prescribed, Harbor Maintenance Fee collection would be significantly improved by a bond requirement. Since HMF is a voluntary program whereby a fee is paid based on value reported by the payor, there is currently no basis for determining bond requirements until after payment is made. However, with the planned implementation of the export HMF portion of the new Automated Export System (AES), information will be available to determine a basis for bonding. The need for such bonds can then be considered based on collection results.

33. **QUESTION: We have reports that Customs is considering eliminating the bond requirements for certain large importers. If that were done, the costs of such bonds for small and medium-sized importers might skyrocket. Bond companies might withdraw from the system and we would have no protection of the taxpayers' revenue. Has anyone at Customs thought this through? Why would Customs want to take in-house a function that is currently performed by the private sector at no costs to the government?**

ANSWER: As stated in the answer to question 30, we anticipate that a contract will be awarded and work started by early April on an independent evaluation of all the benefits and shortcomings of the current bond procedures. Certainly, the impact, if any, on small to medium sized importers will be evaluated. Customs is attempting to simplify and streamline the processes without compromising the ability to collect monies due, and without unduly raising these monies. No changes will be made until all aspects of the process have been fully evaluated.

34. **QUESTION: What is Customs doing to prevent importer multiple duty deposit defaults through the Automated Clearing House?**

ANSWER: Customs has taken a number of steps to prevent multiple duty deposit defaults through the Automated Clearing House (ACH). These include:

- The ACH Coordinator at the NFC is monitoring ACH defaults daily. If a payor has multiple defaults, the ACH coordinator works with the ABI Client Representatives to suspend the payor's ACH privileges;

- If an ACH payment defaults, a debit voucher is established and payment is requested from the payor. Guaranteed payment is due within 48 hours. If the payment is not received in this time, the payor is placed on sanction;

- Revised and improved policies and procedures are being developed to ensure that Customs loss exposure is minimized.

Additionally, Customs is working on methods to provide default information to the affected sureties as quickly as possible to allow the surety to work with the debtor to prevent future defaults and to resolve the existing defaults. We will be glad to provide more information on this project once the work is completed.

35. **QUESTION: Provide a detailed status report on progress Customs is making in the implementation of the GATT Uruguay Round of trade agreements?**

ANSWER: The U.S. Customs Service, working with the Office of the U.S. Trade Representative, the U.S. International Trade Commission, and the U.S. Department of Agriculture, was able to implement in a timely fashion (i.e., January 1, 1995), the U.S. tariff reductions commitments and other market access commitments (e.g., the conversion of absolute quotas on agricultural products to tariff-rate quotas (a process known as "tariffication") that were negotiated as part of the GATT Uruguay Round trade agreements.

In addition, the following regulatory projects are currently underway at the U.S. Customs Service relating to the implementation of certain provisions in the Uruguay Round Agreements Act:

1. Regulations to implement new deadlines (which are the result of the GATT Uruguay Round trade agreements) for the liquidation of entries in antidumping and countervailing duty administrative reviews.

2. Regulations to implement certain changes (which are the result of the GATT Uruguay Round trade agreements) to the U.S. intellectual property laws enforced and administered by U.S. Customs.

3. Regulations to implement certain new rules of origin for textile and apparel products.

Under the direction of the USTR, the U.S. Customs Service has been leading an interagency task force to prepare for the U.S. participation on a work program for the worldwide harmonization of non-preferential rules of origin that are envisaged by the GATT Uruguay Round Agreement on Rules of Origin.

Finally, training was held for U.S. Customs Service personnel to acquaint them with how the GATT Uruguay Round trade agreements and the Uruguay Round Agreements Act will affect the responsibilities of the Customs Service.

It should be noted that the Customs Service has also been implementing certain provisions in the Uruguay Round Agreements Act that are not the result of the GATT Uruguay Round trade agreements. Those provisions include ones relating to retroactive refunds on certain merchandise resulting from the renewal of the General System of Preferences program and to increases in the merchandise processing fees.

36. **QUESTION: Now that the Uruguay Round is complete, international discussions on a harmonized rule of origin are set to begin. What approach should be used? Should the "tariff shift" approach used in NAFTA be the baseline? Summarize private sector comments received on the regulations which extended this approach to all U.S. imports.**

ANSWER: International discussions on rules of origin have commenced. The first meeting of the Technical Committee of Origin was held in Brussels in early March. While the meeting was essentially organizational, the Technical Committee began preliminary discussions of the first phase of the work program which is to provide definitions for goods that are considered wholly obtained in a single country. As to what approach should be used, the Agreement on Rules of Origin, which is part of the Uruguay Round Agreement, clearly specifies that the tariff shift approach is the primary basis for determining whether a substantial transformation is present. It is only where the exclusive use of the tariff shift approach is not adequate to describe a substantial transformation that resort can be had to other so-called supplementary rules. This is consistent with the U.S. view that a change in tariff approach is the most transparent, easiest to administer, predictable, and clear basis to proceed for substantial transformation rather than a so-called process based approach or a value added approach. It remains to be seen whether other nations agree that the tariff shift approach should be utilized fully. Others have expressed the view that a value content approach is going to be needed. We strongly hope to avoid that result because of the complexities both for the trade and ourselves of such a rule.

Generally, the response to the tariff shift approach used in the proposal to apply the NAFTA marking rules to all country of origin determinations has been positive. It must be noted that these are still proposed rules except with respect to NAFTA trade. Thus far they have been used only for NAFTA purposes. Customs received 124 written comments. Of these, 27 were in opposition because they believed that the tariff classification approach was being proposed as a replacement for substantial transformation. This is incorrect, and Customs will clarify this matter in a Federal Register notice to be published shortly.

Overall most of the objections were to the specific product rules. Approximately 87 commenters disagreed with a specified tariff shift rule (e.g., the tariff shift rule for vegetable oil). In many of these instances, the commenter suggested an alternative tariff shift rule. Customs notice in the Federal Register will invite further comments to changes proposed to the original rules in response to the comments. Public comment is invited because any change to a specific rule in response to a comment may be opposed by another interested party who agreed with the original proposal. Customs believes it is appropriate to publish these changes and solicit comments on all substantive changes in these rules before making a decision on the final rule.

37. **QUESTION: Please provide a status report on your development of regulations governing rules of origin for textile and apparel imports called for in the Uruguay Round.**

ANSWER: A preliminary draft has been completed and is being readied for publication in the Federal Register. Copies of the preliminary draft have been circulated to the Committee for the Implementation of Textile Agreements, the Department of the Treasury, and to the Office of the Special Trade Representative. It is expected that the proposed rules of origin will appear in the Federal Register during the first half of March. The public will be given thirty days to submit their comments on the proposed rules to Customs.

38. **QUESTION: In your reorganization report (People, Processes, and Partnerships) released in September 1994, the Customs Service set forth its vision for the 21st century, emphasized partnerships with its customers and employees, and stressed management by process. Could you briefly describe again the core business processes (e.g., cargo compliance, strategic trade process, anti-smuggling) you have identified and how you will go about improving the management of these processes?**

ANSWER: First, since the issuance of the Reorganization Report we have redefined our core business processes. This was done through further study and analysis by the Executive Improvement Team (EIT), who are responsible for overseeing the strategic direction for implementing our organization and cultural changes. Our new core business processes are 1) Passengers, 2) Cargo In, 3) Cargo Out, and 4) Mission Support.

We will improve these processes in a number of ways. We will designate Process Owners to develop and implement plans to achieve major improvement goals. We are training Customs personnel on business process improvement applications to better plan, control and improve the processes to deliver quality services that meet customer needs. We are currently working on the development of a system of measures for the processes in order to evaluate organizational performance and customer needs. Customer satisfaction both internally and externally will be measured through surveys and other constructive means. We will be reconciling our Five Year and Annual Plans with the processes so that it will be a guide for continuously improving the processes. And last but not least, we will better integrate the delivery of information technology with the improvement of our processes.

Our first major process redesign effort on cargo-in, is an example of how we will apply the concepts discussed above to improve service. A cross functional management team is setting process goals, developing measures, and meeting with customers to define their needs, all part of an effort to redesign the cargo-in process. Our new automated Commercial system will be designed to support the redesigned cargo-in process.

39. **QUESTION: How will personnel be allocated between carrying out the core processes and the support processes (e.g., budget, human resources, financial)?**

ANSWER: Customs fully intends to live by the NPR direction that more resources should be devoted to the core operations of the agency with fewer devoted to functions, programs and tasks that are of little, if any, benefit or value to our external customers. Customs will identify these potential non-value added areas, through business process improvement techniques and reinvest those resources to field operations which directly serve our customers.

40. **QUESTION: How was your reorganization plan affected by Vice President Gore's National Performance Review? What role, if any, did the Customs Reorganization Study Team that prepared your reorganization report play in the national performance review at Customs?**

ANSWER: The Vice President's NPR played a significant role in our reorganization plan. When I appointed the reorganization study team, I gave them four goals, one of which was to take full advantage of the principles outlined in the NPR. I think you will find that we have totally endorsed and incorporated both the substance and spirit of the NPR in our reorganization recommendations.

As part of the reorganization effort, we included a full-time group to analyze and advise the Reorganization Study Team on those cross-cutting issues that could be taken advantage of in our overall plan. This NPR sub-team maintained close coordination with the Treasury Re-Invention Team and the NPR. As I have stated in my testimony, the Vice President and the NPR Staff have recognized our reorganization plan as a model for demonstrating positive and concrete action in support of the NPR.

41. **QUESTION: Under the reorganization plan, 600 people will be transferred from headquarters in Washington to field operations. What functions are being downsized or eliminated at headquarters to make this transfer possible? What flexibility is built into the reorganization so that Customs will have the ability to transfer people from one function to another in the future as the need arises?**

ANSWER: First, it is important to understand what the 600 position reduction in Headquarters means. It does not mean all 600 employees will be reassigned from Headquarters to the field. Rather, it will be a combination of employees moving to field positions and when possible the reallocation of vacant positions for use in the field or for such costs as investments in automated system enhancements, or absorbed cost of living adjustments.

Since I became Commissioner we have been able to achieve a reduction in our Headquarters staffing by nearly 160 positions, approximately 25% of our goal. Much of this savings, however, had to be used in absorbing unfunded pay increases.

We have established a Workforce Reinvestment Program to facilitate voluntary movement of employees from Headquarters to field opportunities. This effort, coupled with our Headquarters restructuring initiative to reduce administrative overhead (including the NPR targets in mission support areas), reduce supervisory layers, and streamline our core processes at Headquarters to become more focused on policy rather than operations, will be the means for achieving the remainder of our Headquarters reductions. In most instances these further reductions will occur through attrition over the next several years.

Our flexibility for realigning resources will come as a result of implementing process management. It provides the framework for focusing on organizational goals developed in partnership with our customers, and for integrating the efforts of our various disciplines into a coordinated strategy for achieving our goals. Process management will further provide us the means to clarify agency mission goals and priorities, and to clarify roles and responsibilities within the organization for accomplishing the goals. Armed with this ability, Customs will be able to better allocate its resources to meet changing goals and priorities.

42. **QUESTION: Customs is responsible for enforcing U. S. trade laws and collecting import duties. (In Fiscal Year 1994, Customs collected nearly $23 Billion in duties, an all-time high.) Nonetheless. one of the criticisms made about Customs in the past is that it has not done a good enough job in enforcing our trade laws, particularly antidumping and countervailing duty orders. Under the reorganization plan, Customs will create five Strategic Trade Centers (STCs). Please describe the purpose of these centers and other steps being taken to improve enforcement of trade laws.**

ANSWER: The specific purpose of these Strategic Trade Centers will be to assure that any major violations of our trade laws are promptly and effectively dealt with. These centers will be responsible for the identification, research and analysis of unfair trade practice issues, and the development of comprehensive national programs to address them.

43. **QUESTION: One of Customs goals is to become the Nation's supplier of international trade information. How will the reorganization plan improve your ability to perform the service?**

ANSWER: In the development of the new Automated Commercial Environment (ACE), Customs is taking steps to update its import data collection and processing capabilities to meet its core business process requirements. Customs is also working to develop an improved export system via the Automated Export System. Customs office of INTRADEX is working to determine the national and international requirements for trade information. By leading the NPR Information Technology initiative (IT06) to design an international trade data system, INTRADEX is moving toward integrating the myriad of data collection and processes now occurring in the federal government. By its improved system capabilities and its leadership in designing a plan for fully integrating government international trade processes, Customs will be in a position to truly become the nation's supplier of international trade information.

44. **QUESTION: According to recent news reports, Customs will have to dismantle an experimental x-ray system in Tacoma. Please review your experience with this system and do you expect it to be used by Customs in the future?**

ANSWER: Although test results of the Tacoma high energy x-ray system appear favorable, there are serious concerns about the suitability for field deployment for this system. This is a very expensive, technologically complex system with high operational and maintenance costs. The high energy x-ray system requires up to 15 acres of land and is installed in a permanent structure. As such, Customs would have difficulty locating that design in most ports of entry. Additionally, the system is completely immobile. We would not be able to relocate it as threat levels change and traffickers diversify their transportation patterns.

45. **QUESTION: The reorganization plan calls for a transformation of the Customs' culture to a management approach based on people, processes, and partnerships. How long do you anticipate it will take to effectuate this internal culture transformation?**

ANSWER: The culture changes to Customs are far more complex than moving organizational boxes. In fact, it is the culture reforms we envision that will drastically change the way we do our business. Whether it is our change to managing the organization through processes, developing our customer orientation, empowering employees or managing our partnership with the NTEU, this sort of change will require considerable time, sustained effort, and training for all our employees. Some of these changes are already in progress while others are just in the planning stages. It could easily take 5-10 years to see the full implementation and benefits of these culture changes.

46. **QUESTION: It has been estimated that, as a result of passage of the Mod Act, 50 percent of the existing regulations concerning commercial processing will need to be rewritten. I understand that 22 regulatory packages have been identified and 3 have been completed. How long do you anticipate it will take to rewrite the regulations needed to implement the Mod Act and what process is being followed to ensure this is achieved?**

ANSWER: Customs currently estimates that between 70 and 90 percent of its regulations will have to be amended to reflect changes enabled or required under provisions of the Mod Act. This estimate takes into account the very simple changes that will be required to eliminate references to Districts and District Directors to the complex changes resulting from new entry, drawback, penalty, and recordkeeping requirements and procedures.

Rather than initiating extensive rewrites of the Customs Regulations, Customs has taken an unprecedented step of first establishing Process Improvement Teams (PITs) and tasking them with defining how commercial processing can and should be streamlined. Following management approval of new processes defined by PITs, regulations will be drafted.

Recognizing the enormity of the regulatory task before it and the fact that between 10 and 18 months generally elapse between commencement of the drafting of a regulatory package and the date it becomes effective as a final rule, Customs estimates that completion of all regulations stemming from the Mod Act will take 3 to 4 years. To ensure that the Customs Regulations are brought into conformity with the Mod Act, Customs intends to monitor its progress using a section-by-section check list of Mod Act provisions.

47. **QUESTION: Please describe the process being followed for implementing the National Customs Automation Program. When will implementation be completed?**

ANSWER: For Customs to implement the National Customs Automation Program (NCAP), it must blend numerous ingredients. These ingredients include its reorganization plans, its NCAP needs and those of its "customers," legislative requirements contained in the Mod Act and in other legislation, and its existing automated resources. The process involves ensuring that Customs complies with all pertinent legislative requirements and meets the needs of its customers and employees without compromising its strategic intent to protect the public against violations which threaten the National economy, health and safety.

To ensure that NCAP evolves based on an appropriate "blend" of ingredients, Customs has established a "Trade Compliance Process Owner." Process Improvement Teams (PITs), working for the "Trade Compliance Owner," have been tasked with defining issues and developing detailed recommendations for servicing accounts; managing revenue; verifying compliance/non-compliance, detecting trade violations and interdicting cargo; instituting a balanced informed/enforced compliance approach; increasing the reliability targeting and analysis of trade law violations; and ensuring collection of timely and accurate international trade statistics.

The Trade Compliance PITs are interviewing internal and external customers, identify needs and will make their recommendations by the Summer of 1995. Following approval of PIT recommendations by Customs management, detailed automated analysis will be initiated by the Automated Commercial Environment (ACE) Team and the Office of Regulations and Rulings will commence work on supporting regulatory packages. Subsequently, redesigned processes will be developed, field tested, and evaluated prior to national implementation. Although some NCAP features will be available earlier, complete ACE implementation of NCAP is not expected to occur prior to the Fall of 1998.

48. **QUESTION: What will be your major challenges in implementing the Customs Reorganization Plan? What complaints have you heard about the proposed plan since it was released last September and how have you addressed those complaints?**

ANSWER: As I stated in my testimony, the most immediate and challenging obstacle to our reorganization plan has been a misconception about the role of our new Customs Management Centers (CMC's). Perhaps the most controversial aspects of our proposal have centered on the location of these centers and their function in the new Customs organization. I have and continue to meet with concerned representative of the trade community and trade associations to discuss their concerns. I find that after such discussions they are more receptive to our proposals.

With regard to internal concerns from our employees on the "what about me" issues, I continue to keep them apprised about reorganization progress through E-Mail messages and satellite broadcasts. In addition, we have set up career centers in Headquarters and in the seven regional cities. These centers post reinvestment job opportunities, coordinate referrals, respond to employee questions, and provide career counseling.

49. **QUESTION: How will Customs' efforts to combat international drug trafficking be affected? and will the reorganization plan improve your ability to combat drug trafficking?**

ANSWER: Efforts to combat drug trafficking by the Customs Service will be greatly enhanced by the reorganization. The ability to be more flexible with new initiatives and innovative programs will create a more efficient, productive and highly skilled workforce.

The Customs Service recently initiated a new initiative, Operation Hard Line, which places additional manpower (agents and inspectors) at our front lines to combat drug smuggling and violence along our southern border. Upgrading inspection lanes with jersey barriers and bollards will help channel traffic in a more controlled manner, thus allowing for an efficient and thorough inspection of cargo and conveyance, while greatly reducing the risk of violence by port runners.

50. **QUESTION: According to press reports, one concern that has been raised by some New York Brokers is that it will be difficult to maintain uniformity of service throughout the country. Lack of uniformity of service may lead to "port shopping" (brokers and importers seeking ports of entry where they believe they will receive more favorable treatment). How does the proposed reorganization plan seek to ensure uniformity of service?**

ANSWER: The function of the CMCs is to ensure the high quality uniform services are provided at the ports and to work with the ports to constantly improve the delivery of those services. The CMCs will monitor core processes at the ports to ensure that uniform service is provided through the use of a variety of process management tools, which include Business Process Improvement, statistical analysis, measurement techniques and customer surveys. In addition, the process owners at headquarters will work closely with both the CMCs and the ports to ensure that all issues concerning uniformity are closely monitored and adequately addressed to support the service needs of the importing community.

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51. **QUESTION: According to recent reports, Customs has recently lifted a hiring freeze that has been in effect since early 1993. How much below current authorized staffing levels is the Customs Service, where are the shortages being felt the most, and how long will it take to bring the Service back up to authorized levels?**

ANSWER: Our decision is to maintain a level of field positions as well as operations and service in spite of all the required absorptions such as the pay raise and the administration's requirements for downsizing.

Therefore, we have followed a policy of using savings from reductions in Headquarters and support positions, gained through attrition, to pay the increased cost of operations.

Our staffing policy has maintained a freeze on Headquarters (regional and national) positions and allowed the filling of front line and field positions. Between April, 1993 and January, 1995, we have reduced Headquarters by 153 full-time positions and 20 part-time positions.

Since Customs was under a hiring freeze through most of 1994, our on-board strength in the field decreased. However, we are in the process of filling nearly 700 positions, which includes an additional 186 FTE for NAFTA and textile enforcement and 190 for inspectional services as well as other critical positions that were lost through attrition.

We will continue to follow a policy of reducing Headquarters and support positions, while investing staff resources in the field.

52. **QUESTION: Recently, Customs lifted a hiring freeze that had been in place since February, 1993. In his FY 1995 budget, the President requested $18 million in order to hire 186 additional Customs personnel. These personnel were to focus specifically on the enforcement of textile trade laws. During debate on last year's appropriations bill, Chairman of the Appropriations Subcommittee on the Treasury, Postal Service and General Government, Steny Hoyer, noted that simply re-assigning existing personnel would not meet the obligations in the bill. Please provide the Subcommittee with an update on Customs' progress in hiring these 186 additional Customs inspectors.**

ANSWER: Since employees skilled in NAFTA and textile enforcement activities cannot be hired directly off the streets, the Customs Service has taken steps to reassign experienced staff into a portion of these positions. This is especially true for the criminal investigators and a portion of the import specialists. The balance of the positions are being actively recruited and will be filled by mid-summer.

53. **QUESTION: Section 333 of the Uruguay Round Agreements Act authorized the Secretary of the Treasury to publish a list of any foreign nations or foreign concerns that aid and abet the transhipment of textile and apparel products. This section was intended to provide importers with the information they need to comply with the reasonable care standard established in the Customs Modernization Act. To date, what activities have Customs and Treasury undertaken to implement this part of the Uruguay Round Agreements Act?**

ANSWER: Currently, Customs and Treasury are meeting with the Committee for the Implementation of Textile Agreements (CITA) in an effort to identify those countries through which transshipment to the United States has occurred. Once identified, Treasury, Customs and CITA will be assessing the degree of cooperation these countries have provided in preventing transshipment.

Additionally, Customs is manually reviewing its files to identify individual producers, manufacturers, suppliers, exporters or other persons located outside the United States against whom the Customs Service has issued penalties under section 592. Customs must undertake this process manually because our automated systems are currently unable to distinguish 592 penalties issued for transshipment offenses from 592 penalties issued for other violations of law. To more easily extract this information in the future, we have proposed enhancements to our automated systems.

54. **QUESTION: What assurances can you give that a successor Customs Commissioner will not be tempted to change the responsibilities of the Customs Management Center (CMC) to include operational responsibilities, and can anything more be done now to make such a change in policy less likely?**

ANSWER: It would be very difficult for me to give the sort of assurances being asked. What I do believe is that successor Customs Commissioners would find that our concept of the CMCs is sound. First, our customers want efficient and fair services with the least amount of intrusion possible. Putting operational responsibilities in the CMCs would in effect be adding an additional layer of review and control, which would lessen the importance of our proposals to eliminate existing Regions and Districts. Our plan is to keep the CMCs very lean and the more we have to take resources away from serving the customer and place them in these internal administrative operations, the more counterproductive this is to our mission to serve them better.

Probably, the most effective way to demonstrate our intent and guarantee on the CMC concept is to have it implemented as quickly as possible and to involve our customers in a full partnership to develop the processes and measures to ensure that the CMC's operate as designed. Changing our culture and implementing business process management will also assure the long-term commitment for staying the course. In addition, our compliance measurement will give us objective performance data for policy makers. Further, we a developing performance indicators on processing time and customer satisfaction. To the extent that we are successful at getting these management processes in place, we cannot see why future Commissioners will want to make major changes not will our customers sit back and let it happen. Finally, I believe that our two proto-type CMC's will also convince the trade that the CMC concept can and will work.

It will be through experiencing our new framework, for the way in which the Ports and CMC's are involved in delivering our services, that will make believers of the trade community. I think we are making significant headway in making our case and the more we discuss this openly with the trade the more buy-in we are getting.

55. **QUESTION: What assurances can you give that CMCs will not be given National Entry Processing responsibilities that could give a competitive advantage to CMC ports?**

ANSWER: The CMCs are simply administrative centers dealing with internal support functions. They will not have any operational functions. The implementation of National Entry Processing (NEP) will not be affected by CMCs. The importer will choose where they want to file their entries using NEP. That decision will be based on the companies choice of how they wish to conduct business. A CMC presence or absence should have no affect on that decision since they will have no dealings with the CMC.

We anticipate that the major NEP ports will be cities that are major commercial centers but that many importers will also choose not to use NEP and simply process at their local port. But that choice will rest with our "customer", not Customs unless staffing makes approval of their request impossible. (Explanation - If everyone in the country chose to make their entries in Providence, where we have 2 import specialists, we would have to insist on diverting some of the "people work" to other ports but the filer could still electronically file the entries from their location of choice.)

56. **QUESTION: On numerous occasions, you have stated that the new CMC's will have only an inward management focus and will not be involved in day-to-day port operational activities. The Committee understands that, because CMC's are not intended to affect port operations, your selection criteria for determining CMC's did not include significant measures of operational port performance (i.e., duties collected, entries presented, existing outport facilities).**

In light of your decision to omit this criteria, would you support legislation similar to current law (19 U.S.C. 2075) which would prohibit Customs from giving to the CMC site any additional responsibilities beyond those outlined by you, including operational responsibilities, without prior Congressional notification and a waiting period similar to that included in this law?

ANSWER: There may be benefits to legislating the responsibilities of the CMC's in that it could minimize or remove the concerns of the trade community regarding the perceived competitive advantage by being named a CMC city. However, legislating the CMC responsibilities could be too restrictive as we continue to work with our customers in further defining and improving our processes. In addition, as we gain more experience with our new approach to management and begin to make improvements to our processes as well as our automated support systems, we believe that we will be able to reduce the number of CMC's which could result in further improvements in service to our customers. We are confident that once we are able to implement our CMC approach, we can demonstrate to the trade community that there will be no loss of status, positions, or service.

57. **QUESTION: What steps are you taking to ensure those ports which have not been selected as CMC sites will not be competitively disadvantaged by the selection of their neighboring selected ports?**

ANSWER: As I have previously stated in my testimony this issue is perhaps the most controversial aspect of our reorganization. We have had representatives from the trade community requesting a CMC without the slightest understanding of their intended purpose. Locations designated as CMC's are falsely claiming competitive advantage. Cities not designated as CMC's incorrectly perceive a loss of status, positions, or service.

We are not building our new organization around complaints or problems. Rather, we are building it around uniform development and execution of our processes and customer service standards. In our new field structure we will guarantee continued effort to achieve uniformity of service and operations among ports. This guarantee is based on uniform processes, uniformly executed at the ports. We have and will continue to include our customers in the development of these processes and in the development of our customer service standards for each of these processes.

I will continue to personally meet with the trade to discuss their concerns and to actively engage them in helping us to ensure that Customs holds the line on its service commitments.

58. **QUESTION: If the CMC site (e.g. Baltimore) is to have budgetary authority over the ports within its jurisdiction (e.g. Philadelphia) which is also a competitor, what assurances can you give that the budgetary authority vested in the CMC will not be abused to give the CMC port a competitive advantage?**

ANSWER: CMC Directors will have the authority to address resource needs as identified by the Port Directors or headquarters process owners. All budgets will be governed by the operation policies and oversight of the Commissioner and the Assistant Commissioner for Field Operations in conjunction with the CMC Directors.

59. **QUESTION: The Customs Service pays an average of $55,000 for each permanent change of station (PCS). Customs intends to decrease the Headquarters staff by 600 employees. To date, 100 employees have left by attrition, i.e. early out retirements. Customs also intends to eliminate the seven regions. The Northeast Region headquartered in Boston has 77 employees. No RIFs are expected. Last fiscal year, the Service budgeted $20 million for PCS.**

1. What will be the total number of employees relocated as a result of the reorganization?

ANSWER: I have made the commitment, to employees whose jobs are being restructured, that we will work with them to move them to other positions as slots become vacant, either through attrition or through restructuring. In many cases, this will involve some retraining or relocation. In almost all cases, we will require some time to implement these changes. Because of the unknowns associated with these shifts, we are unable to currently estimate any savings associated with the reorganization.

2. How much will this cost?

ANSWER: We anticipate that the reorganization will generate additional costs associated with retraining, relocation, employee counseling and placement services, space and information technology as we implement various phases of our proposal. However, since neither the plans nor the time schedule has been finalized, we are unable to estimate exact costs.

We are trying to minimize the costs associated with the reorganization. By establishing the Customs Management Centers (CMCs) and the Strategic Trade Centers (STCs) in places where we currently have staff, the costs of relocation, space and equipment redistribution will be kept as low as possible.

Customs would be happy to provide Congress with an accounting of our costs. However, a number of undecided variables would significantly affect our ability to provide strong estimates. When the final plan has been approved, we will be able to provide better estimates.

3. Will the costs of reorganization PCS's be beyond the existing PCS budget?

ANSWER: As stated above, it is too early to estimate PCS costs associated with the reorganization.

4. Where will the money come from? Customs budget? If so, from what program?

ANSWER: Customs will be able to pay for the reorganization costs with savings realized by not filling vacated support positions in regional and national headquarters. The reductions in overhead positions, along with delayering and consolidating space should provide sufficient resources to cover the costs associated with the reorganization.

5. How much money has been spent on the reorganization effort so far?

ANSWER: Over an eighteen month period, Customs spent $750,000 on expenses associated with the reorganization study. These expenses included payment for the services of various consultants, including the Federal Quality Institute, Brookings Institution and the National Association of Public Administrators. There was also a small amount of funding for TDY and travel costs for those working group representatives who were detailed to the study from outside of the Washington metropolitan area.

6. How much money will be spent as a result of reorganization, i.e. planning and implementation?

ANSWER: It is too early to estimate the total costs of the reorganization.

60. **QUESTION: The Plan establishes twenty Customs Management Centers (CMCs) whose functions will be inwardly focused. They are supposed to be staffed with 10 - 30 employees each. One function mentioned in the plan is Human resources. No staffing model for CMCs has been made available. Ironically, the number of positions within the newly created CMCs will be enough to absorb the number of people slated for removal from Headquarters. According to page 38 of the Plan, the CMC's will have only three major functions.**

1. What functions will be performed at CMCs?

ANSWER: The CMCs functions are to ensure that high quality uniform services are provided at the ports, to work with the ports to constantly improve the delivery of those services and to provide mission support to the ports.

2. Who performs these functions now?

ANSWER: Currently, the program uniformity responsibilities are shared by a number of offices, but mostly by the regions and Headquarters functional offices. The function of working with the ports to constantly improve service delivery and quality was not specifically identified as a primary goal under the current region-district organization. Mission support functions currently are provided by various units which are organized and operated in accordance with local conditions, divergent Headquarters, regional and district policies, and system - dictated considerations.

3. Since the Office of Human Resources (OHR) is now centralized at Headquarters, how will establishing 20 OHR's streamline the process?

ANSWER: The reorganization plan does not call for the decentralization of OHR into the (20) CMC sites. While it is possible that some simple/routine personnel related functions will continue to be performed outside of OHR, the Customs Service will continue to maintain a centralized personnel operation.

4. How can a CMC perform the tasks set forth on page 22 of the plan with only 10 employees?

ANSWER: The role of the CMCs is to facilitate change and provide guidance on core business processes at the ports within their respective geographic areas as well as to provide administrative support and guidance to the ports. By empowering the ports to deal with the trade and the public, we have provided for the execution of day-to-day Customs business closer to the point of transaction.

The CMC staff will serve as coaches and facilitators who will draw on the expertise and the manpower at the ports and

Headquarters to ensure that Customs services are provided uniformly throughout the Service.

5. How will the CMCs be staffed? Reassignment? Merit promotion? Bargaining Unit?

ANSWER: The staffing of CMCs will be accomplished through a variety of sources. The Customs Service has just entered into an agreement with the National Treasury Employees Union, "Partnership for Workforce Reinvestment". Under the provisions of this document, there are formal posting, referral, and selection criteria which must be followed when filling bargaining unit positions. This document also specifies when the Customs Service could proceed with merit promotion and external selection procedures. With respect to non-bargaining procedures, positions may be filled by reassigning employees into these new positions with or without a formal posting, or through formal recruitment procedures.

6. Have the CMCs been created as a "dumping ground" for relocated HQ personnel?

ANSWER: Absolutely not. As previously explained, the CMCs have a clearly defined purpose, which is to provide training, evaluation and oversight of ports and port processes. As our Port Directors and their staffs take on new and broader responsibilities, the role of the CMCs will be critical. In addition, based on the number of impacted employees in our regional and district offices, we would expect that most of the staffing for the CMCs will come from our regional and district staffs, not headquarters employees. In addition, our primary goal is to reinvest impacted employees (field and headquarter employees) in front line positions at the ports, not at CMCs.

7. If the CMCs will have only three major functions, why do we need twenty of them?

ANSWER: The CMCs most critical function will be to ensure that Customs delivers high quality, uniform service at the Ports by monitoring key processes with the intent of constantly improving them. In addition, the CMCs will be responsible for providing administrative support for the ports. The CMC's focus on facilitating change and improving processes will be accomplished through use of a variety of process management tools, which includes business process improvement (BPI), statistical analysis, measurement techniques and customer surveys.

61. **QUESTION: We currently have seven Regions. Customs intends to eliminate all of them. The attached sheet shows the current staff of the Northeast Region (Region One). It appears that many of the departments perform functions that cannot be performed at the Port level, i.e. Regulatory Audit, Regional Counsel (review of supplemental petitions), Labor Relations, EEO, etc. Of particular concern is budget authority.**

1. What are the functions of each department at the Regions?

ANSWER: Page 38 of the Customs Reorganization Report, People, Processes, and Partnerships provides the present location of primary functions and their dispersion after implementation of the reorganization (copy attached). This chart includes the Region functions.

2. Where will each of these functions be performed upon reorganization?

ANSWER: See attached chart.

3. If they are performed at the CMC, will we be increasing the number of Regions from seven to twenty and losing the inward focus which characterized the CMC?

ANSWER: The attached chart clearly reflects, the only functions to be performed by the CMC are uniformity assistance, process oversight and administrative support. The role of the CMC does not include any of the operational functions that are being performed by the regions. The only similarity to a region may be in the areas of administrative support.

4. If they are performed at Headquarters, will they be able to accommodate the increased workload with decreased staffing?

ANSWER: Current plans do not call for functions currently performed at the Regions and Districts to be moved to Headquarters. Rather, they will be performed at the Ports. The attached chart reflects this concept. Headquarters will not be operational, but rather, focused on the core business processes and developing national goals and objectives, priorities, and measures of accomplishment to ensure efficient and effective operations and service to our customers.

5. Who will control budgets for the Ports? Will we now have twenty budgets instead of seven? Or will we have 300+ budgets with a "budget officer" at each port? Or will we have one budget from Headquarters?

ANSWER: Through the reorganization we have established line authority from the ports to the Assistant Commissioner for Field Operations. It is the responsibility of the Assistant Commissioner to appropriately align resources to meet current national goals and priorities. Allocation of such resources will be through the CMC's to the Ports. The present plan is for each CMC to oversee and, to a lesser extent, administer the budget for those ports located within the jurisdiction of the CMC. Large ports will be allocated a budget for execution purposes. The port director will be responsible for managing all resources assigned to his/her port. For smaller ports, a consolidated budget will be administered to support their needs.

62. **QUESTION: Customs currently has 42 District offices. Each District is responsible for the Ports of Entry in its area. Following the new "employee empowerment management style, Customs intends to push many responsibilities down to the Port level, thus eliminating "District Management." Each of the 300 Port Directors will have the responsibility for running his/her Port. It will be the CMC Director's responsibility to ensure uniformity among the Ports in his/her area. Uniformity was one of the primary concerns of Customs' external customers.**

1. Will twenty CMC's be able to maintain uniformity among all 300+ Ports of Entry?

ANSWER: We believe that the 20 CMC's can guarantee uniformity of service and operations among the ports. This guarantee will be made possible through a number of means. As we further develop our core business processes with our customers, appoint Process Owners, include the customers in developing our customer service standards for each process, and continuously seek feedback from our customers, we can improve and assure uniformity of service. In addition, as we enhance our organizational performance measures, this too will increase our ability to deliver uniform services.

2. Will external customers enjoy an increase in uniformity if the 300+ Ports are running their own respective operations?

ANSWER: This is the expected outcome that we plan to guarantee. Our commitment to business process improvement techniques is grounded in an understanding that we can achieve improved mission performance through more effective working relationships with our customers. The Ports are where the policies, programs and processes are implemented. The CMC's support Headquarters in the design, redesign, and improvement of national policies, programs, and processes. The CMC's lead the process and customer measurement and process improvement efforts and ensure the uniform application of laws and policies between Ports of Entry within its geographic area. CMC's will not be involved in the day-to-day Port activities.

Chairman CRANE. The next panel is J. William Gadsby, Director, Government Business Operations of the U.S. General Accounting Office; accompanied by Hazel Edwards, the Director of Information Resource Management; and Walter Raheb, Senior Evaluator.

Mr. GADSBY. Thank you, Mr. Chairman.

Chairman CRANE. And we will start with Mr. Gadsby's testimony.

STATEMENT OF J. WILLIAM GADSBY, DIRECTOR, GOVERNMENT BUSINESS OPERATIONS ISSUES, GENERAL GOVERNMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE; HAZEL E. EDWARDS, DIRECTOR, INFORMATION RESOURCE MANAGEMENT, AND WALTER RAHEB, SENIOR EVALUATOR

Mr. GADSBY. Thank you, Mr. Chairman. And I will briefly summarize my statement which has been submitted for the record. Starting in the mideighties, the GAO undertook a series of general management reviews on major Federal departments and agencies. Responding to the interests of the Subcommittee on Oversight of the Ways and Means Committee, which, by the way, had done its own study and assessment of Customs' commercial operations, the GAO assessed Customs' ability to fulfill its important trade enforcement mission as part of that series of management reviews.

The bottom line of our September 1992 report was that Customs could not ensure that it was meeting its responsibility to combat unfair trade practices or to protect the American public from unsafe goods. We attributed Customs' problems to weaknesses in a number of things, including mission planning, organization structure, financial management, human resources management, as well as information management practices. Since 1992, we have continued to do considerable work in the financial management area in conjunction with Customs' efforts to prepare good financial statements.

The internal management problems that we found at Customs in all of our work were very serious. In addition, Customs has been faced with substantial external challenges emanating from increased trade, continuing enforcement responsibilities, as well as pressure from the business community to move goods in and out of the country more efficiently. Together, the internal and external challenges moved Customs to the position where it thought it would be better off in the long run to totally rethink what type of organization it should be and how it should conduct its business.

Out of this comprehensive rethinking process, which the Commissioner highlighted in his statement, came Customs' September 1994 report entitled: "People, Processes, & Partnerships." Customs refers to this as its blueprint for comprehensive change, but I think it should be recognized that this blueprint doesn't contain many of the details needed to redesign either the structure of Customs, or the processes or the automated systems. So in reality, that document is more like a framework or a preliminary design for change. The Commissioner mentioned many of the components of that framework document or blueprint, so I won't go over them in detail.

Mr. Chairman, I would now like to emphasize several points that are at the end of my written statement which give our point of

view about how we feel about Customs' efforts and where it is in this process. We are encouraged by Customs' efforts to change its structure, its processes and its culture. Those efforts have included an extensive self-examination of Customs' operations, a decision to take a comprehensive approach to change rather than to go about it piecemeal, reaching out to include Customs' customers as well as its Federal partners and the union.

Are Customs' efforts on the right track? The answer to that from our perspective is yes.

Are they responsive to the recommendations that were made in our 1992 management report and subsequent reports that we did? Again, we feel that the answer is yes.

Will mistakes be made along the way in progressing with these changes? We are sure that they will, but we should remember that this is a very large and complex undertaking which is largely still in the planning stages. Much work remains to be done to transform that plan into reality. And the other thing I wanted to mention, with all the discussion of the Customs Management Centers, we also must remember whose plan this is. It is Customs' plan. They are building the new Customs, and they are the ones that will be held accountable for it in the end. So I think they need to have the flexibility to put the system they feel is right in place.

Can this subcommittee help? I think the answer is absolutely yes. A continuing dialog, both on the progress Customs is making, and on the results they achieve as they progress, will be very useful to the committee and to Customs as well. And, in my written statement, I lay out a number of topics that I think might be useful for beginning that dialog.

Finally, does Customs' leadership seem committed to making the change and to making it work? Again, I think the answer is yes to that, based on everything we see.

That concludes my summary, Mr. Chairman. We would be glad to answer whatever questions you and the other subcommittee members may have.

[The prepared statement follows:]

STATEMENT OF J. WILLIAM GADSBY
DIRECTOR, GOVERNMENT BUSINESS OPERATIONS ISSUES
GENERAL GOVERNMENT DIVISION
CUSTOMS SERVICE
U.S. GENERAL ACCOUNTING OFFICE

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the Customs Service's reorganization and its automated systems improvement efforts. Our testimony is based on extensive work we did for our 1992 general management review of Customs,[1] as well as other ongoing and completed work. My testimony will cover three topics: the challenges facing Customs, Customs' proposal to fundamentally restructure itself as outlined in its September 1994 People, Processes, and Partnerships report, and its implementation of the Modernization Act.

THE CHALLENGES FACING CUSTOMS

The American public relies on the Customs Service to guard the nation's borders and enforce the nation's trade laws. Specifically, its mission includes (1) enforcing U.S. law intended to prevent illegal trade practices; (2) protecting the American public and environment from the introduction of prohibited hazardous products; (3) assessing and collecting revenues in the form of duties, taxes, and fees on imported merchandise; (4) regulating the movement of persons, carriers, merchandise, and commodities between the United States and other nations; (5) facilitating the movement of all legitimate cargo, carriers, travelers, and mail; (6) interdicting narcotics and other contraband; and (7) enforcing certain provisions of the export control laws of the United States.

Responding to the interests of this Subcommittee, we assessed Customs' ability to fulfill its important trade enforcement mission. As the House Ways and Means Subcommittee on Oversight reported in 1990[2] and we reported in 1992,[3] Customs could not adequately ensure that it was meeting its responsibilities to combat unfair trade practices or protect the American public from unsafe goods. We found that Customs was discovering 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. Customs also lacked an effective strategic management process capable of guiding its operations and establishing accountability for performance. In addition, Customs did not have adequate information to assess its effectiveness in collecting applicable duties or penalizing violators of trade laws. We attributed these problems to weaknesses in mission planning; organizational structure; and financial, human resource, and information management.

Also, since 1992, we have audited the financial statements prepared by Customs in response to the requirements of the Chief Financial Officers Act. This work has revealed serious weaknesses in Customs' financial management practices and its internal control structure.

In addition to the internal problems outlined above, Customs faces major external challenges from increased international trade activity as it plans for the 21st Century. Customs estimates that about $1 trillion of goods and almost 1 billion people cross U.S. borders every year. Between 1984 and 1994, the number of import entries[4] into the United States increased from about 10 million to almost 40 million, making it

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[1]Customs Service: Trade Enforcement Activities Impaired by Management Problems (GAO/GGD-92-123, Sept. 24, 1992).

[2]Abuses and Mismanagement in U.S. Customs Service Commercial Operations, Committee print WMCP: 101-22, Subcommittee on Oversight of the Committee on Ways and Means, U.S. House of Representatives, February 8, 1990.

[3]Managing the Customs Service (GAO/HR-93-114, Dec. 1992).

[4]This includes both formal and informal entries.

impractical for Customs to inspect all shipments. The demand on Customs' resources has also been strained by the agency's involvement in the War on Drugs. And recent trade agreements, such as the North American Free Trade Agreement (NAFTA) and the General Agreement on Tariffs and Trade (GATT), have increased the number and complexity of trade agreements that Customs must enforce. Against this backdrop of increasing responsibility, U.S. and foreign businesses are also placing greater pressure on Customs to facilitate the movement of goods across U.S. borders.

CUSTOMS' RESPONSE TO THESE CHALLENGES

Rather than individually addressing the problems identified by us and others, Customs undertook an integrated proactive approach designed to rethink what type of organization it should be, and how it should meet the demands of the 21st Century. As an initial step in its transformation, Customs issued its People, Processes, and Partnerships report in September 1994. Described by Customs as a "blueprint for comprehensive change," it proposed in general terms the agency's vision and a three-part transformation process to achieve this vision. The three components are (1) organizational change, (2) business process management, and (3) cultural conversion.

Customs has begun a number of efforts designed to improve the way it is organized. For example, Customs has created a new Assistant Commissioner position to oversee field operations. This Assistant Commissioner is to handle functions previously performed separately by the Office of Inspection and Control and the Office of Commercial Operations. These functions should now be approached in a more integrated, mission-oriented fashion--an approach that responds to a key problem area highlighted in our 1992 management report.

Customs is also proposing 20 Customs Management Centers (CMC) to replace the existing 7 regions and 42 districts. The CMCs would remove a layer of management and provide a better link between the Assistant Commissioner for Field Operations and the 301 ports of entry. Customs officials envision CMCs providing the consistency in oversight and policy implementation that is lacking under the district and regional structure, which was another key problem area highlighted in our 1992 management report. Although Customs is still clarifying the specific roles and functions of CMCs, it is scheduled to begin piloting the concept by the end of this month. Customs started training selected staff for the 2 prototype CMCs on January 10 and expects that the 20 CMCs will be in place by September 1995.

Another important organizational initiative is the planned establishment of five Strategic Trade Centers (STC) under the direction of the Assistant Commissioner for Strategic Trade. These centers would enable Customs to look at trade enforcement issues from a national and international perspective and, working with the Field Operations group, provide a comprehensive response to emerging trade compliance issues. This capability has not previously existed.

Recognizing the need to focus on outcomes, not tasks, Customs has also begun efforts to improve its processes. Customs is defining its core business processes, identifying individuals who will be responsible for these processes, and deciding how they should be implemented. It is also developing performance standards and measures for these core processes. Through these and other efforts, Customs is seeking to break down the barriers among its various functional organizational components.

With respect to financial management, Customs has taken several important steps toward addressing the weaknesses we have disclosed since 1992. However, significant additional efforts will be needed to reduce the risks associated with internal control

problems and to ensure that Customs management and other users of its financial statements and reports have reliable information.

An overarching component of Customs' transformation is its plans to change its culture. Customs has historically been characterized by divisive internal competition, highly visible turf battles with other agencies, a controlling management style, and an adversarial relationship with its employee union. Customs is seeking to transform itself into an organization that develops the skills of its workforce, integrates and better manages its essential business processes, and develops better relationships with its external customers. Customs has begun its cultural transformation by training its senior managers. It plans to build these training concepts into future training courses that will be offered to all staff.

Changing the culture, work processes, and organizational structure are important steps forward. In addition, the Modernization Act provides Customs with the tools it needs to develop its automated systems to better meet the information challenges of the 21st century.

CHALLENGES FOR INFORMATION RESOURCES MANAGEMENT

Historically, Customs' automated capabilities for processing imports and enforcing trade laws were limited. Customs had various systems to process import transactions, but these systems were not fully integrated and could not readily share information. As we noted in our financial statement audits[5] and our 1992 management report, the systems did not effectively enhance Customs' ability to reasonably ensure (1) overall compliance with trade laws and (2) that duties and fees were properly assessed, collected, and reported. In the last few years, Customs has undertaken several projects to address these system deficiencies. For example, projects were initiated to enhance Customs' capability to target import violations and validate, collect, and report revenues.

The Modernization Act, which was part of the NAFTA legislative package, allows Customs to move toward a fully automated environment. Most importantly, the act removes legislative constraints that required brokers and importers to submit paper documents for each import transaction. Now, customers will not only be allowed, but will be encouraged, to electronically submit documentation. In addition, the act allows customers to begin filing import documents from locations different from the cargo's port of entry. Previously, customers had to submit documentation at the port where cargo was entered.

The new environment created by the act provides Customs with the impetus for rethinking and modernizing the way it conducts business. In response, the agency envisions developing a fully integrated system that can identify and track an import transaction anywhere in the process, from the point of initial filing and payment of duty until the transaction is closed. Customs has recently issued a strategy that lays out the steps necessary to design and develop such a system. The act requires the agency to develop a plan for the system, then test and evaluate system components to ensure they meet program goals.

Customs recognizes that it cannot wait for this new system to be fully designed, implemented, and deployed before addressing some of the agency's more immediate concerns. As a result, Customs is continuing with many of its projects to enhance the current systems. For example, it is currently prototyping a system improvement that

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[5]Financial Audit: Examination of Customs' Fiscal Year 1992 Financial Statements (GAO/AIMD-93-3, June 30, 1993) and Financial Audit: Examination of Customs' Fiscal Year 1993 Financial Statements (GAO/AIMD-94-119, June 15, 1994).

should help it automatically select high-risk cargo for inspection to determine whether goods entering the country are properly classified and valued. This is in direct response to a weakness identified in our management report. Customs is also continuing to expand the current system to provide remote filing capabilities. A prototype of this improvement is scheduled for testing by June 1995.

Issues of Continuing Concern

Customs has begun work in a number of areas as part of its initial planning efforts for the modernization. These areas include (1) meeting with customers to coordinate modernization plans and to understand their needs, (2) defining its business processes, and (3) defining performance measures that will be used to assess results. We assessed Customs' efforts in each of these areas by comparing them to the best strategic information management practices used by successful organizations in the public and private sectors, which we described in a May 1994 report.[6] Our comparisons identified a number of opportunities for Customs to keep in mind during its modernization planning and implementation.

First, we found that in successful organizations information system plans are tightly linked to and predicated on satisfying explicit, high-priority customer needs. These customer needs are then used to set mission performance goals for improving service delivery. Customs' coordination with its customers has included conducting public meetings with the trade community to solicit their views on ways to facilitate trade, such as the use of remote filing, and to inform them of its progress in implementing the Modernization Act. Customs' task force, which is responsible for coordinating Customs' response to the act, has also met with trade groups to educate them on requirements of the act.

As yet, Customs has not determined and prioritized specific customer needs relative to the planned changes to the business processes, or broken out the needs of the various groups that will be affected, such as importers, brokers, carriers, passengers, insurers, and other agencies. Such a determination is needed to ensure that Customs' new processes meet customers' specific needs. Also, as Customs refines its understanding of customer needs, it can provide systems modernization information that will allow the trade community to develop compatible systems.

Second, we found that substantially improving performance requires that work processes be analyzed and then streamlined or redesigned. Customs has begun to define the new trade compliance process by first identifying the key components. The next steps are for Customs to describe how each component will operate and then determine how information technology will support the new operations. Customs plans to use these definitions of key components to determine the specific systems and technology requirements needed to support the business.

To ensure that the import system adequately supports import customers and trade enforcement, it is imperative that Customs finish defining its business processes before redesigning the import system or purchasing equipment. For example, Customs' current enhancements to provide remote filing capabilities, including related equipment purchases, should not be considered part of the new import system because Customs has not yet determined the new trade compliance procedures. These new procedures may affect how remote filing is ultimately implemented.

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[6]Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology, Learning From Leading Organizations (GAO/AIMD-94-115, May 1994).

Third, we found that successful organizations rely heavily upon performance measures to assess the implementation of mission goals and objectives, and track progress. One measure of improvement being defined by Customs is trade customer satisfaction. Customs should develop other performance measures such as trade compliance rates, which could be used to determine whether the new processes and systems are making a difference for trade enforcement and import processing.

Finally, we found that successful organizations have clear responsibility for information management decisions and results. Customs has established several decision-making bodies, such as the Executive Improvement Team, as part of its reorganization. Customs also has other previously established entities, such as the ADP Steering Committee, which determines the priorities and resource allocations for systems development efforts. It is unclear which decision-making entity is ultimately responsible for approving systems development. During this time of change, Customs needs to clarify roles and responsibilities to reinforce accountability and facilitate mission success. In other words, somebody needs to be in charge.

CONCLUSIONS

We are encouraged by Customs' efforts to change its organizational structure, core business processes, automated systems, and culture. Clearly, these efforts respond to the recommendations in the 1990 House Ways and Means Oversight Subcommittee Report, our 1992 management report, and other reports we have issued on Customs' systems development and financial management. These efforts have the potential to position the Customs Service to meet its future challenges.

But we must remember that Customs' reorganization and systems modernization efforts are largely still a plan. Much work needs to be done to transform them into reality. Is Customs on the right track? We think so. It has put a lot of effort into an extensive self-examination. It has chosen to take a comprehensive approach to improving its operations. It is consulting with its customers and federal partners along the way. Will mistakes be made? I am sure they will. But our follow-up work suggests that the leadership of Customs is committed to positive change. This Subcommittee's support will help Customs transform this plan into reality.

We encourage Customs to continue discussing both the progress and results of the reorganization effort as well as automated systems development with this Subcommittee. Here are some topics that should be explored:

-- What are the specifics of implementing the "blueprint for change"? In other words, what are the key elements and system components, how will the implementation of these elements and system components be sequenced, and what is the time line for their implementation?

-- What specific role will the CMCs play in ensuring consistent oversight and policy implementation at the ports?

-- How will Customs define the major components of its core business processes and ensure they are defined before automated systems design and building are started?

-- How is Customs achieving and maintaining the partnerships with customers it needs to successfully implement the reorganization?

-- How will Customs minimize disruptions as it implements the reorganization?

-- What indicators or measures does Customs have to determine the success or effectiveness of its reorganization effort?
-- When may Congress and Customs' external customers expect the major elements and automated systems components of the reorganization effort to be operational?

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Mr. Chairman, this concludes our statement. We would be pleased to answer any questions.

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Chairman CRANE. Thank you, Mr. Gadsby.

Ms. Edwards, do you have testimony?

Ms. EDWARDS. No. Mr. Gadsby has spoken for the GAO.

Chairman CRANE. Mr. Raheb.

Mr. RAHEB. No.

Chairman CRANE. We will start then—well, let me ask one question for openers. And that is, are all of you folks basically encouraged by these reorganization efforts on the part of Customs?

Mr. GADSBY. Again, as we say in our statement, I think they are definitely heading in the right direction—we are encouraged. Tackling a job this big is a real challenge. Customs seems serious, it seems committed, it seems to be proceeding in a systematic manner toward doing this. These are ingredients for success. In my written statement we lay out some cautions relating to the systems development area, and I might ask Hazel to comment on that.

Ms. EDWARDS. We have pointed out that Customs has had a history of not doing a great job in building its systems to meet the business needs. And it has become clear, I think, to the committee over time, that there has been the need for information throughout the processing of imports and that information hasn't been available.

One of the benefits of this process that Customs is going through is that it is now thinking about its business workflows and what systems and information are needed to support the business. Customs is now thinking about the systems in conjunction with the business, and that is a dramatic change from the past and a major area of improvement. We are looking very favorably upon that trend.

Chairman CRANE. That sounds encouraging. Will the GAO continue to monitor the progress of this reorganization and periodically communicate to us?

Mr. GADSBY. We would be more than glad to do that. We have been doing that since we issued our report back in 1992. We met with the committee staff on a number of occasions and we meet with Customs officials periodically just to get an overall briefing on where they are in the process, and so forth. So we have been and will be more than happy to continue that, Mr. Chairman.

Chairman CRANE. We thank you.

Mr. Rangel.

Mr. RANGEL. You indicated that you had some major criticism in the 1992 report and again in the 1993 report. You also pointed out that modernization is addressing those problems. Notwithstanding modernization, since that is not completed, what are the outstanding deficiencies, as you see them, with Customs today?

Mr. GADSBY. Well, I think Customs is working on a broad comprehensive approach to change. The problem areas that we had mentioned in the management study, and the followup work that we did on that, was related to strategic planning, the trade compliance process, financial management, and human resources management. This was a broad, broad look at the agency, and we found a number of serious problems. But I think they have embodied all those——

Mr. RANGEL. Some problems can be taken care of notwithstanding modernization. I am trying to separate these two issues. Take

for example, the issue of accountability for seizure of drugs, you don't have to modernize to strengthen that, do you?

Mr. GADSBY. No. You don't have to modernize to strengthen that. I think that what they are striving for is that the modernization and the integration of the efforts of different parts of Customs, whether it is enforcement or commercial operations which is now under the field operations, will give them a greater capacity to deal not only with trade problems but with drug problems, as well.

Ms. EDWARDS. One of the——

Mr. RANGEL. What is the status now? I just want to know what problems do you have now——

Mr. GADSBY. With drug enforcement, sir?

Mr. RANGEL. Well, specifically. I see that everyone is supporting the direction which the Customs Service is going.

Mr. GADSBY. Correct.

Mr. RANGEL. But I assume that the direction has not resolved all of the criticisms.

Mr. GADSBY. No, that is correct.

Mr. RANGEL. I was just trying to find out what was outstanding that could be corrected without waiting for the final modernization.

Ms. EDWARDS. One of the points that I was going to highlight with regard to enforcement across the board, be it for drug violations or be it other trade enforcement controls, is that there is an absence of information throughout Customs. For example, if a particular port is noticing an influx of illegal goods by a particular importer, that information would not necessarily be immediately available, for example, to other ports within the Customs system. Directly connected to the modernization is having the capacity to pass such information really rapidly about activity related to particular importers.

This is an area where we think the modernization initiatives will really make a difference. It does not say that there are not other outstanding management issues that could be addressed in the near term, but the Modernization Act is going to help Customs further improve its ability to detect drugs and illegal drug traffic by improving the availability of information across Customs.

Mr. RANGEL. I would appreciate getting a list from your organization as to what could be done now, instead of just waiting for the modernization plan to lock into effect, especially in the area of accountability for seizure of drugs.

Mr. GADSBY. We will be glad to do that.

Mr. RANGEL. Thank you.

[The following was subsequently received:]

ATTACHMENT I

Congressman Rangel's Request During January 30, 1995 Hearings Before the House Committee on Ways and Means, Subcommittee on Trade

Request: Instead of waiting for Customs modernization plan, provide a list of what can be done now especially in the area of accountability and seizure of drugs.

We are providing in the attached Tables 1 and 2 a detailed listing of our recommendations to Customs resulting from our fiscal years 1992 and 1993 financial statement audits[1]. We are also providing the status of agency actions to address these recommendations. Information was obtained from discussions with Customs officials and a review of agency documentation. We have not fully assessed the appropriateness or effectiveness of all of the agency's responses. We plan in the near future to evaluate the effectiveness of Customs' corrective actions and would be pleased to periodically brief the Committee on our findings.

Customs has a wide range of initiatives underway that are intended to correct identified weaknesses. It is important that Customs' top and mid-level management provide the continuing support needed to ensure that these important actions are properly implemented and that the related problems do not recur. While some of our recommendations can be implemented now, such as amending policies and procedures, others require a sustained effort to implement, such as redesigning the automated system that processes imports. In the tables, we earmarked those recommendations that require long-term system development efforts.

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[1]Financial Audit: Examination of Customs Fiscal Year 1992 Financial Statements, (GAO/AIMD-93-3, June 30, 1993), Financial Audit: Examination of Customs' Fiscal Year 1993 Financial Statements, (GAO/AIMD-94-119, June 15, 1994.

TABLE 1

STATUS OF FISCAL YEAR 1992 FINANCIAL
AUDIT RECOMMENDATIONS

The results of our efforts to audit Customs' fiscal year 1992 principal financial statements were presented in our report entitled Financial Audit: Examination of Customs Fiscal Year 1992 Financial Statements (GAO/AIMD-93-3, June 30, 1993). Significant matters identified in that report and recommendations to correct internal control problems were detailed in six internal control reports. These reports and our recommendations are listed in this table. The table also includes the status of agency actions. We have not fully assessed the appropriateness or effectiveness of all of the agency's responses.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
Financial Management: Customs' Accountability for Seized Property and Special Operation Advances Was Weak (GAO/AIMD-94-6, November 22, 1993)				
1. The Commissioner of Customs should direct the Assistant Commissioners for the Offices of Enforcement, Inspection and Control, Commercial Operations, and Management (the Chief			X	Customs organized a Seized Property Task Force composed of managers from field and headquarters locations, to study Customs' seized property operations. The task force completed its study and issued a

[1]Customs is undertaking a major redesign of its automated system that processes imports. The new system is targeted for completion by fiscal year 1999. In the long term system action column of the table, we earmarked recommendations that are associated with this redesign and with other systems' enhancements targeted to be accomplished beyond fiscal year 1996 (i.e., Customs Property Tracking System).

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
1. (Continued) Financial Officer), in consultation with each other and other program officials, to enforce existing policies and procedures for: (1) safeguarding seized property; (2) maintaining accurate financial data on seized property inventory; and (3) controlling special operations advances and safeguarding related documents.				report to the Commissioner on July 1, 1994. The report included findings and recommendations on Customs' ability to safeguard and maintain adequate financial data on seized assets. The Customs Seizures and Penalties Division anticipates that corrective actions will be completed for each component of the recommendation during 1995. Customs also formed a task force to address the adequacy of its facilities for storing and safeguarding seized property. This task force surveyed 121 facilities, of which the 24 having the most significant

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
1. (Continued)				security concerns were targeted for actions. As of February 1995, two of these sites were closed, and security was being upgraded at the remaining 22 sites. In addition, Customs conducted its first nationwide physical inventory of seized property in February 1994, and a subsequent one was performed in September 1994. Further, Customs issued procedures for reporting appropriated moneys for undercover operations and biyearly audits of undercover operations. It also modified its procedures to ensure that documents containing sensitive information are secured and copies forwarded are desensitized.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
2. The Commissioner of Customs should direct the Assistant Commissioner for Enforcement to work with the Office of the U.S. Attorney to develop guidelines on the amount of monetary instruments, particularly cash, to be held as evidence.			X	In a letter dated July 12, 1994, the Commissioner of Customs communicated to the Assistant Commissioner for Enforcement the need to monitor Customs compliance with the Attorney General's Directive 87-1, "Guidelines on the Amount of Monetary Instruments to Be Held as Evidence." During fiscal year 1995, the Commissioner signed a memorandum requiring a system for timely destruction of bulk narcotics. Customs is reviewing field policies and procedures and plans to work with the Department of Justice to implement procedures for the disposal of all but threshold narcotics held for evidence. A standard policy is targeted for implementation in July 1995.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
3. The Commissioner of Customs should direct the district directors to work with the U.S. Attorneys in their districts to expand the use of videotaped evidence as an alternative to holding large quantities of seized cash and drugs at Customs' facilities.			X	Customs current policy dated June 1990 requires seized currency to be photographed when inventoried. Customs believes evidence documented by still photograph is sufficient. Department of Treasury's Office of Inspector General fiscal year 1994 financial audit is to validate that the procedure is currently being used. Also, the Seized Property Task Force addressed, among other things, the reduction of bulk narcotics being held in Customs facilities. The task force's report proposed revised procedures on the pretrial destruction of narcotics. Specifically, it proposed that the Customs Special Agent in Charge position be the main contact with the appropriate U.S. Attorney.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
4. The Commissioner of Customs should direct the Assistant Commissioner for Commercial Operations to require that at least two seizure custodians be present when accessing seized property in district vaults.			X	On October 4, 1993, the Commissioner of Customs established and implemented a policy requiring that at least two Customs officers be present when accessing seized property in district vaults. However, in connection with the GAO fiscal year 1993 audit performed after the implementation of this policy, GAO noted that in many of the districts that it had visited, individual seizure custodians were still capable of accessing district vaults without being detected. This situation still exists because Customs does not have controls in place to ensure that this policy is being followed.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
5. The Commissioner of Customs should direct the Chief Financial Officer to improve Customs Property Tracking System information so that all seized property, especially cash and drugs, are timely and accurately reflected in Customs' inventory records and financial reports.	X		X	Customs held a conference from July 11 to 22, 1994 to discuss and develop user specifications for a new seized property inventory system. A development team was created. User requirements are defined and programming has begun. A pilot system is expected to be in place during fiscal year 1995. A new system is targeted for 10/1/97.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
6. The Commissioner of Customs should direct the Chief Financial Officer to require that the independent external auditor's recommendations to improve accounting and control over special operation advances be promptly and fully implemented.			X	Customs' Office of Enforcement issued procedures for controlling special operation advances and safeguarding related documents in March 1993. However, in connection with GAO's fiscal year 1993 audit performed after the implementation of these procedures, it found the accounting and control over special operation advances to still be weak. In fiscal year 1995, as an interim measure, Customs contracted with an accounting firm which developed software to address some of the control weaknesses in undercover operations. For the long term, Customs plans to explore developing a module in its Asset Information Management System to support undercover operations.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
Financial Management: Customs Lacks Adequate Accountability Over Its Property and Weapons (GAO/AIMD-94-1, October 18, 1993)				
1. The Commissioner of Customs should direct the Chief Financial Officer to complete the integration of property and accounting systems as planned.	X		X	Requirements for a standardized property system, which will be used by all Treasury bureaus and integrated with each bureau's core accounting system, have been identified. Also, a property management systems requirements document has been drafted.
2. The Commissioner of Customs should direct the Chief Financial Officer to conduct physical inventories of capitalized property items other than equipment every 3 years as required.			X	Regional and Assistant Commissioners of Customs have been directed to verify the existence of capitalized property items. A real property inventory was taken for fiscal year 1994.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
3. The Commissioner of Customs should direct the Chief Financial Officer to develop procedures for accurately and adequately documenting equipment values recorded in the Property Information Management System (PIMS) by: (1) requiring appropriate references to source documents in each property file in PIMS; (2) reviewing procurement documents for those items with estimated values and entering corrections; and (3) properly identifying property items not in use or damaged.		(1) X (3) X	(2) X	Procedures requiring appropriate references to source documents in each property file in PIMS and for properly identifying property items not in use or damaged have been implemented. Part 2 of the recommendation is considered to be in progress. A "Methodology for Valuation of Personal Property" has been drafted to establish and implement the methodology to be used to determine the value of personal property items. Specifically, the methodology establishes the procedures to be followed in order to determine the values of personal property items recorded in the property management system for which procurement and other supporting documentation is not available.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
4. The Commissioner of Customs should direct the Chief Financial Officer (CFO) to oversee Customs efforts for ensuring that the costs of ongoing automatic data processing software development efforts are properly recorded and are complete and accurate.			X	In a June 27, 1994, memorandum to all Customs Office of Information Management (OIM) employees, the Assistant Commissioner for OIM reported that to comply with the CFO Act, OIM must begin to capture and report all costs related to in-house software development. Using the labor distribution capabilities of the payroll system, Customs developed a project-reporting system designed to capture such costs.
5. The Commissioner of Customs should direct the Associate Commissioner for Law Enforcement to: (1) monitor steps being taken in response to the Inspector General's report, including the design of the new Weapons Inventory Control System, for addressing identified system deficiencies; and (2) develop and implement procedures for effectively performing annual physical		(2) X	(1) X	Customs has formed the Firearms Task Force to monitor corrective actions taken in response to the Treasury's Inspector General report. In addition, the Firearms Information Tracking System (which will replace the old Weapons Inventory Control System--WICS) is continuing through the programming, development, systems acceptance, and production cycles. The anticipated implementation date is May 1995.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
5. (Continued) inventories of weapons at field locations, properly resolving discrepancies, and appropriately adjusting inventory records.				New procedures for effectively performing annual physical inventories of weapons at field locations, properly resolving discrepancies, and appropriately adjusting inventory records were developed.
Financial Management: Customs' Self-assessment of Its Internal Control and Accounting Systems Is Inadequate (GAO/AIMD-94-8, October 27, 1993)				
1. To ensure accurate reporting to the Secretary of the Treasury on the effectiveness of Customs' internal control and accounting systems, the Commissioner of Customs should direct the Chief Financial Officer to develop guidance for assessing control risk in Customs' operations.		X		Customs implemented a comprehensive Federal Managers' Financial Integrity Act (FMFIA) training course which provides guidance on assessing control risk. All program managers and other personnel conducting FMFIA-type reviews are required to attend this course.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
2. To ensure accurate reporting to the Secretary of the Treasury on the effectiveness of Customs' internal control and accounting systems, the Commissioner of Customs should direct the Chief Financial Officer to develop adequate tools to perform Federal Managers' Financial Integrity Act (FMFIA) reviews.		X		Customs implemented its FMFIA training course which provides tools to help managers review their programs. The effectiveness of these tools will be evaluated during the Department of the Treasury's Office of Inspector General fiscal year 1994 audit.
3. To ensure accurate reporting to the Secretary of the Treasury on the effectiveness of Customs' internal control and accounting systems, the Commissioner of Customs should direct the Chief Financial Officer to implement a comprehensive FMFIA training program to be attended by all staff involved in performing FMFIA reviews.		X		Customs has implemented a comprehensive FMFIA training program which was attended by more than 260 staff performing FMFIA reviews. This training provides managers with the proper guidance to help them identify and report material weaknesses as required by FMFIA.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
4. To ensure accurate reporting to the Secretary of the Treasury on the effectiveness of Customs' internal control and accounting systems, the Commissioner of Customs should direct the Chief Financial Officer to review corrective action plans to ensure that they address the underlying cause of the problem.		X		Customs has put together a task team to review corrective action plans as well as the status of corrective actions for all material weaknesses. This task team's effectiveness will be evaluated by the Department of the Treasury's Office of Inspector General during the fiscal year 1994 audit.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
5. To ensure accurate reporting to the Secretary of the Treasury on the effectiveness of Customs' internal control and accounting systems, the Commissioner of Customs should direct the Chief Financial Officer to promptly test the effectiveness of corrective actions implemented to ensure that the weaknesses are corrected before they are removed from Customs' FMFIA assurance letter.		X		Customs has established a schedule to test or validate the effectiveness of corrective actions. This schedule will be updated each year with the goal of validating all available current and past closed weaknesses.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
6. The Commissioner of Customs should direct the Chief Financial Officer to have the Management Controls Division obtain and systematically review the detailed results of Customs' self assessments for accuracy and completeness.		X		Customs offices were directed to provide copies of all FMFIA-type reviews to the Management Controls Division for review. The Management Controls Division has received samples of completed management control reviews to inspect for accuracy and completeness.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
Financial Management: Customs Did Not Adequately Account for or Control Its Accounts Receivable (GAO/AIMD-93-3, November 8, 1993)				
1. To help strengthen the accuracy of the accounts receivable balance reported in Customs' financial statements, the Commissioner of Customs should direct the Chief Financial Officer to require Customs personnel to review fines and penalties assessments recorded in the Automated Commercial System (ACS) and correct any inaccuracies before transfer to the redesigned system.			X	Customs stated that the procedural changes to ensure timely and accurate updates are to be implemented (the implementation date is unknown).

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
2. To help strengthen the accuracy of the accounts receivable balance reported in Customs' financial statements, the Commissioner of Customs should direct the Chief Financial Officer to require supervisory personnel to review the work of staff responsible for updating and changing information in ACS to ensure that all assessments are accurately and completely recorded.	X		X	Customs intends to develop "Action Due Reports" and "Management Reports" as part of the new fines, penalties, and forfeitures (FP&F) case processing system. Also, Customs believes the Revenue Management System will ensure the accuracy of updates and modifications and that the Assessment software will ensure accuracy of initial input.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
3. Customs should develop and maintain an integrated accounting system that can capture accurate and reliable information on all types of assessments (including duties, taxes, fines, and penalties) from assessment through collection of any related amounts.	X		X	Customs is developing an integrated accounting system from several interrelated parts, the Automated Commercial System (ACS) Financial Core projected to be implemented in fiscal year 1995 and the Customs Automated Revenue Accounting project. Customs believes that these two systems, together with the long-term redesign of the ACS system, should produce an integrated system by the beginning of fiscal year 1998.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
4. The Commissioner of Customs should direct the Chief Financial Officer to implement procedures to ensure that entry summaries are reviewed and liquidated within 1 year or provide documentation why this time frame cannot be met for specific cases.			X	Customs has stated that its procedures are in final review and expected to be published soon.
5. The Commissioner of Customs should direct the Chief Financial Officer to develop performance indicators to measure the effectiveness of Customs' fines and penalties program.			X	Customs intends to develop a new fines, penalties, and forfeitures (FP&F) case processing system by 9/1/96, which will provide the information necessary to establish performance indicators. Additionally, the Revenue Management software will incorporate statistical analysis software to measure program performance.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
Financial Management: Customs' Accounting for Budgetary Resources Was Inadequate (GAO/AIMD-94-23, December 14, 1993)				
1. The Commissioner of Customs should direct the Chief Financial Officer (CFO) to revise Customs' accounting systems and procedures to properly account for the receipt of goods and services. Specifically, the CFO should: (1) modify the accounting systems for Automated Receiving Report System (ARRS) transactions to automatically liquidate obligations and post-related entries in the proprietary accounts immediately upon receipt of goods and services; (2) develop and implement a mechanism for non-ARRS transactions to acknowledge and transmit receiving data and use such data to post-appropriate	X		X	Customs has halted enhancements to ARRS pending a Treasury review of bureau systems. The purpose of the review is to standardize systems within Treasury's bureaus. While this review is occurring, Customs, for fiscal year 1993, manually identified open obligations and requested responsible field personnel to identify what portion of the obligation had been satisfied by receipt of goods or services. For fiscal year 1995, an automated method for field use is to be used. Until ARRS is enhanced, this recommendation will remain open.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
1. (Continued) budgetary and proprietary accounting entries; and (3) expand the use of the Report on Open Obligations, as a short-term measure, by instructing program office personnel to review the report and notify the National Finance Center when goods and services have been received.				

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
2. The Commissioner of Customs should direct the CFO to amend the recently approved procedures for processing interagency agreements for the Operations and Maintenance Fund to require that a budgetary receivable be recorded to offset related obligations. Also, these amended procedures should be applied to all interagency agreements to help ensure that they are properly recorded in the future.			X	In July 1994, Customs modified its procedures to include recording a budgetary receivable to offset related obligations. However, until the Treasury Inspector General completes the fiscal year 1994 audit, GAO cannot be certain that the amended procedures were correctly applied to all interagency agreements.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
3. The Commissioner of Customs should direct the CFO to review all outstanding intragovernmental receivables as of September 30, 1992, in order to confirm that they are valid receivables and adjust the balances to correct any misstatements.			X	During fiscal year 1993, Customs made some entries to correct for misstatements; however, as of September 30, 1993, it could not fully support amounts recorded as due from other agencies under interagency agreements. Until the Treasury's Office of Inspector General completes the fiscal year 1994 audit, GAO cannot be certain that Customs' actions fully corrected the problem.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
4. The Commissioner of Customs should direct the CFO to review all interagency agreements in order to identify the unliquidated obligations amount for agreements in which no budgetary receivable has been recognized and then record a budgetary receivable equal to the amount of unliquidated obligations.			X	In July 1994, Customs amended its procedures to require that a budgetary receivable be established for all unliquidated reimbursable obligations pertaining to interagency agreements. GAO will not know the effect until the Treasury's Office of Inspector General completes its fiscal year 1994 audit fieldwork in this area.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
5. The Commissioner of Customs should direct the CFO to review the documentation and accounts for all interagency agreements in order to identify recorded earned reimbursements which exceed amounts expended and adjust earned reimbursements to equal amounts expended.			X	In July 1994, Customs amended its procedures to require that earned reimbursements be recorded for all interagency agreements and that these amounts agree with the expended amounts of the reimbursable obligations. GAO will not know the effect until the Treasury's Office of Inspector General completes its fiscal year 1994 audit fieldwork in this area.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
Financial Management: Control Weaknesses Limited Customs' Ability to Ensure That Duties Were Properly Assessed (GAO/AIMD-94-38, March 7, 1994)				
1. The Commissioner of Customs should direct the Assistant Commissioner for Inspection and Control to develop and implement, in conjunction with Customs' Chief Financial Officer, a strategy for inspecting cargo from both high- and low-risk carriers to help provide reasonable assurance that all cargo delivered is accurately and completely identified on manifests and entry documents. Carriers undergoing such inspections should be randomly selected to ensure that they are representative of all carriers.			X	In late fiscal year 1994, Customs piloted a program for testing the accuracy of randomly sampled manifests to determine if carriers were accurately reporting all unladen cargo. During fiscal year 1995, Customs is implementing this program for all manifests on a nationwide basis.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
2. The Commissioner of Customs should obtain reliable data on carriers' use of the Automated Manifest System as a percentage of all manifest submissions so that expanded use of the system can be more accurately monitored.			X	Estimated completion date: 09/95. To address this recommendation in the short term, Customs issued a memorandum to field personnel directing them to enter complete and accurate information on the CF-16, "Workload Summary Report." In addition, Customs plans to do limited testing of the accuracy of the CF-16 reports during its fiscal year 1995 testing of manifest accuracy. Customs is looking to develop new methodologies for capturing reliable data for program management. Currently, Customs is identifying programming requirements to electronically capture both automated and manual vessel bill-of-lading data in the vessel entrance and clearance module of the Automated Commercial System (ACS). This automated programming will be supplemented with a compliance measurement capability to audit the accuracy of the information being input by Customs and the trade.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
3. The Commissioner of Customs should monitor implementation of the new procedures for accounting for in-bond transfers to ensure that they address the weaknesses that have been identified. In conjunction with this effort, the Commissioner should provide personnel involved in maintaining data on in-bond transfers with clear and detailed guidance and adequate training on complying with the new procedures.			X	The revised automated in-bond module was initiated on October 4, 1993. Customs expects that the planned Automated Broker Interface link with this module will be operational and will allow automated brokers and importers to initiate in-bond movements electronically by Spring 1995. In addition, in February 1994, Customs established an In-bond Task Force to address the problems associated with the in-bond program. This task force has developed a proposal of changes to the current in-bond system and is working with trade representatives, other government agencies, and GAO to finalize recommendations to Customs management. Further, Customs is planning to develop a national standard operating procedure (SOP) and training syllabus, and initiate Service-wide training before implementation of the national In-bond Compliance Measurement Program scheduled for fiscal year 1995.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
4. The Commissioner of Customs should direct the Assistant Commissioner for Inspection and Control, in conjunction with the Chief Financial Officer, to require district offices to maintain perpetual inventory records of goods held in bonded warehouses and Foreign Trade Zones (FTZs) that they are responsible for overseeing.			X	Customs plans to perform a compliance measurement test to determine the necessity for perpetual inventory records of goods held in bonded warehouses. Specifically, during fiscal year 1995, Customs intends to conduct a pilot compliance measurement test at five bonded warehouse locations and plans to initiate a national compliance measurement test for bonded warehouses. No tests of FTZs are currently planned because of the difficulty in tracing the goods entered into and withdrawn from FTZs. This difficulty exists because most large FTZs are manufacturing operations that incorporate imported components into larger items that are eventually withdrawn and either entered into U.S. commerce or exported.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
5. The Commissioner of Customs should direct the Assistant Commissioner for Inspection and Control, in conjunction with the Chief Financial Officer, to enhance the Automated Commercial System (ACS) so that the district offices could use this system to maintain perpetual records of merchandise quantities at each warehouse and FTZ.	X			Action not yet initiated.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
6. The Commissioner of Customs should direct the Assistant Commissioner for Commercial Operations, in conjunction with the Chief Financial Officer, to develop a means of automatically entering information needed to verify drawback claims into ACS so that liquidators can use the system to automatically verify drawback claims.	X		X	In the interim, Customs is developing a short-term means of automating drawback information using personal computers. This system is intended to link claims with import entries and decrement claimed drawback amounts against entries so that Customs can detect and prevent duplicate and excessive drawbacks. Some of the new capabilities were expected to be available by October 1994. However, most key capabilities will not be available until the end of fiscal year 1995. Also, the new system will not contain historical data on the amounts already claimed against an entry. Plans to address this issue are currently under management review.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
7. The Commissioner of Customs should direct the Assistant Commissioner for Commercial Operations, in conjunction with the Chief Financial Officer, until this capability is developed and implemented, to require that liquidators use representative sampling procedures for reviewing drawbacks that relate to multiple entry summaries.			X	In October 1994, Customs issued instructions to liquidators on how to use representative sampling. This data will be validated during the fiscal year 1994 financial statement audit being conducted by the Department of Treasury's Office of Inspector General.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
8. The Commissioner of Customs should direct the Assistant Commissioner for Commercial Operations, in conjunction with the Chief Financial Officer, to enhance ACS so that historical information on drawback claimants such as accelerated claim privileges, excessive claims previously filed, overdue receivables, and regulatory audit results are available to liquidators in a national database.	X		X	In the interim, a claimant history database was added to ACS in October 1994, and was field-tested, and is being implemented. A PC based application also implemented in October 1994, allows Customs to associate the drawback claim with all associated import entries.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
9. The Commissioner of Customs should direct the Assistant Commissioner for Commercial Operations, in conjunction with the Chief Financial Officer, to require that liquidators review this database to ensure that special privileges such as accelerated drawback payments are granted only to claimants who have consistently complied with Customs claim filing requirements.	X		X	A Claimant database was established. Instructions were issued in October 1994 and liquidators were trained in its use. This requirement is being implemented with the new Claimant database.

GAO REPORTS/ RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
10. The Commissioner of Customs should direct the Assistant Commissioner for Commercial Operations, in conjunction with the Chief Financial Officer, to enhance the bond liability module to monitor the sufficiency of bonds posted for drawback transactions, including the ability to alert liquidators when coverage is exceeded.			X	In order to monitor the sufficiency of bonds posted for drawback transactions, Customs implemented new procedures in October 1994 for use with the dedicated bond liability module. Under the new procedures, Customs will accept only a bond type activity code "1a" for the Drawback Program. A bond type activity code "1,1a" will no longer be accepted. Any bonds with activity code "1,1a" on file with Customs when the new procedures are implemented will be invalid. In addition, the new procedures require that the bond amount for accelerated drawback payments match the claim amount. Also, a revised bond liability module which allows the field to query bond usage is targeted for fiscal year 1996. Moreover, the new PC-based drawback system is to contain information on bond sufficiency.

TABLE 2

STATUS OF FISCAL YEAR 1993 FINANCIAL AUDIT RECOMMENDATIONS

The results of our efforts to audit Customs' fiscal year 1993 principal financial statements were presented in our report entitled Financial Audit: Examination of Customs' Fiscal Year 1993 Financial Statements (GAO/AIMD-94-119, June 15, 1994). The table presented lists the recommendations and the status of agency actions. We have not fully assessed the appropriateness or effectiveness of all of the agency's responses.

GAO RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
1. The Commissioner of Customs should direct the Assistant Commissioner for Inspection and Control to require personnel at ports of entry to maintain accurate and up-to-date data in the Automated Manifest			X	The Acting Assistant Commissioner of Customs for Inspection and Control distributed a memorandum dated July 5, 1994, that states GAO's recommendation and that the Office of Inspection and Control is in agreement. The memorandum refers readers to a Customs directive entitled "Vessel Automated Manifest System," which details district

[1]Customs is undertaking a major redesign of its automated system that processes imports. The new system is targeted for completion by fiscal year 1999. In the long term system action column of the table, we earmarked recommendations that are associated with this redesign and with other systems' enhancements targeted to be accomplished beyond fiscal year 1996 (i.e., Customs Property Tracking System).

GAO RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
1. (Continued) System (AMS) and to routinely investigate all shipments that have not been released by the end of a prescribed period.				responsibilities regarding AMS bills of lading reconciliations. The Acting Assistant Commissioner requested that all Assistant Regional Commissioners reconfirm with the districts under their jurisdiction their responsibilities as noted in the directive. The memorandum also states that if the jurisdictions conclude that it is impractical for them to reconcile the discrepant AMS bills of lading as required under the directive, the Assistant Regional Commissioner should supply an alternative method for completing the task. Also, performance indicators for monitoring automated manifest operations are scheduled to be added to the Office of Management Report by May 1995. GAO will not know the effects of Customs' actions until the Department of Treasury's Office of Inspector General completes its fiscal year 1994 financial statement audit work in this area.

GAO RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
2. The Commissioner of Customs should direct the Chief Financial Officer, in conjunction with the Assistant Commissioner for Enforcement and other appropriate officials, to develop and maintain an appropriately secure accounting system to record all of the essential activity that occurs in undercover operations.			X	As an interim solution, on 9/30/94, Customs implemented a manual paper-based system. Also, the agency established a basis for recording the beginning balances of fiscal year 1995 funds for undercover operations. To support a long term solution, on 9/12/94, Customs purchased an off-the-shelf PC accounting package. The package is being tailored for the agency's use. System implementation is scheduled for June 1995.

GAO RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
3. The Commissioner of Customs should direct the Chief Financial Officer, in conjunction with other appropriate officials, to promptly review all reconciliations of budget clearing accounts and suspense accounts, verify that all discrepancies are fully researched and properly resolved, and identify and propose for write-off any unreconcilable amounts.			X	On June 1, 1994, Customs' Director, National Finance Center (NFC), sent a memorandum to all of Customs' District Directors outlining procedures for analyzing the budget clearing accounts. In addition, the Director, NFC, issued a memorandum dated May 16, 1994, that outlined the proper use of the budget clearing accounts in an effort to reduce the amount of incorrect postings to these accounts. Moreover, a system modification to enhance the process was implemented January 1995. GAO will not know the effects of Customs' actions until the Department of Treasury's Office of Inspector General completes its fiscal year 1994 financial statement audit work in this area.

GAO RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
4. The Commissioner of Customs should direct the Chief Financial Officer, in conjunction with other appropriate officials to, where Customs has the authority to do so, eliminate any unnecessary procurement reviews identified in Customs' assessment of such processes.		X		Customs' Office of Procurement held a "workout" session to eliminate unnecessary procurement reviews for solicitations and contracts. The Director, Office of Procurement, issued Procurement Instruction Memorandum No. 94-06, which revises portions of the Treasury Acquisition/Procurement Regulation (TAPR) regarding contracting officer warrant authority, internal review systems, cost or pricing data waivers, and Departmental and legal review of solicitations, contracts, and other types of procurement actions. The changes streamline the process by eliminating layers of review.

GAO RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
5. The Commissioner of Customs should direct the Chief Financial Officer, in conjunction with other appropriate officials, to monitor implementation of the policies and procedures identified in Customs' centralized inventory management plan to ensure that aircraft parts inventory levels do not exceed program needs.		X		Customs has initiated a centralized management plan which calls for the establishment of maximum stock levels based on prior usage, and preparing lists of suspected overstocked items to determine if retention is justified. The plan is administered by a contractor with oversight executed by Customs. To date, the contractor has established interim maximum stock levels and modified the computer system that accounts for inventory to prevent the ordering of materials in excess of program needs. The maximum stock levels will be adjusted quarterly based on actual usage. Additionally, the contractor has prepared initial lists of suspected overstocked items and these are currently being reviewed by Customs.

GAO RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
6. The Commissioner of Customs should direct the Chief Financial Officer, in conjunction with other appropriate officials, to develop procedures to account for annual changes to aircraft materials and parts inventory records.		X		Customs has developed Standard Operating Procedures for its contractor to account for the annual changes in aircraft materials and parts inventory. As a result, edits have been incorporated into the computer system that accounts for inventory, and Customs will require the contractor to reconcile inventory activity on a quarterly basis and submit the results to Customs for review.

GAO RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
7. The Commissioner of Customs should direct the Chief Financial Officer, in conjunction with other appropriate officials, to determine the relative costs and benefits of using the Property Information Management System (PIMS) to maintain accountability only for items with a value over $5,000 and consider delegating record-keeping responsibility for small value items to field personnel. Appropriate centralized controls, such as monitoring levels of repairs and maintenance expense and conducting periodic inventories, should still be maintained. In addition, the distinction between			X	The Assistant Commissioner for Management distributed a memorandum describing proposed changes to Customs' Property Information Management System (PIMS) and asked for comments. The proposal, pending Treasury approval, is scheduled for issue June 1995 and contains the following provisions. All property items with acquisition values of $5,000 or greater and all vehicles, vessels, and aircraft will be managed and recorded in PIMS by the National Logistics Center Fleet and Property Branch (F&PB). Data will be reviewed and validated to ensure that supporting documentation, maintained in a file by F&PB, is available to substantiate the information in PIMS. Property items with acquisition values of less than $5,000 will be managed by field offices at the lowest possible level. A new PIMS module (under development) will be available for field offices to track property valued at under $5,000. Five property types have been identified as mandatory controlled items and must be recorded locally in the PIMS module, and for other property

GAO RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
7. (Continued) asset purchases and expense items should occur when the item is requested and the local property officer checks for availability, not by accounting personnel after the invoice is received.				types, the field offices will have the option of using PIMS or developing an alternative accounting method. Also, Customs is proceeding with system enhancements necessary to distinguish between assets purchased and those expensed. System requirements and design were completed as of December 1994.
8. The Commissioner of Customs should direct the Chief Financial Officer, in conjunction with other appropriate officials, to complete the study of utilization and distribution of Customs' vehicle fleet and coordinate with the General Services Administration to dispose of excess assets and implement a policy to ensure effective use of vehicles retained.		X		Customs completed the study of the vehicle utilization and distribution. Vehicle-to-employee ratios have been approved by the Commissioner and have been distributed to the Acting Associate Commissioner, the Assistant and Regional Commissioners, and the Chief Counsel in a July 25, 1994, memo from the Commissioner. The Commissioner stressed that the ratios are to be viewed as a maximum, rather than a minimum. In addition, Customs is working with GSA on the disposal of excess vehicles.

GAO RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
9. The Commissioner of Customs should direct the Chief Financial Officer, in conjunction with other appropriate officials, to review, in conjunction with the Director of Human Resources and the Office of Enforcement, administratively uncontrollable overtime charges to ensure that ongoing payments at the maximum rate are justified.			X	Customs' Office of Enforcement distributed a memorandum reminding certifying officials that they should review the eligibility and rate of administratively uncontrollable overtime (AUO) pay for all covered employees at the beginning of each quarter and advise the Office of Enforcement (Administration) in writing, at the beginning of each calendar year, whether all personnel continue to meet the requirements for AUO pay. The memorandum is also a reminder that the Standard Form 52s should be initiated and forwarded to the Office of Human Resources to establish AUO entitlement, make changes to the AUO percentage rate, or terminate the AUO entitlement for an employee. The Office of Enforcement is also maintaining a central file of all changes in AUO percentages and certifications for eligible employees. GAO will not know the effects of Customs' actions until the Department of Treasury's Office of Inspector General completes its fiscal year 1994 financial statement audit work in this area.

GAO RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
10. The Commissioner of Customs should direct the Chief Financial Officer, in conjunction with other appropriate officials, to review and update documentation supporting personnel pay rates and deductions and institute procedures to ensure that such documentation is maintained on a current basis.			X	As announced in a March 9, 1993 memorandum from the Director, Office of Human Resources, to the Directors, Personnel Operations Divisions, Branch Chiefs, and Executive Services Staff, the Office of Human Resources is conducting a one-time review of every official personnel folder to ensure that the documents and papers retained in the files comply with federal regulations, including ensuring that documentation supporting current personnel pay rates and deductions is maintained. As of February 1995, the process is still on-going.

GAO RECOMMENDATIONS	LONG[1] TERM SYSTEM ACTION	ACTION COMPLETE	ACTION IN PROGRESS	AGENCY STATUS/ COMMENTS
11. The Commissioner of Customs should evaluate the technical proficiency and experience of existing staff under the Chief Financial Officer to determine specific staff needs for effectively addressing Customs' financial management problems.			X	In fiscal year 1994, a task force initiated by Customs' Chief Financial Officer evaluated financial management in Customs and the appropriate organization structure required to effectively meet the agency's financial management responsibilities. Customs approved six new positions for fiscal year 1994 and six positions for fiscal year 1995. As of February 1995, five new employees were hired.

Chairman CRANE. Mr. Houghton.

Mr. HOUGHTON. Thank you, Mr. Chairman.

You talk about systems and you worry about systems. I worry about systems because of the ability to afford modern technology. The Commissioner was talking about state-of-the-art improvements in his testimony. In the analysis that you have done, do you sense that there is sufficient money to put into up-to-date, modern equipment to do the job, which is necessary because you seem to have to expense everything. You don't have a capital budget. Therefore, it is very difficult to get the proper equipment necessary to do the job which I think they all want to do.

Ms. EDWARDS. At this juncture, Mr. Houghton, the issue is not whether Customs has sufficient money to buy equipment because so many of the details of what systems are needed has not been worked out. There has not been a clear definition or assessment of what kind of systems, what kind of hardware, and what kind of telecommunications linkages are necessary. And, until that kind of definition is in place, it really is premature to talk about money to procure equipment.

The point that you are raising with regard to the high expenses for such equipment is certainly valid, and from all indications that we have from Customs, they are positioned to get those resources.

Mr. HOUGHTON. Sure. I guess the thing that I worry about is that having done a little bit of analysis on other departments over the years and seeing the restraints that people have to put money into those things that are necessary really to have state-of-the-art equipment, here is the Customs Service going off in a brandnew reorganization, so they are fanning out and they are reducing their centralized administrative groups, they are putting all of their people out in the field. Is that the right approach?

I mean, are we going to find that maybe there are pieces of equipment, there are processes, there are organizations which are necessary, which they can't afford and, therefore, the program they have for disbursing the agents is a little premature because certain other things have to be done 1 or 2 years down the road?

Ms. EDWARDS. The overall planning that Customs has indicated it should be completing, by the middle of this summer, should identify the broad plan for what is needed for its systems and processes. Perhaps I should reverse those processes first and systems to support those processes.

Mr. HOUGHTON. You don't think—sorry to interrupt. You don't think there is any inconsistency in what they are doing now and the possible demands down the road for moneys which they can only get out of the personnel?

Ms. EDWARDS. At this juncture, I don't think there is inconsistency. They are taking a logical and systematic approach to the planning for their overall environment, and a major component of it certainly will be on the automation side. But before they can get to that, they have to determine from a business workflow side what precise functions are needed.

Mr. HOUGHTON. All right, fine. You got any other comments?

Mr. GADSBY. I would just like to add one thing. If you look back in time to when we did our management study, there was a great

deal of energy being expended by Customs in looking at trade compliance, but it wasn't being done in any systematic manner.

Our report showed that when you looked at the statistics that Customs had, it showed that the agency was finding more discrepant cargo every year so they thought they were doing a great job. But, the reality was that when you statistically looked at the entire universe of cargo that was coming into the country that the rate of noncompliance overall was going up faster than the rate of finding discrepant cargo. So, their approach to just putting more and more energy into it, meant they were working harder but falling behind.

I think in his statement, the Commissioner referred to the term "working smarter." I think this whole effort at process redesign and voluntary compliance and statistically taking a look at where the greatest incidence of noncompliance is and focusing your energy on that, speeding the cargo through for those people who are playing by the rules and giving more scrutiny to those that aren't, is a good, logical strategy and approach to this area of trade compliance. And, we think this whole approach is much better certainly than what we were seeing 2 years ago.

Mr. HOUGHTON. At the same time, if I could just continue, Mr. Chairman, for 1 minute. At the same time, you say in your testimony that Customs is not determined and prioritized to specific customer needs.

Mr. GADSBY. That is related to the systems development.

Mr. HOUGHTON. The planned changes.

Mr. GADSBY. Yes. With respect to the actual automated systems development, that is the case at this point in time.

Mr. HOUGHTON. So you don't see any inconsistency doing very well by the customers and yet not having prioritized some of their needs?

Ms. EDWARDS. I think the important point to keep in mind is that Customs is currently in the process of defining its customer needs. The agency has acknowledged that it will not be finished with that process until around the middle of summer. So, we have responded to a condition that we have found at the present. That is to say, Customs has not further refined those customer needs but is in the process of doing so.

And, what is really important for Customs to keep in mind, and I would offer this to the subcommittee as well, is the thought that Customs must determine those customers' business needs as well as the agency's internal control needs. This should be completed prior to deciding to buy hardware or software, or deciding to acquire software or acquire systems of any magnitude.

Mr. HOUGHTON. Thank you.

Chairman CRANE. Mr. Payne.

Mr. PAYNE. Thank you very much, Mr. Chairman.

Any successful reorganization that is as significant as this one is usually preceded or accompanied by behavioral changes or cultural changes. I think in your testimony you mentioned that an overarching component of this Customs transformation is its plans to change its culture. You go on to talk about Customs historically and how Customs is seeking to transform itself. And you mentioned that Customs has begun its cultural transformation by

training its senior managers and it plans to build these training concepts throughout the organization.

Mr. GADSBY. That is correct.

Mr. PAYNE. Do you feel that what is going on in terms of the cultural change, the way it is being addressed is the way that it should be addressed?

Mr. GADSBY. I think so. We see cultural change at the top of the organization now. I don't think we will see that change as you progress down through the organization for some time. But, the Customs officials seem committed to moving that cultural change down. And I think one of the things that will probably have to take place is a lot of the new business processes will have to get defined and the systems will have to get developed so that the people who are on the line will basically be able to apply new processes to the trade compliance activity. When that happens, I think we will see the culture change take place much more readily at the lower levels in the organization.

Mr. PAYNE. So would you then be able to say about how long this cultural change might take?

Mr. GADSBY. Well, I think there are a lot of things taking place at the same time—as I mentioned, the structural changes, the business process reengineering, and systems development, which is yet to come. I think the cultural change will then begin using all of these new systems and dealing with the customers. It is very hard to predict how long that will take. In its totality, I would think it could take as much as 5 to 10 years.

Mr. PAYNE. And you see the cultural change proceeding with these other changes and not necessarily having to precede these.

Mr. GADSBY. Proceeding with them, yes.

Ms. EDWARDS. Just to share similar changes we are seeing in other agencies that are also going through a modernization, the culture change begins when the organization decides that it is going to reinvent itself, or reengineer. It starts then. It is gradual.

The highest ranking leaders in the organization convey the mission related to that change. Little by little, the culture begins to transfer to the new ideas. And then as the systems are rolled out or as the new processes are put in place, more of the change occurs.

But I think, as Mr. Gadsby points out, it doesn't happen first, and it doesn't happen at the end only. It happens as a gradual process as the new way of doing business becomes reality.

Mr. PAYNE. And in this case, you see it progressing generally as it should?

Ms. EDWARDS. Yes.

Mr. GADSBY. Yes. I think it is very early, though. Still very early.

Mr. PAYNE. Thank you.

Chairman CRANE. We thank you for your testimony, and look forward to working with you and getting periodic updates from you.

Thank you so much.

Our next panel is Robert Tobias, president of the National Treasury Employees Union.

Welcome, Mr. Tobias and will you proceed with your testimony, please.

STATEMENT OF ROBERT M. TOBIAS, PRESIDENT, NATIONAL TREASURY EMPLOYEES UNION

Mr. TOBIAS. Thank you very much, Mr. Chairman.

I want to thank you very much for inviting NTEU here to testify in support of the Customs' reorganization effort. NTEU supports the reorganization because it was developed on a systematic basis.

It started out with a group of Customs managers and bargaining unit employees appointed by NTEU who began looking at the Customs' mission now and in the future. They also looked at what processes and procedures would be needed to accomplish that mission and then and only then, what organizational structure was needed to accomplish the mission.

The organizational structure which was developed cuts layers of management, delegates significant authority to ports of entry and reduces the supervisory-employee ratio. Finally, the reorganization guarantees that employees will have an opportunity to use their knowledge, skills and ability to develop and continuously improve the work processes and work procedures.

All too often, when evaluations of government action are made, they fail to consider whether they are good for the public, the people who pay the bills. This reorganization is good for the public. It will be easier for those corporations and importers who comply with the law to import goods. The Customs Service will be in a better position to identify and deal with the noncompliant corporations and importers. The percentage of public dollars spent on overhead will be reduced, and I believe that through the delegation that is inherent in this reorganization, that better decisions will be made on a day-to-day basis.

So Mr. Chairman, we do indeed support the reorganization effort. We believe it is something that is overdue and we are working very hard with the Commissioner of Customs and the other top managers in the Customs Service to make this reorganization successful.

Because as we all know, sometimes what happens is that those who are in leadership positions make declarations and are unable to make their declarations come true.

I think that will not be the case with the U.S. Customs Service, first, because of the commitment; and second, because I believe that because Customs has worked with NTEU we have an opportunity to drive this change from the bottom up, as well as the Commissioner has the opportunity to work the change from the top down. I believe that this reorganization has a—a real chance for success for the public. I would be pleased to answer any questions you might have.

[The prepared statement follows:]

TESTIMONY OF ROBERT M. TOBIAS
NATIONAL TREASURY EMPLOYEES UNION

Mr. Chairman and Members of the Subcommittee, I am Robert M. Tobias, President of the National Treasury Employees Union (NTEU). NTEU represents employees in agencies throughout the federal government and is the exclusive representative for U.S. Customs Service employees nationwide. In the past, NTEU has worked closely with Members and staff of this Subcommittee on issues affecting the Customs Service; it is my hope to continue this practice. It is with great pleasure that I appear today before this Subcommittee in support of the Customs Reorganization Plan.

In my testimony I will address NTEU's involvement in the Customs Reorganization Plan and why we support it. I will also address why we believe that the proposed reorganization, from the employees' perspective, will enable Customs to most effectively accomplish its mission. Finally, I will address a matter not directly related to the reorganization but which is within this Committee's jurisdiction and which affects the efficiency of the Service.

In the past, if Customs had proposed a reorganization, it is difficult to conceive that NTEU would find itself testifying in support of it. This is not to say that substantively the players and their respective positions have changed so drastically in recent times, but rather the process for resolving substantive issues has been drastically altered. In the past, the process for involving NTEU in a reorganization would not have happened in the same manner as it has under Commissioner Weise.

Customs' first order of business for this reorganization was to remove legislative language, which NTEU had supported in the Treasury Postal Appropriations bill, to prevent the study of a Customs reorganization. Instead of creating an adverse situation on the Hill, we were notified by Customs of its intent, prior to its contacting members of Congress. Customs was able to adequately resolve our concerns and the language in the Treasury bill was eliminated. In the autumn of 1993, the Commissioner selected twenty-two employees and gave them the task of recreating an organizational structure for the Customs Service to meet the challenges of the 21st Century. NTEU had two union representatives on this team. After the team completed months of work resulting in a reorganization proposal, NTEU, through its' National President was again given the opportunity to have concerns addressed. This level of involvement and trust has never been present between the Service and NTEU and we believe that as it continues to evolve it can only help to make the Customs Service more effective and efficient.

I'd like to turn my attention now to why NTEU believes that this reorganization makes sense. With the passage of the Modernization and Informed Compliance Act, the North American Free Trade Agreement and the General Agreement on Tariffs and Trade, Customs will face a large workload increase at a time when staff and budget are constantly being threatened. This reorganization prepares Customs for its new challenges. To ensure continued service delivery to the community, the current number of ports and personnel will be maintained. Resources and personnel will be allocated at the port level. In fact, service will improve as resources are allocated from support functions to operational functions.

The reorganization will also result in a streamlined organization with fewer management layers. We believe that this will create a more directed focus on mission accomplishment for employees. Internal barriers will be eliminated. Communication between top management and its employees will be enhanced. Employees who are involved in the day to day tasks of making these programs work will be able to share their valuable input with the ultimate decision makers. These employees will become fully invested in the methods and mission of the Customs Service.

The Customs Reorganization Plan, however, is not primarily concerned with shifting and realigning personnel, rather it revolutionizes the way business is conducted at the Customs

Service. Employees will now participate in determining how their work should be performed through business process improvement teams. These teams will analyze and revise core functions to best accomplish the mission of the Service. This will prove to be a great advantage to the Customs Service. Employees are in the best position to provide meaningful insights on the shortcomings and the way to remedy problems in their programs. In the past, employees have only had the opportunity to react to mandates determined by their superiors. This reinforced an antagonistic relationship between management and its employees and devalued the contributions of the Customs work force. We believe employee input can only lead to better quality programs and increased morale and production among employees.

In addition to employee involvement, Customs will also attempt to change the way it focuses employees. In the past each department at Customs had its own goals. Employees in each department sought approval for its tasks up the organization. Under the Reorganization, the focus will shift with each department looking across the organization toward one goal - Customer Satisfaction. Customs, of course, must always retain its priority to protect the health, safety and security of the public. Employees will become focused on outcomes rather than tasks. With each department focused on the same goal, interdepartmental strife should be eliminated and efficiency and effectiveness will be enhanced.

The underpinnings of this reorganization are employee involvement and a shared and directed vision for all employees. Customs recognizes that this will require it to heighten its attention to human resources. Customs is committed to this process because it knows that its employees are its best resource. Employees have the knowledge base and the "know how" to make the Customs Service work at its highest capacity. In addition, in order to successfully implement the changes in the Reorganization it will need the understanding and commitment of its employees.

In order to change the human resource climate, Customs must become aware of its current problems. The Customs Reorganization report highlights some of its current human resource deficiencies to include:

- an adversarial relationship with NTEU;
- a control-oriented management style;
- an Office of Human Resources perceived as nonresponsive to employee needs: training programs that do not meet employee developmental needs, do not prepare them to improve their performance and are not delivered in a time frame that allows employees to immediately apply what they have learned (i.e. we do not have "just in time training").

The fact that Customs now recognizes these deficiencies is the first step toward resolving them. Customs' goal, which we share, is to create an atmosphere where employees can make their best contribution. In their Reorganization Plan they have enumerated the elements for the ideal state of their future human resources to include:

- a positive relationship with elected and appointed employee representatives;
- a more collegial approach to dealing with employees, and a movement toward a management style characterized by supporting and coaching;
- an Office of Human Resources that serves employees as internal customers and supports management in achieving operational goals through strategic human resource planning;

- a streamlined organization without unnecessary layers;
- a better understanding of the organization, and the role that each discipline and organizational element plays in the achievement of those goals; and,
- an organization in which all employees are provided with quality training designed to improve their performance and delivered just in time.

This desired state will obviously take some time to achieve. Some employees will be skeptical. We believe strongly that employees, management and the Customs Service as an entity will benefit as employees become involved in their work life decisions. Employees on the front line are in the best position to know what "nuts and bolts" changes are necessary to make the Service more efficient. The quality of the programs will be enhanced as decisions are made by those people responsible for carrying them out. Employee involvement will lead to more informed and productive determinations for the future of the Customs Service. In addition, employees will feel a greater commitment to their job and a stronger sense of responsibility as to the outcome of their work.

The next decade promises to be exciting and challenging for the Customs Service. We believe that the reorganization proposal before this Subcommittee will allow Customs personnel to make the greatest contribution to the Service. We expect the Customs Service to reach new levels of success as it uses its greatest resource - its employees - to face the challenges of the 21st Century.

I would like to turn my attention to a matter not directly related to the Customs Reorganization but which does affect the efficiency of the Service. This Subcommittee had jurisdiction over the Customs Officer Pay Reform Act (COPRA) which went into effect on January 1, 1994. The Act made significant changes in the compensation system for certain Customs Officers. Among the changes was the following:

> Foreign Language Proficiency Awards
>
> Cash awards for foreign language proficiency may, under regulations prescribed by the Secretary of the Treasury, be paid to customs officers... to the same extent and in the same manner as would be allowable under Subchapter III of chapter 45 of title 5, United States Code, with respect to law enforcement officers.

This provision was enacted because of a growing "customer need" to have Customs officers speak a foreign language at the land borders and various airports. It was the Committee's belief that the provision would provide an incentive for more officers to speak a foreign language and better serve the traveling community.

At this time we have been told that the Treasury Department is refusing to authorize the Customs Service to implement this program. The Department's unwillingness to advance the creation of the program is at odds with Congressional intent and unfair to the dedicated men and women of the Customs Service. We would appreciate any assistance that the Subcommittee could provide to us on this important matter.

Thank you for allowing me the opportunity to share my views. I would be happy to answer any questions.

Chairman CRANE. Thank you, Mr. Tobias.

Given the state of the Federal budget, coupled with the prospect of a significant escalation of trade, as we move into the next century, aren't continued modernizations and automation necessary for Customs and all the people that work in that organization to be able successfully to address the responsibilities coming on?

Mr. TOBIAS. Without question. Without question. There is no question that automation and increased technology is necessary. But I suggest that the introduction of technology alone would not meet the necessary objectives, because technology without a proper construct, without new thought about what the work processes and work procedures ought to be, would be wasted. I think that the Customs Service did in fact introduce some technology in the early eighties, spent a great deal of funds on it, and I don't believe that that technology was maximized in the way that technology will be maximized with these new work processes and procedures.

Chairman CRANE. Thank you.

Mr. Rangel.

Mr. RANGEL. Thank you.

Good to see you again. I am glad to see that there has been cooperation between the union and the Service. I am not satisfied that we are getting the proper cooperation from the Government of Mexico as it relates to drug interdiction. Other Members have problems, of course, with immigration. Is there anything, that you see, in the modernization that would be dealing with that?

Mr. TOBIAS. I do. The Customs Service struggled a great deal with the concept of work processes and work procedures. It was inconsistent to increase facilitation to make it easier for the good guys to bring in their goods without a proper focus on those who might be the bad guys. And so after a great deal of struggle, part of the entire reorganization effort is to focus cross functionally on dealing with the law enforcement aspect of the Customs' mission.

The term that is being used is problem solving, focusing on drug interdiction efforts and how all aspects of the Customs Service can be mobilized to deal with those kinds of issues. So the reorganization, I believe, will help the Customs Service do a better job, because all of the various aspects of the Customs Service will be able to be focused on the effort, rather than using the stovepipe approach that they have used in the past.

Mr. RANGEL. Are there tools that you are asking for to allow the agents to do a better job? Are they being instructed in Spanish?

Are there things that you feel as a union leader that could be provided to make the Customs agents more effective?

Mr. TOBIAS. Well, one thing that we believe would be helpful is the implementation of the foreign language program in the Customs Service. Congress passed the legislation authorizing the foreign language award program and it needs to be implemented. It is currently pending at the Department of Treasury. And I think that it would be very helpful, particularly at the border, that those Customs inspectors who speak a foreign language, along with their expertise, are used in that capacity and are rewarded for that expertise which is consistent with the legislation Congress passed.

And you know, we find that it is not only at the southwestern border, but it is also in San Francisco and Los Angeles, where a

great deal of Asians come into the country and those Customs inspectors who can speak Japanese or Chinese or Thai are used all the time. And similarly with those who come into New York, there are many Africans who come into the country who don't speak English and the inspectors who can speak to those travelers are used. And so we believe it would be helpful to reward that expertise and encourage more inspectors to develop it.

Mr. RANGEL. Thank you, Mr. Chairman.

Chairman CRANE. Thank you.

Mr. Houghton.

Mr. HOUGHTON. What do you think would be the most significant thing the Customs Service could do other than your description of the foreign language requirement and things like that which could improve its service?

Mr. TOBIAS. Well, I think that there isn't one thing. I think there are a broad range of issues and ideas that are in the process of being implemented right now that will significantly increase service while, at the same time, maintain the role of the Customs Service.

There are things under consideration now that would allow those importers who have good records to have their goods examined less frequently than they are today. That would be real helpful to importers and companies coming into the country because they would get their goods through Customs much faster.

In the past, the Customs Service has been very reluctant to encourage those kinds of programs because there was no statistical base for measuring compliance. Customs is putting in place right now a very sound statistical base of compliance by goods imported by company, by importer, so we will know who is compliant and who isn't. Customs will be focusing attention through real hard data as to who is compliant and who isn't. Customs will attempt to, in the first instance, assist the noncompliant to become compliant, and then, in the second instance, if they are still noncompliant, to use enforcement action. I think this procedure will have a dramatic impact on the service that Customs provides.

Chairman CRANE. Mr. Payne.

Mr. PAYNE. Thank you, Mr. Chairman.

Mr. Tobias, I am really encouraged by your testimony. As you just heard from the GAO study, there were some concerns and comments about changing the culture of the organization in order for this reorganization to succeed, and I think you have spoken to that very directly. And I don't think this reorganization will succeed in the long run unless you and your membership are very actively and positively involved in it. And what I am hearing is that this is exactly the case.

So I don't have any questions, but I did want to say thank you for your very encouraging testimony and if you had anything else you would like to add, please do so at this time.

Mr. TOBIAS. Well, I appreciate your comments. I believe that the real stimulus for this effort came certainly from the Commissioner of Customs, but also through the encouragement of this administration to encourage agencies to create partnerships with unions.

There was a recognition that in order to, as you suggest, to change cultures at agencies that it cannot be done unilaterally.

Culture change has to be done bilaterally, and union participation will create better job satisfaction through increased involvement in creating a more efficient workplace. In those kinds of situations, the agencies can win from increased efficiency and better service, and employees win from better involvement. The Customs Service has embraced that concept and there is more and more trust being generated where employees will give the agency time to fulfill its promises, as opposed to being totally cynical about the changes that are being announced. I think that creates an atmosphere where change can occur, as opposed to one where change is resisted.

Mr. PAYNE. And I think this is what is going on in the private sector in terms of substantial and successful organizational changes that are being made there.

Mr. TOBIAS. Those that are dubbed high-performing corporations are successful in creating partnerships with the unions that represent their employees.

Mr. PAYNE. Thank you very much.

Thank you, Mr. Chairman.

Chairman CRANE. Thank you again, Mr. Tobias, for your testimony and we look forward to working with you, and we are happy that this is a nice, cooperative effort toward meaningful reform.

Mr. TOBIAS. Thank you very much, Mr. Chairman.

Chairman CRANE. Our next panel are David Rose, chairman of the Joint Industry Group; Michael Dugan, president of the National Customs Brokers and Forwarders Association of America; Philip Hughes, chairman of the U.S. Transportation Coalition for an Effective U.S. Customs Service; and David Serko, chairman of the subcommittee on customs regulation and reorganization, the American Association of Exporters and Importers.

And we will proceed in the order, Mr. Rose, Mr. Dugan, Mr. Hughes and Mr. Serko.

STATEMENT OF DAVID W. ROSE, CHAIRMAN, JOINT INDUSTRY GROUP, AND DIRECTOR OF IMPORT AND EXPORT AFFAIRS, INTEL CORP.

Mr. ROSE. I thank you, Mr. Chairman and members of the committee.

I am David Rose, chairman of the Joint Industry Group, a coalition of over 100 manufacturing companies, trade associations and various firms involved in trade and Customs matters. I am also director of import and export affairs for Intel Corp., a major high-tech manufacturer. On behalf of the Joint Industry Group, I am pleased to summarize my written testimony on the U.S. Customs Service reorganization and modernization efforts.

The Joint Industry Group was the preeminent private sector organization involved in the development and the support of the Customs Modernization Act. In this pursuit, we worked with Customs to resolve some 65 areas of major disagreement, a process that stands as a model for government-private sector cooperation. The result was a balanced bill that embraced automation and other trade-related efficiencies as well as an informed, shared approach to Customs compliance.

Last year, the Joint Industry Group joined other private sector representatives in Mod Act implementation sessions with Customs. We commend Commissioner Weise and the Customs Service for continuing an open dialog during the implementation phase.

Yet more than 1 year after the Mod Act passage, we are very disappointed that very few of the more significant changes have taken effect. In the enforcement area, we were encouraged by Customs' quickness to adopt new rules on detention and seizure of goods and publish its regulatory audits and drawback procedures. To its credit, Customs also issued a paper on penalties and liquidated damages that would maximize voluntary compliance through education and cooperation, reserving penalties for serious violations and repeat offenders.

At the same time, Customs' recordkeeping compliance program is off to a shaky start. Many in industry have criticized this voluntary program as bureaucratic, costly and outdated.

For example, Customs published an overly broad list of records that an importer must maintain and produce—or face penalties as high as $100,000—the latter figure, of course, is actually mandated by the Mod Act. We believe that Congress should encourage Customs to make the recordkeeping program susceptible of use by industry and, in doing so, direct Customs to confine its record list only to essential information.

Also disappointing was Customs' misapplication of the reasonable care standard. Last year, Customs initiated three proposals to stem the transshipment of textiles and apparel, an illegal activity that we clearly oppose. Yet each initiative was taken in the name of reasonable care, when what Customs imposed on importers was actually a strict liability standard. We ask the committee to review these actions to determine whether Customs has perhaps erred with respect to the aspect of reasonable care in these decisions.

The meaning of reasonable care has also not been adequately conveyed to field offices as two examples in our written remarks attest. It is time for this message, we believe, to be diffused more effectively beyond the beltway.

In the area of automation and new import procedures, Customs held numerous constructive public meetings last year to address the components of NCAP, the national customs automation program, mandated by the Mod Act. Significant headway was made and the contours of remote filing, reconciliation, and so on, began to take shape.

At the same time, Customs tackled the immense challenge of reorganizing itself. Many Mod Act automation programs were immediately delayed, pending completion of process improvement reports.

Our members view this development with concern, given our desire to see automation programs implemented swiftly. We support process improvements, but urge this committee to exert pressure on Customs to complete its reports quickly and get on with the implementation of the national automation components.

The Joint Industry Group has closely monitored the proposed reorganization of Customs' operations. It is premature to render judgment on a reorganization plan not yet implemented. Suffice it to say that the plan holds great promise while raising some concerns.

A key concern involves the role of the 20 proposed Customs Management Centers or CMCs. While they are ostensibly dedicated to Customs Internal Management Centers, these centers could, in fact, issue decisions which affect the legitimate interests of the trading community. We urge this committee to examine the issue of public access to CMCs before approving the reorganization.

Finally, another concern is the plan to transfer from headquarters to port directors the responsibility for mitigating penalties initiated in the field. In most instances, field officers lack the training, experience and exposure to legal principles required for effective disposition of penalty cases. Before any transfer occurs, field employees must possess the necessary expertise to decide penalty cases.

In conclusion, it is essential that Customs establish a clear roadmap of realistic objectives and milestones to ensure steady progress across many of its worthy ongoing projects and daily responsibilities. This roadmap, we believe, must include an acceleration of the Mod Act implementation process.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Testimony of David Rose
Chairman, Joint Industry Group
on U.S. Customs Service Reorganization
and Modernization Efforts
before the
Subcommittee on Trade
Committee on Ways and Means
January 30, 1995

Thank you Mr. Chairman and members of the committee. I am David Rose, Chairman of the Joint Industry Group, a coalition of over 100 manufacturing companies, trade associations and various other firms involved in trade and customs matters. I am also Director of Import and Export Affairs for Intel Corporation, a major U.S. manufacturer of semiconductors, personal computer, networking and communications products. Accompanying me are Richard Abbey, Chairman of the JIG Import/Export Programs Committee and an attorney with the law firm of Ablondi, Foster, Sobin and Davidow; and William Outman, Chairman of the Joint Industry Group Informed Compliance Committee and an attorney with the law firm of Baker and McKenzie.

On behalf of the Joint Industry Group, I am pleased to present testimony on U.S. Customs Service reorganization and modernization efforts. Our members have a huge stake in the outcome of these efforts and have interacted with the Customs Service in both areas to a significant degree.

PERSPECTIVE

The Joint Industry Group was the preeminent private sector organization involved in the development and support of the Customs Modernization Act . Our efforts began with the drafting of customs modernization legislation that Chairman Crane introduced in May, 1991. This legislation was followed in 1992 by the introduction of Customs' own modernization bill. The two bills were later merged into a single bill known as the Mod Act--a process that entailed resolution of some 65 areas of major disagreement between the Joint Industry Group and Customs. This process was a model for government-private sector cooperation in achieving a common, worthy goal. The Mod Act embraced the Joint Industry Group concept of informed compliance together with Customs' concept of shared responsibility for complying with Customs law and regulations. It also created a framework for automation and other efficiencies that promise dramatic improvements in the trade process for industry and government alike. This is not to say that the Mod Act is perfect from our perspective--the very process of compromise ensures that result. But we are convinced that the flexibility, balance, vision, and industry-government consultation that undergird this legislation are the keys to successful implementation of the Act.

In the past year, the Joint Industry Group has joined a number of other private sector representatives in Mod Act implementation sessions with the Customs Service. While the process has been slower than we anticipated, impeded to a great degree by the simultaneous reorganization effort and the creation of

process improvement teams to re-engineer the way Customs operates under existing statutory authority, we nevertheless commend Commissioner Weise and the Customs Service for continuing this open dialogue during the implementation process. However, we believe the time has come to accelerate this process.

The Joint Industry Group has also closely monitored Customs Service activities related to the proposed reorganization of Customs operations. In doing so, we joined numerous private sector groups in providing advice on how the reorganization should proceed. We stressed the need for operational and resource efficiencies as well as improvements in the penalty function.

It is our view that the reorganization outlined in Customs' report entitled "People, Processes, and Partnerships" is a schematic that holds great promise. The plan blends corporate re-engineering principles, modern management techniques, customer service and technology driven solutions as the basis for creating a more efficient, effective and flexible Customs Service. It is premature to render judgment on a reorganization plan not yet implemented, but we support the objective of eliminating unnecessary administrative layers and assigning more Customs officials to operational responsibilities in the field.

SPECIFIC COMMENTS AND RECOMMENDATIONS

Customs Modernization - In the Customs Modernization Act, the JIG sought and achieved two major objectives: first, Congressional support for clear, publicly announced rules, regulations and procedures of the Customs Service so that

importers could knowledgeably plan and execute their import transactions in full, "informed compliance" with the law; and second, authority for Customs to adopt modern, electronic, business-like systems for the processing of commercial imports and the payment of duties. In its efforts to implement the law, during the past year, Customs sought advice from every segment of the importing community. Concept papers on a host of topics ranging from remote filing to liquidated damages and penalties were disseminated to industry and in many instances revised based on industry comment. Yet, in retrospect, more than a year after the Congress adopted dramatic changes in the Customs law, very few of the most significant changes have been implemented.

- **Enforcement** - In the enforcement area, Customs was simultaneously encouraging and disappointing. The JIG was encouraged by Customs' quickness to adopt and apply the new rules on the detention of merchandise and seizure of merchandise under 19 U.S.C. 1595 a (c), and make public its directive on regulatory audit procedures and its manual on drawback procedures, all positive steps. To its credit, Customs issued a concept paper entitled "Reinventing the Penalty and Liquidated Damages Program". Building on the concepts of "informed compliance" and "shared responsibility", Customs announced its intention to work with importers toward the goal of achieving maximum voluntary compliance through education, information, and cooperation, reserving penalties for the more serious violations and repeat offenders. The JIG welcomes the many innovative approaches to encouraging compliance contained in this concept paper.

On the other hand, a major element of Customs' "informed compliance" program, the record keeping compliance program, has gotten off to a shaky start. The JIG is concerned about two aspects of the program. First, as the Committee will remember, section 509 of the Tariff Act of 1930, as amended (19 U.S.C. § 1509) (the "Act") was amended in anticipation that certain records, currently required by law or regulation for the entry of the merchandise, may at some later date not be required to be submitted in order to facilitate electronic entry and the goal of trade facilitation. Specifically, under section 509(a)(1) of the Act, the Congress mandated that:

> (A) if such record is required by law or regulation for the entry of the merchandise (whether or not the Customs Service required its presentation at the time of entry) it shall be provided to the Customs Service within a reasonable time after demand for its production is made, taking into consideration the number, type, and age of the item demanded; and
>
> (B) if a person of whom demand is made under subparagraph (A) fails to comply with the demand, the person may be subject to penalty under subsection (g) of this section.

In accordance with section 509(e) of the Act, the Customs Service published for comment in the Customs Bulletin a listing of every record or "entry information" that it believed was required to be maintained and produced under section 509(a)(1)(A) of the Act (the "(a)(1)(A) List").

The JIG believes the Congress should encourage the Customs Service to define narrowly those "records" the failure which to produce on demand may subject the record keeper to a monetary penalty of as much as $100,000 for each

record not produced within a "reasonable time." This is the perfect opportunity to prune "deadwood" records from those that should be included on the (a)(1)(A) List. All forms of self-certification are no longer meaningful and should be eliminated. For example, under the standard of "reasonable care," an importer has an obligation to insure that claims for duty-free entry under an entitlement program, such as the Generalized System of Preference or the recently enacted North American Free Trade Agreement, are meaningful. Since producing a certificate attesting to the obvious adds nothing to the record keeping compliance program and creates an unnecessary assemblage and retention of paper, we urge that the Congress encourage the Customs Service to keep the (a)(1)(A) List to the bare minimum.

Second, the record keeping compliance program, which has been announced in general terms by the Customs Service's Office of Regulatory Audit, requires in our view, redirection. Any record keeping compliance program must be viewed by the Customs Service through the lens of data kept by companies in the ordinary course of business. The Customs Service is of the mistaken view that major multi-national corporations can tie entry data all the way through to the financial statements certified by public accountants. In anticipation that electronic entry will become a reality, the Customs Service should understand more fully how records are maintained and create a compliance program based thereon rather than creating the program and expecting industry to shoehorn into it. The program has been roundly criticized by industry as a bureaucratic, administratively costly government program that was out of touch with the times. As a voluntary program, companies

will not join if the costs of the program outweigh the potential risk of penalties for non-production of requested documents. We understand that the record keeping compliance program is being rethought. The JIG stands ready to work with Customs to achieve a workable program.

Truly disappointing to the JIG was Customs misapplication of the "reasonable care" standard. When the Customs Modernization Act was considered by this Committee, the JIG expressed concern with including the "reasonable care" standard in the statute. "Reasonable care" was not a new standard, and it had long been applied to importers' actions by Customs -- with Court approval -- in determining whether an importer had been negligent in entering merchandise. We feared that inclusion of the standard in the statute would now be used by Customs to justify heavy-handed enforcement. Unfortunately, we were right. In the last year Customs initiated three proposals, based on the "reasonable care" standard, designed to stem transhipment of textiles and apparel transshipment. First, Customs modified its penalty guidelines to treat transhipment as an aggravating factor even though the importer may have been completely blameless. Second, Customs proposed to require importers to certify that they had used reasonable care in determining the country of origin of imported textiles and apparel when, in many cases, it would be impossible for the importer to know the true source of the product. Third, Customs imposed a 180 day "conditional release" period on textile and apparel importers, giving itself six months to demand redelivery of such merchandise and penalize importers who did not comply. Obviously, since

businesses attempt to move merchandise to the customer as quickly as possible, and rarely hold merchandise in inventory for 30 days, Customs' ill-considered action guaranteed that a penalty would be imposed on unwary importers if at any time in the six month period after importation Customs suspected some import irregularity, whether or not the importer was at fault, or Customs could even prove on a timely basis.

The JIG clearly is opposed to the transhipment of textiles and apparel or any illegal activity that harms honest importers and American producers. However, each of these enforcement initiatives was taken in the name of "reasonable care", when what Customs was imposing was a "strict liability" standard of care. We ask the Committee to review these actions to determine whether Customs has misused its authority in attempting to address the serious problem of transhipment.

Nor has the meaning of "reasonable care" in terms of Customs compliance been adequately communicated to field offices. Perhaps, two examples will help illustrate our dilemma. In one recent case, a large West Coast importer, undertaking a semi-annual internal audit, advised the Customs Service that several "pre-filed" entries required cancellation because cargo intended to be loaded by the carrier on a given flight did not make the plane. In twenty other cases, the importer noted that adjustments were necessary to correct entries for inadvertencies in tariff classification, rate of duty or value of the declared entry. In response, the Customs Service advised that "it considered that importer negligent, exhibiting a lack of due care or attention ... to matters relating to entry documents" and indicated it was

giving serious consideration to revocation of the importer's immediate delivery privileges. While more than 1,800 entries were filed during this period, no other adjustments were needed with respect to the 98.91% of entries filed during the same period. In a second case, a major importer was requested to waive the statute of limitations because the local Fines, Penalties and Forfeitures Office was considering the imposition of a penalty with regard to buying agency commissions that had been claimed as non-dutiable. This occurred notwithstanding the fact that the company in question employs almost seventy individuals who handle Customs matters, three of whom are former Import Specialists. In addition, the company has a full-time director of Customs and a senior Customs attorney on its staff responsible for Customs matters, having been in this position since 1978. Further, the company had reviewed and sought guidance on the Buying Agency question with outside Customs counsel.

In both instances, the importers exercised the "reasonable care" expected of them under the statute. Yet, in one case, reconciliation was viewed as an admission as to the inability to comply fully with the requirements of entry, notwithstanding the reconciliation was self-initiated. In the latter, the Customs Service's Field personnel were oblivious to what this Committee mandated would be prudent steps taken by importers to meet the standard of reasonable care. It has been almost fourteen months since the Customs Modernization Act became law. It seems the message needs to get out beyond the Beltway.

- **Automation** - In the area of automation and electronic processing of imports, JIG members proposed a number of the most far reaching automation proposals contained in the Mod Act, including the Import Activity Summary Statement ("IASS") and reconciliation. We were ardent supporters of remote entry filing and the other components of the National Customs Automation Program ("NCAP"). These electronic processing initiatives offer our members the opportunity to improve efficiency and reduce administrative costs, enhancing their competitiveness. Thus, we are eager for the implementation of these programs.

For six months after enactment of the Mod Act, Customs held numerous public meetings with the major organizations representing importers, exporters, carriers, customs brokers and attorneys to gain and share knowledge, experience, and special interests and concerns relating to the NCAP components. A series of concepts papers were prepared and disseminated by Customs, critiqued by the groups, and reworked. The atmosphere of these meetings was constructive and the contours of remote entry filing, reconciliation and the IASS began to take shape. At the same time, Customs tackled the immense challenge of reorganizing itself. Not only did the organizational structure of the Service come under scrutiny, so did the way Customs processes passengers and cargo. The impact on Mod Act implementation was felt immediately as many automation programs were delayed pending reports of newly created Process Improvement Teams.

Our members view this development with concern, given the desire to see automation programs implemented as soon as possible. It became apparent that various functional working groups within Customs were to be working at cross purposes, studying overlapping issues without adequate coordination, and arriving at inconsistent recommendations. For example, this appeared to be the unacceptable situation that existed between the group examining Customs cargo clearance procedures and the group working on the implementation of the NCAP components. Of even greater concern to us is the longstanding, ongoing disagreement within the Customs Service about the nature and amount of invoice information to be required. A well coordinated decision on this issue is critical to development of remote entry filing, reconciliation and IASS. Now, we understand, Process Improvement Teams are addressing this issue and numerous other issues that have hindered development of a seamless, integrated cargo processing system.

The JIG is encouraged by Customs' rational approach, but urges this committee to exert pressure on the Service to complete these studies quickly and get on with implementation of the NCAP components. Although we understand the dynamics, we nevertheless are disappointed with the slow pace of implementation. We have been informed, for example, that the test of a remote entry filing prototype and the test of a reconciliation prototype have been pushed back until late Spring, and that the critical invoice information decision is still many months away. Furthermore, because the proposed regulatory amendments authorizing tests of new automation prototypes have still not been published as a

final rule (which in turn precludes importer application and selection for the tests), there will be additional delay. Given the current level of progress in this area, we are looking at a period of five years or longer before our members will see any benefits, if then. We believe it is imperative for this committee to direct the Customs Service to place a high priority on the implementation of the automation initiatives contained in the Mod Act.

We recognize, however, that even if Customs undertakes these initiatives as its highest priority, implementation is still a long way off. In the interim, we recommend that Customs hasten the shift to an account-based system, utilizing the Pre-importation Review Program ("PIRP") or pre-classification program along with a reasonable record keeping compliance program to identify reliable importers. Each such importer would interact with a primary Customs official for all purposes and thereby reduce, if not eliminate, unnecessary, duplicative communications for both the importer and Customs. An account-based system would appear to be easy and quick to implement, and would return great benefits, at the lowest cost, and in the shortest time possible.

Reorganization

As noted in our introductory comments, the JIG supports the objectives of the reorganization, but we reserve comment on a plan not yet approved by the Congress, nor implemented. The major concern raised by our members is the function of the 20 Customs Management Centers ("CMC"). The Customs Service

has not done an adequate job in clarifying the role of this new organization that appears to exercise many of the same responsibilities of the abolished seven regions, nor has it adequately explained the geographic distribution of the CMCs.

As a general proposition, the JIG believes that companies should have access to Government officials who are responsible for decisions affecting a company's legitimate interests. It is our understanding that the CMCs will have administrative and management responsibilities, that is personnel, budget and oversight, and will attempt to insure uniformity at the ports under its jurisdiction; that no decision making authority will be delegated to the CMCs; and that the public will have no interaction with CMC officials. Although personnel and budget matters are an internal management function, such matters are of vital concern to the public because they affect staffing which impacts on the operation of the port. Similarly, if the CMC in ensuring uniformity is given the authority to decide on the appropriate procedure or correct classification, private interests will be affected and access to the decision maker should be guaranteed. We recommend that the committee explore these issues further before approving the reorganization.

The JIG is concerned that, with reorganization, the transfer to the Port Directors of responsibility for mitigation of penalties initiated in the Field will create a degree of havoc not seen since the early 1970's. In most instances, Fines, Penalties and Forfeitures Officers currently lack the training, experience and exposure to legal principles required for effective disposition of civil penalty cases. Historically, civil penalties have been initiated in the Field at the "maximum" levels

provided by law with apparent disregard for the degree of culpability involved in the offense. Perhaps, this has been traceable to the realization that it didn't really matter because Headquarters would be making the final determination. If the Headquarters Office intends to de-emphasize its importance and transfer responsibility to the Port level, something will have to be done to insure that the Field has the necessary resources to determine in the first instance whether a penalty should be imposed and then make a practical assessment as to the level of culpability and penalty. Obviously, if a more realistic program were adopted in the first instance, mitigation should become of less concern. In any event, Customs should make strenuous efforts to improve the training of special agents, import specialists and any other employees who are involved in the initiation of penalty cases so that proposed penalty cases are carefully and fully developed and criminal referrals and interminably long civil proceedings are avoided. Also the current penalty guidelines for the resolution of penalty and liquidated damages should be dramatically overhauled to encourage the expeditious resolution of cases.

CONCLUSION

It is clear that U. S. Customs is currently juggling many priorities. In addition to the huge workload demands associated with Mod Act and reorganization activities, Customs is proceeding with comprehensive process improvement and trade compliance initiatives which, among many other elements, includes a complete redesign of Customs automation environment, new compliance

measurement procedures, and a complete rethinking of Customs enforcement practices. All of these major initiatives are taking place astride Customs' daily mission of trade facilitation and enforcement. While a tall order, Customs' ambitious agenda seems necessary and inevitable. Customs cannot effectively implement the Mod Act without simultaneously restructuring its organization, automation environment and trade compliance programs so as to meet the demands of modernization. A multidisciplinary and cross-functional approach to these activities is essential to the proper handling of ever-growing trade flows as we approach the 21st century.

It is equally essential that Customs establish realistic objectives and milestones to ensure steady progress across all of its projects and daily responsibilities. Absent a detailed roadmap for success, many of the modernization programs that private sector, Customs and this committee worked so hard to achieve may be assigned a lesser priority, falling victim to Customs' more recent initiatives. The slow pace of Mod Act implementation raises the question of whether this is already happening. To the extent that the answer is yes, U.S. interests--importers and exporters, carriers, customs brokers, and the Customs Service itself--would stand to lose the operational, resource and economic efficiencies envisioned by the parties who supported Customs modernization legislation. Periodic reviews of Customs objectives and performance record in fora such as this hearing are important to ensure that Customs remains a progressive, focused organization.

Thank you, Mr. Chairman. We would be pleased to respond to any questions the Committee may have.

Chairman CRANE. Thank you.
Next, Mr. Dugan.

STATEMENT OF MICHAEL F. DUGAN, PRESIDENT, NATIONAL CUSTOMS BROKERS & FORWARDERS ASSOCIATION OF AMERICA, INC.

Mr. DUGAN. Thank you, Mr. Chairman. Thank you for the opportunity for the National Customs Brokers & Forwarders Association to testify.

We commend you for taking committee time so early in the year to take stock of the performance of Customs. The times have mandated the modernization of Customs and the agency has set about the task in an aggressive fashion.

Customs must implement the provisions of the Customs Modernization Act passed almost 15 months ago at the initiative of this committee. It has chosen to reorganize both its structure and its functional process. Customs is not doing this alone or in a vacuum. Our association and others in the private sector have thus far been involved every step of the way.

Customs charts its objectives, but then has elicited comment and approval as plans have evolved. Commissioner George Weise has gone the extra mile to ensure that literally everyone has had the opportunity to share their views.

We are now at the stage where broad outlines have emerged and we are anxious to develop the details. In the interest of providing positive input and feedback about the direction of Customs modernization and reorganization, our organization has the following observations to make.

We support and applaud the goal of reduced bureaucratic layering. Customs must have the broad latitude to make the management decisions necessary to improve and run their own agency.

We are promised that CMCs are administrative entities only and that is why their geographical location is not important to individual ports. If they are to be only administrative, they must not be permitted to acquire more functions and significance in the future. They must be clearly defined right now.

Our association is concerned that the Customs' fines, penalty and forfeiture function must be wielded judiciously and fairly. Its power cannot be permitted to be misappropriated in the future.

Uniformity has become one of the greatest concerns of importers as the agency decentralizes to a port orientation. Application and enforcement of Customs' laws must have a national focus. Our association wants knowledgeable, experienced people running Customs' programs.

Work cannot be brought to a standstill as change occurs. Carefully planned incremental change will avoid these problems. Our association believes that these changes must not create delays in the movement of cargo but aid in the process of selecting cargo for examination.

The movement from a transaction-based processing to account-based processing must not diminish access to knowledgeable Customs officers. We do not want an 800 number manned by uninformed people who merely take down our questions so that they can get back to us.

We readily accept the challenge and the obligations of informed compliance. Recordkeeping compliance is an important part of this concept. We cannot permit the public to drown in paper as the burden shifts to an importer to produce on demand specific documents. The list, the A–1–A list, must be streamlined and the demands of the program must be made reasonable.

The in-bond program must be preserved. In-bond is vital to the international trading status of many communities such as Chicago, Pittsburgh, Houston, and Dallas.

We hope this committee will ensure that Congress' intent is brought into perspective so that the Customs Service and the private sector can together achieve a reasonable solution to the issues raised by the Chief Financial Officers Act.

We want retention of a broker regulatory scheme where brokers must be qualified and properly permitted, held accountable to Customs and our own high standards. Brokers want Customs business defined and applied to activities conducted both inside and outside the United States. It makes little sense to hold documents prepared inside the United States to the highest possible standards and then to permit a come-as-you-are philosophy to apply to counterpart documents prepared in foreign locations.

Our association asks a continued role as a working partner with the Customs Service to see that their agenda is brought to fulfillment. Commissioner Weise has included us so far and except for the issuance of the section 321 regulations, what we believe was without proper discussion, Customs has considered our views throughout the full spectrum of their plan changes. More than anything else, we offer Customs recourse to a reality check that will obviate false starts, missteps, unnecessary friction with the private sector, and finally the necessity of involving the committee in every dispute.

Mr. Chairman, we thank you for giving us the time this afternoon to make our comments.

[The prepared statement follows:]

TESTIMONY OF MICHAEL F. DUGAN
NATIONAL CUSTOMS BROKERS & FORWARDERS ASSOCIATION OF AMERICA

Mr. Chairman: Thank you for this opportunity for the National Customs Brokers and Forwarders Association of America (NCBFAA) to testify. We commend you for taking committee time so early in the year, in the midst of your work on the Contract with America, to take stock of the performance of Customs. The United States Customs Service is indeed an agency of vital importance to the American public.

These are challenging times for Customs as well. The times have mandated modernization of the Customs Service and the agency has set about the task in aggressive fashion. Customs must implement the provisions of the Customs Modernization Act passed almost fifteen months ago at the initiative of this Committee; it has chosen to reorganize both its structure and its functional processes in what amounts to a complete overhaul of how it conducts its operations; and, it faces the immense burden of day-to-day operation when trade has reached unparalleled proportions as a factor in our economic well-being. And, these steps have been undertaken simultaneously. Customs is not doing this alone, or in a vacuum. NCBFAA and other in the private sector have been thus far involved every step of the way. Customs charted its objectives but then has been assiduous in eliciting public comment and approval as plans evolve. Commissioner George Weise has gone the extra mile to ensure that literally everyone has had the opportunity to share their views and participate in setting the direction for this re-engineering.

We are now at the stage where the broad outlines have emerged and we are anxious to develop the details. Our expectation and commitment for involvement have, if anything, only been piqued. Once engaged, our standards have become increasingly more demanding. Once empowered, we expect to assume an important role in tailoring Customs' changes so that they best serve the public, our clients.

In this vein then, in the interests of providing positive input and feedback about the direction of Customs modernization and reorganization, NCBFAA has the following observations to make:

1) We support and applaud the goal of reduced bureaucratic layering and having Customs services more available at the locus of international trade, the ports. Customs must have broad latitude to make the management decisions necessary to improve and run their own agency. NCBFAA will seek to ensure however that the newly-emerging "CMCs" and strategic trade centers meet these objectives. We are promised that CMCs are administrative entities only and that is why their geographical location is not important to individual ports. Then, if they are to be only "administrative", they must not be permitted to acquire more functions and significance in the future. They must be clearly defined <u>now</u>.

2) NCBFAA is concerned that Customs' fines, penalties and forfeiture function will become the vehicle for too much unbridled power to be located with the director of a small port. Typically, "fines, penalties & forfeiture" is the blunt

instrument of enforcement that must be wielded judiciously and fairly. Its power cannot be permitted to be misappropriated.

3) Uniformity has become the greatest concern of importers as the agency decentralizes to a port-orientation. Customs is well aware of these concerns and the private sector will work assiduously to ensure that, whereas customs service is a local issue, application and enforcement of customs law must have a national focus.

4) NCBFAA wants knowledgeable, experienced people running Customs programs and we don't want upheaval, personnel turmoil, or extended learning curves. In consulting with Customs on reorganization, we will balance this operator's perspective against the reorganization team's more long-term objectives. Work cannot be brought to a standstill as change occurs; carefully planned, incremental change will avoid these problems.

5) NCBFAA believes that these changes must not create delays in the movement of cargo, but aid the process of selecting cargo for examination, thereby facilitating the expedited movement of all cargo through Customs.

6) The movement from "transaction-based" processing to "account-based" processing must not diminish access to knowledgeable Customs officers to obtain information and decisions necessary for the quick release of specific shipments. We do not want an 800 number manned by uninformed people who merely take down our questions so they can "get back to us" or who simply refer us to others. We want open communications channels within Customs operations.

7) We readily accept the challenge and obligations of "informed compliance". Recordkeeping compliance is an important part of this concept. A first attempt at this has gotten off to a false start and is now undergoing major surgery. As Customs moves out from under a sea of paper, we cannot permit the public to drown in paper as the burden shifts to an importer to produce on demand the specific essential documents. The list ("(a)(i)(A)") must be streamlined and the demands of the program made reasonable.

8) The "In-bond" program must be preserved. In-bond is the lifeblood to the international trading status of many communities (such as Houston, Chicago, or Pittsburgh). The most often identified culprit posing a threat to the viability of in-bond has been the recently-passed Chief Financial Officers (CFO) Act; however, overreaching

interpretations and overzealous enforcement will lead to unintended results and the demise of efficient transportation systems of today. We hope this Committee will ensure that Congress' intent is brought into perspective so that Customs and the private sector can together achieve a reasonable solution to issues raised by the CFO Act.

9) We want retention of a broker regulatory scheme where brokers must be qualified and properly permitted, left in an unobtrusive environment to conduct our business, and then be held accountable to Customs and our own high standards. The Commissioner has asked us to help design these regulations and we will.

10) Brokers want "customs business" defined and applied to activities conducted inside and outside the United States so that the public can be assured that their customs business will be conducted professionally. It makes little sense to hold documents prepared inside the U.S. to the highest possible, most exacting standards, and then permit a "come as you are" philosophy to apply to counterpart documents prepared in foreign locales by people ignorant of our laws and beyond our reach.

11) NCBFAA wants a continued role as Customs' working partner in seeing Customs' agenda to fulfillment. Commissioner Weise has included us so far and, except for issuance of the §321 regulations without proper discussion, Customs has considered our views throughout the full spectrum of their planned changes. Now we recommend that a "users" committee be maintained by Customs throughout the balance of this period of change to consult on the details of each element of these plans. More than anything else, we offer Customs recourse to a "reality check" that will obviate false starts, missteps, unnecessary friction with the private sector, and finally the necessity of involving the Committee in every dispute.

We thank you sincerely, Mr. Chairman, for your interest and look forward to working with you in the months ahead.

Chairman CRANE. Thank you for your testimony.
Mr. Serko.

STATEMENT OF DAVID SERKO, CHAIRMAN, SUBCOMMITTEE ON REORGANIZATION AND CUSTOMS MODERNIZATION ACT REGULATIONS, AMERICAN ASSOCIATION OF EXPORTERS & IMPORTERS

Mr. SERKO. Mr. Chairman, I am here representing the American Association of Exporters & Importers. I am chairman of their subcommittee on regulations and reorganization, and as you, I am sure, are aware, the association represents on a national basis, 1,200 importers who import and trade, and exporters who export and trade across the border in all types of commodities, trade sensitive and not.

We most gratefully thank you for the opportunity to be here this afternoon to give you our input on what has been a tremendous effort on the part of the Customs Service, together with the trade community to try to comply with the requirements of the Mod Act, to establish regulations and then deal with the reorganization which the Customs Service concluded was necessary in order to be able to implement all of the activities that would flow from the Mod Act, GATT, NAFTA and all of the changes taking place in world trade.

I will address the Customs' reorganization first, and while we commend the concepts and the objectives of the Customs Service in their reorganization, we have a suggestion: That the same partnership with the trade that Customs undertook in developing the regulations which are currently in the process of being promulgated, the Customs Service enter that same partnership with the trade in implementing the reorganization plan.

There are some concerns that we have, particularly with respect to the appeals process for decisions that will be made at the local ports. We understand that any decision made at a local port is appealable to headquarters, and we laud that decision on the part of the Customs Service.

We would be more comfortable if that particular aspect of their implementation were codified so that it wouldn't change given new administrations and further reorganization. That appeal process is essential to the functioning of importers and exporters in a highly legal and regulated environment.

We have seen only one document that is a rather recent one that talks about the management center concept as it relates to the Gulf Management Customs Center, and that document is dated January 5. In that document, some of the concerns that we have are somewhat raised to a higher level of awareness, because there is discussion in the document that fines and penalties will be imposed by the port directors and will be appealable only on a supplemental petition or a second supplemental petition through a representative of headquarters who will be stationed in a Customs Management Center.

Now, we don't know how that is going to work. And we don't know whether that means somebody from headquarters who is stationed in a Customs Management Center is really a headquarters representative, or is a Customs Management Center representa-

tive, and we have no basis on which to object or to support this kind of proposed outcome. But we do ask that the Customs Service have a dialog with us, the trade community, to discuss the issues that concern us.

There is another issue in the Customs Management Center that is of great concern. That same document talks about uniformity of service being the function of the objective of the Customs Management Center.

Our questions are does the uniformity also relate to classification issues and marking issues and admissibility issues? Who is going to determine the uniformity, and does uniformity of service include those issues?

We don't know, because that hasn't been clarified. We would like it to be clarified. Beyond that, we think that the effort that has been made, and is being made, should lead to benefits for the importing public, for the U.S. consumer and to greater efficiency.

It remains to be seen, but if this committee continues its oversight function over what has been happening, and the Customs Service continues its dialog with the trade, we are very optimistic the ultimate result will be good for everybody.

I thank you, Mr. Chairman.

[The prepared statement follows:]

TESTIMONY OF DAVID SERKO
AMERICAN ASSOCIATION OF EXPORTERS & IMPORTERS

Introduction

Good afternoon, Chairman Crane and members of the Trade Subcommittee. My name is David Serko. I am a partner at the law firm of Serko and Simon and I am testifying in my role as Chairman of the American Association of Exporters and Importers' (AAEI) Subcommittees on Customs Reorganization and Modernization Act Regulations. AAEI is a national organization of approximately 1200 U.S. firms active in importing and exporting a broad range of products including chemicals, machinery, electronics, textiles and apparel, footwear and foodstuffs. The Association's members also include customs brokers, freight forwarders, banks, attorneys, and insurance carriers. AAEI members interact daily with the U.S. Customs Service, making AAEI one of the closest observers of Customs operations.

AAEI appreciates the opportunity to discuss Customs reorganization and modernization. The Association has cultivated a long-standing, close-working relationship with the Customs Service with respect to these and other issues that significantly impact the international trade community.

Customs Reorganization

AAEI is pleased with the overall concept and objectives of Customs' reorganization plan. Customs' efforts to make the agency more effective and responsive to its customers, the international trade community, is laudable. Also commendable is the partnership Customs has fostered with industry in developing a plan that will optimally serve the agency and its customers. Based on the Association's many years of interaction and meaningful dialogue with Customs, it has the utmost confidence that the agency will hold true to its stated intentions in the actual implementation of reorganization.

AAEI as well as other trade groups understand that decisions determined at the port level regarding any issue will be appealable to Customs Headquarters. The Association is pleased with this process and suggests that it be codified to ensure that its benefits are preserved over time. Codification of this important appeals mechanism will guarantee consistency and stability through future changes in personnel and administrations.

The current plan calls for the establishment of Strategic Trade Centers (STC) which will focus on enforcement issues such as transshipments, smuggling, intellectual property rights and quota. We fully expect that Customs, in its enforcement operations, will continue to be mindful of its mission to facilitate the flow of merchandise into the stream of commerce. While enforcement measures are a fundamental aspect of the Customs Service, they should not be carried out to the detriment of its other fundamental function, the facilitation of global trade. The current Commissioner as well as the immediate past Commissioner have recognized the importance of Customs' commercial function. We fully anticipate that this climate will not change with the implementation of STCs.

The Association understands that Customs Management Centers (CMC) were established for the sole internal use of Customs to ensure the overall uniformity of the organization. Monitoring uniformity is as much operational as it is an internal administrative task. Hence, it is the importer who is in the best position to detect a lack of uniformity with respect to the implementation of Customs procedures. AAEI therefore suggests that members of the trade community be permitted the option to have access to CMCs for the effective and expedient resolution of uniformity discrepancies.

AAEI strongly endorses the Subcommittee's exercise of its oversight authority. The Association encourages the Subcommittee to continue such utilization to oversee the successful implementation of STCs, CMCs and the overall reorganization plan. Additionally, AAEI would support Customs extending the "partnership with the trade" approach employed with the "Mod Act Task Force" to its reorganization implementation.

Customs Modernization Act Regulations

The Customs Service has been committed to developing a partnership with the trade community to formulate regulations which are amenable to both parties. Over the past year, Customs has met frequently with representatives from various trade groups to discuss proposed concepts and regulations. Customs has been responsive to comments submitted and has modified several of its original proposals to reflect the input of industry. The trade community places high value on this unprecedented process and applauds Commissioner Weise for his dedication in building the partnership.

Although this process which fuels the promulgation of the regulations has been productive, there remain some important substantive issues that need to be resolved. For example, the Customs Modernization Act authorizes the Customs Service to establish a voluntary recordkeeping compliance program. The program, as recently proposed by Customs, is believed by AAEI to be somewhat ambiguous. The draft version of Customs Importer Recordkeeping Compliance Manual exceeds statutory requirements by calling for the production of documents beyond those necessary for entry. The costs of participating in the program, as outlined in the draft manual, would outweigh any potential benefits. Therefore, the manual must be rewritten to provide importers with an incentive to participate in this voluntary program.

With respect to the finalization of Customs regulations on drawback, the Association wishes to emphasize the importance of Customs recognition of the drawback program as a significant export incentive. The regulations should not undermine this program in any way as it permits many U.S. companies to compete on a global scale. Important drawback issues remain unresolved. Considering the value of this program to the enhancement of U.S. exports, AAEI would welcome an invitation from the Subcommittee to present its detailed position at a later hearing.

On behalf of AAEI, I thank you for the opportunity to testify. AAEI is proud to have played a major role in the business outreach program with respect to both Customs reorganization and the Modernization Act Regulations. The Customs Reorganization Team as well as the Customs Mod Act Task Force have participated in AAEI sponsored events including three major public two-day conferences and conventions which drew more than 2,000 attendees. The Association looks forward to a continued industry-Customs partnership and is optimistic that the joint effort will produce mutually beneficial results.

Chairman CRANE. Thank you, Mr. Serko.

STATEMENT OF PHILIP HUGHES, COCHAIRMAN, U.S. TRANSPORTATION COALITION FOR AN EFFECTIVE U.S. CUSTOMS SERVICE, AND INTERNATIONAL CUSTOMS AND BROKERAGE MANAGER, UNITED PARCEL SERVICE

Mr. HUGHES. Thank you, Mr. Chairman, members of the committee, for this opportunity. My name is Philip Hughes. I am the international customs and brokerage manager for United Parcel Service. Today I am pleased to be here for the U.S. Transportation Coalition. Our members include all modes of transportation and their respective associations, the airlines, air couriers, ocean, rail and trucking.

We recognize that these are very challenging times for Customs, being tasked with these two major initiatives. This comes at the same time as the implementation of two major trade agreements, NAFTA and the Uruguay round. We came together as a major proponent of the Mod Act, because we know firsthand the vital importance of trade facilitation to international transportation.

We have worked closely with Customs to make the improved procedures and broad concepts provided for in the Mod Act a reality. It became clear, however, that Customs was having difficulties in implementing even the most simple provisions, such as the raised administrative exemptions. This means that the benefits of the Mod Act have been delayed.

A simple provision which we believe can also be implemented even without regulation is summary manifesting of letters and documents. This would save significant operational costs. It is fair to say that during the legislative process, transportation was a champion of remote entry filing. We would like to see the importing public enjoy the benefits of this major component of the Mod Act and hope that the committee will encourage Customs to place remote entry filing high on their priority list.

One of the only provisions of the Mod Act that has been fully implemented is compliance measurement. This is not a facilitative program, and in fact has had a disruptive effect on trade. While we fully appreciate the importance of the program to achieving informed compliance, the statistical methodology must be automated and refined. We fully agree with the joint industry group on the A–1–A list. We were disappointed with the list published by Customs as being too broad and urge the committee to encourage Customs to prune down the list.

We are also concerned with the proposed Importer's Recordkeeping Compliance Manual. Again, we believe that Customs has gone too far. Like others, we are concerned that the manual reflects a program that is bureaucratic and administratively costly.

The coalition agrees that it is now time for Customs to make changes to its current structure and management approaches. We fully support the overall goal of increasing efficiencies and providing enhanced service levels. We commend Customs' focus on its customers and its decision not to reduce services or personnel at the ports. With the tools of the Mod Act, we believe that Customs can better facilitate trade, while assuring maximum compliance, depending on the reorganization plan that it finally adopts. At this

time, we have only seen the blueprint for the reorganization. Consequently, the coalition's comments are general in nature.

We are concerned, though, about the function and geographic distribution of the proposed Customs Management Centers, or CMCs. While we are told that the CMCs will only have administrative functions and no interface with the public, we believe that the functions of the CMCs should be fully explained to Congress and the importing public.

While personnel and budget matters may appear to relate to internal management, such matters have a direct impact on transportation as they relate to staffing. The geographic size of the CMC area and the location of the CMCs should reflect the import and export volume of the area. We are also concerned about how the reorganization will affect Customs' penalties program.

While the report on the reorganization indicates that this program will be handled at the port level, with direct appeal to Customs headquarters, we question how Customs intends to do this without detailed guidelines as to the disposition of penalty matters.

In reforming the penalties process, we urge Customs to focus on expeditious resolution, rather than the perpetuation of the lengthy mitigation process. We hope that Customs will follow the approach described in its concept paper on penalties, and work with importers toward achieving maximum compliance through education, information and cooperation, reserving penalties for the most severe violators and repeat offenders.

In conclusion, Customs modernization efforts must proceed at a more rapid rate to deliver the benefits of the Mod Act. The reorganization must be formulated in close consultation with Congress and the importing community in order to assure that the new Customs Service meets the needs of trade in the 21st century.

Thank you, Mr. Chairman. I respectfully request that our full written statement be included in the record. I would be pleased to answer any questions.

Chairman CRANE. They will, without objection.

[The prepared statement follows:]

STATEMENT OF PHILIP HUGHES
U.S. TRANSPORTATION COALITION FOR AN EFFECTIVE U.S. CUSTOMS SERVICE

Thank you, Mr. Chairman and members of the committee for this opportunity. My name is Philip Hughes. I am the International Customs and Brokerage Manager for United Parcel Service. In my capacity as co-chairman with Adi Abel of Sea-Land Service, Inc., I am pleased to testify today on behalf of the U.S. Transportation Coalition for an Effective U.S. Customs Service on the proposed reorganization of the Customs Service and the agency's modernization efforts. Our Coalition members include: (1) the Air Courier Conference of America; (2) the Association of American Railroads; (3) the Air Transport Association; (4) the American Trucking Associations; (5) the Pacific Merchant Shipping Association; and (6) the United Shipowners of America.

The union of all modes of transportation -- including air and air courier, ocean, rail and truck -- by the formation of this Coalition is an historic first in transportation history. Today, transportation services represent 3.1 percent of the total non-agricultural employment and 6.4 percent of the total Gross Domestic Product. These figures will undoubtedly continue to grow at a rapid rate given the globalization of companies, the recent implementation of the North American Free Trade Agreement and Uruguay Round legislation and the probability of other free trade agreements, as well as new concepts being developed and refined such as just-in-time manufacturing and retailing.

We came together during consideration of the Customs Modernization Act (the "Mod Act") and worked with this very Committee, the U.S. Customs Service and the Joint Industry Group, because we know first hand the vital importance of trade facilitation to the nation's economy. Since we fully recognize that Customs modernization is the keystone to trade facilitation, we were a major proponent of the Mod Act. The efficiencies effected by customs modernization and simplification are imperative to the delivery of the type of transportation services required by our customers -- American business and the general public. We continue to work with Customs in the implementation phase to develop sound regulatory proposals. In fact, at this time we are working with Customs and other agencies to build an Automated Export System and reengineer Customs in-bond program. We are hopeful that this collaboration will continue to ensure that future customs policies and procedures will afford sufficient flexibility to accommodate transportation flows and our customers' needs.

Our Coalition members also worked in partnership with the Customs Service with regard to the proposed reorganization. The very theme for Customs' report on the reorganization -- "People, Processes & Partnerships" -- came from Mr. Gary Taylor of American President Companies, the founder and former chairman of this Coalition. We commend Commissioner Weise and the Customs Service for their excellent work in this regard. We hope that they will continue the open dialogue utilized for both their reorganization and modernization efforts.

These are certainly very exciting times for the international trade community and the Customs Service -- a governmental agency which dates back to the American Revolution. Yet, it is also a very challenging time for the Customs Service, being tasked with two major initiatives -- (1) customs reform as a result of the Mod Act; and (2) a major reorganization. This comes at the same time as the implementation of two major trade agreements -- NAFTA and the Uruguay Round. As a result, the Service must prioritize its workload to deliver the benefits of both initiatives as well as these recently concluded trade agreements to the public.

The Mod Act

All during last year, we worked closely with Customs to make the improved procedures and broad concepts provided for in the Mod Act a reality. It became clear during the first half of the year, however, that Customs was having difficulties implementing even the most simple provisions. This means that virtually all of the benefits of the Mod Act have been delayed.

The following is an example on point. It took over six months for Customs to promulgate its first regulations package, which included what one would think would be the most simple amendment in the Mod Act -- raising the statutorily mandated administrative exemptions thresholds. The regulations that were finally published were challenged in court by the national association of customs brokers because of Customs' mere explanation of existing procedures for de minimis shipments. Along with Customs, our air courier members successfully defended the regulations in the Court of International Trade and we, Customs and the public are now receiving the intended benefits of the raised administrative exemptions. But this was only after losing millions of dollars as a result of delayed implementation and the expenditure of substantial legal fees for litigation to effect what was only the will of Congress. The brokers have now appealed to the Court of Appeals for the Federal Circuit.

The lesson learned from this example is that Customs' delay needlessly cost our industry and the public millions of dollars and it did not even avert the totally self-serving, frivolous lawsuit brought by the brokers. It is clear to us that not all segments of the international trade community truly want modernization and simplification of customs procedures. Unfortunately, when it comes to improved and simplified customs procedures transportation and their customers have all too often found themselves on the other side of the table from the national brokerage community. While we hope that this will change in 1995, we urge Customs not to cater to groups that seek to impede and complicate the reenginering of the trade process.

Another simple provision, which we believe can be implemented, even without regulation, is summary manifesting of letters and documents. Again, implementation would save the public significant sums of money.

It is fair to say that during the legislative process transportation was a champion of remote entry filing. We fought major battles before the Administration and in the halls of Congress to ensure that the remote entry filing provision was not encumbered by unnecessary requirements, as proposed by the national brokerage association. Many of you may remember the controversy. We obviously would like to see the importing public enjoy the benefits of this major component of the National Customs Automation Program authorized by the Mod Act and hope that this Committee will encourage Customs to place remote entry filing high on their priority list. Again, we urge this Committee to make clear in no uncertain terms that Customs must reject any attempts to frustrate the will of Congress and impose unnecessary financial burdens on American companies by any delay of remote entry filing.

In addition to providing for modernization and automation, the Mod Act introduces a major new concept called -- "Informed Compliance." During the legislative process "Informed Compliance" was described by the Joint Industry Group as "a landmark agreement between the private and public sectors -- the private sector agreeing to accept additional responsibility and accountability for its actions" and "the Customs Service agreeing

to introduce significant new measures to inform exporters and importers of their obligations under the law." "Informed Compliance" is the natural complement to the automation and modernization aspect of the Mod Act.

It has also become clear during the last year that recordkeeping and post-entry audits will be the cornerstone of Customs enforcement in the 21st Century. Accordingly, Customs Fines, Penalties & Forfeitures programs must undergo substantial reform. Recognizing this, Congress provided large penalties for failure to keep certain records or information required for the entry of merchandise.

In order to implement this approach, Customs must first publish a list of records or information required for the entry of merchandise. This is what is referred to as the (a)(1)(A) list. We were disappointed with the list published by the Customs Service because of the breadth of the "records" listed and urge the Committee to encourage Customs to prune the list to those "records" contemplated by Congress. Congress made absolutely clear that the substantial penalties were not intended to apply to the types of documents referred to on the proposed list. We fully agree with the Joint Industry Group that all forms of self-certification are no longer meaningful and therefore should be eliminated.

We are also concerned with the proposed "Importers Recordkeeping Compliance Manual." Again, we believe that Customs has gone too far -- using the recordkeeping compliance program as a springboard for the entire concept of "Informed Compliance." As commented by the American Association of Exporters and Importers, "the manual seems more geared toward testing and assuring overall import competence than the ability to maintain and produce records." Like others, we are concerned that the manual reflects a program that is bureaucratic and administratively costly.

In sum, the Coalition believes that Customs must more expeditiously carry out the legislative mandate to streamline and automate the commercial operations of the Customs Service. This is critical to efficient operations of transportation and the overall competitiveness of American business. In the end, we believe that successful implementation will serve as a model worldwide for customs reform.

The Reorganization

The Coalition agrees that it is now time for Customs to make changes to its current structure and management approaches. We fully support the overall goal of increasing efficiencies and providing enhanced service levels. We commend the Customs Service's new emphasis on the "needs of its customers and stakeholders" and its decision not to reduce existing services or personnel resources at the Ports of Entry. Transportation hopes that Customs will not simply eliminate headcounts but will redistribute personnel to put them on the front lines at the ports to accommodate growth in trade. With the tools given by Congress in the Customs Mod Act, we believe that Customs can better facilitate transportation and ultimately the business community while assuring maximum compliance and enforcement depending on the reorganization plan it finally develops.

At this time, we have only seen the "blueprint" for what is described to be a "comprehensive change." Consequently, the Coalition must reserve its judgment as to Customs' reorganization proposal. That is not to say that we do not have specific concerns regarding the development of the details of the plan.

In particular, we are concerned about the function and geographic distribution of the proposed Customs Management Centers (the "CMC's"). While we are told that the CMC's will only have administrative or management functions and no interface with the public, we believe that the purposes of the CMC's should be further explained to Congress. First, while Customs may consider personnel and budget internal management functions, such matters have a direct impact on transportation as these decisions directly relate to staffing at the port level. Additionally, we are told that the CMC's will have an oversight function to assure uniformity at the ports under its jurisdiction. This would appear to be a review process that would clearly have an impact on the public. The location of these CMC's, therefore, should reflect the import and export capabilities of the area. Customs should explain and document the reasons for these geographic designations to Congress.

We are also concerned about how the reorganization will affect the Fines and Penalties program. While the report on the reorganization indicates that this program will be handled at the port level with direct appeal to Customs Headquarters, we question how Customs intends to do this without detailed guidelines as to the disposition of penalty matters. In reforming the fines and penalties process, we urge Customs to focus on expeditious resolution rather than the perpetuation of the lengthy mitigation process. We hope that Customs will follow the approach described in its concept paper entitled "Reinventing the Penalty and Liquidated Damages Program" and work with importers toward achieving maximum compliance through education, information and cooperation, reserving penalties for the more severe violators and repeat offenders. Because penalties currently originate at the District level, Customs will have to substantially expand its program to deliver services at the port level. This should also be explained to Congress.

Conclusion

The Transportation Coalition stands ready to continue working in partnership with the Customs Service so that the American public may realize the efficiencies and consequent cost savings resultant from the Mod Act. We realize that Commissioner Weise and the Service is faced with an enormous challenge -- trade facilitation of record volumes of trade while assuring protection of the American public and revenue. Yet, Customs modernization efforts must proceed at a more rapid rate. In fact, implementation of the Mod Act will enable Customs to meet this challenge. Additionally, the reorganization must be formulated in close consultation with Congress and the importing community in order to assure that the new "Customs Service" meets the needs of trade in the 21st Century.

Thank you again Mr. Chairman for this opportunity to comment on Customs' reorganization and modernization efforts. We would be pleased to answer any questions that the Committee may have.

Chairman CRANE. For all of you, what is more important in your estimation, to implement the benefits of new automated systems quickly, or to take time to make sure that they work as intended?

Mr. HUGHES. Mr. Chairman, if I may, I think that Customs needs to look at prioritizing, from time to time taking a second look at what is being worked on, what can be implemented quickly with the most benefit and impact, and to continue to work on the major programs that do take time.

Mr. DUGAN. Mr. Chairman, just about a year, maybe a year and a half ago, the Customs Service came out with a new in-bond program. The hope was that it would provide the information needed to properly identify the cargo from where it originated to where it was destined.

We had some very serious problems with that program. In fact, that entire program was scrapped because the Customs Service either did not have the time or the proper information to put together the program that the country really needed for in-bond. So we applaud the current discussion that is going on with the in-bond program, and hope that, when the final program is put together, it will be of benefit for the entire country.

So to answer your question, I would hope that we take the time to properly review each one of these before they are put into place.

Chairman CRANE. Mr. Serko.

Mr. SERKO. I would agree with Mr. Dugan, as to the objective, Mr. Chairman.

Chairman CRANE. Thank you.

Mr. Rose, do you have——

Mr. ROSE. Yes. It is clear that Customs is juggling a lot of important priorities. If you take a look at their trade compliance initiatives, as well as the modernization, the reorganization initiatives, put them all together, what is clearly required is an integrated approach. I don't know that you can really truly modernize unless you change your organization to really deal with the requirements of modernization.

So again, an integrated approach is really required. But I think what is important is to establish milestones, objectives, and have a very consistent plan. Otherwise, Customs runs the risk of spreading itself too thin.

Chairman CRANE. Well, we thank you for your testimony and look forward to an ongoing discussion as the implementation occurs, because your input from the private sector is vitally important.

Mr. Payne.

Mr. PAYNE. I have no questions. I too want to thank the witnesses and look forward to continuing to work with you as we go through the reorganization and modernization process.

Chairman CRANE. Well, we thank you again, gentlemen. Look forward to the next meeting and hopefully it is all positive, from everyone's perspective.

This concludes the session of the subcommittee. We adjourn.

[Whereupon, at 3:03 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

TESTIMONY OF
JEAN GODWIN
VICE PRESIDENT, GOVERNMENT RELATIONS
FOR THE
AMERICAN ASSOCIATION OF PORT AUTHORITIES

THE HOUSE WAYS AND MEANS
SUBCOMMITTEE ON TRADE

ON
U.S. CUSTOMS SERVICE REORGANIZATION
AND MODERNIZATION EFFORTS

JANUARY 30, 1995

The American Association of Port Authorities (AAPA), founded in 1912, represents virtually every major U.S. public port agency, as well as the major port agencies in Canada, Latin America and the Caribbean. Our Association members are public entities mandated by law to serve public purposes -- primarily the facilitation of waterborne commerce and the generation of local and regional economic growth. Our written testimony submitted for the record, reflects the views of the AAPA's United States delegation.

We commend the Chairman and the Subcommittee for your continued interest in the operations and efficiencies of the U.S. Customs Service. Since enactment of the Customs Modernization and Informed Compliance Act (Mod Act), Customs has held several public meetings to solicit input from the trade community. We have heard from several Customs officials that they do not intend to rush in developing regulations that are later found to be unworkable. We encourage Customs to keep focused on the process and not any arbitrary internal deadlines. Developing implementing regulations in haste will undoubtedly produce little more than waste.

As for the Customs reorganization, we support the reorganization of Customs staff and we support the automation of Customs procedures. Informed compliance and shared responsibility by the trade should go far in improving Customs operations. However, we are concerned that the decentralization of Customs functions to the port of entry level will eliminate the uniformity in the application of laws and regulations. Application of trade laws must be consistent at all 301 ports of entry. Cargo and passengers must be treated equally at all ports of entry. Anything short of that will create "port shopping" whereby importers and exporters shop for a port of entry in which the rules are relaxed or not enforced at all.

While we understand the functions of the Customs Management Centers (CMC) to be internal support for the operations of the Customs Service, we do believe that competitive advantages are being sought out of the CMC designations. The CMCs cannot become a factor in port competitiveness. We only hope that the CMCs function as intended and do not become political or competitive tools in the future.

The public port industry has spent more than $12.5 billion dollars in the last 45 years to develop landside facilities. The importance of ports to the national, regional and local economy cannot be overstated. The deep-draft commercial ports of our nation handle over 95 percent of cargo moving in international trade. Ports activity links every community in our nation to the world marketplace--enabling us to create export opportunities and to deliver imported goods more inexpensively to consumers across the nation. With the passage of NAFTA and GATT, the important role our ports play in the economic well-being of the nation will only increase.

Port activities create substantial economic and international trade benefits for the nation, as well as for the local port community and regional economy.

- U.S. export trade was responsible for one out of six new U.S. manufacturing jobs, and 25 percent of the growth of all private industry jobs between 1986 and 1990.

- Exports accounted for 90 percent of the Gross Domestic Product growth in 1992.

- Efficient water transportation provides for delivery of less expensive goods for U.S. consumers.

- In 1992, commercial port activities directly associated with the movement of waterborne commerce:
  - generated 1.5 million jobs;
  - contributed $73.7 billion to the Gross Domestic Product;
  - provided personal income of $52 billion;
  - generated federal taxes of $14.5 billion and state and local taxes of $5.5 billion.

- The overall national economic impact of port activities, businesses that make significant use of the port system, and capital expenditures in 1992:
  - generated 15.3 million jobs;
  - contributed $780 billion to the Gross Domestic Product; and
  - generated $209.8 billion in taxes at all levels of government.[1]

- Approximately $15 billion dollars were paid into the general treasury in fiscal year 1994 from Customs duties on imports moving through U.S. ports.

It is very important that the Customs, the Subcommittee and the trade continue to work together. We have all come a long way since the Mod Act debates in the mid-80s. But, there is still far to go. It is our desire that as we move toward a streamlined Customs Service, we do so without forsaking quality of service or uniformity. Thank you.

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[1] Public Port Financing in the United States, U.S. Maritime Administration, July 1994

STATEMENT OF THE

AMERICAN FOREST & PAPER ASSOCIATION (AF&PA)

ON

THE U.S. CUSTOMS SERVICE REORGANIZATION PLAN AND THE IMPLEMENTATION OF THE CUSTOMS MODERNIZATION ACT

BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS AND MEANS, SUBCOMMITTEE ON TRADE

WASHINGTON, D.C.
FEBRUARY 13,1995

I am Maureen Smith, Vice President, International for the American Forest & Paper Association. On behalf of the American Forest & Paper Association, I would like to express our appreciation for the opportunity to present testimony on the subject of the implementation of the Customs Modernization Act ("Mod Act"). The Mod Act gave the Customs Service a mandate to automate and modernize its commercial processing procedures. At this time, we would like to comment on one particular program Customs has proposed as part of its drive to modernize: the Automated Export System, due to be implemented on July 1, 1995.

The American Forest and Paper Association (AF&PA) is the single national trade association of the forest, pulp, paper, paperboard, and wood products industry. AF&PA represents approximately 450 member companies and related trade associations (whose memberships are in the thousands) which grow, harvest and process wood and wood fiber; manufacture pulp, paper and paperboard products from both virgin and recovered fiber; and produce engineered and traditional wood products.

The vital national industry which AF&PA represents accounts for over seven percent of total United States manufacturing output. Employing approximately 1.6 million people, this industry ranks among the top 10 manufacturing employers in 46 states with an annual payroll of approximately $49 billion. Domestic and foreign sales of U.S. forest and paper products exceed $200 billion annually. The U.S. is the world's largest producer of pulp, paper and paperboard; it provides 35 percent of the world's pulp, and satisfies 30 percent of its paper and paperboard needs.

The U.S. forest products industry is globally competitive, with combined exports of approximately $18.2 billion in 1994.

The industry supports the U.S. Customs Service in its roles as a facilitator of U.S. international trade and as an enforcer of the nation's trade regime. Both functions are necessary for the smooth operation of our nation's international commerce.

Customs, as part of its modernization, has teamed with the U.S. Department of Commerce's Bureau of the Census and Bureau of Export Administration, and the Department of State's Office of Defense Trade Controls in an effort to increase export compliance and improve export statistics. The result of this teamwork is the Automated Export System (AES), an electronic reporting system which its creators claim will improve export controls and ease the export process. The system should also ensure proper management of Harbor Maintenance Fees and elimination of inefficient paper export documentation. Conceptually,

the system changes the focus of Customs processing from individual transactions to "accounts". "AES," states the Customs Service, " will serve as the cornerstone for full automation of the export community."

AF&PA appreciates Customs' desire for an improved export control program as well as more accurate export statistics. We support the concept of moving from individual transaction-based processing to account-based processing. We are concerned, though, that AES -- as it is currently proposed -- will act as an impediment to exports, adding costs to and delaying shipments of U.S. goods.

Exports have been and -- barring a complete upheaval in the nature of international competition -- will remain the fastest growing segment of our industry's business. This industry has been ranked among the most competitive in the world. We have historically relied upon our competitive strength to win markets abroad.

The proposed AES program, though, could jeopardize our industry's hard fought gains. AES will complicate the export process, adding communication, coordination and reporting costs to every shipment. We are concerned that this program will have a detrimental effect on the competitive position of exports of U.S. forest products.

AF&PA would like to bring the following points to the Subcommittee's attention:

1. AES allows no flexibility in its reporting. Exporters currently report data to the Customs Service using one of two methods: the Shipper's Export Declaration (SED) or the Automated Export Reporting Program (AERP). Exporters using SEDs -- paper documentation of export transactions -- complete their portion of the SED and present it to the transportation carrier prior to exportation. The carrier must then complete its portion of the SED and present the SED to Customs within four days after the vessel clears the port. Frequent exporters can request authorization to use the AERP from the Department of Commerce. The AERP is an electronic system that allows exporters to report data on a monthly basis.

   AES replaces this flexibility with a rigid reporting scheme. This scheme requires exporters and carriers to submit detailed accounts of each and every export transaction to the Customs Service prior to and after vessel sailing. This lengthens and complicates the exporting process, increasing costs for the exporter. The logistics involved in exporting a product already accounts for a substantial percentage of the product's export price. A reporting program which adds cost to this is unreasonably burdensome.

2. AES requires data be transmitted to Customs in advance of vessel sailing. For many exporters, it is not possible to transmit a number of the data elements which will be required by AES until after cargo is delivered to the carrier. Even after the carrier receives the shipment, significant details can change. The export weight and value can change if the customer changes the order. The date of shipment can change because the carrier does not have enough space on its vessel. Even the consignee's name and address may change. Customs must take this into account.

   Under the current system, exporters who use the AERP are exempted from presenting SEDs to their carrier prior to exportation. While it is true that only approximately 260 companies are currently permitted to participate in AERP, these exporters are responsible for some 20% of total U.S. export shipments. Requiring prefiling of approximate data from these exporters would be a burden. The Customs Service has already mentioned a "Gold Card" program, by which frequent exporters would receive special considerations under AES. The details of this program, though, have not yet been developed.

   The "Gold Card" program, by itself, will not be enough. AES must allow changes to the reported data. Export data is not final until the consignee accepts the cargo. This can be weeks after the exporter delivered the cargo to the carrier. Such problems as overshipments or short-shipments will only be found upon cargo unloading. Exporters

must have a way of adjusting the entered data when the correct data becomes available.

3. The proposed AES program requires the exporter or carrier to supply up to 71 data elements to the Customs Service. In contrast, the present SED requires only 24 data elements. Requiring additional data elements, such as the freight charges for carrier transport, the numbers of the seals affixed to the shipment containers, or the date of cargo unloading, is cumbersome and costly to exporters. The additional data contains little information of significant import and only serves to complicate export logistics.

4. A program that requires all U.S. exporters to file export details prior to vessel sailing so that sensitive exports can be monitored appears to be overkill. Most U.S. exports are raw materials or uncontrolled commodities. In fact, only 3% of U.S. exports are licensed, and those exporters who export non-controlled goods will be unnecessarily disadvantaged. Customs should develop a program that does not place exporters of non-controlled commodities or raw materials under such a heavy reporting burden.

5. AES does not provide enough protection for confidential information. AES requires exporters to provide privileged information that is vital to the exporter's business. Some of this information, such as the consignee's name and address, is already required by the SED system, but not by the AERP system. Other information, such as unique intermediate and ultimate consignee codes, goes beyond what even the SED system requires. In either case, exporters are concerned about the confidentiality of the information. Electronic databases are far more susceptible to penetration by unauthorized sources than manual ones. Exporters are concerned that AES requires more privileged information than either the SED or AERP systems, but gives that information less protection. Our industry is highly competitive and we are concerned that the sensitive information required by the AES could become publicly available.

6. Investing in AES will be very costly. Exporters already made a significant investment in the AERP system and investing in a new program will be an additional drain on resources. We estimate a one-time cost of $150,000 to $250,000 per major exporter to reprogram, then a cost of $100,000 to $300,000 per year to participate in the AES program as it is proposed (at $50.00 per SED).

7. The Customs Service plan to "invoice" for Harbor Maintenance Fees creates redundant work and is burdensome for the exporter. This plan requires every exporter to reconcile against the Customs invoice when Customs itself keeps records of export transactions and Harbor Maintenance Fees. Exporters suggest the quarterly payment by exporters continue and Customs notify the exporter of any discrepancies (if an export shipment is missing a declaration or payment of the Harbor Maintenance Fee). This management by exception would be a far more efficient use of resources for both exporters and the Customs Service.

8. The unique export transaction number used by AES will add costs and create considerable confusion. AES requires a new export identification number be created through the combination of a DUNS number -- to be obtained by each exporter from Dun and Bradstreet -- and the shipper's transaction number. AES will use the resulting "unique export transaction number" to track export shipments. Currently, exporters track exported shipments via the bill of lading, a system that is accepted worldwide. Changing this system by introducing the new "unique export transaction number" -- which will be used only by the U.S. -- will create confusion in the international business community.

9. Cargo delays will be created by miscommunications, confusion, and human error caused by misunderstanding or lack of training. While we support the Customs Service's proposed training of exporters, carriers, vessel operators, forwarders and government personnel on the new AES, we are concerned that the task will require resources not available to the Customs Service. Furthermore, previous Customs Service training efforts in export documentation have been less than a complete success. In fact, a major reason for the switch to AES is the poor quality of the data received from the paper SEDs. The quality of these data, though, reflects the lack of

success of the Customs Service training program that supported the paper SEDs.

10. AES requires dual reporting. AES will not replace the AERP and SED systems immediately. Instead, these systems will continue to operate alongside AES until it can be determined that the data received from AES meets or exceeds the quality of the data received from the AERP and SED systems. According to the Customs Service's own best case scenario, this dual reporting would be required for at least six months. This requirement is a drain on exporters resources and will cause significant confusion.

Customs officials have responded to exporters' criticism of the AES program by stating that AES is an enforcement program first and foremost. Though we do not object to the implementation of an enforcement program that would cut down on exports of illicit goods from the U.S., Customs must make sure that the program does so in an efficient manner producing minimal costs and delays to the general law abiding American exporting community.

We have conveyed our concerns to the Customs Service directly and we will continue to work with them and with Congress to resolve these issues.

Thank you.

STATEMENT OF CARLOS F.J. MOORE
EXECUTIVE VICE PRESIDENT
AMERICAN TEXTILE MANUFACTURERS INSTITUTE

This statement is submitted by the American Textile Manufacturers Institute (ATMI) on behalf of its member companies. ATMI is the national association of the textile mill products industry. Its members collectively account for over 80 percent of textile mill activity in the United States and are engaged in every facet of textile manufacturing and marketing.

ATMI and its members have long had a deep interest in the operations of the United States Customs Service. As the record clearly shows, the textile industry, its valued customers and suppliers have long suffered from an enormous volume of illegal imports which have inflicted economic damage and hardship on our companies and workers. The Customs Service is the primary government body possessing the resources and resolve to act against these illegal imports. For this reason, ATMI was highly supportive of the Customs Modernization and Informed Compliance Act ("the Mod Act") because, in ATMI's opinion, the Mod Act would provide Customs with the tools needed to move more efficiently and effectively against such imports.

Now that the act is law, it is time for the Customs Service to move forward and effect those changes in its methods and operations which are necessary to enable it to achieve the objectives set forth in the Act. ATMI supports the program which Commissioner Weise has thus far announced in furtherance of these objectives. In this regard, ATMI believes that the proposed reorganization of the Customs Service will facilitate closer cooperation and greater dialogue between the Service and its clientele, consisting not only of importers, brokers and shippers, but all members of the business community who are affected in one way or another by imports. In particular, ATMI welcomes Customs' proposal to shift considerable personnel resources from essentially clerical and middle management positions to "front line" responsibilities for surveillance and oversight. To roughly analogize, the desk sergeant is out from behind his desk and out on the beat. This is a wise redeployment of resources.

One of the most beneficial results of this proposed redeployment of assets is the enlargement of Customs' textile "jump teams," whose primary function is to uncover and investigate instances of the illegal transshipment of textile and apparel goods under import control. Again, the record will show that such transshipment, which is in violation of international convention, bilateral trade agreements and United States law, has reached epidemic proportions. The jump teams have done much to control this illicit trade and are to be commended for their efforts and successes. Nevertheless, these practices persist and the work of the jump teams must not only continue but must be enlarged if transshipments are to be eradicated.

ATMI also welcomes Customs' new Strategic Trade Initiative which, through the use of sophisticated data processing techniques and close monitoring of import transactions, will be better able than in the past to detect all types of import fraud, not just transshipments. Integral to the efforts of the newly created Strategic Trade Office within Customs is the conducting of a great number of compliance exams of importers, another initiative which is greatly welcomed. In this context, the establishment of five Strategic Trade Centers at our busiest ports will undoubtedly focus the efforts of Customs personnel more effectively than the many regional offices currently operating. Since the Mod Act encourages importers and brokers to file entries anywhere in the customs territory of the United States and all transactions can be accomplished electronically, there is little reason to maintain Customs' extensive network of regional offices. The resources, human and financial, used to operate these offices can be utilized more efficiently by concentrating them where they are most needed.

The Mod Act requires sweeping and profound changes in nearly every aspect of the Customs Service's operations. These changes and the accompanying reorganization of the Service are long overdue. The tremendous growth in the volume of imports and import transactions alone mean that Customs cannot continue to do business the way it has in the past. The concurrent increase in fraud and illegality means that Customs cannot continue to use old techniques and systems to control this problem. Finally, technological advantages, particularly in the fields of data processing and communication, require that Customs change its methods of operation.

ATMI and its member companies welcome these changes and have great hopes and expectations for the achievements of the "new" Customs Service. ATMI wishes to thank the Congress for passing the Mod Act and the Customs Service for its efforts to enforce the law. We also earnestly petition the Congress to not reduce the level of funding for Customs. Adequate funding will be absolutely essential for the Customs Service to achieve all the worthwhile aims and objectives of the Mod Act.

For the American Textile Manufacturers Institute
Carlos F.J. Moore, Executive Vice President

SUMMARY

The American Textile Manufacturers Institute (ATMI), the national association of the textile industry, supports the aims and objectives of the Customs Modernization and Informed Compliance Act. In particular, ATMI welcomes the increased emphasis on compliance and surveillance embodied in the Act. In furtherance of these and all other of the Act's provisions, ATMI endorses the ambitious reorganization program which Customs has undertaken and requests that the Congress continue to provide Customs with the funding necessary to fulfill its mission.

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Statement of Thomas B. Chapman

Vice President & Executive Director

AOPA Legislative Action

Before the

House Committee on Ways & Means

Subcommittee on Trade

The Honorable Philip M. Crane, Chairman

Concerning U.S. Customs Service
Reorganization and Modernization Efforts

January 30, 1995

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Mr. Chairman, my name is Thomas B. Chapman, and I am Vice President and Executive Director of AOPA Legislative Action.

AOPA Legislative Action enjoys the financial support of 330,000 dues paying members. Together with our affiliated organization, the Aircraft Owners and Pilots Association, we promote the interests of those who contribute to our economy by taking advantage of general aviation aircraft to fulfill their business and personal transportation needs. There are more than 650,000 general aviation pilots nationwide.

We appreciate the opportunity to submit this statement for the record and to highlight an issue which we believe is relevant to your hearing on the reorganization and modernization efforts of the U.S. Customs Service. For more than two years, we have formally advocated changes to procedures currently used by the Customs Service in dealing with general aviation aircraft. Our recommendations have been discussed in detail

with the Customs Service staff. They deal specifically with 1) changes to the Advise Customs, or "ADCUS," notification process; 2) enforcement of Federal Aviation Administration regulations; 3) better definition of arrival notification windows; and 4) implementation of a selective inspection process.

Based upon our discussions with the staff of the Office of Inspection and Control, we believe there is a clear understanding and agreement that a number of changes need to be implemented by Customs. Additionally, we are informed that there is consensus on our ideas among Customs field offices along the northern borders. And we recently learned that, in early 1995, Canada will make a number of changes in its procedures very similar to what we have suggested to the U.S. Customs Services staff.

In brief, our proposals are:

- Implementation of an international 800 service by Customs with which to receive required Advise Customs notices. These lines would feed directly into one of the Customs flight operations centers which are staffed 24 hours per day. Telephone notification directly to a Customs entry airport is often difficult from foreign nations. Many times, a pilot calling to notify the local agent receives a telephone answering machine and must "hope" that the agent checks his or her messages prior to the pilot's arrival.

- A Selective Inspection Program. According to Customs' own data, the majority of enforcement action taken by Customs is in the form of "technical violations." It is honest pilots who notify Customs of their arrival. We believe it is appropriate to implement a selective inspection program similar to that of water operated craft. Such a program could enable Customs agents to concentrate their limited resources on areas which have proved to be problematic. For example, the benefit we see is that aircraft operators could place a telephone call to the Customs 800 Advise Customs number. At that time, after supplying any information necessary for "pre-clearance," they could be notified whether or not they could fly directly on to their final location, knowing that Customs would reserve the right to meet the aircraft at its final destination. The resource savings to Customs could be significant.

- Refer alleged violations of Federal Aviation Administration regulations directly to FAA for action. Currently, Customs will cite an aircraft operator for such items as failure to produce a valid FAA medical certificate. After Customs cites the operator for this violation of FAA regulations, the FAA also takes its

own enforcement actions. Clearly, this is a duplication of effort and wasteful of Customs limited resources.

- Update the "U.S. Customs Guide for Private Flyers." This useful Customs publication is used by the industry to provide guidance to aircraft operators regarding appropriate ways to deal with Customs. The guide has been an invaluable document for our Association and others which have provided it to their memberships. However, the guide was last published in December 1991 and is now badly outdated.

While there has been internal support for our suggestions at Customs, we do not believe that our suggestions have received the attention and review of senior level decision makers. Further, lack of continuity in staffing of the responsible offices has undermined such efforts. It is our firm belief that implementation of our suggestions will not have a detrimental effect on the mission of Customs, a mission which in general we support. Indeed, Customs may very well increase its effectiveness in other areas of the service.

Again, Mr. Chairman, we appreciate the opportunity to submit this statement for the record. Please feel free to contact us if you have questions.

STATEMENT OF JOE BARTON, M.C.

HEARINGS ON U.S. CUSTOMS SERVICE REORGANIZATION AND MODERNIZATION EFFORTS

SUBCOMMITTEE ON TRADE COMMITTEE ON WAYS AND MEANS

JANUARY, 30, 1995

The majority of the Dallas/Fort Worth International Airport is in my District. Many of you have probably been there--almost everyone in America who travels has been. Over 2300 flights per day go through DFW, making it the world's second busiest airport. It will soon become the world's busiest. With a seventh runway under construction and an eighth in the works, and with so many other airports out of room for significant expansion, DFW is likely to be the busiest airport in the world for many years to come.

When you see an operation like DFW, it is hard to remember that the airport is only twenty-one years old. DFW is the product of the incredible growth of air transportation in the last two decades, and is a result of a successful partnership with the Federal Government to provide the necessary infrastructure and resources to allow that growth.

Part of those resources are Customs services. Customs is a lot older than DFW; about ten times older. For ninety percent of Customs' existence, DFW was a prairie.

Taking a historical perspective, it is easy to see how the Customs Service looked primarily to seaports and borders, and not the prairie. But that is history. The next two hundred years are not going to be like the last.

International cargo movement used to be bimodal, it either went over the ocean by ship or over a land border by truck or rail. Now it is intermodal. We recognized this last year when we passed the Customs Modernization Act. The Members of Congress from North Texas were very supportive of the Customs Modernization Act. Part of our enthusiastic support was due to the Modernization Act's opportunity to make Customs a location-neutral agency, giving businesses in all parts of the country, not just those located at seaports or border crossings, the ability to do business with Customs on an even basis. This was very important to the businesses located in Dallas/Fort Worth, who over the years have had to deal with a Customs Service that dealt primarily with seaports and border crossings. The Modernization Act gave us the opportunity to level the playing field. Representatives of the DFW International Airport worked with both Customs and the Joint Industry Group to help come up with appropriate statutory language to ensure this could happen. Location neutrality was the single most important objective of the Customs Modernization Act to me and the other Members from North Texas.

The Customs Reorganization proposal can create yet another important step towards a location-neutral Customs Service. That will not be accomplished, and in fact will be tremendously hindered, by putting all Customs Management Center personnel in locations that are primarily devoted to seaports or borders. The Reorganization proposal lacks the devotion of management and resources to inland locations, and that the deficiency can be best rectified by putting a Customs Management Center in Dallas/Fort Worth.

This is not the first time a Customs proposal has overlooked Dallas/Fort Worth. A short look at history might be very instructive. Soon after the opening of DFW Airport in 1973, it became readily apparent to the business community in North Texas that the amount of international trade conducted in the Dallas/Fort Worth area would dramatically increase. At that point in time, Dallas/Fort Worth was a port of entry falling under the jurisdiction of the Houston Customs District. The business community and local leaders in the Dallas/Fort Worth area went to work to explain to Customs why DFW should become a separate District. Customs management did not seem to take an inland location seriously, and it took the intervention of the Dallas/Fort Worth area Congressional delegation in 1979 to convince Customs that Dallas/Fort Worth merited being a separate Customs District.

Over the next several years, as we expected, international trade and Customs activities grew at a rapid pace in Dallas/Fort Worth. There was no doubt that our business community had been correct in its assessment of the future. More than Customs inspectors were needed at DFW to serve business.

Customs management was needed at DFW to deal with corporate management involved in international trade. With the right mix of Customs services available though a District office, business was properly served and able to grow. Nevertheless, when Customs headquarters took a look at consolidations in 1984, DFW was on the chopping block. Customs proposed that the District Appraisement Center at DFW be consolidated into the Appraisement Center in Houston, which Customs considered a more "front line" location. Again our business community and local leaders mobilized to present to Customs reasons why the DFW District should retain a full set of Customs services. Again business explained how inland operations differ from seaport operations. This time, it took the intervention of this Subcommittee and its counterpart in the Senate to convince Customs to change its plan and retain DFW as a full service District.

Again, trade flourished in our area. At the District that Customs wished to downsize, collections grew by 45% between 1988 and 1992. In fact, DFW is one of only 11 Districts in the nation to experience an increase in collections every year during that period of time. Incidentally, the number of passengers expected to clear Customs at DFW Airport in 1995 is 1.5 million, more than double the passengers that cleared in 1985, the year for which Customs proposed that services be reduced.

Dallas/Fort Worth business again came back to Congress in 1985 and 1986 to deal with Customs' proposals on its Automated Commercial System and personnel allocation. In both cases, the issues involved proposals that would have increased the burden on inland importers. Again, Congress agreed with the assessment of business on those issues and told Customs to change its plans.

Customs seems to periodically forget that a significant amount of international trade is conducted in Dallas/Fort Worth. Customs thinks more about the other major trading centers in Texas; Houston, Laredo, and El Paso. We looked at the trade statistics and note that the DFW District processed more entries than the Houston District in the past year (Houston's collections are higher because of the duties collected on oil imports), had higher collections than the El Paso District, and had a greater rate of growth over the past five years than did the Laredo District. More importantly, all of these statistics were compiled under the "old" Pre-Customs Modernization Act system. The old system made it more convenient for many importers to do business with Customs at ports where merchandise arrived, rather than at ports to which merchandise is destined. The Modernization Act is going to substantially change this practice. With a location neutral Customs Service, companies should be able to do business with Customs from the locations all over the country that best suit the business needs of the customer. I suspect that the amount of business done at DFW, the nation's seventh largest metropolitan area with the third largest concentration of corporate headquarters will be very significant and continue to grow. It is a mystery to me how any plan to reorganize the Customs Service could fail to take this into account.

Dallas/Fort Worth is going to be an integral part of the international trading system of the United States going into the next century. DFW is certainly one of the most, if not the most NAFTA impacted metropolitan areas. The potential growth of NAFTA to include countries throughout the Americas will only increase the impact. We suspect Customs knows this, having recently selected DFW as the site of the National NAFTA Helpdesk and as its proposed site for the Customs Strategic Trade Center focused on Mexican and Latin American Trade. The message apparently did not get through to the people who drew the map for the Customs Reorganization.

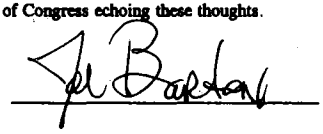
Once again, North Texas business is asking Congress for assistance in dealing with Customs. Business knows the importance of having Customs management in Dallas/Fort Worth focused on inland issues. Along with my testimony I am submitting a statement of the business community in North Texas, signed by companies like Texas Instruments, Bell Helicopter, Pier 1 and JC Penney, which explains why it is good for business to place a Customs Management Center at the nation's largest inland trading center, Dallas/Fort Worth.

Much of the focus from the business community on this problem has been viewed in terms of commercial operations. But adequate enforcement activities by Customs also requires a significant focus on inland activities. The significant enforcement activities performed by the Customs' special agents are no longer centered on border or seaport inspections. Both common sense and my personal discussions with enforcement officials confirm that it is important that the agents be where the action is, whether it be at the borders or at inland ports. The nation's second busiest airport cannot avoid illicit activity. With top enforcement officials here, we have been able to effectively combat the problems. Just last year, investigations led to several large seizures of heroin and cocaine in Dallas, including one of over 4,000 pounds, and the discovery of over 20,000 pounds of cartel transhipments through DFW Airport on to Los Angeles. These are staggering. Nearly 13,000 pounds of ephedrine, a precursor for methamphetamine, was seized at DFW Airport. DEA tells me that this is over 20 times the amount of legally imported ephedrine by all U.S. pharmaceutical firms. We need top line Customs management enforcement decisions made in Dallas/Fort Worth, with the necessary resources to implement them. Without an inland

Customs Management Center and Special Agent in Charge office focusing on inland enforcement issues, Customs enforcement efforts will suffer.

Customs Modernization and Reorganization is long overdue. The Customs Modernization Act was passed because of a joint effort among Congress, Customs, and industry. As a result of the joint effort, we came up with an excellent piece of legislation last session. Customs again needs to listen to the needs of industry and modify the Reorganization proposal to include a Management Center in Dallas/Fort Worth.

I am not alone in this belief. Attached to my written statement you will find a letter to Commissioner Weise signed by me and 10 other Members of Congress echoing these thoughts.



Congress of the United States
House of Representatives
Washington, DC 20515

December 15, 1994

Mr. George Weise
Commissioner of Customs
1301 Constitution Avenue, N.W.
Room 3136
Washington, DC 20229

Dear Commissioner Weise:

We are writing in regard to the Customs Reorganization proposal. In reviewing this proposal with members of the business community in North Texas, we are concerned with the manner in which you have divided the country to establish regional customs management centers.

Overall, we are pleased with the direction you are leading the Customs Service, and you are to be commended for the work you and your staff have put in to make the Customs Service operate more efficiently.

A true benefit that can be realized from a combination of the Reorganization effort and the procedures we authorized last year in enacting the Customs Modernization Act is making Customs a location-neutral agency. This is an objective that has particular importance to our area. The historical sea-coast/border orientation of customs has burdened companies in North Texas in comparison to their counterparts in seaport/border locations. Our support for the Modernization Act was in large part based on achieving this location-neutral objective.

We are quite concerned that the way the country is divided in the Reorganization proposal is reflective of the past system bias away from inland locations. Every single management area contains either a border or a sea-coast. The focus away from inland issues is directly illustrated in Texas. Business in Dallas/Fort Worth and San Antonio, for example, have virtually identical issues in dealing with Customs. In recognition of this, San Antonio was moved from the Laredo Customs District to the Dallas/Fort Worth District a few years ago. The Reorganization proposal, however, puts Dallas/Fort Worth and San Antonio into separate management areas, one reporting to Houston and one reporting to Laredo. Dallas and San Antonio are, of course, two of the ten largest cities in the country, and are both experiencing similar rapid growth. Separating these cities into two different management areas, one that will have a primary focus on personnel at a seaport and one which will have a primary focus on a land border, will not give adequate attention to the needs of the inland business community.

We think it very important that a separate Customs management area be established for inland locations that can focus on inland issues. A number of ports in Texas are obvious choices to be included in this new management area: Dallas/Fort Worth, Austin, San Antonio, Lubbock, Amarillo, as well as the ports in Oklahoma, Arkansas, Kansas and Nebraska. Dallas/Fort Worth, with one of the highest concentration of corporate headquarters in the country, and with the largest volume of customs transactions among

inland cities, is the logical choice for location of the Customs Management Center to manage these inland locations.

We think it very important that you add to the Reorganization proposal a Customs Management Center in Dallas/Fort Worth which has responsibility for and focuses on inland ports and inland issues.

Thank you for your consideration, and we look forward to your response.

Sincerely,

Joe Barton, M.C.

Eddie Bernice Johnson, M.C.

Sam Johnson, M.C.

Martin Frost, M.C.

Lamar Smith, M.C.

Pete Geren, M.C.

Larry Combest, M.C.

Ralph Hall, M.C.

Jim Chapman, M.C.

John Bryant, M.C.

Dick Armey, M.C.

Statement of Roger B. Schagrin on Behalf of the Committee on Pipe and Tube Imports on U.S. Customs Service Reorganization and Modernization Efforts

This testimony to the Ways and Means Subcommittee on Trade is being presented on behalf of the Committee on Pipe and Tube Imports ("CPTI"), a trade association comprised of twenty-four U.S. producers of steel pipe and tube products. A membership list is attached. The members produce a wide range of products that are essential for the U.S. economy, including: standard pipe products for plumbing and heating systems, sprinkler and fence applications; oil country tubular goods for the drilling of oil and gas; line pipe for the transmission of oil and gas; pressure tubing products for refineries, petro-chemical facilities, and electricity-generating facilities; mechanical tubing products for the automotive and many other industries; structural tubing products for farm equipment and construction; and stainless pipe and tube products used in a variety of applications.

Overview of the Industry

The business activities of the CPTI member companies are very much dependent on a strong and effective U.S. Customs Service. The activities of the Customs Service impact members in numerous ways. Many members import raw material products or manufacturing equipment. The members also export roughly 15% of their production and, therefore, rely on the export enhancement activities of the Customs Service. Finally, the pipe and tube industry is one of the most import-sensitive industries in the United States. It has been targeted as a value-added steel product export by many foreign countries and has suffered import penetration levels as high as nearly 60% in the mid-1980s and approximately 35% at the present time. The members of the CPTI have participated in over 75 unfair trade actions since the inception of the committee in 1984. They rely on the Customs Service to enforce antidumping and countervailing dumping duty orders and to prevent circumvention of these orders through fraudulent means. Finally, the members of the committee seek support from the Customs Service to enforce the marking requirements on pipe and tube products initially adopted by Congress in 1984, and most recently amended in the NAFTA Implementation Act in 1993.

Customs Service - Enforcement Issues

To begin our statement, the committee would like to state strongly for the record, its admiration of the Customs Service transformation into a very customer-service oriented agency of the U.S. government. Commissioner Weise and the entire staff of the Customs Service should be applauded for their own re-invention of government that has occurred within the Customs Service in the past several years. A fine example of this excellent service to U.S. industry is the action taken by the Customs Service regarding the enforcement of antidumping orders on standard pipe.

In November, 1992, the U.S. industry producing standard pipe products obtained antidumping duty orders against imports from five countries, Brazil, Korea, Mexico, Taiwan and Venezuela. Shortly after these orders went into effect, the domestic industry learned that producers in some of these countries were circumventing the orders by entering products as oil and gas line pipe for uses as standard pipe. The industry also learned that some of the products being entered did not even meet the technical specification requirements of the American Petroleum Institute (API). The industry alerted the Customs Service to this issue and almost immediately, the Customs Service organized visits for members of the industry and their counsel to the major entry ports in the United States to educate steel import specialists, and Customs agents on the technical matters at issue. Customs then initiated technical inspections of the circumventing merchandise and determined that thousands of tons of products were being misclassified and were subject to the antidumping duties. The industry also filed petitions with the Commerce Department to rectify the circumvention of the orders and while preliminary action has been taken, final action is still pending. The swift and effective actions undertaken

by the Customs Service not only resulted in obtaining the relief that was supposed to be afforded to the domestic industry from unfair trade practices, but resulted in the addition of millions of dollars in rightfully collected antidumping duties to the U.S. Treasury. The industry has also found the Customs Service to be very responsive to investigating information supplied by the industry as to the fraudulent valuation, classification, or marking of imported pipe and tube products.

Customs - Collection of Duties

The Customs Service also plays an important role in both the collection of antidumping and countervailing duty deposits and in the final liquidation of entries subject to unfair trade orders. In this regard, prior to oversight investigations by the Senate Government Operations Committee held in the early 1990s, Customs had significant deficiencies. The Customs Service has since moved aggressively to remedy these deficiencies. They have put into place a new module to track deposits by individual orders. This information is then made available to both Congress and the private sector on an annual basis. However, there continues to be deficiencies in Customs ability to inform Congress and the private sector on the liquidations of duties by orders. Liquidation, which cannot occur until after the Commerce Department has completed administrative reviews and the courts have completed court appeals, can sometimes occur as long as five to ten years after the entries of products. It is probably difficult for the Customs Service to keep track of the paper work and ensure the proper collection or refund of duties including interest due or accrued after such a lengthy time period. Importers, and particularly those with no more overhead than a briefcase, may be particularly difficult to track down if millions of dollars of additional duties and interest are owed to the Treasury.

There is certainly room for significant improvement in the coordinations between the Customs Service and the Commerce Department in terms of the efficient and timely issuance of liquidation instructions and enforcement of liquidation notices. The new provisions of the Uruguay Round Agreements Act will solve a portion of these difficulties, but will not solve all of them. Past problems in this area have almost certainly cost the U.S. Treasury millions of dollars in lost revenues. This system should be reformed and the Customs Service should, in the future, be able to provide the Congress and private sector with information on annual liquidations of imports by order.

Customs - Marking Requirements

Another area of great concern to the domestic pipe and tube industry and one in which the industry has been working with the Customs Service over the years is in the area of the marking requirements on imported pipe and tube products. As background, until passage of the Omnibus Trade Act of 1984, iron or steel pipe and tube products were exempt from the normal country of origin marking requirements of the Customs Law. The 1984 Act amended the law to require that such products be marked legibly and conspicuously by one of four methods: die stamped; cast-in-mold lettering; etched; or engraved. It was the industry's experience that these markings were usually applied to the end of the imported pipe product and that they are usually not very legible. With most pipe products, the first thing that is done to a pipe after a distributor or a service center receives it from either an importer or a domestic producer is to bevel the ends, thread the product in some manner, cut the product into smaller pieces, or perform other finishing processes before shipping it to the ultimate end user. The result of these actions is almost invariably to remove the country of origin marking prior to the product arriving to the end user.

In order to remedy this problem, Congress amended Section 304 in the NAFTA Implementation Act of 1993 and the Senate Finance Committee added in its report "the Committee believes that, with respect to iron or steel pipes and tubes, continuous paint stencilling will best accomplish the requirements of Section 304 of the Tariff Act of 1930 that goods be marked as legibly, indelibly and permanently as the article permits. The Committee believes that this requirement is fully consistent with NAFTA Annex 311. The Committee notes that continuous paint stencilling of technical information on the outside of the pipe is generally required by the ASTM and the API specifications that govern the production of the majority of

these products. It is the Committee's belief that the additional continuous paint stencilling of the country of origin will not burden foreign producers and will contribute to the ability of the ultimate purchaser to know the origin of the product purchased."

The members of the CPTI unanimously support and agree with the Senate Report language and believe that it is in the best interest of American consumers to know the origin of the pipe products which are being used. Therefore, the Customs Service should require continuous paint stencilling of the country of origin whenever the products are produced to ASTM or API specifications that require continuous paint stencilling of technical information.

Conclusion

As the above comments illustrate, the domestic pipe and tube industry, like many U.S. industries, is dependent in many ways on the U.S. Customs Service's ability to efficiently and vigorously enforce its mandates under U.S. Customs laws. Fulfilling these mandates and the other mandates that the Customs Service has in both the commercial area and drug and addiction and immigration areas, requires that the Customs Service best utilize its personnel. It is for this reason that we wholeheartedly support the Customs Service modernization and reorganization program because we believe that Commissioner Weise and the Customs Service are in the best position to determine how best to allocate resources to accomplish the Custom Service's goals. Personnel being under-utilized in certain locations must be shifted to other locations in which their services and expertise can be better utilized. The Customs Service has proven to the private industry it serves, and hopefully to the Congress, that it can reinvent itself and provide a model for other less service-oriented agencies of the government to improve their efficiencies.

The Congress should approve the Customs Service reorganization so that the Customs Service can continue and improve this effort. On behalf of the Committee, I would be happy to address any questions or requests for additional information that the Committee on Ways and Means Subcommittee on Trade, its members or its staff would have concerning this testimony.

List of CPTI Members

Allied Tube & Conduit Corporation

Alpha/Beta Tube Corporation

American Tube and Pipe Company, Inc.

Bellville Tube Corporation

Bitrek Corporation

Capitol Manufacturing Co.

Century Tube Corporation

Chicago Roll Company

Hannibal Industries, Inc.

IPSCO Tubulars Inc.

Laclede Steel Company

LTV Tubular Products Company

Lone Star Steel Company

Maruichi American Corporation

Maverick Tube Corporation

Pittsburgh Tube Company

Quanex Tube Group

Roll-Kraft, Inc.

Sawhill Tubular Division (Armco Inc.)

Searing Industries

Sharon Tube Company

Vest Inc.

Western Tube & Conduit

Wheatland Tube Co.

STATEMENT OF THE CITIES OF DALLAS AND FORT WORTH, THE DALLAS/FORT WORTH INTERNATIONAL AIRPORT BOARD, THE NORTH TEXAS COMMISSION, THE GREATER DALLAS CHAMBER OF COMMERCE, AND THE FORT WORTH CHAMBER OF COMMERCE

REQUEST FOR MODIFICATION OF THE CUSTOMS SERVICE REORGANIZATION PROPOSAL

BEFORE THE SUBCOMMITTEE ON TRADE COMMITTEE ON WAYS AND MEANS

MONDAY, JANUARY 30, 1995

The business community in North Texas has been following the progress of the Customs Reorganization proposal since early last year. The business community formally organized into a task force established by the North Texas Commission, the Greater Dallas Chamber of Commerce and the Fort Worth Chamber of Commerce, which together represent over 11,000 businesses in the Dallas/Fort Worth area. The task force includes representatives from Bell Helicopter Textron, Hitachi Semiconductor, J. C. Penney, Pier 1 Imports, Texas Instruments and Dallas/Fort International Airport. This statement reflects the views of the task force and is submitted on behalf of the business community throughout North Texas.

We strongly believe the Customs Reorganization proposal should be modified to include a Customs Management Center in Dallas/Fort Worth which is focused on the commercial processing and enforcement issues important to inland ports. Each of our companies has substantial import operations at a variety of locations, including seaports, border locations, and inland locations. We are keenly aware of the differences in operations at each of these three types of locations.

U.S. Customs has historically had a bias towards seaport and border locations. Some of that bias reflects historical Customs operations, and some of it reflects a statutory scheme that was developed before the significant growth of air freight and inland trade. The result to our businesses has been a greater burden on doing business inland than at a seacoast or border. When Congress passed the Customs Modernization Act last year, it removed the statutory impediments to a location neutral Customs Services. To achieve the location neutral result sought by Congress, a Customs Reorganization must also provide for inland locations.

A review of the map of the proposed Customs Management Areas, however, shows a clear focus on seaport and border locations, and a complete absence of focus on inland locations. Every single Management Area contains either a significant sea or border port. A clear example of Customs' lack of attention to inland locations is the Reorganization Proposal's placement of Dallas/Fort Worth in the Houston Management Area, and San Antonio in the Laredo Management Area. Both Dallas/Fort Worth and San Antonio are inland locations, currently located in the same Customs District, each with very similar issues affecting importers and Customs; yet Customs has proposed to divide them, putting one under the management of a seaport location and the other under the management of a border location.

While each of our companies does business with Customs at a variety of locations, the company personnel responsible for Customs policies and procedures are located at corporate offices in Dallas/Fort Worth. It is these corporate headquarters personnel, located in Dallas/Fort Worth, who are the "customers" for Customs services beyond the port level processing of goods and passengers. Customs tells us that services will not be cut at the port of Dallas/Fort Worth. Customs also admits that it cannot possibly perform all Customs functions at all ports; for example, it will be infeasible for dispute resolution, complex classification and valuation issues, compliance issues, audits, and bindings rulings to be handled at 300 ports. We need to be assured that a full compliment of services will be available in Dallas/Fort Worth for our companies and the others with headquarters or substantial operations in the area - Dallas/Fort Worth has the third highest concentration of Fortune 500 headquarters in the country, and is one of the most significant business centers in the United States.

Under the current Customs proposal, resource allocation for Dallas/Fort Worth, an inland port, will be determined by a Management Center in Houston, a seaport. Despite being the nation's largest inland trading center, we have no assurance that the reorganized Customs Management, at any level, will focus on issues important to us and ensure that personnel and services will remain at the level we deserve. In fact, all personnel decisions throughout the country will be made at locations that are focused on seaport or border operations if the Customs proposal is adopted.

Finally, throughout our discussions with Customs, Customs has been insistent that the maximum number of Management Centers must be twenty. We do not understand the basis for this statement, and have not been provided a clear explanation. Customs tells us that Management Centers will have few personnel, less than twenty in most locations. In a plan that suggests the movement of hundreds of Customs employees, we fail to see how the reallocation of less than twenty people to a low cost area like Dallas/Fort Worth could create a cost issue. We know from our own business experience that locating management

in Dallas/Fort Worth is extraordinarily convenient and cost effective. Customs can certainly benefit from the convenience of overseeing operations in multiple cities from the world's second busiest airport, and we suspect would also benefit by the convenience of dealing with the large number of federal agencies which have regional headquarters in Dallas/Fort Worth, including the Departments of Agriculture and Commerce, FAA, DEA, EPA, GSA, and OPM. In fact, we think that the increased efficiency of dealing with the businesses in Dallas/Fort Worth alone would prove cost effective.

We applaud Commissioner Weise and Customs Service for taking the initiative to change its own structure. For the change to be effective, however, it must incorporate our concerns. A Customs Management Center should be located at Dallas/Fort Worth.

Steve Bartlett
Mayor
City of Dallas

Kay Granger
Mayor
City of Fort Worth

Jeffrey P. Fegan
Executive Director
DFW International Airport Board

Robert L. Herchert
Chairman
North Texas Commission

David Biegler
Chairman
Greater Dallas Chamber of Commerce

R. Denny Alexander
Chairman
Fort Worth Chamber of Commerce

Peter Parsinen
Senior Vice President
Programs and Marketing
Bell Helicopter Textron, Inc.

Karrol Nelson
Manager, Sales and Production Management
Hitachi Semiconductor (America), Inc.

Gale Duff-Bloom
Senior Executive Vice President
Director of Personnel and
Company Communications
J. C. Penney Company, Inc.

Clark A. Johnson
Chairman and Chief Executive Officer
Pier 1 Imports, Inc.

Elwin L. Skiles, Jr.
Vice President
Texas Instruments Incorporated

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Barry E. Powell
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Dennis L. Sault
Kawasaki Motors Corp., USA.
Anthony J. Stapleton
Santa Fe Railroad Co.
Carlos Valderrama
Carlsmith Ball
John Wiggins
California Cartage Company
John Windler
IBEAR, U.S.C.

Ex Officio
Albert G. Bergesen, Bergesen Intl.
Sam Orr, Orr Intl. Public Relations
Marjorie M. Shostak,
Stein, Shostak, Shostak & O'Hara

FOREIGN TRADE ASSOCIATION of SOUTHERN CALIFORNIA

Founded 1919
Serving its members and the international trade community for 76 years.

STATEMENT OF THE FOREIGN TRADE ASSOCIATION
OF SOUTHERN CALIFORNIA
ON U.S. CUSTOMS SERVICE REORGANIZATION AND MODERNIZATION

This statement is submitted on behalf of the Foreign Trade Association of Southern California (FTA), a non-profit organization with over 400 members representing a cross section of the international trade community in Southern California.

The Foreign Trade Association of Southern California is the oldest and most widely recognized organization in California serving the international trade community. Its membership includes importers, exporters, manufacturers, trade consultants, export managers, international bankers, attorneys, customs brokers and freight forwarders who are leaders in the international business community in Southern California.

The FTA approves the efforts of the Customs Service to make the agency more responsive to the needs of the importing community and to modernize the agency by increasing the use of automation and electronic processing of imports.

We are especially pleased with the efforts of Commissioner Weise in meeting with the trade community and listening to their views and tirelessly working to develop a genuine partnership with the trade community. His frequent trips to the West Coast, to meet with our trade community, are also greatly appreciated.

The membership of the FTA is very concerned, however, with how the Customs Management Centers will function. Although we understand that the Centers are to have administrative and management responsibilities, they will also be responsible for ensuring uniformity at the ports under their jurisdiction.

We strongly believe that the Management Centers will not be able to achieve uniformity among the ports unless the importing public, i.e., importers, customs brokers and their attorneys, have access to personnel at the Management Centers. We believe it is essential that the importers and their representatives have an opportunity to present their side of the matters in issue, along with information which may not be available to Management Center personnel. Such access by the importing public would not only be equitable, but would greatly reduce the volume of appeals which will inevitably arise if Management Center personnel make decisions based upon information supplied only by the Customs personnel at the ports.

The FTA also urges that in allocating Customs manpower, the Southern California area be given its fair share of personnel, and that staffing be at a level enjoyed at other comparable ports, such as New York. It is important for importers and their agents to have access to adequate personnel at the ports, so as to fairly and expeditiously resolve day-to-day issues, without the need to send them to Customs Management Centers or Customs Headquarters for disposition. Without the proper allocation of personnel resources, trade activity through San Diego and Los Angeles could move to other regions or even to Mexico and Canada, hurting the U.S. Economy.

We believe the District system has been very efficient, and has served the public well, and suggest that changes in titles of officers performing the service functions for the smaller ports, similar to the functions now performed by the Districts, would require wide spread amendment of many statutes which utilize the present terminology of Districts and District Directors, known to

those engaged in international trade throughout the world.

We hope that the Customs Service will ensure that whatever Customs Regulations or Law give authority to act at the District level that Customs will identify the new level where such authority will now reside.

Your courtesy in including our statement in the printed record of the hearings held in Washington, D. C. on January 30, 1995, on the Customs Reorganization and Modernization, will be greatly appreciated.

FOREIGN TRADE ASSOCIATION
OF SOUTHERN CALIFORNIA

Fermin Cuza

Fermin Cuza, President

THE SUBCOMMITTEE ON TRADE

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

Statement for the Record
of the
INTERNATIONAL AIR TRANSPORT ASSOCIATION

"U.S. Customs Service Reorganization and Modernization Efforts"

IATA members are responsible for the majority of the international air commerce, both passenger and freight, carried into and out of the United States and attach great importance to the U.S. market and to the success of the Customs Service's reorganization and implementation of the Modernization Act.

The Customs Service is over 200 years old and has long labored under regulations which go back to the days of the clipper ships. Customs laws and regulations should be modernized so that the Service can perform a useful function in this era of jet aircraft, automation and high-speed electronic information exchanges. The enactment of the Customs Modernization Act has provided Customs with the legal authority to automate and modernize its commercial processing procedures and also provides for improvements in Customs enforcement. The airline industry supported adoption of the Modernization Act.

By its very nature, international air transport requires expedited clearance to facilitate its mission of speed in transport. The Customs Service has, over the last few years, embraced a progressive attitude, recognizing that the status quo was not acceptable and has looked to automation to speed the clearance of persons and freight. Air carriers have and continue to be supporters of U.S. Customs automation programs, for example, many of our member airlines participated in the planning and development of the Automated Manifest System(AMS).

Thus the airline industry supports the improvements adopted by the Customs Service notably: reduction of paperwork, faster clearance, use of electronic manifests and releases, plans for paperless inbond transactions, etc. Also, Customs' commitment to consultation with the public in general, and with the transportation industry in particular, through vehicles like the Automated Commercial Environment (ACE) Development Team's Trade Support Network (TSN) should be highly commended.

If Customs is to continue to make progress, it will be necessary to streamline its internal organization. If the process of clearing persons and merchandise is to be accelerated, it is logical that the Service itself should provide for a more functional line of command.

As in any business it is regularly necessary to review the entire operation to realize optimum productivity; we believe that it is with these goals in mind that Commissioner Weise is restructuring the Customs organization and operation.

We can only heartily support such an approach, with one caveat, that the introduction of these changes and the implementation of the Modernization Act do not lead to new financial burdens on carriers or consumers, either directly through additional fees, or indirectly, by additional costs for compliance with new procedural requirements.

Respectfully submitted,

David M. O'Connor
Regional Director, U.S.
INTERNATIONAL AIR TRANSPORT ASSOCIATION

February 9, 1995

NATIONAL ASSOCIATION OF FOREIGN-TRADE ZONES

February 13, 1995

Honorable Phillip M. Crane
Chairman
Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

RE: U.S. Customs Service Reorganization and Modernization Efforts

Dear Chairman Crane:

On behalf of the National Association of Foreign-Trade Zones I would like to submit the following written statement for the printed record of the January 30, 1995 hearing on the U.S. Customs Service reorganization and modernization efforts. The National Association of Foreign-Trade Zones is a non-profit organization composed of public and private entities, individuals, and corporations involved in the U.S. Foreign-Trade Zones program.

Customs Modernization

The participants in the foreign-trade zone industry are pleased to have been among the first members of the trade community to reap the benefits of the Customs Modernization Act. The passage of this Act has provided Customs the ability to implement a long awaited weekly entry filing procedure for foreign-trade zone distribution operations. The procedure has expedited the shipment of merchandise of documentation and reduced paperwork burdens for Customs and industry.

Currently, this procedure is being utilized by five companies in the form of a pilot program. The pilot has been remarkably successful to date and is expected to be expanded to include all zone users in the near future. The NAFTZ has been actively pursuing Customs approval of this procedure for five years and is extremely pleased with the progress to date toward full implementation of the weekly entry policy for all zones and subzones. This pilot is an excellent first step toward improving the facilitation of international trade and demonstrates that periodic and paperless procedures can effectively accomplish the goals of both government and industry.

Customs Reorganization

The U.S. Customs Service is embarking on a comprehensive strategy which has received widespread support on a theoretical level from the importing and exporting community at large. While the trade industry has supported the concept of Customs reorganization, the practical implications of the proposed changes merit careful consideration.

While the Association supports the abolition of the Regional and District levels of Customs management in order to streamline government, we are concerned because the Regions and Districts are currently the primary source of expertise in the zone area. The North Central Region in particular has been the source of many innovative programs to reduce complexity and the paperwork burden. The Foreign-Trade Zones Board Regulations specifically designate the District Director of Customs as the Board's local representative. We want to be certain that the North Central Region's innovative procedures are retained. Furthermore, there must be accessible knowledgeable Customs personnel to assume the District Director's role.

The members of the National Association of Foreign-Trade Zones have expressed a long standing interest in the level of training provided to Customs officials. The Foreign-Trade Zones program is one of many specialized trade programs under the oversight of the U.S. Customs Service which requires detailed knowledge by Customs personnel in order to effectively carry out enforcement operations without impeding the ever important facilitation of international trade. With a higher concentration of authority at the Port level, it will be more important than ever that these officials are provided with detailed and ongoing training resources. When matters do arise which require Customs involvement from the CMC or Headquarters, there must be clear lines of authority established to ensure standardization and preclude gaps which leave the trade industry without a timely source of assistance.

We appreciate the open process by which the Customs modernization and reorganization efforts have been carried out to date. The continuation of a partnership approach to achieving Customs goals can address and alleviate many of the trade industries reservations about an otherwise commendable endeavor by the U.S. Customs Service. The National Association of Foreign-Trade Zones appreciates the opportunity to comment on the U.S. Customs Service reorganization and modernization and looks forward to the continued cooperation between government and industry which has been fostered through these efforts.

Respectfully submitted,

Greg Jones

Greg Jones
President

STATEMENT OF C. DENNIS WRIGHT
VICE PRESIDENT, OPERATIONS
NATIONAL BUSINESS AIRCRAFT ASSOCIATION, INC.

This testimony has been prepared on behalf of more than 3,500 National Business Aircraft Association (NBAA) Member companies which own and operate general aviation aircraft to aid in the conduct of their business, or are in some way involved with business aviation.

An increasing number of NBAA Member companies are traveling outside the U.S.; more than 50,000 international flights are made by business aircraft operators each year. More than 36 percent of Member aircraft are used for international flights. This number is steadily increasing and it is anticipated that in the near future more than 50 percent of our Member fleet (5,000+ aircraft) will be involved in international travel.

NBAA welcomes the major reorganization plan announced by the U.S. Customs Service. We are encouraged by the Subcommittee's acknowledgment that the private sector has a large stake in the reorganization plans. It is our hope that this reorganization is undertaken in a dynamic fashion to make the administrative swamp less dangerous. It is imperative though that the changes reflect the concerns of the entire community that Customs serves. It also is paramount that the new regulations do away with the patchwork that now exists. Why is it, for instance, that a pleasure yacht can clear customs merely by making a phone call while an aircraft transporting a *Fortune 500* CEO may be detained for hours? Why is it that aircraft operators will choose a more treacherous route rather than deal with certain U.S. Customs inspection facilities?

Here is an excerpt from a letter one of our Member Companies sent us regarding this problem: "Two weeks ago I flew to Alaska and decided to take the more hazardous route, Seattle to Ketchikan, instead of going through Canada. A trip via Canada meant facing U.S. Customs on both ends. On my last trip to Puerto Rico I did the same thing, Miami to San Juan, with no stops, to avoid Customs. Everyone I've talked to with Customs experience agrees that U.S. Customs is the worst. In our travels around the world, the comparison between other countries and ours is always the same."

It also is not uncommon for Customs to overstep their appointed jurisdiction. Customs has been known to order aircraft inspections without the authority to do so. They also have performed inspections that involved removal of aircraft access panels, contrary to Federal Aviation Administration (FAA) Federal Aviation Regulations (FARs)! If Customs removes hardware from an aircraft, FAR Part 43 dictates that the aircrew must have a certified mechanic replace it *at the operators cost*, even if it includes only a few screws to replace a panel.

In another instance, a Member Company aircraft was inbound to Texas from Central Mexico. As with most Companies conducting international operations, its flight department has had long and bitter experience with the U.S. Customs Service. In filing the international flight plan, the flight crew placed "Advise Customs" (ADCUS) in the remarks section as is standard procedure. The crew also sent a message to Customs via their handling agent to provide notification of their arrival. As a last resort, the crew even asked another U.S. flightcrew enroute to the same destination to advise Customs of their arrival. It did not help. When the crew asked the air traffic controller if he would call Customs to see if they were expected, the reply was, "Customs said to tell you that you cannot land." It took some doing but the pilot

was able to remind the controller that he had no authority to deny landing. Upon landing, Customs miraculously was able to find documentation of the advance notification.

As you can imagine this type of regulatory action would foster an adversarial relationship with even the most diplomatic of people. U.S. Customs should realize that business aircraft operators are *not* a problem when it comes to enforcement. Companies that operate business aircraft abroad, do so to make the most judicious use of their personnel and are no more suspect than the typical executive flying on a commercial airline.

It is true that some aircraft have posed problems when it comes to drug smuggling, but their profile is vastly different from that of the typical corporate flight. Customs places too little importance on the appropriate identification and clearance of legitimate corporate operators. What's more, the individual assigned to oversee this program has little or no knowledge of aviation before assignment, and rarely stays long enough to develop the requisite understanding; some for as little as eight weeks. This revolving door of program officers "learning the ropes" and then leaving the responsible office or being reassigned is not cost effective and one we hope to see stopped. Aside from not being cost effective, this also has a negative effect on the organizational culture of the Agency. It is difficult, at best, for the individual in the field, who delivers the services every day, to function efficiently without consistent direction from agency headquarters. In the end, you have historically had a national welcoming committee with a police mentality that becomes reactionary when changes are suggested. This is counterproductive for the Country and its commerce and requires the full attention of the U.S. Customs Service.

We have included a copy of a letter sent to Commissioner George Weise of the U.S. Customs Service that will be helpful to highlight some of these issues.

November 8, 1994

Mr. George Weise
Commissioner
US Customs Service
1301 Constitution Avenue NW
Room 3136
Washington, DC 20229

Dear Commissioner Weise:

The Aircraft Owners and Pilots Association (AOPA) representing over 330,000 individual pilots and aircraft owners throughout the United States, and the National Business Aircraft Association (NBAA) representing 3,400 member companies are concerned with the current inspection programs of the US Customs Service.

For more than two years, our associations have been formally advocating changes to procedures currently used by US Customs Service in dealing with general aviation aircraft. Our recommendations, which have been submitted in detail to your staff, deal specifically with changes to the Advise Customs (ADCUS) notification process, enforcement of Federal Aviation Administration (FAA) regulations, better definition of arrival notification windows, and implementation of a selective inspection process.

In our discussions with USCS staff of the Office of Inspection and Control, we believe there is a clear understanding and agreement that a number of changes need to be implemented by Customs. Additionally, we have been informed that there is consensus on our ideas among Customs field offices along the northern borders. And, we have recently learned that in early 1995, Canada will make a number of changes in their procedures very similar to what we have suggested to US Customs Services staff.

In brief, our proposals are:

1. Implementation of an international 800 service by USCS with which to receive required ADCUS notices. These lines would feed directly into one of the USCS flight operations centers which are staffed 24 hours per day. Telephone notification directly to a USCS entry airport is often difficult from foreign nations. Many times, a pilot calling to notify the local agent receives a telephone answering machine and must "hope" that the agent checks his messages prior to the pilots arrival.

2. Selective Inspection program. By USCS own data, the majority of enforcement action taken by Customs is in the form of "technical violations." It is the honest pilot who notifies Customs of his arrival. We believe it is appropriate to implement a selective inspection program similar to that of water operated craft. Such a program could enable Customs agents to concentrate their limited resources on areas which have proved to be problematic. For example, the benefit we see is that aircraft operators could place a telephone call to the USCS 800 ADCUS number, and at that same time, after supplying any information necessary for "pre-clearance", be notified of whether or not they could fly directly on to their final location; knowing that USCS would reserve the right to meet the aircraft at its final destination. The resource savings to USCS could be significant.

3. Refer alleged violations of Federal Aviation Administration regulations directly to FAA for action. Currently, USCS will cite an aircraft operator for such items as failure to produce a valid medical. Following Custom's violation, the FAA takes its own actions. Clearly, this is a duplication of efforts and wasteful of Customs limited resources.

4. The "US Customs Guide for Private Flyers" is used by the industry to provide guidance to aircraft operators as appropriate ways to clear customs. It has been an invaluable document for both AOPA and NBAA who have provided it to their memberships. However, it was last published in December 1991 and is now badly outdated.

While there has been internal support for our suggestions, we do not believe that our suggestions have received the attention and review of senior level decision makers. Further, lack of continuity in staffing of the responsible offices has undermined such efforts. It is our firm belief that implementation of our suggestions will not have a detrimental effect on the mission of USCS, a mission which in general we support. Indeed, they may very well increase effectiveness in other areas of the service.

In order to bring our proposals to fruition, we will be contacting your office in the near future to schedule a meeting with you so that we may determine the status of our proposals for reform in dealing with General Aviation aircraft operators; both corporate and private. We believe this to be in keeping with your stated "... plan to transform the culture of the Customs Service."

Your attention to these issues and our proposals will be most appreciated.

Sincerely,

Phil Boyer
President
Aircraft Owners and Pilots Association

John W. Olcott
President
National Business Aircraft Association

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ROSS & ASSOCIATES

ATTORNEYS AT LAW

Susan Kohn Ross
New York

New York,

February 10, 1995

Congressman Philip M. Crane
Chairman, Subcommittee on Trade
Committee on Ways and Means
Room 1102 Longworth House Office Building
Washington, D.C. 20515

Via Federal Express

Re: Customs Reorganization and Mod Act

Dear Congressman Crane:

These comments are submitted on behalf of Ross & Associates, a law firm which practices exclusively in the area of Customs, international trade and transportation law. Our firm represents a wide spectrum of clients from the very small one person operations to the very large Fortune 500 companies. As such, we have a unique view of the operations of Customs. We, therefore, take the liberty of submitting the following remarks for inclusion in the record of your hearing regarding "U.S. Customs Service Reorganization and Modernization Efforts."

Reorganization:

We are concerned about a number of factors as Customs changes its organizational structure. Customs has announced Customs Management Centers (CMCs) and made clear that these are to serve the agency internally. We would urge that access to the CMCs be available to the trade in general in order to insure uniformity of action by the agency in its various geographic areas.

We understand that as an overall approach Customs is seeking to expand lines of authority to the port level. However, in doing so, we are concerned that there be greater emphasis given to training. We recognize that Customs enforces the laws of a variety of agencies. However, it is often in the area of enforcing it own and other agency laws that Customs line personnel lack proper technical expertise.

We are also concerned in the ruling context. We often see a ruling issued by Customs Headquarters which the field refuses to follow. The field's explanation is that it does not believe that the facts an importer is putting forth are accurate so as to disqualify a second importer from benefitting from a ruling issue to the first importer.

We are also concerned that Customs develop a way to reward its employees for trade facilitation. In an earlier era, much was made of the point system wherein a Customs person, in part, obtained in grade promotions and salary increases from generating enforcement cases. While official use of the point system has been eliminated, it is still an informal measure of performance. We believe that the agency needs to develop a means to measure an employee based upon trade facilitation. With such a measurement, we believe that fewer questionable actions are likely to arise in the new age of informed compliance.

As Customs seeks to streamline its operations, we are also concerned in the Fines, Penalties and Forfeitures (FP&F) area. We are aware that the question of where in line authority to place this group is still under discussion. Our area of concern is that greater emphasis be placed throughout the country to staff FP&F with personnel who have legal training. Too often we have seen decisions made on cases which simply ignore well founded legal authority. We recognize that Customs is an enforcement agency. However, as it moves into the mode of informed compliance, a greater understanding of legalities is necessary.

Finally on the topic of reorganization, we applaud Customs for agreeing with the proposal of Women in International Trade of Los Angeles that there be training for Customs personnel at the Glencoe Academy conducted by private sector representatives. We think a discussion of issues by the private sector as the training is given will greatly aid individual Customs employees to understand the commercial consequences of their actions, thereby facilitating trade and compliance.

The Mod Act:

We begin our comments on this topic by acknowledging that Customs has done an admirable job in seeking to reach out to all elements of the trade for input on how the new regulations should be formulated. We recognize that as the trade, we are only able to comment and suggest. Nonetheless, we think it important that consensus be reached on as much of the new regulations as possible prior to their implementation, thereby enhancing compliance with the law and facilitation of trade.

Having said this, however, we are concerned that the trade groups with which Customs seems to have spent the most time are all Washington D.C. or East Coast based. As a law firm representing clients who do business throughout the country, we are aware that problems and perspectives differ depending on where in the country you deal with the agency.

While we agree that the trade should have input regarding the new regulations, we nonetheless disagree with Customs on a number of issues. For example, it appears that the general importer record keeping program which Customs intends to implement goes far beyond the requirements of the Mod Act.

While not a direct result of the Mod Act, we note that Customs is seeking to materially revamp its in-bond program. While we recognize that the impetus to do so comes from the efforts of the General Accounting Office (GAO), it appears to our clients that GAO's conclusions are faulty due to a lack of understanding of what in-bond is or how the program really works. For example, we hear that GAO claims Customs has no accountability over what first arrives and what is ultimately delivered. From our experience we know that sealed containers (ocean and air) form the backbone of transportation. High security seals exist for the express purpose of insuring that the cargo stowed into the container is the same as that which is delivered. Despite the level of security which has developed, as much to avoid theft as to comply with Customs bonding requirements, we are being presented with a proposal by Customs which would, in effect, do away with in-bonds, a particularly vital form of transportation for inland ports.

Next there is the revamp of the Customs computer. We contend that any change to the existing system should include cross-references so that any one group within Customs can access a database which tells it how many times the same shipment has previously been examined. In addition, the number of examinations of any one shipment should be better coordinated.

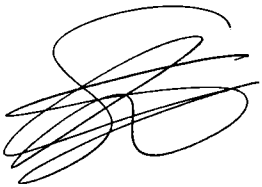
Because we represent companies of all sizes, we also believe that individual importers (and their designated non-broker agents) should be able to access information about them maintained in the Customs computer. We understand there is some discussion about making terminals available at individual ports. We think in this day and age that modem access from individual personal computers (with appropriate security controls) should be the norm.

There are also a number of areas where Customs has been sparse with the proposed regulations. We here think about reconciliation, importer summary statements and liquidation. These subjects are favored by the trade as ways to streamline the operational and financial relationship between individual shippers and Customs. We urge Customs to more fully develop proposed regulations on these topics as soon as possible. We recognize some of the delay is the result of analyzing exactly what should be expected of the new computer system but this process, too, should be available for comment by the trade.

In general, we acknowledge that Customs has done much over the last few years to cement its relationship with the trade. The manner in which it has approached implementation of the Mod Act is a good example of a public-private partnership which works to the benefit of both sides. While we continue to believe that private sector involvement in regulation drafting is an imperative, we also acknowledge that for private industry to appropriately plan for the future, we need to see these regulations formally proposed soon. We urge Customs to act with all deliberate speed. We recognize that there are many interests competing for Customs resources. In the course of finalizing its approach on reorganization and the Mod Act, we want to urge both Customs and the Congress to be sure to seek input from voices from all over the country so that a complete picture can be obtained before making the final decisions.

Thank you for considering our comments. If we can provide any further information, please feel free to contact us.

Very truly yours,



SUSAN KOHN ROSS
SKR:mjw
Corres\922-22.022

Testimony of the

SMALL BUSINESS EXPORTERS ASSOCIATION

This testimony is presented by Hugo Blasdel, Vice President of Blasdel and Company, a software company that assists American companies in exporting. Our clients account for $5 billion in annual exports or roughly one percent of this nation's exports. I serve as chair of the Regulations and Automation Committee of the Small Business Exporters Association.

Our testimony concerns Customs Modernization and Reorganization, not with respect to the changes authorized by Congress, but with respect to Customs' internal initiatives to dramatically change the way they deal with exports. Customs plans an Automated Export System (AES) which will electronically capture and scrutinize every export before it ships. However, exporters and those who help them export are not prepared to provide the great quantities of data in the timeframe proposed nor to correct any problems found by Customs before shipping. Most exporters do fewer than a shipment a day, so they may not be automated at all. Automated exporters have data systems designed to meet existing requirements but massive reprogramming would be required and connections made between systems that have not had to be connected before. Staff will be required to handle the new, and urgent, requests for correction of data prior to export.

Customs says that AES is in response to the National Performance Review Information Technology initiative 06. While it does bear on improving statistics, nothing in IT06 mandates collecting data in advance or suggests that the existing automated system is inadequate. AES will not provide data to the exporter about laws and regulations pertaining to export, or government opportunities to assist exporting. NPR is intended to make government work better, and automation can do that, but not AES as planned. AES will create a new electronic bureaucracy, and the results for the exporter will be greater costs. Even Other Government Agency Referrals (OGARs) for review and eventual response will be automated at the Customs end while the shipment is held. This automation not only misses the letter and spirit of NPR, AES misses any definition of "customer service".

It is a matter of serious public policy concern whether this nation can put such a high premium on the quality of statistics and totality of enforcement that we construct a new barrier to exports. According to the Department of Commerce, each billion dollars in exports results in at least 16,000 jobs. Any added operational overhead or substantial investment by exporters can only have a negative effect by increasing their cost or decreasing profitability. If this new electronically bureaucratic approach discourages only a few percent of new exports and makes only 1% of existing exports unprofitable, or untenable in the highly competitive world market, it will cost more than $5 billion and 80,000 jobs.

While these estimates will certainly be debated, before proceeding with AES we need to know what the effect will be. The increased burden will be disproportionate on small exporters who lack the economies of scale the big exporters can bring to bear. Yet it is the small and medium sized exporter, exploring new opportunities, that holds the possibility for much needed growth. The 80% of companies which could export, but do not, are the ones which show the greatest opportunity, but with this new system there will be even less incentive for them to become exporters.

What are the goals of AES? The Small Business Exporters Association (SBEA) is very much in favor of government modernization and efficiency, and fully supports the efforts to properly control exports and to track them, but believes it is contrary to the public interest to unnecessarily decrease the competitiveness of American products. We believe that while the overall goals of the AES are commendable, the methods chosen and means used are shortsighted, inefficient, and where potentially useful, unachievable. AES goals, as of Version 1.2 on Saturday, December 31, 1994 are to:

- be a repository of, and gateway for, export data for all agencies
- improve the collection of Harbor Maintenance Fees
- improve the timeliness and quality of trade statistics
- support the enforcement mission of Customs and provide a paperless process.

How does SBEA view these goals?

- As a repository, both the Bureau of Export Control and the Office of Defense Trade Controls have indicated no interest in having Customs handle their licensing even though a harmonized process, across all agencies, would benefit exporters.
- The collection of Harbor Maintenance Fee on export shipments is unconstitutional as a tax on exports under Article 8 Section 9 Clause 5 of the U.S. Constitution. Building a system to collect it makes no sense.
- Statistics are compiled on a month to month basis and have been satisfactory when submitted by the 10th of the following month, so given good data timing is hardly a problem. Correcting data after export can be handled without the threat of holding the goods. If making requested corrections is a problem, then the fix for the exporter is to do it right the first time.
- That leaves only the fourth objective, automated enforcement, and the question of whether the expected increase in enforcement, and saving of government paperwork, is worth the cost in exports.

Exporters can choose the Census Automated Export Reporting Program (AERP) which has existed for 25 years. One exporter spends $1,000,000 a year doing just that to save money and eliminate paper, but few exporters can afford to be that efficient. We feel that given support, more exporters would use an electronic method. However, when paper is cost effective, is it reasonable for the government to force automation on an exporter for a few shipments a day?

What will AES do? Unlike the Mod Act which allows for the transfer of considerable responsibility to the importer, subject to audit and penalty, and reducing government expense, the Automated Export System will, in simplified form:

- require all exporter data in advance of shipment rather than later (which is now the practice except for licensed shipments);
- subject export shipment data to intense edit checks, referring any discrepancies for immediate resolution;
- initiate Other Government Agency Referrals (OGARs) on passing those edits that may be indicated; *and finally*
- clear the goods for export only if not held or called for inspection.

A system of automated enforcement targeting makes sense when all the data is already required for tariffs and quotas, not to build a system just to provide the data for targeted enforcement. Customs' outbound mission statement is "to maximize enforcement . . . while maintaining facilitation". The problem may be that Customs does not measure facilitation or know what it is they intend to maintain, so they are free to maximize enforcement at any cost. There are now 7,000,000 exports a year, and 700 seizures for violations. Even if there were ten times that number caught by an AES (7,000 seizures which is most unlikely), then 999 exports would pay the penalty of providing much more data, much sooner than existing automation, to catch the

one bad one. This does not include the number of shipments that must be delayed for inspection unnecessarily before catching that one bad shipment. On imports, only one container in seven was checked in the effort to intercept drugs, so perhaps without AES it could be two in seven, and more drugs intercepted. This checking also shows that "targeting" does not replace real checking. No matter how sophisticated the computer, it can only check for consistency of data, it cannot look inside the container.

How does AES compare to the present system? Collection of export statistics is already automated in the Census AERP and it has met the need for accurate and timely statistics. Companies that qualify with Census can submit a tape, disk, or modem transmission of their Shippers Export Declaration (SED) by the tenth of the month following export. Census reports that 23% of all data is received electronically, validated automatically, and used to produce statistics. Similarly data on U.S. shipments to Canada is 32% of all SEDs and received electronically from Canadian import authorities, so export is more than 50% automated already. One method of further automating is to extend the relationship with Canada to other major trading nations, so perhaps only 20% of exports would require any data submission to Customs.

Our comparison between AES and AERP/paper is not encouraging to the exporter, and particularly bad news for those already using AERP:

- AES requires several times more data than AERP, some from multiple trading partners in the export process such as carriers.
- AES requires clearance in advance of export and gives notification of data to be explained or corrected, rather than asking for and making any needed corrections after the fact of export shipment.
- AES's OGARs are not part of AERP. We have been told informally by both BXA and State that they would not currently be considered useful.
- AES will currently require using the import goods classification system rather than allowing exporters to choose it or the more common (and simple) export classification system as does AERP.
- AES will require massive reprogramming by those who have saved the government millions of dollars by using AERP, penalizing them for their cooperation and making their monthly submission drill a daily, if not hourly occurrence. One exporter estimates reprogramming at $250,000. Those exporters without the economies of scale only pay more per shipment. The U.S. export community includes 5000 frequent exporters, and another 100,000 participating at some level and hopefully increasing.
- AES will not use the international standards for data interchange, EDIFACT until it is "endorsed as the international standard" but the standard has been in Status 2, the highest level of endorsement for years now and is even used by Customs for import processing. If these international data standards are not fully supported, a company like Kodak which is 100% international standard, and other highly competitive American companies, will have to shrink their complete internationally formatted data into a less adequate format merely to satisfy Customs. Blasdel and Company's own software product, TransExport, is oriented to the international standard as the only logical one for international trade. We see no benefit for our customers to edit down the data just to meet a government requirement.
- AES does not accept ordinary modem data transfers as AERP does. It requires using a third party with connect and carrying charges as well as expensive encoding software (translators). It ignores the Internet which could convey the data for a low monthly fee and even provide direct client/server interaction.

- AES will automate the collection of Harbor Maintenance Fees, but AERP could be similarly automated and fees could be collected on the basis of the paper SEDs (if Customs actually collects the paper and verifies the exporter ID on them), provided the fees are not deferred pending their being declared unconstitutional.
- AES will mix statistics with enforcement compromising both objectives. Lawbreakers will be especially careful with their data, perhaps sending test shipments of the same weight and cube to assure safe passage. Those exporters who would do their best to provide correct data would be penalized when that did not work and be pushed to provide data that did work even if not entirely accurate. This principle applies to your personal Census form, which IRS is not allowed to review so as not to bias reporting.
- AERP does all that AES will do for statistics; AES is an enforcement mechanism.

It may make sense to build an electronic system to handle licensed shipments (Customs estimates a savings of 80 person-years), especially since the Other Government Agencies can provide license data electronically with little additional input from exporters. Since license management is a major problem for both Customs and exporters whose shipments are delayed by those person-years of arcane paperwork, it would benefit both Customs and the Trade to automate that system, and then look to what else would facilitate exports.

Who has what interests here? Apparent conflicts of interest have been present in the development of the AES. There is a Trade Resource Group, initiated by Customs with the membership initially controlled by Customs. It began as five carriers, four forwarders, three highly automated major multi-national corporations as exporters (Ford, TI, 3M) and a few others. Small exporters and automation vendors, who collectively represent the entire growth potential for automating the export process, have been excluded.

Carriers have a special interest in AES since they have been fined for not submitting paper declarations about the exports which match the cargo lists. Sealand invested over $100,000 in the failed Charleston pilot project. Forwarders, particularly brokers, have been enthusiastic about the additional opportunities to be of service. Brokers are particularly familiar with Customs while those forwarders whose business and expertise is primarily export would be at a disadvantage. Recently surety companies who would bond the forwarders and exporters to submit correct data and Harbor Maintenance Fees, have offered their support for the system. It looks like such an AES could fund a whole industry, while making American exports just that much more expensive and less competitive on the world market. Entry into exporting becomes that much less likely for any company not already doing it.

While outnumbered on the Trade Advisory Group by a significant margin, exporters have made no secret of their position that the system offers them no significant advantages and many costly drawbacks. SBEA is here to say that if the big exporters have a problem with the cost and difficulty of the proposed system, the small exporter will have even more problems as a result of it, and the new exporter will have one more reason not to export.

What are the alternatives? While SBEA strongly objects to this Automated Export System, we can conceive of an automated system which makes our exports more competitive:

- Encourages good statistics and full compliance by providing all data about goods and trading partners available from any agency, in one easily accessible place.
- A system which will optionally register who we deal with and what we ship and could advise us of any changes in law or regulation that would affect what we do.
- It could provide a way, not require it, for this registration data to feed licensing applications, and be available as preclassification of our goods, and identification of our trading partners when we go to ship.

- Since all questions about goods or partners would optionally be addressed in advance, we would have no surprises.
- Since the government could compute all the measurements it needs from prefiled data, all it would need on export is an ID quantity and price, and the IDs of the Trading Partners, a fraction of the data that even AERP collects, but much richer statistically with the stored data linked to it. We could even provide the Standard Industrial Class data as part of prefiling data that the National Academy of Sciences identified as critically missing (which is not part of AES). Prefiling could also address hazardous goods classification as well as all export control issues.

A wide variety of international trade data, from the U.N. on who imports what from whom, as well as all that Census data, could be available to the exporter along with country specific requirements. By facilitating compliance, increasing it while reducing its cost, and providing proactive updating as well as valuable trade data, the path to data collection would be paved with benefits to be realized rather than costs to be borne.

Given their track record over three years with all emphasis on enforcement, it is unlikely that Customs would truly support such an AES. It would need to be managed by another agency with Customs as one of many clients, perhaps hosting the data processing. The system should be responsive to, but certainly not driven exclusively by, enforcement interests. Participation, via storing data for proactive notification, and submission of export and license data would be voluntary, but mutually beneficial, and certainly not required until a year after a high percentage of exporters switched over to it and then perhaps only for controlled exports. Even there we would advocate an exception for exporters doing less than one hundred licensed shipments a year. These could continue to use a paper process if they chose, with the government doing any needed data entry as a way of encouraging entry into international trade.

In review of this concept, and to assess and remediate the shortcomings of AES, we would ask that:

- An independent review of AES be conducted, perhaps by GAO, with respect to the broad policy interests, statistical needs, and law enforcement practices, of the United States with a special emphasis on exploring less costly more effective means of obtaining the same ends. We also encourage NPR review of this regulator.
- "While maintaining facilitation" be defined in its fullest sense and Customs held generally accountable for measuring and maintaining it.
- While the Customs cost/benefit study considered only the cost to the government, we would ask that the government not save a dollar only to require that each of the 5000 frequent exporters spend several dollars.
- Separate official advisory groups of exporters and trade facilitators (automation vendors, carriers, forwarders, etc.) be created to assure that our exports are not unnecessarily compromised by any conflict of interest.
- Collection of Harbor Maintenance Fees, as a short term problem pending the litigation challenging its constitutionality, and the financial issues associated with it, not be part of the design of an AES.
- Exporters doing less than three shipments a day be exempt from automation. They could continue to use a paper process without penalty.
- All trading partner and product/goods data be prefiled and precleared so that all that needs to be reported are IDs, quantity and price; although reporting all data at one time should continue to be possible for those who choose to.
- In exchange for pre-filing, the government proactively advise the exporter of any change in law or regulation pertaining to prefiled data.
- Fundamentally, that an AES be developed to represent the best that American expertise

in automation can offer to facilitate exporting, rather than automating the worst of the "gotcha" bureaucratic enforcement mentality as a deterrent to exporting.

- AES should exceed the highest expectations of the Mod Act rather than perpetuating in exporting the ills it was designed to cure which afflicted importing.
- Finally, to share the burden of unnecessarily held shipments, we ask that Customs, like IRS on refunds overdue without explanation, be required to pay interest, until the next boat or plane out, on the value of the goods as small recompense to the disservice done the exporter and the foreign customer.

We suggest that the national interest and the balance of payments are served by a voluntary system offering adequate paybacks. The use of automation is a matter of simple business logic in that it pays. Such an investment in exporting will benefit the nation even more than it benefits individual exporters, improving the balance of payments, and providing quality jobs.

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