# OVERSIGHT OF THE MANAGEMENT PRACTICES OF THE U.S. CUSTOMS SERVICE

## HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

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# OVERSIGHT OF THE MANAGEMENT PRACTICES OF THE U.S. CUSTOMS SERVICE

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**THURSDAY, OCTOBER 16, 1997**

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
*Long Beach, CA.*

The subcommittee met, pursuant to notice, at 10 a.m., at the Long Beach City Council, 333 West Ocean Boulevard, Long Beach, CA, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representative Horn.

Staff present: J. Russell George, staff director and chief counsel; Mark Brasher, senior policy director; and Andrea Miller, clerk.

Mr. HORN. The Subcommittee on Government Management, Information, and Technology will come to order. I want to thank the officials in the city clerk's office for making available this very fine council room and the quarters. They have been most helpful, and we will thank them all by name at end of the hearing.

Today, we will examine several issues surrounding the U.S. Customs Service. In the past 50 years, a revolution has occurred with respect to world trade. Any visit to the Ports of Long Beach and Los Angeles will show the importance of international trade to this region. The massive growth of world trade led to many high-paying export industries in California. Jobs in trade typically pay more than the average job. However, this huge volume of trade has not been without its difficulties.

For example, the trade in goods has also been accompanied by a trade in bads—illegal narcotics; pirated fakes of intellectual property, including video and music cassettes; and illegal weapons designed for use by international and domestic criminals and terrorists.

The primary Federal agency with responsibility in these areas is the U.S. Customs Service. The Customs Service ensures that traded goods may be purchased by Americans and attempts to minimize the illegal imports and exports that threaten our citizens in many ways. The Customs Service assesses the correct duties on trade, bringing in billions of dollars per year, enforces trade quotas for certain sensitive goods, and generally enforces the U.S. trade laws.

The Customs Service was reorganized in 1995 into various Customs Management Centers, CMC's. We are pleased to be here today in one of the largest Customs Management Centers, which is southern California. The southern California Customs Manage-

ment Center has several unique characteristics. It has the largest border crossing in the entire world in San Ysidro, where an average of about 1 million human beings cross each week. This Customs Management Center is adjacent to Mexico, one of the most important drug source countries which is responsible for the lion's share of dangerous drugs entering the United States from South America. It is home to the largest container port complex in the world in the form of the Ports of Long Beach and Los Angeles, and it is the most populous region within the Customs Service.

Despite this unique geographic relationship with Mexico and the volume of goods that flow through Long Beach, the first port in the United States, and Los Angeles, the second port in the United States, and the international airports, southern California has not received resources on a par with the challenges and definitely not in comparison with other Customs regions. It is as if the resources given to the Customs Service were frozen at the ratios of the 1950's when Los Angeles was a small city and the bulk of the trade activity in California went elsewhere on the Pacific coast.

Well, California overtook New York in population decades ago, and we certainly have our share of problems with drugs, crime, and illegal trade activity. As resource allocation has not seemed to change, it is time for Congress to examine the situation. This is the first step in what is going to be a long process, both in Washington and in the field, that will include a detailed examination of how the Customs Service allocates its resources.

Based on information provided by the Customs Service, it appears the average agent in Los Angeles is responsible for more drug seizures, more inspections of aircraft and passenger traffic, and more shipping containers. This doesn't imply that Customs officers in New York are featherbedding, but it is clear that California doesn't receive resources relative to the threats which face the Customs Service here. Customs officers in California are forced to do more with less, to inspect less, to let some suspicious small infractions go uninvestigated because of limited resources.

The marginal benefit of an officer in California may well be greater than one elsewhere. Taxpayer resources should be focused where they will have the greatest impact. That was the premise of the Government Performance and Results Act of 1994. In that law, we tried to get agencies to focus on their results. Without an examination of the resources needed to do the job, and their appropriate geographical distribution, a move toward results-based government will fail. We do not want that to happen, and that is why we are here today.

We are joined this morning by witnesses from the General Accounting Office and the Customs Service, as well as from the private sector, to explore some of these questions and other Customs-related issues.

[The prepared statement of Hon. Stephen Horn follows:]

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2157 RAYBURN HOUSE OFFICE BUILDING

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## Statement of Chairman Stephen Horn

## Oversight of the Management Practices of the U.S. Customs Service

October 16, 1997

Today, we will examine several issues surrounding the U.S. Customs Service. In the past 50 years a revolution has occurred with respect to world trade. Any visit to the Ports of Long Beach and Los Angeles will show the importance of trade to this region. The massive growth of world trade has led to many high-paying export industries in California. Jobs in trade typically pay more than the average job. However, this huge volume of trade has not been without its difficulties.

For example, the trade in "goods" has also been accompanied by a trade in "bads" -- illegal narcotics and herbs; pirated fakes of intellectual property, including video and music cassettes; and illegal weapons designed for use by international and domestic criminals and terrorists. The primary Federal agency with responsibility in these areas is the U.S. Customs Service. The Customs Service ensures that traded goods can be purchased by Americans, and attempts to minimize the illegal imports and exports that threaten our citizens in many ways. The Customs service assesses the correct duties on trade, bringing in billions of dollars per year, enforces trade quotas for certain sensitive goods, and generally enforces U.S. trade laws.

The Customs Service was reorganized in 1995 into various Customs Management Centers (CMCs). We are pleased to be today in one of the largest CMCs -- Southern California. Southern California has several unique characteristics -- it has the largest border crossing in the entire world at San Ysidro, where an average of about 1 million human beings cross each week. It is adjacent to one of the most important drug source countries in Mexico, which is responsible for the lion's share of the dangerous drugs entering the United States. It is home to the largest container port complex in the world in the form of the L.A.-Long Beach Ports. And it is the most populous region within the Customs Service.

Despite these unique threats, Southern California has not received resources on a par with the challenges, and definitely not in comparison to other Customs regions. It is as if the resources given to the Customs Service were frozen at the ratios of the 1950s, when Los Angeles was a

small city, and the bulk of the trade activity in California took place in San Francisco. Well, California overtook New York in population decades ago, and we certainly have our share of problems with drugs, crime and illegal trade activity. As resource allocation has not seemed to change, it is time for the Congress to examine this situation. This is the first step in a process that will include a detailed examination of how the Customs Service allocates its resources.

Based on information provided by the Customs Service, it appears that the average agent in Los Angeles is responsible for more drug seizures, more inspections of aircraft and passenger traffic and more shipping containers. This does not imply that Customs officers in New York are featherbedding. But it is clear that California does not receive resources relative to the threats which face the Customs Service here. Customs officers in California are forced to do more with less, to inspect less, to let some suspicious small infractions go uninvestigated because of limited resources.

The marginal benefit of an officer in California may well be greater than one elsewhere. Ultimately, we in Congress want to focus taxpayer resources where they will have the greatest impact. That was the premise of the Government Performance and Results Act of 1994. In that law, we tried to get agencies to focus on their results. Without an examination of the resources needed to do the job, and their appropriate geographical distribution, a move towards results-based government will fail. We do not want that to happen and that is why we are here today.

We are joined this morning by witnesses from the General Accounting Office and the Customs Service, as well as from the private sector, to explore these and other Customs-related issues.

Mr. HORN. I might say what the ground rules are with the witnesses. I have mentioned it to some of them.

We have a rule in the full committee that we administer the oath to all witnesses. We will go panel by panel. We automatically put the full statement in the record after we introduce you. What we would like you to do is look us in the eye and summarize your statement.

Unfortunately, we have to be out of here in 2½ hours. The most important time will be time for questions, so we would like you to summarize—as I say, within 5 minutes—the key points of your statement. Then we will move to the next panel after each panel has finished with questions.

Now, we will start with the General Accounting Office as panel one, and I believe Mr. Rabkin is here. If you will come forward. He is Director of the Administration of Justice Issues in the General Government Division of the U.S. General Accounting Office, which is Congress' arm to evaluate financial audits and programmatic audits in all Federal agencies.

So, Mr. Rabkin, if you would raise your right hand.

[Witness sworn.]

Mr. HORN. The gentleman has affirmed, the clerk will note, and we will begin with your testimony.

Mr. RABKIN. Mr. Chairman, I have with me Darryl Dutton from our Los Angeles office. Would you like to swear him in?

Mr. HORN. Fine. Is he going to testify?

Why don't you come up and be sworn in.

[Witness sworn.]

**STATEMENT OF NORMAN J. RABKIN, DIRECTOR, ADMINISTRATION OF JUSTICE ISSUES, GENERAL GOVERNMENT DIVISION, ACCOMPANIED BY DARRYL DUTTON, ASSISTANT DIRECTOR, LOS ANGELES OFFICE, U.S. GENERAL ACCOUNTING OFFICE**

Mr. RABKIN. Chairman Horn, I am pleased to be here to discuss our observations on the Customs Service's strategic plans and its allocation of inspectional resources. With me is Darryl Dutton, an assistant director of the Los Angeles office, who is responsible for the law enforcement work we perform at the Customs Service.

First, I would like to address the strategic plan. Although Customs is not required under the Government Performance and Results Act to develop its own plan, it has chosen to do so. GAO has been reviewing the strategic plans prepared by over 20 executive agencies covered by the Results Act. We have determined whether the plans contain the six elements required by the act and assess whether they adequately discuss management challenges that the agencies will face in successfully carrying out their plans. Overall, the Customs Service's plan addresses all six elements required by the Results Act.

First, the plan lists Customs' overall mission: to ensure that all goods and persons entering and exiting the United States do so in compliance with applicable laws and regulations. Second, it includes goals and objectives for what Customs has described as its three basic functions: processing cargo entering the United States, processing passengers entering the country, and processing cargo

leaving the country, as well as two chronic problem areas, drug smuggling and money laundering.

Third, the plan describes the strategies that Customs intends to use to achieve its goals in each area; and fourth, it lists some performance targets it hopes to achieve for some of its goals. Fifth, the plan discusses some external factors that could significantly affect Customs' achievement of its goals. Sixth, it contains a listing of program evaluations used to prepare the plan and a schedule of evaluations to be conducted in each of the functional areas.

However, despite having the elements required by the Results Act, Customs' plan does not, in our opinion, provide enough details on how the agency plans to address management problems which, if not corrected, could hamper its ability to meet its stated goals. These problems involve financial management and internal control systems, including controls over computer systems and seized assets. In addition, the plan does not mention how Customs plans to deal with the potential year 2000 computer problems.

We have included these problems on our list of Federal programs at risk because of vulnerabilities to waste, fraud, abuse, and mismanagement. My prepared statement gives more detail on each of these issues.

Next, I would like to offer a few comments on Customs' resource allocation process, specifically, how Customs assesses its need for inspectors at its ports of entry and how it allocates available resources to the ports.

Customs officials told us that they were not aware of any formal needs assessments conducted prior to 1995 for cargo and passenger inspectors. In 1995, Customs requested additional inspectors to help implement Operation Hardline along the Southwest border. In assessing its needs, Customs considered a variety of factors, such as how many inspectors it would need to fully staff the primary cargo, passenger lanes, and inspection facilities at ports along the Southwest border. Last year, Customs conducted another needs assessment for inspectors and considered factors such as the number of drug seizures at each port.

We are currently reviewing the documentation for those needs assessments, as well as for the process by which the Customs officials determined the actual number of new inspectors to be assigned to each port.

Mr. Chairman, you specifically asked us to comment on the relationship of Customs inspectional staff to the workload at the major ports of entry. We have obtained data from Customs on the total number of inspectors assigned to its major cargo and passenger ports, as well as on the latest workloads at those ports. However, we only received these data from Customs on Tuesday, and they are not in adequate detail to enable us to make these kinds of comparisons. To assess how workload-to-staff ratios at any port compared to other similar ports, we would need reliable data on the number of passengers or cargo processed at each port, as well as the number of inspectional personnel assigned to these ports for each of these functions.

Mr. Chairman, this concludes my summary. Mr. Dutton and I will be glad to answer any questions that you have.

[The prepared statement of Mr. Rabkin follows:]

## CUSTOMS SERVICE: COMMENTS ON STRATEGIC PLAN AND RESOURCE ALLOCATION PROCESS

SUMMARY OF STATEMENT BY
NORMAN J. RABKIN, DIRECTOR
ADMINISTRATION OF JUSTICE ISSUES
U.S. GENERAL ACCOUNTING OFFICE

Under the Government Performance and Results Act of 1993, executive agencies are to develop strategic plans in which they define their missions, establish results-oriented goals, and identify strategies they will use to achieve those goals for the period covering at least 1997 through 2002. The Act specifies that strategic plans should contain (1) a mission statement; (2) agencywide long-term goals and objectives; (3) approaches (or strategies) and the various resources needed to achieve the goals and objectives; (4) a description of the relationship between the long-term goals/objectives and the annual performance plans; (5) an identification of key external factors; and (6) a description of how program evaluations were used to establish and revise strategic goals.

The Customs Service's plan addresses the required elements. It also contains a discussion of management challenges but, in GAO's opinion, does not adequately recognize Customs' need to improve its financial management and internal control systems, its controls over seized assets, its plans to alleviate year 2000 problems, and its plans to improve computer security.

Regarding its resource allocation process, Customs officials told GAO that they were not aware of any formal agency-wide efforts prior to 1995 to determine the need for additional cargo and passenger inspectional personnel for its 301 ports. However, Customs officials told GAO that in June 1995, in preparation for its fiscal year 1997 budget request and a new drug enforcement operation (Hard Line), Customs conducted a formal needs assessment using factors such as the need to (1) fully staff inspectional booths and (2) balance enforcement efforts with the need to quickly move complying cargo and passengers through the ports.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss our observations on the Customs Service's strategic plan and its allocation of inspectional resources. My statement is based on our review of Customs' September 30, 1997, plan and extensive work we have performed at the Customs Service over the past few years. It is also based on the limited amount of work we have done reviewing its system for allocating inspectional resources to its cargo ports of entry along the Southwest border.

## THE CUSTOMS SERVICE'S STRATEGIC PLAN

The Government Performance and Results Act of 1993 (the Results Act) seeks to shift the focus of federal management and decisionmaking away from a preoccupation with staffing, activity levels, and tasks completed to a focus on results--that is, the real difference that federal programs make in people's lives. Under the Results Act, executive agencies were to develop by September 30, 1997, strategic plans in which they defined their missions, established results-oriented goals, and identified strategies that they will use to achieve those goals for the period covering at least 1997 through 2002. These plans are to be updated at least every 3 years.

The Act specifies that all agencies' strategic plans should have six critical components: (1) a comprehensive agency mission

statement; (2) agencywide long-term goals and objectives for all major functions and operations; (3) approaches (or strategies) to achieve the goals and objectives and the various resources needed to do so; (4) a description of the relationship between the long-term goals/objectives and the annual performance plans required by the Act; (5) an identification of key factors, external to the agency and beyond its control, that could significantly affect achievement of the strategic goals; and (6) a description of how program evaluations were used to establish and revise strategic goals and a schedule for future program evaluations.

The plan developed by the Customs Service addresses the six requirements of the Results Act.[1] However, its discussion of the management challenges it faces does not adequately recognize the agency's need to improve its financial management and internal control systems, its controls over seized assets, its plans to alleviate year 2000 problems, and its plans to improve computer security.

Concerning the elements required by the Results Act, Customs' mission statement is results oriented and covers its principal statutory mission--"ensuring that all goods and persons entering and exiting the United States do so in compliance with all United

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[1]The Customs Service is not a separate executive branch agency and therefore is not required under the Results Act to develop its own strategic plan.

States laws and regulations." This covers Customs' responsibilities to collect revenues and prevent smuggling.

Second, the plan's goals and objectives cover Customs' major functions--processing cargo and passengers entering the U.S. and cargo leaving the U.S. In addition, Customs has developed goals and objectives for two chronic problem areas--narcotics smuggling and money laundering--as well as for three mission support functions--information and technology, finance, and human resources management. These goals and objectives are generally results-oriented and appear to be measurable. For example, Customs' overall goal for its processing of arriving international passengers is that the passengers it admits into the country will be in compliance with applicable laws and regulations. This goal is results oriented because it focuses on the outcomes Customs is mandated to achieve--compliance with applicable laws and regulations. In this case, Customs plans to gauge its success by measuring the extent to which it identifies and denies entry to noncompliant passengers.

Third, the plan discusses the strategies by which Customs hopes to achieve its goals. Customs' overall strategy is two-pronged: it plans to maximize compliance by (1) informing the trade and traveling community of applicable laws and regulations and (2) taking enforcement activities against noncompliant exporters, importers, and travelers. Its specific strategies are logically

linked to the goals. For example, among its strategies for maximizing trade compliance are to (1) detect areas of noncompliance and, through informed compliance and targeted enforcement actions, raise compliance levels; and (2) "investigate and prosecute willfully noncompliant importers, exporters, and brokers, wherever detected, and provide a highly visible deterrent factor."

Fourth, the strategic plan discusses in very general terms how it relates to annual performance plans. In addition, for each goal, Customs provides specific targets it hopes to achieve during fiscal years 1997 through 2000. For example, among Customs' strategies for facilitating exports while achieving compliance with applicable laws and regulations is to redesign its outbound process "so that it is clear, consistent, and understandable to all customers and stakeholders of the process." Customs' targets for fiscal years 1997 and 1998 are to "continue to implement the uniform policies" and "implement performance measures." For fiscal years 1999 through 2002, Customs' targets are to "implement the redesigned process" and "determine the resources needed to optimally implement the redesigned" process. However, these targets are more process oriented than results oriented; targets more closely related to the strategy, such as the extent of positive results from a customer survey and eventually higher compliance rates, might give Customs a better idea of whether its strategy is working.

Fifth, the plan discusses some key factors, external to Customs and beyond its control, that could significantly affect achievement of the strategic goals. These factors range from the level of cooperation of other countries in reducing the supply of narcotics to the level of support from what Customs refers to as its "customers"--the trade community and the traveling public.

Finally, Customs' strategic plan contains a listing of program evaluations used to prepare the plan and provides a schedule of evaluations to be conducted in each of the functional areas. For example, in developing its narcotics strategy, the plan states that Customs used the 1996 and 1997 National Drug Control Strategy prepared by the Office of National Drug Control Policy. Similarly, in developing strategies for its mission support processes, the plan states that Customs used one of our reports.[2]

In addition to the six elements required by the Results Act, there are several other areas where agencies' strategic plans can provide Congress and other stakeholders important insights into whether the agency will be able to achieve its goals. First, there is the recognition of how the agency will work with other federal agencies to achieve common goals. Customs' plan recognizes that the agency shares responsibilities for carrying out many of its core functions with other agencies. For example, Customs is one of over 50

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[2]Improving Mission Performance Through Strategic Information Management and Technology--Learning From Leading Organizations (GAO/AIMD-94-115, May 1994).

federal agencies involved in drug control activities. Customs' plan acknowledges the relationships the agency has with the Departments of Justice, State, and Defense and discusses how it plans to work with these agencies to achieve its narcotics smuggling goals.

Customs' plan also recognizes some of the management challenges that the agency faces in carrying out its core functions but does not, in our opinion, cover some important management challenges it will face in successfully carrying out the plan. The plan discusses three functions--information and technology, finance, and human resources management. In a broad sense, the plan references the problems that we and others have identified regarding Customs' automated systems modernization efforts and its need to improve its financial management and internal control systems.[3]

However, the plan does not provide the detail necessary to determine how Customs plans to address such challenges so that they do not continue to hamper its ability to meet stated goals and objectives. For example, we have reported that Customs' financial management problems have hindered its ability to reasonably ensure

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[3]We have included Customs' financial management and its handling of seized assets on our list of high-risk areas. In 1990 we began a special effort to review and report on the federal program areas our work had identified as high risk because of vulnerabilities to waste, fraud, abuse, and mismanagement. Our third series of reports, issued in February 1997, provides the current status of designated high-risk areas. See High-Risk Series, (GAO/HR-97-20 SET, Feb. 1997), and High-Risk Program: Information on Selected High-Risk Areas, (GAO/HR-97-30, May 1997).

that (1) duties, taxes, and fees on imports are properly assessed and collected; (2) sensitive data maintained in its automated systems, such as information used to monitor its law enforcement operations, are adequately protected from unlawful access and modification; and (3) core financial systems capture all activity that occurred during the year and provide reliable information for management to use in controlling operations.

The Treasury Department's Inspector General (IG) issued an unqualified opinion on Customs' fiscal year 1996 financial statements. However, the IG also reported that Customs had significant internal control weaknesses and that the financial management systems may not be able to provide reliable information in a timely manner. Further, the IG's report disclosed that extensive manual procedures and analyses were required to process certain routine transactions and to prepare financial statements at fiscal year-end. This lack of readily accessible, quality data raises questions about Customs' capacity to track and measure its performance. Customs' strategic plan would be more helpful to decisionmakers if it more clearly addressed how Customs intends to correct these data reliability problems.

Our report on high-risk issues within the information technology area cited information security and the year 2000 problem as two

issues requiring agency-specific actions.[4] Customs' plan contains some discussion of the importance of information security but does not address the Year 2000 problem. Specifically, regarding information security, the plan briefly mentions that the agency will follow applicable security-related directives and policies while providing a secure global network. Also, the plan mentions the need for secure technology in the context of improving certain information systems. However, the plan does not describe information security-related strategies or measures and there is no comprehensive discussion about the need to focus on information security issues such as Customs attempts to move to an environment where the agency increasingly relies on automation and technology to perform its mission.

With the year 2000 less than 3 years away, federal agencies including Customs must act quickly to ensure that systems are year 2000 compliant. Necessary steps include identifying and analyzing mission-critical computer systems, developing date conversion strategies and plans, and dedicating sufficient resources convert the computer systems by early 1999 to allow 1 year for testing and error correction. However, the Customs strategic plan, while identifying information and technology as a key mission support process, does not recognize the year 2000 problem. There is no discussion of the strategies or activities to address the year 2000

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[4]GAO High-Risk Series, Information Management and Technology (GAO/HR-97-9, Feb. 1997).

problem and the plan does not identify risks associated with the year 2000 problem as factors that could hinder accomplishment of the plan.

CUSTOMS' RESOURCE ALLOCATION PROCESS

We have not completely reviewed the processes by which the Customs Service determines its operational resource needs and allocates available resources to ports of entry. We are currently reviewing those processes for cargo inspections; this work has been requested by Senator Feinstein. We expect to report our results in the Spring of 1998. However, I can comment on some of the work we have completed so far.

Officials in Customs' Office of Field Operations told us that they were not aware of any formal needs assessments used to determine the number of cargo and passenger inspectional personnel to be assigned to each of its 301 ports, prior to 1995. Beginning in 1995, for the fiscal year 1997 appropriations cycle, Customs requested additional inspectors to help implement Operation Hard Line.[5] To determine how many more inspectors it needed and where it needed them, Customs asked its field managers--at the then

[5]Operation Hard Line is Customs' effort to address border violence and drug smuggling through intensified inspections, improved facilities, and advances in technology.

district (and subsequently at the Customs Management Center[6]) level--to assess their resource needs on the basis of a variety of factors, such as the need to (1) fully staff primary cargo and passenger lanes and inspection facilities, (2) respond to staffing agreements with INS,[7] (3) provide canine enforcement to cargo and passenger processing operations, and (4) balance enforcement efforts with the need to quickly move complying cargo and passengers through the ports. As a result of this needs assessment and the ensuing appropriations process, Congress provided Customs with authority to hire an additional 657 inspectors and other staff in fiscal year 1997.

During preparation of its fiscal year 1998 budget request, Customs headquarters conducted another needs assessment for inspectors. The Customs' official who conducted the assessment told us that it was influenced by the number of drug seizures at ports, the increased smuggling threat through railway ports of entry, and the threat of internal conspiracies at certain ports.

We are currently reviewing the documentation for these needs assessments, as well as the process by which Customs officials determined the actual number of new inspectors to be assigned to each Customs Management Center and port.

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[6]On October 1, 1995, Customs closed its 7 regional and 42 district offices and replaced them with 20 Customs Management Centers.

[7]Both Customs and INS inspect incoming passengers at ports of entry.

At the request of this Subcommittee, we have obtained data from Customs on the total number of inspectors assigned to its major cargo and passenger ports, as well as on the latest workloads at those ports. However, Customs did not provide these data in time for us to complete our analysis and include our results in this statement. We are working with the data and hope to have the results for you soon.

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Mr. Chairman, this concludes my prepared statement. I will be pleased to answer any questions.

(264440)

Mr. HORN. Well, I thank you for that helpful overview. Let me start with the General Accounting Office's general review of agency plans under the Results Act.

Has your portion of the office, in terms of the administration of justice, had an opportunity to go through a lot of these plans that are in draft stage and are slowly being submitted to the Congress, including this oversight committee? What is your experience with that?

Mr. RABKIN. I have reviewed the Justice Department's plan in detail. I have seen their first-draft plan that was released in February. They had a few updates in July and August, and the final plan was then submitted to the Congress on September 30.

Their plan has evolved. When it started out, it only had a few of the elements that the Results Act required in it, and we wrote them a report and commented on that. The plan has now improved to the point where it contains all the elements, like the Customs Service plan does.

GAO has also reviewed the Treasury Department plan and—as you know, Customs is part of the Treasury Department—and their plan also has evolved and now contains most of the elements, although each of the elements could be refined to better meet the intent of the Results Act.

One of the problems that we found in just about all of the agencies' plans that I am aware of is compliance with one of the act's requirements. This requirement is that the strategic planning be linked to the agency's annual performance plan for the coming fiscal year. Hence, there will be a linkage of the resources that are available to the agency and the results that it expects to achieve.

The problem is that the agencies' budgets and plan for fiscal 1999 are still to be reviewed within the administration. They won't be made public until January 1998. At that point, we expect to see more detailed information on how their strategic plan relates to what they plan to do and the results that they expect to produce in fiscal year 1999.

Mr. HORN. As you have reviewed the various law enforcement plans, how would you stack up the Customs' measurements with those of other agencies? Is there something that Customs should have that it does not have in terms of actually knowing the effectiveness of their operations in terms of their utilization of manpower? What is your feeling on that?

Mr. RABKIN. The Customs plan generally is one of the better plans that I have seen. Customs had a plan early. They have been involved in strategic planning even before the requirements of the Results Act, so they are a little ahead of the game. Their plan is very comprehensive and covers everything that they do.

When you get down to the nitty-gritty of the plans, though, about what results are they going to produce, in some places they have actual measures that you can look at. For example, when they talk about compliance with applicable laws and regulations, they set a goal that the trade community will achieve a 99 percent compliance rate. The problem with that, however, as with most law enforcement agencies, is that while you know what you see when you inspect a passenger or a cargo conveyance leaving or entering the country, you know whether that is in compliance or not, but you

really don't know what you are missing. One of the challenges for the Customs Service is to be able to gather data on the overall extent of the problem.

For example, at a cargo port of entry, Customs will know what drugs it seizes, how many, the amount, the weight, et cetera. It will know how the seizures at that port compare to other ports. What Customs won't know specifically, and the challenge for it, is how much drugs really came through that port so they will know whether they got 1 percent of the drugs or 50 percent of the drugs coming in. That is the real issue.

Mr. HORN. I agree with you completely. That was my reaction when I read the testimony. They do a fine job in many areas, but we don't have what is 100 percent of the universe and what share is it which we hit, 5 million or 25 million, whatever it may be.

What is your best thinking as to how some agencies have coped with that problem of what is out there in criminality? Let's face it, it is a pretty dicey operation to try to figure that out. What is your feeling on that?

Mr. RABKIN. Well, I'm more familiar with the drug control aspects. I will speak about that a bit.

I think the Federal agencies are just at the beginning of getting a handle on how to project or estimate the amount of drugs that are entering the country. There are a number of intelligence information sources that are providing information about crops that are grown in the producing countries and the amount of the crops that are converted into drugs, the amount that they think is being shipped from those source countries through the transit zone into the United States. As those estimates get refined—and these estimates are being gathered through the Intelligence Community, the military is involved in this, et cetera—we will have a better sense nationally of the drugs coming in.

Now, where they come in, how many of them come through ports, how many of them come in between the ports is another story. I think there is a little less certainty on that issue. And, of course, the Customs Service's responsibility being at the ports, they work in concert with other Federal agencies in trying to achieve the ultimate goal of reducing the supply of drugs in this country.

Mr. HORN. I note in your testimony that I think Senator Feinstein has asked for a study of some aspects of allocation of resources. Could you describe what that study is?

Mr. RABKIN. Certainly. About a year ago, Senator Feinstein asked us to do a lot of work looking at the Customs Service drug interdiction activities, specifically targeted at cargo ports of entry along the Southwest border. We looked at a variety of issues from what Customs' mission was to the kind of technology they were using, the kind of intelligence they were gathering, and the kind of training they were giving to inspectors.

We have refined that work for her and are focusing on three things now: No. 1 is resource allocation, and I will come back and explain that in more detail; No. 2 is the entry processes that are used to facilitate the low-risk traffic through the ports and to ensure that the high-risk traffic is more likely to be inspected; and No. 3 we are also looking at some of the controls over the automated law enforcement communications system.

The resource allocation issue is again focusing on the cargo ports, but she is interested in learning how the Customs Service decides what it needs at each of these ports—to what extent does it consider workload, does it consider the threat, or does it consider other factors such as the physical constraints of the port or union agreements that might be met at the port, et cetera—and factor all of those together to determine how many inspectors it needs to be able to achieve its goal of ensuring that all the trade laws are enforced.

Once Customs determine the needs, then that goes through the budget process to Treasury, and to OMB. Then it goes up to the Hill and Congress acts on it, providing the resources; and then it comes back down, and the Customs Service has to allocate those resources back out to the ports. We are also interested in finding out how the Customs Service has done that, what factors they have used then to make the allocations and actually assigned inspectors and get them on line out at the ports.

Mr. HORN. I am delighted you are doing that, because that is exactly what we want also. And the question is, Have you had a chance to go to the various regional centers of the Customs Service? To what degree are you and where are you in that study as to—first, are they asking from the process up in the budget for Customs for these additional resources? Where, if any time, are they cut off at that, let's say on the west coast, where I think it is very clear from my sources in New York and sources on the west coast, there is a major differential here, and they cannot really do as much as they would like to do.

Now, the question is, Have they had the guts to ask for the resources? Is that chopped off at the Customs level, the Commissioners' level? Is it chopped off at the Office of Management and Budget level which acts for the President or is it chopped off at Congress?

And I assume you are going to follow some of that trail on at least resource-asking. Then the question is, If they get the resources, as you suggested, what are their allocation formulas and by what criteria? Is it just tradition?

I remember in a Democratic Congress, the first one I was in in 1993–94, we looked at how the Department of Justice allocated resources to the U.S. attorneys' office, and guess what? Montana ranged way beyond everybody else. Why? As I remember, because Senator Oman—he was quite a significant figure there—made sure that those resources went to Montana and Wyoming and so forth. That is wonderful if you are from Montana and Wyoming, but if you're from the largest port complex in the country and the third ranking air complex at Los Angeles International, you wonder, hey, Who is running this system? Are they serious or aren't they?

Now, how far along have you gotten in looking at the region as centers and looking at how Customs makes these allocations when Congress does give them the money?

Mr. RABKIN. We have gathered a lot of data and spoken to people at the Customs ports, at the Customs Management Centers, and in their budget and finance offices at the executive level. We have talked to officials at the Treasury Department about what they do with the Customs budget when they receive it, what they specifi-

cally did with the request for additional inspectors. We have talked to officials at OMB, we have mapped the process out, and we will be reporting that to Senator Feinstein, I expect this spring.

As you can imagine, it gets reviewed at each level, there are changes made, there are reclamas made, and there are arguments made. I think the Customs Service's arguments were listened to in fiscal years 1997 and 1998, but their request was only for Operation Hardline. It was for the Southwest border, along the border between Mexico and the United States, in fiscal year 1997, and then it expanded along the whole southern tier into the southern Florida area. The resources for fiscal 1998 are being allocated among those ports.

So it was focused on those ports and that is where the buildup has been taking place.

Mr. HORN. To what degree have you looked at New York and the comparison of tonnage, narcotics, intellectual property, and other things that Customs deals with in relation to Los Angeles? It sounds like you are not including New York.

Mr. RABKIN. No, we are not. Again, we are focusing on the cargo ports along the Southwest border. I think what you are talking about is the same process, but focusing on different ports.

Mr. HORN. I am interested in the whole operation, but particularly in New York. Not that I want to cut New York; I do not. Mrs. Maloney, who is the ranking Democrat is from New York. She will be here tomorrow, but she was unable to make it today. I am not going to do anything to damage New York.

But on the other hand, I want fairness in allocations between the ports. Part of that is a border problem, however much of it is what is flowing in on the various ships and how we handle and inspect those, which we will get into this morning. When I went through the Customs operation yesterday, my attitude was, if you look at it from the standpoint of a major narcotics king, it is the cost of doing business. So you lose $5 million. Meanwhile, they have got through billions that we haven't caught and we haven't caught them because we don't have the manpower to do it while inspecting the containers.

Mr. RABKIN. Well, it is not just manpower, sir. I think, and the Customs Service, I am sure, will tell you that the formidable task they face is not going to be dealt with just by putting more people on at the ports. I think it is also an issue of getting better intelligence as to where the drugs are coming in. It is an issue of developing better technology to x-ray containers, to be able to tell the various hiding places that the smugglers use in trucks, and to be able to detect this without having the resource-intensive use of inspectors investing in research. The Customs Service, and other agencies as well, are investing in research to try to develop this technology.

If you go down to the border, you will see the x-ray machines, the big x-ray machines they are putting in place. They have mobile x-ray units, handheld instruments that they use. I think they have a long way to go to be able to become as efficient as they would like to, but I think they are moving in the right direction.

Mr. HORN. What do you figure, on the Southwest border portion that you have worked on, is the manpower need? I am all for the

technology need. I watched it in action yesterday, and it is impressive. But what is the relationship there between manpower where you just physically have to open that container, in this case of the ports, and spread it out so you can examine it?

Mr. RABKIN. I am not in a position to tell you how many they need. I know they probably need more than they have asked for, more than they have received. But it depends on what you set as the level at which they are going to be inspecting the cargo or the people or the conveyances coming in.

If you talk about inspection rates of all the trucks that cross the border, what percentage of them should the Customs Service be emptying and examining in detail? They can do 100 percent of them; but the trucks will be backed up at the border all the way through Mexico, and the trade community will say that is not fair to them.

What the Customs Service is talking about in its strategic plan is identifying low-risk traffic, letting that go through and inspecting that at a lower rate than the high-risk traffic. The question then becomes, how good are they at separating high-risk and low-risk; and second, are they actually then giving the high-risk traffic the higher inspection rate as they had planned? That is another one of the issues that we will be looking at for Senator Feinstein. It comes into play at airports and at the seaports as well.

Overall, they expect that a very high percentage of the goods and people coming in are in compliance. It's that small percentage that is willfully noncompliant, and how does the Customs Service target that? And they are investigating methods using, as I said, intelligence, knowing what is coming in ahead of time, factoring in the likelihood that it is coming from a high-risk country or from a high-risk area or any other information they have about it to be able to target those high-risk goods and give them more inspectional resources, more inspectional attention than the low-risk.

Mr. HORN. Now, did you look in detail at the automated commercial entry system that they are using on computers?

Mr. RABKIN. Other groups in GAO have looked at their attempts at automation, and we have issued a few reports over the years on some of the problems that the Customs Service is having. We have had some concerns about their ability to define the architecture that they want for their automated systems. We have reported to the Ways and Means Committee and the Appropriations Committee about some of our concerns.

As a result, the Appropriations Committee has fenced off some of the funds provided to the Customs Service for its modernization program until the committees feel that the architecture that the Customs Service is developing is done appropriately and adequately.

Mr. HORN. When will that be resolved so the Appropriations Committee can make a decision one way or the other?

Mr. RABKIN. My understanding is that our staff are supposed to be briefing the Appropriations Committee by the end of this month. But if you're asking when the Customs Service will have an adequate architecture, I am not in a position to tell you that now. I don't think they have it yet.

Mr. HORN. Is Mr. Willemson on your GAO staff handling this one?

Mr. RABKIN. The division that he is in is handling it. I don't know if he is involved personally in this.

Mr. HORN. Obviously we have a timing problem here. The report for Senator Feinstein, in which we have an interest, and including New York, if we are to get into the appropriations cycle, we really need it by March or April, although it will be in the Treasury-Postal bill of Mr. Kolbe's, and that is sometimes either first at bat or last at bat, because it does move fairly fast. I would think we need to resolve this misallocation part. It is pretty obvious when you look at the data. Hopefully, it can be resolved sometime in the spring and avoid a supplemental, but do it in the base bill.

So we would certainly welcome anything you can do to expedite that report to make a difference with the appropriations.

Mr. RABKIN. Well, one of the things we can do is talk to Senator Feinstein's staff and perhaps brief you on the results. We should have a draft report available in the February or March timeframe, which we will be sending out to the Customs Service for comment, and we might be able to share that with you.

Mr. HORN. Very good.

In terms of allocation resources in the Southwest, what proportion of total Customs resources is allocated in the study that you are dealing with? What are we talking about? Is it 40 percent of their allocation?

Mr. RABKIN. I don't have that figure.

Mr. HORN. OK. We might file it for the record.

[The information referred to follows:]

Customs Service data indicates that, as of August 1997, 31 percent of inspectors and 64 percent of canine enforcement officers were assigned to ports along the Southwest border.

Mr. HORN. Have you looked at the 1995 reorganization of Customs? Does it make sense, and is it meeting the goals they had set for this regionalization?

Mr. RABKIN. We looked at it when it was announced, and we did some followup work shortly after they began it. At that time we said that the reorganization plans did make sense and that the Customs Service was on the right track to implementing them, but what really mattered was the follow-through, making sure that the results were being achieved.

We have not done a formal review of that process recently, but my sense is that it has been working. One of the goals, I think, was to get staff out of the headquarters and back onto the line. I think they were moving in that direction. Another goal was to decentralize a lot of the decisionmaking down to the port level, and I think that has been happening, as well.

Mr. HORN. Very good.

Information security is obviously something that we are concerned about across the whole Federal Government. Does the Customs Service also face information security problems? How would you characterize those problems?

Mr. RABKIN. I think the Customs Service is as vulnerable as most other Federal agencies in this regard. They have a lot of systems with a lot of data that are vulnerable to unauthorized access.

We have reported on that generally, and the Treasury Inspector General has had studies done focusing on financial management, but also talking about internal controls over computer security, and has identified that as a weakness in the Customs Service.

Our concern, as I discussed in my statement, is that their strategic plan talks a little bit about computer security, but really doesn't get into the issue of how and what priority the Customs Service is placing on ensuring that its computer systems are secure from unauthorized access.

Mr. HORN. Would you have any comments to make on the Los Angeles side of it and what part is completed here on resource allocation by GAO?

Mr. DUTTON. Yes, Mr. Chairman, we spent most of our time down at the Otay Mesa cargo facility in San Diego, and we are about 75 percent complete there in looking at the internal controls over the entry processes at that particular port. We intend to go to two more ports on the Southwest border before we conclude that portion of it, so that is about where we are now.

Mr. HORN. To what degree have you looked into the harbor area and the airport area? I mean, you are just concentrating mostly on the borders?

Mr. DUTTON. Yes, sir, that is right. This is the specific request of Senator Feinstein, to look at the cargo operations on the Southwest border, so we have not done the airport or the seaport.

Mr. HORN. Well, we will send over a specific request to broaden that study, which would include the ports. I would be interested to know if the GAO has done any studies on the northern ports, such as Seattle and Canadian crossings, because I would think for east Europeans and other groups, a lot of them come through Canada and just walk across the border into the United States.

Have you ever been asked to look into that?

Mr. RABKIN. We have discussed that with the National Security Subcommittee staff of the Government Reform and Oversight Committee. They have a number of concerns with the drug control along the Northern border. We have talked to them about looking at both the drug problem and the immigration problem across the Northern border. But at this time, we have not been asked to do that; and it is in our plans, but I can't tell you at this point when we would get to that issue.

Mr. HORN. How many people do you have assigned to a project like this?

Mr. RABKIN. Right now, there are 60 people that work in the Administration of Justice area. That covers issues such as immigration, the Federal judiciary, the prison system, drug control, counterterrorism—we're getting involved in some counterterrorism activities at the FBI, et cetera.

Mr. HORN. And how many are located here in the Los Angeles area?

Mr. DUTTON. Right now, we have a complement of 12; and we have just received some reallocations, so I think we are going to get some more, maybe up to 25 or so as the new fiscal year proceeds.

Mr. HORN. Good. Well, we are always very proud of the work that the General Accounting Office does, so we wish you well on

these studies, and the sooner they are completed in a responsible way, the better off I think things will be. Because I, for years, have been talking about the Northern border, we just have not gotten to do it yet. We will. So we might as well get the whole bundle sorted out as to rationality here on allocation of resources.

Well, I thank you both for coming, Mr. Rabkin, and coming out here in particular. So thank you and we will followup with you. It was a very good statement.

We will now have panel two. The first witness will be Bob Trotter, Assistant Commissioner for Field Operations, U.S. Customs Service coming out from Washington; the next will be Mr. John Hensley, the special agent in charge, U.S. Customs Service, in the Los Angeles region; and John Heinrich, Director of the Customs Management Center, U.S. Customs Service, for this area.

So gentlemen, if you will come and raise your right hands.

[Witnesses sworn.]

Mr. HORN. All three witnesses have affirmed, and we will begin with Mr. Trotter.

**STATEMENTS OF ROBERT S. TROTTER, ASSISTANT COMMISSIONER FOR FIELD OPERATIONS; JOHN HENSLEY, SPECIAL AGENT IN CHARGE, LOS ANGELES; AND JOHN H. HEINRICH, DIRECTOR, SOUTH PACIFIC MANAGEMENT CENTER, U.S. CUSTOMS SERVICE, ACCOMPANIED BY IRENE JANKOV, PORT DIRECTOR, PORT OF LOS ANGELES-LONG BEACH; AND THOMAS S. WINKOWSKI, PORT DIRECTOR, LOS ANGELES INTERNATIONAL AIRPORT**

Mr. TROTTER. Good morning, Mr. Chairman. It is a pleasure to appear before you today to address the Customs Service's strategic plan under the Government Performance and Results Act, the allocation of resources based on workload and performance, and other general management issues. I hope that this information will assist the subcommittee in its oversight responsibilities.

As you are aware, the mission of the Customs Service is to ensure that all goods and persons entering and exiting the country do so in compliance with law and regulation. Since our testimonies have been read into the record, I would just like to touch on the high points.

With 19,000 Customs employees at more than 300 ports of entry and with an increase in the number of laws to protect citizens, the responsibilities of Customs Service has become greater and greater in recent years. This challenge can be observed in the port of Los Angeles and Long Beach, where the seaport and airport link the area with the rest of the world and major highways linking the ports with Mexico and Canada. Customs' focus is on balancing its multiagency and international enforcement responsibilities with the need to efficiently process legitimate trade.

Customs has developed a strategic plan for fiscal year 1997 through 2002 which articulates our vision for the 21st century. It was developed in collaboration and consultation with our process owners, stakeholders, and customers. The strategic plan is a blueprint for our future and defines the key objectives and measures of our three core processes.

The strategic plan has been coordinated with the implementation of the Government Performance and Results Act, GPRA. We believe that we have made a good beginning, although we recognize that we still have much to do, as the GAO response just stated.

Performance-based management has been implemented for various Customs programs. Within the Office of Investigation, a performance-based management system was specifically designed to provide meaningful and comprehensive information on the productivity of individual field offices by comparing and evaluating staffing levels in relation to enforcement results and threat. The results of the investigative performance evaluation system has served as tool to aid Customs management in decisions pertaining to allocation and use of investigative resources.

Customs has also been successful in utilizing performance-based management in the aviation program.

While we realize success in program level, performance-based management, one area in which our thinking is maturing is in the strategic planning and evaluation of law enforcement efforts. These include narcotics smuggling, money laundering, trade fraud, and export violations.

Customs has relied on traditional workload and output-type measures, such as caseload seizures and arrest data, to gauge effectiveness. We're now taking these measures one step further by incorporating meaningful outcome-type measures which reflect our enforcement-related strategic goals, thereby enabling policy and budget decisionmakers to focus resources in those areas with the greatest potential impact.

These outcome-oriented measures indicate our impact on disrupting criminal organizations involved in violation of Customs law. To measure the performance at our Customs ports, an operational management report, OMR, has been developed. Each month the OMR data warehouse provides more than 250 elements reflecting port operations in key functional areas.

Further, Customs is implementing an integrated information technology investment process which provides for continuous identification selection control and evaluation of instruments as part of the evaluation documentation projects that are required to identify performance measures.

With respect to financial measurements, last spring Customs reached a milestone, an unqualified or clean audit opinion for fiscal year 1996. Further, the Treasury Office of Inspector General removed its prior qualification for the fiscal year 1995 balance sheet. These were significant accomplishments for Customs, which collected approximately $22 billion in 1996, second only to the Internal Revenue agency, and in which we seized more narotics than any other Federal agency, over 1 million pounds, which was a record year for Customs. Customs' 1998 annual plan is derived from the strategic plan.

On a final note, Customs' budget submission for fiscal 1999 reflects new performance measures. For the first time, the budget is being presented in alignment with Customs' three core processes and a single business component, as well as two new additional budget activities of "commercial" and "drug and other enforcement." This further strengthens the linkage between those re-

sources requested and the outcomes expected for the application of those resources. These are questions that you had asked earlier from the GAO.

Mr. Chairman, this concludes my statement. Mr. Hensley and Mr. Heinrich will go further into detailed operations of the Ports of Los Angeles and Long Beach. Again, thank you for the opportunity to appear before the subcommittee today to discuss issues of concern. I will be happy to answer any questions you may have.

Mr. HORN. Thank you very much, Mr. Trotter. We are going to go through the other two witnesses and then combine the questions for all three of you.

[The prepared statement of Mr. Trotter follows:]

**Statement**
**of**
**Robert S. Trotter**
**Assistant Commissioner for Field Operations**
**United States Customs Service**
**before the**
**Subcommittee on Government Management, Information and Technology**
**of the**
**Committee on Government Reform and Oversight**
**U.S. House of Representatives**
**on**
**Thursday, October 16, 1997**
**Los Angeles, California**

Good morning Mr. Chairman. It is a pleasure to appear before you today to address the Customs Service Strategic Plan under the Results Act; the allocation of resources by the Customs Service based on workload and performance; and other general management issues. I hope that the information provided at this hearing will assist the subcommittee in its oversight responsibilities.

## INTRODUCTION AND MISSION

Mr. Chairman, as you are certainly aware, the mission of the United States Customs Service is to ensure that all goods and persons entering and exiting the United States do so in compliance with all United States laws and regulations. The United States Customs Service still reflects the activities envisioned when the first U.S. Congress enacted laws providing for levying and collecting revenue in 1789. In fact, in Fiscal Year 1997, Customs collected approximately $22.5 billion in revenue.

With more than 19,000 employees at more than 300 ports of entry and with an increase in the number of laws to protect citizens from dangerous drugs, hazardous materials, unsafe products and environmental degradation, coupled with the dramatic growth in global trade and travel, Customs responsibilities have greatly expanded. Further, its organizational structure is of relatively recent origin with major changes occurring in 1913, again in 1964, and again on October 1, 1995, with the implementation of the Customs reorganization plan: People, Processes and Partnership. This last change positioned Customs to more effectively and efficiently meet the challenges of the 21st century.

Customs focus is on balancing its multi-agency and international enforcement responsibilities with the need to efficiently process legitimate trade coming into and out of the United States. In addition, Customs has ongoing responsibilities to administer: 1) revenue collection, 2) accurate collection and reporting of import and export statistics, 3) protection of domestic industry and

jobs from illegal and unfairly subsidized imports, and 4) regulatory audit and laboratory services. Additionally, recent appropriations legislation directed Customs to fund research on technology to prevent the illegal export of stolen vehicles and to expand service at existing ports of entry.

The Customs Service is on the front lines in the battle to stem the tide of narcotics being smuggled into the United States through ever changing methods. It is also an intermediary in a global trading system that continues to expand and rapidly change as trade barriers are lowered, bilateral and trilateral agreements are reached, free trade zones are created, and developing nations continue to industrialize. These external changes, coupled with an austere fiscal climate, growing pressure for reduced government, continuing demands by the public for greater accountability, efficiency, and effectiveness, and demands by our direct customers for increased customer service provide a set of unique challenges for the Customs Service to meet as it prepares to enter the next century. External factors, such as the changing tactics of narcotics smugglers, the threat of terrorism, the expansion of world trade, the proliferation of trade agreements, and an austere budgetary outlook, impact the way Customs works. To meet all of these challenges, Customs has set out an ambitious agenda to reinvent the way it does work.

**STRATEGIC PLAN**

The U.S. Customs Service has developed a Strategic Plan for Fiscal Years 1997-2002 which articulates our vision for achieving the Customs Service of the 21st century. It was developed in collaboration and consultation with our process owners, stakeholders, and customers. The Strategic Plan is our blueprint for the future, and defines the key objectives and measures of our three core processes (Trade Compliance, Passenger, and Outbound), our key enforcement strategies (Narcotics and Money Laundering) and our Mission Support processes (Information and Technology, Finance, and Human Resources). The goals of each are as follows:

Core Processes:

- Trade Compliance: Maximize trade compliance through a balanced program of informed compliance, targeted enforcement actions, and the processing of complying cargo efficiently;
- Passenger Processing: Ensure compliance by targeting, identifying and examining high-risk travelers, and allow the expeditious movement of low-risk travelers;
- Outbound: Process international trade while achieving the highest degree of compliance with United States export requirements in order to protect the United States national security, economic interests and the health and safety of the American people;

Enforcement Systems:

- Narcotics: Prevent the smuggling of narcotics into the United States by creating an effective interdiction, intelligence, and investigation capability that disrupts and dismantles smuggling organizations;
- Money Laundering: Identify, disrupt, and dismantle the systems and criminal organizations that launder the proceeds generated by smuggling, trade fraud, and export violations.

Mission Support Processes:

- Information and Technology Process: Maximize the use of information and technology to enhance productivity, support business processes, and meet the challenges of Customs missions;
- Finance: To be recognized as a leader in financial management, providing the highest quality, most cost-effective financial management services through customer involvement, an empowered workforce, and modern, integrated financial systems.
- Human Resources Management: To be a strategic partner and change agent, to provide high quality, low cost human resource management services that support the Customs Service mission and are responsive to the needs of managers.

The Strategic Plan has been closely coordinated with the implementation of the Government Performance and Results Act (GPRA), otherwise referred to as the Results Act. We believe that we have made a good beginning, although we recognize that we still have much to do.

**PERFORMANCE-BASED MANAGEMENT**

Performance-based management has been implemented for various Customs programs. Within Customs Office of Investigations, a performance-based management system has been in use since 1992. The system was specifically designed to provide meaningful and comprehensive information on the productivity and results of the individual field offices within the Office of Investigations by comparing and evaluating staffing levels in relation to enforcement results and the potential for enforcement results, or the threat. The results of the investigative performance evaluation system have served as a tool to aid Customs management in decisions pertaining to allocation and use of investigative resources. Over the years, the system has been routinely reviewed and modified to ensure the most meaningful and accurate approach to investigative performance evaluation and resource management. This past year, in fact, the system underwent a comprehensive review and is currently being revised to incorporate the recommendations of that review.

Another enforcement program area in which Customs has realized success utilizing performance-based management is its Aviation Program. Since the mid 1980's, Customs Air Program has assessed its domestic air interdiction performance and resource allocation requirements based on an integrated system of program-level workload, performance, and outcome measures. In the early 1990's, the Air Program incorporated into this performance measurement system additional measures to gauge its effectiveness and resource requirements in expanding operational program areas such as investigative support and international interdiction activities.

While we have realized success in program-level performance-based management, one area in which our thinking is maturing is in the strategic-level planning and evaluation of our law enforcement efforts, to include narcotics smuggling, money laundering, trade fraud, and export violations. Within these areas, Customs has faced many challenges in meeting the requirements of

the Results Act, especially in the way of performance measurement. Measuring one's success against an undefinable universe, such as the number of crimes being committed, is difficult.

Customs has relied on traditional "workload" and "output" type measures, such as caseload, seizure and arrest data, to gauge the effectiveness of our law enforcement efforts. Customs is trying to take these one step further by incorporating meaningful outcome-type measures which reflect our effectiveness in achieving our enforcement-related strategic goals and enable policy and budget decision makers to focus resources in those areas with the greatest potential for impact. The focus of these outcome-oriented law enforcement measures are indicators of our impact on disrupting the activities of criminal organizations involved in violations of Customs laws. Examples of the types of outcome measures being evaluated include: the cost of conducting criminal activities (such as the cost of laundering money and the cost of transporting drugs into the U.S.) and disrupting the methods or systems for conducting criminal activities (to include shutting down money laundering systems and drug smuggling routes).

To measure the performance of Customs ports, an Operational Management Report (OMR) has been developed. Each month the OMR Data Warehouse provides more than 250 data elements reflecting port operations in key functional areas. This monthly data is captured from each Customs major commercial, enforcement, financial and administrative systems. The data is summarized for all of the ports. Reliable workload and performance measurement data are now available to all Customs management groups on a monthly basis. The data is used by Directors of the Customs Management Centers, as part of their oversight responsibility, to insure that port performance productivity and effectiveness standards are met.

Further, Customs is implementing an integrated Information Technology (IT) investment management process, the Investment Review Board (IRB), which provides for the continuous identification, selection, control and evaluation of IT instruments. As part of the evaluation documentation, projects are required to identify performance measures. They will be assessed against these measures throughout the process.

With respect to financial management, last Spring Customs reached a milestone for which it had been painstakingly striving for the past several years -- an unqualified or "clean" audit opinion on Customs Fiscal Year 1996 financial statements. Further, based on additional supporting documentation provided by Customs and extended audit procedures, the Treasury Office of Inspector General removed its prior qualification from the Fiscal Year 1995 balance sheet. These were significant accomplishments for Customs, which collected approximately $22 billion of Federal revenue in 1996 (second only to the Internal Revenue Service) and which seized more narcotics than any other Federal agency (over 1 million pounds -- a record year for Customs).

Customs has engaged actively in consultative efforts on its Strategic Plan with Congressional committees, OMB, the Department of the Treasury, other federal agencies, and stakeholders. Further, the Strategic Plan has been posted on Customs Internet web site (http://www.customs.treas.gov) under "More About Customs," where it may be accessed by the

public. On that note, we continue to welcome feedback and comments from anyone and everyone who is interested.

Customs 1998 Annual Plan is derived from the Strategic Plan and identifies the Fiscal Year 1998 goals, objectives and strategies to make appropriate progress toward achieving our 5-year Strategic Plan and Customs vision for the future.

To provide a focus for what Customs employees are to achieve, the executive staff of Customs developed the following vision statement: To protect the public against violations which threaten the national economy and health and safety through targeted enforcement and informed compliance and to be the national resource for information on goods and people crossing our borders.

From the Strategic Intent came five Agency challenges that will be the foundation for Customs initiatives over the next 5-10 years. They are to:

- implement enforcement strategies resulting in effective interventions against willful violators;
- strive to achieve 100 percent compliance with Customs and other agency laws;
- form partnerships with other agencies and industry to provide world class customer service;
- become an information-based agency that maximizes the use of technology to achieve mission effectiveness and resource efficiency; and
- create a working environment that best utilizes and recognizes the talents of our employees.

To achieve these goals, the Customs Service has embarked on a major change in its management philosophy. In late 1994, Customs formally adopted the concept of Business Process Improvement (BPI) and is in the process of implementing it throughout the Service. BPI is a systematic methodology developed to help an organization make significant advances in the way its process operates. One of the initial steps in BPI was to identify the core and mission support processes of Customs.

Strategic Problem Solving (SPS) compliments BPI to improve Customs narcotics, money laundering and trade enforcement efforts. SPS is defined as a creative, multi-functional approach that endeavors to prevent or reduce enforcement violations in addition to enhancing the ability to detect and apprehend "willful violators." Soon after the adoption of BPI, Customs recognized that many enforcement issues for which it is responsible do not fit neatly into the BPI framework. Even where they do fit, there is a need for a total enforcement focus to deal with specific chronic or significant narcotic, money laundering and trade violations. It is Customs goal to permanently solve enforcement problems instead of applying temporary fixes to them. The SPS concept, built upon community-based policing concepts and a systematic process management approach, fills this need.

On a final note, Customs budget submission for fiscal year 1999 reflects new performance measures. For the first time the budget is being presented in alignment with Customs three core processes and single business component as well as the two new budget activities of "Commercial" and "Drug and Other Enforcement." This further strengthens the linkage between the resources requested and the outcomes expected from the application of those resources.

Mr. Chairman, this concludes my statement. Again, thank you for the opportunity to appear before the subcommittee today to discuss issues of concern to the subcommittee and Customs. I will be happy to answer any questions you may have.

Mr. HORN. Next is John Hensley, the special agent in charge, U.S. Customs Service, for this region. I thank you for your hospitality yesterday to show us part of your operation and how effective it was. Welcome, and we look forward to your statement.

Mr. HENSLEY. Thank you, Mr. Chairman. Good morning. It's my distinct pleasure to appear before you today to discuss the role of the special agent in charge of the Los Angeles field division.

As the major border enforcement agency, the U.S. Customs Service enforces hundreds of laws and regulations related to international commerce and the protection of the U.S. border. Customs assesses and collects duties on imported merchandise, ensures that foreign cargo complies with all entry requirements, protects domestic entry from unfair competition, protects the American public and environment from hazardous and unsafe products, interdicts narcotics and other contraband, and protects U.S. technology from foreign encroachment.

The Office of Investigations is the investigative law enforcement arm of Customs. Customs special agents perform the full range of duties as other Federal criminal investigators involved in the violations of currency, fraud, neutrality in weapons, smuggling, and the export of critical technology.

These investigations are significant in supporting national enforcement efforts in combating narcotics smuggling, international money laundering, international crime, and safeguarding our national security. Three major goals are emphasized in all of our investigations: One, the detection, prosecution, and dismantling of major criminal enterprises associated with narcotics smuggling and financial systems employed to launder illicit proceeds; two, the prosecution of major violators and kingpins of Customs import laws, including nonnarcotics money laundering and substantial monetary recoveries; and three, the detection and prevention of illegal exports of critical technology, defense articles, weapons of mass destruction, and the reduction of illegal arms and munitions traffic.

The Los Angeles Office of Investigations, which is located in the Customs House on Terminal Island, is 1 of 20 special agent in charge field offices nationwide. As a special agent in charge of the district, I am responsible for Customs' investigative activities in a geographic area bounded to the north by the Monterey-San Luis Obispo County line and to the south by the San Diego-Orange County line, and the lower portion of Nevada including Las Vegas to the east. There are five resident agents in charge offices within my district, which include Los Angeles International Airport, Irvine, Oxnard, Riverside, and Las Vegas.

Several unique characteristics of the L.A. metropolitan area and Las Vegas metropolitan area pose challenges on all law enforcement agencies, including Customs. These factors include the geography, economy, and demographics of the area. The immense and diverse geography of our jurisdictional area, which covers over 50,000 square miles, consists of an expanse of intensely populated metropolitan areas and sparsely populated desert regions, including mountain ranges and 300 miles of scenic but secluded coastline. Not only large in size, but large in population, with over 17.6 mil-

lion people in the 1990 census, this equates to approximately 130,000 residents and 370 square miles per agent.

The Los Angeles area is home to 24 of the 500 major "Fortune 500" corporations in the United States. This ranks Los Angeles second in the Nation behind New York. The L.A. area's gross national product is $300 billion a year. If L.A. were a separate nation, it would be the 14th largest economic power in the world. This legitimate trade and commerce also masks a tremendous amount of illegal activity by violators who further their criminal enterprises by taking advantage of the sophisticated business infrastructure established to support legitimate business.

Los Angeles is facilitated by a well-developed freeway system that includes four major interstate highways, I–5, –10, –40, and –15. These highways link Los Angeles with Mexico and Canada. They also link the Pacific Coast with all of the Southwest border and the gulf coast regions of Mexico, as well as connecting southern California with the north, central, and eastern parts of the United States. These highways facilitate legitimate travel as well as criminal activity.

Through the combined ports of Los Angeles and Long Beach pass the most container traffic in the United States and third most in the world. These ports process more containers every year than any other port in the United States.

The Los Angeles Harbor is undergoing a terminal expansion which, when completed, will result in the largest container terminal in the Nation. This project parallels others in Long Beach, which will expand landfill, portage, and railhead facilities planned to double cargo volume in the next 5 years. Additionally, work has begun on the Alameda corridor, which will provide high-speed rail connections through the heart of Los Angeles, joining the city's mail-rail arteries with the twin ports of Long Beach and Los Angeles.

The Los Angeles International Airport is third in the country in cargo processing and is also one of the busiest airports in the world for passenger processing. There are approximately 62 municipal airports in the SAC/Los Angeles jurisdiction, and many small, uncontrolled airports, private airstrips, desert roadways, and dry lake beds. This, coupled with numerous coves and harbors along the 300-plus miles of coastline, presents a formidable air and sea smuggling threat over and above that of the ports. As a consequence of the large geographic area and investigative priorities for which we're responsible.

We also are faced with the challenges associated with coordinating our enforcement efforts with the large number of other Federal, State, and local law enforcement agencies, which number more than 125 organizations. The current authorized staffing level for my office, including the five RAC offices, is 198 employees. At present, we have approximately 165 people on board and that number is slated to grow. We anticipate filling several vacancies in the near future.

The investigative priority areas within the office of the special agent in charge, Los Angeles, are narcotics smuggling, money laundering, Customs fraud, and Exodus Strategic, which includes weaponry. On a scale of 1 to 10, the threat level within each of these

areas is a 10, and can best be described as overwhelming. This assessment is consistent with threat assessments prepared by the FBI, the Los Angeles metropolitan high intensity drug trafficking area, and the Drug Enforcement Administration.

While these investigative priorities reflect the areas of greatest threat, the SAC/Los Angeles is also responsible for conducting investigations into other areas such as child pornography, terrorism, and Russian organized crime.

This concludes my statement. I have included in my formal written presentation for the record more in-depth presentation and discussion of our four major investigative priorities.

Thank you again, Mr. Chairman, for the opportunity to appear before the subcommittee today.

Mr. HORN. Well, we thank you and your staff for their fine work.

[The prepared statement of Mr. Hensley follows:]

**STATEMENT OF JOHN HENSLEY**
**U.S. CUSTOMS SERVICE**
**SPECIAL AGENT IN CHARGE, LOS ANGELES**
**BEFORE THE**
**SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,**
**INFORMATION AND TECHNOLOGY**
**COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT**
**U.S. HOUSE OF REPRESENTATIVES**
**OCTOBER 16, 1997**

MR. CHAIRMAN, AS THE MAJOR BORDER ENFORCEMENT AGENCY, THE U.S. CUSTOMS SERVICE ENFORCES HUNDREDS OF LAWS AND REGULATIONS RELATED TO INTERNATIONAL COMMERCE AND TRAFFIC. CUSTOMS ASSESSES AND COLLECTS DUTIES ON IMPORTED MERCHANDISE; ENSURES THAT FOREIGN CARGO COMPLIES WITH ALL ENTRY REQUIREMENTS; PROTECTS DOMESTIC INDUSTRY FROM UNFAIR FOREIGN COMPETITION; PROTECTS THE AMERICAN PUBLIC AND ENVIRONMENT FROM HAZARDOUS AND UNSAFE PRODUCTS; INTERDICTS NARCOTICS AND OTHER CONTRABAND; AND PROTECTS U.S. TECHNOLOGY FROM FOREIGN ENCROACHMENT.

THE OFFICE OF INVESTIGATIONS IS THE INVESTIGATIVE LAW ENFORCEMENT ARM OF CUSTOMS. CUSTOMS SPECIAL AGENTS PERFORM THE FULL RANGE OF DUTIES AS ANY OTHER FEDERAL CRIMINAL INVESTIGATOR IN INVESTIGATING VIOLATIONS INVOLVING CURRENCY, FRAUD, NEUTRALITY, SMUGGLING, AND THE ILLEGAL EXPORT OF CRITICAL TECHNOLOGY. THESE INVESTIGATIONS ARE SIGNIFICANT IN SUPPORTING NATIONAL ENFORCEMENT EFFORTS IN COMBATING NARCOTICS SMUGGLING, INTERNATIONAL MONEY LAUNDERING, AND ECONOMIC CRIME, AND IN SAFEGUARDING OUR NATIONAL SECURITY. THREE MAJOR GOALS ARE EMPHASIZED IN ALL OF OUR INVESTIGATIONS: (1) THE DETECTION, PROSECUTION, AND DISMANTLING OF MAJOR CRIMINAL ENTERPRISES ASSOCIATED WITH NARCOTICS SMUGGLING AND THE FINANCIAL SYSTEMS EMPLOYED TO LAUNDER ILLICIT PROCEEDS; (2) THE PROSECUTION OF MAJOR VIOLATORS (KINGPINS) OF CUSTOMS IMPORT LAWS, INCLUDING NON-NARCOTIC MONEY LAUNDERING, AND SUBSTANTIAL MONETARY RECOVERIES; AND (3) THE DETECTION AND PREVENTION OF ILLEGAL EXPORTS OF CRITICAL TECHNOLOGY, DEFENSE ARTICLES, WEAPONS OF MASS DESTRUCTION, AND THE REDUCTION OF ILLEGAL ARMS AND MUNITIONS TRAFFIC.

SPECIAL AGENT IN CHARGE OFFICE, LOS ANGELES

THE LOS ANGELES OFFICE OF THE SPECIAL AGENT IN CHARGE (SAC/LA), WHICH IS LOCATED IN THE CUSTOMSHOUSE ON TERMINAL ISLAND, IS ONE OF 20 SPECIAL AGENT IN CHARGE FIELD OFFICES NATIONWIDE. AS THE SPECIAL AGENT IN CHARGE OF THE LOS ANGELES DISTRICT, I AM RESPONSIBLE FOR

CUSTOMS INVESTIGATIVE ACTIVITY IN A GEOGRAPHIC AREA BOUNDED TO THE NORTH BY THE MONTEREY - SAN LUIS OBISPO COUNTY LINE, SAN DIEGO COUNTY TO THE SOUTH, AND THE LOWER PORTION OF NEVADA, INCLUDING LAS VEGAS, TO THE EAST. THERE ARE FIVE RESIDENT AGENT IN CHARGE (RAC) OFFICES IN MY DISTRICT WHICH REPORT TO THE SAC/LA. THESE RAC OFFICES ARE LOCATED AT LOS ANGELES INTERNATIONAL AIRPORT, IRVINE, OXNARD, RIVERSIDE, AND LAS VEGAS, NEVADA.

SEVERAL UNIQUE CHARACTERISTICS OF THE LOS ANGELES METROPOLITAN AREA AND LAS VEGAS, POSE MAJOR CHALLENGES TO ALL LAW ENFORCEMENT AGENCIES, INCLUDING CUSTOMS. THESE FACTORS INCLUDE THE GEOGRAPHY, ECONOMY, AND DEMOGRAPHICS OF THE AREA. THE IMMENSE AND DIVERSE GEOGRAPHY OF OUR JURISDICTIONAL AREA, WHICH COVERS OVER 50,000 SQUARE MILES, CONSISTS OF AN EXPANSE OF INTENSELY POPULATED METROPOLITAN AND SUBURBAN AREAS, SPARSELY POPULATED DESERT REGIONS, MANY MOUNTAIN RANGES, AND 300 MILES OF SCENIC BUT SOMEWHAT SECLUDED COASTLINE. NOT ONLY LARGE IN SIZE BUT LARGE IN POPULATION, APPROXIMATELY 17.6 MILLION (1990 CENSUS) PEOPLE RESIDE IN THE AREA.

THE LOS ANGELES AREA IS HOME TO 24 OF THE 500 MAJOR 'FORTUNE 500' CORPORATIONS IN THE UNITED STATES. THIS RANKS LOS ANGELES SECOND IN THE NATION BEHIND THE NEW YORK METROPOLITAN AREA. THE LOS ANGELES AREA'S GROSS NATIONAL PRODUCT (GNP) IS $300 BILLION A YEAR. IF THE LOS ANGELES AREA WERE A SEPARATE NATION, IT WOULD BE THE 14TH LARGEST ECONOMIC POWER IN THE WORLD. THIS LEGITIMATE TRADE AND COMMERCE ALSO MASKS A SIGNIFICANT AMOUNT OF ILLEGAL ACTIVITY BY VIOLATORS WHO FURTHER THEIR CRIMINAL ENTERPRISES BY TAKING ADVANTAGE OF THE SOPHISTICATED BUSINESS INFRASTRUCTURE ESTABLISHED TO SUPPORT LEGITIMATE BUSINESSES.

LOS ANGELES IS ACCESSED BY A WELL-DEVELOPED FREEWAY SYSTEM THAT INCLUDES FOUR MAJOR INTERSTATE HIGHWAYS: I-5, I-10, I-40, AND I-15. THESE HIGHWAYS LINK LOS ANGELES WITH MEXICO AND CANADA. THEY ALSO LINK THE PACIFIC COAST STATES WITH ALL THE STATES ALONG THE SOUTHWEST BORDER AND THE GULF OF MEXICO, AS WELL AS CONNECTING SOUTHERN CALIFORNIA WITH THE NORTH, CENTRAL AND EASTERN UNITED STATES VIA ARTERIAL FREEWAYS. THESE HIGHWAYS AND FREEWAYS FACILITATE LEGITIMATE TRAVEL, AS WELL AS CRIMINAL ACTIVITY.

THROUGH THE COMBINED PORTS OF LONG BEACH AND LOS ANGELES, PASS THE MOST OCEAN CONTAINER TRAFFIC IN THE UNITED STATES AND THE THIRD MOST CONTAINER TRAFFIC IN THE WORLD. THE PORT PROCESSES MORE CONTAINERS EVERY YEAR THAN ANY OTHER PORT IN THE UNITED STATES, WITH MORE THAN 5.3 MILLION CONTAINERS PROCESSED LAST YEAR.

THE LOS ANGELES HARBOR IS UNDERGOING A TERMINAL EXPANSION THAT, WHEN COMPLETED, WILL RESULT IN THE LARGEST CONTAINER TERMINAL IN THE NATION. THIS PROJECT PARALLELS ANOTHER WHICH INCLUDES EXPANDED LANDFILL, PORTAGE AND RAILHEAD FACILITIES PLANNED TO, ACCORDING TO THE LOS ANGELES PORT AUTHORITY, DOUBLE CARGO VOLUME IN THE NEXT 25 YEARS. ADDITIONALLY, WORK HAS BEGUN ON THE "ALAMEDA CORRIDOR" WHICH WILL PROVIDE A HIGH-SPEED RAIL CONNECTION THROUGH THE HEART OF LOS ANGELES JOINING THE CITY'S MAIN GOODS AND PASSENGER TERMINAL (UNION STATION) WITH THE TWIN PORTS OF LONG BEACH AND LOS ANGELES.

THE LOS ANGELES INTERNATIONAL AIRPORT (LAX) WAS RANKED THIRD IN THE WORLD FOR CARGO PROCESSING IN 1995 WITH NEARLY 1.6 MILLION METRIC TONS OF CARGO PROCESSED THAT YEAR. LAX WAS ALSO RANKED AS THE FIFTH BUSIEST AIRPORT IN THE WORLD IN 1995 WITH MORE THAN 53.9 MILLION PASSENGERS ARRIVING FROM AROUND THE WORLD. THE LAS VEGAS INTERNATIONAL AIRPORT IS THE EIGHTH BUSIEST AIRPORT IN THE NATION AND SERVICES FLIGHTS FROM MEXICO, ENGLAND, GERMANY AND CANADA.

THERE ARE APPROXIMATELY 62 MUNICIPAL AIRPORTS IN THE SAC/LA JURISDICTION AND MANY SMALL, UNCONTROLLED AIRPORTS, PRIVATE AIRSTRIPS, DESERTED ROADWAYS AND DRY LAKE BEDS.

AS A CONSEQUENCE OF THE LARGE GEOGRAPHIC AREA AND VARIETY OF INVESTIGATIVE PRIORITIES FOR WHICH WE ARE RESPONSIBLE, WE ARE ALSO FACED WITH THE CHALLENGES ASSOCIATED WITH COORDINATING OUR ENFORCEMENT EFFORTS WITH THE LARGE NUMBER OF OTHER FEDERAL, STATE, AND LOCAL LAW ENFORCEMENT AGENCIES, NUMBERING MORE THAN 125 INDIVIDUAL ORGANIZATIONS.

THE NUMBER OF EMPLOYEES CURRENTLY ON-BOARD IN THE LOS ANGELES SAC OFFICE, INCLUDING THE FIVE RAC OFFICES, IS 164, CONSISTING OF 135 SPECIAL AGENTS, 14 INTELLIGENCE RESEARCH ANALYSTS, 14 ADMINISTRATIVE AND SUPPORT PERSONNEL, AND ONE TECHNICAL ENFORCEMENT OFFICER. WE ANTICIPATE FILLING A NUMBER OF VACANCIES IN THE NEAR FUTURE.

THE INVESTIGATIVE PRIORITIES WITHIN THE SAC/LA AREA OF JURISDICTION ARE NARCOTICS SMUGGLING, MONEY LAUNDERING, CUSTOMS FRAUD, AND EXPORT CONTROL VIOLATIONS (PARTICULARLY IN THE AREAS OF HIGH TECHNOLOGY AND WEAPONS.) THE THREAT LEVEL WITHIN EACH OF THESE AREAS CAN BEST BE DESCRIBED AS EXTREMELY HIGH. THIS ASSESSMENT IS CONSISTENT WITH THREAT ASSESSMENTS PREPARED BY THE FEDERAL BUREAU OF INVESTIGATION (FBI), THE LOS ANGELES METROPOLITAN HIGH INTENSITY DRUG TRAFFICKING AREA (HIDTA); AND THE DRUG ENFORCEMENT

ADMINISTRATION (DEA).

WHILE THESE INVESTIGATIVE PRIORITIES REFLECT THE AREAS OF GREATEST THREAT, THE SAC/LA IS ALSO RESPONSIBLE FOR CONDUCTING INVESTIGATIONS IN OTHER AREAS, SUCH AS CHILD PORNOGRAPHY AND RUSSIAN ORGANIZED CRIME. HOWEVER, I WANT TO FOCUS FIRST ON OUR FOUR 4 MAJOR PRIORITIES.

1. NARCOTICS:

ACCORDING TO A JOINT REPORT PREPARED FOR THE OFFICE OF NATIONAL DRUG CONTROL POLICY (ONDCP) BY THE HIGH INTENSITY DRUG TRAFFICKING AREA (HIDTA) AND THE JOINT DRUG INTELLIGENCE GROUP (JDIG) ESTIMATES OF THE ANNUAL COCAINE TRAFFICKING THROUGH THE LOS ANGELES AREA IS OVER 130 TONS PER YEAR. MEXICAN TRANSPORTATION GROUPS ARE USED TO SMUGGLE LOADS OF COCAINE FROM MEXICO TO LOS ANGELES. COCAINE DISTRIBUTION IN LOS ANGELES AT THE WHOLESALE LEVEL IS HANDLED BY COLOMBIAN AND MEXICAN TRAFFICKERS; THE RETAIL DISTRIBUTION IS CONTROLLED BY GANGS. BESIDES THE COCAINE ACTIVITY, LOS ANGELES SERVES AS THE MAJOR TRANSHIPMENT POINT FOR SOUTHEAST ASIAN, SOUTHWEST ASIAN, AND MEXICAN HEROIN. HEROIN TRAFFICKING IS CONTROLLED BY CHINESE, MIDDLE EASTERN, AND MEXICAN ORGANIZATIONS. LOS ANGELES IS ALSO A MAJOR TRANSHIPMENT AREA FOR MARIJUANA CONTROLLED PRIMARILY BY MEXICAN TRAFFICKING GROUPS. ADDITIONALLY, ILLEGAL METHAMPHETAMINE PRODUCTION CONTINUES TO GROW, PARTICULARLY IN ADJACENT RIVERSIDE AND SAN BERNARDINO COUNTIES, AS WELL AS MEXICO.

THE HIGHLY DEVELOPED TRANSPORTATION ROUTES (LAND, SEA, AND AIR) AND OUR PROXIMITY TO THE MEXICAN BORDER CREATES A UNIQUE THREAT BY MAKING THE LOS ANGELES AREA A MAJOR DISTRIBUTION, STORAGE, AND SUPPLY CENTER FOR ILLICIT DRUGS DESTINED FOR CITIES THROUGHOUT THE UNITED STATES AND BEYOND. IN FACT, LOS ANGELES IS NOW REFERRED TO AS THE "WESTERN WAREHOUSE" FOR DRUGS SMUGGLED THROUGH THE SOUTHWEST BORDER. THIS IS EVIDENCED BY THE FACT THAT PER THE EL PASO INTELLIGENCE CENTER (EPIC), MORE COCAINE SEIZED AT OR AFTER CROSSING THE SOUTHWESTERN LAND BORDER WAS DESTINED FOR THE LOS ANGELES AREA THAN ANY OTHER CITY LOCATED IN THE SOUTHWEST.

OVER 128 CRIMINAL NARCOTIC TRAFFICKING ORGANIZATIONS/INDIVIDUALS HAVE BEEN IDENTIFIED WITHIN THE SAC/LA AREA OF JURISDICTION. THESE TRAFFICKERS RANGE IN OPERATION FROM A REGIONAL BASE TO THE INTERNATIONAL LEVEL. OF THESE 128 ORGANIZATIONS, 94 ARE INVOLVED WITH COCAINE, 37 IN THE MANUFACTURING AND DISTRIBUTION OF METHAMPHETAMINE, 23 IN HEROIN, 30 IN MARIJUANA, AND 52 IN MONEY

LAUNDERING.

OVER 103 OF THESE ORGANIZATIONS MOVE THEIR NARCOTICS BY LAND, FACILITATED BY WELL-DEVELOPED FREEWAY SYSTEMS WHICH LINK THE LOS ANGELES-LAS-VEGAS AREA WITH MEXICO, THE NORTHERN PACIFIC COAST STATES, AND ALL SOUTHWEST BORDER AND GULF OF MEXICO STATES. 35 ORGANIZATIONS USE AIR CONVEYANCES, BOTH LEGAL AND ILLEGAL, TO FACILITATE THEIR TRAFFICKING. FOUR OF THE BUSIEST AIRPORTS IN THE COUNTRY ARE LOCATED IN THE LOS ANGELES AREA. AS NOTED PREVIOUSLY, OVER 100 FAA SANCTIONED AIRPORTS AND AN UNDETERMINED NUMBER OF REMOTE LANDING STRIPS IN OUR DESERT AREAS CREATE ADDITIONAL FAVORABLE FACTORS FOR THE ILLEGAL TRANSPORTATION OF NARCOTICS. MARITIME NARCOTIC SMUGGLING IS ALSO A CONCERN. SEVENTEEN ORGANIZATIONS HAVE BEEN IDENTIFIED AS TRAFFICKING VIA COMMERCIAL AND PLEASURE CRAFT. SEA TRAFFIC IS DIFFICULT TO MONITOR AND REGULATE AND WITH OVER 300 MILES OF COASTLINE OPEN WITHIN OUR AREA FOR SMUGGLING, ENFORCEMENT IS DIFFICULT. THE HIGH VOLUME OF MARITIME TRAFFIC IN THE LOS ANGELES AND LONG BEACH SEAPORTS PROVIDES AN EXCELLENT CONCEALMENT OPPORTUNITY FOR NARCOTICS. THE INCREASING NARCOTIC SMUGGLING THREAT IS REFLECTED IN THE COMPLEXITY AND RESULTS OF OUR ENFORCEMENT EFFORTS:

o FROM OCTOBER 1, 1995, THROUGH SEPTEMBER 30, 1997, NARCOTICS RELATED INVESTIGATIONS INITIATED BY CUSTOMS SPECIAL AGENTS IN THE LOS ANGELES AREA RESULTED IN 483 ARRESTS; 251 INDICTMENTS; 252 CONVICTIONS; AND SEIZURES OF 24,048 POUNDS OF COCAINE, 23,883 POUNDS OF MARIJUANA, 34,909 POUNDS OF HASHISH, 99 POUNDS OF HEROIN, AND 118 POUNDS OF OPIUM. AIRCRAFT, VEHICLES, AND CURRENCY WORTH $9,385,544 WERE ALSO SEIZED IN NARCOTICS CASES.

O FROM OCTOBER 1, 1995, THROUGH SEPTEMBER 30, 1996, CUSTOMS SPECIAL AGENTS ASSIGNED TO THE LA-HIDTA PARTICIPATED IN INVESTIGATIONS WHICH RESULTED IN 234 ARRESTS; 103 TITLE III OPERATIONS; AND THE SEIZURE OF $20.6 MILLION IN CURRENCY, 7,548 POUNDS OF COCAINE, AND 1,295 POUNDS OF MARIJUANA.

O AS THE RESULT OF OPERATION ZORRO II, CUSTOMS SPECIAL AGENTS INVOLVED IN A MULTI-AGENCY TASK FORCE ARRESTED 136 PEOPLE, SEIZED OVER 2.5 TONS OF COCAINE AND $17 MILLION IN ASSETS. LOS ANGELES WAS A FOCAL POINT DURING THIS OPERATION. COCAINE PRODUCED BY THE CALI CARTEL AND TRANSPORTED BY MEXICAN TRAFFICKERS WAS TRACED TO STASH HOUSES IN LOS ANGELES FOR DISTRIBUTION ACROSS THE U.S.

O LOS ANGELES HOLDS THE RECORD FOR THE MOST COCAINE EVER SEIZED IN THE U.S. WHEN 20 TONS WAS SEIZED IN A SYLMAR WAREHOUSE IN 1989.

O AT LAX, ONE TON OF COCAINE WAS SEIZED IN A SHIPMENT OF PVC PIPE ARRIVING FROM MEXICO. THIS SHIPMENT WAS THE TENTH AND FINAL SHIPMENT FROM THE SMUGGLING ORGANIZATION.

O TWO MAJOR INVESTIGATIONS BY OUR RAC/OXNARD OFFICE RESULTED IN THE SEIZURE OF OVER 7,000 POUNDS OF MARIJUANA, THREE ZODIAC BOATS, AND 2.2 TONS OF COCAINE.

O IN 1995,15,600 POUNDS OF HASHISH WERE SEIZED AT THE PORT OF LONG BEACH FROM A SHIPMENT OF MEN'S DENIM TROUSERS WHICH ARRIVED FROM UGANDA VIA SINGAPORE.

O AN INVESTIGATION BY OUR RAC/LAS VEGAS OFFICE RESULTED IN THE CONVICTION OF A FIVE TIME CONVICTED AIR SMUGGLER FOR SMUGGLING 1,700 KILOS OF COCAINE.

O FROM OCTOBER 1, 1994, THROUGH MARCH 31, 1996, 199 SEIZURES OF NARCOTICS WERE MADE AT LAX. THESE SEIZURES WERE COMPRISED OF 23 HEROIN SEIZURES TOTALING 109.11 POUNDS; 29 COCAINE SEIZURES TOTALING 436.26 POUNDS; 86 SEIZURES OF MARIJUANA FOR 1,381 POUNDS; 17 SEIZURES OF HASHISH FOR 0.17 POUNDS; 12 SEIZURES OF OPIUM TOTALING 41.22 POUNDS; AND 32 SEIZURES OF OTHER DRUGS AND BARBITURATES. OF THE 353 NARCOTICS SEIZURES MADE DURING THIS TIME FRAME AT THE SEVEN MAJOR INTERNATIONAL AIRPORTS IN THE PACIFIC AREA, LAX'S 199 SEIZURES COMPRISED MORE THAN 56 PERCENT OF THE TOTAL. OVERALL, THE SEVEN AIRPORTS SEIZED 1,950.56 POUNDS OF NARCOTICS AND 164,057 UNITS. LAX ACCOUNTED FOR 89 PERCENT OF THE TOTAL POUNDS AND 75 PERCENT OF THE UNITS SEIZED.

O THE SAC/LA WAS ONE OF THE FIRST CUSTOMS OFFICE TO IMPLEMENT AN INVESTIGATIVE GROUP DEDICATED SOLELY TO THE IDENTIFICATION AND FORFEITURE OF ASSETS DERIVED FROM NARCOTICS AND MONEY LAUNDERING ACTIVITIES. FROM OCTOBER 1, 1995, THROUGH SEPTEMBER 30, 1996, OUR LOS ANGELES SEIZURE AND ASSET REMOVAL GROUP (LAZAR) HAS IDENTIFIED AND SEIZED ASSETS TOTALING $14,799,141 MORE THAN ANY OTHER CUSTOMS OFFICE IN THE COUNTRY.

O IN FY 1996 AND FY 1997, THE SAC/LA SHARED A TOTAL OF $5,598,148 IN FORFEITED ASSETS WITH LOCAL LAW ENFORCEMENT AGENCIES.

2. MONEY LAUNDERING:

ACCORDING TO THE CALIFORNIA DEPARTMENT OF JUSTICE, CALIFORNIA IS RECOGNIZED AS THE MONEY LAUNDERING CAPITAL OF THE UNITED STATES. SOUTHERN CALIFORNIA IS CONSIDERED THE WEST COAST COLLECTION

CENTER FOR NARCOTICS TRAFFICKING PROCEEDS AND THE WESTERN WAREHOUSE FOR DRUGS SMUGGLED ACROSS THE SOUTHWEST BORDER FROM EL PASO TO SAN YSIDRO. METROPOLITAN LOS ANGELES HAS BECOME THE SECOND LARGEST POPULATION CENTER IN THE U.S. FURTHER,GIVEN THE INTERNATIONAL MAKEUP OF LOS ANGELES, MONEY MOVES QUICKLY AND SURREPTITIOUSLY AROUND THE WORLD THROUGH REGULATED AND UNREGULATED FINANCIAL INSTITUTIONS. IN LOS ANGELES COUNTY ALONE, THERE ARE OVER 2,800 REGULATED FINANCIAL INSTITUTIONS AND PROBABLY CLOSE TO A THOUSAND SMALL, NON-BANK FINANCIAL INSTITUTIONS WHICH OFFER CURRENCY EXCHANGE, CHECK CASHING, MONEY ORDERS, AND WIRE TRANSFER SERVICES.

MONEY LAUNDERING IN THE LOS ANGELES AREA IS NO LONGER LIMITED TO TRADITIONAL SOUTH AMERICAN NARCOTICS PROCEEDS. EVERY TYPE OF MONEY LAUNDERING IMAGINABLE IS OCCURRING IN LOS ANGELES. OUR EXPANDING FOCUS ON MONEY LAUNDERING INVESTIGATIONS HAS INCREASED TO INCLUDE GROWING TRANSNATIONAL ACTIVITIES ORIGINATING IN THE RECENTLY DISBANDED SOVIET UNION, AS WELL AS THE MIDDLE AND FAR EAST. TASK FORCE INVESTIGATIONS WITH THE DRUG ENFORCEMENT ADMINISTRATION AND THE INTERNAL REVENUE SERVICE HAVE IDENTIFIED EXTENSIVE LAUNDERING ACTIVITIES INVOLVING NARCOTICS PROCEEDS THAT HAVE BEEN TIED TO ONGOING INVESTIGATIONS IN THE NETHERLANDS, GERMANY, AND THE UNITED KINGDOM. WHILE CUSTOMS CONTINUES TO ATTACK THE EVER-PERSISTENT FLOW OF NARCOTICS PROCEEDS DESTINED FOR MEXICO, CENTRAL AND SOUTH AMERICA, RECENTLY REDEFINED STATUTES EXPANDING SPECIFIED UNLAWFUL ACTIVITIES HAVE MULTIPLIED THE TYPE AND NUMBER OF INVESTIGATIONS THAT FALL WITHIN THE CUSTOMS MISSION.

EXAMPLES OF LAUNDERING SCHEMES INCLUDE: INVESTING ILLICIT PROCEEDS IN ASSETS SUCH AS PROPERTY, VEHICLES, AND BUSINESSES (LEGITIMATE AND BOGUS), SMUGGLING MONEY INTO AND OUT OF THE COUNTRY, STOCKPILING CASH IN "STASH PADS" AND DISBURSING PORTIONS TO COURIERS OR BROKERS FOR PLACEMENT, STRUCTURING CASH TRANSACTIONS AT BANKS, AND USING LEGITIMATE COMMERCIAL IMPORTS AND EXPORTS AS A MEANS FOR UNDERVALUATION, OVERVALUATION, INSURANCE FRAUD, AND DOUBLE INVOICING. USING COMMERCIAL IMPORTS AND EXPORTS HAS BECOME THE FAVORED METHOD OF MOVING LAUNDERED U.S. DOLLARS INTO THE "LEGITIMATE" COLOMBIAN ECONOMY.

CURRENCY NOT ONLY TRAVELS INSTANTANEOUSLY AROUND THE WORLD THROUGH THE PUSH OF A WIRE TRANSFER BUTTON, BUT ALSO IS PHYSICALLY TRANSPORTED IN LARGE AMOUNTS THROUGH OUR PORTS OF ENTRY. SINCE JANUARY 1995, OVER $4.7 BILLION HAS BEEN PROPERLY REPORTED IN COMPLIANCE WITH TREASURY REGULATIONS, ON CURRENCY AND MONETARY INSTRUMENT REPORTS (CMIR) WITHIN THE SAC/LA

JURISDICTIONAL AREA. LOS ANGELES INTERNATIONAL AIRPORT ACCOUNTED FOR THE OVERWHELMING MAJORITY OF REPORTED FILINGS WITH $4.67 BILLION (33,938 CMIR's), FOLLOWED BY THE LOS ANGELES/LONG BEACH HARBOR WITH $56.4 MILLION (313 CMIR'S), AND LAS VEGAS INTERNATIONAL AIRPORT WITH $7.1 MILLION (94 CMIR'S). WHILE $4.7 BILLION HAS BEEN PROPERLY REPORTED ON CMIR'S, IT MAY BE ONLY A SMALL FRACTION OF THE CASH THAT ENTERS OR LEAVES THE COUNTRY WITHOUT BEING REPORTED.

WE BELIEVE THAT BILLIONS IN ILLEGAL PROCEEDS GENERATED BY LOS ANGELES AREA SMUGGLING AND TRAFFICKING ORGANIZATIONS ARE BEING MOVED BY COURIERS BETWEEN THE U.S. AND MEXICO AND OTHER FOREIGN COUNTRIES. SUCH ACTIVITY WAS ILLUSTRATED LAST YEAR WHEN ANOTHER LAW ENFORCEMENT AGENCY ARRESTED A COURIER WHO HAD MADE 14 TRIPS FROM ORANGE COUNTY (IRVINE) TO MEXICO DURING THE YEAR, EACH TIME CARRYING ABOUT $500,000 IN CASH.

IN RESPONSE TO NARCOTICS TRAFFICKING AND THE RELATED MONEY LAUNDERING THREAT, THE SAC/LA ESTABLISHED AN UNDERCOVER MONEY LAUNDERING GROUP. THIS GROUP HAS SUCCESSFULLY IMPLEMENTED SEVERAL UNDERCOVER OPERATIONS SPECIFICALLY TARGETING NARCO-GENERATED MONEY LAUNDERERS, AS WELL AS INFILTRATING THE ORGANIZATIONS WHICH ARE ENGAGED IN LARGE-SCALE SMUGGLING VENTURES. THIS HAS BEEN ACCOMPLISHED THROUGH THE TARGETING OF "MONEY LAUNDERING SYSTEMS" OPERATING IN THE LOS ANGELES AREA. THE PRIMARY METHOD OF IDENTIFYING THESE SYSTEMS IS ACCOMPLISHED BY THE CULTIVATION OF WELL-PLACED CONFIDENTIAL INFORMANTS HERE AND OVERSEAS.

DURING THE PERIOD OCTOBER 1, 1995, THROUGH SEPTEMBER 30, 1997, MONEY LAUNDERING INVESTIGATIONS CONDUCTED BY THE SAC/LA UNDERCOVER MONEY LAUNDERING GROUP AND RAC OFFICES RESULTED IN THE SEIZURE OF 7,366 POUNDS OF COCAINE AND $31.6 MILLION IN LAUNDERED CASH; 155 ARRESTS, 120 INDICTMENTS, 98 CONVICTIONS FOR MONEY LAUNDERING RELATED VIOLATIONS; AND FOUR TITLE III ELECTRONIC INTERCEPTION OPERATIONS.

OUR LASAR GROUP IS PART OF A NATIONAL CUSTOMS PROGRAM THAT ESTABLISHED ASSET IDENTIFICATION AND REMOVAL GROUPS IN MAJOR SAC OFFICES. LASAR CONDUCTS BOTH LONG-TERM AND SHORT-TERM INVESTIGATIONS. LASAR AGENTS INITIATE THEIR OWN FINANCIAL INVESTIGATIONS OF MAJOR VIOLATORS AND ALSO WORK PARALLEL/JOINT INVESTIGATIONS WITH OTHER CUSTOMS AGENTS. THE PURPOSE OF THE LASAR GROUP IS TO ENHANCE AND EXPAND CRIMINAL INVESTIGATIONS, WITH AGENTS WORKING AS A TEAM TO FURTHER THE IDENTIFICATION OF

BOTH CRIMINAL AND CIVIL VIOLATIONS. THE ULTIMATE GOAL IS TO PREVENT THE LOSS OF FORFEITABLE ASSETS. IF POSSIBLE, LASAR AGENTS OBTAIN SEIZURE WARRANTS FOR ASSETS, WHICH ARE SERVED AT THE SAME TIME OTHER AGENTS EXECUTE SEARCH WARRANTS FOR EVIDENCE. THIS REQUIRES THE LASAR GROUP TO ESTABLISH THE MONEY LAUNDERING CHARGES AND TO TRACE THE MONEY/PROFIT FLOW TO ESTABLISH PROBABLE CAUSE FOR SEIZURE WARRANTS. MANY OF THE INVESTIGATIONS CONDUCTED BY OUR LASAR GROUP INVOLVED A COORDINATED EFFORT WITH FOREIGN COUNTRIES VIA OUR CUSTOMS ATTACHE OFFICES. FROM OCTOBER 1, 1994, THROUGH SEPTEMBER 30, 1997, THE LASAR GROUP HAS BEEN RESPONSIBLE FOR SEIZING $17.3 MILLION IN CASH AND ASSETS.

IN ADDITION TO THESE TWO SPECIALIZED MONEY LAUNDERING GROUPS, OUR RAC OFFICES ALSO INVESTIGATE TARGETS IN THEIR GEOGRAPHIC AREAS. FOR EXAMPLE, THE RAC/LAS VEGAS INVESTIGATION OF KEN MIZUNO LED TO THE IDENTIFICATION OF THE LARGEST NON-NARCOTIC MONEY LAUNDERING CASE IN THE HISTORY OF THE U.S. CUSTOMS SERVICE. MIZUNO, A JAPANESE NATIONAL, CURRENTLY ON TRIAL IN JAPAN FOR DEFRAUDING SEVERAL THOUSAND JAPANESE IN CONNECTION WITH THE FRAUDULENT SALE OF GOLF COURSE MEMBERSHIPS, LAUNDERED MORE THAN $270 MILLION OF FRAUDULENT PROCEEDS IN THE UNITED STATES. SEIZURES AND SUBSEQUENT GOVERNMENT AUCTION OF MIZUNO'S ASSETS PURCHASED WITH LAUNDERED FUNDS IN THIS CASE, TOTAL MORE THAN $100 MILLION. MIZUNO HAS BEEN INDICTED BY THE U.S. ATTORNEY IN NEVADA AND IS TECHNICALLY REMAINS A FUGITIVE IN THE U.S. HOWEVER, HE IS CURRENTLY SERVING A LENGTHY SENTENCE IN JAPAN.

3. CUSTOMS FRAUD:

IN 1994, LOS ANGELES BECAME THE NATION'S TOP INTERNATIONAL TRADING CENTER IN THE UNITED STATES BY DOLLAR VALUE. CARGO VALUED AT OVER $146 BILLION WAS CLEARED THROUGH THE LOS ANGELES CUSTOMS PORT THAT YEAR. APPROXIMATELY 125,000 CONTAINERS ARE EXPORTED EACH MONTH. THE LOS ANGELES AND LONG BEACH PORT AUTHORITIES PREDICT THAT IN THE YEAR 2000 6.4 MILLION CONTAINERS WILL BE IMPORTED/EXPORTED THROUGH THESE TWO PORTS.

AS THE NATION'S TOP TWO CONTAINER PORTS, THE PORTS OF LONG BEACH AND LOS ANGELES RECEIVE MORE THAN 50 PERCENT OF THE TOTAL CONTAINER VOLUME THAT PASSES THROUGH WEST COAST PORTS. THIS VOLUME EQUALS 25 PERCENT OF ALL FOREIGN CARGO ARRIVING IN THE UNITED STATES. THE COMBINED TRADE VOLUME OF THE PORTS OF LONG BEACH AND LOS ANGELES PLACES THEM IN THIRD PLACE GLOBALLY, FOLLOWING HONG KONG AND SINGAPORE. WITH CONSTRUCTION OF THE ALAMEDA CORRIDOR AND THE EXPANSION OF THE LONG BEACH AND LOS ANGELES PORTS, TRADE IS EXPECTED TO INCREASE FROM THE CURRENT

100 MILLION METRIC TONS OF CARGO VALUED AT $100 BILLION TO UPWARDS OF $256 BILLION BY THE YEAR 2020, INCLUDING $180 BILLION IN HIGH VOLUME CONTAINERS.

NINETY-FOUR PERCENT OF THE GOODS IMPORTED INTO THE LOS ANGELES AREA ORIGINATE FROM PACIFIC RIM COUNTRIES. THE MAJORITY OF THIS GLOBAL TRADE IS WITH NINE ASIAN-PACIFIC COUNTRIES AND GERMANY IN EUROPE. IMPORTS FROM JAPAN, THE PEOPLE'S REPUBLIC OF CHINA, AND TAIWAN COMPRISE THE LARGEST DOLLAR VALUE. COMMODITIES WITH THE HIGHEST DOLLAR VALUE AT BOTH PORTS INCLUDE VEHICLES, COMPUTERS AND COMPONENTS, CONSUMER ELECTRONICS, TELEPHONE EQUIPMENT, FOOTWEAR, AND TEXTILES AND WEARING APPAREL.

IN ADDITION TO THE LONG BEACH-LOS ANGELES SEAPORTS, ANOTHER MAJOR PORT OF ENTRY FOR FOREIGN MERCHANDISE IS THE LOS ANGELES INTERNATIONAL AIRPORT (LAX). IN 1995, LAX WAS THE THIRD BUSIEST AIRPORT IN THE WORLD IN TERMS OF CARGO, HANDLING MORE THAN 1.6 MILLION METRIC TONS. THE VOLUME OF LANDED FOREIGN GOODS ($27 BILLION IN FY 1995) AT LAX AND THE ABUNDANCE OF AIR CARGO FACILITIES, PUTS LAX SECOND ONLY TO JFK INTERNATIONAL AIRPORT IN NEW YORK.

OF THE MORE THAN 55,000 IMPORTERS LOCATED IN THE UNITED STATES, ALMOST TEN PERCENT ARE BASED IN CALIFORNIA. ALMOST EIGHTY PERCENT OF THESE CALIFORNIA COMPANIES IMPORT THROUGH PORTS WITHIN THE SAC/LA AREA OF JURISDICTION. OF THE TOP 500 IMPORTERS NATIONWIDE (BASED ON TOTAL VALUE OF IMPORTED MERCHANDISE), 40 ARE LOCATED IN THE GREATER LOS ANGELES AREA. TEN OF THESE COMPANIES ARE RATED WITHIN THE TOP 100.

THIS HUGE VOLUME OF INTERNATIONAL TRADE THROUGH LOS ANGELES AREA PORTS CONTRIBUTES TO CONSIDERABLE AND VARIED THREATS IN THE CUSTOMS FRAUD AREA. BASED ON HISTORICAL INVESTIGATIVE ACTIVITY, THE GREATEST FRAUD THREATS IN THE LOS ANGELES CUSTOMS DISTRICT ARE IN TRANSSHIPMENT OF MERCHANDISE TO EVADE IMPORT REQUIREMENTS; TEXTILES AND WEARING APPAREL (QUOTA AND VISA FRAUD); FOODS AND MEDICINES (HEALTH AND SAFETY); CHEMICALS (HEALTH AND SAFETY); COUNTRY OF ORIGIN VIOLATIONS; PRODUCT DUMPING; FALSE VALUATION; AND COUNTERFEIT MERCHANDISE (INTELLECTUAL PROPERTY RIGHTS). THESE THREATS REPRESENT A SIGNIFICANT LOSS OF REVENUE TO THE UNITED STATES GOVERNMENT; A LOSS OF MARKETS TO DOMESTIC INDUSTRIES; AND AN INCREASE OF POTENTIAL HEALTH AND SAFETY HAZARDS TO AMERICAN CONSUMERS.

THE PROTECTION OF INTELLECTUAL PROPERTY RIGHTS (IPR) CONTINUES TO BE A TOP PRIORITY OF THE CUSTOMS SERVICE AND THE SAC/LA. IN FACT, THE SAC/LA IMPLEMENTED A PROGRAM THAT HAS GREATLY ENHANCED OUR

EFFORTS TO COMBAT COUNTERFEITING AND IS THE FIRST OF ITS KIND IN THE COUNTRY. SINCE THE STATE OF CALIFORNIA'S RECENT ENACTMENT OF A STATE CRIMINAL STATUTE THAT ALLOWS FOR MISDEMEANOR AND FELONY PROSECUTIONS FOR COUNTERFEITING, CASES THAT DO NOT MEET THE FEDERAL PROSECUTION THRESHOLD ARE REFERRED TO LOCAL LAW ENFORCEMENT AGENCIES FOR INVESTIGATION AND STATE PROSECUTION. SINCE ITS INCEPTION, THE PROGRAM HAS RESULTED IN SIX CONTROLLED DELIVERIES, THE EXECUTION OF FIVE STATE SEARCH WARRANTS, SEIZURES OF COUNTERFEIT PRODUCTS TOTALING $5 MILLION, AND THREE ARRESTS.

ADDITIONALLY, WE HAVE SEEN INCREASING INSTANCES OF MONEY LAUNDERING VIOLATIONS IN CUSTOMS FRAUD CASES. THERE HAVE BEEN NUMEROUS CASES WHERE THE VALUE OF THE IMPORTED MERCHANDISE IS OVERSTATED TO DISGUISE ILLICIT REVENUE GAINED THROUGH OTHER FRAUDULENT SCHEMES. IF EVIDENCE OF MONEY LAUNDERING VIOLATIONS IS OBTAINED DURING OUR FRAUD INVESTIGATION, WE WILL ACTIVELY PURSUE INCORPORATING THOSE VIOLATIONS IN THE CRIMINAL PROSECUTION OF THE VIOLATOR. IN THIS REGARD, 70 PERCENT OF THE FORFEITURE CASES INITIATED BY OUR ASSET FORFEITURE AND IDENTIFICATION GROUP IN THE SAC/LA OFFICE DEAL WITH FRAUD RELATED INVESTIGATIONS INVOLVING MONEY LAUNDERING. THE U.S. ATTORNEY, LOS ANGELES, HAS SUPPORTED THAT APPROACH. FOR INSTANCE, IN ONE CASE, A VIOLATOR IN LOS ANGELES IMPORTED MILLIONS OF DOLLARS WORTH OF ILLEGAL CHINESE MEDICINES WHICH HE THEN DISTRIBUTED THROUGHOUT THE UNITED STATES. THESE MEDICINES WERE KNOWN TO HAVE CAUSED SERIOUS INJURY AND, IN SOME CASES, SEVERAL DEATHS. OUR INVESTIGATION RESULTED IN THE EXECUTION OF SIX FEDERAL SEARCH WARRANTS AND THE SEIZURE OF $3.3 MILLION IN CASH; SEVEN VEHICLES VALUED AT $180,000; AND THREE REAL PROPERTIES VALUED AT $924,000, WHICH WERE PURCHASED WITH THE PROFITS FROM THE SALE OF THE MEDICINES. ADDITIONALLY, $21,550,000 IN ILLEGAL MEDICINES WERE ALSO SEIZED.

THE PROFITS INVOLVED IN THESE FRAUD RELATED SCHEMES CAN BE ASTRONOMICAL AS EVIDENCED BY A MULTIMILLION-DOLLAR INVESTIGATION THAT WAS INITIATED AS A RESULT OF A LOS ANGELES BASED IMPORTER FILING PRIOR DISCLOSURES WITH OUR LOS ANGELES PORT DIRECTOR. ALTHOUGH THESE PRIOR DISCLOSURES OSTENSIBLY DISCLOSED ADDITIONAL DUTIABLE COSTS FOR THE IMPORTER'S HEALTH PRODUCTS, INVESTIGATION REVEALED THAT THE IMPORTER FILED THE DISCLOSURES TO COVER A SCHEME WHEREBY HE OVERVALUED HIS IMPORTATIONS TO SIGNIFICANTLY REDUCE HIS FEDERAL INCOME TAX LIABILITY. THE IMPORTER LAUNDERED MUCH OF THE PROFITS THAT HE DERIVED FROM THIS SCHEME THROUGH MISLEADING MONEY TRANSFERS TO FOREIGN BANKS; BY PURCHASING REAL ESTATE IN THE UNITED STATES; AND BY PURCHASING $20 MILLION WORTH OF CHINESE ANTIQUES. NOT CONTENT WITH MERELY

DEFRAUDING CUSTOMS AND THE IRS THROUGH HIS "OVERVALUATION" SCHEME, THIS IMPORTER ALSO SMUGGLED OR UNDERVALUED THE CHINESE ANTIQUES WHEN HE BROUGHT THEM INTO THE UNITED STATES. CUSTOMS AND IRS EVENTUALLY SEIZED $25 MILLION IN ASSETS FROM THIS IMPORTER AND INDICTED HIM AND HIS WIFE ON NUMEROUS COUNTS OF SMUGGLING AND TAX EVASION CHARGES. THE IMPORTER RECENTLY AGREED TO PAY THE IRS $140 MILLION IN BACK TAXES AND PENALTIES AND HAS PLED GUILTY TO ALL CHARGES.

SINCE 1994, THE FRAUD INVESTIGATIONS PROGRAM IN THE SAC/LA AREA OF JURISDICTION HAS TAKEN A QUANTUM LEAP IN SUCCESS AND PRODUCTIVITY. CUSTOMS SPECIAL AGENTS HAVE ESTABLISHED UNPRECEDENTED USE OF PROACTIVE TECHNIQUES AND TECHNOLOGY, SUCH AS TITLE III ELECTRONIC INTERCEPTIONS, TRASH RUNS, CONTROLLED DELIVERIES, MAIL COVERS, POLE CAMERAS, INFORMANTS, AND OTHER "TRADITIONAL" INVESTIGATIVE TOOLS IN THE FRAUD AREA. BY FOCUSING THEIR EFFORTS ON MAJOR FRAUD VIOLATORS OR "KINGPINS," OUR SPECIAL AGENTS HAVE CONSISTENTLY GENERATED HIGH QUALITY CRIMINAL FRAUD INVESTIGATIONS RESULTING IN CRIMINAL CONVICTIONS, ASSET FORFEITURES, AND SUBSTANTIAL MONETARY RECOVERIES.

O IN FY 1995, 65 PERCENT OF OUR FRAUD CASES WERE FOCUSED ON THE NATIONAL TRADE ENFORCEMENT PRIORITY AREAS OF ANTIDUMPING, IPR, HEALTH AND SAFETY, TRADE AGREEMENTS (QUOTA/VISA), AND VALUE. THIS TREND CONTINUED IN FY 1996.

O FROM OCTOBER 1, 1995, THROUGH SEPTEMBER 30, 1997, OUR FRAUD EFFORTS RESULTED IN 59 ARRESTS; 59 INDICTMENTS; 17 CONVICTIONS; SEIZURES TOTALING $ 24.5 MILLION; CIVIL PENALTIES OF $3,341,000; AND 61 FEDERAL SEARCH WARRANTS ON OVER 80 DIFFERENT LOCATIONS. AS OF SEPTEMBER 30, 1997, RECOVERIES FROM OUR FRAUD CASES EXCEED $10 MILLION.

O ALLEGATIONS OF POTENTIAL FRAUD VIOLATIONS THAT DO NOT WARRANT FORMAL INVESTIGATIONS BY THE OFFICE OF INVESTIGATIONS ARE ROUTINELY REFERRED TO THE IMPORT SPECIALIST ENFORCEMENT TEAM (ISET) IN THE LOS ANGELES PORT DIRECTOR'S OFFICE FOR ACTION AND INQUIRY. OF THE 66 TRADE RELATED MATTERS REFERRED TO ISET BY THE SAC/LOS ANGELES BETWEEN OCTOBER 1, 1994, AND JUNE 1996, 27 RESULTED IN CIVIL/ADMINISTRATIVE PENALTIES TOTALING $53 MILLION BY ISET.

4. EXPORT:

CALIFORNIA IS THE NATION'S LEADING EXPORTER WITH $68.1 BILLION IN GOODS SOLD ABROAD IN 1993. THIS FIGURE ACCOUNTS FOR 15 PERCENT OF TOTAL U.S. EXPORTS DURING THAT PERIOD. LOS ANGELES/LONG BEACH IS

THE NATION'S THIRD LARGEST EXPORTING AREA, AND ORANGE COUNTY IS THE 13TH. DURING FY 1995, EXPORTS TO JAPAN THROUGH THE PORTS OF LONG BEACH AND LOS ANGELES JUMPED NEARLY 18 PERCENT TO $10.5 BILLION, AND EXPORTS TO KOREA ROSE 18 PERCENT TO $4.9 BILLION. TOP EXPORTS ARE ELECTRONIC COMPONENTS, ELECTRICAL EQUIPMENT, COMPUTERS AND OTHER HIGH-TECHNOLOGY GOODS, ACCOUNTING FOR 70 PERCENT OF ALL CALIFORNIA EXPORTS. OF THE TOP 50 U.S. EXPORTERS (BY VALUE OF GOODS), 25 HAVE OFFICES OR SUBSIDIARIES IN THE LOS ANGELES AREA OR UTILIZE EITHER LONG BEACH OR LOS ANGELES AS ONE OF THEIR EXPORT PORTS.

HISTORICALLY, 25 PERCENT OF ALL COMPANIES LISTED IN THE DEPARTMENT OF COMMERCE'S TABLE OF DENIALS ARE LOCATED IN EITHER CALIFORNIA OR NEVADA. THE TABLE OF DENIAL LISTS COMPANIES THAT HAVE HAD THEIR EXPORTING PRIVILEGES SUSPENDED BY THE DEPARTMENT OF COMMERCE BECAUSE OF PRIOR VIOLATIONS OF POLICY OR LAW. OF MORE THAN 2,000 VALID DEPARTMENT OF STATE AND DEPARTMENT OF COMMERCE EXPORT LICENSE HOLDERS IN CALIFORNIA, 62 PERCENT ARE LOCATED IN THE LOS ANGELES AREA. THE SAC/LA HAS ALSO IDENTIFIED 1,720 MANUFACTURERS AND SUPPLIERS OF CRITICAL TECHNOLOGY OR COMMERCE-CONTROLLED COMMODITIES AND 282 NUCLEAR MANUFACTURERS AND SUPPLIERS IN THE GREATER LOS ANGELES AREA. THESE LOS ANGELES AREA FIRMS COMPRISE THIRTEEN PERCENT OF ALL SUCH FIRMS NATIONWIDE.

THE THREAT OF ILLEGAL EXPORTS IN THE SAC/LA AREA OF JURISDICTION IS VARIED AND COMPLEX. THE LARGEST VOLUME OF AIR CARGO IN THE U.S. PASSES THROUGH LOS ANGELES. THE PORTS OF LOS ANGELES AND LONG BEACH EXPORT APPROXIMATELY 125,000 CONTAINERS PER MONTH. THIS MAKES LOS ANGELES A PRIME LOCATION FOR THE EXPORTING OF ARMS, MUNITIONS AND CRITICAL TECHNOLOGY, WHICH IS EVIDENCED IN THE NUMBER OF SMALL ARMS SEIZURES THAT ARE CONTINUALLY BEING MADE AT LAX.

THE LOS ANGELES AREA HAS OVER 1,000 COMPANIES AND MANUFACTURING FIRMS ENGAGED IN THE PRODUCTION AND SALE OF CONTROLLED TECHNOLOGY SUCH AS MILITARY DEFENSE PRODUCTS, AEROSPACE EQUIPMENT, AND BOTH COMPUTER HARDWARE AND SOFTWARE TECHNOLOGY. THE RECENT ECONOMIC COMPRESSION OF SOUTHERN CALIFORNIA'S DEFENSE INDUSTRY HAS ALSO RESULTED IN THE SPIN-OFF OF NUMEROUS SMALL, ENTREPRENEURIAL, HIGH-TECH FIRMS WHO PRODUCE PRODUCTS FOR AN INTERNATIONAL, NOT DOMESTIC, CLIENT BASE. EXPORT VIOLATORS WITH "SHOPPING LISTS" OF CONTROLLED COMMODITIES WHICH THEY SEEK TO ILLEGALLY EXPORT CAN LOCATE MANY OF THESE ITEMS AND THE COMPANIES THAT PRODUCE THEM WITHIN THE GREATER LOS ANGELES AREA.

TO COMBAT THIS THREAT, IN FY 1995, THE SAC/LA INITIATED OPERATION POSTAL GEMINI. UNDER THIS PROGRAM, 600 BROCHURES WERE DISTRIBUTED TO HIGH-TECHNOLOGY, DEFENSE, AND AEROSPACE FIRMS IN THE GREATER LOS ANGELES METROPOLITAN AREA EXPLAINING U.S. CUSTOMS EXPORT ENFORCEMENT EFFORTS AND SOLICITING COMMUNITY ASSISTANCE IN IDENTIFYING POTENTIAL VIOLATORS AND SUSPECT TRANSACTIONS. OPERATION OVERRUN, WHICH WAS INITIATED IN FY 1995, TARGETED THE ILLEGAL EXPORT OF MILITARY SURPLUS ITEMS REGULATED BY THE INTERNATIONAL TRAFFICK AND ARMS REGULATION (ITAR) AND HAS IDENTIFIED NETWORKS WHICH ILLEGALLY EXPORT THESE ITEMS. THIS OPERATION RESULTED IN NUMEROUS SEIZURES OF MILITARY SURPLUS EQUIPMENT VALUED AT $8,685,712; TWO ARRESTS; AND ONE CONVICTION. IN FY 1996, THE SAC/LA ALSO INITIATED OPERATION RAVEENA TO IDENTIFY ILLEGAL EXPORTERS OF U.S. MILITARY SURPLUS EQUIPMENT.

ACCORDING TO THE NATIONAL AUTO THEFT BUREAU AND THE FEDERAL BUREAU OF INVESTIGATIONS, THE GREATER LOS ANGELES AREA IS THE LEADER IN THE NUMBER OF STOLEN CARS WHICH ARE ILLEGALLY EXPORTED TO MEXICO, THE FAR EAST, MIDDLE EAST, AND RUSSIA. OF THE 300,000 VEHICLES STOLEN IN CALIFORNIA IN 1994, 60,000 WERE EXPORTED ILLEGALLY FROM SOUTHERN CALIFORNIA PORTS. 20,000 OF THESE VEHICLES WERE DRIVEN OR SHIPPED TO MEXICO AND 40,000 WERE SHIPPED OVERSEAS, MAINLY OUT OF THE LOS ANGELES/LONG BEACH HARBOR. ONE IN 50 VEHICLES EXPORTED FROM LONG BEACH-LOS ANGELES IS STOLEN.

THE TASK OF IDENTIFYING STOLEN CARS BEING ILLEGALLY EXPORTED FROM THE LONG BEACH-LOS ANGELES SEAPORTS IS A FORMIDABLE ONE. 5,000 TO 7,000 CARS ARE REGISTERED EACH MONTH WITH THE LOS ANGELES PORT DIRECTOR'S OUTBOUND ENFORCEMENT TEAM FOR EXPORT. THE SAC/LA AND THE OUTBOUND ENFORCEMENT TEAM ARE WORKING TOGETHER WITH THE CALIFORNIA DEPARTMENT OF INSURANCE AND THE REGIONAL AUTO THEFT PREVENTION GROUP (TRAP), A MULTI-AGENCY TASK FORCE CONSISTING OF LOCAL LAW ENFORCEMENT AND CALIFORNIA HIGHWAY PATROL OFFICERS, TO IDENTIFY THESE STOLEN VEHICLES. SINCE 1995, OUR ENFORCEMENT EFFORTS RESULTED IN 237 STOLEN VEHICLES WORTH $10.5 MILLION BEING SEIZED BEFORE THEY LEFT THE UNITED STATES; RETURNED TO THE UNITED STATES FOR SEIZURE BY SHIPPING LINES; OR LOCATED IN FOREIGN COUNTRIES. THIS FIGURE IS A 50 PERCENT INCREASE OVER 1994 (150) AND A 150 PERCENT INCREASE OVER 1993 (90). SINCE FY 1995, SPECIAL AGENTS FROM SAC/LA HAVE TRAVELED TO BEIJING, CHINA; BANGKOK; AND HONG KONG TO RECOVER STOLEN VEHICLES AND TO PROVIDE INSTRUCTION TO THE POLICE AGENCIES
AND CUSTOMS SERVICES OF THOSE COUNTRIES IN THE IDENTIFICATION OF STOLEN VEHICLES.

OUR OBJECTIVE IN THE EXPORT ENFORCEMENT AREA IS TO FOCUS INVESTIGATIVE EFFORTS ON QUALITY CRIMINAL CASES INVOLVING THE EXPORT OF DEFENSE ARTICLES COVERED BY THE DEPARTMENT OF STATE MUNITIONS LIST; ARTICLES SUBJECT TO EXPORT CONTROLS ADMINISTERED BY THE DEPARTMENT OF COMMERCE; SANCTIONS ADMINISTERED BY THE DEPARTMENT OF THE TREASURY'S OFFICE OF FOREIGN ASSETS CONTROL (OFAC); PRECURSORS AND ESSENTIAL CHEMICALS ADMINISTERED BY THE DRUG ENFORCEMENT ADMINISTRATION; HAZARDOUS CHEMICALS AND WASTE; AND STOLEN VEHICLES.

FROM OCTOBER 1, 1995, THROUGH SEPTEMBER 30, 1997, SAC/LOS ANGELES AREA CUSTOMS AGENTS HAVE ACHIEVED EXCELLENT RESULTS IN THE EXODUS/STRATEGIC AREA WITH 58 ARRESTS; 30 INDICTMENTS; 26 CONVICTIONS; SEIZURES VALUED AT $6.6 MILLION; AND 24 SEARCH WARRANTS.

5. OTHER THREATS:

AS MENTIONED PREVIOUSLY, NARCOTICS, MONEY LAUNDERING, CUSTOMS FRAUD, AND ILLEGAL EXPORTS ARE NOT THE ONLY THREATS TO WHICH WE MUST RESPOND. FOR INSTANCE, CUSTOMS IS ALSO THE FIRST LINE OF DEFENSE AGAINST THE ILLEGAL IMPORTATION OF CHILD PORNOGRAPHY. THE SAC/LA IS CHARGED WITH ENFORCING THE LAWS PROHIBITING THE IMPORTATION AND TRAFFICKING OF CHILD PORNOGRAPHY, PRINCIPALLY VIOLATIONS OF THE CHILD PROTECTION ACT.
CHILD PORNOGRAPHY ENTERS THE UNITED STATES IN VARIOUS FORMS. TRADITIONALLY, THE MOST COMMON MEANS OF SMUGGLING WAS THROUGH THE MAIL SYSTEM. HOWEVER, IN RECENT YEARS, THE ADVENT OF HIGH TECHNOLOGY EQUIPMENT, SUCH AS DIGITAL SCANNERS, COMPUTERS, MODEMS, AND SUPER VGA COLOR MONITORS HAVE PROVIDED INTERNATIONAL TRAFFICKERS WITH A NEW AND INSTANTANEOUS WAY OF REACHING DOMESTIC MARKETS WITH THEIR PRODUCTS. THE SAC/LA WAS THE FIRST CUSTOMS OFFICE TO BECOME INVOLVED WITH THIS HIGH-TECH MARKETPLACE IN 1993 DURING OPERATION LONGARM. LONGARM FOCUSED ON SEVERAL COMPUTER BULLETIN BOARD SYSTEMS IN DENMARK THAT WERE BEING USED TO RECEIVE AND DISTRIBUTE CHILD PORNOGRAPHY. FROM FY 1993 THROUGH FY 1995, LONGARM INVESTIGATIONS BY THE SAC/LA AND OTHER DOMESTIC OFFICES OF U.S. CUSTOMS RESULTED IN 156 ARRESTS, 160 CONVICTIONS, AND MORE THAN 200 SEIZURES PERTAINING TO CHILD PORNOGRAPHY. IN FY 1996, WE INITIATED 18 INVESTIGATIONS INVOLVING THE INTERNATIONAL TRANSFER OF CHILD PORNOGRAPHY. FROM OCTOBER 1994 THOUGH SEPTEMBER 1996, SAC/LA AGENTS MADE FOUR ARRESTS, OBTAINED TWO INDICTMENTS AND THREE CONVICTIONS, AND EXECUTED FOUR FEDERAL SEARCH WARRANTS FOR CHILD PORNOGRAPHY RELATED VIOLATIONS.

AS PART OF OUR EFFORTS IN THE CHILD PORNOGRAPHY AREA, THE SAC/LA ALSO PARTICIPATES IN THE SOUTHERN CALIFORNIA REGIONAL SEXUAL ASSAULT FELONY ENFORCEMENT (SAFE) TEAM, A MULTI-AGENCY TASKFORCE HEADED BY THE U.S. ATTORNEY, LOS ANGELES, AND FUNDED UNDER THE 1994 OMNIBUS CRIME BILL. THE SAFE TEAM FOCUSES PRINCIPALLY ON DOMESTIC CHILD ENDANGERMENT/ASSAULT RELATED VIOLATIONS. IN CALENDAR YEAR 1996, THE SAFE TEAM INITIATED 97 CASES, A FOUR HUNDRED AND FOUR PERCENT INCREASE OVER 1995.

ANOTHER AREA OF CONCERN IN THE SOUTHERN CALIFORNIA AREA IS RUSSIAN ORGANIZED CRIME (ROC). IMMIGRATION OF ROC GROUPS FROM THE FORMER SOVIET UNION (FSU) TO THE UNITED STATES HAS RESULTED IN AN ACCELERATION OF CRIMINAL ACTIVITY IN MANY AREAS, PARTICULARLY SOUTHERN CALIFORNIA. IN MARCH 1995, THE CALIFORNIA DEPARTMENT OF JUSTICE INDICATED THAT AT LEAST 200,000 LEGAL FSU IMMIGRANTS WOULD BE ARRIVING IN THE UNITED STATES IN THE NEXT TWO YEARS, WITH AT LEAST 40 PERCENT EVENTUALLY LOCATING IN CALIFORNIA. IN JANUARY 1996, THE FBI ESTIMATED THAT THERE WERE APPROXIMATELY 2,000 MEMBERS OF RUSSIAN AND EURASIAN GANGS OPERATING IN THE UNITED STATES, PRINCIPALLY IN SOUTHERN CALIFORNIA, MIAMI, AND NEW YORK CITY. AS OF JUNE 1996, 600 TO 800 ROC MEMBERS RESIDED IN THE LOS ANGELES AREA. THEY ARE INVOLVED IN EXTORTION, CHECK FRAUD, LOANSHARKING, SMUGGLING, CREDIT CARD FRAUD, NARCOTICS, MONEY LAUNDERING, MURDER, AND/OR INSURANCE AND MOTOR FUEL TAX FRAUD.

IN RESPONSE TO THIS THREAT, THE SAC/LA HAS INITIATED SEVERAL JOINT INVESTIGATIONS WITH OTHER LOCAL AND FEDERAL LAW ENFORCEMENT AGENCIES IN THE LOS ANGELES AREA. IN ADDITION, WE HAVE ALSO ESTABLISHED A WORKING RELATIONSHIP WITH THE MINISTRY OF INTERNAL AFFAIRS OF THE RUSSIAN FEDERATION. IN 1995, SPECIAL AGENTS FROM SAC/LA AND AN ASSISTANT U.S. ATTORNEY WERE INVITED TO RUSSIA TO MEET WITH INVESTIGATORS FROM THE OFFICE OF PROCURATOR GENERAL OF THE RUSSIAN FEDERATION, IN ORDER TO OPEN LINES OF COMMUNICATION BETWEEN U.S. AND RUSSIAN LAW ENFORCEMENT OFFICIALS.

THE SAC/LA HAS ALSO MOVED TO ADDRESS NUMEROUS OTHER AREAS OF CRIMINAL ACTIVITY, INCLUDING FORMING AN ASIAN ORGANIZED CRIME UNIT AND A MARITIME SMUGGLING TASKFORCE, AND WILL CONTINUE FOCUSING ITS RESOURCES ON STOPPING ILLEGAL DRUGS AND CONTRABAND FROM ENTERING THE UNITED STATES; IN ATTACKING THE MONEY LAUNDERING SYSTEMS BY WHICH NARCOTIC AND OTHER VIOLATORS MOVE THEIR ILLICIT PROFITS THROUGHOUT THE WORLD; AND IN PROTECTING U.S. INDUSTRY AND TECHNOLOGY FROM FOREIGN ENCROACHMENT. THE U.S. CUSTOMS SERVICE IN LOS ANGELES IS PROACTIVELY ADDRESSING ITS RESPONSIBILITIES IN MEETING THE TREMENDOUS MULTIFACETED CRIMINAL THREAT IN ITS AREA

OF JURISDICTION. IN THIS ROLE, WE WILL CONTINUE TO BE A VITAL AGENCY IN PROTECTING THE CITIZENS OF THE UNITED STATES FROM PHYSICAL HARM, AS WELL AS ECONOMIC INJURY.

MR. CHAIRMAN, THAT CONCLUDES MY STATEMENT. THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY. I WOULD BE HAPPY TO ANSWER ANY QUESTIONS YOU MAY HAVE.

Mr. HORN. Now our last representative on panel two will be Mr. John Heinrich, the Director of the Customs Management Center for the Customs Service which handles this region.

Mr. Heinrich.

Mr. HEINRICH. Good morning, Mr. Chairman. I don't know whether I mentioned it yesterday, but I was the Los Angeles district director from 1986 to 1995. I brought with me today our new port director for the port of Los Angeles-Long Beach, Irene Jankov, and also Tom Winkowski, our port director from the Los Angeles International Airport. My remarks will include a brief profile of Los Angeles Customs ports of entry, as well as elaborating on our workload and our staffing and assessing our enforcement threat.

Our Nation's west coast is the preeminent gateway to the Pacific rim. Los Angeles Customs collected over $4.2 billion in duties, fees, and taxes in fiscal year 1997 which just ended. This represents 19 percent of the total Customs collections of $22 billion last year.

Los Angeles Customs leads the Nation in international trade. Our ports of entry process more than $180 billion in two-way trade per year, which provides a significant contribution to the regional economy.

The seaport complex, as mentioned before, is the largest in the Nation, both in terms of cargo and tonnage. It is the third busiest seaport in the world and is estimated to support several hundred thousand jobs in the greater Los Angeles area. Explosive growth of trade with the Asia-Pacific region has made Los Angeles and Long Beach the No. 1 and No. 2 highest volume containerized cargo ports in the Nation. Last fiscal year, 3.3 million import containers entered that complex. This represents a 20 percent increase over the previous year.

In addition to commercial cargo, approximately 1 million international cruise line passengers were processed through the Los Angeles seaport. This gave us a ranking of No. 3 behind Miami and Fort Lauderdale.

The processing of international passengers at LAX has grown even more significantly, 2.3 million passengers in fiscal year 1987 to, now, 7.3 million passengers in fiscal year 1997, more than tripling in 10 years. LAX is the third busiest airport in the United States for international passenger processing behind JFK and Miami. By the year 2000, the city of Los Angeles estimates that over 8.6 million international passengers will arrive at LAX.

International air cargo is equally significant at LAX. It is the third busiest air cargo center in the country, and using value as a measure, LAX leads the world in cargo with $70 billion.

In summary, growth in international trade through Los Angeles has significantly outpaced the Nation. According to the Commerce Department, in the last 10 years, it has climbed from $68 billion to $180 billion.

During the past decade, funding for personnel within the Los Angeles Customs area increased 63 percent from 399 frontline positions, which would include the inspectors, the import specialists, and canine officers in 1986, to 650 positions in 1997. The majority of these positions, I would like to point out, are located at LAX. For example, at LAX the complete complement of inspectors now numbers 330 while at the seaport 144 inspectors are authorized.

In recent years, we have been able to increase staffing at LAX as a result of the Consolidated Omnibus Budget Reconciliation Act, commonly known as COBRA. As our workload continues to increase at LAX, it is critical that we continue to have access to this COBRA funding. I might add here that the COBRA funding at the airport relates to the $6.50 passenger fee collected on all passengers entering the country, and that has provided that open pipeline which has enabled us to increase the staffing there commensurate with the heavy increase in traffic. We have also, with the COBRA funding, been able to purchase x-ray systems and computers, as well as vehicles and radios.

Recently, LAX deployed 14 new inspector positions to address the country's antiterrorism efforts as a result of legislation passed by Congress; and we will also be receiving state-of-the-art x-ray equipment to assist those teams. In order to cope with the growth in workload, certainly, over the last 10 years, Customs has developed and deployed an array of automated systems.

For example, in Los Angeles, 98 percent of all ocean cargo manifest information is transmitted electronically to Customs—and I believe you saw one of the electronic manifests—all of that information residing in our mainframe computer, to which we have access through our PCs and local area networks.

In addition to manifest information, over 98 percent of all entry declarations in Los Angeles are transmitted to Customs electronically through what is called the automated broker interface. This enables us to electronically screen import transactions in order to identify those shipments presenting to the Customs Service the highest enforcement risk. Those shipments representing legitimate commerce are released electronically with minimal intervention, often without paper documents.

We also introduced the automated clearing house, and under the automated clearing house—basically we are talking about electronic funds transfer—approximately 80 percent of that 4.2 billion in revenue is transmitted electronically to the Customs Service; and I can tell you it has been a tremendous boom to us in Customs.

When I arrived here in 1986, we had no automated manifest system; everything was paper. We had a tiny percentage of import entries coming to us, and virtually every entry document for every shipment had a check attached to it, and you can imagine how time consuming that was. So that is where most of our productivity increases have come from in the last 10 years.

We are also using statistical sampling and compliance measurement techniques, as required by the Government Performance and Results Act, to evaluate the relative effectiveness of our various targeting methods. Customs' automated systems includes a mainframe computer housed in Newington, VA. Los Angeles now has 8 local area networks and 939 PCs. I'm sorry, but I'd like to hearken back to 1986; when I arrived here, we had five of the most elementary PCs that you would ever want to see. You can imagine what a tremendous change has occurred in automation over those years.

U.S. Customs is the Nation's first line of defense against drug smugglers. There is no higher priority than narcotics enforcement, and to address this threat, we initiated locally here in Los Angeles plans to revitalize our enforcement presence. At the seaport, this

included redeployment of 14 inspectors to our antismuggling unit. At the airport, we also redeployed an additional 14 positions from existing resources, focused on this antismuggling problem.

We are very concerned about the internal conspiracy problem that we know plagues the Nation as a whole, and that is where we are focusing our energy and our efforts, to beef up these units. Clearly, our threat continues to be heroin and cocaine smuggling. Canine enforcement units continue to be used successfully. We have 26 units now in this area, working in this effort at the airport and the seaport.

Commercial fraud is another significant threat to our Nation's economy, particularly here in Los Angeles with the scope of international trade. Last fiscal year, we seized over $10 million worth of illicit imports. Violations include illegal use of patents, trademarks, and copyrights, collectively known as IPR [intellectual property rights]; false or noncountry of origin; evasion of textile and apparel quotas; hazardous products prohibited by the Consumer Products Safety Commission, and the FDA.

Our Fines, Penalties, and Forfeitures Division, which is responsible for handling all of the enforcement activities at both of the ports, as well as for the special agent in charge, handled over 6,100 seizure, liquidated damages, and penalty cases last year, covering a wide range of violations. The gross revenue raised from the sale of seized, forfeited, and abandoned property last year was $13.2 million in Los Angeles.

To complement these efforts, I would like to add, since we have a representative from the trade today, that we have been working very closely with the trade community. We have an extensive trade and travel community outreach program. We have a worldwide Net site. We have an electronic bulletin board that the trade can access. We have trade fairs, a lot of seminars going on, and we are working very closely with the trade to raise that level of compliance because, frankly, as far as we are concerned, Mr. Chairman, the more legitimate shipments we can get into compliance, the more time we are going to have to focus on serious, willful violators who are really trying to beat the system.

In conclusion, you can see we have a big job here in Los Angeles, as well as across the Nation, and we recognize and support the government's need to reduce our budget deficit, to cut unnecessary costs and to work more efficiently and effectively. I would just like to commend the dedicated men and women of the Customs Service here in Los Angeles, who every day go out to do an even better job; and with the help of Congress, I know that we are going to be able to do that. I am confident that we can live up to the trust placed in the Customs Service by the American people, who expect us to ensure a safer and more secure Nation for them.

So thank you for this opportunity to testify, and I would be happy to take questions also.

[The prepared statement of Mr. Heinrich follows:]

Statement of John H. Heinrich
Director, South Pacific Management Center
U.S. Customs Service

Before the
House Subcommittee on Government Management,
Information, and Technology

October 16, 1997

Good morning, Mr. Chairman and members of the committee. I am John Heinrich, Director of the South Pacific Customs Management Center serving the Los Angeles area. With me today are Irene Jankov, Port Director for the Los Angeles/Long Beach Seaports, and Thomas Winkowski, Port Director for the Los Angeles International Airport. We are privileged to appear before you to discuss U.S. Customs Service operations in Los Angeles. My remarks will include a profile of Los Angeles Customs ports of entry as well as elaborating on our workload and staffing allocations and assessing our enforcement threat.

As the Los Angeles District Director of Customs from 1986 to 1995, I am proud to have been associated with formulating and implementing Customs policies which contributed to Los Angeles' emergence as the number one revenue producing district in the Customs Service.

Mr. Chairman, on behalf of the Customs family in Los Angeles please accept our appreciation for your Committee's support of the Customs Service.

**PORT PROFILE**

Our nation's West Coast is the preeminent gateway to the Pacific Rim. Los Angeles Customs collected over $4.2 billion in duties, fees and taxes in FY 1997. This represents 19 percent of the $22 billion Customs collected for our nation's treasury last year.

Los Angeles Customs provides services for an area encompassing eight California counties, from San Luis Obispo county, south through Orange County and east to the state line, plus Clark County, Nevada. In addition to LAX and the Los Angeles and Long Beach Seaports, other Customs facilities under our jurisdiction include Port Hueneme, the Port of San Luis, Ontario International Airport, Palm Springs Regional Airport, and McCarren International Airport in Las Vegas.

As part of Customs national reorganization in October 1995, our former Los Angeles District's administrative structure was eliminated, leaving two primary ports: Los Angeles International Airport (LAX) and Los Angeles/Long Beach Seaport. Moreover, in keeping with Customs recently adopted philosophy of Process Management, our internal organizational structure, which

was previously aligned by job function, was reconfigured into three core business processes: Trade Compliance (Imports), Passenger Operations, and Outbound (Exports).

Los Angeles Customs leads the nation in international trade. Our ports of entry process more than $180 billion in two way trade per year providing a significant contribution to the regional economy. The seaport complex is by far the largest in the nation, both in terms of value of cargo and overall tonnage. It is the third busiest seaport in the world and is estimated to support several hundred thousand jobs in the greater Los Angeles area.

The explosive growth of trade with the Asian-Pacific region has made Los Angeles and Long Beach (LA/LB) the number one and number two highest volume containerized cargo ports in the nation. In FY 1997, 3.3 million import containers entered the LA/LB seaport. This reflects a 20 percent increase over FY 1996. In addition to commercial cargo, approximately one million international cruise line passengers are processed through the Los Angeles Seaport.

The processing of international passengers at LAX has grown from 2.3 million in FY 1987 to 7.3 million in FY 1997, more than tripling in 10 years. Furthermore, the number of international passenger terminals staffed increased from three in FY 1986 to four in FY 1996. LAX is the third busiest airport in the United States for international passenger processing, behind JFK and Miami. By the year 2000 the City of Los Angeles Department of Airports estimates that over 8.6 million international passengers per year will arrive at LAX.

International air cargo is equally significant. LAX is the third busiest air cargo center in the country. In FY 1997 over 41,000 international aircraft arrived carrying close to 1.2 million air waybills, representing 950,000 tons of international cargo. Using value as a measure, LAX leads the world with cargo valued at $70 billion.

Growth in international trade activity through Los Angeles has outpaced the nation. According to Commerce Department figures, import and export trade through Los Angeles nearly tripled from 1986 through 1996, climbing from $68.6 billion to $180.8 billion.

## STAFFING AND RESOURCE ALLOCATION

During the past decade, full time equivalent (FTE) funding for human resources increased 63 percent from 399 front line positions (Inspectors, Import Specialists, Canine Officers) in 1986 to 650 positions in 1997. The majority of these new positions are located at LAX.

For example, at LAX, the complete complement of inspectors numbers 330, while at the seaport 144 inspectors are authorized. In recent years, we have been able to increase staffing at LAX as a result of additional Consolidated Omnibus Budget Reconciliation Act (COBRA) funded positions. As our workload continues to increase at LAX, it is critical that we continue to have access to COBRA funding. Also, COBRA has enabled us to purchase state-of-the-art technology, such as x-ray systems and computers, as well as vehicles and radios.

Recently , LAX deployed 14 new inspector positions to address the country's anti-terrorism efforts, an additional responsibility for Customs. The 14 positions have been filled and are currently deployed. In addition to these positions, LAX will be receiving two state-of-the-art x-ray vans and a tool van. This equipment will greatly enhance our enforcement efforts.

In order to cope with the growth in workload, Customs has developed and deployed an array of innovative technologies and programs. Customs is truly on the cutting edge in the Federal government in working smarter to handle increased responsibilities and workloads. We have been recognized by the White House and the National Performance Review, receiving several "Hammer Awards" from the Vice President for our innovative approach to making government work better and cost less.

Customs new automated systems electronically accept and process information from shipping manifests, Customs entries, entry summaries, duty collections, liquidations, billings and refunds. For example, in Los Angeles, approximately 98 percent of all ocean cargo manifest information is transmitted to Customs electronically, rather than by paper. In addition to reducing paper handling and storage costs, this enables us to use automated screening and analysis tools to identify high potential enforcement targets. One such tool is the Automated Targeting System (ATS) which is used to assist Customs officers in identifying importations that pose a substantial risk of containing narcotics or other contraband. ATS is currently deployed in Newark, Laredo and Seattle. We utilize a similar, less sophisticated automated targeting system at the seaport, but expect to deploy ATS here by the end of 1997.

In addition to manifest information, over 98 percent of all entry declarations filed in Los Angeles are transmitted to Customs electronically through the Automated Broker Interface (ABI). This enables us to electronically screen import transaction data in order to identify those shipments presenting the highest enforcement risk. Most shipments, representing legitimate commerce, are released electronically with minimal intervention, often without paper documents. Customs Automated Clearing House (ACH) allows payment of duties and fees through electronic funds transfer, directly from the importer's or broker's bank account to the Customs account. Approximately 80 percent of duties and fees collected in Los Angeles during FY 1997 were paid through ACH.

Customs automated systems include a mainframe computer housed in Newington, Virginia, which is connected to field units throughout the country through local area networks, personal computers and computer terminals. Los Angeles is equipped with eight local area networks tying together approximately 939 personal computers.

Customs does not rely solely on computers and automated processing to improve its efficiency and effectiveness. Informed Compliance and Account Management are key elements in our quest to improve overall regulatory compliance. We are also utilizing statistical sampling and compliance measurement techniques, which enable us to measure compliance as required by the

Government Performance and Results Act, and to evaluate the relative effectiveness of our various targeting methods.

## ENFORCEMENT THREAT

U.S. Customs is the nation's first line of defense against drug smugglers. There is no higher priority than narcotics enforcement. To address this threat, we initiated plans in January to revitalize our enforcement presence that included the redeployment of 14 inspector positions to the seaport's anti-smuggling units. These efforts led to three major narcotic seizures in the last 8 months.

We are using an array of new technology at the seaport to assist in our narcotics interdiction efforts. A stationary pallet x-ray, mobile x-ray vans, density meters, fiber optic scopes, night vision scopes, thermal imagery and automated targeting systems are some examples of these new technologies that have been deployed in recent years.

At LAX, the current narcotics threat indicates a growing vulnerability as a result of increased passenger and cargo arrivals from both narcotic source and transit countries. Heroin and cocaine smuggling are still considered our most serious problems. To address this threat, 14 inspector positions were recently redeployed from existing airport resources to LAX's Contraband Enforcement Team. This larger complement will enable us to provide a more unpredictable enforcement presence, and enhance our ability to deter internal conspiracies involving cargo and conveyances.

Canine enforcement continues to be a valuable Customs tool in narcotics interdiction. Currently, we are authorized a total of 26 canine positions. They are being used successfully in a variety of enforcement activities, such as conveyance searches, cargo sweeps and passenger and international mail screening.

Commercial fraud is another significant threat to our country's economy, particularly here in Los Angeles. In FY 1997, we seized over $10 million worth of illicit imports. Violations include the illegal use of patents, trademarks, and copyrights (known as intellectual property rights), false or no country of origin marking, evasion of textile and apparel quotas, and hazardous products prohibited by the Consumer Products Safety Commission and the Food and Drug Administration.

Our Fines, Penalties & Forfeitures Division opened over 6,100 seizure, liquidated damages and penalty cases in FY 1997 covering a wide range of violations from narcotic smuggling to consumer product safety. Gross revenue raised from the sale of seized, forfeited and abandoned property exceeded $13.2 million in FY 1997.

To complement these operational and enforcement efforts, we have also undertaken an extensive community and trade outreach program. This program is designed to increase awareness on the

part of the trade community, traveling public and population at large in order to raise voluntary compliance with the laws and regulations enforced by the U.S. Customs Service.

In conclusion, Mr. Chairman, you can see we have a big job here in Los Angeles, as well as across the nation. We recognize, respect and support our government's need to reduce our budget deficit, cut unnecessary costs and work more efficiently and effectively. But U.S. Customs, our country's oldest law enforcement agency, is also one of only three revenue-producing agencies in the Federal government. The dedicated men and women of Customs protect our citizens, our businesses and our way of life year after year. We are working every day to do an even better job and to do so with the help of the Congress. I am confident we can live up to the trust placed in the Customs Service by our citizens who expect us to ensure a safer and more secure nation for them and future generations. Thank you for the opportunity to testify. We will be happy to take your questions.

Mr. HORN. Well, we thank you, Mr. Heinrich. You are correct, you do have a fine group of people out there. You are the Nation's oldest law enforcement agency at the time of the First Congress, and you paid all the bills of this country, with the exception of the Civil War when they had a temporary income tax—later thrown out by the Supreme Court of the United States—right up to the First World War; and the money you bring in is still important to the bankroll of the Federal Government.

Let me just get a few things straight for the record on the reporting relationship. Mr. Hensley, you as special agent in charge, to whom do you directly report?

Mr. HENSLEY. I report directly to the Assistant Commissioner for Investigations in Washington.

Mr. HORN. I see. OK. So that is a direct line to Washington?

Mr. HENSLEY. Yes.

Mr. HORN. What are the relationships with Mr. Heinrich's operation and your own operation?

Mr. HENSLEY. We work in a compatible management team concept, and share information, targeting and threat throughout the year. In fact, our respective employees work in strategic problem-solving teams to address specifically the issues that we both brought up here during our opening statements—the smuggling, the containers at the port, the facilitation of passengers, yet still targeting narcotics violators. Those are all things we work on jointly on a continuous basis. We meet continuously, and we have a very close team relationship here.

Mr. HORN. Mr. Heinrich, to whom do you report?

Mr. HEINRICH. I report to the rather tall gentleman to my left, Mr. Trotter, the Assistant Commissioner for Field Operations.

Mr. HORN. Mr. Trotter, to whom do you report?

Mr. TROTTER. I report to the Deputy Commissioner of Customs, Mr. Samuel H. Banks, who is now Acting Commissioner of Customs.

Mr. HORN. With the retirement of the Commissioner?

Mr. TROTTER. Yes.

Mr. HORN. I talked to the Commissioner, I think his last day in office, practically. Has there been a new Commissioner recommended by the President at this point?

Mr. TROTTER. No, sir, not to my knowledge.

Mr. HORN. Knowing that reporting relationship, does the budget process work the same way? In other words, Mr. Hensley, does your budget request go directly to the Assistant Commissioner for Enforcement?

Mr. HENSLEY. Yes, it does.

Mr. HORN. And, Mr. Heinrich, yours goes directly in to Mr. Trotter, representing yours?

Mr. HEINRICH. Yes.

Mr. HORN. And all of your compatriots in similar positions have that relationship? Then, Mr. Trotter, what do you do with the budget recommendations when they come in from the field? To whom do you submit that budget? Is it to the Deputy Commissioner or an assistant for management?

Mr. TROTTER. Yes, sir. We do have a Chief Financial Officer, who is also the Assistant Commissioner for Finance; and we sit down

and work with her on the budget submission as a group. All the offices are represented. That is then pushed forward to the Commissioner, who would then take it to Treasury, OMB, and that route.

Mr. HORN. I agree with the kind words that have been said about your strategic plan. I have looked at a lot of them in the last couple of months as the drafts have come in, and some people have said, hey, take a look at this. It is a very good document.

Now, to what extent are your measurement goals in the strategic plan? Have they become part of the budget process? Tell me a little bit about what the criteria are that Mr. Heinrich has to take into account when he is making a budget submission to you, and that Mr. Hensley has to take into account when he is reporting to the Assistant Commissioner for Enforcement. Give me a little feeling for what those criteria are.

Mr. TROTTER. As we said, in fiscal year 1999, it will be our first year where we really tie this together. We are working on the fiscal year 1999 budget now, as we speak, and have submitted it at least through the first level of review.

What happens is, we take the strategic plan and the 5-year plan and we try to look at where we have our threat, we do a risk analysis, and then assess from the field offices their relationship to that threat—as Mr. Hensley said, they have done threat analysis, they have done risk analysis—and then tie that together to where we want to be in the future.

In other words, if we are focusing on certain specific areas—Mr. Hensley mentioned some of them, child pornography, narcotics, or currency—how much of our actual resources are going to be deployed against those threats.

We are working, in addition to that, on a cost management system so that we can look at how much it costs us to actually process through the budget the cost of each individual assigned. We are a little bit further away from being able to couple that together, but we look at the overall risk of the organization, where it is fit into each geographic area, and then we deploy accordingly.

Also, of course, there are other factors involved. There are Presidential initiatives and there are congressional initiatives that we have to take into account once it gets to our level.

Mr. HORN. Now, it sounds like you are fairly flexible in reassessing the threat, I take it, in each fiscal year; and if you see a major shift in, say, narcotics activity, child pornography activity, or the intellectual property, I take it you are willing to move resources around to help counter some of that threat. Is that right?

Mr. TROTTER. Well, sir, when we talk of resources, we talk in two veins; one is human resources, which are people, and the other is dollars. It is not as easy to move human resources as we would like.

Mr. Rabkin talked about that this morning, about agreements that we made with our National Treasury Employees Union, who represents the folks that—I have about 12,000 people that work for me who are in the bargaining unit. So we do have obligations to our "partners" through the National Treasury Employees Union.

We also have obligations to pick up and move folks. It has just not been a tradition of what we have done in the organization.

What we try to do is move what we call vacant positions to priority threat areas. Now we have made a very sincere effort through congressional mandates and through instructions from Congress to move more and more resources to the Southern border, and that has been the drawdown across our country.

You spoke about the Northern border. I was just up there last week. We have ports up there that process more dollar amounts than New York or L.A. and do it with much fewer people. So we have continued to drain our human resources, due to the balancing of the budget and to reductions to our base of about $100 million over the last several years; and in doing that, we have then deployed those resources into our highest threat areas. That, for right now, is the southern tier, as we call it, which includes the Caribbean, the southern Florida area, as well as the Southern border.

Mr. HORN. I want to make sure I understand this. On the Northern border you are getting a higher return per officer than L.A. or New York is that the figure?

Mr. TROTTER. Well, what I am saying, sir, when you look specifically just at dollar amounts—and that is where you have to be cautious and where the GAO cautioned us, too, that actually, for example, in the port of Detroit, we do collect more duty or at least have more trade because most of that is duty-free, under the NAFTA provisions, than we have in the ports of Los Angeles or Long Beach. That is why we can't just look at the duty and dollar collections and say, that is where we should put our people, because we look at the Northern border risk—as Mr. Hensley and Mr. Heinrich spoke to so well, we do not have a drug threat along that Northern border, which is our primary obligation.

There is some of that—I just visited Vancouver and Seattle last week. There is some drugs coming into the northern part of United States and traveling the I–5 corridor. So we are trying to look at that and reassess where to shift resources, because the bad guys, as you put them, they are able to shift more quickly than we are. That traditionally has been one of our concerns and one that we try to work with Congress and the administration to resolve.

Mr. HORN. If you had to rank the five major factors that you have to consider in preparation of the budget in resource allocation, what would they be?

Mr. TROTTER. Well, certainly we look at our high priority items, such as drug interdiction, which is our No. 1 priority; certainly currency investigations and interdiction; child pornography; illegal high-tech exports; IPR, and outbound. We have an outbound risk as well, a new area that we are moving into.

Mr. HORN. I am not familiar with it. Would you define it?

Mr. TROTTER. Outbound is in-the-past strategic commodities that have been shipped out of this country.

Mr. HORN. Oh, OK, arms, weapons whatnot?

Mr. TROTTER. Yes, sir.

Mr. HORN. Got it. How much are you getting in that area? You are talking also about high grade computers going through Germany in a third and fourth transfer, ending up in Iran?

Mr. TROTTER. Yes, sir, as you well know, since the Iron Curtain has come down somewhat and we have loosened up trade around the country—Mr. Hensley just showed me a figure, alone, $40 mil-

lion outbound in Los Angeles in 1996. I don't have those figures right at my hand, but certainly what we look at are currency outbound. Drugs inbound, currency outbound; those are the types of issues that we look for.

Mr. HORN. Have those been pretty consistent criteria over the last few years? What are the newer ones that are added?

Mr. TROTTER. Pretty much those are the consistent criteria that we have followed over the last few years. Newer ones, we haven't really changed course that much. I think that is what has made developing the strategic plan easier for us. We have stuck with what we have been doing, and it has worked pretty well for us.

Mr. HORN. What I would like at this point in the record—and we will leave it open for several weeks and then we will have a hearing in Washington with most of our top brass, or maybe wait until there is a new commissioner—I would like to have the ports of Los Angeles-Long Beach complex, the New York complex, the Miami-Dade complex, and if you want to throw Detroit in, be my guest, as to the return per officer, some typical budget criteria. The area we'd cover, let's say, the collections last year based on illegal activity, that kind of thing. What I would just like to get is a comparison, which I think most budget officers would know and run the numbers through, so you have already got it. I would just like to know what you are doing and then how those people compare in those regions. And if you want to throw in some other regions, be my guest.

I am not trying to throw it in one way, but it is obvious that we have two major port complexes, New York and these ports. Detroit is sort of a new one for me to think about, and I hadn't thought about it until you raised it, but I have long been worried, as I said earlier, about that Northern border. Not only are illegals coming over there and have for most of the century, but they are coming at increasing rates, and certainly I wouldn't be surprised that the drugs are coming across there, because they know that we are trying to really use massive manpower on parts of the Southern border, so why not try the northern one?

Mr. TROTTER. Yes, sir. We will be glad to provide you those facts, and agree completely with your analysis.

Mr. HORN. My staff will work with you on that in terms of what the Members have said they want to know about this.

Let me now just go through a number of questions that might have some relevance here, but without objection, that exhibit you are going to prepare will be put in the record at this point.

[The information referred to follows:]

## COMPARISON OF ENTRY AND PASSENGER WORKLOAD

| | | NUMBER | | PER CAPITA | |
|---|---|---|---|---|---|
| | **Inspectors** | **Entries** | **Passenger** | **Entries** | **Passenger** |
| **Los Angeles/Long Beach** | 140 | 716,498 | 732,655 | 5,118 | 5,233 |
| **Los Angeles Airport (LAX)** | 313 | 466,573 | 7,590,169 | 1,491 | 24,250 |
| **New York /Newark** | 393 | 600,312 | 2,357,215 | 1,528 | 5,998 |
| **JFK** | 531 | 653,312 | 8,812,642 | 1,230 | 16,596 |
| **Miami (Seaport)** | 104 | 128,908 | 1,775,601 | 1,240 | 17,073 |
| **Miami (Airport)** | 369 | 248,484 | 7,743,897 | 673 | 20,986 |
| **Detroit** | 176 | 1,188,100 | 32,295,324 | 6,750 | 183,496 |

Mr. HORN. Does the special agent in charge have a separate line item in the budget that goes through that assistant commissioner? Does your money come out to the region and flow through here? Or does it all flow through the assistant commissioner for enforcement?

Mr. HENSLEY. It flows from the assistant commissioner for enforcement in Washington.

Mr. HORN. So he or she is the one who can move the resources around if they feel there is a greater need for special agents in one place or the other? Is that it?

Mr. HENSLEY. With the blessing of the deputy and the commissioner, yes, sir.

Mr. HORN. Are there other situations like that in the regional area where you have to work closely with the director of the regional area on joint teams and all of that? Are there any other parts of Customs that have an assistant commissioner, that pipeline that they go through?

Mr. HENSLEY. The Strategic Trade Centers here have an assistant commissioner which is separate and apart from——

Mr. HORN. Who is that in this region? Will the Strategic Trade Center director stand up?

Mr. HENSLEY. Jean Maguire is our director.

Mr. HORN. Hi, how are you? Where are you based? In the Customs building?

Ms. MAGUIRE. At the World Trade Center.

Mr. HORN. I know my staff has helped—are you part of that Commerce group that is there or are you separate from them?

Ms. MAGUIRE. No, we are separate. We're cohoused with the Customs Management Center and we have submitted some data to your office from time to time.

Mr. HORN. Great. Welcome. I will be glad to talk to you separately on this, but if you want to get into this, we will swear you in. We are very informal in trying to get at the facts and the truth.

Are there any other groups like that? Have we got them all now in terms of the budgeting operation?

Mr. TROTTER. There are a couple of other groups, sir. I would say we have seven different organizations in this area. We have a laboratory here that does report to me. We have an Office of the Regional Counsel who reports to our chief counsel in headquarters. We have an Office of Internal Affairs who reports directly to headquarters. So in most major large metropolitan areas there are generally six or seven different Customs offices represented.

Mr. HORN. Yes, I see here in the U.S. Customs Service annual report for 1996—and we will put this chart in the record, without objection.

It includes aviation operations, foreign customs offices, and domestic investigations field offices reporting to an Office of Investigations; and then reporting to Mr. Trotter's office you have got the Customs Management Centers, the ports of entry, and the field laboratories that you mentioned; then the Office of Strategic Trade is reported to by the Regulatory Audit Field Offices and the Strategic Trade Centers that were just mentioned; and then Internal Affairs reports to the Office of Internal Affairs. So that chart will help clarify a few things.

Yesterday, we enjoyed seeing Puckett, I think that was the name of the healthy brown labrador canine, run up and down a container's contents that was there and retrieve a small bag of cocaine from a box hidden among numerous other boxes. I would assume that Puckett would be used to randomly inspect the cargo without having to open it.

How many drugs are found through this random inspection process versus the intelligence gathering, sting type of operation? And are such results used in determining resource allocation?

Mr. TROTTER. Well, we could provide that to you. This is information that is not, you know, for public disclosure, but we do have that information for you, sir.

Mr. HORN. OK.

Mr. TROTTER. I would say that much of our work is done through very labor intensive work up front, through what we call analysis of what is coming in. Randomness, we do have random generated examinations, but what we ask for in our work environment is that our inspectors be 10 times more productive than a random examination. What we find is that they are almost always more than 10 times. In our land border environment we found that they are more than 10 times effective.

So what we try to do, is run a statistically valid sample of looking at random generated examinations and then the examinations that we actually target. One thing that you have touched on and we need to address a little more is intelligence gathering. With the amount of containers coming into this seaport, or along our land border, it would be impossible to look at them all. We are looking at a percentage of those containers and we have that information for you.

The problem, of course, is the vastness of it. And Mr. Heinrich spoke to moving the cargo. We're the largest trading country in the world and we have what we call "just in time" inventory. All of those things are important. We try to be sophisticated in what we look at and we try to have reasons for that, and we would be able to share that with you, sir.

Mr. HORN. Now, we are obviously not only interested in the geographical distribution in that matrix, but in addition to the functional distribution, would you agree that based on workload indicators, California does not have the same levels of resources in comparison to other major metropolitan areas? How do you feel about that, Mr. Trotter?

Mr. TROTTER. It is interesting that you bring that up. In the beginning of your statement, sir, we somewhat—perhaps didn't give you a clear enough definition of what the management center here was, which we call southern Pacific versus southern California. It is somewhat confusing. The two were combined.

If you look at southern California, which is the San Diego area, Mr. Heinrich does not supervise those people down there, nor does Mr. Hensley. What we have, if you look at what is in southern California from L.A. south, it is very similar to the numbers of what is in New York. There is no doubt about that.

Now, if you are just comparing what is in New York compared to what is in Los Angeles, then, yes, sir, I mean, there is an apparent indication when you look at those raw numbers that there is

an apparent imbalance in that staffing, something that I think you stated in your opening.

There are many other factors that go into that. I can't defend them all here, nor do I think you would want me to. But if you talk about California, and you talk about San Francisco, L.A., and San Diego, I think you would see it is very well represented across the board with Customs offices throughout this country.

Mr. HORN. In other words, you are saying the New York Customs operations within the State of New York would not be out of proportion to all of California?

Mr. TROTTER. Yes, sir, and we have some very large border crossings in New York as well, including Buffalo, NY, Champlain, NY, and some very large border operations as well. And I think that that is once again what the GAO was talking about, to try to look at this in more of a totality of the threat and the workload, and that is how we would like to address it with you, sir.

Mr. HORN. Well, you can separate out the border operations and compare them. I am sure our southern border, there is more flowing through there every night than probably the whole rest of the Nation put together. Maybe Miami-Dade is an exception to that. But when you compare apples and apples, which are ports in this case, the ports of New York-New Jersey are all under one authority, and the ports of Long Beach-Los Angeles are under separate authorities, however you treat them as one. Your Customs people are moved back and forth, based on where the action is in terms of unloading between either Los Angeles or Long Beach. And I gather from what I have been told over the last 3 years—this is a 2-year-old hearing that has been on the list that we're finally getting to—that there is an imbalance in just that port relationship.

Now if we want to take JFK, and LAX, I guess, is third after JFK and Miami airport, I take it. I wondered what happened to O'Hare as I went down that list, and if there are similar problems in O'Hare, because I know a lot of people when they take off for America, certainly on the immigration side, it is either JFK, O'Hare or LAX that they land at. I am not sure what the drug traffic is and all the rest that is snuck in by way of air. Can you enlighten me as to O'Hare and whether they should be in the top three?

Mr. TROTTER. Well, they are not in numbers of bodies that process through there. I think they are a little over 3 million, just speaking off the top of my head. They are certainly not in the L.A., Miami, New York context. I think what is a little more difficult to understand, sir, and what we would like to clarify, and Mr. Heinrich spoke about it a little bit, our airports are pretty evenly matched for staff because we staff under a different set of circumstances at the airport. We use a user fee concept, and he spoke to that. COBRA, we call it.

I think when you look at the airports whether it be Miami, New York, Chicago, or L.A., you are going to see them commensurate to the workload and threat. There is no doubt about that. There will be some differences but not great numbers of differences for passengers processed for threat, for cargo.

What happens when you move away from passenger processing and you get into the cargo environment, there is no doubt about

it, sir, when you look at the northern border you will see we do not have many people processing cargo on the northern border. We do not have many people processing cargo in L.A., Long Beach, New York, or in New Jersey. We have moved away from that area. We try to use selectivity. We try to use automation. Therefore about 98 percent of that stuff goes through without an examination.

So, no, sir, we do not put a lot of people in that area. And quite honestly when you try to compare apples to apples you will not see a match-up there. I think when we show you the numbers for the air passengers itself, there is a pretty good balance of numbers of passengers processed and numbers of inspectors and canine officers.

It is the way the law is written and the way these positions are paid for. Over the years as we have had to take reductions in our base, they have generally come from the seaport environment in all of our locations, or from the northern land border, which has actually helped to create that imbalance. But that was done purposefully and not without forethought in our minds.

Mr. HORN. You are telling me there is some legal problem in some law? What is that?

Mr. TROTTER. Yes, sir. That is—John Heinrich, you had the name for that. What is it?

Mr. HEINRICH. The Consolidated Omnibus Budget Reconciliation Act, COBRA.

Mr. TROTTER. What that has done to us, sir, it has created an imbalance in our work force. Mr. Heinrich or any person who has a major airport, and you named it, O'Hare, Dallas, Houston, or any of the places in this country that have major seaport operations and airport operations, they cannot move their inspectors or Canine Enforcement Officers from the air environment into the sea environment. That is prohibited by the law, so it does somewhat tie our hands.

Mr. HORN. Why was that prohibited by the law?

Mr. TROTTER. It was predicated on who pays the user fees. The air carrier passengers pay the user fees and they established a floor and a ceiling of how many inspectors had to be at the air passenger processing facilities. To assure the carriers, as part of the deal we changed the way we financed the Government. As you know, we are a user-fee-driven organization, and the air carriers through their trade representative groups wanted to assure that we keep those levels maintained.

Mr. HORN. Is this part of the American airline industry's usual resistance to any fees at any airport in America? Is that part of that?

Mr. TROTTER. Well, sir, actually they pay a sizable amount of user fees. I wouldn't say that they are not paying their fair share, sir. I would not, in that environment. It just so happens the way the budget is set up, if the user fees pay for specific services, the Congress and the administration tends to stay away from that because that is how they want to move our Government. In the other areas where you cannot do that, which is part of what you are seeing here, we have to take those cuts. We have to share with the rest of the Government responsibility in balancing the budget, and that is where those cuts come from.

Mr. HORN. In terms of the fees imposed on ship traffic, how does that vary in some way?

Mr. TROTTER. There is a great variance. There is not a correlation. We collect merchandise processing fees, literally hundreds of millions of dollars, but they go into the general revenue and cannot be accessed by the Customs Service.

Mr. HORN. That is interesting. So that is one thing we should be thinking about, the degree to which we can access those fees to get proper staffing.

Mr. TROTTER. Yes, sir, and I think you will hear the trade when they talk, that is routinely what they say. They bring containers in and pay hundreds of millions of dollars in user fees and there is no quid pro quo, that is what you pay and that is the service you get.

Mr. HORN. The VTS system in this area is sort of shipper maintained by a separate fee the ports levy. They reimburse the Coast Guard, as I remember, for six full-time positions. That helps on the vessel identification and all the rest in the harbor and related ocean areas, but they really see a payoff on that fee. And when the Coast Guard came in to say they wanted $1 billion out of us in terms of doing this at the other ports I said, "Hey, wait a minute, we don't do that in Long Beach and Los Angeles. Why don't you model that?" Well, eventually they have been, and saved the taxpayers $1 billion on that one.

But I think we ought to be looking at all of those things as to what we can do to get proper staffing levels here. So any information you can give us would be helpful on that.

Mr. HEINRICH. Mr. Chairman, if I might just quickly interject, to underscore what Mr. Trotter said, for example, probably in the last 7 years we have been able to add approximately 139 positions to LAX. On the other hand, using very discrete processing fees, specifically for some of the sea passengers that we have had increased at the seaport, we have actually added about 16 positions to the seaport.

Mr. HORN. That is the Los Angeles harbor which has passengers?

Mr. HEINRICH. Yes, that is correct. Although we do collect almost $100 million overall in merchandise processing fees here at the seaports, and Mr. Hensley has no access to that, either, in terms of investigations.

Mr. HORN. I understand that the passenger funding under COBRA has allowed for increased air passenger inspection resources. So that is true, what you have been saying here. Now has Customs ever looked to self-finance in terms of enforcement through various asset seizures which you are entitled to as well as any other enforcement agency? Is that not correct? What happens to that asset seizure money? When a police department locally is involved with you, they get a nice check, and I don't think it is just put in the city treasury. I think it goes probably to help the police department. Am I in error on that?

Mr. HENSLEY. No, Congressman, you are not. The asset forfeiture fund is a Treasury fund now. It used to be a Customs fund. And the majority of the resources are in fact shared with local agencies. The SAC Los Angeles has shared over $55 million here in the Los Angeles area.

The balance of those seized assets or liquidated assets from the sale of seizures rolls into the Treasury forfeiture fund and is accessible by the Treasury agencies, and is also accessible to a smaller portion by the drug czar, the ONDCP Director. So those funds can come back to the field. They come back in limited amounts.

We can seek reimbursement for retooling of official vehicles; we can use it for the retooling of vessels. We can pay certain overtimes out of it but we cannot buy positions, we cannot hire new people, and we cannot subsidize salaries with those funds. So it is for investigative equipment and keeping things on the road, as opposed to supplementing staffing as the COBRA funds do.

Mr. HORN. Mr. Trotter, is there a description anywhere of what happens to that money in that fund?

Mr. TROTTER. Yes, sir.

Mr. HORN. Can we just put it at this point in the record, without objection? So we get to understand all of these points?

Mr. TROTTER. Yes, sir.

[The information referred to follows:]

United States Customs Service
Forfeiture Fund Expenditures
Summary - FY 1997

| | Financial Plan | Less Direct Expenses to FOAF | Reimbursable Financial Plan | Expenditures October | November | December | January | February | March | April | May | June | July | August | September | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Discretionary:** | | | | | | | | | | | | | | | | |
| 9703 a 2 A - Payment of Awards | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 9703 a 2 B - POE/POE | | | | | | | | | | | | | | | | |
| Office of Enforcement | 1,460,000 | 0 | 1,460,000 | 0 | 0 | 8,470 | 10,491 | 29,329 | 93,009 | 77,075 | 53,425 | 64,250 | 121,987 | 69,030 | 128,136 | 655,202 |
| 9703 a 2 C - Publicity Awards | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 9703 a 2 D - Equipping Fed. Conveyances | | | | | | | | | | | | | | | | |
| Office of Investigations | 330,000 | 0 | 330,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,027 | 52,731 | 54,758 |
| TBD | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TBD | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TBD | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 9703 a 2 E - Claims Against Customs Employees | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 9703 a 2 F - Equipping State/Local Conveyances Enforcement | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 9703 a 2 F Reimburse Private Persons | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 9703 a 2 M - Training Foreign Law Enforce | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Subtotal Discretionary | 1,790,000 | 0 | 1,790,000 | 0 | 0 | 8,470 | 10,491 | 29,329 | 93,009 | 77,075 | 53,425 | 64,250 | 121,987 | 71,057 | 180,867 | 709,960 |
| **Nondiscretionary:** | | | | | | | | | | | | | | | | |
| 9703 a 1 A - Proper Expenses of Seizure | | | | | | | | | | | | | | | | |
| POE/POE | 11,730,000 | 0 | 11,730,000 | 41,152 | 389,130 | 108,399 | 424,728 | 1,140,519 | 922,921 | 834,814 | 297,571 | 656,792 | 1,349,182 | 828,257 | 883,136 | 7,697,598 |
| Other Seizure Expenses | 3,000,000 | 0 | 3,000,000 | 161,060 | 660 | 162,981 | 133,022 | 92,584 | 423,581 | 251,019 | 133,454 | 91,334 | 319,088 | 268,018 | 187,558 | 2,148,113 |
| Salaries | 7,583,000 | 0 | 7,583,000 | 654,000 | 654,000 | 654,000 | 654,000 | 654,000 | 654,000 | 654,000 | 654,000 | 654,000 | 654,000 | 654,000 | 389,008 | 7,583,000 |
| Overtime | 225,000 | 0 | 225,000 | 0 | 12,777 | 1,086 | 25,029 | 2,884 | 81,235 | 0 | 0 | 12,715 | 54,330 | 0 | 8,871 | 198,930 |
| Overnight Travel | 200,000 | 0 | 200,000 | 1,748 | 15,274 | 4,818 | 10,449 | 17,011 | 16,336 | 17,648 | 9,758 | 13,855 | 9,485 | 0 | 29,851 | 146,423 |
| Relocation | 400,000 | 0 | 400,000 | 328 | 3,482 | 22,794 | 32,184 | 37,982 | 38,972 | 49,171 | 32,609 | 39,933 | 37,389 | 94,508 | 39,646 | 406,000 |
| Storage | 400,000 | 0 | 400,000 | 5,125 | 13,600 | 5,350 | 17,926 | 33,248 | 2,918 | 5,667 | 15,204 | 50,781 | 12,729 | 18,139 | 11,787 | 169,564 |
| GSA Rent | 2,125,000 | 0 | 2,125,000 | 178,000 | 178,000 | 178,000 | 178,000 | 178,000 | 178,000 | 178,000 | 178,000 | 178,000 | 178,000 | 178,000 | 177,000 | 2,133,000 |
| Accounting Services Division | 100,000 | 0 | 100,000 | 0 | 33,804 | 520 | 9,691 | 183 | 22,895 | 3,351 | 8,629 | 5,974 | 7,691 | 4,923 | 16,507 | 94,150 |
| TBD | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TBD | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TBD | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TBD | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 9703 a 1 B - Contract Services | | | | | | | | | | | | | | | | |
| Asset Management | 30,000,000 | (30,000,000) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Medical Fees/Services | 1,400,000 | 0 | 1,400,000 | 0 | 48,403 | 74,760 | 61,567 | 117,537 | 100,109 | 127,238 | 105,531 | 128,611 | 193,799 | 126,901 | 166,781 | 1,251,619 |
| TBD | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TBD | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 9703 a 1 C - Awards to Informers | 1,500,000 | 0 | 1,500,000 | 484,164 | 14,151 | 16,247 | 180,324 | 4,000 | 151,033 | 0 | 16,945 | 0 | 0 | 232,397 | 0 | 1,099,278 |
| 9703 a 1 D - Payment of Liens & Mortgages | 3,140,000 | (3,140,000) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 9703 a 1 E - Remission & Mitigation | 2,500,000 | (2,500,000) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 9703 a 1 F - Claims of Parties in Interest | 100,000 | (100,000) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 9703 a 1 G - Equitable Sharing Payments | 50,000,000 | (50,000,000) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 9703 a 1 H - Experts & Consultants | 10,000 | 0 | 10,000 | 0 | 1,350 | 3,050 | 182 | 190 | 6,209 | 0 | 0 | 0 | 101 | 0 | (1,042) | 10,000 |
| 9703 a 1 I - Reimburse State & Locals Joint Operations | 3,500,000 | (3,500,000) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 9703 a 1 J - Seizure/Forfeiture Prog. Exp | | | | | | | | | | | | | | | | |
| Asset Tracking Development | 1,889,000 | 0 | 1,889,000 | 1,160 | 6,320 | 67,154 | 46,993 | 32,313 | 302,474 | 101,057 | 139,563 | 71,189 | 87,908 | 326 | 142,970 | 1,011,128 |
| Seized Property Training | 580,000 | 0 | 580,000 | 10,277 | 25,727 | 66,447 | 48,171 | 21,176 | 27,996 | 63,442 | 32,830 | 35,971 | 48,712 | 12,653 | 29,964 | 442,339 |
| ADP Equipment | 282,000 | 0 | 282,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Destruction/Trace of Narcotics | 296,000 | 0 | 296,000 | 254 | 2,763 | 4,459 | 5,307 | 18,633 | 24,650 | 32,726 | 23,564 | 18,176 | 39,872 | 92,793 | 29,811 | 275,208 |
| Guard Contract | 250,000 | 0 | 250,000 | 0 | 0 | 0 | 38,485 | 19,740 | 19,707 | 18,805 | 19,756 | 19,623 | 19,756 | 19,821 | 19,857 | 216,532 |
| Asset Id. and Removal Group | 2,164,000 | 0 | 2,164,000 | 2,165 | 0 | 0 | 36,522 | 229,112 | 230,142 | 101,143 | 99,114 | 76,746 | 167,008 | 158,566 | 189,805 | 1,290,540 |
| Office of Investigations Travel | 570,000 | 0 | 570,000 | 974 | 8,211 | 13,217 | 37,299 | 12,643 | 28,943 | 45,663 | 53,387 | 4,171 | 41,979 | 6,193 | 90,905 | 343,843 |
| TBD | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Super Surplus Allocation:** | | | | | | | | | | | | | | | | |
| Total | 6,500,000 | 0 | 6,500,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TBD | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Secretary's Enforcement Fund:** | | | | | | | | | | | | | | | | |
| South Africa Attache Office | 663,000 | 0 | 663,000 | 0 | 0 | 0 | 0 | 0 | 0 | 1,212 | 485 | 75,793 | 65,244 | 38,341 | 37,951 | 207,040 |
| CIS 2000 | 61,000 | 0 | 61,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 16,062 | 30,978 | 47,040 |
| Vehicles | 1,489,000 | 0 | 1,489,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TBD | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TBD | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TBD | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Subtotal Nondiscretionary | 132,686,000 | (89,240,000) | 43,446,000 | 1,547,403 | 1,187,444 | 1,383,276 | 1,986,176 | 2,011,446 | 3,335,134 | 2,530,375 | 1,828,422 | 1,865,096 | 3,169,982 | 2,749,035 | 2,480,901 | 26,964,693 |
| Total | 134,476,000 | (89,240,000) | 45,236,000 | 1,547,403 | 1,187,444 | 1,391,746 | 1,996,667 | 2,041,015 | 3,338,143 | 2,607,450 | 1,881,847 | 1,929,346 | 3,287,969 | 2,819,112 | 2,661,768 | 27,674,653 |

Mr. HORN. We are also interested—well, let's put it this way—are current staffing levels simply a 40-year-old hangover from the 1950's when California's population was smaller relative to the rest of the Nation? And how does the Customs Service justify regional disparities when these can have a great impact on law enforcement, the quality of life in a region, and obviously the collection of money? What is your feeling on that? Do we have a regional imbalance because it just hasn't been adjusted?

Mr. TROTTER. Well it has been adjusted over the years. I think—I don't want to use New York—as you said, I don't want to disparage New York the advantage of California, but our country was first founded on the East Coast, and that is where Customs jobs were needed. There is no doubt about it. As the country moved westward, there was never ever the number of jobs in the West as there is in the East. Never.

There is some holdover to that, but I will tell you ports like Norfolk, VA, at one time, and these are gross numbers, but they had 80 or 90 Customs inspectors. They are down to 25 now. So we have drawn down those East Coast ports. New York itself has been reduced over 1,000 positions over the last decade.

But those positions have not gone to the West Coast, sir. They have either gone to the southern land border or, as for example last year, our share of the Balanced Budget Act was 775 positions. This year it looks like it is going to be 550 positions. We have to attrite a lot of positions to get to that level, and that doesn't give us the ability to move those positions to places where the work may have changed.

So, yes, sir, you are right in that assumption. I don't think it is as bad as we have never looked at it or talked about it. We have. We had a Commissioner from the West Coast, Carol Hallett, who was very interested in that and tried to readjust some of those numbers over a number of years. But I believe in a fairness doctrine, and I think you do want to look at this fairly, if you can see how many positions we have attrited and what has happened with those, I think you will see that we're trying to do an honest job.

Mr. HORN. You are one of the last agencies that they should be cutting staff on, when you deliver the money to the Treasury. I mean, that must work for you for some people on Capitol Hill. How about the Appropriations Committee? Are they sympathetic to that argument?

Mr. TROTTER. No, sir, not at all.

Mr. HORN. A bunch of hard heads? I will deal with my friends over there, then.

Mr. TROTTER. If you look at what is happening with the GATT and free trade, many folks in this country predict that duty revenues and taxes will continue to decline. They will, as we grow into a more and more free trade. Free trade is really a managed trade. We still have to put in a lot of resources into that, but money doesn't sway the day. The $22 billion is not a lot for this Government anymore.

Mr. HORN. You call it a rounding number in the House Appropriations Committee?

Mr. TROTTER. Yes, sir.

Mr. HORN. Well, it is still big money to some of us out in the countryside.

One area consistently quoted by the General Accounting Office as a high risk area is that seized property and the manner in which it is accounted for. Do you feel there are any material weaknesses in the Customs controls that they have in that area? And if yes, what are we doing to remedy those problems?

Mr. TROTTER. Well, we are working very hard to maintain our clean opinion in that area. It is one that has caused us difficulty over the last several years, but I think you will see we have been making progress. We have tried to implement a new automated system. At one time we had five different systems tracking seized property, moneys, and narcotics as well as goods. We have combined that into one.

Sir, I will tell you we have had a very difficult time with that. Many people in this room will snicker when I mention the word SEACATS. That's what we call it. We tried to bring 5 systems into one, and we have paid a tremendous price, and the people in this room should be thanked for the price they have paid to try to bring that around. And we feel that we're going to do that again for this year, a tremendous price.

One thing we have learned from that is that when you automate huge systems like we have, the impact is really unknown. That is what GAO was talking about with our architecture. We have learned those lessons sir, and I think we have got that under control. It is not a perfect system yet, when you talk about 300 ports of entry and the amounts of money and merchandise that we seize, but I think we have gone a long way in that area. It is still on the watch list as a material weakness, but I believe that the Chief Financial Officer Act, GPRA, and all those things feel that we're moving in the right direction.

Mr. HORN. At least you are not up to the Internal Revenue Service's $4 billion, and that has worried me. Of course over in another department it is also $4 billion down the drain for computers. So I take it you feel you're on top of that situation?

Mr. TROTTER. Sir, you heard about our year 2000 [Y2K] compliance. That is a great deal of concern for us. We have 30 million lines of code in our automated commercial system and our enforcement system and administration system. About 7 million lines have to be brought into compliance. That is one thing that you will hear folks in the trade and others say that Customs hasn't been delivering on promised projects, have not delivered on the Mod Act. Part of that reason, sir, is that we have had to pull moneys away to get ourselves ready for Y2K compliance. So that is a tough issue that we face.

Mr. HORN. On that topic, did you use reprogrammed money at the end of the year to get on top of that?

Mr. TROTTER. We are trying that, sir; up on the Hill just yesterday, again, talking to those folks. I think you will see an alignment from the Treasury Department, OMB, Customs, and the trade to help push that forward. As you well know, sometimes those issues are balanced by other things, but we are trying to use whatever funds are available.

Our problem is, and GAO spoke about it again this morning, is our Automated Commercial Environment [ACE], the system we would like to migrate to, with the fencing off of that money, that is going to make it difficult for us to do both of those things. Y2K and ACE are different, but yet it is the environment that we need to move to, to go to account management, to change the way we do work.

Mr. HORN. Well, my understanding with the Director of OMB is that he very much wanted reprogrammed money used, not going through the congressional budgeting process and the executive budget, which just wastes a year getting to the problem.

Mr. TROTTER. Yes, sir.

Mr. HORN. So, I don't know how much was available in Treasury to get reprogrammed at the end of the fiscal year, but that is where it should come from. I take it Treasury would be receptive to that; isn't that true?

Mr. TROTTER. Yes, sir.

Mr. HORN. I thought it would. They seemed to be on board to saying yes to that question when we asked them. Yesterday in our briefing, Mr. Hensley, you mentioned a reluctance to rely on contractors. Obviously any agent who uses force or carries a weapon should be a Federal employee. Do you ever rely on contractors for low risk duties to free up agents for higher risk operations?

Mr. HENSLEY. Only in the seizure area, in handling seizures. We do use a seizure contractor. EG&G Dynatrend handles the seizures. But beyond that we do not, because it is a requirement of our operating systems that Mr. Trotter just spoke of. Because of the secure nature of all of the computers, virtually everything we do is computerized, and so even the low volume things such as doing background checks, brokers' licenses, which are basically a background investigation, still involve systems and access to systems which also contain very critical criminal records, investigative records, and sensitive documents. So we have not been able to find an area where we can use contractors in the investigative area.

Mr. HORN. Does Customs track the street price of cocaine in various American cities such as Miami, Chicago, L.A., and New York?

Mr. HENSLEY. Yes, we do.

Mr. HORN. Is that available for the record or is that confidential?

Mr. HENSLEY. No, we can supply that for the record.

Mr. HORN. Without objection, that will be put in the record at this point.

[The information referred to follows:]

## CALIFORNIA - AREA 5

| DRUG TYPE | QUANTITY | PRICE | PURITY |
|---|---|---|---|
| COCAINE (Crack) | 20 ROCK (0.2 GRAM) | 15-20 | |
| | 40 ROCK (0.4 GRAM) | 30-40 | |
| COCAINE (Powder) | .25 GRAM | 15-40 | |
| | 1 GRAM | 40-125 | |
| | 8 BALL (3.5 GRAM) | 90-350 | |
| | 1 OZ | 500-1,000 | |
| | 1 LB | 8,000-10,000 | |
| | 1 KILO | 14,000-19,000 | |
| CODEINE | 1 TAB | 2-5 | |
| DILAUDID | 1 TAB | 25-75 | |
| HASHISH | 1 GRAM | 10-50 | |
| | 1 OZ | 150-400 | |
| | 1 LB | 2,000-5,000 | |
| HEROIN (Mexican Brown) | 1 KILO | 50,000-100,000 | |
| HEROIN (Southeast Asian) | 1 KILO | *100,000-150,000 | |
| | 1 OZ | *2,500-5,000 | |
| HEROIN (Tar) | .25 GRAM | 20-75 | |
| | 1 GRAM | 40-125 | |
| | 1 GRAM | *150-300 | |
| | 1 OZ | 1,200 | |
| ICE (CRYSTAL) | .10 GRAM | 20-30 | |
| | 1 OZ | 500-1,250 | |
| LSD (BLOTTER) | 1 DOSAGE UNIT | 2-5 | |
| MDMA | .25 GRAM | 5-20 | |
| MARIJUANA | 1 CIGARETTE | 2-5 | |
| | 1 START PLANT | 25-50 | |
| | 1 START PLANT | *5 | |
| | 100 START PLANTS | 200-500 | |
| | 1 MATURE PLANT | 3,000-4,500 | |
| | 1 MATURE PLANT | *300-500 | |
| MARIJUANA (California) | 1 OZ | 300 | |
| | 1 LB | 3,200 | |
| MARIJUANA (Commercial) | 1 OZ | 60-200 | |
| MARIJUANA (Green) | 1 GRAM (BUD) | 20-40 | |
| | 1 OZ | 140-200 | |
| | 1 LB | 1,200-1,800 | |
| MARIJUANA (Mexican) | 1 GRAM (BUD) | 5-10 | |
| | 1 OZ | 40-100 | |
| | 1 LB | 300-800 | |
| MARIJUANA (Sinsemilla) | 1 GRAM (BUD) | 15-25 | |
| | 1 OZ | 320-850 | |
| | 1 LB | 1,500-6,000 | |
| METH PRECURSORS: | | | |
| EPHEDRINE | 1 LB | 1,000-1,500 | |
| | 1 LB | *3,500-4,000 | |

CALIFORNIA - AREA 5

| DRUG TYPE | QUANTITY | PRICE | PURITY |
|---|---|---|---|
| METHAMPHETAMINE (Powder) | .25 GRAMS | 20-40 | |
| | 1 GRAM | 40-100 | |
| | 3.5 GRAMS | 80-160 | |
| | 3.5 GRAMS | *200-250 | |
| | 1 OZ | 400-1,000 | |
| | 1 LB | 5,000-10,000 | |
| METHAQUALONE (Quaaludes) | 1 TAB | 10-20 | |
| NITROUS OXIDE | 1 BALLOON | 2-5 | |
| OPIUM | 1 GRAM | 100-150 | |
| | 1 OZ | 1,000-1,500 | |
| | 1 LB | 10,000 | |
| PCP (Crystal) | 1 SHERM | 10-30 | |
| | 1 GRAM | 10-15 | |
| PCP (Liquid) | 1 OZ | *200-400 | |
| | 1 OZ | •1,000 | |
| PSILOCYBIN (Mushrooms Dried) | 1 OZ | 80-200 | |
| ROHYPNOL | 1 TAB | 1-2 | |
| STEROIDS | 1 TABLET | 2 | |
| | 1 AMPOULE | 30 | |
| VALIUM | 1 CAPSULE | 2-5 | |

*Reported by Los Angeles PD*
*•Reported in San Luis Obispos Co.*
*• Reported in Santa Barabara Co.*

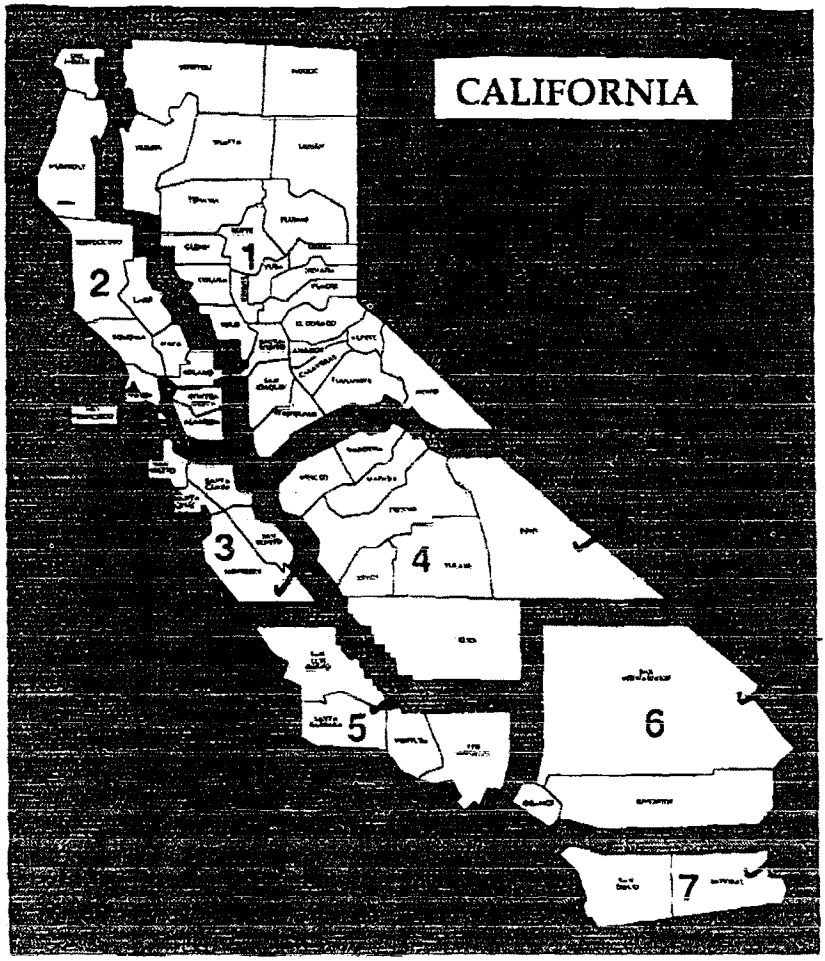
## CALIFORNIA - AREA 6

| DRUG TYPE | QUANTITY | PRICE | PURITY |
|---|---|---|---|
| COCAINE (Crack) | 20 ROCK (0.2 GRAM) | 10-20 | |
| | 40 ROCK (0.4 GRAM) | 40-50 | |
| COCAINE (Powder) | .25 GRAM | 10-20 | |
| | 1 GRAM | 40-80 | |
| | 8 BALL (3.5 GRAM) | 100-200 | |
| | 1 OZ | 500-1,000 | |
| | 1 LB | 13,500-15,000 | |
| | 1 KILO | 14,000-25,000 | |
| CODEINE | 1 TAB | 10 | |
| DILAUDID | 1 TAB | 10 | |
| HEROIN (Mexican Brown) | 1 KILO | 30,000-75,000 | |
| HEROIN (Southeast Asian) | 1 KILO | 25,000 | |
| HEROIN (Tar) | .25 GRAM | 20-60 | |
| | 1 GRAM | 70-100 | |
| | 1 GRAM | *275 | |
| | 1 OZ | 1,200 | |
| ICE (Crystal) | .10 GRAM | 60-80 | |
| | 1 OZ | 700 | |
| LSD (Blotter) | 1 DOSAGE UNIT | 2-5 | |
| MDMA | .25 GRAM | 5-25 | |
| | 1 TAB | 20-30 | |
| MARIJUANA | 1 CIGARETTE | 5-10 | |
| | 1 START PLANT | 10 | |
| | 100 START PLANTS | 1,000 | |
| | 1 MATURE PLANT | 400 | |
| | 1 GRAM (BUD) | 10 | |
| MARIJUANA ("Chronic") | 1 LB | 3,000 | |
| MARIJUANA (Domestic) | 1 OZ | 400 | |
| | 1 GRAM (BUD) | 10 | |
| | 1 LB | 4,000 | |
| MARIJUANA (Mexican) | 1 CIGARETTE | 3-5 | |
| | 1 OZ | 60-70 | |
| | 1 LB | 550-800 | |
| MARIJUANA (Sinsemilla) | 1 GRAM (BUD) | 10 | |
| METH PRECURSORS: | | | |
| EPHEDRINE | 1 LB | 1,000-2,400 | |
| METHYLAMINE | 1 PINT | 60 | |
| METHAMPHETAMINE (Powder) | .25 GRAM | 20-30 | |
| | 1 GRAM | 40-100 | |
| | 3.5 GRAM | 100-175 | |
| | 1 OZ | 400-800 | |
| | 1 LB | 4,500-10,000 | 85%+ |

CALIFORNIA - AREA 6

| DRUG TYPE | QUANTITY | PRICE | PURITY |
|---|---|---|---|
| OPIUM | 1 GRAM | 20-40 | |
| | 1 GRAM | *100 | |
| | 1 OZ | *2,000 | |
| PCP (Crystal) | 1 SHERM | 10-20 | |
| | 1 GRAM | 40 | |
| PCP (LIQUID) | 1 OZ | 150 | |
| PSILOCYBIN (Mushrooms Dried) | 1 OZ | 100 | |
| STEROIDS | 1 AMPOULE | 3-4 | |
| VALIUM | 1 CAPSULE | 3-10 | |

** Reported by Newport Beach PD*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Mr. HORN. What I want to get to is just a few more items here, and I want to pick up in advance of her giving it, a few of the points raised by Judy Grimsman, the president of the Los Angeles Customs Brokers and Freight Forwarders Association. She notes here in part of her testimony, with reference to the Customs Modernization and Informed Compliance Act as Title VI of the North American Free Trade Implementation Act, she states that the act:

> Fundamentally changed the allocation of duties and responsibilities between Customs and the importing community. In particular, it placed substantial responsibility on importers and Customs brokers to make legal determinations that were formerly made by United States Customs Service personnel.

Has this led, in the Customs' judgment, your judgments, to more fraud or less going to that system? Have we detected more? Less? What is the feeling on that?

Mr. TROTTER. Well, sir, we don't have those numbers. We haven't been in this a long time. All I can tell you is that we are certainly hoping that it is going to lead to less fraud. Generally speaking, customs house brokers, very few of them are ever involved in fraud. It is importers of record that are the difficulty.

We do have some very large fraud cases on the books and more that we are going to prosecute. But that correlation, I don't think we have drawn that, sir. We haven't been in it long enough. We do know with some of our informed compliance work which is the change in the way we do business because we're holding other folks accountable, that we are seeing voluntary tenders coming in. People come in saying, "We didn't quite understand the law. We think we owe this duty or these taxes." So we are seeing that work, but in the fraud area, we don't have those numbers, sir.

Mr. HORN. She notes further on it is the perception of her association that—

> Customs' drive to automation at the port level has been frustrated by Customs headquarters' failure to complete the automation process. Customs has in large part implemented the process of automation at present. However, the final building blocks in the automation process have not been put in place.

And she cites the automated air manifest system, the automated in-bond processing.

How are we coming along on those?

Mr. TROTTER. I think both of those are inching along. For in-bond, I think we're a little closer with what we call our tin man, which is looking at statistical evaluations instead of trying to match up all the millions of in-bonds that we have each year. The automated air manifest, once again, is progressing slower than we would want.

We have changed the way we do business. In the past we used to build automated systems and people were mandated to use them. We had a commissioner, William Von Raab, whose orders to us and the trade were "automate or perish." What happened then, we built the systems and the trade had to use them. Now we are trying to build systems differently. We are trying to build consensus up front, and it takes a lot longer. It takes a lot longer to satisfy people.

I will agree with what was said, sir. We have not had the funding. Once again, the reduction in our automated services at headquarters has been dramatic, so we have not been able to deliver.

And I would not be the one to say that we are going to deliver very quickly because of funding issues. We are looking at different ways to do things now.

Just yesterday I was briefed on an issue. The foreign trade zones and bonded warehouses are asking for an automated system that we cannot build for them on our mainframe computer. We are looking at using the Internet. We are trying to do things differently and that, I think, is where we are moving in the future.

Mr. HORN. Does Customs have a chief information officer?

Mr. TROTTER. Yes, sir.

Mr. HORN. Who is that?

Mr. TROTTER. His name is Robert McNamara.

Mr. HORN. Let me read another paragraph. It is along the lines that you are talking about.

The Association perceives the failure to complete the automation process as a result of Customs headquarters' failure to focus on its core business—cargo review, release, duty collection, anti-smuggling and drug interdiction. Unfortunately, Customs headquarters has allocated too great a portion of its resources in pursuit of too many new initiatives, and has not directed sufficient resources to its core businesses. This lack of focus has prevented Customs from utilizing its resources in the most efficient manner. While these initiatives are laudatory, Customs headquarters must take one step at a time and complete the basic automation process before diverting resources to new programs. Its focus on "sexy" initiatives should not detract from its key concerns—cargo processing, anti-smuggling, and drug interdiction.

Would you say that is a fair statement?

Mr. TROTTER. That is all according to which side you are on, sir.

Mr. HORN. Well, you are following Miles' law: Where you sit depends on where you stand.

Mr. TROTTER. I think, sir, that if I were observing it from that position, I would say that. I think if you saw the pressure that is being applied on us by other countries, the pressure that is being applied on us for outbound work, for changing our Automated Commercial Environment, it is a very difficult arena to juggle all of these complex systems; and then couple that with the reductions we have had to take. I don't know that it could have managed much better.

We are trying and are looking very closely at that to say. The Customs Service has always been an agency that took on what was given to it. We never said, "We can't do that." But we are reaching that point. Now we say, that, sir, "I'm sorry to hear that, but that is just how it is, and we have not been very good at that." But I think if I were in those people's shoes I would say that.

Mr. HORN. I will note her praise here, and then I will go back to another question she raises:

In closing I would like to affirm the fact that Customs Service officials and personnel at the Port of Los Angeles, Long Beach, and Los Angeles International Airport have been model partners in forging a strong and amiable relationship between U.S. Customs and the importing community.

Now I go to the second problem perceived by the association as a result of Customs' reorganization:

In doing away with districts and regions, Customs headquarters sought to "empower" the ports and create review directly from the port to headquarters. The end result of "empowering" these Customs ports is a lack of uniformity in Customs administration at the port level, and excessive delays in administrative review by headquarters, which is inundated by port officials' requests for review. While Customs itself has moved to informally create "super" ports, this lack of uniformity is

pervasive. One of the goals of Customs reorganization and the act was to discourage "port shopping" as a result of Customs processing, and to ensure importers would choose ports based on the nature of the transaction being processed. The result of Customs reorganization and its "empowerment" of ports is to sacrifice uniformity, and to create new reasons for port shopping unrelated to the collection of duties.

What do you think about that?

Mr. TROTTER. Well, that is very much a concern of ours. I was a regional commissioner before the reorganization. I was on the reorganization team, and I know how important uniformity is to the trade community. One thing that we now realize is that this is to be partially true. However, we are trying to look at a new way to manage the organization.

Instead of top down, we are trying to empower our ports, but we are trying to develop it with a different concept, which we call port councils. In other words, bring the West Coast ports together, the port directors, put them in a room, and talk to them about these very same issues. We are doing that very successfully along the Northern border.

It is very much of a concern to us. We understand this. I think that some of it is driven by individuals in the ports, but I think some of it is a lack of headquarters leadership, so I do not deny that. I don't think it is as bad as some would want us to kind of react to, but I think what it is doing is forcing us to relook at how we manage this organization. As you know, we have changed this organization dramatically.

What Mr. Weise would like to say is, in the 3 years since we have changed this organization, our productivity continues to go up and we are very proud of that. And that is with deep appreciation to the people in this room, our partners in the National Treasury Employees Union and the people that we work with. It is a massive change in this organization. We are trying to streamline it. We're trying to flatten it. We're trying to listen to the trade community as our stakeholders have asked us to. And it is a change, but I am deeply concerned about that and I spend a lot of my energy working on that very same issue.

Mr. HORN. Well, I can appreciate that. Let me ask you, since you mentioned a couple of times the employees union and I have worked with them on a number of their interests. Are we saying that the only way we would change the imbalance, wherever it is, Detroit, New York, southern California, our ports here, or whatever, is to simply appoint the younger, newer people brought into the system as they get out of school, or are there promotion opportunities sufficient that one would want to move across the country if they get a promotion? I realize they are going from a high cost area of New York to a high cost area of southern California. It is about equal, and Seattle would be equal for other reasons.

Mr. TROTTER. Generally speaking, we have quite an opportunity for people who want to transfer laterally or be promoted within the organization. We don't get a lot of that simply because of those issues that you spoke to. One, they have grown up in an area, or two, family ties, and the costs involved.

No, I wouldn't say that, sir. I think the agents have done a remarkable job in transferring people who are more senior. Sometimes you don't want just rookies; you want senior people, but they have a mobility clause in their package when they are hired. Our

folks do not. It is very difficult for us as an employer to say, "Well, you got your job in New York and that is where you want to live, but now we are going to move you to California." People are very valuable to us. We don't want to lose those folks.

So it does make it more difficult, perhaps, but even on the enforcement side where they don't deal with the union and where they do have a mobility clause, they are interested in where their people want to work. We know that people who want to work someplace are more productive than folks who don't. But we do offer those kinds of opportunities. We offer it in our preclearance sites in Canada. We got a lot of people from around the country who apply for that.

But it is difficult to recruit people into the Los Angeles-Long Beach area. They come in here, government salaries are so low, they cannot afford to live. I talk to these folks. Folks live in their cars. It is very difficult to do that.

Mr. HORN. Isn't Los Angeles-Long Beach eligible for a regional differential under the Civil Service?

Mr. TROTTER. Yes, sir, but I don't even know what the starting salaries are now, but they are low. John do you know what the starting salaries are for GS–5's coming in?

Mr. HEINRICH. Probably a little above $20,000, I think, and the cost-of-living is a little greater than 8 percent on top of that.

Mr. HORN. You mean the regional differential?

Mr. HEINRICH. Yes.

Mr. HORN. Why don't we get a little exhibit here of what is the salary level here, what is it in Miami, what is it in New York, what is it in southern California, namely Los Angeles-Long Beach metropolitan area, and the degree to which the regional differential, which a lot of us have fought for, is still applied.

And is there a problem in negotiating with the union in terms of less inflexibility? It seems to me a union is usually interested in having members, and I would think they would want more people to be assigned to the Customs Service. That is our job at the congressional level. And I would think they would want some flexibility so people could take advantage of things.

So you are saying under that union clause it is OK if the person wants to go, but not OK if Customs says this is where we need you, you are going?

Mr. TROTTER. Sir, we have two different options. We manage the Customs Service; the union doesn't. We have rights given to us by the executive department and by law and by regulation. But what we have traditionally done in the past is not force people to take moves. If they want to voluntarily take a move, whether it be a lateral reassignment or promotion, we encourage that, as well as the union. But we have traditionally not forced people to take moves.

We are an agency that has held very few Reductions-in-Force [RIFs] throughout our time. We take a great deal of pride in that. We think it makes for a better, more productive work force, and we are small enough that we have been able to do that, sir.

I meet every other week with the president of the National Treasury Employees Union, Mr. Robert Tobias, in Washington, DC. We go over what is important to him and what is important to me. We have never really discussed this at length. I think that the em-

ployees certainly would want to have a say in that, most definitely have a say in that, and traditionally, sir, we have not done that.

Mr. HORN. Do either Mr. Hensley or Mr. Heinrich want to comment on your problems in trying to bring people to southern California under either transfers or whatever? Or do you hire directly and put them through school?

Mr. HENSLEY. We do both, Mr. Chairman. The problem for the assistant commissioner is the cost per move when they reallocate living bodies, and the cost for a family move now is around $65,000 per employee, so 10 employees is $650,000. Of course, you can extrapolate that on up. We prefer to recruit——

Mr. HORN. So that comes out of the assistant commissioner's budget for enforcement?

Mr. HENSLEY. That is correct.

Mr. HORN. He has a pot of money there to solve that problem?

Mr. HENSLEY. Yes, there is an amount of money for moves. But when you couple that with promotions, which usually entail a move, that amount of funding is drastically reduced. And then, as Mr. Trotter spoke to, the drain to the southern border has used up virtually all of those dollars for moving people.

To address your other point, which is, do we recruit locally, we prefer to recruit and staff with people from southern California because they are used to the high cost of living here, they are used to the West Coast environment, and most importantly, after 2 years they are not in my office asking to move to Des Moines, Boulder, CO, or New York City. And we do have some people that actually do request to go to New York City, but they are prisoners of their growing-up environment and they want to return back to where their family is, their mothers, their fathers, and of course anybody who is over 35 has an aging parent. We hear that all the time, "my aging parents." And I, like everyone here, have aging parents.

But the stability of the work force for an agent in a given area is about 3 years before we even consider them 100 percent productive, because of the complexity of an area like Long Beach-Los Angeles. And so we like the stability of recruiting someone, say, who has graduated from the University at Long Beach or USC or Stanford, who has a West Coast environmental view of how things work and is comfortable in this environment so they are up to speed quicker, we haven't disrupted them, and we're going to get 3 or 4 or 5 years of steady work out of that person before they are looking for a promotion in another area. So for all of those reasons, we do like to recruit westerners or southern Californians for this area. It works for us.

Mr. HORN. Mr. Heinrich, want to add anything?

Mr. HEINRICH. Yes, a couple of comments, Mr. Chairman. No. 1, what we found when I first got out here in using some of the broad-based recruitment techniques was that we were bringing people from all over the country and our attrition rate was well over 50 percent. These folks either would not show up on the day they were supposed to or when they did show up, they got the lay of the land and found out that they could barely afford a one-bedroom condo as opposed to a home for their family.

So we began to recruit locally, and particularly through the local colleges and universities, the outstanding scholar programs, the VRA, veterans' readjustment program, as well as the typical testing, and we were able to bring that down considerably. Of course, the regional pay differential was helpful as well.

But I just saw some recent statistics indicating—and of course this would be just for Los Angeles International Airport—last year we lost 24 inspectors that we had brought on as a result, and that equals an attrition rate of 8 percent. That was actually in fiscal year 1996. In fiscal year 1997 we lost 49 inspectors, representing an attrition rate of 15 percent. So it is serious. You go to all the trouble of screening and recruiting and in many cases sending people away to about 12 weeks of schooling, I believe, and then these folks want out.

Mr. HORN. Where do they go, Glynco?

Mr. HEINRICH. That is the training for our inspectors, yes, the 11- or 12-week training.

Mr. HORN. Any other comments on this aspect?

Mr. TROTTER. Yes, sir. You should know that Congress is looking at this very closely from the integrity aspects. Our overseers at Treasury, Assistant Commissioner Kelly is looking at this very closely, and in fact has put money into our budget from the Omnibus crime bill for movement of personnel.

When I say the integrity issue, there is a feeling among some that people who are recruited in local areas tend to be more prone to have integrity problems. We have not found that to be the case, but yet there is the perception that that is the case. We are building a brand-new recruitment system for the U.S. Customs Service as we speak. Congress is involved and Treasury is involved. Not to address the issues that we are speaking about but to address integrity issues. So it is a multifaceted problem for us.

Mr. HORN. Well, when you say "integrity issues," I assume you are talking about the potential to be corrupted?

Mr. TROTTER. Yes, sir, the potential for being corrupted.

Mr. HORN. And do you find there is a regional issue? Is there any evidence that that exists?

Mr. TROTTER. I think it is premature to say there is evidence. We have worked with the FBI. We have worked with other Federal law enforcement agencies. As I say, it is a feeling by some that there is. It is a feeling by some that there is not.

Our problem is we are a national law enforcement organization. And what happens is if you go into a city, people will say if you work in Miami, New York, or Chicago, you rotate precincts and that is the integrity issue. For us to rotate a precinct would mean you have to leave L.A. to go to Chicago or you have to leave Chicago to go to Memphis or Miami. It creates a problem for an organization like ours, but it is a priority in the Congress and they are trying to address those issues.

Mr. HORN. That's all I have. You have been a very fine panel. And the staff might be working with your staff on a few more questions that we really don't have time for, since we are supposed to vacate this room at 1 o'clock and we have the last panel to go. Thank you very much for coming and flying out here, Mr. Trotter.

We now go to the last panel. Our witness is Judy Grimsman, the president of the Los Angeles Customs Brokers and Freight Forwarders Association, Inc.

If you will also stand and take the oath, since you all three are going to comment on this panel.

[Witnesses sworn.]

Mr. HORN. I didn't know there would be three of you. Let us identify each of you so we can get it straight.

Mr. KIMOTO. My name is Paul Kimoto. I am the treasurer of the——

Mr. HORN. You want to spell the last name, Mr. Kimoto.

Mr. KIMOTO. K-I-M-O-T-O.

Mr. HORN. K-I-M-O-T-O, and you are the treasurer.

Mr. KIMOTO. Of the Brokers Association.

Mr. HORN. And you are Ms. Grimsman?

Ms. GRIMSMAN. I am Judy Grimsman, the president of the Los Angeles Customs Brokers and Freight Forwarders.

Ms. CASTELLANOS. I am Cecilia Castellanos, and I'm the chairman of the board of the association, past president.

Mr. HORN. Just to get the spelling right, would you do both names for me?

Ms. CASTELLANOS. Cecilia is C-E-C-I-L-I-A , and Castellanos is C-A-S-T-E-L-L-A-N-O-S.

Mr. HORN. Very good. And you are chairman of the board?

Ms. CASTELLANOS. Yes.

Mr. HORN. Is that a 1-year term or 2 years?

Ms. CASTELLANOS. It is the immediate past president of the association is named chairman of the board.

Mr. HORN. Well, congratulations. Glad to have you all here. I didn't mean to take away all of your testimony, Ms. Grimsman, but I believe when you have the group in front of you that can solve some of the problems. Often we would have had you and GAO first, but you happened to be on the last panel, so I thought we would cover ground on some of that.

## STATEMENT OF JUDY GRIMSMAN, PRESIDENT, LOS ANGELES CUSTOMS BROKERS AND FREIGHT FORWARDERS ASSOCIATION, INC., ACCOMPANIED BY PAUL KIMOTO, TREASURER, AND CECILIA CASTELLANOS, CHAIRMAN OF THE BOARD

Ms. GRIMSMAN. Thank you. Good morning Mr. Chairman. I am pleased to have the opportunity to address the Subcommittee on Government Management, Information, and Technology of the House Committee on Government Reform and Oversight.

I understand that you are specifically examining the Customs Service's strategic plan under the Results Act, the allocation of resources by the U.S. Customs Service and other general management issues concerning Customs. These matters are of major concern to the membership of the Los Angeles Customs Brokers and Freight Forwarders Association because we are directly concerned with Customs' workload and entry processing. Indeed, our membership is an integral part of the Customs' import processings.

As you mentioned, in December 1993 Congress enacted the Customs Modernization and Informed Compliance Act. As we stated, or as you stated, this act fundamentally changed the allocation of du-

ties and responsibilities between Customs and the importing community. In particular, it placed substantial responsibility on importers and Customs brokers to make legal determinations that were formerly made by the U.S. Customs Service personnel. The association's membership has responsibly complied with the reforms contained in the Modernization Act, notwithstanding the additional responsibilities it has imposed.

One of the principal reasons for the enactment of the act was to improve Customs processing by increasing its reliance on automation. This drive to automate has benefited both U.S. Customs and the importing community. However, it is the perception of the association that Customs' drive to automate at the port level has been frustrated by Customs headquarters' failure to complete the automation process. Customs has in large part implemented the process of automation at present. However, the final building blocks in the automation process have not been put in place. Completion of the automation process is essential to the orderly processing of Customs entries, and to Customs and Customs brokers realizing the full benefits of automation.

The association perceives the failure to complete the automation process as a result of Customs headquarters' failure to focus on its core business—cargo review, release, duty collection, anti-smuggling, and drug interdiction. Unfortunately, Customs headquarters has allocated too great a portion of its resources in pursuit of too many new initiatives, and has not directed sufficient resources to its core businesses. This lack of focus has prevented Customs from utilizing its resources in the most efficient manner. While these initiatives are laudatory, Customs headquarters must take one step at a time and complete the basic automation process before diverting resources to new programs. Its focus on "sexy" initiatives should not detract from its key concerns, cargo processing, anti-smuggling and drug interdiction.

A second problem perceived by the association is a result of Customs reorganization. In doing away with the districts and regions, Customs headquarters has sought to empower the ports, and create review directly from the port to headquarters. The end result of empowering these Customs ports is a lack of uniformity in Customs administration at the port level, and excessive delays in administrative review by headquarters, which is inundated by port officials' requests for review.

While Customs itself has moved to informally create the superports or the port council, this lack of uniformity is pervasive. One of the goals of Customs reorganization and the act was to discourage "port shopping" as a result of Customs processing, and to ensure importers would choose ports based on the nature of the transaction being processed. The result of Customs reorganization and its empowerment of the ports is to sacrifice uniformity, and to create new reasons for port shopping unrelated to the collection of duties.

The reorganization has also resulted in a loss of expertise within the agency. In the past, Customs commercial operations personnel developed an in-depth understanding of the businesses of importers whose entries they reviewed. As a result of the reorganization, and the frequent adoption of new projects such as the Customs Man-

agement Centers, Account Managers, and other organizational adaptations, the personnel directly involved in entry processing has been and is being reduced.

In addition, many of the most expert Customs personnel have left the U.S. Customs Service to join private industry. Customs has not replaced this expertise, and under its current organizational structure it is not likely to develop the same product expertise that it possessed in the past. This loss of expertise, which has largely gone unaddressed by Customs, represents a substantial threat to Customs conducting business at the same level of expertise it has exhibited in the past.

In closing, I would like to affirm the fact that the Customs Service officials and personnel at the port of Los Angeles, Long Beach, and Los Angeles International Airport have been model partners in forging a strong and amicable relationship between U.S. Customs and the importing community. Local Customs officials have always been open, accessible, and responsive to the concerns of the association and its membership. This working partnership has been frustrated by Customs headquarters' unwillingness to focus on the completion of the automation process, and on doing the hard and unglamorous work of fully reengineering its core processes. Hopefully Customs headquarters will complete the automation process and restore the uniformity which used to exist under its earlier organizational structure.

In addition, the association hopes Customs headquarters will avoid the temptation to commit resources to pet projects which may attract glamour and attention to individual Customs employees, but which detract from the processing of cargo.

Thank you for the opportunity to appear before this committee.

[The prepared statement of Ms. Grimsman follows:]

**STATEMENT OF JUDY GRIMSMAN, PRESIDENT,**
**LOS ANGELES CUSTOMS BROKERS &**
**FREIGHT FORWARDERS ASSOCIATION, INC.**

**Before the Subcommittee on**
**Government Management, Information and Technology**

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In December, 1993, Congress enacted the Customs Modernization and Informed Compliance Act ("the Act") as Title VI of the North American Free Trade Implementation Act. This Act fundamentally changed the allocation of duties and responsibilities between Customs and the importing community. In particular, it placed substantial responsibility on importers and Customs brokers to make legal determinations that were formerly made by U.S. Customs Service personnel. The Association's membership has complied with the reforms contained in the Modernization Act, notwithstanding the additional responsibilities it has imposed on our membership.

One of the principle reasons for enactment of the Act was to improve Customs processing by increasing its reliance on automation. This drive to automation has benefited both U.S. Customs and the importing community in facilitating the import process. However, it is the perception of the Association that Customs' drive to automation at the port level has been frustrated by Customs Headquarters' failure to complete the automation process. Customs has in large part implemented the process of automation at present. However, the final building blocks in the automation process have not been put in place (i.e., the automated air manifest system, and automated in-bond processing). Completion of the automation process is essential to the orderly processing of Customs entries, and to Customs and Customs brokers realizing the full benefits of automation.

The Association perceives the failure to complete the automation process as a result of Customs Headquarters' failure to focus on its core business – cargo review, release, duty collection, anti-smuggling, and drug interdiction. Unfortunately, Customs Headquarters has allocated too great a portion of its resources in pursuit of too many new initiatives, and has not directed sufficient resources to its core businesses. This lack of focus has prevented Customs from utilizing its resources in the most efficient manner. While these initiatives are laudatory, Customs Headquarters must take one step at a time and complete the basic automation process before diverting resources to new programs. Its focus on "sexy" initiatives should not detract from its key concerns – cargo processing, anti-smuggling, and drug interdiction.

A second problem perceived by the Association is a result of Customs reorganization. In doing away with districts and regions, Customs Headquarters sought to "empower" the ports, and create review directly from the port to Headquarters. The end result of "empowering" these Customs ports is a lack of uniformity in Customs administration at the port level, and excessive delays in administrative review by Headquarters, which is inundated by port officials' requests for review. While Customs itself has moved to informally create "super" ports, this lack of uniformity is pervasive. One of the goals of Customs reorganization and the Act was to discourage "port shopping" as a result of Customs processing, and to ensure importers would choose ports based on the nature of the transaction being processed. The result of Customs reorganization and its "empowerment" of ports is to sacrifice uniformity, and to create new reasons for port shopping unrelated to the collection of duties.

The reorganization has also resulted in a loss of expertise within the agency. In the past, Customs commercial operations personnel developed an indepth understanding of the businesses of importers whose entries they reviewed. As a result of the reorganization, and the frequent adoption of new projects such as Customs Management Centers, Account Managers, and other organizational adaptations, the personnel directly involved in entry processing has been and is being reduced. In addition, many of the most expert Customs personnel have left the U.S. Customs Service to join private industry. Customs has not replaced this expertise, and under its current organizational structure it is not likely to develop the same product expertise that it possessed in the past.

This loss of expertise, which has largely gone unaddressed by Customs, represents a substantial threat to Customs conducting business at the same level of expertise it has exhibited in the past.

In closing I would like to affirm the fact that Customs Service officials and personnel at the Port of Los Angeles, Long Beach, and Los Angeles International Airport have been model partners in forging a strong and amicable relationship between U.S. Customs and the importing community. Local Customs officials have always been open, accessible and responsive to the concerns of the Association and its membership. This working partnership has been frustrated by Customs Headquarters' unwillingness to focus on the completion of the automation process, and on doing the hard and unglamorous work of fully reengineering its core processes. Hopefully Customs Headquarters will complete the automation process, and restore the uniformity which used to exist under its earlier organizational structure. In addition, the Association hopes Customs Headquarters will avoid the temptation to commit resources to "pet projects" which may attract glamour and attention to individual Customs employees, but which detract from the processing of cargo.

MM:sr
StmtJGrimsman

Mr. HORN. Well, we thank you for taking the time to come with your colleagues on the board. As you know, I read what I thought were some of your key points to the Customs officials and they gave a tentative answer and, of course, the record is all open for them and for you if you would like a further discussion of that.

I am curious, if you waved a wand, what would be your first priority of what you would do in the Customs Service, looking at it from the clientele view, since you are their clientele in many ways, just as the shipper is in many ways.

Ms. GRIMSMAN. I think the first project would be to finish the automation that they have started, the automated manifest, the in-bond processing. The processing, because it is not complete, tends to cause much more "band-aiding"—Customs has to take and pull their expert inspectors to sit and talk to the trade on kind of redundant issues. For example, why this airbill number doesn't match the airline's manifest. That seems like a great loss of resources. To me, that seems like a great loss of resources. They could be doing something else.

Mr. HORN. Do either of your colleagues have additional thoughts on this? If you waved a wand or I waved a wand, what would you do to the Customs Service first?

Ms. CASTELLANOS. Now, that has always been my personal view, that when, as Mr. Trotter mentioned, Mr. Von Raab said "automate or perish," many of us were sort of dragged into that. But once we got into that we saw there were great advantages to that, and we couldn't possibly handle the volume of transactions that occur in this port without automation.

However, it is not complete, and there are many steps that are missing in that view, and it seemed like it wasn't very long before we got into this that they were already moving into other projects that didn't have anything to do with the completion of this system as we were given to understand at the beginning.

Mr. HORN. That is a very important point, I think just as Ms. Grimsman's statement on getting with your core reason for existence, and I think you made the point very well.

Mr. Kimoto, do you have anything to add to this?

Mr. KIMOTO. No. It is rather glaring, the deficiencies. Once you are used to the automation and how it works in most areas, it is glaring when it is not working properly, and so——

Mr. HORN. Have there been breakdowns within the system?

Mr. KIMOTO. Basically with the air manifest system. It just does not operate at the same efficiency as the ocean manifest system. That needs to be addressed.

Mr. HORN. Is this a means of a different type of operation? Is it more quantified? What goes wrong?

Mr. KIMOTO. Well, in the air environment there are more consolidated shipments and it has to be handled differently than in the ocean environment. So the programming has to be different, and that is just the area that needs to be addressed right now.

Mr. HORN. What is the programming? What sort of data goes in there?

Mr. KIMOTO. Manifest information, the bill of lading information, and the quantities, all of those issues have to be addressed in the air environment.

Mr. HORN. Yes, when I went through there yesterday I looked at shipping manifests that are automated. I didn't get to the airport to look at the airline manifest. What is the difference? I saw country of origin, weight, description, and this type of thing.

Mr. KIMOTO. The same information is required in the AirMan environment. The problem comes with a consolidated air shipment, and in addition to a master bill of lading there are house bills of lading and sometimes subhouse bills of lading, and all of that information has to be put into the Customs system and it has to match with the same information the importer has. And it is not working right now.

Mr. HORN. Is that how it is shipped by the airline? Does it all come in the same plane? Or are there parts divided among other planes?

Mr. KIMOTO. Well, that is a separate issue, again. It is possible to have 20 cartons on one bill of lading that get split up into two separate aircraft and two separate flights, and that creates another problem for the manifest system.

Mr. HORN. And it doesn't account for that in the system?

Mr. KIMOTO. No.

Mr. HORN. Seems to me the way you solve the problem is get the customers, namely you, into the room and say, "OK, what are we doing to redesign the software?"

Ms. GRIMSMAN. Well, if I could add, we have been working with the Customs Service on a headquarters level for 8 years on this project. The Los Angeles Airport Customs has been very cooperative, and we have these monthly user meetings. And one of the major problems, the No. 1 issue is Customs cannot, for whatever reason, take the lead in this particular situation. We told them in the very beginning, you must dictate to the freight forwarders, the airlines, and the brokers what you want as the data element: the house bill number or some nebulous number that people just kind of make up, and somebody in Japan will type it with an alpha code, somebody else will type it a different way, and it will never match.

In the sea environment Customs told the steamship lines, "You will make a unique bill of lading." They did this, and this solved probably 90 percent of the problem. But Customs, it is my understanding they don't have jurisdiction over trade forwarders, so we have been telling them someone has to take the lead in this and specify how you want the manifest data to come in from the inward carrier.

And to this day, I guess before Mr. Weise left, he had been working with the ATA and committed, made a commitment that their programming would not recognize all the alpha codes and this and that, and they would just look at the numeric and it should reconcile in the system. Well, to this day, this has not happened. And this is back to the Customs here in this port. To cooperate and move the cargo through, they have to band-aid everything.

And it falls back on headquarters that they are not helping the programming on this, because there is ACE now and all of these other programs that say, "Now, you guys are going to have to wait." And we are saying, "we can't wait. We have this project halfway started and you have all of these people running around trying to make it work and it is just not working."

Mr. HORN. We will have the staff follow up with you and Customs, because it seems to me it is not that great a problem. If they get in the room and say, "Hey, this makes common sense, it meets our needs and your needs," and not change—well, when it is sheer confusion at the shipper end as to what is it that they are supposed to put up there, that obviously has a problem. So Mr. Brasher will look into it for the subcommittee and see if that is not a solvable problem.

What is your experience talking to your fellow freight forwarders and brokers in the New York area? Does there seem to be a geographical imbalance of Customs personnel to be helpful in New York as opposed to the number of Customs personnel to be helpful in Los Angeles and Long Beach?

Ms. GRIMSMAN. I think—I am also on the National Brokers and Trade Forwarders Association, and I work on the air freight committee with the national association and am quite familiar with JFK. I think Los Angeles and New York Customs personnel are very cooperative with the trade. We're the largest two airports in the country, and they are probably equal in the level of service and cooperating with the needs of the trade. They have similar meetings that we have here. We share information. Their inspectors, when there is some particular method of improvement, they share it with the AMS people here. So I think it is pretty even, the treatment or the working together, I guess would be a better word with the Customs Service.

Mr. HORN. So you are pleased with the personnel you interact with. Then, the question is, are there enough personnel staff positions to handle the traffic that moves through both the airports and the seaports?

Ms. GRIMSMAN. Currently it is well staffed, but I think with the growth projected that that is something that is going to have to be considered for future growth.

Mr. HORN. The ports are supposed to double by 2010, and the Alameda corridor will be finished by 2002.

Ms. GRIMSMAN. Right. Exactly. But, again, it is the effort the local people make. So hopefully it never will happen, but if that goes away, yes, there would probably be a major concern from the trade. But yes, for future growth, we do need to look at more positions.

Mr. HORN. Now, one of the things that a number of Federal agencies looked at with this sort of dichotomy, is they have both enforcement and service responsibility. You look at the Immigration and Naturalization Service, you look at the Internal Revenue Service, and some of the complaints that come—I haven't heard it with reference to Customs but I am asking the question because I sure hear them with reference to IRS and INS—are that if you only separated the service function from the enforcement function, then that would please your constituency in the case of the shippers and the freight forwarders and so forth with Customs. This as opposed to, let's say, the immigrant or the taxpayer with the other two agencies, to have enforcement as a separate thing.

Is there any reason to say that Customs should have enforcement responsibilities in one place and service responsibilities in the

other? We are talking about IRS. You could each talk about a separate agency.

Ms. GRIMSMAN. I don't know about separating them. I think with more resources, better types of equipment and maybe x-ray and just a more efficient way of operating their exam process. But that is a money issue. Just, I know there are these things that you put containers through and it x-rays them, but again it is resources.

As far as the service, again, as I mentioned there are so many new projects coming around, it is kind of hard to keep track of where we are today.

Ms. CASTELLANOS. If I may comment?

Mr. HORN. Sure, Ms. Castellanos.

Ms. CASTELLANOS. It is an age-old question about that because it has been discussed previously, and I have been in this business for a very long time and I recall these previous problems.

Indeed, we had to put together an alliance here of business, Customs, forwarders, brokers, and so forth, to get more staffing here a few years ago through Mr. Roybal's committee at that time. However, I think as Judy says, I don't think it is necessary to remove or rather separate these services, but I did note that all of your discussions here earlier with Customs and the GAO, everything was on an emphasis of drug interdiction. And, indeed, they mentioned five major things, and it was drug interdiction, child pornography, smuggling of high technology and outbound things, and so forth.

From our view, we have a totally different view because we represent the importing community, and we are talking about moving legitimate cargo through the port as quickly as possible, observing the laws, and so forth. But that is our function and that is the function of the importer. That is his big necessity, especially in this day and age where they do not hold large inventories. Everything is on an on-time basis and they want to move their cargo as quickly as possible, and breakdowns in either examinations because of whatever the reason might be, lack of personnel or whatever, or not that it happens very often but sometimes you do get down time on the Customs computer, but that is minor, things like that that impede the movement of the cargo. That is what we are principally concerned with and what the importing community would be concerned with.

Not that I want to say we're against the other things, and that should be totally downgraded. That is not what we are saying. But we do want the understanding that the cargo, as another competitor of ours says, "the cargo has to move."

Mr. HORN. Sure. Well, you make an excellent point, and you are really talking about what the basic overwhelming task of the Customs Service is, to move that legitimate cargo through the ports and into the shipping and distribution systems of a particular country. So that is a point well taken.

Do you have any thoughts, Mr. Kimoto?

Mr. KIMOTO. I would just like to point out that the application of law for the Customs Service is quite a bit more complex than it is for the IRS and INS. There are a number of different agencies that are involved with the importation of goods. They have to enforce food and drug laws. Dozens of different agencies are involved with importing, and it is a very complex job that they have.

In the enforcement part, they are enforcing a lot of different things rather than just counting income or determining nationality. So it is a much more complex enforcement job that they have, and I think it would be difficult to separate the two with the Customs Service.

Mr. HORN. Well, we don't have any intention of doing it, but since it has come up with two other agencies I thought I would throw that out, since you are correctly saying, "Hey, from our standpoint as a freight forwarder, all of these other things that you are doing are wonderful, and the public is demanding that, but we would like to get the freight moving." And when you feel when you are diverting into all of these other things, and it is a legitimate complaint, that they are not always able to get all the freight cleared and moved into the shipping processes.

Let me ask you about your organization, the Los Angeles Customs Brokers and Freight Forwarders Association, Inc. Do you ever have cases where any of your members are engaged in or are indicted on illegal activity, and what does your association do? Do you throw them out of your association? Or do you just tolerate people in the association that do illegal things and use the Freight Forwarders Association or whatever as a front?

Ms. GRIMSMAN. As far as we know, I don't believe that has ever come up, and we do have specific bylaws that would address certain issues along those lines.

Mr. HORN. What? That would refuse to let them continue in membership?

Ms. GRIMSMAN. There are criteria where someone may be asked to be out of the association, but we have very strict rules on who can be a member. You have to be permitted in the port. Permits must be issued by U.S. Customs. We have board approval prior to accepting them. So it is quite a difficult process to get in.

Ms. CASTELLANOS. Also, I think that a review in the Customs district of those people who are our members, they are not persons or companies who are usually subjected to any kind of a penalty or review with Customs. Most of our membership tends to heed the law and, indeed, sometimes works with Customs in various aspects in order to stop anybody from doing something fraudulent, smuggling any drugs, or anything of that nature.

Mr. HORN. Are there any points that you heard Customs make that you would like to comment further on?

Ms. GRIMSMAN. Yes, Mr. Trotter's comment on the accessing the user fee. We would applaud if Congress can do anything about that. I think that would give a lot of money to the Customs budget for perhaps exam processing, more equipment for expedited examinations, you name it. I think if they could get their hands on that extra income it would greatly enhance the service.

Mr. HORN. Who would object in the shipping community?

Ms. GRIMSMAN. I doubt if anyone would.

Ms. CASTELLANOS. The Treasury might object because the funds go into the general account.

Mr. HORN. How about the airlines? You don't think the airlines would object?

Ms. GRIMSMAN. No. The passenger versus the cargo? They want the cargo off their docks. Their docks are not a warehouse. They

fly planes in and they have to have space. So if cargo sits on those docks, that costs them more money than they would actually collect in storage. So I can't imagine any carrier, any port authority would object, but maybe I'm wrong.

Mr. HORN. Is there a backlog in clearing air shipments off the docks?

Ms. GRIMSMAN. Only the textile, the quota visa, because that goes through several different stages. In this port, because it is a large port, there are several layers. I don't know if you saw the inspectors and then the commercial operation people, the import specialists. You have to have three, I believe, different divisions of Customs process one of these, so that takes a lot longer because it goes from one group to the next to the next, and then back.

That is one that cannot clear paperless, which is an advance clearance that—we like the advanced type of clearance. That is a very large commodity in this port, the textiles and the wearing apparel, and that does clog up the air cargo space.

Mr. HORN. Is that a problem with whether it is made in China and being snuck in under the Thai quota or something?

Ms. GRIMSMAN. Yes, but it is a national method of clearance. This is a large port for that commodity, so that compounds the issue. It is maybe triple what any other port percentage wise would probably handle.

Mr. HORN. Well, we will ask Customs to respond for the record on this, to see if they can have a team or some other grouping that would expedite matters.

Ms. GRIMSMAN. I am sure the wearing apparel people would love that.

Ms. CASTELLANOS. You know, Congressman, just a thing on the user fee. When that was first proposed, it was proposed by Customs and—and it was supposed to be a fee that was going to come into their coffers, so to speak. At that time, our National Brokers Association objected to it because we felt very strongly that it would go into the general Treasury and it would not get into the Customs funds, and that is exactly what did happen.

What you have is, an importer is now paying, not only the user fee, but they are also paying a harbor maintenance fee for a different purpose. So it seems easy to stick fees on imports. The only thing that happens, though, is that the importers of goods do not get any benefit out of it as far as being able to add additional facilities, personnel, or whatever to facilitate cargo movement.

Mr. HORN. Well, you raise a good point, and I am interested to know that you would be happy as long as the money went to the Customs Service and resulted in human resources to clear cargo. That's understandable.

Any other comments on Customs' testimony? Is that it? Well, we thank you all for coming. Your testimony and contribution has been very helpful. So if you have any further thoughts, write them to me in Washington or Mr. Brasher, senior policy director, who is responsible for this hearing, and we will try to be helpful. So thanks a lot.

Ms. GRIMSMAN. Thank you.

Mr. HORN. Now I am going to thank the people who helped set up this hearing. We have J. Russell George, I guess he is in the

back planning for our next hearing, which will be in New Hampshire on Monday, so we are moving around. Well, the next one is tomorrow in Beverly Hills.

J. Russell George is the staff director and chief counsel; Mr. Brasher, to my left, your right, is the senior policy director who is handling this issue; Mr. John Hynes, professional staff member who remained in Washington; Andrea Miller, clerk who arranged for the hearing on the Federal side; Connie Sziebl, our district manager; and our court reporter is Joe Strickland.

We want to particularly thank the city clerk's office for the city of Long Beach: Stanley Enge, the clerk typist; Julie Butera, the executive secretary to Shelba Powell, the city clerk, and we thank Mrs. Powell; and Kittie Abrego, executive secretary to Curtis Tani, who is the assistant to the city manager; and Mike Hallinan, who is the electronic technician that made you able to hear us and he may now pull the plug because this hearing is adjourned.

[Whereupon, at 12:30 p.m., the subcommittee was adjourned.]

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