

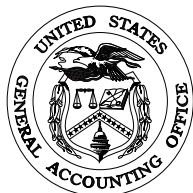
GAO

Report to the Chairman, Permanent
Subcommittee on Investigations,
Committee on Governmental Affairs,
U.S. Senate

May 1999

U.S. CUSTOMS SERVICE

Efforts to Curtail the Exportation of Stolen Vehicles



Office of Special Investigations

B-279627

May 12, 1999

The Honorable Susan M. Collins
Chairman, Permanent Subcommittee
on Investigations
Committee on Governmental Affairs
United States Senate

Dear Madam Chairman:

This report responds to your request that we describe efforts by the U.S. Customs Service to curtail the exportation of stolen vehicles from the United States. We briefed your office on the results of our inquiry and identified potential witnesses for future hearings. We also agreed to provide you a report describing (1) applicable regulations for exporting used, self-propelled vehicles from the United States, (2) Customs policies and procedures for controlling the export of these vehicles, (3) methods used to illegally export these vehicles, and (4) improvements in operations being considered by Customs. As you requested, we have also discussed current and proposed treaties that deal with the repatriation of stolen vehicles.

As agreed, we visited selected port operations in Florida, Texas, and California¹ in order to observe the current operating process for the exportation of used, self-propelled vehicles. We held discussions with Customs headquarters officials who concurred with our observations regarding Customs' overall used-vehicle export operations.

Summary

At the ports we visited, Customs complied with its regulatory procedures for exporting used, self-propelled vehicles by reviewing the documentation of ownership and inspecting the vehicles presented for export to ensure that they were the vehicles described in the documentation.

To circumvent Customs vehicle exportation procedures, thieves have used false documents as proof of vehicle ownership. They have also altered vehicle identification numbers (VIN), switched vehicles after inspection of VINs, hidden vehicles in containers, and driven vehicles across border crossings without reporting them.

¹We visited the Miami Seaport and Port Everglades, Florida; Port of Brownsville/Los Indios, Port of Hidalgo/Pharr, and Port of El Paso, Texas; and Port of San Francisco, California.

In order to more efficiently and effectively deter the export of stolen vehicles, Customs has published proposed amendments to its regulations in the Federal Register.² These amendments limit the type of document that can be used to establish proof of a vehicle's ownership and would permit only an original or certified copy of title or an original manufacturer's statement of origin as proof of ownership. In addition, Customs officials, state and federal law enforcement agencies, and the insurance industry are exploring methods, such as computer-assisted documentation checks and nonintrusive cargo container examinations, to curtail the export of stolen vehicles.

The U.S. Department of State has been negotiating bilateral treaties with several countries to alleviate the difficulty that owners of stolen vehicles face when their vehicles have been transported across international borders. As requested, we have included a list of existing and proposed treaties.

Background

Customs reported that from 1996 to 1998, 1.84 million vehicles were presented for export from the United States: 582,173 in 1996; 642,838 in 1997; and 615,446 in 1998. Of these vehicles, Customs identified and seized 2,636 stolen vehicles valued at \$38.1 million in fiscal year 1996; 2,119 stolen vehicles valued at \$35.4 million in fiscal year 1997; and 2,109 stolen vehicles valued at \$28.2 million in fiscal year 1998. During this same period, Customs made 547 arrests and obtained 265 convictions of individuals involved in the exportation of stolen vehicles.

In addition, the National Insurance Crime Bureau (NICB)³ has estimated that 200,000 stolen vehicles are exported each year, some of which are included in the vehicles reported as exported by Customs from 1996 to 1998. These stolen vehicles had an estimated value of \$3 billion (\$1 billion per year). According to Customs officials, other law enforcement officials, and NICB intelligence data, most stolen vehicles are transported to Central America, South America, and Eastern Europe.

²62 Fed. Reg. 55,764 (1997) (to be codified at 19 C.F.R. § 192).

³NICB is a not-for-profit, tax-exempt organization that works closely with state and federal law enforcement authorities and maintains databases on exported vehicles.

According to the Federal Bureau of Investigation's (FBI) Criminal Justice Information System, 1.35 million vehicles valued at approximately \$7.3 billion were reported stolen in 1997,⁴ with the highest number of thefts reported in major cities that are in close proximity to an international land crossing or seaport. While the number of vehicles reported stolen in 1997 declined slightly from that in 1995 (1.47 million) and in 1996 (1.4 million), the value per reported stolen vehicle increased from \$5,129 in 1995 and \$5,372 in 1996 to \$5,416 in 1997. FBI officials advised us, however, that firm statistics on the number and value of stolen vehicles are not available because not all vehicle thefts are entered into the FBI's National Crime Information Center (NCIC) database. They explained that not every vehicle theft is reported by the owner and that some state and local laws may classify the theft as the unauthorized use of a vehicle, insurance fraud, or bank fraud rather than a stolen vehicle.

Regulations for Exporting Used, Self-propelled Vehicles

Regulations for exporting used, self-propelled vehicles are contained in 19 C.F.R. part 192. The regulations at 19 C.F.R. section 192.2(a) and (b) require persons attempting to export automobiles, trucks, motorcycles, or buses to present the vehicle, an original or certified copy of the certificate of title, and two facsimiles⁵ of the original or certified copy to Customs at the port of exportation. If a certificate of title is not available due to state statutory requirements, the person attempting to export one of these vehicles may present another document to prove lawful ownership. Generally, all ownership documents must describe the vehicle and include the VIN or product identification number if the vehicle does not have a VIN. (19 C.F.R. section 192.2(a))

For vehicles that are to be exported by airplane or ship, the regulations provide that the documentation and vehicle must be presented at least 3 days prior to lading (loading). For vehicles that are to be driven or transported by rail or highway, the documentation must be presented 3 days prior to exportation; and the vehicle must be presented on the day of exportation. (19 C.F.R. section 192.2(c))

⁴The latest year for which vehicle theft statistics are available is 1997.

⁵Under a proposed amendment (62 Fed. Reg. 55,764), "facsimile" will be replaced with "copy" to avoid confusion. "Facsimile" is currently used interchangeably with "fax."

Customs personnel are required to stamp both facsimile documents with the date on which the exporter presents them at the port. The exporter's stamped copy is the only documentation acceptable as proof of compliance with Customs requirements. (19 C.F.R. section 192.2(d))

Procedures for Exporting Used, Self-propelled Vehicles

At each of the six ports we visited, Customs had designated a specific area to review the documentation of ownership and check if the vehicle presented matched the documentation. The inspection of vehicles and documents was conducted at an area adjacent to Customs' processing office, the shipper's facility, or a bonded warehouse.

We found that Customs' operating procedures for processing paperwork at each of the ports we visited complied with the regulatory requirements. Three of the six ports we visited were located in border areas in Texas where vehicles were either driven or transported by rail or highway. We learned that, consistent with the regulations, Customs personnel required exporters (1) to forward to Customs the appropriate documents by mail, courier, or electronic facsimile 3 days before the intended departure of the vehicle from the United States and (2) to present the vehicle on the day of export. Customs examined the documents upon receipt and, on the day of export, compared the documents with the vehicle to ensure that the vehicle matched the documentation.

Similarly, Customs procedures at the other three ports we visited in San Francisco, Miami, and Port Everglades complied with the regulatory requirements for exporting vehicles by ship. In this regard, Customs required exporters to present the documentation and the vehicle at least 3 days prior to lading. Upon receipt of the vehicle and the documentation, Customs inspected the vehicle to determine if it matched the documentation.

At each of the six ports we visited, Customs also routinely entered the VIN of vehicles being permanently exported into the Treasury Enforcement Communications System (TECS) to determine if the vehicles were listed as stolen. For vehicles not listed as stolen, Customs authenticated both facsimiles of ownership. Customs then returned one facsimile to the exporter and forwarded the other to NICB.

In order to observe another process used to detect stolen vehicles, we accompanied the Miami Seaport inspectors and members of the local auto-theft task force on a random inspection of cars at the shipping yards along

the Miami River. The inspectors and members of the task force checked to ensure that the cars ready for exportation had been approved by Customs. To do this, they compared the VIN on each vehicle with the documentation that the shipper had on file. They also entered the VIN of each vehicle into the NCIC database to determine if the vehicle had been stolen. At one shipping yard, they located five stolen vehicles, valued at over \$144,000, for which the shipper had no documents.

Methods Used to Circumvent Port Operation Procedures

During our visits to the ports, we learned that thieves have circumvented Customs export procedures in three principal ways: they have used duplicate or counterfeit titles and VIN plates; switched vehicles after inspections; or not reported vehicles as exports, instead either concealing them in shipping containers or driving them across the border.

False or Counterfeit Documents and VINs

Customs advised us that car thieves have used counterfeit or duplicate titles as proof of vehicle ownership if they did not find original titles in the cars they had stolen. Thieves also have put counterfeit VIN plates on stolen cars.

Customs explained, as an example, that a thief will obtain a duplicate title for a car⁶ that is similar in make, model, and color to the one stolen; install in the stolen vehicle a counterfeit VIN plate with the VIN that appears on the duplicate title; and export the car. A thief will also purchase a salvage vehicle, transfer that vehicle's VIN plate to a stolen vehicle, and export the car.

Vehicles Switched After Inspections

Inspectors at seaports advised us that after Customs clears a vehicle for export, the vehicle is stored at a shipper's facility or at an approved vehicle export broker's location until it is exported. Customs has no control over access to these storage areas. In some cases after a car was cleared for export with the ownership papers in order, thieves switched the inspected car with a stolen car. In such cases, the stolen vehicle was usually the same make, model, and color as the inspected car, with a counterfeit VIN that matched the VIN in the paperwork presented to the inspector. When loading a vehicle, shippers checked the vehicle's VIN against the VIN on the

⁶In some instances, the duplicate title is sent to a mail drop.

exporter's stamped copy of ownership papers and, if the two VINs matched, shipped the car.

Vehicles Not Reported for Export

Customs has found a number of stolen vehicles hidden in containers whose contents were falsely manifested. For example, Customs found a hidden compartment built inside a container. Two stolen cars had been loaded into the compartment, and bags of cement were stacked in the compartment to conceal the vehicles and to discourage closer inspection. Customs advised us that with the millions of containers going through the ports each year, it is virtually impossible to open and inspect each one.

Customs officials also told us that many stolen vehicles are simply driven over border crossings. Unless a car has been declared as an export, it will generally cross a border unchallenged.

Customs Management Initiatives

Customs management told us that it is exploring a number of ways to curtail the exportation of stolen vehicles. Its efforts include the following:

- Customs proposed amendments to its regulations to address the documentation required for export.⁷ With regard to the documentation required for automobiles, trucks, vans, minivans, motorcycles, and buses, Customs proposed to accept only (1) an original or certified copy of title or (2) an original manufacturer's statement of origin for untitled vehicles. Notarized copies of these documents will no longer be accepted. For vehicles that are leased or encumbered by a lien, the amendments require a letter from the lessor or lien holder approving the export.
- In 1997, Customs initiated a pilot program at the Miami Seaport whereby inspectors electronically transmit to NICB on a daily basis information on all vehicles that Customs processed that day. NICB checks the information against its various databases and by the next morning provides Customs with a computerized printout that flags any vehicles with incorrect VINs, reported as stolen, identified as being leased, previously presented for export, and/or reported as salvaged. Customs

⁷62 Fed. Reg. 55,764 (1997) (to be codified at 19 C.F.R. § 192).

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- expanded this program to Port Everglades, Florida; Ports Houston, Nogales, and El Paso, Texas; and Port Wilmington, Delaware.⁸
- Customs is working with the FBI to develop an electronic database called “Project VINNY.” Under this project, Customs will electronically transmit vehicle exportation information for each port on a daily basis to the FBI’s Criminal Justice Information Services Division data center. At the data center, VINNY will be used to check the NCIC database and electronically forward the vehicle information to NICB for its database checks. NICB will respond to the data center, which will electronically forward both the NICB and NCIC data check results to the port.
 - Customs is field-testing portable, hand-held computer scanners that will give inspectors in the field instant access to TECS for VIN checks and identify vehicles that have already been presented for export.
 - Customs is working with the Port Authority of Miami in testing gamma-ray detection scanners for nonintrusive examinations of closed cargo containers, rail cars, and truck trailers. This system produces an x-ray-like image of a container’s contents. As a result of the test’s success, the state of Florida has ordered 10 scanners for installation at selected Florida ports.
 - As discussed below, Customs is working with the Department of State on additional treaties that provide a process to facilitate the repatriation of stolen vehicles.

Customs has indicated that while all these projects are or will be beneficial, staffing resources and financial restrictions may impede implementation of some of them.

Treaty Efforts

The Department of State, through the Stolen Vehicle Treaty Program, has been working with Customs, the Department of Justice, and NICB to eliminate the difficulties faced by owners of vehicles that were stolen and transported across international borders. The United States currently has one treaty in force, a 1981 agreement with Mexico, that is designed to establish a uniform process for requesting the repatriation of illegally exported vehicles.⁹

⁸The program was also expanded to the Port of Los Angeles/Long Beach but was terminated on Apr. 1, 1998, due to funding limitations.

⁹Convention for the Recovery and Return of Stolen or Embezzled Vehicles and Aircraft, Jan. 15, 1981, U.S.-Mex., 35 U.S.T. 325.

In recent years, the Department of State has begun to negotiate a number of similar bilateral treaties with countries in Central America, the Caribbean, and Central Europe. These proposed treaties provide for timely notification to the owner of record when suspected stolen vehicles are located and seized by the authorities in countries other than the country of registration. In addition, the proposed treaties identify procedures to be followed in returning vehicles to their owners. These procedures require the country that has identified a suspected stolen vehicle to (1) safeguard the vehicle to prevent modification of the vehicle's VIN, (2) notify the embassy of the country from which the vehicle was imported whether the vehicle will be returned, and (3) make the vehicle available to the owner within 15 days of deciding that it will be returned. While the proposed treaties provide a recovery process, they do not require that the stolen vehicle be returned if local courts award it to a third party in the country of recovery. Appendix I lists the existing and proposed treaty countries as well as data on the number of vehicles recovered from these countries.

Scope and Methodology

We conducted our initial work from June 19, 1997, to December 14, 1997, and subsequent work, as requested by your Subcommittee, from October 9, 1998, to March 8, 1999. We interviewed Customs headquarters officials and other Customs personnel responsible for issues concerning the exportation of vehicles. We also interviewed federal, state, and local law enforcement officials at Miami Seaport and Port Everglades, Florida; Port of Brownsville/Los Indios, Port of Hidalgo/Pharr, and Port of El Paso, Texas; and Port of San Francisco, California. We interviewed NICB officials and obtained information from participants of NICB conferences at which issues concerning stolen vehicles were discussed. We reviewed Customs policies and procedures for handling the exportation of stolen vehicles, procedures used at the different locations we visited, and documents related to vehicles being exported at the various locations.

We discussed our limited observations with Customs personnel responsible for vehicle exportation. They concurred with our observations and advised us of proposed revisions to existing export procedures.

As arranged with your office, unless you announce its contents earlier, we plan no further distribution of this report until 5 days after the date of this letter. At that time, we will send copies of the report to the Honorable Robert E. Rubin, Secretary of the Treasury; the Honorable David C. Williams, Treasury Inspector General; the Honorable Raymond W. Kelly,

Commissioner of Customs; the Honorable Louis J. Freeh, Director of the FBI; and John G. Diliberto, President/Chief Executive Officer of NICB. Copies will also be made available to others upon request. If you have any questions or need additional information, please contact Assistant Director Stephen V. Iannucci of my staff at (202) 512-6722. Major contributors to this report are listed in appendix II.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Robert H. Hast". The signature is fluid and cursive, with a long horizontal stroke at the end.

Robert H. Hast
Acting Assistant Comptroller General
for Special Investigations

Treaties and Information Relating to Stolen Vehicle Recoveries in Foreign Countries

| Country | Status | Number of stolen vehicles located in the foreign country in 1998 | Number of vehicles recovered, 1996-1998 |
|---------------------------------|---------|--|---|
| Mexico ^a | Active | 6,345 | 6,011 |
| Belize | Pending | ^b | 0 |
| Guatemala ^a | Pending | 64 | 10 |
| Dominican Republic ^a | Pending | 37 | 33 |
| Costa Rica | Pending | ^b | 2 |
| Panama | Pending | ^b | 10 |
| Venezuela ^a | Pending | 55 | 15 |
| El Salvador | Pending | ^b | 0 |
| Honduras ^a | Pending | 36 | 0 |
| Nicaragua | Pending | ^b | 9 |
| Poland ^a | Pending | 19 | 27 |
| Russia | Pending | ^b | 0 |

Note: NICB has advised us that although the existing treaty for facilitating recovery is with only Mexico, the other countries have followed the spirit of the pending treaties in allowing these vehicle recoveries.

^aThese countries, along with Germany (23 vehicles), Ecuador (21 vehicles), Haiti (21 vehicles), and Belgium (16 vehicles), comprise the top 10 countries in which stolen vehicles were located in 1998.

^bInformation reflecting the number of stolen U.S. vehicles located in this country is not available.

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