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The U.S. Customs Service's mission since 1789 has been to collect the revenue on imports and to prevent improper entry of goods. During fiscal year 1977, over \$152 billion worth of merchandise was imported which required the inspection of merchandise for 7.4 million shipments, inspection of 3.9 million freight carriers, and processing of about 3.7 million separate commercial cargo entries. This workload forces Customs either to perform very limited inspections or to seriously impede the flow of imported cargo. Findings/Conclusions: Rather than impede trade, Customs makes limited inspections that are seldom effective and do not ensure compliance with laws and regulations governing imports. Quantities and merchandise descriptions are seldom verified. Customs agencies in other countries have chosen to concentrate on thorough inspections of fewer items based on the belief that inspecting a limited number of items, selected on sound criteria, effectively deters violations and negates the need to inspect every item. This approach is similar to that used successfully by the Internal Revenue Service to select tax returns for audit. A selective cargo inspection system containing the elements of scientific random selection, specific selection, and postaudit would allow Customs to make fewer but more comprehensive inspections. Scientific random selection would deter violations because importers would never know which shipments would be selected, and specific selection would ensure that high risk shipments would be inspected. Recommendations: The Secretary of the Treasury should direct the Commissioner of Customs to develop a plan for a selective cargo inspection system that provides for intensive inspection of shipments selected on a scientific random basis and for intensive inspection of some shipments selected on the basis of sound criteria. After the plan is developed, the Secretary should submit it to the Congress for review. The Congress should amend the Tariff Act of 1930 to allow Customs to adopt a comprehensive selective cargo inspection system. (RRS)

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Customs' Cargo Processing-- Fewer But More Intensive Inspections Are In Order

Customs' cargo inspections do not ensure compliance with the laws and regulations governing imports. The inspections are normally cursory as inspectors attempt to adhere to the provisions of law which require that a portion of every cargo shipment be inspected. To comply with this requirement in the face of a rapidly increasing workload and a need to facilitate the flow of cargo, Customs' inspections often consist of just a quick look. Forced to look at too much, the inspectors have time to see very little.

This report shows why new approaches are needed in Customs' cargo inspections and makes recommendations for changes in the law to allow Customs to develop an effective inspection system.



GGD-78-79

SEPTEMBER 7, 1978



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114898

To the President of the Senate and the
Speaker of the House of Representatives

Tremendous increases in the volume of imports and technological changes in transportation have diluted the effectiveness of Customs' traditional cargo processing procedures. Customs needs to develop a more effective cargo inspection system, and the law governing merchandise inspections must be changed to allow Customs to implement a better system.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of the Treasury; and the Commissioner, U.S. Customs Service.

A handwritten signature in black ink, appearing to read "James A. Stacks".

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

CUSTOMS' CARGO INSPECTIONS--
FEWER BUT MORE INTENSIVE
INSPECTIONS ARE IN ORDER

D I G E S T

The U.S. Customs Service's traditional approach to inspecting cargo is unable to effectively cope with the large and rapidly increasing volume of imports.

By law, Customs must inspect a portion of each cargo shipment. This requirement, coupled with the increasing workload and a limited number of inspectors, forces Customs either to perform very limited inspections or to seriously impede the flow of imported cargo.

Rather than impede trade, Customs makes limited inspections that are seldom effective and do not ensure compliance with the laws and regulations governing imports. Typically, a Customs inspector has time to inspect only the most accessible merchandise--cargo near the doors of the truck or container--or a small portion set aside by the carrier. Quantities and merchandise descriptions are seldom verified. (See pp. 8 to 11.)

Customs' requests to the Congress to change the requirement for inspecting a portion of each shipment have been unsuccessful. The Congress might be more receptive to such proposals if Customs provided an alternative inspection plan incorporating scientific sampling to demonstrate that fewer but more comprehensive inspections would yield better results.

Customs agencies in other countries have already chosen to concentrate on thorough inspections of fewer items. Their systems are based on the belief that inspecting a limited number of items, selected on sound criteria, effectively deters violations and negates the

need to inspect every item. This approach is similar to that used successfully by the Internal Revenue Service to select tax returns for audit. GAO believes the experiences of these agencies demonstrate that an intensive inspection of scientifically selected cargo is a better approach than Customs' traditional inspections.

CARGO PROCESSING--A CHALLENGE

The United States imported over \$152 billion in merchandise in fiscal year 1977. Although Customs' mission since 1789 has been to collect the revenue from imports--\$6 billion for fiscal year 1977--and prevent improper entry of goods, a changing America has had a strong effect on its operations.

- Slowly at first, but rapidly after World War II, America's trade policy changed from a protective philosophy to a freer policy, resulting in a tremendous expansion of imports.
- Inventions of trains, then trucks, airplanes, and cargo containers speeded up imports, forcing Customs to limit the scope of its inspections or negate the speed achievement.
- America's increasing concern for the environment and quality of life added to Customs' responsibilities so that today, in addition to enforcing its own laws, Customs is responsible for enforcing more than 400 other provisions of law for some 40 other Federal agencies.

CARGO PROCESSING--PRESENT APPROACH DOES NOT ALLOW CUSTOMS TO CARRY OUT INTENT OF THE LAW

In fiscal year 1977, Customs used over 2,700 staff-years--at a cost exceeding \$59 million--for its traditional cargo inspections. At five ports where about 40 percent of Customs inspection activity takes place, GAO

found that traditional inspections rarely provided assurance that importers were complying with U.S. laws. Forced by law to look at too much, Customs' inspectors have time to see very little.

Customs' inspectors can be more effective by using a different approach. For example, on a limited basis Customs has employed special enforcement teams that (1) select shipments for inspection because of their high enforcement risk and high payback potential, (2) take physical control of the cargo, (3) conduct intensive inspections, and (4) achieve better results than the traditional inspection approach. The benefits of looking at less more intensively are demonstrated by the following comparison. (See p. 13.)

	<u>Traditional inspection approach</u>	<u>Intensive inspection approach</u>
Inspectors	564	44
Inspections	1,021,000	2,000
Violations found per 1000 inspec- tions	.25	59.5
Additional revenue per inspection	\$0.11	\$65.02
Value of drugs seized	\$2.7 million	\$8.6 million

CUSTOMS SHOULD ADOPT A COMPREHENSIVE
SELECTIVE SYSTEM TO PROCESS CARGO

Systems that emphasize the selection of specific cargo for an intensive inspection have been implemented by other nations. (See p. 15.) A notable example is Australia whose system provides for

- scientific random selection of shipments for intensive inspection,
- selection of specific high-risk and high payback shipments for intensive inspection, and
- postaudit of importers' books and records.

This system provides a general deterrent by randomly selecting cargo for inspection while at the same time allowing Australia's customs officers to concentrate on shipments that are likely to contain errors. (See pp. 15 to 17.)

If Customs is to successfully enforce the import laws and not impede the flow of cargo, in the face of an increasing workload, it needs to adopt a comprehensive selective cargo inspection system.

MAJOR SYSTEM COMPONENTS

A selective cargo inspection system containing the elements of scientific random selection, specific selection, and postaudit would allow Customs to make fewer but more comprehensive inspections. (See ch. 4.)

GAO believes scientific random selection of shipments for inspection would deter violations because importers would never know which shipments would be inspected. Because of the random nature of the selection, results can be considered representative of what would be found by inspecting all shipments. If violations or errors are found from random selections, such information could be used to develop specific selection criteria for future inspections of similar imports.

Specific selection of cargo for inspection would ensure that the high-risk shipments--those carrying high tariffs, those subject to misclassification, and those likely to involve smuggling--would be inspected.

Postaudits would cover many shipments not physically inspected, and GAO believes the results could provide valuable data for the development of specific selection criteria for future inspections.

RECOMMENDATIONS TO THE SECRETARY OF THE TREASURY

We recommend that the Secretary of the Treasury direct the Commissioner of Customs to develop a plan for a comprehensive selective cargo inspection system that provides for

- intensive inspection of shipments selected on a scientific random basis and
- intensive inspection of some shipments selected on the basis of sound criteria.

After the plan is developed, we recommend that the Secretary submit it to the Congress for review.

RECOMMENDATION TO THE CONGRESS

We recommend that, upon receipt of an acceptable plan for a comprehensive selective cargo inspection system, the Congress amend the Tariff Act of 1930 (19 U.S.C. 1499) to allow Customs to adopt this system. Appendix I contains suggested wording for amending the law.

AGENCY COMMENTS

The Department of the Treasury agrees with GAO's recommendations and believes that recent efforts being developed, tested, and evaluated demonstrate Customs firm commitment to establish a comprehensive selective cargo inspection system. Detailed comments are discussed on page 24.

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CHAPTER 1

INTRODUCTION

A large volume of imports enters the United States annually. During fiscal year 1977, over \$152 billion worth of merchandise was imported, which required the

- inspection of merchandise for 7.4 million shipments,
- inspection of 3.9 million freight carriers, and
- processing of about 3.7 million separate commercial cargo entries (documentation).

Responsibility for watching over this vast operation rests with the U.S. Customs Service, an agency of the Department of the Treasury.

CUSTOMS' MISSION

Customs' mission since 1789 has been to collect the revenue on imports and to prevent improper entry of goods. Customs revenues paid the national debt after the Revolution; financed the building of Washington, D.C., the Trans-continental Railroad, and the Louisiana Purchase; and were the Nation's chief source of income until early in the 20th century. Today, Customs collects about \$6 billion annually in duties and taxes.

Customs' major responsibility is to administer portions of the Tariff Act of 1930, as amended. Customs assesses and collects duties, taxes, and fees on imported merchandise and enforces Customs regulations and related laws.

Over the years additional Customs' responsibilities have included:

- Protecting U.S. industry by enforcing quotas on quantities of given commodities that may enter the U.S.; collecting import and export statistics for use in analyzing the U.S. competitive position; and enforcing marking requirements so that consumers know the country of origin and composition of products.
- Enforcing laws passed in response to America's increasing concern for the environment and quality of life by examining vehicles for compliance with

emission standards and safety requirements; verifying that clothing is nonflammable, contains no hazardous ingredients, and is not made from endangered species; and inspecting food for purity. Customs inspectors also take samples of merchandise and send them to laboratories for analysis. Customs estimates it enforces over 400 provisions of law and regulations for 40 other Federal agencies.

LAWS AND REGULATIONS GOVERNING THE INSPECTION OF MERCHANDISE

Since 1842, the law has required Customs to inspect a portion of each cargo shipment. The specific provisions of the current law, the Tariff Act of 1930, as amended (19 U.S.C. 1499), are as follows:

"Imported merchandise * * * shall not be delivered from Customs custody * * * until it has been inspected, examined, or appraised. * * * [Customs] officer * * * shall designate the packages or quantities covered by any invoice or entry which are to be opened and examined * * *. Not less than one package of every invoice and not less than one package of every 10 packages of merchandise shall be so designated unless the Secretary * * * is of the opinion that the examination of a less proportion of packages will amply protect the revenue * * *."

Customs regulations require that not less than 1 of every 10 packages of merchandise be examined, 1/ unless a special regulation permits a lesser number. District directors are authorized to examine less than 1 of every 10 packages but not less than 1 package of every invoice, in the case of any merchandise which is:

"(1) Imported in packages the contents and values of which are uniform, or (2) Imported in packages the

1/In this report, we use the terms "inspection" and "examination" interchangeably. Customs differentiates between the terms as follows:

Inspection--conducted primarily for identification and quantity determination purposes.
Examination--conducted primarily for revenue purposes.

contents of which are identical as to character although differing as to quantity and value per package."

CUSTOMS' ORGANIZATION

To carry out its responsibilities, Customs employs about 14,000 people, including

- 4,300 inspectors, who examine merchandise, persons, and carriers entering the country,
- 1,200 import specialists, who classify and appraise merchandise for duty purposes,
- 1,400 patrol officers, who patrol between and around ports of entry,
- 800 agents, who make criminal and personnel investigations, and
- 6,300 headquarters and regional personnel, who perform supervisory, legal, and support functions.

These employees are located at headquarters, 9 regional offices, 45 district/area offices (with over 2,500 work stations), and 10 foreign offices.

Customs estimates that in fiscal year 1977 it used 2,700 staff-years, at a cost of over \$59 million, to inspect cargo being imported into the country.

SCOPE OF REVIEW

Our review was made at Customs Headquarters in Washington, D.C., and the ports of Buffalo, New York; Detroit, Michigan; Los Angeles, California; Newark, New Jersey; and Nogales, Arizona. The ports were selected because they

- accounted for about 40 percent of the cargo imported and about 50 percent of the duty collected and
- provided a mixture of sea, air, and land border shipments.

At these locations we

- reviewed laws, policies, and procedures relating to cargo processing,

- monitored onsite inspections to determine methods used to inspect cargo,
- examined available records to determine inspection results for the 6-month period ended June 30, 1977, and
- interviewed officials from Customs cargo processing units.

We also interviewed officials of foreign countries and obtained information on Customs cargo processing operations in Australia, Canada, Great Britain, Japan, and West Germany. This included a visit to Australia to study its cargo processing system. We obtained information from the Internal Revenue Service, also in the Department of the Treasury, on its procedures for enforcing tax laws.

CHAPTER 2

CARGO PROCESSING --PRESENT APPROACH DOES NOT ALLOW CUSTOMS TO CARRY OUT INTENT OF THE LAW

Typically, Customs' cargo inspections are cursory and provide little assurance that importers have complied with the laws and regulations governing imports. The increases in the volume of U.S. imports and the limited number of inspectors, coupled with the legal requirement that a portion of each shipment be inspected, have made it impossible for Customs inspectors to make intensive inspections without seriously impeding international trade.

Changes in U.S. trade policies and technological innovations in transportation and packaging have rendered the old inspection requirement obsolete. Customs has demonstrated that comprehensive inspections and other enforcement techniques are more effective than its routine inspections. However, these cannot be applied on a widespread basis until the law requiring each shipment to be inspected is changed.

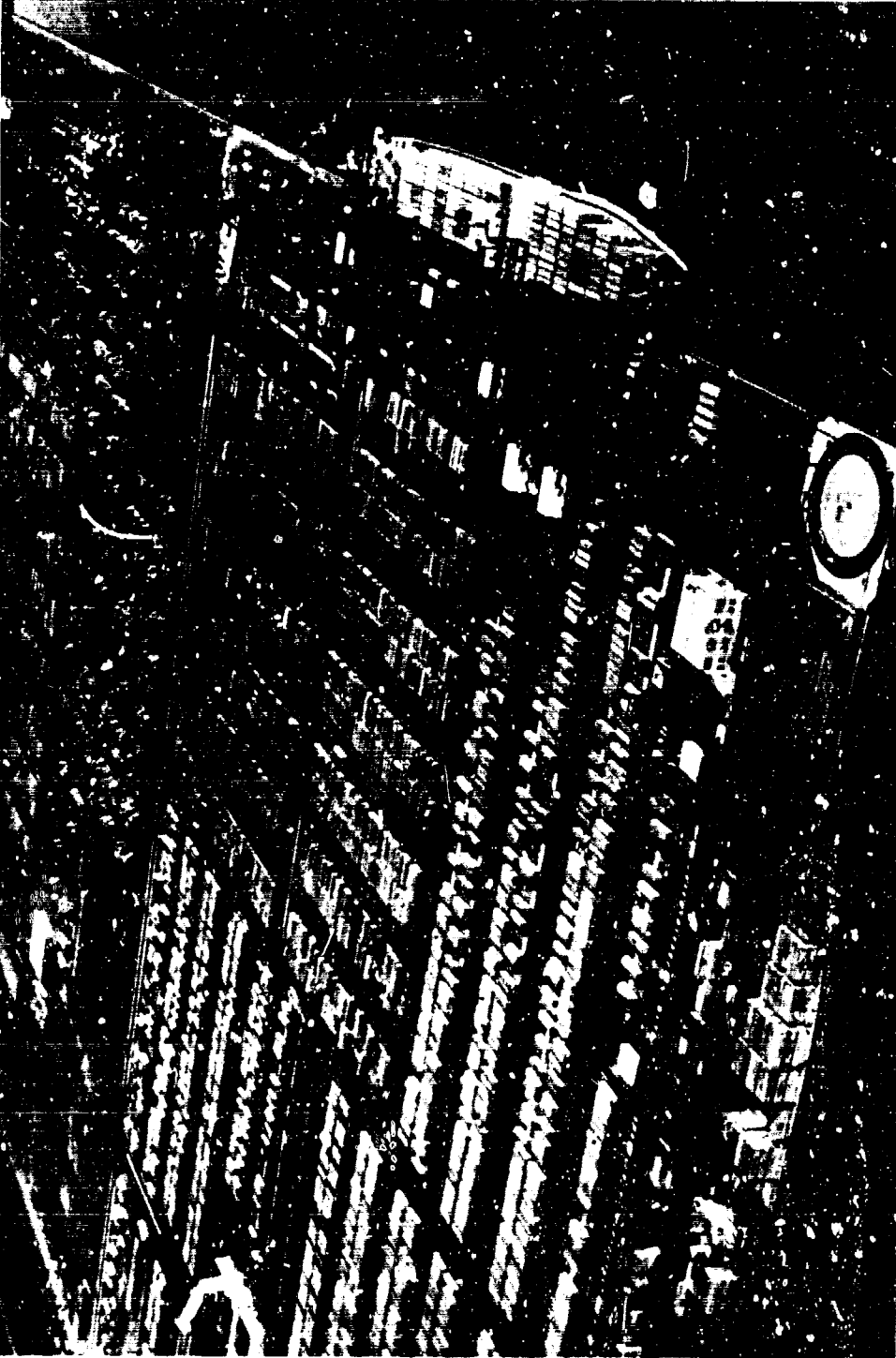
INCREASING VOLUME OF IMPORTS AND TECHNOLOGICAL ADVANCES HAVE OUTPACED TRADITIONAL INSPECTION APPROACH

Slowly at first but rapidly after World War II, America's trade policy changed from a protective philosophy to a freer policy, resulting in a tremendous expansion of imports. Thus, Customs' workload multiplied rapidly but without a proportionate increase in staff to process imported merchandise.

Expansion of Imports

	<u>Fiscal year 1950</u>	<u>Fiscal year 1977</u>	<u>Percent change</u>
Imported cargo	\$ 7 billion	\$152 billion	+2,165
Revenue collected	\$561 million	\$6.1 billion	+1,080
Customs workforce	8,300	14,000	+ 169

Price increases account for some of the rise in dollar amounts, but much of it reflects the enormous increase in the volume of trade. The picture on page 6 shows the typical situation facing Customs daily at the Nation's major ports. As shown, the merchandise both on and off the ships is packed in containers. Containers, which reduce handling



CONTAINERS AT A PORT AWAITING CUSTOMS CLEARANCE

Source: Port Authority of New York and New Jersey.

costs and pilferage, are only one of many innovations in the last 150 years that have added to the complexity of Customs' work.

Yet, Customs' inspection requirements are still dictated by a law enacted in 1842, which requires that not less than one package of merchandise of every invoice be inspected. In 1842 cargo was imported by sailing ships crossing the ocean in 35 days, by horse-drawn carts, and by trains. Subsequent advances in transportation have allowed the importer to process huge quantities of goods at increasing speeds.

Today, trucks using modern highways can haul tons of merchandise across U.S. borders in a single day, jumbo jets can fly merchandise half-way around the world in hours, modern ships carrying 125 times the cargo of sailing ships can cross the oceans in a few days, and ships carrying containers can be unloaded in a matter of hours.

The increased speed and volume of trade has affected Customs. For example, at the port of Los Angeles, where increased volumes have exceeded Customs' ability to look at all shipments, 90 percent of sea shipments and 10 percent of air shipments are cleared without inspection.

Faced with changes in trade but not changes in inspection requirements, Customs has been forced to relinquish its control of cargo before inspection. It often depends on the carrier to provide the merchandise to be inspected and seldom verifies quantity and merchandise descriptions for complete shipments. As a result, only 1 inspection in 4,000 detects a violation of law, such as illegal entry or misclassification of merchandise.

Physical control of cargo no longer feasible

From 1789 to the early 1900s, Customs handled cargo that could be physically controlled easily until released, ensuring the integrity of the inspection. However, with the advent of the truck and airplane, containerization, and the growth of trade, Customs found itself unable to control all imported cargo. Consequently, it adopted a policy allowing cargo to enter the United States and remain under the control of the carrier until inspected. For example:

- Merchandise is often unloaded and stored in carrier yards or warehouses prior to Customs inspection.

--Trains are inspected at yards located up to 15 miles from the border.

--Trucks entering the United States from Canada at one border point drive approximately 1 mile through the heart of the city to an inspection site.

Customs recognizes that this may not be an ideal arrangement, but its officers cannot physically control all shipments prior to inspection. Customs relies on the carrier, as a disinterested third party, to control the shipment and relies on spot checks of cargo security to prevent tampering with goods prior to traditional inspection.

Because the specific shipment has not been controlled, the Customs inspector cannot be certain that the merchandise he inspects is the same that was imported or that contraband, such as drugs, was not removed before the inspection.

Intensive inspection of all shipments
no longer possible

On full trucks, railroad cars, and containers, Customs is usually unable to designate the merchandise to be inspected. Unloading every conveyance would be costly and would impede the flow of cargo. Consequently, the inspector usually selects the merchandise closest to the door for inspection. The average inspection takes only minutes, as inspectors merely look to see if the merchandise in the carton opened resembles the description on the import documents. Quantities and merchandise descriptions for complete shipments are seldom verified. Such situations as those shown in the photographs on pages 9 and 10 usually result in inadequate inspections.

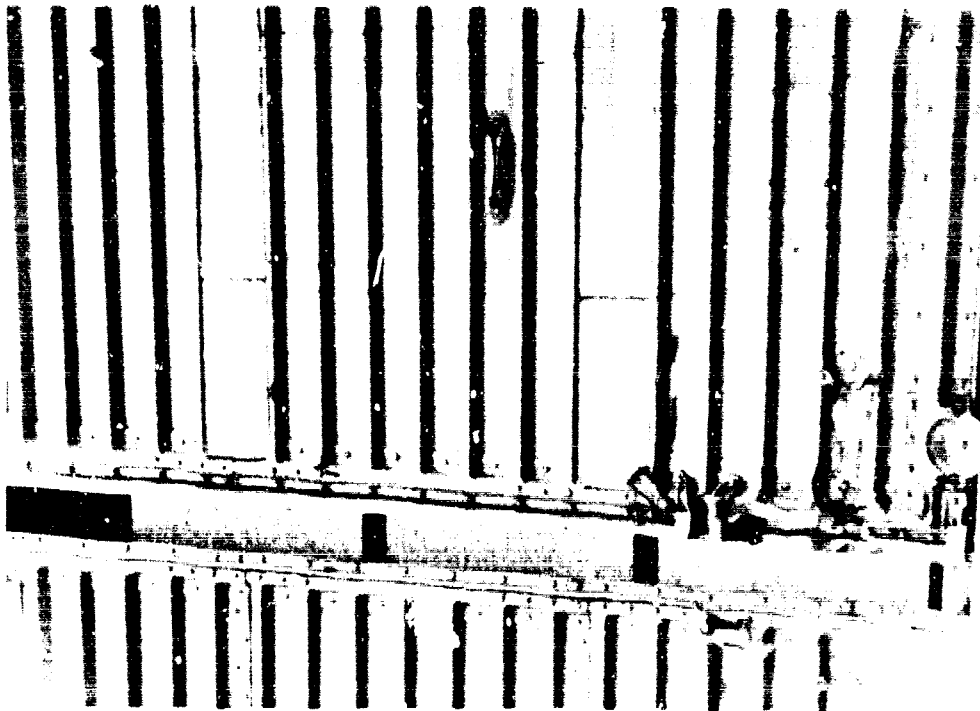
The carriers usually provide the cargo that is inspected when the truck, railroad car, airplane, ship, or container is unpacked by them. At the two largest ports visited, the Customs inspectors were stationed in cargo clearing areas within the carriers' storage facilities. The inspectors rarely left the cargo clearing areas or saw an entire shipment of cargo. The inspection was limited to a request that the carrier's employees bring the inspector a representative sample. In some cases the inspectors requested specific items by marking or by identification number; however, in many more cases the inspector left the choice to the discretion of the carrier's employees.



SHIP CONTAINER PRIOR TO INSPECTION



SHIP CONTAINER AFTER INSPECTION, NO BOXES REMOVED



RAILROAD CAR AFTER INSPECTION, DOOR OPENED
ONLY 6 INCHES, NO BOXES OPENED.



TRUCK OPENED FOR INSPECTION AND CLEARANCE AT
BORDER, NO BOXES OPENED.

Quantities and merchandise descriptions seldom verified

As illustrated above, Customs inspectors seldom verify quantities and merchandise descriptions for complete shipments. We observed that inspectors often look at only one package from each conveyance, not from each invoice as specified in the law. The distinction is that a conveyance may contain varying merchandise covered by several invoices, but the inspector normally examined only one type of goods under one invoice.

Customs import specialists must have accurate information on quantities and merchandise descriptions to ensure that correct duty is paid. Since import specialists normally work at the customhouse, not cargo inspection sites, they must rely on the inspector as their eyes. The inspectors are supposed to take the necessary samples from shipments being imported and make descriptive notations on the import documents. According to import specialists, however, the inspectors were not very effective in this role.

In several situations inspectors were confused as to whether the item was properly described but released the merchandise without making any descriptive notations. Import specialists interviewed at five ports said the inspectors were generally not making enough descriptive notes. Because the inspectors were not verifying merchandise descriptions or taking the required samples, import specialists frequently had to request information or samples from the importer after an inspector released the merchandise. A sample of 2,100 entries at one port disclosed that inspectors made notes on only 123, or 6 percent, of the entries. In only seven cases did these notes require the import specialist to change the estimated duties.

ALTERNATIVE ENFORCEMENT TECHNIQUES
MORE EFFECTIVE THAN CUSTOMS'
TRADITIONAL INSPECTION

Forced to look at too much, Customs inspectors, using the traditional inspection approach, were seeing very little. Customs is aware of the shortcomings of its traditional inspections and, on a limited scale, has resorted to other techniques and programs to improve its effectiveness.

The most productive alternatives have been intensive inspections by special enforcement teams and postentry audits of importers' records. Special team inspections have been

more effective than regular inspections; for example, additional revenue from special inspections averages \$65.02 each, while each regular inspection yields only \$0.11. Each postentry audit returns an average of over \$3 in additional revenue for every \$1 of cost.

Special enforcement teams

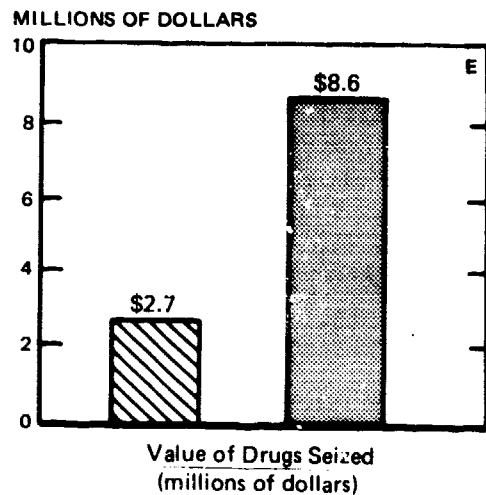
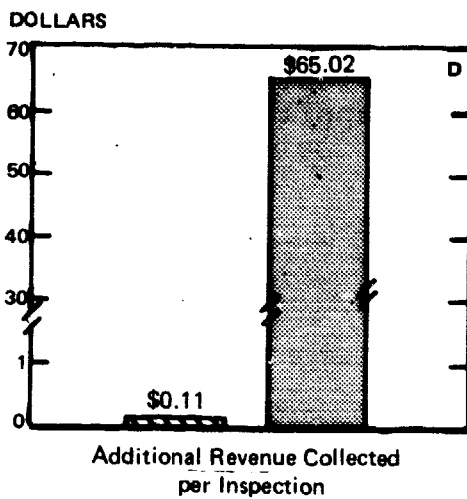
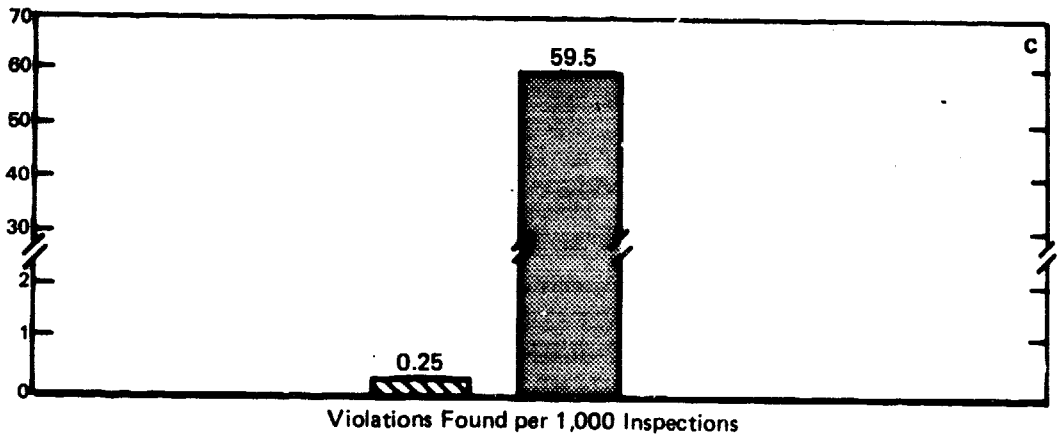
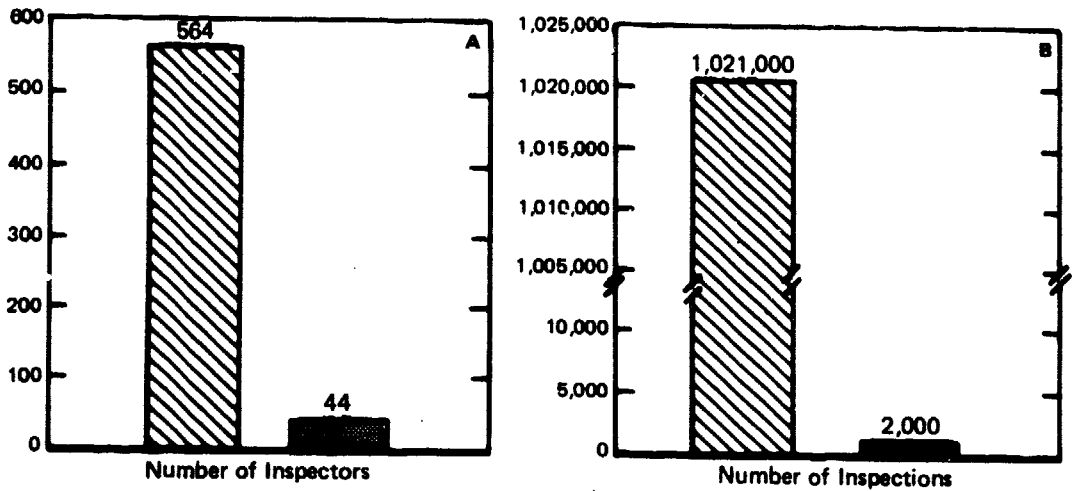
Unlike the approach used for regular inspections, special enforcement teams physically control the cargo prior to inspection, designate the merchandise to be inspected, and make a comprehensive verification of quantities and merchandise descriptions. The intensive inspection takes several hours and yields more positive results than the traditional approach.

In 1975 Customs started assigning inspectors from its regular inspection force to special enforcement teams for "100 percent," or complete, cargo inspections. The teams, often assisted by import specialists, select shipments with a high potential for violations (suspect countries, importers, merchandise, etc.).

Under the special team approach, sealed containers are moved to the importer's premises or other location for unpacking. The Customs inspectors observe the breaking of the seal and, during the unpacking, check off all packages against the entry documents and designate those to be opened for more thorough inspection. The inspectors take as long as necessary to verify the cargo description and quantity; they search for hidden contraband; and they maintain close contact with the import specialists to ensure that the cargo is properly classified and valued.

Data kept on the results of traditional cargo inspections is not as detailed as that kept on the special team inspections. For the five ports visited, we identified, from combined passenger/cargo inspection reports, the additional duties, penalties, and drug seizures from traditional cargo inspections for the first 6 months of 1977. During the period, a work force of 564 inspectors made 1,021,000 cargo inspections. We compared the results to those achieved by 44 inspectors on special teams making 2,000 intensive inspections during the same period. As illustrated by the charts on page 13, the intensive inspection approach was clearly more effective.

COMPARISON OF CUSTOMS TRADITIONAL AND INTENSIVE INSPECTIONS



TRADITIONAL
 INTENSIVE

Regulatory audit

Customs' regulatory audits have proven to be an effective enforcement technique. In 1974 Customs started developing this postentry review capability. Over \$3 in additional duties has been recovered for every dollar spent on the program.

This program uses audit techniques to verify entry data and to determine compliance with laws and regulations and analyzes importers' transactions after merchandise has cleared Customs inspections. Audits of importers' books and records are used to verify the documentation submitted to Customs upon which duties were based. The auditors

- review the contract between buyer and seller, including any technical specifications, to verify classification data,
- verify the declared value for the merchandise, and
- check an importer's inventory records and controls to verify merchandise quantities ordered and paid for.

Although audits have proved effective, they have the potential for even greater benefits. The results of audits are not communicated to inspectors to help them select shipments to be inspected and specific features to look for in their inspections. We interviewed officials of the program both at headquarters and in the field, and they agreed that audit results are not used by inspectors when clearing merchandise--attributable perhaps to the fact that the program is relatively new and still developing. Customs officials said that a plan for the wide application of post-audits for complex cargo workloads is being designed and will be initiated soon.

CHAPTER 3

CUSTOMS SHOULD ADOPT A COMPREHENSIVE

SELECTIVE SYSTEM TO PROCESS CARGO

Customs agencies in other countries and the U.S. Internal Revenue Service, like Customs an agency within the Department of the Treasury, have developed or are developing systems that rely on the inspection or examination of fewer items. All the systems are based on the premise that the inspection or examination of only some items, if selected on the basis of sound criteria, is an effective deterrent to law violations and negates the need to inspect or examine every item. Customs cannot adopt a selective cargo inspection system on a widespread basis, however, until the law requiring that each shipment be inspected is changed.

OTHER NATIONS' INSPECTION SYSTEMS

Customs agencies of other nations have chosen to concentrate their inspection resources on selected imports. Common to all systems is the selection of cargo on the basis of risk. Generally, customs agencies concentrate on high-risk shipments--those carrying high tariffs, those subject to misclassification, and those likely to involve smuggling. The more advanced systems rely on scientific (statistical sampling) techniques to select cargo for inspection. All systems permit customs inspectors to inspect other cargo when their law enforcement instincts so dictate.

Australia

In contrast to the United States, where by law all shipments must be inspected, about 96.5 percent of shipments in Australia are cleared for delivery to the importer without inspection.

Australian customs found in 1968 that its traditional methods for inspecting imported cargo needed to be changed for reasons similar to those currently facing U.S. Customs, such as

- increased volume of commercial transactions and speed of modern transport,
- demands of modern commerce for free and rapid movement and availability of goods unhindered by unnecessary official restrictions,

- difficulty of providing adequate staff to administer traditional controls, and
- evidence that traditional controls did not always safeguard customs' interests to a degree commensurate with expense and staff-hours involved.

Over the next several years, the Australians developed a system of selective inspections of cargo rather than the traditional "100 percent" approach. Under Australia's new system, a computer selects cargo shipments for various forms of processing. Randomly selected shipments are thoroughly inspected, similar to U.S. Customs' special enforcement team inspections. The key law enforcing components of the Australian system are random selection, specific selection, and postaudit.

About 2 percent of shipments are randomly selected for physical inspection. The Australian random selection, under which each shipment has an equal chance of being inspected, serves the same deterrent purpose as U.S. Customs inspection of all shipments. When inspectors do not have to look at all shipments, they can spend more time on those they do look at. At the seaports and airports in Sydney and Melbourne, Australia, we observed numerous shipments that were randomly selected. The shipments in their entirety were held for inspection, and the customs officers selected the merchandise to be inspected. The inspections were generally complete and thorough.

The random inspection results disclosed that during the 6-month period ended June 30, 1977, each random inspection resulted in added revenue of \$4.61. ^{1/} In Sydney, the country's largest port, 3.2 percent of the random inspections for the quarter ended December 31, 1977, disclosed violations other than incorrect duty charges, such as trademarks, quarantine, etc. Because of the random nature of the selection, results can be considered representative of what would be found if all shipments were reviewed as intensively.

The Australian system uses predetermined criteria to specifically select high-risk shipments and imports which must adhere to specific laws or regulations. When a shipment meets the specific selection criteria, it is designated for inspection. About 1.5 percent of all shipments are selected for specific inspections. The computer also provides predetermined instructions telling the inspector exactly what to look for when inspecting the shipment.

^{1/}All monetary amounts in our discussion of Australian practices are expressed in Australian dollars.

During the 6-month period ended June 30, 1977, each specific inspection resulted in added revenue of \$64.35. In Sydney, for the quarter ended December 31, 1977, 42 percent of the specific inspections disclosed violations other than incorrect duty charges. The better results from specific over random inspections demonstrate the benefits of concentrating resources on specific shipments or imports.

An integral part of the Australian system is the post-audit--similar to U.S. Customs regulatory audit--which includes verifying quantity and value data from importers' books and records after the merchandise has entered the country. The postaudit provides

--coverage for many shipments not physically inspected and

--information to improve the criteria for selecting specific items for inspection.

Revenues gained from postaudits were greater than for inspections--\$2.7 million for the postaudits versus \$0.5 million for the inspections for the 6 months ended June 30, 1977.

Great Britain

Great Britain customs requires that certain specific merchandise, comprising about 4 percent of all shipments, be inspected. Between 6 and 10 percent of the remaining shipments are selected for inspection at the customs officer's discretion.

During 1978 or 1979 Great Britain intends to implement a computerized entry-handling system, similar to the Australian system, at some of its major ports. This system will cover over 70 percent of the country's imports. Under this system, entry data will be keyed into the computer and some shipments will be selected by the computer for paperwork review, physical inspection, or a combination of the two. Inspection requirements will be programed into the computer in the form of nationwide criteria (established by customs headquarters' divisions), local criteria (established by the local staff), and a random selection. The random selection will be a general deterrent against smuggling; analysis of random inspection results will identify trends and provide a standard for measuring the effectiveness of the national and local criteria.

Canada, Japan, and West Germany

The customs organizations in Canada, Japan, and West Germany use a selective inspection approach rather than 100-percent coverage. In Canada, customs officers inspect primarily the high-value, high-duty, or other high-risk shipments. Japanese customs headquarters has criteria directing inspectors to certain shipments, and audits of importers are a major tool to ensure compliance with import requirements. In West Germany, about 30 percent of dutiable imports is inspected; a lower percentage of duty-free goods is inspected. In all three countries, customs officers are allowed to select shipments for inspection at their own discretion, even though the shipment may not meet the selection criteria.

INTERNAL REVENUE SERVICE'S SELECTIVE SYSTEM

The Internal Revenue Service (IRS) has developed an effective and highly sophisticated system for managing its complex examination responsibilities (discussed in our report, "How The Internal Revenue Service Selects Individual Income Tax Returns For Audit" GGD-76-55, November 5, 1976). The IRS system relies on voluntary compliance with the tax laws, and the primary objective in selecting tax returns for audit is to identify those returns with the highest potential for tax change.

Key components of the IRS system are random and specific selection. The first stage of the system is a detailed examination of a random sample of all tax returns to (1) determine the voluntary compliance rate by class of taxpayer and (2) measure and evaluate taxpayer compliance characteristics. Next, this data is used to develop selective criteria to identify those tax returns with the highest potential for violations of tax laws. Using these criteria, the computer screens all tax returns and selects for examination those specific returns which have the highest potential for error.

PROPOSED LEGISLATION

Until recently Customs has been reluctant to seek a change to the inspection law. In 1975 and again in 1977, the Department of the Treasury proposed Customs legislation which would repeal the minimum inspection requirement in the Tariff Act of 1930, as amended (19 U.S.C. 1499).

On October 17, 1977, the House of Representatives passed a bill (H.R. 8149, 95th Congress) pertaining to Customs' procedural reform. This bill does not include the proposal concerning the minimum inspection requirement. One reason the repeal of the current law was not considered was because alternative inspection requirements were not provided by Treasury.

CHAPTER 4

THE NEW SYSTEM: MAJOR COMPONENTS AND IMPLEMENTATION CONSIDERATIONS

If Customs is to successfully enforce the import laws in the face of an increasing workload without impeding the flow of cargo, it needs to adopt a comprehensive selective cargo inspection system. The components are easy to define in conceptual terms, but practical implementation will take several years. The need for an alternative approach to cargo processing makes it imperative that Customs start as soon as possible.

MAJOR SYSTEM COMPONENTS

To effectively deter smuggling, protect revenue, and adequately enforce the laws of other agencies, a comprehensive selective cargo inspection system should contain

- a statistical plan for scientific random selection of shipments for intensive inspection,
- selection criteria for identifying specific shipments for intensive inspection,
- a postaudit function, and
- a data base to provide information on the accuracy and effectiveness of the intensive inspections and to pinpoint trends and problem areas.

The system's primary objectives would be to

- identify those shipments with the highest potential for duty change and/or noncompliance with U.S. law and
- ensure a higher degree of voluntary compliance through selective intensive inspection of these shipments.

To meet these objectives, Customs will need to determine the degree of voluntary compliance and update its criteria for selecting specific shipments for inspection.

Scientific random inspections

Through intensive inspection of scientific randomly selected shipments, Customs should be able to determine the noncompliance characteristics. In addition to obtaining information on the degree of importers' voluntary compliance, the random inspections would provide criteria for selecting specific shipments with high potential for Customs violations or errors. Because random inspections give every shipment an equal chance of being selected, it would deter smuggling and provide inspectors with time to make more intensive inspections.

Specific selection criteria

Selection of specific imports for intensive inspection would enable Customs inspectors to concentrate on high-risk, high-value shipments that are more likely to involve violations or errors. The selection criteria for identifying specific shipments for intensive inspection would be comprised of

- the results of the random inspections,
- the experience and intuition developed by Customs inspectors and import specialists over the years,
- the results of the postaudits, and
- intelligence information from external sources.

The results of the specific inspections would also provide criteria for selecting future shipments for intensive inspection.

Postaudit function

Postaudit would be an important and vital component of a comprehensive selection system. It provides coverage for merchandise not physically inspected and information to improve selection criteria for future inspections.

Customs has already established a postaudit component which has demonstrated its effectiveness in detecting misclassification and understated quantities and in protecting the revenue. Postaudits identify those importers with high-risk, high-payback shipments and have a deterrent effect since any shipment could be subject to audit.

Inspection data base

An integral component of a selective system would be the collection and evaluation of inspection results. A lack of data--a shortcoming of the present system--has prevented Customs' management from quickly identifying and correcting problems in its traditional cargo inspection approach. Data gathered from the system's three components should be used to evaluate the effectiveness of the intensive inspections and audits and to pinpoint trends or problem areas.

IMPLEMENTATION CONSIDERATIONS

The experiences of Australia and the Internal Revenue Service show that it takes several years to develop, implement, and refine a comprehensive selective inspection system. Consideration should be given to incorporating the system's components into existing or planned computer systems for processing imports. In planning and implementing a system, Customs should first test and evaluate the system at a few major ports.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

Customs is faced with two conflicting jobs. As it tries to prevent abuse of tariff statutes, smuggling laws, and other laws and regulations, it also tries to minimize delays in international trade. The time needed to effectively fulfill its enforcement activities tends to hamper the free flow of trade. The inspection requirement of the Customs law adds to the difficulty in maintaining a balance between these two responsibilities and is resulting in cursory rather than intensive inspections, an effect opposite from the one intended.

Customs experience with intensive inspections and regulatory audits demonstrates that such approaches are clearly more effective in detecting import violations than its traditional inspection approach. The systems used by Australia, Great Britain, Canada, Japan, West Germany, and the U.S. Internal Revenue Service all incorporate the principles of selective but intensive inspections.

A selective cargo inspection system, containing the elements of scientific random selection, specific selection, and postaudit, would allow Customs to perform fewer but more comprehensive inspections. Customs should adopt such a system and should develop an inspection data base as an integral system component.

Scientific random selections of shipments for inspection would deter import violations because importers would never know which shipments would be inspected, and the results can be considered representative of what would be found in inspecting all shipments. If violations or errors are found from random selections, these findings should be used in developing specific selection criteria for future inspections of similar imports.

The element of specific selection of cargo for inspection would ensure that the high-risk shipments--those carrying high tariffs, those subject to misclassification, and those likely to involve smuggling--would be inspected.

Postaudits provide coverage of many shipments not physically inspected, and we believe their results could

provide valuable data for the development of specific selection criteria for future inspections.

If Customs is to successfully enforce the import laws and not impede the flow of cargo in the face of an increasing workload, it needs to adopt a comprehensive selective cargo inspection system.

RECOMMENDATIONS TO THE SECRETARY OF THE TREASURY

We recommend that the Secretary of the Treasury direct the Commissioner of Customs to develop a plan for a comprehensive selective cargo inspection system that provides for

- intensive inspection of shipments selected on a scientific random basis and
- intensive inspection of some shipments on the basis of sound criteria.

After the plan is developed, we recommend that the Secretary submit it to the Congress for review.

RECOMMENDATION TO THE CONGRESS

We recommend that, upon receipt of an acceptable plan for a comprehensive selective cargo inspection system, the Congress amend the Tariff Act of 1930 (19 U.S.C. 1499) to allow Customs to adopt this system. Appendix I contains suggested wording for amending the law.

AGENCY COMMENTS AND OUR EVALUATION

The Department of the Treasury agrees that the tremendous increase in the volume of imports and the technological innovations in transportation have diluted the effectiveness of Customs' traditional cargo processing procedures. Accordingly, Customs is firmly committed to establishing a comprehensive selective cargo inspection system in line with our recommendations.

The Department noted that implementation of such a system will not be easy. For example, although Customs is striving to develop a selective inspection system similar to that used by Australia, the U.S. cargo processing function has unique problems that must be dealt with before such a system can be adopted. For the same reasons, the Internal

Revenue Service system for selecting tax returns for audit cannot be merely modified and transferred to the Customs environment.

We fully agree that development of these systems must be adapted to meet Customs' unique requirements and that this process will take time. In this connection, the Department cited two specific efforts--the Accelerated Cargo Clearance and Entry Processing Test and the Cargo Compliance Measurement System--which are expected to serve as the hub of a modern and comprehensive cargo processing system.

The Department concurred in the need to amend the Tariff Act of 1930 (19 U.S.C. 1499) but believed our suggested statutory change contained language that might negate the benefits of the new system. Accordingly, we have revised our suggested statutory change to avoid such a possibility.

The Department also noted that our analysis of the cost effectiveness of special enforcement teams is not treated in the same manner in this report as in our report "Customs' Efforts To Develop A System For Assigning Inspectors Need Top Management Support" (GGD-78-48, May 2, 1978). The analyses made in the two reports are indeed different. In the earlier report we questioned Customs' evaluation of container inspections by special enforcement teams in terms of money collected per dollar of cost because of the absence of sufficient information to fully measure the costs and benefits of the program. In this report a comparison of the results of the special enforcement teams with those of the traditional inspection approach shows the former is more effective.

The Department's comments are in appendix II.

SUGGESTED WORDINGTO AMEND 19 U.S.C. 1499

To permit selective cargo inspections the law should be amended by striking the second, third, and fourth sentences of 19 U.S.C. 1499 and substituting the following:

"The Secretary of the Treasury or his designee shall designate the imported merchandise to be inspected or examined for the purpose of appraisal or any other purpose and shall order such merchandise to be sent to the public stores or other places for such purpose. In designating the imported merchandise for inspection or examination, the Secretary of the Treasury or his designee may use such procedures, including statistical sampling procedures, as he deems necessary and appropriate to amply protect the revenue."



THE DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

JUL 21 1978

Dear Mr. Lowe:

The Treasury Department basically agrees with the recommendations outlined in the draft of the proposed GAO report entitled, "Customs Cargo Processing -- Fewer But More Intensive Inspections Are In Order." GAO proposes that the Customs Service develop a selective cargo inspection system geared to intensive inspection of shipments selected on a scientifically sound random basis, as well as intensive inspection of some additional shipments selected on the basis of sound information. Also, GAO recommends that Congress should amend the Tariff Act of 1930 (19 U.S.C. 1499) to allow Customs to implement an acceptable comprehensive selective cargo inspection system. The tremendous increase in the volume of imports and technological innovations in transporting imported merchandise have diluted the effectiveness of Customs traditional cargo processing procedures to such a degree that Customs has begun to adopt new cargo inspection procedures.

In addition to the improved cargo processing procedures already developed by Customs which are alluded to by GAO in this draft report, we believe that there are two other very new efforts, as described below which should be included in the final report:

Accelerated Cargo Clearance and Entry Processing Test (ACCEPT)

Customs recent efforts to develop new cargo inspection approaches include several of GAO's major components for a new cargo inspection system. Accelerated Cargo Clearance and Entry Processing Test (ACCEPT) is a test effort to determine the feasibility of selectively reducing Customs physical examination of each shipment by the inspectional force and without an intensive review of each entry by Import Specialists. An expanded post audit effort will be conducted to verify an importer's compliance. ACCEPT will utilize an automated communication system to systematically transmit the latest cargo inspection/examination information for the benefit of all Customs officers involved in cargo processing.

Cargo Compliance Measurement System (CCMS)

The Customs Cargo Compliance Measurement System (CCMS) is an effort to develop a compliance measurement system for the cargo processing functions. The major goals of the CCMS project is to determine the cost feasibility of implementing a Customswide compliance measurement system which would scientifically identify those areas in the cargo processing function where an improved level of cost-effectiveness may be obtained. Analysis of CCMS generated data will be used to identify cargo shipments with the highest potential for duty change and/or non-compliance with U.S. laws. To aid in the development of CCMS, Customs has secured the assistance of consultants instrumental in the development of the Internal Revenue Service's compliance measurement system. The consultants and GAO agree that the design and implementation of a Customs compliance measurement system will be more complex than the IRS system. Both of the test efforts described above represent to some degree the type of components for a selective cargo inspection system as discussed by GAO.

As in the case of cargo processing, the complexity of revising a major operational function dictates a careful integration of all related support operations. The efforts described above are currently being planned or tested. The projected date of completion for these test efforts ranges from one to four years. Other concepts identified in the future which are supportive of improved cargo processing will be explored. In further support of this effort Customs has developed and implemented a system entitled Facilities Information and Resources Measurement System (FIRMS). The first phase of this system provides an accurate and orderly means of identifying the more than 550 workload measurement stations and the more than 9,500 facilities at which Customs inspectional activities may occur. The second phase of the system which is currently under development will provide selected environmental data for all facilities and workload measurement stations. Another system, the inspection and control Workload Measurement System (WMS) is now being implemented on a region by region basis. WMS accurately measures the time/cost relationship for transactions and inspectional activities at all locations where Customs provides service.

As each of these systems becomes operational, Customs will use the information to measure and evaluate cargo processing operations. Initially, FIRMS and WMS will provide the data base for analysis of manpower distribution and workload volume. The next in step Customs long range accelerated cargo inspection plan requires the gathering of data and information for selective cargo inspection. The ACCEPT and CCMS efforts are expected to provide this information. When all of the completed efforts under development become operational, Customs will integrate them into a management information system for Customs activities. The system will serve as the hub of a modern and comprehensive cargo processing system which follows the recommendations of the GAO report.

To facilitate and support the changes now being considered in the cargo processing function, it will be necessary to amend a section of the U.S. Code (19 U.S.C.-1499). Statutory requirements (19 U.S.C. 1499) specify that one out of every ten packages in each shipment must be examined. Conversely, that statute does not specify the number of inspections which Customs must perform. If Congress were to amend 19 U.S.C. 1499 by eliminating the specificity of the required number of examinations, Customs would have the flexibility to increase, decrease, or let remain constant the number of examinations and/or inspections. This would allow Customs to utilize "selectivity" and to optimize the efficiency and effectiveness of manpower dedicated to cargo processing activities. For example, if based on sound information, it can be determined that certain commercial shipments are very low risk with regard to smuggling of narcotics and/or contraband, misclassification, quantity inaccuracies and other importation violations, Customs would only have to use a portion of available manpower resources to accomplish associated examinations. Conversely, maximum available manpower would be dedicated to inspecting and examining shipments identified as high risk.

GAO recommends Congressional action to amend 19 U.S.C. 1499. In recent years, we have backed similar legislative changes and we are in agreement with this recommendation with the exception of the suggested wording put forward in 19 U.S.C. 1499. We believe that Customs proposed wording put forward in H.R. 8149 should be substituted in the final report. H.R. 8149 proposes eliminating the third and fourth sentences of 19 U.S.C. 1499. It is Customs opinion that publication in the Customs Bulletin of merchandise that will not be examined is an open invitation for the introduction of contraband into the United States and will effectively negate the benefits of any selective cargo processing system.

GAO's report uses the terms "inspection" and "examination" interchangeably. The connotation which may be applied to these two words may lead to an inaccurate interpretation of the procedures which apply to cargo processing function, as well as an inaccurate assessment of the potential impact of any statutory changes. Therefore, we believe that the two words should be delineated as follows:

1. Inspection (conducted primarily for identification and quantity determination purposes)
2. Examination (conducted primarily for revenue purposes)

GAO indicates that in their subjective observations of inspectors there were occurrences where inspectors did not identify the specific packages within a single shipment for examination, did not physically view shipments, or did not make adequate descriptive notes. We wish to emphasize that such practices are not in accord with Customs policy. Corrective action is taken to eliminate such occurrences when they are detected.

GAO's discussion of Customs use of special enforcement teams and analysis of their cost effectiveness in relation to regular cargo inspection personnel is not treated in the same manner as in the GAO report entitled, "Customs Efforts to Develop a System of Assigning Inspectors Need Top Management Support," dated May 19, 1978. We believe that GAO should review and modify these comments accordingly.

Customs regulatory audit program, begun in 1974, is a supplemental enforcement technique which is helpful to Customs. However, we believe that GAO does not consider that the post audit program is a relatively new effort and is still in its formative stage. Projects have been initiated by Customs to measure post audit effectiveness for various Customs cargo processing operations. A plan for the widespread application of post audit for complex cargo workloads is being designed by Customs and will be initiated in the immediate future.

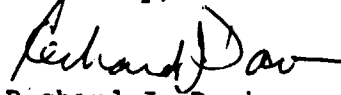
The description of other nations' inspection systems, though valuable, does not sufficiently illustrate the dissimilarities between the complexities and volume of the U.S. Customs Service workload and those of other countries cited. Thus, the report conveys the impression that Customs can easily adopt another country's cargo inspection system. Recently, U.S. Customs reviewed the Australian Customs system and developed a pilot test to determine the feasibility of implementing several key procedures from the Australian

cargo inspection system. The basic U.S. Customs cargo processing function has unique problems that are hindering the adaptability of the Australian system to U.S. cargo processing activities. However, Customs is actively engaged in efforts to overcome such hindrances and develop an effective selective cargo inspection system similar to the Australian system.

Customs has found, through a test program, that the U.S. Internal Revenue Service's Selective System cannot be merely modified and transferred to the Customs environment. Normally, the Internal Revenue Service processes individual income tax returns which are in fact yearly summaries of all the individual financial transactions of a taxpayer, corporations, etc. As a rule, Internal Revenue Service conducts post-audits at their convenience. Customs must process importer's transactions in real time, and for the most part at the public's convenience. Each formal entry processed by Customs requires a separate legal determination as to admissibility, classification and valuation. Also, Customs mission is shared among regulatory, revenue and enforcement compliance while the Internal Revenue Service is primarily concerned with revenue compliance. For some areas of Customs compliance responsibilities, for example smuggling, patterns can change overnight, requiring more frequent sampling by Customs than the Internal Revenue Services's two to three years sampling efforts. Other differences are proving to be equally challenging to Customs in its effort to develop an effective compliance measurement system.

We appreciate GAO's analysis of the complex and challenging cargo processing workload confronting Customs and we are confident that GAO's recommendation will aid Customs in its inspections system. We believe that the recent efforts which are currently being developed, tested and evaluated, demonstrate Customs firm commitment to establish a comprehensive selective inspection system to process cargo and improve Customs productivity.

Sincerely,



Richard J. Davis
Assistant Secretary
(Enforcement and Operations)

The Honorable
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