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**CUSTOMS SERVICE:**

**Strong Leadership Needed to  
Address Management  
Problems**

Statement of  
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CUSTOMS SERVICE: STRONG LEADERSHIP  
NEEDED TO ADDRESS MANAGEMENT PROBLEMS

Summary of Statement by Richard L. Fogel  
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The American public relies upon the U.S. Customs Service to enforce trade laws and policies against the introduction into the country of foreign goods that threaten our health, safety, or economic well-being. However, Customs cannot adequately ensure that it is meeting its trade enforcement responsibilities. Customs is finding only a small percentage of the estimated violations in imported cargo, allowing the vast majority of cargo with violations to pass into U.S. commerce. Nor does Customs have adequate information to assess its effectiveness in collecting applicable duties, penalizing violators of the trade laws, or managing its resources.

These problems arise because of a series of interrelated problems in Customs' management culture, including weaknesses in mission planning, information management, financial management, human resources management, and organizational structure. Basically, Customs has not focused sufficient attention on such fundamental management responsibilities as establishing clear, measurable objectives for its trade enforcement mission; developing plans which integrate the various program activities into a concerted effort to address mission objectives; analyzing information to assess the effectiveness of its trade enforcement efforts; and establishing accountability for mission performance and control of its resources. Collectively, these problems threaten Customs' ability to successfully transition to a new, largely untested automated import processing environment which is key to Customs' plans for meeting its trade enforcement responsibilities in the face of increasingly complex world trade patterns.

In response to the findings of GAO as well as others, Customs has initiated a wide array of actions to address specific problem areas. For example, Customs began addressing longstanding accounting and internal control weaknesses by designating the Assistant Commissioner for Management as its Chief Financial Officer (CFO). Customs also formed a task force to develop a trade enforcement strategy.

However, GAO believes there are several key actions needed to achieve successful management reform. First, Customs should define a clear trade enforcement strategy that is supported by comprehensive human resources, financial management, and information management planning. Second, Customs should evaluate the adequacy of its current organizational structure to support the new trade enforcement strategy. Third, sustained leadership from the Commissioner and diligent congressional oversight are essential to ensure long-term success.

Mr. Chairman and Members of the Committee:

We are pleased to be here to provide our perspectives on Customs' management. These perspectives are derived from our intensive work at the U.S. Customs Service including a general management review, a review of the financial management environment, and a review of Customs' Entry Summary Selectivity (ESS) system, the automated system that targets import documents for review to determine whether proper duties have been paid and imports comply with tariff and trade laws.

The American public relies on the Customs Service to enforce trade laws and policies against imports that threaten our health, safety, or economic well-being. However, Customs is experiencing a number of serious problems that threaten the accomplishment of its important trade enforcement mission. Customs currently cannot ensure that it is meeting its responsibilities to combat unfair foreign trading practices or protect the public from unsafe goods. These problems arise because Customs has not established clear, measurable objectives for its trade enforcement mission; developed plans which integrate the various program activities into a concerted effort to address mission objectives; analyzed information to assess the effectiveness of its trade enforcement efforts; nor established accountability for mission performance and control of its resources.

#### EFFECTIVENESS OF TRADE ENFORCEMENT EFFORTS IS QUESTIONABLE

I would like to first discuss our findings regarding Customs' trade enforcement efforts because they highlight problems that could adversely affect its efforts to modernize and improve operations.

Customs is finding a small and declining percentage of estimated trade law violations in imported cargo. Using the random examinations that Customs conducts, in part, to assess the risk targeting capabilities of its automated Cargo Selectivity System (CSS), we developed estimates of the total number of violations in imported cargo. Our analysis showed that Customs did not detect at least 84 percent of the total estimated violations in cargo imported during fiscal year 1991 (see Chart 1).

Further, Customs does not have an institutional standard to gauge the significance of violations it discovers. Marking violations, which are inaccurate representations of required information on imports, represent over 60 percent of those discovered for the past three years, and key Customs officials say that most marking violations are not very significant (see Chart 2). Without an agreed upon standard to assess the significance of the violations it discovers, Customs is not well positioned to judge the results of its operations.

Customs also has problems assessing the effectiveness of its efforts to review import documents and detect noncompliance with

tariff and trade laws and regulations, including improper payment of duties and fees. Customs' ability to determine whether goods entering the country are properly classified and valued suffers from serious problems in ESS. The system does not readily identify why entry documents are selected for review and system design limitations make it difficult for Customs personnel to use the system, thus discouraging diligent enforcement efforts. Further, Customs cannot assess the effectiveness of the criteria in targeting high-risk entry documents because the system does not allow Customs to compare the entry document review results with the specific criteria prompting the review. In response to our report on ESS, Customs has agreed to develop this capability, which is fundamental to its plans for full electronic processing of Customs transactions.<sup>1</sup>

Customs also has inadequate information to assess how effectively it is investigating and penalizing violators of trade laws. For example, the system Customs uses to manage the fines, penalties, and forfeitures program contains incomplete, inaccurate, and outdated data. In addition, it does not support adequate monitoring of the status of penalty cases and does not provide a comprehensive picture of Customs' effectiveness in collecting penalties.

These problems stem from a series of interrelated problems in Customs' management culture, including weaknesses in mission planning, financial management, information management, human resource management, and organizational structure. The problems are longstanding and could threaten its future plans to transition to a new, largely untested automated import processing environment.

#### STRATEGIC DIRECTION FOR OPERATIONS LACKING

Customs does not have a strategic management process that provides a clear vision for the agency's trade enforcement efforts, nor the management processes to establish adequate accountability for performance. Customs' 5-year plan does not provide an objective for trade enforcement that enables someone to understand what constitutes good trade enforcement and measure progress toward achieving it. For example, trade enforcement could be defined in terms of increased detection of violations, increased duties collected, increased voluntary compliance, or some comparable objective.

Deficient management processes limit Customs' ability to establish accountability. Customs has not developed management information needed to effectively manage operations and assess

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<sup>1</sup>Customs Automation: Effectiveness of Entry Summary Selectivity System is Unknown, (GAO/IMTEC-92-20) March 24, 1992

program performance. Its ability to assess the effectiveness of its trade enforcement efforts has been hindered because it has not:

- used information from its random cargo examinations to develop estimates of the violations in all cargo imports;
- established institutional standards for measuring the significance of the cargo violations it discovers;
- developed the capability within the ESS system to assess the effectiveness of its criteria in targeting high-risk imports; and
- developed critical information on the results of its fines, penalties and forfeiture efforts.

Further, Customs' internal management assessments have not been done routinely and were usually too narrowly focused to identify the root cause of program management problems. In addition, vague performance standards in senior executive plans have made it difficult to adequately measure managers' success in achieving agency goals.

Customs plans to move from partial to full electronic transaction processing and cargo release to meet its trade enforcement responsibilities in the face of the ever increasing volume of imports. However, these plans are threatened by deficiencies in its strategic management process. Without an adequate understanding of the effectiveness of its current trade enforcement efforts, Customs will not have a baseline from which to judge its effectiveness in the new, largely untested import processing environment. Further, during 3 years of efforts to implement paperless release of cargo, Customs failed to establish a capability within its Cargo Selectivity System to identify randomly examined cargo which would have otherwise been subject to paperless release, precluding the agency from monitoring the violation rate for cargo released without inspection. Customs also needs to clarify its plans to guide the transition to full electronic processing. Many unanswered questions remain about how full electronic processing will be implemented, how it will affect Customs personnel, and how much it will cost.

Customs' leadership has initiated or plans to initiate a number of actions intended to address problems in the critical elements of the strategic management process. For example, Customs formed a task force to develop a trade enforcement strategy. This is a good first step. In our opinion, it is important that the task force produce a trade enforcement strategy that establishes a measurable objective for Customs' trade enforcement efforts; defines viable strategies for achieving the objective; and provides for the analysis of information that shows Customs'

progress toward the stated objective. Further, if Customs is to effectively implement the strategy, it will need to effectively integrate planning for human resources, financial management, and information management as well as define how the organization should be structured.

#### INEFFECTIVE INFORMATION RESOURCES MANAGEMENT HAMPERS MISSION ACCOMPLISHMENT

Customs has not managed its information resources effectively, with the result that information needed for program execution and monitoring is not available. We found three major problems with the way Customs has managed its information resources. First, planning efforts focused on achieving efficient transaction processing for the importing community rather than on developing an agencywide system that could also effectively support trade enforcement efforts. Second, systems development often proceeded without adhering to federal systems development guidelines calling for feasibility studies, cost-benefit analyses, documentation, and full testing. Third, insufficient attention was given to assessing the effectiveness of the agency's information management practices in meeting mission requirements.

As a result, the implementation of key systems that affect financial management has been delayed, agency staff lack ready access to information needed to meet their trade enforcement responsibilities, and policymakers lack information to assess the effectiveness of Customs' trade enforcement efforts. For example, in developing ESS, Customs rushed implementation and failed to follow federal systems development guidelines. From its initial design of ESS in 1987 to the present, Customs has not prepared feasibility studies, risk or cost-benefit analyses, or development/implementation plans. Customs implemented the first phase of ESS without fully testing the system. Consequently, it did not detect the problems we discussed earlier that limit the system's usefulness to Customs personnel.

Customs has initiated a number of corrective actions such as developing a long-range information management strategic plan; hosting a conference to identify information management problems, and exploring ways to resolve technical problems in its Automated Commercial System. However, more are needed, including identifying information needs for achieving trade enforcement objectives, developing a systems architecture to guide systems development efforts, adhering to systems development guidelines, and instituting effective evaluations of information management review efforts.

#### FINANCIAL MANAGEMENT WEAKNESSES REMAIN

Customs continues to face the challenge of establishing adequate accountability and control over its resources. Its leadership

has recognized the severity of Customs' long-standing financial management problems and has shown a commitment to making substantial changes. Under the direction of its Chief Financial Officer (CFO), a number of initiatives are underway, such as an effort to develop a new financial management system. Further, some progress has been made in strengthening accountability and control. But, major financial management problems remain.

Customs' existing accounting and internal control systems do not provide management complete and accurate financial information to effectively manage its resources. For example, the accounting systems contain incomplete and inaccurate data on Customs' receivables and property. As a result, Customs does not know how much is owed, and hundreds of millions of dollars in property are susceptible to fraud, waste, and misuse.

Limited internal controls and deficient policies regarding the amount of duties and fees owed and collected may have resulted in the loss of millions of dollars in potential revenue. For example, because periodic reviews are not performed to verify the amounts received for passenger user fees and harbor maintenance fees on exports, Customs does not know whether it receives the proper amount. A review conducted by Customs at one airport showed that 6 of the 10 carriers audited had underpaid a total of \$1.9 million in passenger user fees.

Customs also has not aggressively pursued collecting delinquent accounts receivable, which totaled almost \$107 million as of March 31, 1991.. About \$60 million of this amount was delinquent for more than a year as of that date. Collection efforts were hampered by (1) system design deficiencies, (2) failure to comply with existing debt collection policies and procedures, and (3) limitations imposed by the Debt Collection Act of 1982 which prohibits Customs from using private collection agencies and administrative offsets.

While top management at Customs has resolved to take necessary actions to correct its financial management problems, improvements will not come about immediately and the efforts must be sustained. The Chief Financial Officers Act provides Customs with a broad mandate and foundation to improve its financial management environment. The continuing, strong support of Customs' leadership will be critical to achieving long-term success.

#### CUSTOMS NOT WELL PREPARED TO ADDRESS HUMAN RESOURCE MANAGEMENT CONCERNS

Customs' staff and outside observers, such as the Blue Ribbon Panel and the Treasury Inspector General, have expressed major concerns about Customs' management of its human resources. Among these concerns: (1) the performance management process is

ineffective in improving personnel and organizational performance; (2) both the quantity and quality of training is inadequate; and (3) frequent staff changes adversely affect service quality.

Customs has yet to put in place the human resource management (HRM) processes and structures needed to address these issues and to achieve its objectives of increasing the professionalism of its workforce and becoming a quality employer. Customs needs to:

- develop a comprehensive human resources plan that targets key HRM issues threatening agency goals, develops plans and budget estimates, and aligns training programs with needs;
- institute the workforce planning capability to determine the number of people and types of skills needed;
- analyze information on HRM issues to enable it to identify emerging issues and monitor progress toward addressing HRM goals;
- devote renewed attention to its performance management responsibilities; and
- establish a central capability for leading an agencywide HRM effort.

#### CUSTOMS' STRUCTURE OBSTRUCTS EFFECTIVE MANAGEMENT

Changes in Customs' organizational structure must accompany efforts to improve management processes. Successful accomplishment of this mission requires integration of the efforts of the Offices of Inspection and Control, Commercial Operations, and Enforcement. However, 49 percent of Customs managers feel there is not a high level of cooperation or coordination among programmatic units. Further, Customs' reliance on the 7 regions to oversee operations in the 44 districts is not ensuring consistent policy implementation. For example, headquarters inspection and control program managers were unable to overcome field opposition to instituting a standardized method for tracking the quality of cargo examinations.

These problems arise, in part, because of two related aspects of the current organizational structure. First, Customs' headquarters structure emphasizes job function over agency mission, thus complicating efforts to develop an integrated management perspective. Second, the policymaking responsibility of the headquarters offices is separated from the line authority of the regions. Therefore, the Office of the Commissioner is the only office in a position to manage programs that cross



geographic and functional lines toward producing nationally consistent, mission-related outcomes.

We believe that within the framework of a clearly articulated trade enforcement strategy, Customs should closely examine its current organization and seriously consider adopting a mission-based structure. Customs' re-examination should also encompass its field structure. Extensive studies by Customs and prior studies by GAO have recommended consolidation of Customs' districts to improve internal accountability and reduce unnecessary expenses. However, current legislation restricts Customs from planning or implementing any reorganization that would reduce or consolidate regions or districts. We believe Customs should be permitted to study its entire organization, including its field structure, and submit proposed changes for congressional consideration.

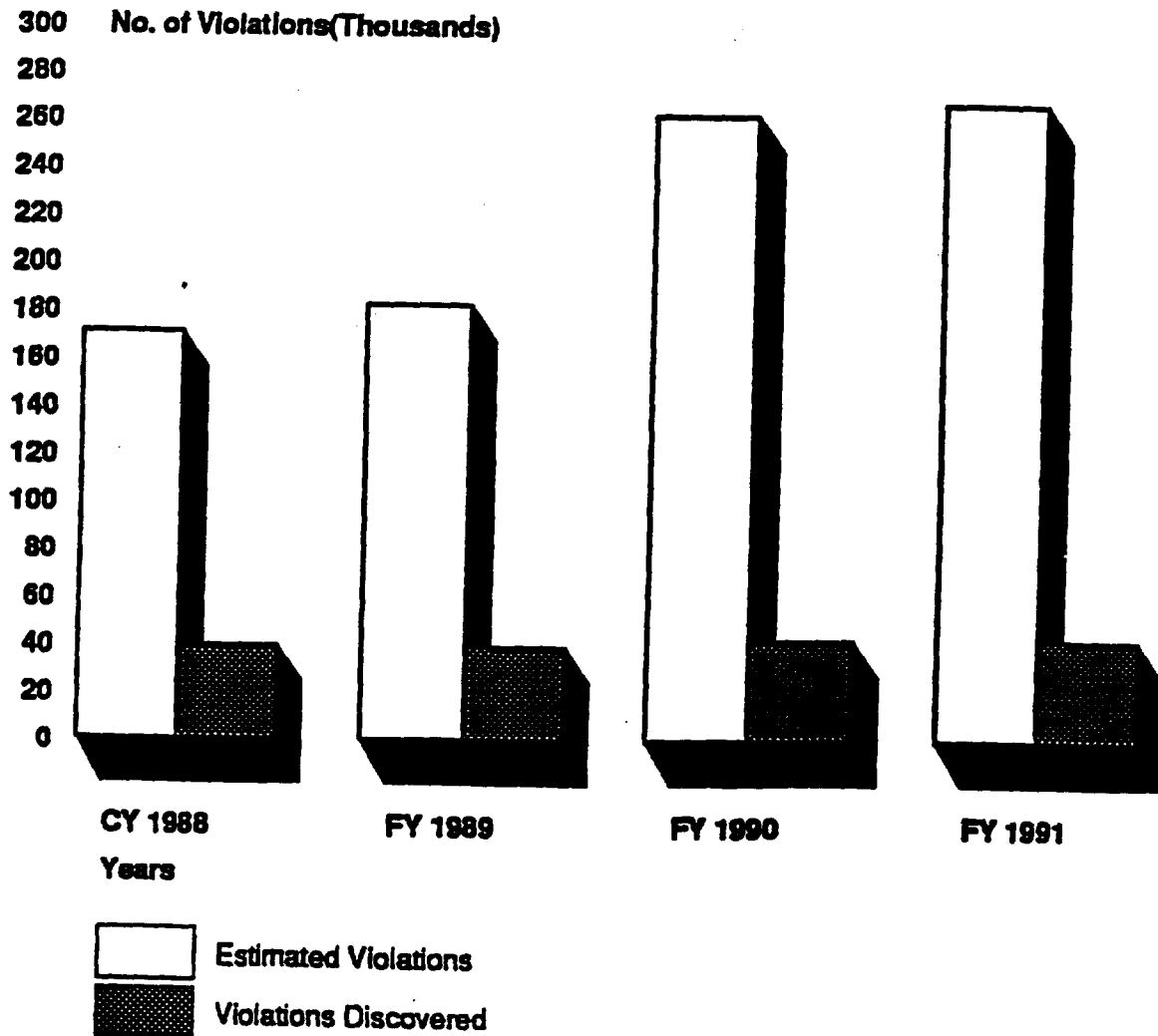
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In conclusion, it is important to recognize that under Commissioner Hallett's leadership, Customs has initiated a wide range of efforts to address specific problem areas. We cannot predict how successful the corrective actions currently being undertaken by Customs will be. But we do know that sustained, effective leadership from the Office of the Commissioner and diligent, long-term oversight from within the Executive Branch and Congress are the foundation on which lasting management reforms must be based.

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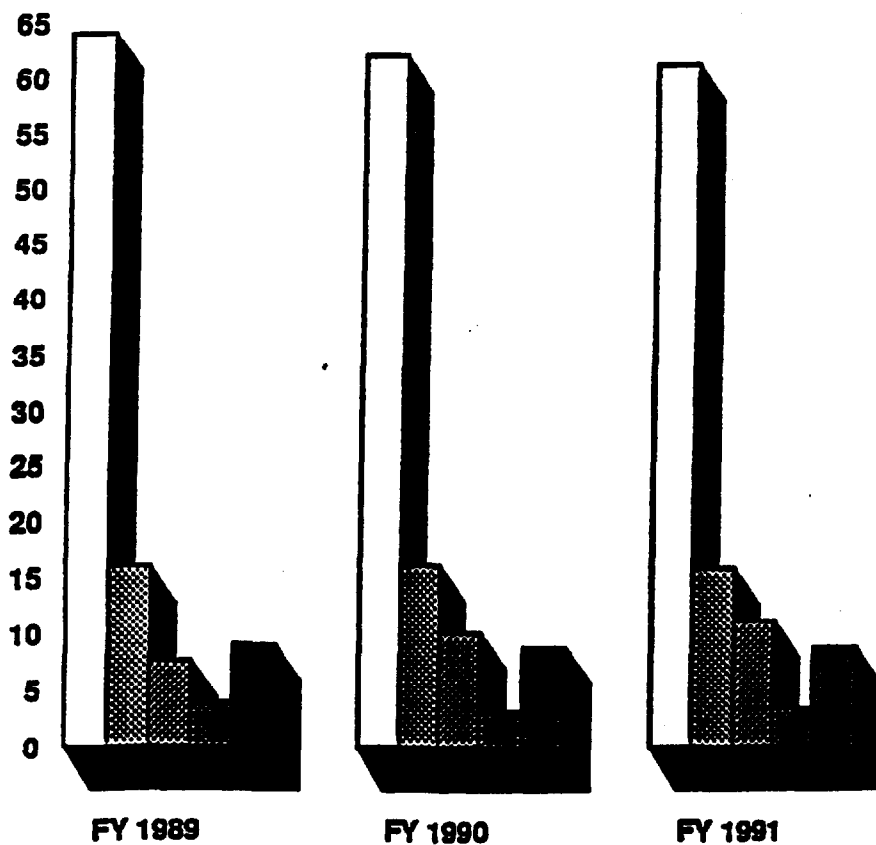
GAO Chart 1: Cargo Violations-  
Found vs. Estimated

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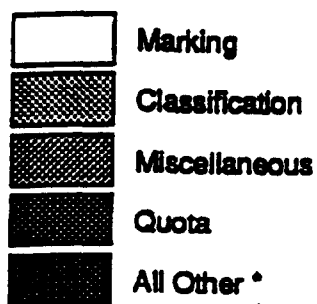


# Chart 2: Composition of Cargo Violations

Percent of Violations Found



Violation Categories



\* Includes prohibited/restricted, narcotics, other agency and quantity violation categories.