



Testimony

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Committee on Ways and Means
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CUSTOMS SERVICE

Status of Reorganization and
Modernization Efforts

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STATUS OF CUSTOMS REORGANIZATION
AND MODERNIZATION EFFORTS

SUMMARY OF THE STATEMENT OF
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The American public relies on the Customs Service to guard the nation's borders and to enforce the nation's trade laws. Responding to the interests of this Subcommittee, GAO assessed Customs' ability to fulfill its important trade enforcement mission. In 1992, GAO reported that Customs could not adequately ensure that it was meeting its responsibilities to combat unfair trade practices or protect the American public from unsafe goods.

Rather than individually addressing the problems identified by GAO and others, Customs undertook an integrated proactive approach designed to rethink what type of organization it should be, and how it should meet the demands of the 21st Century. As an initial step in its transformation, Customs issued its People, Processes, and Partnerships report in September 1994. Described by Customs as a "blueprint for comprehensive change," it proposed in general terms the agency's vision and a three-part transformation process to achieve this vision. The three components are (1) organizational change, (2) business process management, and (3) cultural conversion.

In addition, the Modernization Act provides Customs with the tools it needs to develop its automated systems so it can meet the information resources management challenges of the next century. Customs envisions developing a fully integrated system that can identify and track an import transaction anywhere in the process, from the point of initial filing and payment of duty until the transaction is closed. To ensure that the import system adequately supports import customers and trade enforcement, it is imperative that Customs finish defining its business processes before redesigning the import system or purchasing equipment. In addition, Customs should develop performance measures to assess whether the new processes are making a difference and ensure there are clear lines of accountability.

Customs' efforts to change its organizational structure, core business processes, automated systems, and culture respond to GAO's recommendations and have the potential to position Customs to meet its future challenges. But Customs' reorganization and systems modernization efforts are largely still a plan. Much work needs to be done to transform these efforts into reality.

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the Customs Service's reorganization and its automated systems improvement efforts. Our testimony is based on extensive work we did for our 1992 general management review of Customs,¹ as well as other ongoing and completed work. My testimony will cover three topics: the challenges facing Customs, Customs' proposal to fundamentally restructure itself as outlined in its September 1994 People, Processes, and Partnerships report, and its implementation of the Modernization Act.

THE CHALLENGES FACING CUSTOMS

The American public relies on the Customs Service to guard the nation's borders and enforce the nation's trade laws. Specifically, its mission includes (1) enforcing U.S. law intended to prevent illegal trade practices; (2) protecting the American public and environment from the introduction of prohibited hazardous products; (3) assessing and collecting revenues in the form of duties, taxes, and fees on imported merchandise; (4) regulating the movement of persons, carriers, merchandise, and commodities between the United States and other nations; (5) facilitating the movement of all legitimate cargo, carriers, travelers, and mail; (6) interdicting narcotics and other contraband; and (7) enforcing certain provisions of the export control laws of the United States.

Responding to the interests of this Subcommittee, we assessed Customs' ability to fulfill its important trade enforcement mission. As the House Ways and Means Subcommittee on Oversight reported in 1990² and we reported in 1992,³ Customs could not adequately ensure that it was meeting its responsibilities to combat unfair trade practices or protect the American public from unsafe goods. We found that Customs was discovering only a small percentage of the estimated violations in imported cargo, allowing the vast majority of cargo with violations to pass into U.S. commerce. Customs also lacked an effective strategic management process capable of guiding its operations and establishing accountability for performance. In addition, Customs did not have adequate information to assess its

¹Customs Service: Trade Enforcement Activities Impaired by Management Problems (GAO/GGD-92-123, Sept. 24, 1992).

²Abuses and Mismanagement in U.S. Customs Service Commercial Operations, Committee print WMCP: 101-22, Subcommittee on Oversight of the Committee on Ways and Means, U.S. House of Representatives, February 8, 1990.

³Managing the Customs Service (GAO/HR-93-114, Dec. 1992).

effectiveness in collecting applicable duties or penalizing violators of trade laws. We attributed these problems to weaknesses in mission planning; organizational structure; and financial, human resource, and information management.

Also, since 1992, we have audited the financial statements prepared by Customs in response to the requirements of the Chief Financial Officers Act. This work has revealed serious weaknesses in Customs' financial management practices and its internal control structure.

In addition to the internal problems outlined above, Customs faces major external challenges from increased international trade activity as it plans for the 21st Century. Customs estimates that about \$1 trillion of goods and almost 1 billion people cross U.S. borders every year. Between 1984 and 1994, the number of import entries⁴ into the United States increased from about 10 million to almost 40 million, making it impractical for Customs to inspect all shipments. The demand on Customs' resources has also been strained by the agency's involvement in the War on Drugs. And recent trade agreements, such as the North American Free Trade Agreement (NAFTA) and the General Agreement on Tariffs and Trade (GATT), have increased the number and complexity of trade agreements that Customs must enforce. Against this backdrop of increasing responsibility, U.S. and foreign businesses are also placing greater pressure on Customs to facilitate the movement of goods across U.S. borders.

CUSTOMS' RESPONSE TO THESE CHALLENGES

Rather than individually addressing the problems identified by us and others, Customs undertook an integrated proactive approach designed to rethink what type of organization it should be, and how it should meet the demands of the 21st Century. As an initial step in its transformation, Customs issued its People, Processes, and Partnerships report in September 1994. Described by Customs as a "blueprint for comprehensive change," it proposed in general terms the agency's vision and a three-part transformation process to achieve this vision. The three components are (1) organizational change, (2) business process management, and (3) cultural conversion.

Customs has begun a number of efforts designed to improve the way it is organized. For example, Customs has created a new Assistant Commissioner position to oversee field operations. This Assistant Commissioner is to handle functions previously performed separately by the Office of Inspection and Control and the Office of Commercial Operations. These functions should now be approached in a more integrated, mission-oriented fashion--an

⁴This includes both formal and informal entries.

approach that responds to a key problem area highlighted in our 1992 management report.

Customs is also proposing 20 Customs Management Centers (CMC) to replace the existing 7 regions and 42 districts. The CMCs would remove a layer of management and provide a better link between the Assistant Commissioner for Field Operations and the 301 ports of entry. Customs officials envision CMCs providing the consistency in oversight and policy implementation that is lacking under the district and regional structure, which was another key problem area highlighted in our 1992 management report. Although Customs is still clarifying the specific roles and functions of CMCs, it is scheduled to begin piloting the concept by the end of this month. Customs started training selected staff for the 2 prototype CMCs on January 10 and expects that the 20 CMCs will be in place by September 1995.

Another important organizational initiative is the planned establishment of five Strategic Trade Centers (STC) under the direction of the Assistant Commissioner for Strategic Trade. These centers would enable Customs to look at trade enforcement issues from a national and international perspective and, working with the Field Operations group, provide a comprehensive response to emerging trade compliance issues. This capability has not previously existed.

Recognizing the need to focus on outcomes, not tasks, Customs has also begun efforts to improve its processes. Customs is defining its core business processes, identifying individuals who will be responsible for these processes, and deciding how they should be implemented. It is also developing performance standards and measures for these core processes. Through these and other efforts, Customs is seeking to break down the barriers among its various functional organizational components.

With respect to financial management, Customs has taken several important steps toward addressing the weaknesses we have disclosed since 1992. However, significant additional efforts will be needed to reduce the risks associated with internal control problems and to ensure that Customs management and other users of its financial statements and reports have reliable information.

An overarching component of Customs' transformation is its plans to change its culture. Customs has historically been characterized by divisive internal competition, highly visible turf battles with other agencies, a controlling management style, and an adversarial relationship with its employee union. Customs is seeking to transform itself into an organization that develops the skills of its workforce, integrates and better manages its essential business processes, and develops better relationships with its external customers. Customs has begun its cultural

transformation by training its senior managers. It plans to build these training concepts into future training courses that will be offered to all staff.

Changing the culture, work processes, and organizational structure are important steps forward. In addition, the Modernization Act provides Customs with the tools it needs to develop its automated systems to better meet the information challenges of the 21st century.

CHALLENGES FOR INFORMATION RESOURCES MANAGEMENT

Historically, Customs' automated capabilities for processing imports and enforcing trade laws were limited. Customs had various systems to process import transactions, but these systems were not fully integrated and could not readily share information. As we noted in our financial statement audits⁵ and our 1992 management report, the systems did not effectively enhance Customs' ability to reasonably ensure (1) overall compliance with trade laws and (2) that duties and fees were properly assessed, collected, and reported. In the last few years, Customs has undertaken several projects to address these system deficiencies. For example, projects were initiated to enhance Customs' capability to target import violations and validate, collect, and report revenues.

The Modernization Act, which was part of the NAFTA legislative package, allows Customs to move toward a fully automated environment. Most importantly, the act removes legislative constraints that required brokers and importers to submit paper documents for each import transaction. Now, customers will not only be allowed, but will be encouraged, to electronically submit documentation. In addition, the act allows customers to begin filing import documents from locations different from the cargo's port of entry. Previously, customers had to submit documentation at the port where cargo was entered.

The new environment created by the act provides Customs with the impetus for rethinking and modernizing the way it conducts business. In response, the agency envisions developing a fully integrated system that can identify and track an import transaction anywhere in the process, from the point of initial filing and payment of duty until the transaction is closed. Customs has recently issued a strategy that lays out the steps necessary to design and develop such a system. The act requires

⁵Financial Audit: Examination of Customs' Fiscal Year 1992 Financial Statements (GAO/AIMD-93-3, June 30, 1993) and Financial Audit: Examination of Customs' Fiscal Year 1993 Financial Statements (GAO/AIMD-94-119, June 15, 1994).

the agency to develop a plan for the system, then test and evaluate system components to ensure they meet program goals.

Customs recognizes that it cannot wait for this new system to be fully designed, implemented, and deployed before addressing some of the agency's more immediate concerns. As a result, Customs is continuing with many of its projects to enhance the current systems. For example, it is currently prototyping a system improvement that should help it automatically select high-risk cargo for inspection to determine whether goods entering the country are properly classified and valued. This is in direct response to a weakness identified in our management report. Customs is also continuing to expand the current system to provide remote filing capabilities. A prototype of this improvement is scheduled for testing by June 1995.

Issues of Continuing Concern

Customs has begun work in a number of areas as part of its initial planning efforts for the modernization. These areas include (1) meeting with customers to coordinate modernization plans and to understand their needs, (2) defining its business processes, and (3) defining performance measures that will be used to assess results. We assessed Customs' efforts in each of these areas by comparing them to the best strategic information management practices used by successful organizations in the public and private sectors, which we described in a May 1994 report.⁶ Our comparisons identified a number of opportunities for Customs to keep in mind during its modernization planning and implementation.

First, we found that in successful organizations information system plans are tightly linked to and predicated on satisfying explicit, high-priority customer needs. These customer needs are then used to set mission performance goals for improving service delivery. Customs' coordination with its customers has included conducting public meetings with the trade community to solicit their views on ways to facilitate trade, such as the use of remote filing, and to inform them of its progress in implementing the Modernization Act. Customs' task force, which is responsible for coordinating Customs' response to the act, has also met with trade groups to educate them on requirements of the act.

As yet, Customs has not determined and prioritized specific customer needs relative to the planned changes to the business processes, or broken out the needs of the various groups that will be affected, such as importers, brokers, carriers,

⁶Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology, Learning From Leading Organizations (GAO/AIMD-94-115, May 1994).

passengers, insurers, and other agencies. Such a determination is needed to ensure that Customs' new processes meet customers' specific needs. Also, as Customs refines its understanding of customer needs, it can provide systems modernization information that will allow the trade community to develop compatible systems.

Second, we found that substantially improving performance requires that work processes be analyzed and then streamlined or redesigned. Customs has begun to define the new trade compliance process by first identifying the key components. The next steps are for Customs to describe how each component will operate and then determine how information technology will support the new operations. Customs plans to use these definitions of key components to determine the specific systems and technology requirements needed to support the business.

To ensure that the import system adequately supports import customers and trade enforcement, it is imperative that Customs finish defining its business processes before redesigning the import system or purchasing equipment. For example, Customs' current enhancements to provide remote filing capabilities, including related equipment purchases, should not be considered part of the new import system because Customs has not yet determined the new trade compliance procedures. These new procedures may affect how remote filing is ultimately implemented.

Third, we found that successful organizations rely heavily upon performance measures to assess the implementation of mission goals and objectives, and track progress. One measure of improvement being defined by Customs is trade customer satisfaction. Customs should develop other performance measures such as trade compliance rates, which could be used to determine whether the new processes and systems are making a difference for trade enforcement and import processing.

Finally, we found that successful organizations have clear responsibility for information management decisions and results. Customs has established several decision-making bodies, such as the Executive Improvement Team, as part of its reorganization. Customs also has other previously established entities, such as the ADP Steering Committee, which determines the priorities and resource allocations for systems development efforts. It is unclear which decision-making entity is ultimately responsible for approving systems development. During this time of change, Customs needs to clarify roles and responsibilities to reinforce accountability and facilitate mission success. In other words, somebody needs to be in charge.

CONCLUSIONS

We are encouraged by Customs' efforts to change its organizational structure, core business processes, automated systems, and culture. Clearly, these efforts respond to the recommendations in the 1990 House Ways and Means Oversight Subcommittee Report, our 1992 management report, and other reports we have issued on Customs' systems development and financial management. These efforts have the potential to position the Customs Service to meet its future challenges.

But we must remember that Customs' reorganization and systems modernization efforts are largely still a plan. Much work needs to be done to transform them into reality. Is Customs on the right track? We think so. It has put a lot of effort into an extensive self-examination. It has chosen to take a comprehensive approach to improving its operations. It is consulting with its customers and federal partners along the way. Will mistakes be made? I am sure they will. But our follow-up work suggests that the leadership of Customs is committed to positive change. This Subcommittee's support will help Customs transform this plan into reality.

We encourage Customs to continue discussing both the progress and results of the reorganization effort as well as automated systems development with this Subcommittee. Here are some topics that should be explored:

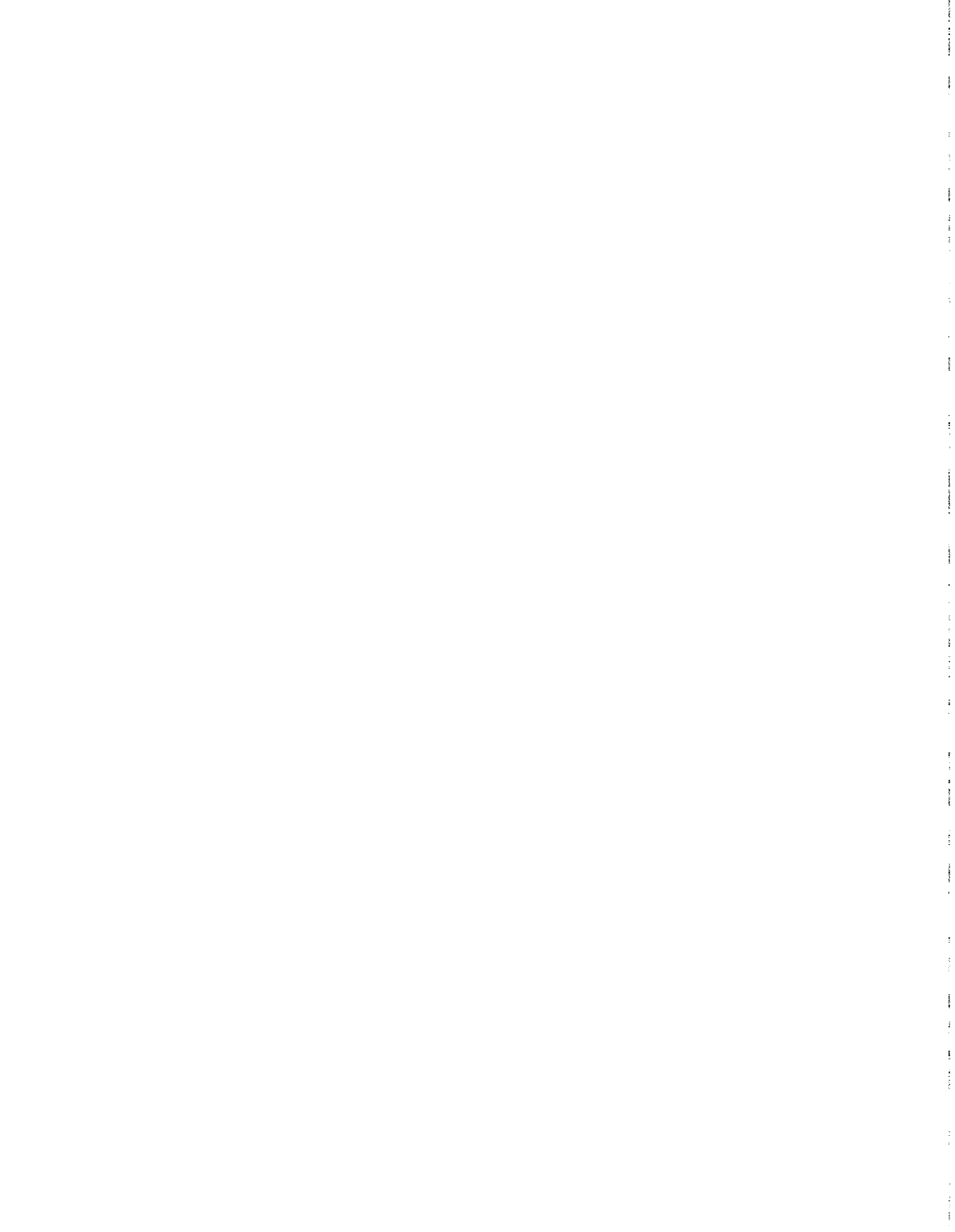
- What are the specifics of implementing the "blueprint for change"? In other words, what are the key elements and system components, how will the implementation of these elements and system components be sequenced, and what is the time line for their implementation?
- What specific role will the CMCs play in ensuring consistent oversight and policy implementation at the ports?
- How will Customs define the major components of its core business processes and ensure they are defined before automated systems design and building are started?
- How is Customs achieving and maintaining the partnerships with customers it needs to successfully implement the reorganization?
- How will Customs minimize disruptions as it implements the reorganization?
- What indicators or measures does Customs have to determine the success or effectiveness of its reorganization effort?

-- When may Congress and Customs' external customers expect the major elements and automated systems components of the reorganization effort to be operational?

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Mr. Chairman, this concludes our statement. We would be pleased to answer any questions.

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