

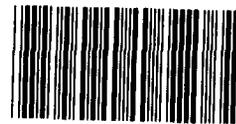
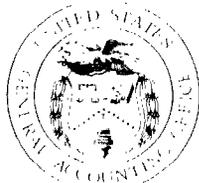
GAO

Report to the Chairman, Subcommittee on
Oversight, Committee on Ways and Means,
House of Representatives

March 1992

CUSTOMS
AUTOMATION

Effectiveness of Entry
Summary Selectivity
System Is Unknown



146673

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United States
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Washington, D.C. 20548

Information Management and
Technology Division

B-247028

March 24, 1992

The Honorable J. J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

This report responds to your request for the results of our review of the U.S. Customs Service's automated Entry Summary Selectivity subsystem (ESS). Customs uses ESS to select importer documentation (called entry summaries)¹ that present a high risk of problems for review by Customs' import specialists. ESS is intended to provide an automated means of assisting import specialists in determining whether appropriate duties are paid and if trade laws are being violated, and to provide uniform treatment nationwide of importers and imported merchandise. In fiscal year 1991, importers and/or their brokers filed over 8 million entry summaries with Customs, from which Customs collected over \$16 billion in duties.

Customs intends to have ESS, which began operating nationwide in 1988, enhanced in phases and fully deployed in 1995. The objectives of our review were to determine how well ESS is working and whether its development has been adequately planned. Details of our objectives, scope, and methodology are found in appendix I.

Results in Brief

Although Customs is using ESS to select high-risk entries for import specialist review, one cannot currently determine whether the system is working as intended or is providing uniform treatment of importers and imported goods nationwide. In developing ESS, Customs has not applied basic management controls or followed sound system development practices, such as those embodied in federal guidelines. Specifically, Customs has not (1) developed systems requirements, considered alternatives, or conducted cost-benefit analyses; (2) developed test plans or performed adequate system testing to determine whether ESS meets user needs and operates as intended; (3) developed specific milestones to track

¹The entry summary package is Customs' form CF-7501, plus any additional information needed for Customs to assess duties, collect statistics, and determine whether laws and regulations have been met. Importers have 10 days to submit an entry summary once imported goods have been released by Customs for consumption in the United States.

the system's progress; or (4) developed a budget, with projected costs, to monitor ESS expenditures.

When problems with ESS have been identified, they have not been resolved expeditiously, and several remain uncorrected, even though the project has moved into phase II. Problems have included not identifying why high-risk entries were selected for review, not ensuring that the appropriate import specialist team was reviewing an entry summary, and allowing local ports to override national selection criteria beyond set time limits. Further, import specialist use of ESS has been hampered by a lack of training and a shortage of computer terminals by which users gain access to the system.

Until basic management controls are established and sound system development practices adopted, the success of ESS development efforts will remain at risk. Customs agreed that improvements are needed and is taking steps to enhance management controls and improve systems development practices.

Background

The federal government's responsibility for collecting duties dates back to 1789. Today, the Customs Service, an agency within the Department of the Treasury, performs this function. The agency's mission currently includes enforcing about 400 provisions of law on behalf of more than 40 federal agencies.

In 1982 Customs began developing the Automated Commercial System (ACS) with the goal of automating all of Customs' commercial operations into one integrated system. Such operations include reviewing documents that importers submit before and after importing goods, inspecting shipments, and collecting duties owed to the United States. ESS is one of 17 subsystems within ACS.

When goods valued at over \$1,250 are imported into the United States, an importer or broker must file certain documents for entry with Customs officials at the port of entry. As payments for imported goods are received, Customs' entry clerks enter information from the entry summaries into ESS. Once an entry summary is entered into ESS, the ESS subsystem notifies the Customs entry clerk that the entry summary has either been selected for review by the import specialists or that it should be bypassed for immediate liquidation. Import specialists carry out their review responsibilities mainly by reviewing entry summary documents, such as

invoices, contracts, and purchase orders, and by relying on their familiarity and knowledge of the particular merchandise and importer.

Because of the growing numbers of entry summaries that are submitted to Customs, Customs tries to reduce the review of entry summaries that it considers to be low risk. Low-risk entries are those considered to be simple and routine; those unlikely to violate import requirements and containing the proper duty. On the basis of selection criteria,² these low-risk entries are bypassed and liquidated—the estimated duty, calculated by the importer and/or its broker, is accepted and all paperwork is finalized. This allows the import specialists to concentrate their reviews on high-risk entries and provides a means of managing the increasing work load.

Between 1967 and 1987 Customs used manual bypass systems, relying on selection criteria that were developed at each field location, to determine high- and low-risk entries. However, because each port had its own selection criteria, importers did not receive uniform treatment, compliance/enforcement efforts were uncoordinated, and import specialist resources were unevenly allocated.

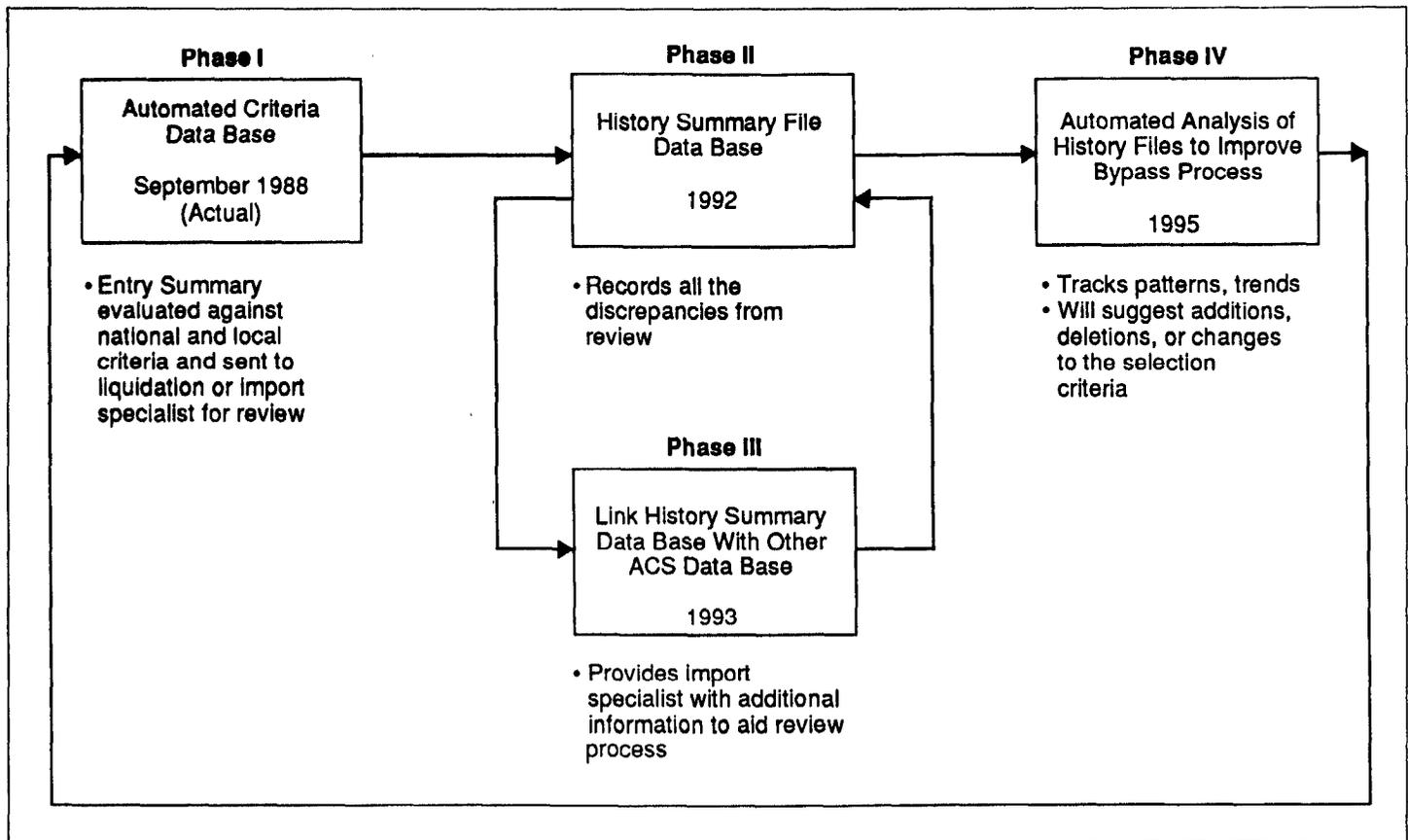
In 1987 Customs began developing ESS, which, when fully implemented, is intended to (1) provide an automated means of distinguishing between high- and low-risk entries, (2) provide additional information to assist import specialists with their reviews, and (3) create history files so Customs can assess and enhance the selection criteria. In addition, Customs developed national criteria (involving all U.S. ports) with the intent of having importers receive uniform treatment in having their entry summaries selected for review. Realizing that individual ports may need flexibility, such as being able to concentrate on a specific commodity not in national criteria or to temporarily override national criteria, Customs allowed the use of local criteria on a short-term basis.

Customs' documents and discussions with agency officials indicate that Customs plans to implement ESS in four phases. Phase I, the only completed phase, was piloted in Seattle, Washington, in August 1987, and then expanded to other locations; nationwide deployment occurred in September 1988. In phase II, Customs plans to build history files containing a record of problems associated with importers and imported

²The selection criteria are developed by Customs, based primarily upon information that importers or brokers provide, including the type of commodity, manufacturer, person or organization filing an entry, importer, and country of origin of the merchandise.

goods found while reviewing entry summaries. Customs officials believe this will enable them to begin assessing the effectiveness of the selection criteria and provide historical information for the import specialists to use in their reviews. Customs plans to implement phase II in 1992. Phase III is planned to link several ACS data bases, such as cargo selectivity; sanctions; audit results; and fines, penalties, and forfeiture actions, to ESS' history files. Phase IV would allow for the automated analysis of the history files to suggest additions to or updates of the selection criteria. Phase III is scheduled for implementation in 1993 and phase IV in 1995. Figure 1 shows these four phases and how they relate to each other.

Figure 1: Four Phases of Entry Summary Selectivity System and Planned Implementation Dates



Costs for ESS cannot be determined because Customs does not break out costs for individual ACS subsystems. In addition, Customs could not provide us with actual costs incurred for ACS since its inception in 1982. As

of September 1991, Customs estimated it had spent more than \$315 million on ACS from fiscal years 1982 to 1991 and that it will spend about \$403 million for developing, maintaining, and supporting ACS from fiscal years 1992 to 1997.

ESS Lacks Basic Management Controls

Customs did not follow generally accepted good business practices while developing ESS. Customs also did not give adequate management attention to the project. Consequently, Customs did not determine precisely what users needed and if the system met these needs, what the system's costs were, how effectively the system was performing, and whether the system was being developed on schedule.

Customs Did Not Follow Good Management Practices in Developing ESS

Since its initial design of ESS in 1987, Customs has not followed good business practices for system development and operation, such as those embodied in several federal guidelines. For instance, the National Institute of Standards and Technology issues Federal Information Processing Standards (FIPS) publications that provide guidance to federal agencies to help ensure the successful development and operation of automated information systems.³ The federal guidelines state that for cost-effective operation and maintenance of information systems, sufficient planning and documentation are needed.

These guidelines describe life-cycle methodology for software development. Such methodology includes establishing objectives for the software; conducting feasibility studies, risk analyses, and cost-benefit analyses; and testing, documenting, and evaluating the software. Additionally, throughout the system development cycle major milestones and supporting tasks, required resources, costs, and event completion dates should be identified. Managers can then determine (1) if all requirements are met, (2) if any adjustments are needed, and (3) whether resources should continue to be expended. System developers have found that without careful planning and disciplined development, a system is unlikely to be efficient, effective, or delivered on schedule.

³Federal Information Processing Standards Publication 38, "Guidelines for Documentation of Computer Programs and Automated Data Systems;" Federal Information Processing Standards Publication 64, "Guidelines for Documentation of Computer Programs and Automated Data Systems for the Initiation Phase," National Institute of Standards and Technology.

However, Customs did not follow these principles in developing ESS. While Customs determined that ESS would be developed and implemented in four phases, no requirements analyses, feasibility studies, risk or cost-benefit analyses, or implementation plans for any of the four phases were prepared. Without such information, managers could not determine (1) what the tasks in each phase were, (2) the resources and costs involved for development of any of the phases, and (3) whether ESS would be beneficial, achievable, and developed on-time. In March 1990, Customs developed completion dates for phases III and IV; however, once again it did not identify the tasks to be performed and the completion dates for these tasks. One Customs official told us that because of the rapidly changing environment in which Customs' systems are developed, it would be difficult and time-consuming to follow the system development procedures described in federal guidelines.

Our past work at Customs has shown that the agency has a history of implementing ACS subsystems without adequate planning and sufficient testing. For example, in 1987 we reported that Customs was not using formalized test procedures or documenting the system, and in 1990 we reported that because of poor ACS system controls, Customs could be losing millions of dollars in duties and other collections.⁴

A 1990 report by the Subcommittee on Oversight of the House Committee on Ways and Means also expressed concern about Customs automation development efforts.⁵ The report stated that while ACS has changed frequently, many of these changes were implemented without adequate documentation, and users were often not made aware of the changes in a timely manner. Even worse is that several of these changes were made, only to later discover that they contained serious design flaws. The Subcommittee recommended that Customs document and test all ACS modules before deploying them. The Subcommittee noted that inadequate documentation and testing increases both the cost to develop and maintain the system, and the risk that internal controls will be compromised and errors introduced into the system.

⁴System Integrity: Stronger Controls Needed for Customs Automated Commercial System (GAO/IMTEC-87-10, Feb. 10, 1987). Customs Automation: Duties and Other Collections Vulnerable to Fraud and Abuse (GAO/IMTEC-90-29, Feb. 28, 1990).

⁵Report on Abuses and Mismanagement in U.S. Customs Service Commercial Operations (WMCP: 101-22, Feb. 8, 1990).

In response to this recommendation, Customs told the Subcommittee that it had established an Office of Technology Assessment to be responsible for conducting ACS system testing. This organization is now responsible for evaluating ESS.

In addition to adequate planning and testing, a key to successfully integrating any major information technology into an agency is the commitment of its leadership. The General Services Administration has published guidance for federal agencies to help ensure the proper management of automation projects.⁶ Among other things, these project management guidelines recommend appointing one person to oversee the project.

At Customs, however, top management has given minimal attention to ESS. No project manager was ever appointed to oversee the development and implementation of ESS. Two headquarters organizations, the Office of Information Management and the Commercial Operations Office of Trade Operations, were given responsibility for developing ESS, but no project manager with overall responsibility and authority for day-to-day management of ESS has been appointed. Instead, project efforts are fragmented between the two offices. One Customs official from the Office of Trade Operations stated that he has all of the responsibility, but none of the authority to resolve problems. In essence, no one has overall accountability for ESS.

**Customs Has Not
Expediently Resolved
Phase I Problems**

Since pilot testing of phase I in 1987, a number of problems have been identified, many of which still need to be corrected. These problems include not identifying why an import specialist is receiving an entry summary for review, not selecting all the appropriate review teams to review an entry summary, and allowing local override criteria to be present in the system past a set time limit. The lack of computer terminals and inadequate training has also hampered the ability of the import specialists to efficiently use the system.

One phase I problem is that the system does not readily identify why an import specialist received an entry summary for review. Without this information, an import specialist does not know what needs to be reviewed or why the entry summary was sent for review. To find the information, an

⁶Critical Success Factors for Systems Modernization: A Primer for Senior Managers in Government. Prepared by American Management Systems, Inc., for the U.S. General Services Administration.

import specialist must take the time to move through at least four computer screens. However, we observed numerous instances where import specialists liquidated high-risk entries without finding out why the system had selected the entry for review. While Customs discovered this problem during pilot testing in 1987 it decided, without first determining the full impact of the deficiency and in contrast to sound development principles, to put off correcting this problem until subsequent enhancements were added. Now, over 4 years later, the problem remains.

Two other problems can also hinder the complete review of entry summaries. First, entry summaries that ESS selects for review containing multiple commodities are assigned by the system to the import specialist team whose item had the highest aggregate dollar value, even though an item with a lower dollar value may be high-risk. For example, if an importer files an entry summary for \$10,000 worth of housewares and \$5,000 worth of electronics, the entry is routed to the housewares inspection team, even if ESS selected electronics as the high-risk item needing review. Therefore, summaries may be liquidated by one review team (that may not have the proper expertise), when the summary should have been reviewed by a different team.

The second problem is that ESS stops looking for additional high-risk items after the first "hit." Because of this, if an entry summary has multiple commodities with more than one high-risk item, the system will identify only the first high-risk item; the others will not be selected by ESS for review. In both of these cases, unless the import specialist realizes that the entry summary needs additional review, the entry summary may be liquidated without receiving a complete review.

One of the main purposes of phase I was to create a national criteria selectivity data base that would allow uniform selection of entry summaries for review. Uniformity is important because it helps ensure that importers receive similar treatment nationwide, while preventing portshopping, in which importers bring goods to ports where their paperwork is less likely to be reviewed. Because local ports may occasionally need to override national criteria, ESS allows local overrides of national criteria for a period of up to 60 days, with the possibility of an additional 60-day extension pending supervisory approval. However, due to a system flaw that should have been detected had Customs conducted effective testing, we found thousands of local overrides without expiration dates that had been in the system for a year or more. This resulted in non-uniform treatment of

importers from September 1988, when the system was implemented, until April 1991, a period of two-and-a-half years.

We brought this problem to Customs' attention in January 1991. Soon after, Customs checked all ESS local criteria. This check showed that there were over 22,000 local bypass criteria, of which about 8,500 exceeded 120 days and, of these, almost 8,000 had indefinite expiration dates. Customs told us they had corrected the problem by April 1991 so that local ports could no longer override national criteria for longer than 60 days. In June 1991, we found no bypass criteria with expiration dates longer than 60 days.

Customs plans to fix the uncorrected problems identified in phase I by the end of the first quarter of 1992. These corrections include identifying why an entry summary is selected for review and routing entry summaries to all of the appropriate review teams.

Import specialists are also hampered by a lack of training and shortage of computer terminals. The Chief of Customs' Import Specialist Branch said that training for phase I was not successful because the training was initially directed at the management level, rather than at the import specialists, who received only a 15-minute overview of how ESS operates. He added that Customs is planning to increase its emphasis at the user level for phase II training. A May 1991 report on ESS by Customs' Quality Assurance Branch of the Office of Trade Operations stated that training efforts for phase I had proven ineffective and that no on-line assistance was available for users.⁷

We visited six ports and observed 26 import specialist teams working. Few of the import specialists were using the system to help process summaries. We believe that for the most part the specialists were not using the system because they did not have access to it, they did not know how to use it, or because the system did not provide much useful information to help them perform their duties.

Another problem is the lack of computer terminals, which limits import specialist access to ESS. The May 1991 Customs Quality Assurance report stated that import specialists lacked an adequate number of terminals. There were about 1,250 import specialists in fiscal year 1991. According to the report, terminal availability averaged about one for every three import

⁷Quality Assurance Entry Summary Selectivity Review, U.S. Customs Service (completed May 1991).

specialists and precluded most from participation. The report recommended that there be a terminal on each import specialist's desk. Customs' planning documents show that Customs plans to have a microcomputer for access to ESS for each import specialist by fiscal year 1993, at a cost in excess of \$12 million.

Since implementing phase I in 1988, Customs has used ESS to distinguish between high- and low-risk entries and send them either to review or immediate liquidation. In 1991, using ESS, Customs bypassed and liquidated without review a little over 50 percent of all entries. However, as discussed below, Customs does not plan to begin collecting the information necessary to assess the effectiveness of the selection criteria until after the deployment of phase II.

Poor Management Practices Continue Into Phase II

The major purpose of phase II is the creation of history files to record the results of the import specialists' review of high-risk entries. Customs plans to use this information to begin assessing the effectiveness of the selection criteria. In January 1991, Customs began pilot testing phase II without performing adequate system acceptance testing. Although a major problem was discovered during the pilot—the system did not capture all of the historical information—Customs decided not to correct the problem and began moving forward with further deployment of phase II.

When an import specialist finds a discrepancy while reviewing a high-risk entry, the discrepancy is recorded and the broker is notified of the problem and asked to resubmit the entry with corrected information. Customs had intended the system to contain both the discrepant and corrected information. Because of a system problem, however, the discrepant information is erased when the corrected information is resubmitted. Our discussions with import specialists and internal agency records show that import specialists believe this information is needed as part of the history file so that other import specialists who review the same merchandise can see if there had been a problem. This error was not detected by Customs' Office of Technology Assessment when it tested the system. Instead, the problem was identified during the pilot when import specialists noted that the system was erasing information in the history files.

Despite this problem, Customs decided, as it had done in phase I, to begin deploying phase II at other locations. In August 1991, we told Customs officials our concerns about deploying phase II before testing had been completed and all problems resolved. While they agreed to look at the

problem, they still planned to implement phase II nationwide by early 1992. Customs officials told us in late January 1992 that the software fix for the history files had been moved back from the first quarter of 1992 to the third quarter of 1992. According to the Chief of the Import Specialist Branch, this delay was caused by competing priorities for software changes to other ACS subsystems and the complexities of the needed modifications.

Conclusions

In developing ESS, Customs has failed to (1) follow sound development practices and (2) apply basic management controls, leading to problems that to a large extent have gone uncorrected. Training for ESS has been recognized as inadequate and Customs reported that only one in three users have terminals by which to access the system. Further, Customs has no assurance that ESS is working as intended or is promoting uniform treatment of importers and imported goods—a key ESS objective. Until Customs provides adequate management oversight and attention to ESS and implements basic controls, the prospect for successfully completing ESS remains in doubt.

Recommendations

In order for EES to meet its objectives in a timely and economical manner, we recommend that the Secretary of the Treasury direct the Commissioner of Customs to postpone further development of ESS beyond the phase II pilot until the following actions are taken:

- Institute sound management practices in developing and operating ESS. This includes appointing a project manager for ESS; performing cost-benefit analyses; and developing detailed system requirements, formal test plans, and plans specifying milestones and required resources.
- Correct the operational and system problems that have been identified so far. This includes assessing the adequacy of ESS training and terminal access and availability and taking action to ensure that any problems identified are expeditiously addressed.
- Develop adequate plans for phases II, III, and IV, relying on government guidelines and sound business practices.

Agency Comments

On February 28, 1992, Customs provided us with written comments on a draft of this report. Customs concurred with our recommendations. Customs agreed, for example, to appoint a program manager for Entry Summary Selectivity, and to correct the limitations identified in the current system. Moreover, Customs stated that it can and will improve its planning and documentation of ESS before proceeding further with the system's development. To that end, Customs has contracted for an independent review of its selectivity process and expects that review to provide significant guidance in the further development or refinement of selectivity processing. The full text of Customs' written comments is contained in appendix II.

Our review was performed between September 1990 and January 1992 in accordance with generally accepted government auditing standards. As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days after the date of this letter. At that time, we will send copies of the report to the Secretary of the Treasury; the Commissioner of Customs; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others upon request. This report was prepared under the direction of Howard G. Rhile, Director, General Government Information Systems, who can be reached at (202) 336-6418. Other major contributors are listed in appendix III.

Sincerely yours,



Ralph V. Carlone
Assistant Comptroller General

Objectives, Scope, and Methodology

The objectives of our review were to determine how well ESS is working and whether its development has been adequately planned.

We conducted our work at Customs' Office of Information Management, Office of Trade Operations, and Office of Commercial Operations, in Washington, D.C.; and at the headquarters of the National Import Specialist Division located in New York. In addition, we visited several locations within the U.S. Customs Service New York Region—New York Seaport and JFK Area Office; Customs' Pacific Region/ports—Long Beach and San Francisco, California, and Seattle, Washington; and Customs' South Central Region/port in New Orleans, Louisiana. We judgementally selected these locations because they are major Customs sites and represent different types of ports of entry.

To determine how well the system is working we interviewed cognizant Customs Service personnel in the Office of Information Management, Office of Trade Operations, and Office of Commercial Operations and reviewed a variety of reports, data, and documents on how the system is currently operating, including a recent Customs self-assessment of the ESS program. Also, we analyzed the results of selected ESS activity for fiscal year 1990 prepared by Customs at our request. To understand how ESS is operating, we reviewed the COBOL and system program logic, discussed access to the ACS system with the Security Administration Branch, and reviewed and documented the adequacy of ACS capacity planning.

In addition, we interviewed national and field import specialists at the Customs regions and ports that we visited; observed how they used the system; and reviewed appropriate documents, policies, procedures, and other data to understand how the current system works and to assess whether it meets their needs.

To determine whether ESS development has been adequately planned, we interviewed cognizant headquarters staff from the Office of Information Management, Office of Trade Operations, and Office of Commercial Operations about their plans, documented their progress to date, and obtained their assessment of their ability to implement the system by 1995. In addition, we visited Customs' San Francisco district office to observe and document Customs' phase II pilot program. We also reviewed a variety of federal program requirements relating to systems documentation and project management planning for systems modernization.

Comments From the U.S. Customs Service



THE COMMISSIONER OF CUSTOMS

WASHINGTON, D.C.

Mr. Ralph V. Carlone
Assistant Comptroller General
General Accounting Office
Washington, D.C. 20548

February 28, 1992

Dear Mr. Carlone:

Thank you for the opportunity to comment on the draft report, Customs Automation, Effectiveness of Entry Summary Selectivity System is Unknown. Entry Summary Selectivity is an important automated tool for Customs in dealing with a steadily increasing workload. The concept of selectivity remains a valid operational concept which Customs will continue to employ. However, there are changes that must be made as we further develop our selectivity system. Let me take this opportunity to explain the role of ESS to support Customs.

The first phase of ESS was designed to accomplish an automated simple sort of entry summaries into Bypass or Team Review, replacing manual bypass procedures. The program accomplishes that, and in so doing offers significant staff savings in entry summary processing and electronic (and uniform) activation of traditional import specialist review procedures. Phase II, on the other hand, includes enhancements that establish the program's usefulness to Import Specialists by aiding them in their review of entry summaries. In both phases, field pilot evaluations and testing identified desirable improvements, but determined that the benefits of the program, primarily to processing efficiency and uniformity, were substantial in spite of the limitations identified during the design phase. The report, however, does not acknowledge the benefits that have been realized since implementation.

We recognize that the general conclusion of the report, that the effectiveness of ESS is unknown, is substantially accurate as it applies to Phase I. An automated history of ESS processing and results, which is now beginning to accumulate in Phase II, will help address that weakness. However, I acknowledge that this review of ESS has made it clear to Customs that aspects of our automation development and implementation process can be further improved.

The authors of this report point out that it is vital that Customs follow federal guidelines in developing our automated systems. Customs automated programs use the referenced guidelines as a basis for developing multi-

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faceted implementation plans, however, a degree of flexibility to address user demands and workload requirements must also be maintained. Our management structure and our commitment to information technology are intended to address a balance between structured development guidelines and operational flexibility so that we can meet the challenges that we must face in the future.

As your report cites, fiscal year 1991 statistics for entry summaries (8 million) and duty collections (\$16 billion) processed, account for that challenge. Customs clears goods and collects duties virtually all day, every day, all year. We are a vital link in a chain of international trade where volume is flourishing and service demands have given rise to such business expressions as "just in time" inventories. Our business practice must accommodate those numbers, and flexibility in development procedures have permitted that.

Customs can and will improve our planning and documentation of ESS before we proceed further with its development. Customs concurs with the recommendations contained in the draft report and will:

- correct the limitations identified in current Entry Summary Selectivity,
- not proceed with further development of Entry Summary Selectivity until sufficient documentation has been created, and,
- appoint a program manager for Entry Summary Selectivity.

To assist us, Customs has contracted for an independent review of its selectivity process, and we expect that review to provide significant guidance in the further development or refinement of selectivity processing.

Thank you for the opportunity to review and respond to the draft report. I hope these remarks contribute to a constructive exchange of ideas. Please append these remarks to the final report.

Sincerely,



Carol Hallett
Commissioner

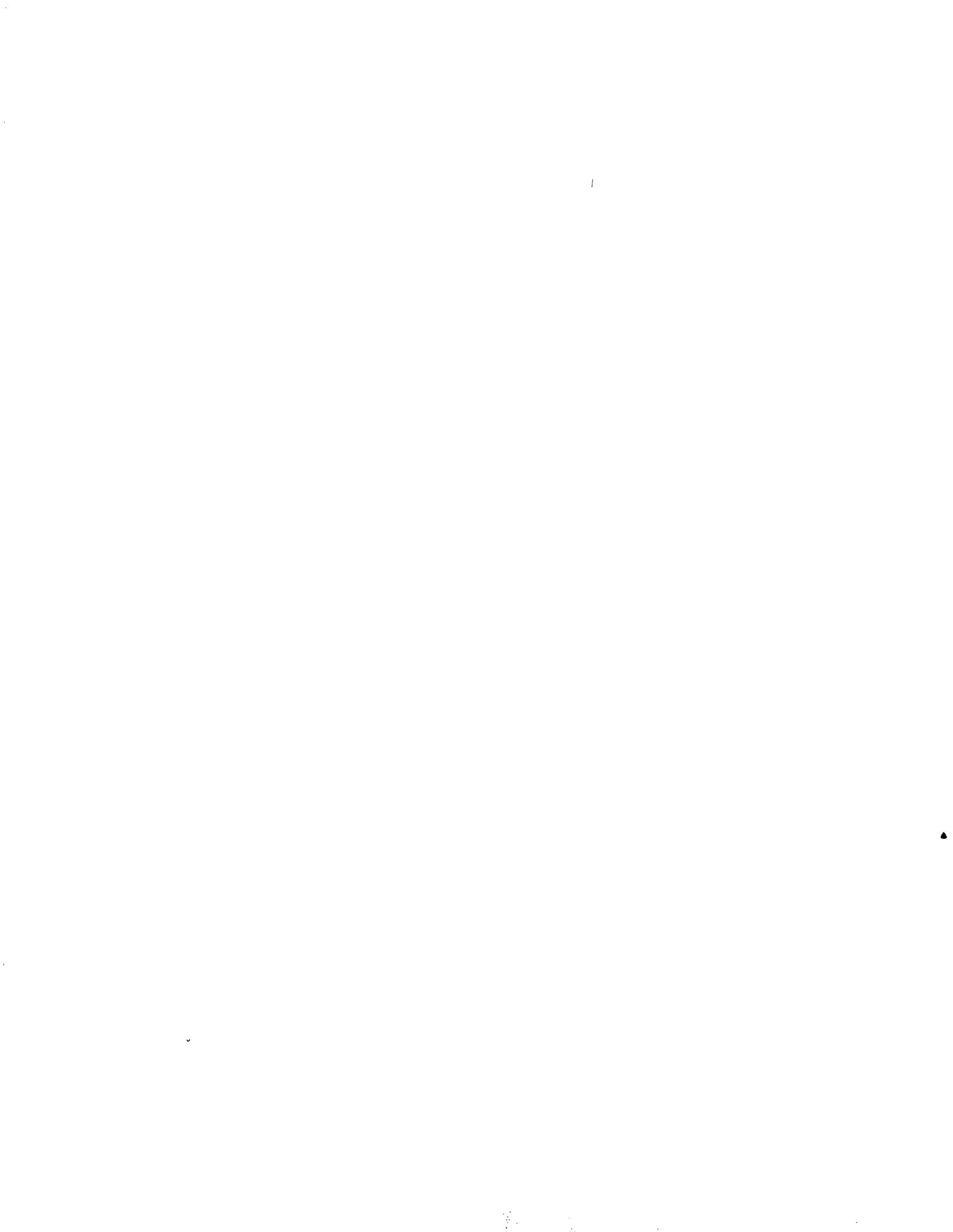
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