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BY THE COMPTROLLER GENERAL

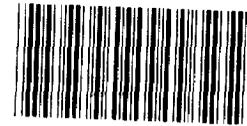
# Report To The Congress

OF THE UNITED STATES

## Assurance Needed That Import Classifications Are Accurate

Customs Service practices do not ensure that the billions of dollars in foreign products entering the United States are properly classified for the purpose of assessing duties. Proper classifications are also needed to formulate trade policies and deal with the unfair entry of foreign merchandise into U.S. markets. An increasing volume of international trade will add to these concerns. The Service's problems have been aggravated by a relatively static classification work force and a sharply increased workload. However, the work force is not likely to increase.

The Customs Service is aware of opportunities to make its classification operations more efficient. Until it takes full advantage of these opportunities, it will be unable to determine whether it can ensure that imports are properly classified without additional resources.



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

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

This report describes the U.S. Customs Service's procedures for classifying merchandise under the Tariff Schedules of the United States Annotated and discusses Customs' inability to implement recognized improvements in these procedures.

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

*Milton F. Aroslaw*

Acting Comptroller General  
of the United States



D I G E S T

4c. [Customs Service import specialists have insufficient time and means to adequately verify Tariff Schedule classifications assigned by importers or their brokers to billions of dollars worth of foreign products entering the United States annually. Proper classification is essential for determining the appropriate import duty, treating importers consistently, and compiling import data for formulating trade policies.]

[Verification is hindered, in part, by a cursory entry-by-entry review of entries, a relatively large number of incorrect entry documents which are rejected and must be re-submitted, and the lack of a quality assurance program.]

[The Service's problems are intensified by a relatively unchanging work force and a sharply increased workload.] Although the workload will continue to increase, it is unlikely that the work force will. [Without additional resources, Customs may not be able to ensure that imports are properly classified. However, that will be uncertain until it takes full advantage of identified opportunities to make its operations more efficient.]

VERIFICATION OF IMPORT  
CLASSIFICATIONS LIMITED

Steps essential to confirming import classifications--physical examination of the articles and, where appropriate, laboratory analysis coupled with application of legal principles and prior rulings--are often not performed.]

Verifying import classifications can be difficult because of complexities in U.S. Tariff Schedules. For example, often more than 1 of the 10,000 classifications in the schedules may appear to fit an imported item. This, plus a 37-percent increase in entries from 1974 to 1979 and pressure to hold down the backlog of unprocessed entries has increasingly limited import specialists' verification efforts.

B. [ GAO reviewed a random sample of 50 entries at each of 3 Customs field offices. Most of the products in the entries--70 percent in New York, 56 percent in Los Angeles, and 74 percent in Houston--were accepted solely on the basis of import specialists' reviews of entry papers submitted by importers or their brokers.]

6C. [ Entry classification verifications were limited as evidenced by the fact that:

--Of products susceptible to laboratory analysis, only 5 of 64 at New York, 2 of 108 at Los Angeles, and 6 of 70 at Houston were analyzed.

--From 75 to 89 percent of the products were probably never physically examined.

--For <sup>most</sup> 94 of 117 (product line items) at Houston and 83 of 138 at Los Angeles there was no coordination with the Customs Information Exchange to insure correct and uniform classification.]

#### CUSTOMS UNSUCCESSFUL IN IMPROVING CLASSIFICATION PROCESS

The Customs Service has been aware for over a decade that changes in entry processing operations were needed to cope with a burgeoning workload and a relatively static work force. [Substantial improvements, however, have not been made because of insufficient management support and followup.]

The entry workload increased about 37 percent from 1974 to 1979 and is expected to further increase from 1979's 4.4 million entries to 6.8 million entries by 1986. On the other hand, the number of import specialists has dropped. In January 1980, Customs had 1,172 import specialists--about 180 less than in 1974. Whether the specialists will be able to assure that imports are properly classified will depend on whether improvements in the processing systems can be made. Customs has been unsuccessful in implementing measures which would:

- Enable import specialists to focus only on selected entries--the 40 percent that according to Customs needs specialists' expertise because of complexity. (See p. 16.)
- Enable Customs to require brokers with continual poor performance in submitting accurate entry documents to improve performance. (See p. 22.)
- Provide import specialists with quick assistance from the Customs Information Exchange to classify unfamiliar merchandise and identify and apply legal principles, rulings, and court decisions. (Elapsed time from import specialist request to response from the exchange averages 39 days.) (See pp. 10 and 25.)
- Closely monitor import specialists' compliance with Customs procedures and the quality of their decisions. (See p. 31.)
- Enable managers to allocate import specialist positions among field locations on the basis of meaningful measures of workload. (See p. 29.)

## RECOMMENDATIONS

The Customs Service is an agency of the Treasury Department. To provide more substantive verification of product classifications, the Secretary of the Treasury should:

- Implement selected entry screening to ensure that complex entries receive detailed specialists' reviews.
- Establish (1) procedures to track individual broker performance in preparing entry submissions for Customs and (2) a program to assist poor performers in reducing their error rates with a provision for using existing punitive measures if sufficient improvements are not made.

GAO also makes other recommendations aimed at ensuring top management support for solving classification verification problems. (See p. 34.)

## AGENCY COMMENTS

The Treasury Department, in commenting on GAO's draft report (see app. I), stated that the findings and recommendations are in close harmony with the policies and objectives of the Department and the Customs Service and that efforts and initiatives underway or planned, to a large extent, are responsive to the recommendations. GAO agrees. However, at issue is that Customs has been aware of classification verification problems for many years and has initiated various actions but has not been able to bring about change. Whether management will give the necessary attention and follow-through to the latest series of actions remains to be seen. On this issue, Treasury's response is not all that clear.

Detailed agency comments and GAO's responses are on pp. 35 to 36.

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APPENDIX

I

March 4, 1981, letter from the  
Acting Assistant Secretary for En-  
forcement and Operations, Department  
of the Treasury

37

ABBREVIATIONS

AMPS	Automated Merchandise Processing System
CIE	Customs Information Exchange
EIS	Early Implementation System
GAO	General Accounting Office
TSUS	Tariff Schedules of the United States
TSUSA	Tariff Schedules of the United States Annotated

## CHAPTER 1

### CLASSIFYING IMPORTS--AN IMPORTANT

#### BUT DIFFICULT TASK

A high volume of imports enters the United States each year. And determining the proper tariff classification for each imported article is often a difficult task. During fiscal year 1979 alone, over \$200 billion worth of merchandise was imported which required the Customs Service to

--process about 4.4 million separate commercial cargo entries, 1/ and

--collect over \$7.6 billion in duties.

And the future holds an even greater workload for Customs. It projects that it will receive 6.8 million entries in fiscal year 1986 for over \$537 billion worth of merchandise and \$16.5 billion in tariff duties.

#### CUSTOMS' MISSION

Since its creation in 1789, Customs' primary mission has been to collect the revenue on imports and to prevent improper entry of goods. Its responsibilities have expanded to include implementing statutes regulating and facilitating international trade. Among the specific responsibilities currently assigned to Customs are the following:

--Assessing and collecting customs duties, excise taxes, and penalties on imported merchandise and verifying import statistics.

--Interdicting and seizing contraband, including narcotics and illegal drugs, being imported into the United States.

--Protecting American business and labor through enforcement of such laws as copyright, patent and

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1/As used in this report, an entry consists of various Customs forms, commercial invoices, and other documents required for the admissibility of merchandise valued over \$250.

trademark provisions; quota restrictions; and marking requirements.

Customs also enforces over 400 laws and regulations administered by some 40 other Federal agencies, including automobile safety and emission standards, counterfeit monetary instruments prohibitions, electronic product radiation material standards, and food and drug hazardous substance prohibitions.

#### IMPORTANCE OF MERCHANDISE CLASSIFICATIONS

Assigning the proper merchandise classification from the Tariff Schedules of the United States Annotated (TSUSA) to imported products is an essential step for Customs in carrying out many of its responsibilities. Classification determines the tariff rate for duty assessment purposes and aids in enforcing quota and other merchandise restrictions. Classification numbers provide the means to accumulate statistics on imported products, such as dollar value, quantity, and country of origin.

The importance of accurate merchandise classifications is underscored by the U.S. Constitution (section 8 of article 1) which gives the Congress the power to lay and collect duties but requires that duty assessments are to be uniform throughout the United States. The Secretary of the Treasury has the responsibility for establishing rules and regulations "to secure a just, impartial, and uniform appraisement of imported merchandise and the classification and assessment of duties thereon." In its passage of the Customs Procedural Reform and Simplification Act of 1978, the Congress reemphasized the importance of ensuring equal Customs treatment of importers and of ensuring the accuracy and timeliness of import statistics.

The collection of accurate import statistics has become increasingly important because of the increased volume of international trade and the concern about foreign penetration of U.S. markets and its effect on the country's economic well-being. These factors have caused Government policymakers as well as the business community to request import data which is more extensive, accurate, and precise for measuring the impact of foreign goods on domestic markets; determining the U.S. balance of trade and payments positions; negotiating trade agreements; and administering import quotas.

The Trade Act of 1974 expanded opportunities for relief to domestic industries and workers suffering injury from import competition. Agencies such as the International Trade Commission and the Department of Commerce use import statistics in determining injury to domestic industry.

Customs import specialists determine whether importers or their brokers have properly classified and valued imported merchandise, correctly calculated duties owed, and provided all data and documents required to admit merchandise into the country. In January 1980, Customs had 1,172 import specialists--about 180 less than in 1974--distributed among 73 ports of entry. Customs' organization consists of a headquarters, 9 regional offices, and 46 district offices.

### CLASSIFICATION COMPLEXITIES

Determining the proper tariff classification for an imported article is often a difficult task. The Tariff Schedules of the United States (TSUS) prescribe the rates of duty for about 6,000 articles and products by specific name; type; kind; physical characteristics, such as material composition, size, and weight; use; or a combination of the foregoing. The Tariff Schedules of the United States five-digit item numbers are further subdivided by the addition of two-digit suffixes--at which point the Tariff Schedules become the Tariff Schedules of the United States Annotated. The addition of two-digit suffixes produces more than 10,000 seven-digit item numbers. The seven-digit item numbers provide a more specific product description for accumulating import statistics.

Despite attempts to provide precise product descriptions, interpretative rules, and definitions of tariff terminology, conflicts frequently arise because the exact meaning of the terms used is unclear. Conflicts also arise because an article may be covered by more than one specification, was not in existence at the time the tariff statute was framed, or has a new use. As a result, disputed merchandise classifications have been the subject of protests and court cases over the years, and an extensive and complicated body of legal principles, court decisions, and Customs Service rulings has evolved.

### OBJECTIVES, SCOPE, AND METHODOLOGY

Our principal review objective was to evaluate whether Customs had established procedures and controls to provide assurance that merchandise classifications are correct.

We performed our review at the Customs Service Headquarters, Washington, D. C.; the Houston District and Regional Offices; the Los Angeles District and Regional Offices; and the New York Seaport and Regional Offices. The three regions were selected because of the large entry workload and to provide geographical coverage.

To find out what verification actions Customs' import specialists take, we randomly selected 150 formal entries-- 50 each at the Houston and Los Angeles Districts and the New York Seaport--approved by Customs during the period March 18, 1979, through September 15, 1979. The formal entries included merchandise classification line items totaling 117 at Houston, 138 at Los Angeles, and 87 at New York.

The effort that would have been required to select a sufficient number of entries and discuss each with import specialists to allow for statistically valid projections at the three customs locations, with high precision, was prohibitive. Our sample of entries, however, provided the vehicle for extensive discussions with 70 of the total 127 import specialist teams (55 percent) at the three field locations and enabled us to establish the processing and verification practices normally employed. The three locations accounted for about 21 percent of the 4.4 million entries in 1979.

In addition to indepth discussions with import specialists, we also did the following:

- Reviewed laws, policies, and procedures relating to entry processing and import specialists' activities.
- Examined and analyzed entry workload and staffing data and other pertinent records and documents relating to entry processing and review.
- Examined and revalidated the findings of internal and external studies and audits pertaining to entry processing, import specialists, and related activities; for example, we performed an independent test analysis of entry reject rates and confirmed continuing operational problems at the Customs Information Exchange.

- Interviewed Customs Headquarters, regional, and district officials about the entry review process and applicable improvement programs underway or planned.
- Interviewed officials at the International Trade Commission and the Bureau of Census about the collection and use of import statistics compiled from Customs' input.

CHAPTER 2

ASSURANCE NEEDED THAT TARIFF

CLASSIFICATIONS AND RELATED DECLARATIONS

ARE CORRECT

Assurance is needed that the billions of dollars in foreign products entering the United States annually are correctly classified under the Tariff Schedules of the United States Annotated. Proper classification is essential for determining the appropriate import duty; treating importers consistently; and compiling import data for formulating trade policies, negotiating trade agreements, and instituting measures to protect or assist domestic industry and workers.

The Customs Service's import specialists have insufficient time and means to adequately verify classifications assigned by importers or their brokers. Verification is also hindered, in part, by a cursory entry-by-entry approach instead of a concentrated review of selected complex entries.

SUPERFICIAL VERIFICATION OF  
IMPORT CLASSIFICATIONS

Customs import specialists often accept the propriety of importer or broker tariff classifications with little basis for doing so. Steps essential to substantiating these declarations are often not performed, such as

- examining the merchandise,
- testing merchandise content through laboratory analysis,
- visiting importers' premises to review business records, and
- obtaining information from the Customs Information Exchange (CIE) about applicable legal decisions and principles and the basis developed in other ports for accepting product declarations.

At each of three Customs field offices with large entry workloads--the New York Seaport Area, the Los Angeles District and the Houston District--we reviewed import specialists' actions on a random sample of 50 entries. Import specialists' commodity files contained no evidence of substantive verification efforts to confirm product classifications either on the sampled shipment or a prior shipment of the same product for about 56 to 74 percent of the line items; product classifications were accepted solely on the basis of the import specialists' review of the entry papers. Because the imports described in the entry documents we reviewed were not available for physical examination, we could not measure the extent that classifications might have changed had physical examinations been made. There were about 143,000 entries at New York; 75,800 at Los Angeles; and 10,700 at Houston. The number of line items were not available. The following table shows the details of these findings by location:

<u>Location</u>	<u>GAO sample</u>		<u>Acceptance based on paper check only</u>			
	<u>Entries</u>	<u>Entry line items</u>	<u>Entries</u>	<u>Percent</u>	<u>Line items</u>	<u>Percent</u>
New York Seaport	50	87	34	68	61	70.1
Los Angeles District	50	138	25	50	77	55.8
Houston District	50	117	34	68	86	73.5

Import specialists perform a cursory review of all entry documents comparing invoice data with declarations shown on Customs entry forms. If no obvious discrepancies or significant questions arise concerning classification, admissibility, or other entry details, the transaction is completed. At the three Customs locations, the paperwork check made by the import specialists was reasonably accurate--the classification and supporting papers agreed for 93 to 98 percent of the entry line items. These results are detailed by location on the next page:

<u>Location</u>	<u>GAO sample</u>		<u>Classification errors</u>	
	<u>Entries</u>	<u>Entry line items</u>	<u>Entry line items</u>	<u>Percent</u>
New York Seaport	50	87	2	2.3
Los Angeles District	50	138	4	2.9
Houston District	50	117	8	6.8

Import specialists at each location agreed that the items we identified were in error. These specialists and Customs supervisors told us that the increasing entry workload and the emphasis on holding down backlogs of unprocessed entries preclude more substantive verification work.

Physical examinations of merchandise not performed

The import specialist determines what merchandise will be examined, where it will be examined, and how it will be examined. Physical examinations of merchandise, according to Customs' guidance to import specialists, are essential to ensure that importers' invoices are not self-serving but provide complete and accurate descriptions of the imported merchandise and other information necessary for tariff classification and admissibility purposes.

For 75 to 89 percent of the entry line items we reviewed at the three locations, there was no documented evidence that the import specialist had examined these or similar shipments. We looked for requests by the import specialists for samples of the products, importer premises visit reports, or other information indicating the import specialist had examined the products at one time or another. The following shows by location the number of line items for which we could find no documented evidence of import specialists' merchandise examinations:

<u>Location</u>	<u>Line items in GAO entry sample</u>	<u>Line items where products were not examined</u>	<u>Percent</u>
New York Seaport	87	65	74.7
Los Angeles District	138	123	89.1
Houston District	<u>117</u>	<u>104</u>	88.9
Total	342	292	85.4

In 1971, recognizing the need to improve import specialist effectiveness, the Commissioner of Customs directed import specialists to examine the first significant shipment of merchandise at the importers' premises and gather other records and information to verify classification. The Commissioner also directed import specialists to document the results to provide a basis for accepting subsequent shipments.

The entries we reviewed involved 48 importers at New York, 46 at Los Angeles, and 50 at Houston. Only 11 importers had ever been visited by import specialists. The 11 importers visited included: 4, New York Seaport; 5, Los Angeles District; and 2, Houston District. Time pressures and, in some cases, travel fund constraints limit import specialists' ability to visit importers. Excluding the New York Region, import specialists made 3,769 importer premises visits and recovered or averted the loss of \$5,458,026 in revenue in fiscal year 1979. (The New York Region was excluded because data showing premises visited was not available.)

Visual examination of merchandise is not sufficient to substantiate invoice data when the classification depends upon physical attributes such as the extent of component materials. In such cases, Customs' laboratories can provide independent, scientific, physical, and chemical analyses of the products. For example, aromatic substances are dutiable at varying rates depending on the alcohol content. While the invoice may state the percentage computed by the manufacturer, the Customs laboratory can verify what may well be a self-serving statement.

Data accumulated and issued by Customs' laboratories on items which had classification changes as a result of a laboratory analysis showed that an analysis of line items in our

sample (64 of 87 at New York, 108 of 138 at Los Angeles, and 70 of 117 at Houston) could be useful in classifying the products. None of the products in our sample, however, had been submitted to a Customs laboratory. Of the products for which laboratory analysis was appropriate, very few (5 at New York, 2 at Los Angeles, and 6 at Houston) had ever been analyzed to confirm invoice descriptions and the declared classification.

A study of the New York Customs laboratory by the Management Analysis Division, Customs' New York Region, showed a 16-percent decline in the number of samples sent to the laboratory for analysis between fiscal years 1976 and 1978. The study stated that import specialists might be refraining from sending samples for laboratory analysis to avoid larger backlogs of unprocessed entries.

In September 1979, the Commissioner of Customs directed regional commissioners to brief import specialists teams on the purpose and benefits of the laboratory analysis program. By the end of fiscal year 1980, over 95 percent of all import specialists were reported to have been briefed. Preliminary reports indicate that use of the laboratory analysis program is increasing.

#### Limited use of Customs Information Exchange system

The Customs Information Exchange is not being used effectively by import specialists. The CIE system, located in New York City, is Customs' focal point for the development and coordination of information required to accurately and uniformly classify and appraise imported merchandise throughout all U.S. ports of entry. The system consists of (1) 88 national import specialists, who are the designated national experts for various categories of merchandise, and (2) 22 clerical personnel who physically control and distribute reports, inquiries, and responses between the field and national import specialists.

We found that, for 94 of 117 product line items sampled at Houston and 83 of 138 line items sampled at Los Angeles, there was no evidence that import specialists had ever requested assistance and advice through the CIE on how the products may have

been classified in the past through other ports and what legal decisions and principles might be involved.

Import specialists make limited use of CIE because of the time required to fill out a request and obtain a response from the national specialist, and because many responses obtained in the past have provided no information. A Customs study of the CIE completed in February 1980 showed that an average of 39 days elapsed from the time an import specialist initiated a request for information and a reply was received. The CIE is discussed in more detail in chapter 3.

PROPER CLASSIFICATION IS  
ESSENTIAL FOR DUTY ASSESSMENT  
AND INDUSTRY PROTECTION PURPOSES

Instances of misclassifications and other erroneous import data are brought to Customs' attention by the Bureau of Census which edits import data provided by import specialists and is responsible for compiling import statistics. In addition, the International Trade Commission and other users of import trade statistics provide feedback on classification errors.

Customs Headquarters, in an April 1977 document to field officers, noted errors in import classifications. The document stated:

"Many statistical documents verified and processed by commodity teams have been found to contain careless mistakes, errors, and omissions. From this, it is apparent that, in many cases, the Customs review and verification is strictly perfunctory and superficial. \* \* \* data 'verified' by import specialists indicate that often even a simple cursory check of the data has not been made: (1) Rescinded or impossible TSUSA numbers, (2) TSUSA numbers dependent on value or quantity which are in conflict with the quantity and entered value, and (3) missing factors \* \* \*."

The following examples illustrate the importance of correct classification in trade agreements, domestic industry injury cases, and duty collections.

Trade agreement established  
unrealistic quota

In a 1977 report on Customs import data verification procedures, the International Trade Commission provided the following illustration of how an incorrect product classification can affect trade agreements:

"\* \* \* the recent orderly marketing agreement which was entered into between the United States and Japan limited the total quantity of alloy tool steel which Japan could export to the U.S. It appears that the U.S. Customs Service had for some time prior to the agreement been incorrectly reporting certain 'bearing type' steel under a statistical category for 'other alloy steel' rather than under the annotation for alloy 'tool steel.' Thus, import statistics reflected an artificially low volume of imports of tool steel. These statistics were relied on in the negotiations and resulted in a relatively low quota level being established for such steel as part of the orderly marketing agreement. \* \* \*, the U.S. Customs Service began to scrutinize imports of this bearing type steel more carefully and determined that it should be entered as 'tool steel.'"

According to the Commission, this incorrect product classification caused the quota level to be reached within a very short period of time and also caused a great deal of embarrassment to the U.S. Government.

Domestic industry injury case

Under the provisions of the Antidumping Act of 1921, the International Trade Commission ruled in 1976 that the domestic industry was not being injured by imports of "tantalum electrolytic fixed capacitors" from Japan. This determination was appealed to the Customs Court. A Census Bureau investigation of 1975 data on merchandise entered through the ports of Los Angeles, Chicago, and New York revealed that nearly twice as many tantalum capacitors had been imported from Japan as previously reported because Customs had not detected the misclassification of these capacitors as "other fixed capacitors."

All entries classified as "other fixed capacitors" in all ports in 1975, 1976, and 1977 were subsequently reviewed by Customs. The review disclosed that the volume of "tantalum electrolytic fixed capacitors" imported from Japan in 1975 was 21,814,079 units, whereas the Commission relied on the erroneously reported volume of 14,948,243 units. Further, the investigation showed that for the first half of 1976 the volume was 19,328,033 units, whereas the Commission relied on the erroneously reported volume of 13,769,411 units.

In light of the corrected statistics, on March 27, 1980, the Customs Court stayed action on this case pending the International Trade Commission's reconsideration of its original no-injury determination.

#### Duty collections

Five of the 14 classification errors in our 150 entry samples resulted in erroneous duty collections. One particular case illustrates the problem import specialists have in making a correct classification when they review only the entry documentation.

A company imported 20 drums of a substance valued at \$5,678. The importer or his broker claimed the substance was 81 percent soybean powder and 19 percent garlic powder. The two powders were commingled and intended for food use. Each of the powders was classified separately using the following TSUSA numbers and duty rates:

140.6000	Garlic reduced to flour	35%
140.7500	Other vegetables reduced to flour	13%

The import specialist accepted these classifications based solely on a paper check of the entry documents. He, however, failed to consider General Headnote 7 of the TSUSA which provides that if a rate is not specifically provided for commingled articles, commingled articles subject to different rates are dutiable at the highest rate. If the import specialist had followed this rule and classified both items at the higher 35-percent rate, Customs would have collected an additional 18 percent in duty, or \$304 on this one shipment; the total number of shipments misclassified is not known.

On a subsequent shipment involving the same product, manufacturer, and importer, the specialist requested assistance from the national import specialist in New York through the CIE. The national import specialist replied that the product should be classified as a commingled product at the 35-percent rate pursuant to General Headnote 7 of the TSUSA.

### CONCLUSIONS

Import specialists often accept the propriety of importer or broker tariff classification declarations with little basis for doing so because time pressures preclude merchandise examinations, visits to importers' premises, requests for laboratory analyses, and coordination with the national import specialists/Customs Information Exchange system.

Import specialists must be provided with the time and the means to see that essential verification steps are systematically performed and documented at one time or another on each type of product entering a port. Otherwise there will always be problems assuring that declared merchandise classifications properly reflect the merchandise imported and are consistent with the provisions of the TSUSA and legal rulings and decisions.

In chapter 3, we discuss measures Customs has taken, with limited success, and others we believe should be taken to improve the effectiveness of import specialists.

### CHAPTER 3

#### MEASURES TO PROVIDE MORE EFFECTIVE

#### USE OF IMPORT SPECIALISTS NOT

#### YET IMPLEMENTED

For many years, Customs has recognized that changes have been needed in the merchandise classification process to enable import specialists to adequately verify importer declarations. The Service's problems have been aggravated by the combination of a relatively static classification work force and a sharply increased workload. However, there is little likelihood of any increase in the work force. Whether Customs will be able to provide assurance that imports are properly classified without additional resources will be uncertain until it takes full advantage of identified opportunities to improve the efficiency of its classification operations. Import specialists' ability to improve this function depends on whether Customs implements measures which will

- enable import specialists to focus only on selected entry transactions needing their expertise because of the complexity of the declarations;
- enable Customs to require that brokers who continually submit inaccurate entry documents improve their performance;
- provide import specialists with quick assistance from national import specialists through the CIE in classifying unfamiliar merchandise and in identifying and applying legal principles, rulings, and court decisions;
- provide closer monitoring of import specialists' compliance with Customs policies and the quality of their entry acceptance actions; and
- enable Customs managers to allocate import specialist positions among field locations on the basis of meaningful measures of workload.

Substantial progress in implementing improvements that would strengthen import specialists' verification of entry declarations has eluded Customs. This has resulted from a variety of reasons, including reluctance of import specialists to accept change, automated systems which failed to produce promised benefits, and insufficient management followup on program improvements.

ENTRY SCREENING SYSTEM NEEDED  
BUT NOT YET IMPLEMENTED

Import specialists need an entry screening system to control which entry transactions are routed to them for close scrutiny. As entry workloads mount and emphasis on timely completion of entry transactions continues, import specialists have increasingly less time to devote to each entry transaction. Thus their ability to develop a sound basis for accepting entry declarations is compromised. Additionally, Customs' officials estimate that only about 40 percent of the entries need detailed examination by a specialist.

Despite years of effort, Customs has not succeeded in implementing either a manual or an automated entry screening system. Many factors have contributed to Customs' inability to achieve a workable entry screening system.

- Import specialists were reluctant to designate which entry transactions should bypass their review because they felt accountable for all transactions, feared losing their jobs, and lacked confidence in clerical personnel executing specialists' review instructions.
- Field offices were unable to staff enough clerical positions to process entries bypassing the import specialists.
- Automated system designs were flawed, and input of entry data was time-consuming, thus producing entry processing back-logs and loss of confidence in the system.
- Import specialists were not provided enough guidance and training in using the automated system's complex entry screening capability.

Customs is deliberating on selective entry processing system alternatives. Discussions have centered on the need for nationally versus locally developed entry screening criteria and the factors to be considered in establishing the criteria. Progress to date suggests that implementation of a sophisticated automated entry screening system is not likely in the near future.

Pending development of a sophisticated automated entry screening system based on national bypass criteria, a manual bypass system should be reinstated. Customs headquarters should provide guidance for relatively simple locally developed bypass screening criteria to provide a common approach which would produce meaningful volumes of bypassed entries.

Selective entry processing  
through manual procedures

In March 1967, the Bureau of the Budget asked the Department of the Treasury and the Customs Service to explore the possibilities of increasing importers' voluntary compliance with Customs laws. The study request stated in part:

"Advancing technology such as the increase in speed and capability of air transportation and the development and extension of containerization to all modes of transportation and rapidly rising workloads necessitate a review of the nature of Customs job and how it should be performed. While resources available \* \* \* have been limited, it is doubtful that increased resources alone can match changing techniques and handle growing workloads without creating unacceptable delays. \* \* \* A need is apparent for an analysis of objectives and priorities and a review of their implications for program choices. \* \* \* For example, what changes in the process of assessment (self-assessment vs. direct) or inspection and enforcement (selective and intensive vs. across-the-board and superficial) can be considered to achieve this end?"

The resulting Customs study report, issued in October 1967, noted that a selection procedure, if successfully developed, would enable Customs to identify entries containing importer or broker tariff classifications, valuations, and

duty estimates likely to require change. Thus, Customs could reduce backlogs by focusing more of its resources on those entries.

In November 1967, the Commissioner of Customs directed field offices to move away from having import specialists review every entry and instead adopt a manual entry bypass procedure. Import specialists' training and experience were to be used more productively by concentrating on the more difficult entries and devoting less time to those of relative unimportance. Under the manual entry bypass procedures, entries identified as low risk were to bypass import specialists' reviews and were to be processed and liquidated by entry review clerks. The low risk determination was based on entries being

- unconditionally free of duty;
- subject to a low amount of duty by reason of low rate, low value, or both; or
- regularly imported merchandise with consistently error-free declarations.

As a control procedure, 10 percent of the low risk entries were to be selected at random and forwarded to the import specialists.

The project was generally unsuccessful. A March 1971 Customs headquarters task force report noted that the manual bypass system had been of limited success because some import specialists were reluctant to place obvious items on the bypass list. The report also described the alarming toll that Customs' unmanageable workload was having on the technical expertise of import specialists. In setting up the task force, the Deputy Commissioner of Customs remarked,

"Many import specialists today are people who handle invoices which describe merchandise but would barely recognize the merchandise on which they are supposed to be experts \* \* \*."

The task force believed that something had to be done to reverse this condition.

Following the task force report, the Commissioner of Customs established a program in December 1971 for increasing the effectiveness of the import specialist. This

increased effectiveness was to be accomplished by, among other measures, identifying and verifying the first significant shipments of merchandise through visits to the importers' premises. "First" was defined as relating to the country, manufacturer, or importer of the merchandise. "Significant" meant (1) merchandise that because of classification, value, or admissibility warranted import specialist attention or (2) merchandise that was reasonably expected to be subsequently imported on a regular basis.

However, a July 1973 internal audit report noted that the manual bypass system and import specialist effectiveness programs had achieved minimal success. The auditors noted that import specialists could not be at their desks processing entry documents and still be expected to accomplish many of their important responsibilities. Import specialists, the auditors observed, were reluctant to leave their desks because of the very visible entry backlog that would result. A further contributing factor cited was the general lack of clerks to relieve import specialists of many clerical duties.

A Customs headquarters official also concluded, in April 1979, that attempts since 1967 to encourage use of manual bypass procedures to increase import specialists' productivity had been largely unsuccessful. By and large, field response to the system was less than enthusiastic, primarily because specialists lacked confidence that relatively low-graded clerical personnel could properly execute import specialists' bypass review instructions.

Many districts, the official noted, simply abandoned the manual bypass system or identified for routine bypass processing only risk-free commodity categories. Few districts achieved a bypass rate in excess of 10 percent. The official believed that a successful selective entry bypass system was dependent on some form of automation.

#### Selective entry processing through automation

Customs incorporated the selective entry review concept in its Early Implementation System (EIS), a subsystem of the Automated Merchandise Processing System. EIS was designed to allow import specialists to establish criteria so that

the automated system could screen low-risk entries for routine review and processing by entry clerks rather than the import specialists. In October 1974, EIS testing began in the Customs Philadelphia District. By 1977, the system had been installed in five additional districts.

Over 5 years of effort in development and testing, however, failed to produce the promised benefits of the system. Rather than facilitating entry processing, the system often produced large backlogs of unprocessed entries. In addition, the selectivity feature of EIS failed to produce desired workload reductions for the import specialists. Customs studies identified numerous factors contributing to backlogs of unprocessed entries, such as

- time-consuming input of entry information resulting from the extensive data requirements of the system and slow computer response time,
- inability to hire or retain enough data entry and entry review clerks,
- system software deficiencies and computer equipment malfunctions, and
- high error rates in broker submitted entry documents which had to be corrected and reentered into the system.

Customs studies also identified numerous factors which significantly limited the success of the selectivity feature in reducing import specialists' entry workload. For example:

- The objectives of the system and training in its use were not adequately provided to import specialists; consequently, they were worried about job security. This, coupled with system deficiencies, created skepticism and resistance among its users.
- The development and maintenance of bypass criteria proved overly complicated and time-consuming, particularly in the absence of sufficient training.

Initially, some import specialists simply designated entries under a certain dollar value for routine bypass review rather than using the more elaborate criteria.

--The import specialists' feelings of accountability for the correctness of all entries made them reluctant to designate a high percentage of entries for the routine bypass processing. Some import specialists continued to review entries they had designated for bypass processing.

Customs attempted to resolve problems with EIS through system design modifications and additional user training. Customs management also concluded that national bypass criteria were needed to elevate to headquarters the responsibility for routine entries not intensively reviewed by import specialists and to achieve higher routine review rates. National criteria would also provide more consistent treatment of products and importers. A 1977 Customs study, as well as our EIS survey results reported by letter 1/ to the Customs Assistant Commissioner (Operations), cited significant variances among ports about what merchandise was considered low risk and thus designated for routine bypass processing.

According to the Customs study, over one-third of the TSUSA numbers considered high risk by some districts were rated medium or low risk by other districts. Our survey report cited similar variances among locations as to the levels of review given to the same merchandise and the need for assigning risk factors based on historical data showing which categories of entries have a high probability for error. Our report also cited the continuing problem of import specialists performing clerical duties.

In December 1979, Customs suspended operation of the EIS system except in the Baltimore and Philadelphia districts. During 1979 and 1980, Customs headquarters efforts to develop a workable automated entry screening system produced several option papers but did not produce a design concept acceptable to top management. Alternatives involving entry bypass based on nationally developed screening criteria versus locally

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1/(B-114898, Oct. 24, 1978.)

developed criteria have been proposed. Customs still views national criteria as the best approach for the automated screening system but may allow some flexibility for local input. Customs is also considering using the national import specialists in New York to develop and maintain the national criteria.

IMPROVING BROKER PERFORMANCE WOULD MAKE  
MORE TIME AVAILABLE TO SPECIALISTS

Import specialists would have more time to verify classifications if the accuracy of entry documents were improved. A significant amount of import specialist and entry clerk time is spent identifying obvious errors and omissions in entry documents prepared and submitted to Customs by brokers. These documents often must be returned to the broker for correction or additional information before verification efforts can be taken by the import specialist. Customs, however, has no procedures to monitor broker performance and to induce higher quality entry submissions. High broker error rates in entry documents were one reason specialists decided not to designate more entries for bypass processing.

Reject rate

Customs' studies over the years have shown that as many as 45 percent of the entries reviewed by import specialists have been rejected because of broker errors. The reported reject rates varied among locations depending upon whether import specialists corrected the errors (not considered a reject) or sent the entries back to the broker for correction.

The 45 percent reject rate was identified through a 1977 Customs study performed for a 1-month period at four locations--Los Angeles, Miami, New York, and Philadelphia. Over 31,000 entries were involved. Most rejects resulted from classification errors.

Another study by the New York Seaport, covering the period October 1977 through January 1978 and involving 124,414 entries, disclosed that 22.7 percent were rejected and returned to the brokers or importers for correction.

Entries were rejected for a variety of reasons, including classifications, valuations, clerical and calculation errors, and missing documents.

Rejections for fiscal year 1979 at the three ports we visited were as follows:

<u>Number of entries</u>	<u>Port</u>		
	<u>Houston</u>	<u>Los Angeles</u>	<u>New York</u>
Received	72,839	256,106	459,993
Rejected	11,674	37,102	82,570
Rejection rate (%)	16.0	14.5	18.0

The ports did not maintain data to show the reasons for the rejection or to monitor individual broker performance. To obtain insight into the reasons for entry rejection, we reviewed the entries rejected during short test periods in the three ports visited. The results were as follows:

<u>Type of error</u>	<u>Port</u>			<u>Total</u>	<u>Percent</u>
	<u>Houston</u>	<u>Los Angeles</u>	<u>New York</u>		
Cash collection system edit rejects	127	261	34	422	18.9
Classification detected by import specialists	144	254	225	623	27.8
Value detected by import specialists	82	114	139	335	15.0
Other detected by entry clerks and import specialists	<u>118</u>	<u>308</u>	<u>431</u>	<u>857</u>	<u>38.3</u>
Total rejects	<u>471</u>	<u>937</u>	<u>829</u>	<u>2,237</u>	<u>100.0</u>
Total entries received during test period	3,480	4,510	5,499		
Rejection rate (%)	13.5	20.8	15.1		
Test period	12/3-18/79 (12 days)	2/4-8/80 (5 days)	3/10-12/80 (3 days)		

The number of entries submitted by each broker during the test period could not be determined, and individual broker error rates could not be calculated. Import specialists at the ports visited, however, told us that certain brokers have a reputation for poor quality entry submissions and that their entries get more careful review.

#### Sanctions not imposed

Customs has the authority to issue penalties and revoke the licenses of brokers who continually prepare and submit incorrect entry documents. However, Customs field and headquarters officials advised us that Customs has not emphasized tracking individual broker performance and taking punitive actions to improve the quality of entry submissions. At most, Customs' officials, in some districts, have counseled individual brokers about the need for correct entry submissions.

Customs' automated entry processing system has a key feature under development which will enable brokers to input entry data directly into Customs entry processing system through remote computer terminals, thereby increasing the need for improved broker performance.

CUSTOMS INFORMATION EXCHANGE  
IMPROVEMENTS STILL UNDER STUDY

Customs management has been aware for many years that the CIE system has not functioned as well as intended to promote accurate and uniform classification of imports among Customs ports. Repeated studies have shown the need for improvements to revitalize the system through more rapid update and retrieval of classification and other information on prior Customs experience with imported products, importers, and foreign manufacturers. Little progress has been made in strengthening the CIE system because Customs top management has not given it priority attention over the years. Although we found evidence of renewed Customs headquarters interest in the New York Region's efforts to improve the CIE, revitalization of the CIE has not been designated as a Customs Service top priority.

The need for CIE

A statement made on behalf of import specialists to a national conference of Customs field and headquarters managers in October 1978 aptly describes how import specialists view the need for a workable CIE. It states in part:

"\* \* \* the import specialist is still locked in the stone age. The import specialist \* \* \* is a person of judgment, but today, he is less professional and more of a human information retrieval system. There is nothing wrong with an information retrieval system--it is probably one of modern management's most valuable tools. We have approximately 1,100 import specialists. Each one collects the information, studies it, and stores it. Then on call, he spits out the details \* \* \*. We end up with 1,100 separate systems, and what we need is one automated information retrieval system used by 1,100 people. The import specialist is the principal means of

reaching the importer and broker to control and facilitate incoming merchandise. He is too valuable to waste."

The CIE is the focal point for developing coordinating information needed to accurately and uniformly classify imported merchandise at all U.S. ports of entry. The CIE system consists of 88 import specialists who are designated national experts for various categories of imported merchandise and 22 clerical personnel who collect and distribute various types of classification and appraisal information between the national import specialists and the import specialists in other ports.

Import specialists are supposed to submit their proposed classifications to the CIE on first significant shipments of merchandise over \$5,000 and on any shipments for which import specialists believe they may need assistance. The national import specialist reviews the contemplated classification and notifies the import specialists of approval or disapproval. This reply is based on information obtained on shipments through New York or other ports as reported by import specialists and the national specialist's file of applicable legal rulings and court decisions. If the two import specialists do not agree, the matter may be referred to Customs' Office of Regulations and Rulings at headquarters for a decision.

A long history of problems  
identified but limited  
corrective action taken

Through the years Customs has undertaken many studies and evaluations of the CIE. Basically, the studies have identified the same problem and recommended the same solution: The exchange of information between the field units and the CIE is slow and cumbersome and should be automated.

A study group reported in December 1964 that CIE's manual system was slow and cumbersome. The study group recommended that a thorough study of CIE procedures be made to determine the feasibility of using automatic data processing equipment to speed information dissemination

to the field. A March 1968 Customs status report on the group's recommendations stated that a committee had been appointed to study this recommendation. We found no evidence that such a study was performed.

In an April 1977 headquarters conference, the issue of how to properly distribute information via the CIE was again discussed. The group recommended that a study be made of CIE performance, the feasibility of transmitting information by a word processing system, and methods for improving the quality and quantity of information disseminated.

In 1978, the New York Region established as a management objective the revitalization of the CIE. In its fiscal year 1980 budget request submitted about January 1978, the New York Region requested funds for equipment to automate the CIE. In its justification, the New York Region noted:

"If these funds are not provided, CIE will be even less able to handle the mass of data now needed to be transmitted between ports to ensure uniformity of appraisal and classification. Lack of uniformity of action is at its highest point now in decades."

The fiscal year 1980 budget request for automatic data processing and microfilm equipment, however, was not approved by Customs Headquarters.

In September 1978, a Customs headquarters study team, established because of the increasing complaints about the CIE, concluded that the CIE system was suffering from two major problems. The first was a serious lack of guidance. The team noted that the CIE branch had not had a permanent, full-time chief for about 2 years. More significantly, the team found that Customs headquarters had not been conducting field evaluations of the CIE system. No evaluations were made, the team believed, because during the 1970s Customs placed higher priority on narcotics interdiction and enforcement programs than on duty assessment programs.

Secondly, the study team found that the CIE system was being hindered by the archaic manual exchange of

information. A tremendous amount of time was spent conducting clerical and administrative functions and mailing information to and from New York. The team recommended that further study be given to automating the CIE and that it be given substantially more priority by Customs Headquarters.

The CIE was again criticized in July 1979, this time by Customs' regional internal auditors. The auditors contended that the decreasing number of submissions from the field to the CIE indicated that the attitude in the field was one of growing disregard for the CIE as a useful tool because of the lack of timeliness and quality in its responses.

In his August 1979 response, the New York Regional Commissioner disagreed with a number of the internal auditors' specific observations but conceded that there had been major breakdowns in the CIE program which had eroded national confidence in the system. He stated that on August 12, 1979, the CIE branch would have a permanent full-time chief for the first time in nearly 3 years. He also reiterated that a major continuing goal of the New York Region since 1978 had been the revitalization of the CIE.

On March 13, 1980, the CIE branch chief provided the New York Regional Commissioner and the Director, Duty Assessment Division (at headquarters), findings and recommendations for rebuilding national uniformity in classification and appraisement through the CIE system. The recommendations included the use of computers and word processing systems. Customs, the report noted, needs both a quick query system for determining whether a record of previous importations from a specific manufacturer exists and a more complete message format for entering information into an electronic master file and for soliciting advice from the national import specialists.

In June 1980, Customs initiated several new projects concerning the CIE. One will study the feasibility of automating the CIE, another will implement new guidelines for the exchange and coordination of classification, valuation, statistical, and admissibility information through the CIE, and a third will review the organization of the national import specialists function. However, they remain largely initiatives of the New York Region.

SYSTEM TO ALLOCATE IMPORT SPECIALIST  
POSITIONS UNDER STUDY

Despite much discussion over the years about how the import specialist's workload should be measured for position allocation purposes, a system to ensure optimum use of these positions has not been implemented. Consequently, field managers have complained of staffing imbalances as entry workloads have shifted between geographical locations. An allocation system has been proposed, and we believe it represents an initial step in the right direction, and should be pursued by Customs top management.

Import specialist workload measurement and staff allocation have been discussed in Customs for many years, at least since 1967. Over the years, however, sufficient priority was not assigned to produce a workable Service-wide system.

The consequences of not having an import specialist allocation system were highlighted in an August 1979 letter from a regional commissioner to the Commissioner of Customs. In his letter, the regional commissioner stated:

"While entry and duty workloads continue to grow in each region, the really crushing increases in workload come from other responsibilities that have been placed upon the import specialists in recent years. As foreign trade becomes more complicated and more important to our national economy, the import specialists are constantly being required to absorb new tasks without commensurate increases in manpower."

\* \* \* \* \*

"We have been told time and again that generous staffing increases are simply not in the works today or in the foreseeable future. Essentially, Customs must make do with what it has regardless of increasing workloads. We are willing to accept this situation. Our only request is that the poverty be shared fairly. As the burdens become heavier, equitable distribution of resources becomes more and more crucial."

The regional commissioner stated that 40 additional import specialist positions would have to be transferred to his region to eliminate the workload disparity. He noted that in fiscal year 1979 his region had been processing 17 percent more entries than received to pare its backlog of entries; however, this had been done with risks to revenue collections that would have been unnecessary had resources been more equitably distributed. In closing he stated:

"We recommend that 1979 be made the decisive year for reform in resource allocation. Now is the time when plans should be laid for distributing the duty-assessment-manpower-pie strictly on the basis of workload rather than a vague compromise between workload and tradition."

Agreeing with the need for positive action, the Customs Assistant Commissioner, Office of Commercial Operations, directed the development of an import specialist allocation system. In his memo dated December 17, 1979, he stated:

"\* \* \* the Deputy Commissioner has some concern about the perceived imbalance of the allocation of import specialist positions among the regions. This problem has been discussed for many years and there are many strong differing opinions. Trade data indicates a relative shift in merchandise importations from the east coast to the west coast of the U. S. While import specialist man-years have increased over the past 10 years, it appears that increases have been neither adequate for the workload nor equitably distributed to the high growth areas.

"\* \* \* there have been several allocation systems utilized in the past; all of which were controversial. The development of a manual and/or automated entry by-pass system is only a partial solution to the increasing workload problem; we must also have a fairly equitable, flexible nonponderous import specialist position allocation system."

In August 1980, the plan for a proposed import specialist allocation system was provided to Customs field offices for comment. The system is predicated on a mathematical

formula which divides import specialist positions among field locations on the basis of each location's share of the total entry workload. The formula presently reflects workload complexity based on the number of importers and tariff classification numbers used in the district and general acknowledgment that seaport districts handle the most complex types of entries.

The proposed system represents a step in the right direction, although the formula will have to be refined to more precisely reflect workload complexity, particularly as experience is gained with entry bypass processing.

PROGRAM TO PROVIDE BETTER  
MONITORING OF SPECIALISTS'  
ACTIVITIES UNDER DEVELOPMENT

Import specialists' performance has not been monitored on a regular basis. Thus, there is little assurance that the specialists are following procedures designed to assure proper classification decisions. The lack of monitoring has been cited in Customs internal audit reports and other documents as a contributing factor in specialists' failure to fully comply with classification procedures, such as selected entry processing, physical examination of merchandise, and use of the CIE.

Monitoring of specialists not always done

A July 1973 Customs internal audit report cited the lack of adequate quality control over import specialists. The report stated that specialists accepted importer declarations virtually without any independent verification and noted that compliance and quality control monitoring by headquarters and regions had been inadequate. The report further stated:

"Since no one questions the classification and values accepted by the import specialist team captains, we can only guess as to the quality of the product, especially under crash programs to reduce backlogs of work.

A most important deficiency exists that must be corrected. The Classification and Value managers are not in effective control of transactions between Customs (import specialists) and the importing public. As a result, there is no continuing assurance that required transaction qualities of equality of treatment of all importers, integrity of Customs personnel and the full collection of the revenue, are being routinely achieved."

A September 1978 Customs internal audit report on import specialists' activities said that import specialists were spending valuable time performing clerical tasks and were not adequately verifying information provided by importers.

The internal audit findings were generally applicable to the locations we visited. Supervisory import specialists were not performing periodic audits of their teams' compliance with established policies and procedures nor assessing the quality of their teams' performance.

In the Houston District, no team audits were completed in 1979. In the Los Angeles District, only one of three supervisory import specialists that we talked to had completed team audits during fiscal years 1978 and 1979. In the New York Seaport, approximately 360 team audits should have been made since 1976. However, team supervisors were able to provide us only 35 team audit reports. Supervisory import specialists said they had no time to perform required audits due to other responsibilities and duties.

#### The need for monitoring

The primary responsibility for verifying importer entry declarations rests with the import specialists. Over the years, increasing emphasis has been placed on import specialists to rapidly review growing numbers of entry transactions in an effort to hold down entry backlogs and to provide quick service to importers.

Customs headquarters guidelines, issued in 1968 to field managers, stressed that, under the regionalized system of operations, regional commissioners, and, in turn, district and port directors were charged with the responsibility of implementing and maintaining surveillance of internal controls

which embraced not only accounting functions but also operating functions. With respect to import specialists, or commodity specialists as then referred to, the guidelines stated:

"(1) Since experience has disclosed the total separation of duties and responsibilities relating to (a) entry, (b) examination, and (c) liquidation to be economically unfeasible and of such a nature as to hamper expeditious customs treatment of imports, other acceptable controls are deemed essential. The three functions have been merged and treated as an entity.

The theory that no important transaction, or series of important transactions, should be under the control of a single individual is universally accepted among internal control authorities. The regional commissioners would, therefore, be concerned with, among other things, the promotion of the use of an independent and unbiased appraisal of the commodity specialist activity with a view to effecting controls in this area."

Integrated monitoring  
plan being developed

Recognizing the need for a more systematic headquarters/regional approach to evaluating compliance and performance in Customs' field offices, the Assistant Commissioner (Operations) initiated a project to develop a regional program management evaluation system. By February 1979, a draft document proposing a detailed listing of functions and tasks to be evaluated had been completed.

District directors, according to the proposal, have responsibility for the propriety and correctness of all duty determinations. As such, they are responsible for the effectiveness and efficiency, as well as the quality, of all duty assessment functions executed by employees under them.

Regional office responsibilities include

--analyzing and evaluating classification actions to ensure compliance with pertinent requirements;

- continuously monitoring the quality of classification actions, as well as the accuracy of statistical verifications; and
- developing and implementing uniform regionwide guidelines and procedures for examining, sampling, and analyzing merchandise.

In March 1979, a national conference of assistant regional commissioners (operations) concluded that a two-level national evaluation program was needed. Regular, comprehensive headquarters evaluations of regional program management were to tie in to regular ongoing regional evaluations of districts.

### CONCLUSIONS

The Customs Service has been aware for over a decade of the changes needed in entry processing and staff resource management to strengthen import specialists' verification of entry classifications. Substantial progress in implementing the changes, however, has eluded Customs.

Management initiatives are the first steps necessary to establish a framework within which to pursue more effective strategies. Customs management appears to have no problem with developing new initiatives but obviously has problems in causing directed action. We concur with the initiatives Customs has proposed. But, if Customs is going to be able to cope with its increasing workload and responsibilities, then management must provide the necessary priorities and followup to see that the desired actions are taken. Only then can it determine if additional resources are needed.

### RECOMMENDATIONS

R [ The Customs Service is an agency of the Treasury Department. To provide more substantive verification of product classification, the Secretary of the Treasury should:

- 1 - [ Implement selected entry screening to ensure that complex entries receive detailed specialists' reviews. ]
- 2 - [ Establish (1) procedures to track individual broker performance in preparing entry submissions for Customs and (2) a program to assist poor performers in reducing their error rates with a provision for using

existing punitive measures if sufficient improvements are not made.

To ensure the level of top management support and oversight needed to solve classification verification problems, the Secretary of the Treasury should establish the following as top priority Customs Service improvement programs:

- Revitalizing the Customs Information Exchange system.
- Implementing the proposed import specialist allocation system.
- Implementing the proposed headquarters and regional program evaluation system to bring better management and control over import specialists activities.

#### AGENCY COMMENTS AND OUR EVALUATION

Treasury generally agrees with our conclusions and recommendations, considering them in close harmony with the policies and objectives of the Department and the Customs Service and states that efforts and initiatives underway or planned to a large extent, are responsive to our recommendations. (See app. I.) While we agree that Customs' initiatives are responsive, the issue is that Customs has been aware of classification verification problems for many years and has initiated various actions but has not been able to bring about change. Whether management will give the necessary attention and follow-through to the latest series of actions remains to be seen. On this issue, Treasury's response is not all that clear. Treasury also attached specific comments from the Customs Service.

Treasury agrees with our recommendations for a manual screening system noting that implementation of a Nation-wide selective entry processing system should occur soon. The Custom Service stated that it cannot afford to expend valuable and scarce import specialist resources on intensive

reviews of entries that do not require a high level of technical scrutiny. The Service is currently developing and implementing a manually operated entry selection system to identify entries for routine review and processing and states that it should become a reality within a matter of weeks.

In response to our recommendation for improving custom-house broker performance, Customs states that preliminary results of a review of Customs field managers indicates that most feel that judiciously applied punitive action, coupled with a continuous dialogue with the brokerage community and local training of broker employees, can significantly improve the industry's performance. However, Customs contends that it is not in a position to implement a system for tracking broker performance without automated capabilities because to do so would entail diverting scarce personnel from already overburdened entry control sections. We believe that while individual import specialists attention to brokers can improve the brokers' performance, full potential will not be realized until a formal tracking system is implemented.

Customs agrees that the CIE should be revitalized and states that a reorganization is proceeding that will relieve the national import specialists from local responsibilities so that their full attention and expertise can be directed to the national function of the CIE. In addition, an automated quick-query system is being considered to help reduce turnaround time required for the national import specialists to respond to requests.

Concerning the allocation of import specialist resources, Customs states that a program has been initiated for fiscal year 1981 which should result in improvements on an allocation model tested in fiscal year 1980. Customs believes this program should be easily adapted to the allocation of all classification and value positions nationwide.

Customs also agrees on the need for a program evaluation system and states that a program is currently being developed for a headquarters review of regional and district programs with special emphasis on accuracy of classification, appraisal, admissibility, and statistical verification policies and guidelines.



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

MAR 4 1981

Dear Mr. Anderson:

I appreciate the opportunity to comment on the GAO draft report Assurance is Needed that Import Classifications Provide Accurate Basis for Duty and Industry Protection. The findings and recommendations of the draft report are in close harmony with the policies and objectives of the Department and the Customs Service.

I am also in agreement with the basic theme of the draft report that the proper classification of imported merchandise is a fundamental part of the duty collection process, and is an essential aspect of the protection provided to domestic industry and labor by tariff laws and regulations.

As Customs points out in the enclosed detailed comments to the draft report, significant management initiatives are well under way in all areas encompassed by the report's recommendations. The implementation of a nationwide manual selective entry processing system should become a reality within a matter of weeks. The improvement of customhouse broker performance is a subject of consultation between the customhouse broker community and Customs managers which should result in a mutually acceptable method of ensuring entry quality.

In addition, a reorganization of the Customs Information Exchange System is proceeding with deliberate speed, along with an automated pilot test of a quick-query program which will sharply reduce turnaround time for data retrieval. Customs expects to have available by June 1, 1981, a national import specialist allocation model which will ensure the equitable distribution of resources in the future. Finally, a technical survey program will be tested soon to ensure compliance with tariff laws, regulations, and operational guidelines, with specific emphasis on first-line supervision as the key to quality assurance of tariff classification actions.

Thank you once again for the opportunity to review the draft report. If you have any additional questions, please contact me.

Sincerely,

John P. Simpson  
Acting Assistant Secretary  
(Enforcement and Operations)

Mr. William J. Anderson  
Director  
General Government Division  
General Accounting Office  
Washington, D.C. 20548

Enclosure

Comments of the Customs ServiceGAO Audit of Customs Classification Procedures

We have reviewed, with interest, the proposed GAO report on Customs merchandise classification procedures (Assignment Code 263770). We found the findings and recommendations of the draft report to be in close harmony with the policies and objectives of the Customs Service, as well as sensitive to the efforts and initiatives already underway, which to a large degree are responsive to the audit findings and recommendations.

Our comments on the draft audit report are designed to place in proper perspective the operational problems identified in your report, and the management objectives developed by the Department to improve the operational procedures of the Customs Service, within the constraints imposed by reduced budgetary and personnel resources.

The draft report identified five major operational areas of the tariff classification function which require measures to provide more effective use of import specialist resources. The conclusions are that these measures, if implemented, would provide assurance that the billions of dollars in foreign products entering the United States annually are correctly classified under the Tariff Schedules of the United States (TSUS). These areas can be identified as (1) Entry Selectivity, (2) Customhouse Broker Performance, (3) Customs Information Exchange System (CIES), (4) Allocation of Import Specialist Resources, and (5) Quality Assurance. For the sake of simplicity, we would like to organize our comments under these major headings.

1. Entry Selectivity Systems

The draft report is generally correct in its description of the mission and role of the Customs Service, the importance of correct tariff classification in providing protection for domestic industry and labor, and the immense complexities associated with the correct tariff identification of tens of thousands of imported products.

The application of selective entry processing concepts is dependent on the commodity knowledge and experience of the import specialist to systematically identify the complexity, sensitivity, and risk associated with each entry, and to develop appropriate processing instructions for the clerical entry staff. We believe that the findings of the audit validate this approach by showing how import specialists, under the pressure of crushing workloads, are concentrating on the more complex entries, while devoting relatively less time to the more simple, repetitive and routine entries.

- 2 -

It would be ideal if we had the resources and time to perform all of these tasks on every single importation. However, we recognize that our management efforts must be dedicated to an operational methodology which allows Customs to accurately and efficiently process an ever-increasing entry workload with a lesser expenditure of import specialist resources. This objective can only be achieved through the application of entry selection criteria which correctly identifies the exact degree of processing and, thus, the proper ratio of import specialist resource expenditure required by each import transaction.

#### Customs Initiatives

The Customs Service cannot afford to expend valuable and scarce import specialist resources on intensive reviews of entries that do not require a high level of technical scrutiny. The obvious solution is to classify entries according to the degree of control and accuracy required by the various tariff and trade programs administered by the Customs Service. Entries that cover importations of highly sensitive commodities which are affected by quotas, orderly marketing agreements, trigger price mechanism, dumping and countervailing duty actions, and other entries with a poor record of accuracy and integrity, must continue to receive intensive review by import specialists. Entries subject to other agency requirements and statistical reporting where the technical identification of the imported merchandise is dependent on a professional level judgment of decisions by the import specialist will continue to undergo intensive review.

All other entries will receive less intensive and more infrequent attention from the import specialist work force, depending on the specific priority of the particular commodity grouping. The processing of this least demanding category of entries will be delegated to clerical entry personnel for routine and less intensive review, in accordance with specific bypass criteria.

The Customs Service is currently developing and implementing a manually operated entry selection system to identify for routine review and processing by clerical entry personnel, at least 35 percent of the entries accepted in each region during FY 1981.

## 2. Customhouse Broker Performance

The quality of the entry documents presented to Customs by the brokerage community has a major impact on Customs operations and programs. When consideration is given to the fact that approximately 96 percent of the 4.8 million entries accepted by Customs in FY 80 were prepared by customhouse brokers, the quality factor can be put into its proper perspective.

A survey of entries rejected by import specialists during the pre-entry phase of entry acceptance conducted in May of 1980 paralleled the findings of the draft report. We found that during the 1-month survey period, 16 percent of the entries rejected contained errors in classification. Projected on an annual basis, the errors detected by import specialists result in a recovery of approximately 55 million dollars. It is worthy of note that the detection and correction of classification errors during the pre-acceptance phase is one of the principal reasons for the small incidence of errors detected by the GAO auditors.

### Customs Initiatives

Subsequent to this survey, we directed all Customs Regional Commissioners to evaluate broker performance in their areas of jurisdiction and to recommend corrective actions to improve entry quality. The responses are currently undergoing analysis, however, a preliminary review indicates most field managers feel that judiciously applied punitive actions, coupled with a continuous dialogue with the brokerage community and local training of broker employees, can significantly improve the industry's performance.

We believe that through training and close interaction with the broker community the quality of the entries can be upgraded. In addition, if the ongoing tests of an Automated Broker Interface (ABI) are successful, system discipline can be expected to improve the quality of entries submitted by participating brokers. Without automated capabilities, the tracking system proposed by the draft report cannot be implemented without diverting scarce personnel from our already overburdened entry control sections.

## 3. Customs Information Exchange System (CIES)

The function of the CIES is unquestionably the centerpiece of the national effort to attain uniformity of classification actions and the equal treatment of all consignees of imported merchandise. Recognizing the vital importance of the CIES both as a control coordination center, and as a technical advisory review function to monitor and provide advisory assistance on

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classification and other aspects of the duty assessment function, the Office of Commercial Operations has, for the last year, been conducting a study of the best way to revitalize the CIES. This study has been conducted with the close involvement of our regional management team in New York.

#### Customs Initiatives

After examining all possible organizational and functional alignments, the Office of Commercial Operations concluded that the national import specialists currently performing advisory functions through the CIES, while also functioning as local import specialists processing import entries at the New York Seaport, should be relieved of local responsibilities so that their full attention and expertise can be directed to the national function of the CIES.

The role of the national import specialist will encompass the review of proposed actions reported by field officers and the analysis and evaluation of historical import patterns, so that classification anomalies can be easily recognized. Along with these enlarged functions, the CIES staff will also acquire authority and responsibility for responding to public requests for binding classification rulings regarding prospective importations.

In addition, the Office of Commercial Operations has authorized the Regional Commissioner in New York to initiate a test project to determine the feasibility of developing an automated quick-query capability within CIES. This would allow field offices to query the CIES regarding duty assessment data available for a specific set of transaction facts. Initially, these facts would consist of commodity, importer, manufacturer, and country. Queries could be made using a variety of combinations of the available retrieval factors. While this is far from a fully automated system, the quick-query capability could reduce the turnaround time of CIES queries by 50 percent compared with the current manual transmission process.

#### 4. Allocation of Import Specialist Resources

Responding to observed changes in import patterns which have shifted appreciable amounts of Customs workloads to the Southwest and the Pacific Coast, the Customs Service initiated a priority resource allocation evaluation program during FY 80. The first draft allocation model was sent to Customs Regional Commissioners in August of 1980 for comments.

The Office of Commercial Operations has initiated a management initiative for FY 81 which requires the refinement of a final allocation model by June 15, 1981. We believe the allocation model currently under development is an improvement on

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the original FY 80 proposal. Data used in this model is objective, rather than self-reporting data, and the weighted factors are directly related to the assigned priority of major Customs programs.

We believe that the proposed allocation model will be well received by regional management and that this model can serve not only to regularize the equitable distribution of import specialist positions, but can be easily adapted to the allocation of all Classification and Value positions nationwide.

#### 5. Quality Assurance Program

The Customs Service clearly recognizes the importance and need for compliance-monitoring mechanisms to ensure that the highest degree of accuracy is maintained in all assigned program areas. To achieve this objective, the Office of Commercial Operations is currently developing a program for Headquarters review of regional and district programs with special emphasis on accuracy of classification, appraisal, admissibility, and statistical verification policies and guidelines. The degree of technical supervision exercised by the supervisory import specialist will be a major evaluation factor. The field program evaluation initiative will be tested in the early summer. It is envisioned that a permanent survey program would review and evaluate each region's operation at least once every 3 years.

#### General Comments and Summary

We are gratified that Customs management has, through its own program evaluation process, identified major problems involving the tariff classification of imported merchandise. In fact, with specific reference to the five major recommendations made by your draft report, the Customs Service has formal management objectives in three of the issues identified. The fourth recommendation, customhouse broker performance, is under analysis while the fifth recommendation, Headquarters and regional program evaluation systems, will be field tested in early summer 1981.

Overall, given the magnitude and sensitivity of the tariff and trade programs administered by the Customs Service at existing resource levels, we are firmly convinced that we are doing a good job in executing the legislative and executive policies which provide protection to domestic industry and labor through the accurate application of the provisions of the Tariff Schedules of the United States.

We appreciate the opportunity to comment on the initiatives we are taking to improve operations in the vital and sensitive area of Customs tariff classification.

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