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Fiscal Year 1999

105*th* CONGRESS, SECOND SESSION

H.R. 4104/**S.** 2312

DEPARTMENT OF THE TREASURY
EXECUTIVE OFFICE OF THE PRESIDENT
NONDEPARTMENTAL WITNESSES
U.S. POSTAL SERVICE

Treasury and General Government Appropriations, 1999
(H.R. 4104/S. 2312)

S. HRG. 105–757

TREASURY AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1999

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

ONE HUNDRED FIFTH CONGRESS

SECOND SESSION

ON

H.R. 4104/S. 2312

AN ACT MAKING APPROPRIATIONS FOR THE TREASURY DEPARTMENT, THE UNITED STATES POSTAL SERVICE, THE EXECUTIVE OFFICE OF THE PRESIDENT, AND CERTAIN INDEPENDENT AGENCIES FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1999, AND FOR OTHER PURPOSES

Department of the Treasury
Executive Office of the President
Nondepartmental witnesses
U.S. Postal Service

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TREASURY AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1999

THURSDAY, FEBRUARY 26, 1998

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 1:35 p.m., in room SD–124, Dirksen Senate Office Building, Hon. Ben Nighthorse Campbell (chairman) presiding.

Present: Senators Campbell, Faircloth, and Kohl.

DEPARTMENT OF THE TREASURY

STATEMENT OF RAYMOND W. KELLY, UNDER SECRETARY, LAW ENFORCEMENT DIVISION

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

STATEMENT OF JOHN W. MAGAW, DIRECTOR

U.S. SECRET SERVICE

STATEMENT OF LEWIS C. MERLETTI, DIRECTOR

U.S. CUSTOMS SERVICE

STATEMENT OF SAMUEL H. BANKS, ACTING COMMISSIONER

OPENING REMARKS

Senator CAMPBELL. The Treasury Subcommittee will be in order.

Good afternoon. Today is the first hearing on the fiscal year 1999 budget for the Subcommittee on Treasury and General Government. We are focusing on the law enforcement component of the Department of the Treasury, 40 percent of all the Federal law enforcement moneys within Treasury.

There are some new faces with us this morning. Lew Merletti was appointed Director of the Secret Service in June of last year. We welcome him. Sam Banks is Acting Commissioner of the Customs Service, until the President's nominee can be confirmed by the Senate. Ralph Basham took over at the helm of the Federal Law Enforcement Training Center just this month, and William Baity is with us representing the Financial Crimes Enforcement Network.

As you can tell from the witness list this afternoon, the Treasury Law Enforcement Bureau will cover a very wide scope.

As some of you know, I was in law enforcement myself years ago as a deputy sheriff and a volunteer counselor in a Federal penitentiary, and I was the head of the board of directors for a halfway house years ago back in Sacramento. I have perhaps a little broader outlook on what we should be doing in law enforcement, and it is just as difficult now as it was back then for law enforcement officers who face many new threats. The technology that is coming online is getting more and more expensive.

Today, we will hear from the agencies on the front lines about their needs for fiscal year 1999. Some of them will have new initiatives for consideration, while others are requesting funding just to continue current operations.

On our first panel today, they are already seated, are Mr. Raymond Kelly, Mr. Magaw, Mr. Banks, and Mr. Merletti.

PREPARED STATEMENT

I know that my colleague, Senator Kohl, has to open another hearing in a little while. So I am going to put my total statement in the record, and I will just go ahead and yield to you, Senator.

[The statement follows:]

PREPARED STATEMENT OF SENATOR CAMPBELL

Good afternoon. Today is the first hearing on the fiscal year 1999 budget for the Subcommittee on Treasury and General Government. We are focusing on the law enforcement component of the Department of the Treasury—40 percent of all Federal law enforcement is within Treasury.

There are some new faces with us this morning. Lew Merletti was appointed Director of the Secret Service in June of last year.

Sam Banks is Acting Commissioner of the Customs Service until the President's nominee can be confirmed by the Senate.

Ralph Basham took over the helm at the Federal Law Enforcement Training Center just this month. And William Baity is with us representing the Financial Crimes Enforcement Network.

As I mentioned before, 40 percent of all Federal law enforcement is part of the Department of the Treasury. As you can tell from our witness list this afternoon, the Treasury law enforcement bureaus cover a wide scope.

As some of you know, I have been in law enforcement myself. I was a deputy sheriff and a volunteer counselor at Folsom. I was head of the board of directors of a halfway house in Sacramento. As difficult as it was back then, our law enforcement officers face many new threats now—and the technology to fight crimes is getting more and more expensive.

Today we will hear from the agencies on the front lines about their needs for fiscal year 1999. Some of them have new initiatives for consideration while others are requesting funding just to continue current operations.

On our first panel today will be Treasury Under Secretary Raymond W. Kelly. This position was created only a few years ago as a way to emphasize the importance of law enforcement within Treasury. Mr. Kelly oversees the Treasury law enforcement bureaus and agencies, with the exception of the IRS Criminal Investigation Division. As a side note, Mr. Kelly has been nominated by the President to be the new Commissioner of the Customs Service.

With us again this year is John W. Magaw, Director of the Bureau of Alcohol, Tobacco and Firearms. Most people think of ATF in terms of guns, but they have many other responsibilities. ATF collects about $13 billion per year in alcohol and tobacco taxes as well as firearms and explosives fees. They regulate wine, beer, and distilled spirits to protect the American public.

We welcome the new Director of the Secret Service, Lewis C. Merletti. Most people think that the Secret Service just provides protection for the President and Vice President. But, they have many more responsibilities—counterfeiting and securities forgery investigations, electronic fund transfer fraud, debit and credit card fraud, and computer fraud.

Representing the Customs Service is Samuel Banks, Acting Commissioner. Customs is the primary border enforcement agency, responsible for making sure that

importers properly label their goods and pay the correct fees—the Customs Service generates $23 billion per year. They protect Americans by stopping the import of counterfeit goods and they are the primary drug interdiction agency.

Leading off panel two is Ted F. Brown, Assistant Commissioner of the IRS for Criminal Investigation. Most people forget that IRS has a law enforcement function. IRS CID is responsible for enforcing criminal statutes relating to violation of the Internal Revenue laws and the Bank Secrecy Act. CID investigates suspected fraud and recommends prosecution in some cases. Then, they assist in the preparation and trial of criminal tax cases. CID also investigates money laundering schemes associated with narcotics organizations.

Ralph Basham is the new Director of the Federal Law Enforcement Training Center, known as FLETC. There are two permanent locations—Glynco, Georgia and Artesia, New Mexico. FLETC provides comprehensive and consistent basic training for Federal law enforcement personnel. Currently about 70 Federal agencies send their employees to FLETC for training, either basic or specialized advanced, or in some cases both. FLETC estimates that this consolidated training saves the Federal Government approximately $160 million per year.

William Baity is representing the Financial Crimes Enforcement Network, commonly called FinCEN. FinCEN is a central collection point for financial information used in the investigation of money laundering. FinCEN receives activity reports from banks and other financial institutions which are included in a database for easier access by investigators—Federal, State, and local law enforcement.

It should be an interesting afternoon. Senator Kohl, do you have an opening statement?

STATEMENT OF SENATOR KOHL

Senator KOHL. That is very kind of you. Thank you very much, Senator Campbell.

Gentlemen, over the past year, I have had the pleasure of meeting with many of you on numerous occasions to discuss the critical role that the Federal Government plays in protecting the public. The agencies represented here are crucial to the success of this effort, and we know that we must help all of you to do the important work that you do by identifying and funding those programs that keep our streets safe, and especially when those efforts are protecting our most important resource, obviously our young people.

Mr. Chairman, as you know, I come from the business world which focuses on practical solutions to real problems, solutions that can be measured day in and day out. I also know that long-term investments can have significant payoffs. So, when we review these budget requests, we need to make sure that the taxpayers' investment is being well spent, and we must also take a long-term view, keeping in mind that investments in young people can and do pay off in many years.

Fortunately, the agencies before us today have a proven track record in combating crime, and through last year's appropriations, we together made a strong commitment to investing in the young people of our country.

For example, this subcommittee provided increased funding for the youth crime gun interdiction initiative, a program that brings Federal and local law enforcement agencies together to trace guns used in crimes, shut down gun traffickers, and get guns out of the hands of our young people.

Over the last 2 years, this program has stopped gun traffickers throughout the country, including my own town of Milwaukee. In one Milwaukee case, a few handguns were recovered from juvenile crime scenes and then, thanks to the ATF, were traced to a security guard at a shopping mall. Apparently, he did not take his secu-

rity work very seriously. He was illegally selling handguns to kids from the trunk of his car.

The youth crime initiative gave Milwaukee law enforcement officers the Federal help they needed to trace more than 25 weapons to this one security guard. Most importantly, they were able to get him and his guns off our streets.

Due to an increase in funding for this initiative last year, ATF is now able to add 10 cities to the original 17 cities in the youth crime initiative. It is my hope that we can continue to expand this initiative so that more cities and more hometowns can get help in fighting against juvenile crime.

Last year, the subcommittee also provided full funding for an important investment in our young people, the Gang Resistance Education and Training Program [GREAT]. This promising education program provides children with information they need to make decisions about their future.

It is my hope that we will continue to invest in this and other youth-oriented crime prevention programs, programs that provide our young people with positive incentives that will assist them in making the right choices throughout their lives.

I know that each of these agencies has valuable law enforcement initiatives to discuss with us. I look forward to hearing from them, and I am glad that we are giving them this opportunity to tell us what is working and what we need to keep funding and what will help keep criminals off the streets.

So we are happy to have you with us here, gentlemen, and we look forward to our discussion with you.

Thank you, Mr. Chairman.

PREPARED STATEMENT

Senator CAMPBELL. Before we start, with the unanimous consent to be included for the record a statement by Senator Coverdell, who wanted to be here with us, but could not today.

[The statement follows:]

PREPARED STATEMENT OF SENATOR COVERDELL

Chairman Campbell, members of the Subcommittee, and guests, I appreciate the opportunity to submit testimony as you consider the fiscal year 1999 Treasury Postal Appropriation bill. Although I would very much like to deliver these remarks in person, I am unable due to a scheduling conflict.

As you are aware, I am currently chairing the Foreign Relations Subcommittee on the Western Hemisphere. Part of this Subcommittee's jurisdiction, which I have made as one of my highest priorities, is to reignite the nation's drug interdiction efforts, as well as protect our citizens from terrorist activities. Through this Chairmanship, I have had the opportunity to obtain direct feedback from our nation's law enforcement officers on what they feel is needed in their day-to-day activities in protecting our borders and citizens. Although they have mentioned several immediate needs, the one that is continually brought to my attention is the deployment of more federal law enforcement officers.

As you know, Congress has committed to increase the number of federal agents on the job. As we move forward in this effort, we must also fulfill our obligation to the U.S. taxpayers by making sure these new agents are properly trained in the most cost-effective manner.

As you know, prior to 1970, training of our federal law enforcement agents was divided between respective agencies. After the completion of two studies, the federal government came to the realization that this fragmented system had discrepancies in training, duplication in efforts, and inefficient use of funds. As a result, Congress authorized the creation of the Consolidated Federal Law Enforcement Training Cen-

ter, whose purpose was to create high quality, standardized, and cost-effective training for our federal officers.

This new organization was temporarily headquartered in Washington, D.C. until 1975 when, after much study, a permanent location was found at the former Naval Air Station in Brunswick, Georgia. Since then, the Consolidated Federal Law Enforcement Training Center has been renamed the Federal Law Enforcement Training Center [FLETC], and has been training and graduating the many men and women who continue to fight for our safety.

As you consider your bill, I would like to express my support for the agency's appropriation request of $100,283,000. As you know, this request not only includes the administrative cost in running FLETC, but also includes training and construction funds for the 70 federal agencies, including the INS and Border Patrol, whose roles are currently expanding, that utilize the facility.

I would also like to bring to your attention the need to complete the master construction plan at FLETC and express my support for the agency's appropriation request of $13 million to be applied towards the completion of this plan. Approximately 51 percent of the master plan has been completed and additional appropriations would allow FLETC to again move closer toward its goal of being the centralized training center for our federal agencies.

Whether traveling in my home state of Georgia, or chairing a Subcommittee hearing on drug interdiction, as I am today, the need to address the crisis we face with drugs and crime is constantly brought to my attention. Through continued funding and support of the Federal Law Enforcement Training Center we will be able to take the necessary steps to achieve this goal for all Americans.

Once again, thank you for allowing me to testify today and for all you and your colleagues on the Subcommittee are doing for our country.

STATEMENT OF RAYMOND W. KELLY

Senator CAMPBELL. We will start in the order that I mentioned them. So, if Under Secretary Kelly would start, we will get going.

Mr. KELLY. Thank you, Mr. Chairman.

Senator CAMPBELL. And, by the way, all of your complete testimony will be included in the record. So, if you want to abbreviate your comments, that will be fine.

Mr. KELLY. Yes, sir.

Mr. Chairman, Senator Kohl, it is, indeed, a pleasure to be with you today to speak about the fiscal year 1999 budget request for Treasury's law enforcement functions.

As you said, Mr. Chairman, I have submitted my testimony for the record, and I request that it be inserted.

Senator CAMPBELL. Without objection, it will be.

Mr. KELLY. We in the Treasury Department greatly appreciate the support this committee has given Treasury law enforcement. I am here today with all of our bureau heads, some at the table and some who will be testifying at the next panel.

As you said, we have two new Directors since we appeared before the committee last year, Lew Merletti, who took over as the head of the Secret Service and Ralph Basham, who is our new Director of the Federal Law Enforcement Training Center.

As the members of this committee know well, Treasury has wide-ranging law enforcement responsibilities, from protecting the President and other public figures to preventing the flow of drugs into the country, enforcing Federal firearms laws, investigating violent crimes such as the bombing in Atlanta at the Olympics, enforcing the tax laws, and investigating financial crimes, counterfeiting and money laundering. The men and women who serve the public in these law enforcement capacities, and who often place their lives in danger by doing so, do an extraordinary job.

To strengthen these critical efforts for fiscal year 1999, the President is requesting $3.204 billion, an increase of $172 million, or 5.7 percent above last year, for Treasury law enforcement bureaus.

We need this increase to meet certain mandatory costs, to enhance initiatives in combating narcotics trafficking, to reduce illegal firearms trafficking to young people, to improve Presidential protection and White House security, to investigate financial crimes, and to train law enforcement officers.

The heads of each of the law enforcement agencies can provide more detail on these budget requests, but I just want to take a moment to highlight a few items.

DRUG INTERDICTION INITIATIVE

First, we are requesting additional resources to help the Customs Service with the critical mission of drug interdiction. In cooperation with the Office of National Drug Control Policy, the U.S. Customs Service has formulated a 5-year technology plan, which is designed to deploy an array of technologies to enable Customs to effectively fulfill both of its missions, preventing the illegal contraband coming into the country—particularly drugs—and processing the massive flow of trade that plays a central role in our economy.

Funding for implementation of the first phase of this plan has been requested for fiscal year 1999. As you know, Mr. Chairman, it is critically important to constantly monitor the integrity functions of law enforcement, especially in an era when the criminal environment is awash in narcotics money.

It raises the stakes and the corruption potential everywhere, posing a threat to every nation's interdiction efforts. That is why we are also seeking an additional $6 million in the 1999 budget for the internal affairs functions at the Customs Service.

Customs is on the frontline of narcotics interdiction. That is why we want to make certain that Customs gets all the training, equipment, and case management support it needs to make its internal affairs' capabilities second to none.

MONEY LAUNDERING

Second, a major priority at Treasury is to combat money laundering. Our antimoney laundering efforts provide a unique vantage point for getting at the leadership of organized crime and drug lords by going after their Achilles' heel, the profits from their illegal activities.

In addition, since money laundering poses a real economic danger by affecting markets and undermining financial systems, especially in developing countries, our promotion of stronger measures internationally will strengthen those systems.

Money laundering is a very sophisticated business that is international in nature and utilizes state-of-the-art technology. To be effective, our efforts need to be international and to use state-of-the-art technology as well.

FinCEN is applying the latest technology to tracing flows of money that are exceedingly complex. Its budget includes an initiative for the Gateway Program to coordinate the Federal, State, and local efforts.

We need these resources to stay on the cutting edge of this effort by using more innovative technologies and techniques and fostering better international cooperation. This is particularly important since money laundering is increasingly difficult to detect and enforce due to constantly evolving techniques and the fluidity and organization of capital markets.

YOUTH CRIME GUN INTERDICTION

Third, we are asking for resources to support an effort that the Department and ATF have led over the past 2 years to prevent violent firearms crime by our Nation's youth.

The youth crime gun interdiction initiative is a collaborative law enforcement effort between ATF, local police departments, and prosecutors. Its goal is to develop and share better information about how juveniles and gang offenders are illegally obtaining firearms, thereby reducing the illegal supply of firearms to youth by investigating, arresting, prosecuting, and incarcerating illegal gun traffickers. A preliminary analysis indicates this program shows significant promise.

With these resources, ATF will be able to expand its initiative to 27 cities and potentially to more cities in the following years. It will also permit ATF to field new agents in each of these cities to work with police departments to arrest the illegal traffickers supplying firearms to juveniles, gang offenders, and other violent criminals in those jurisdictions.

2000 PRESIDENTIAL CAMPAIGN

Fourth, in fiscal year 1999, the Secret Service must begin to build its capacity to protect candidates and nominees for the Presidential election in the year 2000. Additional funds have been requested to meet this mandatory workload increase, in addition to ongoing White House security and other protection initiatives.

FEDERAL LAW ENFORCEMENT TRAINING CENTER

Finally, we are asking for additional resources to support the Federal Law Enforcement Training Center in its critical work.

Over the last 2 years, FLETC has seen an unprecedented increase in its workload. Current projections indicate that this increase will continue for the foreseeable future. We need to move forward on construction of FLETC facilities in order to meet this need.

OFFICE OF ENFORCEMENT

Before I conclude, I want to mention the status of some activities in my Office of Enforcement. We have moved forward, certainly not as quickly as we would have liked, with the filling of the OPR slots authorized by this committee. About one-half of the positions are now filled, including the slot focussing on internal affairs issues across the bureaus. As I mentioned earlier, this is a key enforcement area that we must vigilantly monitor.

PREPARED STATEMENT

Mr. Chairman, again, I want to thank you for the opportunity to appear today and will be happy to answer any questions that you have.

[The statement follows:]

PREPARED STATEMENT OF RAYMOND W. KELLY

Chairman Campbell, Senator Kohl, Members of the Committee, it is a pleasure for me to be here before you today to highlight the fiscal year 1999 budget request for Treasury's law enforcement bureaus and offices. With me today are the heads of the Treasury law enforcement bureaus, several of whom are new additions to the Treasury team since the last appropriations hearing: Lewis Merletti, Director of the U.S. Secret Service (USSS), who was appointed by Secretary Rubin on June 6, 1997; Samuel Banks, Acting Commissioner of the U.S. Customs Service (USCS); and Ralph Basham, Director of the Federal Law Enforcement Training Center (FLETC), our newest Director. We are pleased to have these new Directors joining today with John Magaw, Director of the Bureau of Alcohol, Tobacco and Firearms (ATF), William Baity, Deputy Director of the Financial Crimes Enforcement Network (FinCEN), and Ted Brown, Assistant Commissioner for Internal Revenue Service Criminal Investigation (IRS/CID).

Each year, Treasury's mission grows in complexity, scope and importance. Treasury Enforcement performs a critical role in serving the nation's law enforcement priorities. Treasury bureaus protect our leaders, safeguard our financial institutions from money launderers and fraud, and collect taxes. Treasury agents and inspectors protect our borders from drug traffickers and every day our agents fight to protect our streets from the threat of bombs, arson and gun violence.

To ensure excellence in achieving these missions, and in keeping with the spirit of the National Performance Review and the Government Performance and Results Act, Treasury engaged in a thorough strategic management process. The Treasury Strategic Plan, which was submitted to Congress last fall, is the capstone of this planning and analysis process. The purpose of this plan, and of our other efforts, is to improve the results which we deliver to the American people.

Treasury's strategic plan provides an overview for the Department as a whole. In addition, each of Treasury's bureaus developed its own strategic plan for its operations in support of the overall plan. Collectively, these strategic plans describe what the Department intends to accomplish over the next five years and how we will accomplish it. Our bureaus' and offices' fiscal year 1999 budget submissions provide a program level description of the annual resources and actions needed to achieve these goals. The fiscal year 1999 President's budget seeks $3.2 billion for 26,580 direct FTE Treasury Enforcement personnel, strategic investments, and other operational costs. This does not include the Internal Revenue Service Criminal Investigation Division (IRS/CID). IRS/CID, however, plays an integral role in Treasury law enforcement efforts with their fiscal year 1999 $373 million request for 4,103 law enforcement personnel. We believe the Treasury law enforcement budget request strikes an appropriate balance permitting Treasury to contribute substantially towards balancing the federal budget while supporting new and more effective approaches to law enforcement. I would like to note that Treasury enforcement's $3.2 billion request will allow us to combat crime while making a $33 billion revenue deposit to the U.S. Treasury. By all counts, this is a tremendous return on investment. The budget submissions also set specific annual performance goals for each of our programs and report on our achievements against prior year goals.

Treasury's Office of Enforcement has developed a five-part mission statement which describes the purposes of our broad law enforcement functions. We are committed to ensuring that this strategic plan is a living document. We will use it to guide our operations, and will continue to update and revise it periodically to make certain it remains relevant. Our plan was developed with the active involvement of officials throughout Treasury, and we have sought input from many of our stakeholders in Congress, elsewhere in the government, and in the private sector. We continue to welcome input from all of our stakeholders.

The following describes the goals of our strategic plan, in a format designed to highlight our bureaus' specific expertise, activities and budget requests, as well as our cross-cutting expertise on financial crimes matters. Thereafter, I will discuss the important role that is played by the Office of Enforcement in enabling our bureaus to meet their goals and fulfill their missions.

GOAL: REDUCE THE TRAFFICKING, SMUGGLING AND USE OF ILLICIT DRUGS

Treasury brings essential counter-narcotics and money laundering expertise to the implementation of all aspects of the President's comprehensive anti-drug strategy. Our anti-smuggling efforts at the border and our substantial air support to interdict illegal narcotics at the source places Treasury in a leading role in the fight against illicit drugs. For example, this anti-narcotics role is pursued through anti-money laundering measures, reduction of narcotics-related violent crime, and demand reduction programs.

U.S. Customs Service

The Customs Service has the primary role for the Treasury Department and one of the primary roles for the U.S. in interdicting drugs and other contraband at the border, and ensuring that all goods and persons entering and exiting the United States do so in accordance with the law. The Customs Service discovers or seizes, on average, more than half of the narcotics seized by all Federal authorities in the United States each year.

Customs has tremendous responsibilities. We need to recount some of what Customs must confront in order to put the drug interdiction challenge into perspective: Last year, Customs processed over 442 million people, 118 million vehicles, 320,000 rail cars, and $854 billion worth of merchandise. Customs performed the initial checks, processes, and enforcement functions for over 40 Federal agencies and applied hundreds of laws and regulations. It performed these tasks by servicing more than 300 ports of entry sprawled across 7,000 miles of land border. It also provided air support to the U.S. Government's source control efforts in South and Central America. Customs pursued all of these enforcement missions while collecting approximately $23 billion in revenue for the United States in the form of duties, taxes, and fees.

Customs constantly strives to improve its ability to stem the flow of drugs while dealing with the increasing volumes of cargo and passengers into and out of the United States. Indeed, the number one operational priority for the Customs Service is preventing the smuggling of narcotics into the United States. It pursues this mission through interdiction, intelligence and investigative capabilities that disrupt and dismantle smuggling organizations. Although Customs seized nearly one million pounds of illegal drugs in fiscal year 1997, through programs such as Operation Hard Line at the Southwest border and Operation Gateway in the Caribbean, the quantity of cocaine seized last year dropped 12 percent. To counter this decline, Customs recently embarked upon a program to utilize innovative approaches and will focus on the most high-risk ports of entry.

Customs will continue to develop the capabilities to meet the ongoing smuggling threats, on our southwest land borders, in the Caribbean, and at all borders and ports of entry across the country. Customs actively participates in multi-agency criminal investigations, and will continue to strengthen its partnerships with the private sector, cooperative foreign governments and other Federal agencies in order to continue its active role to counter narcotics smuggling.

Customs' budget proposal for fiscal year 1999 includes increases for drug smuggling and money laundering enforcement, integrity awareness, non-intrusive inspection technology and automation, all of which will help us achieve our goal of reducing the trafficking, smuggling and use of illicit drugs.

In addition to Customs many and varied contributions to the drug fight, we also are proud of such efforts as ATF's campaign against armed narcotics traffickers through its Achilles Program, the work of all of our bureaus on HIDTA and ICDE task forces, the use of our financial crimes expertise to attack the financial underpinnings of the drug trade, and valuable prevention such as ATF's GREAT program.

GOAL: COMBAT FINANCIAL CRIMES AND MONEY LAUNDERING

One of the most important missions of the Treasury law enforcement bureaus is the investigation of financial crimes and money laundering. Treasury's unique structure permits us to use both our regulatory and investigatory expertise to follow the money trail and thus undermine criminal enterprises. We intend to strengthen the capability of our bureaus to fight money laundering and will continue our international efforts to promote stronger anti-money laundering laws abroad. As advances in technology and the removal of barriers allow money to move with increasing speed among nations, an effective, long term anti-money laundering strategy will require other nations to adopt strong anti-money laundering measures in the legal, regulatory, and law enforcement areas. We will also seek to improve our regulatory functions to protect financial systems from illicit assets.

Additionally, we are developing anti-counterfeiting strategies that employ all appropriate technological and investigatory methods to combat designers and traffickers in counterfeit currency and instruments. Working with the State Department, we are expanding our overseas presence to more effectively combat the burgeoning international criminal threat to our financial systems. We are also enhancing our leadership role by continuing to develop partnerships with the financial community and others in the private and public sectors.

Treasury is working in a number of ways to engage both the public and private sectors in a common effort to deny money launderers access to legitimate avenues of finance and commerce. We are continuing to emphasize the importance of interagency cooperation to pool resources and share experiences and information. The Committee is aware of the successes achieved by the El Dorado Interagency Task Force and FinCEN which were responsible for implementing the Geographical Targeting Orders (GTO's) directed towards Colombian and Dominican Republic drug-related money laundering operations.

Treasury held two conferences over the last year, along with representatives from the Department of Justice, which brought together the experts from both our Departments—prosecutors, regulators, and law enforcement agents, all sharing their insights into the problem. Additional conferences are planned both at the national and regional level in order to further shut down the avenues available to money launderers.

The Customs Service, Secret Service, the Financial Crimes Enforcement Network, and the Internal Revenue Service Criminal Investigation Division all play a vital role in accomplishing our money laundering and financial crimes goals. The Office of Enforcement will seek to enhance the individual and collective work of these bureaus through completion of a Departmental financial crimes review, which is currently being undertaken jointly with the Treasury bureaus and offices.

The following are some of our bureaus' individual efforts in the current fight against money laundering and financial crimes.

Customs Service

In addition to its substantial efforts to counter illicit drugs, Customs also plays a vitally important role in combating money laundering. During fiscal year 1997, Customs' money laundering investigations resulted in 1,054 arrests and 905 criminal indictments. Its investigative strategy is focused on disrupting two key business functions that are necessary for sophisticated international money laundering operations to function: laundering profits and investing the proceeds of their criminal activity. Customs' money laundering coordination center will become operational in 1998 and will coordinate Customs' nationwide undercover money laundering operations and follow-up investigations.

Secret Service

The Secret Service is the nation's lead agency in investigating counterfeiting, forgery, and access device fraud. As the nation's counterfeiting expert, the Secret Service has investigated fictitious financial instruments, counterfeit currency and credit card schemes both domestically and internationally. United States currency is counterfeited around the globe. Indeed, approximately 70 percent of all counterfeit currency detected domestically is of foreign origin. Therefore, it is only prudent that the Secret Service devotes a large portion of its investigative resources to battling international counterfeiting issues.

The Secret Service has learned through experience that the best method to manage this problem is to address counterfeit issues at their source, with the permanent stationing of Secret Service agents in foreign posts. In addition, the Secret Service leverages its resources by enlisting international law enforcement agencies to identify counterfeit currency and suppress counterfeiting plates. These efforts, primarily carried out through counterfeit detection seminars, have promoted a cooperative international law enforcement effort to detect, suppress and prosecute counterfeit violations.

Moreover, to prevent financial fraud schemes, the Secret Service has developed and implemented longstanding and effective partnerships with private industry to better understand various financial systems and combat significant losses. Assisting the industry and their financial systems with "systemic fixes," aggressive analysis, and proactive security enhancement measures has increased the overall security of these financial systems. Proactive joint initiatives with the industry, such as public awareness campaigns, media programs, speeches, seminars, and security training are having a positive impact. These partnerships have reduced the ability of criminal organizations to target financial institutions.

FinCEN

While Customs, Secret Service and IRS-CID are the financial crime investigators, FinCEN serves as Treasury's principal support arm for such investigative efforts. As its name states, FinCEN is a network, a link between the law enforcement, financial, and regulatory communities. It brings together government agencies and the private sector, in this country and around the world. It works to maximize information-sharing among these communities thereby furthering efforts to prevent and detect money laundering activities. The intelligence derived from the GTO's and other efforts has also contributed to the work of an interagency coordinating group (ICG) which is located at FinCEN. The group includes the Internal Revenue Service, the Customs Service, the Drug Enforcement Administration, the Federal Bureau of Investigation, and the U.S. Postal Service. The ICG has been building on knowledge which its members, especially the Criminal Investigation Division of the IRS and the Customs Service, have developed about a highly complex money laundering system used by the Colombian Cartel, known as the Black Market Peso Exchange.

The initiatives in FinCEN's budget request will strengthen the quality of the support that it provides to law enforcement.

IRS-CID

I want to say a few words about the important contribution to Treasury's law enforcement efforts made by IRS-CID. Fighting financial crime is a job well suited for the special agents of IRS-CID. They are known for their ability to "follow the money trail" and stop the criminal when no one else can. IRS-CID agents are financial experts in combating money laundering and tax evasion. Their expertise is sought in investigations of all types of financial crimes, including health care fraud, pension fraud, insurance fraud, bankruptcy fraud, telemarketing fraud, gaming, narcotics, and public corruption.

Today, IRS-CID is combating the increased use of computers for committing financial crimes with its latest weapon * * * a new type of special agent known as the Computer Investigative Specialist (CIS). Through IRS-CID's national Computer Investigative Specialist Program, the CIS continuously receives training in cutting edge investigation automation and evidence seizure and data recovery methods. Combining its unique financial expertise with advanced computer skills permits IRS-CID to optimize its ability to investigate and solve computer based and computer related financial crimes. IRS-CID is taking the lead in providing this specialized computer investigative training to agents from the other Treasury bureaus.

GOAL: FIGHT VIOLENT CRIME

Treasury is working to fight violent crime by arresting the most violent armed offenders, denying criminals and juveniles access to firearms, reducing the risk of violent crime in our communities, safeguarding the public from arson and explosive incidents and strengthening our capability to fight terrorist threats to the United States. To enhance our efforts to reduce and prevent violent crime with firearms, Treasury has fully supported the Administration's and Congress' efforts to prevent criminals, gang offenders, and juveniles from illegally obtaining firearms. These efforts have been built on three foundations: implementation of the first phase of the Brady law, to stop felons and other prohibited persons from buying handguns from licensed dealers; reform of the firearms dealer licensing systems to ensure a high level of commercial integrity and compliance with local laws; and a tough, focused illegal firearms trafficking program aimed at stopping trafficking to criminals, gang offenders, and juveniles. Additionally, we are working to maintain appropriate firearms importation and international illegal firearms trafficking policies and to share crime gun tracing and anti-smuggling expertise with the international community in order to combat the illegal firearms trafficking.

To safeguard the public from arson and explosives incidents, we will maintain the highest standards of investigative expertise and state-of-the-art technology to most effectively respond to those incidents. Our studies on the use of tracer elements in explosives materials will continue and we will enhance the national repository for arson and explosives information to assist in the investigation of explosives incidents. We will endeavor to prevent criminal misuse of explosives in crimes of arson through enforcement, regulation, and community outreach and investigate thefts and illegal diversion of explosives.

ATF

The Bureau of Alcohol, Tobacco, and Firearms (ATF) plays the leading role for Treasury, indeed the entire Federal government, in the fight against armed violent crime. ATF is responsible for enforcement of the Federal firearms laws as well as for regulation of the firearms and explosives industries. It investigates some of the

most destructive, dangerous, and controversial crimes in the United States, including bombings of abortion and family planning clinics, church arson, firearms crimes and illegal trafficking, and firearms and explosives violations.

In an effort to reduce armed violent crime, ATF focuses its investigative efforts on armed violent criminals, career criminals, armed narcotics traffickers, violent gang offenders, and domestic and international firearms traffickers that supply the illegal firearms market. It strives to deny criminals, gang offenders and juveniles access to firearms, safeguard the public from bombings and arson, and imprison violent criminals.

Through its Violent Crime Coordinators (VCC's), ATF is focusing its investigations on armed recidivist and violent career criminals. The VCC's will continue to assist in removing the armed criminals that pose the greatest threat to society by identifying and investigating the most violent offenders, analyzing the best route to prosecution and working closely with the United States Attorneys' Offices to maximize the effectiveness of our investigative efforts.

Through its Youth Crime Gun Interdiction Initiative (YCGII), which began as a small pilot effort in 1996, ATF is working to further reduce the illegal trafficking of firearms to gang offenders and juveniles. Due to the positive reception of the program in the 17 pilot cities and to ATF's first comprehensive trace analysis report designed for agents and police departments, the President confirmed his support by announcing that 10 additional cities would be included in fiscal year 1998. We are grateful for the support you have already provided to this program, which is designed to supplement and strengthen ATF's illegal firearms trafficking program. Through YCGII, ATF is developing new methods of identifying the illegal sources of firearms being supplied to gang offenders, juveniles, and criminals and to prosecute the traffickers responsible for providing these guns. ATF will work with the nation's police departments to provide comprehensive crime gun tracing, illegal market analysis, investigative information and training to the 27 cities. To break the chain of illegal supply of crime guns to violent gang offenders and juveniles, we will hire more than 160 agents to collaborate with U.S. Attorneys and police departments in investigating and arresting the illegal firearms traffickers.

ATF is also renowned for its expertise in the areas of arson and explosives. Through its certified fire investigators, National and International Response Teams, accelerant and explosives detection canine program, its accredited laboratory, its arson and explosives repository, and numerous other programs, ATF maintains its role as the leader and innovator in these areas. Its expert work on the National Church Arson Task Force has helped produce a 33 percent clearance rate for the arsons under investigation, a rate that is more than twice the average rate for arson crimes in general. ATF assists State and local authorities with arson investigations falling under Federal jurisdiction and having a significant impact on their community, particularly when the nature or extent of the problem extends beyond the available resources or expertise of the locale involved. ATF also provides training to other Federal, State, and local enforcement agencies in the detection and investigation of arson, particularly arson-for-profit, and post-blast bombing investigation.

As Director Magaw will explain in greater detail, the additional funds requested in ATF's budget for the VCC's and YCGII will permit it to better fulfill the goal of countering violent crime.

GOAL: PROTECT OUR NATION'S LEADERS AND VISITING WORLD LEADERS

Treasury is striving to manage the ever changing nature of threats by developing, acquiring and deploying necessary countermeasures. One aspect of this proactive approach is developing a formal risk assessment-based decision making process to enhance protective capabilities. Toward this end, we will identify emerging technologies that pose a threat to those we are entrusted with protecting and develop defenses against them. We will also exploit technology that can be used to lower risk to protectees and ensure their safety. To help fulfill the vital protective mission and to provide the safest possible environment for all protectees, we will continue to develop partnerships between the law enforcement agencies inside and outside Treasury.

Secret Service

As you know, the United States Secret Service has the critical responsibility of protecting the President, Vice President, and other specially designated protectees. It accomplishes this protective and investigative mission effectively in an increasingly hostile society. During the past fiscal year, the Service successfully managed protective security for several major events, as well as the implementation of numerous, ongoing security enhancements at the White House complex and the Vice President's residence. The Secret Service's White House Emergency Plan was re-

vised to include enhanced procedures in the event of a crisis situation at the White House complex. The Service also continued its efforts to combat the increasing threats from chemical/biological weapons. To respond to this threat, the Service has formulated a chemical/biological detection and protective program which combines multiple systems: fixed detectors, collective protection systems, and portable detection equipment for deployment at critical protective sites. Additionally, the Service's ultimate goal is to provide immediate chemical/biological detection, mitigation and decontamination support for all Presidential movements.

During fiscal year 1999, the Service begins the build-up for the Presidential campaign of the Year 2000. As it begins planning for the Presidential campaign and the inauguration of January 2001, the Secret Service's budget request will further advance its ability to maintain the highest level of physical protection possible for its protectees through the effective use of human resources, protective intelligence, risk assessment and technology.

GOAL: PROVIDE HIGH QUALITY TRAINING FOR LAW ENFORCEMENT PERSONNEL

Assuring the excellence of training of Federal law enforcement is of vital importance to the future effectiveness of our law enforcement efforts. As the training agent for the majority of all Federal law enforcement agencies, we currently have 70 Federal agencies participating in training programs at the FLETC. We are committed to enhancing basic and in-service training programs to meet the changing needs and increasing demands of Federal law enforcement as we combat increasingly sophisticated, technologically advanced and globally linked crime. Our objective is to develop and operate state-of-the-art facilities and systems responsive to interagency training needs.

To meet the goal of quality training within a limited budget, to meet current training needs and to prepare for the future, we will maintain and improve FLETC's physical plant by implementing the master plan to guide the expansion of facilities to meet projected training needs. We will also develop alternative training delivery systems, such as distance learning capabilities, thereby effecting long term cost savings. Additionally, we will expand the use of advanced technology in training and support, especially in the areas of computer-based training and simulation, to provide not only state-of-the-art training but long-term budget savings as well. We will also provide international training in support of the International Law Enforcement Academy (ILEA) in Budapest and the ILEA being developed for Latin America (ILEA South).

FLETC

One of the reasons that Treasury law enforcement is so successful is the quality of training that its agents and inspectors receive at the Federal Law Enforcement Training Center (FLETC). Since its establishment by a memorandum of understanding in 1970, FLETC has built a reputation for providing high quality, cost effective law enforcement training. As you know, there are many advantages to consolidated training for Federal law enforcement personnel, not the least of which is an enormous cost savings to the Government. Seventy agencies in 200 different training programs now train at FLETC. Additionally, FLETC has been involved in providing law enforcement training overseas for over 20 years and has trained more than 5,000 foreign law enforcement officials from more than 102 different countries. We expect this growth to continue as more agencies recognize the many benefits of consolidated training.

Over the last two years, the FLETC has seen an unprecedented increase in its workload. Current projections indicate continued workload growth through fiscal year 1999 and beyond. During fiscal year 1997, the FLETC provided training to 23,329 students representing 109,116 student-weeks of training, the largest workload in the history of the Center. In fiscal year 1998 the workload is expected to grow to 32,404 students. The majority of this growth is attributable to recent Congressional and Administration initiatives to control immigration along our Nation's borders and to provide a safe workplace for Federal employees.

To permit FLETC to train the law enforcement agents in the skills needed for the future, it has continued to implement its master plan for facilities. This plan was first introduced in 1989 and when fully implemented will permit FLETC to achieve its goal of further developing, operating, and maintaining state-of-the-art facilities and systems responsive to interagency training needs. Indeed, a major portion of FLETC's budget request is the continued implementation of the facilities master plan for new construction at FLETC's two centers in Glynco and Artesia. This funding will ensure that less efficient temporary facilities, now relied upon to meet workload requirements, are phased out as soon as possible. Since early 1996, FLETC has been operating at full capacity and we expect that this workload will continue

through fiscal year 1999. To accommodate this increasing demand, FLETC has been utilizing temporary buildings and contracted or licensed facilities. In addition, some Border Patrol training is occurring at a temporary facility in Charleston, South Carolina. As FLETC's capacity increases, the need for a temporary site at Charleston can be phased out.

In addition to its domestic training responsibilities, the FLETC is also being called upon to play a larger and more important role in support of the Administration's and Congress' foreign policy initiatives involving the training of foreign law enforcement officials. We estimate that there will be a 36 percent increase in FLETC's fiscal year 1998 international training workload as compared with fiscal year 1997. A key provision in the FLETC's fiscal year 1999 budget request and central to FLETC's ability to meet these increased training needs is the ILEA South initiative.

At the San Jose Summit on May 8, 1997, President Clinton announced that an international law enforcement training academy would be created in Latin America (i.e., ILEA South) before the end of 1997. Patterned after ILEA Budapest, the goals of ILEA South are to expand relationships with and among foreign law enforcement officials from Latin America and the Caribbean, support democracy by stressing the rule of law in international and domestic police operations, foster international cooperation and raise the professionalism of law enforcement judicial officials.

The Department of State selected the Department of the Treasury as the lead agency to establish ILEA South. In turn, the Department is relying on the FLETC to provide operational management oversight and administrative support to guide program development for ILEA-South. The first ILEA South training program was recently conducted in Panama City, Panama, during November and December 1997. Thirty-two students from eight Central American countries attended the program. The program was extremely well received and was considered by all those involved to be a great success.

OFFICE OF ENFORCEMENT

We recognize that the work of our law enforcement bureaus can only be enhanced through the oversight and support provided at the Departmental level. In this regard, I am pleased to report that the Office of Enforcement has worked diligently over the past year to fulfill these responsibilities, and has a plan in place for maximizing such efforts over the next year. This Committee's support in the creation of an Office of Professional Responsibility (OPR) will help us meet these goals. Since receiving funds in last year's appropriations, we have developed a precise staffing and hiring plan for the OPR positions to provide direct oversight on such important matters as internal affairs, training, and inspection issues. The process included extensive outreach to expand the pool of qualified applicants, as well as thorough reviews of applications and several rounds of interviews for select candidates, including interviews with our bureau heads. While the process continues, we have selected a number of impressive members of the OPR team. They are on board, and we are confident that they will help our bureaus perform their missions as safely, professionally, and well as possible. On one issue in particular—integrity—Treasury and its bureaus share the Committee's strong commitment, and have made it a priority for OPR.

The Office of Enforcement also has taken other measures to enhance its support and oversight missions. Among other activities, we worked closely with Customs, ONDCP, and others to ensure close cooperation on anti-narcotics matters; solidified the Department's vital role on anti-money laundering issues through such activities as the geographic targeting orders and the anti-money laundering conferences hosted jointly with the Justice Department; coordinated all enforcement-related strategic planning activities for Treasury as it fulfilled its GPRA responsibilities; maintained a lead role within the Administration on the National Church Arson Task Force, as well as international money laundering and financial crime issues; performed a complete management assessment at FLETC by working with an outside consultant, expanded the Youth Crime Gun Interdiction Initiative to 10 additional cities; and established ILEA South in conjunction with the State Department and others.

CONCLUSION

In summary, the Treasury Department is proud of the contributions that its law enforcement bureaus have made and continue to make to this nation. Treasury and its bureaus have defined goals and objectives to ensure our excellence in protecting our borders, fighting violent crime, protecting our nation's leaders, defeating financial crimes, and training our law enforcement agents for the challenges of counter-

ing increasingly sophisticated criminals. This budget request will enable Treasury's law enforcement bureaus to meet the current challenges and to begin preparations for the challenges of the 2lst century. I am confident you will find this to be a responsible budget, as it considers the growing demands of the law enforcement in a constrained budget environment.

With your permission Mr. Chairman, I would like to ask the Directors of the Treasury law enforcement bureaus to describe in more detail those strategies and goals we see as playing a key role in the coming fiscal year, as well as our recent accomplishments. After which we would be pleased to answer any questions you or Members of this Committee may have. Thank You.

CONGRATULATIONS ON PENDING NOMINATION

Senator CAMPBELL. Thank you. I appreciate that, Mr. Kelly, and congratulations on your pending nomination.

Mr. KELLY. Thank you.

Senator CAMPBELL. Good luck on protecting the Presidential candidates for the year 2000. There should be about 40 of them, and 2 of them are not here, however, are they?

Before we go on to the next person, I would like to also welcome the people in the back of the room, the youngsters who are from Closeup. I am sorry we do not have enough chairs for you, but I hope your visit here in the Capitol and this committee is enjoyable, and educational, too. We are glad you are here.

We will just go in that order. Next is John Magaw, please.

John, nice to see you.

STATEMENT OF JOHN W. MAGAW

Mr. MAGAW. Nice to see you, too.

Thank you, Mr. Chairman and Senator Kohl.

I am pleased to represent all the men and women of ATF. They are outstanding in their abilities and in their dedication.

Once again, I have asked the ATF executive staff to be here today. We find that it helps for them to hear your questions and comments firsthand so that we can all better respond to your concerns.

ATF BUDGET REQUEST

ATF's 1999 budget request is $586,324,000 and 4,038 full-time-equivalent positions. This budget includes $32 million for the relocation of Bureau headquarters, which is essential for the protection of our employees and our customers. The other major increases are found in the $16 million and 81 FTE's to expand the President's Youth Crime Gun Interdiction Program, and $2 million to expand our Violent Crime Coordinator Program.

ATF STRATEGIC PLAN

Our request and the 1999 performance plan for this Bureau are directly linked to the elements of our strategic plan to include protecting the public, reducing violent crime, and collecting the revenue.

As we implement our key programs, we will utilize the full array of enforcement tools to carry out our interwoven mission. That blends tax and regulatory and criminal investigation functions. Not only does this unique mix serve ATF's own operational responsibil-

ities, but it allows us to provide otherwise unavailable expertise to State and local and other Federal agencies.

YOUTH CRIME GUN INTERDICTION INITIATIVE

The youth crime gun interdiction initiative typifies the driving collaborative spirit behind our strategic plan of partnership and technology that merge together to provide maximum value for the citizens that we serve. Twenty-seven major cities are employing ATF's expertise in resources to trace firearms used by juveniles in crime, to identify sources and patterns of illegal firearms trafficking, and to develop strategies to reduce the flow of weapons to the youngest and the most volatile members of our society.

VIOLENT CRIME COORDINATOR PROGRAM

ATF's Violent Crime Coordinator Program, for which we are also requesting additional funding, is yet another collaborative effort, but one that concentrates on the most hardened members of our society. Because many Federal firearms laws contain provisions for mandatory extended sentences, ATF strives to increase State and local awareness of the available Federal prosecution under these statutes.

ATF's violent crime coordinators will work closely with local prosecutors and the U.S. Attorney's Office to provide the investigative component to the Department of Justice Triggerlock Program. We will focus on ensuring that the violent career criminals are appropriately matched to the criminal charges that will remove them from our communities for the longest period of time.

PERSONNEL LEVELS

While the demands on ATF have increased dramatically, it is of special note that we are only 100 people above the personnel levels of 25 years ago. Moreover, in the past 3 years, our special agent population has decreased by over 200. This puts an enormous strain on our personnel and limits the incidents that we can respond to with State and local enforcement. While we descended from roughly 2,000 agents to 1,800, a case could be made that we should have been increasing to approximately 2,600. Also, our inspector ranks have a shortfall of approximately 250 personnel.

Few days pass that we do not receive pleas from U.S. attorneys or State and local law enforcement for additional ATF agents. The 2,600 figure would put only a few more agents in each city.

You can be confident as we move along that ATF is able to fully account for the funding that you have provided. I am pleased to report that for the third consecutive year, we have received the highest possible rating on the annual inspector general audit of our finances and our internal controls. The audit this year was conducted by Price Waterhouse.

Mr. Chairman, that concludes my statement.

PREPARED STATEMENT

Senator CAMPBELL. Thank you, Mr. Magaw. I am proud that somebody is watching the money around here. We will insert your prepared statement in the record.

[The statement follows:]

PREPARED STATEMENT OF JOHN W. MAGAW

Thank you Mr. Chairman, Senator Kohl, and members of the Subcommittee. I welcome this opportunity to appear before this subcommittee and further acquaint you with ATF and the value we bring to the American public. I am here today to support the Bureau's fiscal year 1999 budget request of $586,324,000 and 4,038 full-time equivalent positions (FTE). When compared to fiscal year 1998, this request represents a net increase of $22,947,000 and 100 FTE's. This increase consists primarily of $32,000,000 for the relocation of the Bureau headquarters and $16,000,000 with 81 FTE's for the President's Youth Crime Gun Interdiction Initiative.

With me today are my executive staff members:

Mr. Bradley Buckles, Deputy Director; Mr. William Earle, Assistant Director for Management and Chief Financial Officer; Mr. Andrew Vita, Assistant Director for Field Operations; and Mr. Jimmy Wooten, Assistant Director for Firearms, Explosives and Arson; Mr. Arthur Libertucci, Assistant Director for Alcohol and Tobacco; Mr. Stephen McHale, Chief Counsel; Ms. Gale Rossides, Assistant Director for Training and Professional Development; Mr. Patrick Schambach, Assistant Director for Science and Technology and Chief Information Officer (CIO); Mr. Patrick Hynes, Assistant Director for Liaison and Public Information; Ms. Marjorie Kornegay, Executive Assistant for Equal Opportunity;

PROGRESS IN STRATEGIC PLANNING

As you are aware, starting in 1997, the Government Performance and Results Act, commonly referred to as "GPRA" requires us to: publish strategic plans covering at least 5 years, publish annual performance plans that include measurable goals, and report on actual performance.

With our fiscal year 1999 budget, we are including a performance plan and a set of performance targets for each of our three major activities. We have made progress in developing meaningful, quantifiable measures for our programs and will continue to look for improvements. We welcome Congress' feedback on measures we have submitted.

During fiscal year 1996, ATF aligned its planning and budget structure to conform to the three major activities identified in the 5 year Strategic Plan that the Bureau published in March 1995. During fiscal year 1997, ATF's Strategic Management Team revised the Strategic Plan and enhanced the planning and budget structure based on the results of interviews and surveys of our customers and stakeholders regarding their expectations and needs. The revised activities are:

Activity 1: *Reduce Violent Crime*.—Effectively contribute to a safer America by reducing the future number and costs of violent crimes, complement enforcement with training and prevention strategies through community, law enforcement, and industry partnerships.

Key Indicators: Crime Related Costs Avoided; Future Crimes Avoided; Number of Persons Trained/Developed (non-ATF); Number of Firearms Traces; Number of Inspections (Explosives); and Percent Population Inspected (Firearms).

Activity 2. *Collect Revenue*.—Maintain a sound revenue management and regulatory system that continues reducing taxpayer burden, improves service, collect the revenue, and prevents illegal diversion.

Key Indicators: Taxes and Fees Collected from Alcohol, Tobacco, Firearms, and Explosives Industries; Ratio of Taxes and Fees Collected vs. Resources Expended to Collect; and Burden Hours Reduced.

Activity 3. *Protect the Public*.—Protect the public and prevent consumer deception in ATF's regulated commodities.

Key Indicators: Response to Unsafe Conditions and Product Deficiencies Discovered (Explosives); and Number of Commodity Seminars Conducted.

ATF is committed to defining its Federal role, setting long term strategic and annual performance goals, managing our resources and investments to achieve those goals, instituting measures, and reporting annually on our performance. ATF will continue to work throughout fiscal year 1998 to make sure our measures for success are carefully defined and tracked.

ATF'S UNIQUE PROGRAMS

ATF is a law enforcement organization within the United States Department of the Treasury with a combination of responsibilities dedicated to reducing violent crime, collecting revenue, and protecting the public. We use our jurisdiction, skills, and assets to assist Federal, State, and local law enforcement in the fight against

crime and violence. We accomplish this through an integrated approach of effective enforcement of the Federal firearms, explosives, and arson laws.

Year after year, ATF works to make America a safer place for all of us by fighting violent crime. ATF's position of being vested with the enforcement and regulation of the Federal firearms and explosives laws as well as the regulation of those industries puts it at the forefront of violent crime enforcement.

The statutes ATF enforces involve a blend of tax, regulatory, and criminal investigation functions that the Treasury Department is suited to handle. Treasury law enforcement functions have always involved criminal laws inseparably linked to revenue laws and regulatory controls, whether in the enforcement of tax or trade law, currency protection, or firearms regulations. In the case of the firearms and explosives industries, the criminal investigative responsibilities cannot effectively be separated from the tax and regulatory responsibilities because they are so technically and practically interwoven.

ATF achieves tax compliance by focusing inspections on production facilities offering the greatest risk to revenue based on the volume of operations, history of violations, poor internal controls, or questionable financial conditions. Teams of ATF special agents, inspectors and auditors perform complex investigations of interstate and international criminal violations of the Federal Alcohol Administration Act and sections of the Internal Revenue Code and the Contraband Cigarette Act. In the past five years, we have noted a marked increase in the diversion of alcohol and tobacco products by organized criminal groups.

ATF inspectors maintain regulatory oversight of the legal explosives industry, including 10,548 explosives licensees and permitees. ATF's jurisdiction and specialized expertise provide invaluable services to the public through enforcement, regulation, and cooperative industry partnerships.

ATF provides a wide range of services to local communities to investigate explosives incidents and arson. For instance, our National Response Teams (NRT's) include special agents, certified fire investigators, explosives technicians, fire protection engineers, and forensic scientists who respond to major incidents within 24 hours of a request to assist in large-scale fire and explosives scene investigations. Additionally, ATF: 1) has been at the forefront as a leader in the Church Fire Investigations, 2) uniquely trains canines in accelerant-detection and explosives detection, 3) is the catalyst and principal engineer of several ongoing explosives studies, 4) provides the only Federal investigative expertise in solving arson-for-profit schemes, and 5) is seeking to enhance the level of expertise of all fire investigators through an innovative CD ROM virtual reality training tool that is being developed.

In the area of firearms, our mission is simple—to reduce gun violence and to fairly and effectively regulate the legitimate firearms industry. Our targets are criminals who illegally use and/or supply guns to other criminals or our children. The almost daily acts of firearms violence reported in the media remind us of the dangerous times in which we live. Our National Tracing Center provides 24-hour assistance to Federal, State, local and foreign enforcement agencies in tracing guns used in crimes. It is the only facility of its kind in the world. To enhance ATF's ability to trace crime guns, the National Tracing Center is partnering with members of the gun wholesale firearms industry through electronic linkups that are greatly enhancing trace completion time, while at the same time saving the firearms industry money. This joint government/industry partnership is helping to fight crime nationally.

FISCAL YEAR 1997 HIGHLIGHTS

I would like to share with the Committee those successes in fiscal year 1997 that demonstrate ATF's mission accomplishments and our efforts for more effective government. During our 25th anniversary as a Bureau, we:

—Refined ATF's strategic plan based on an environmental assessment survey issued to customers, stakeholders, and ATF personnel.

—Developed an illegal firearms trafficking guidebook that is the definitive reference for ATF special agents and conducted firearms trafficking schools and interstate nexus schools to provide firearms trafficking training for Federal, State, local and international law enforcement personnel.

—Received four Hammer Awards for Innovation in Government from the Vice President's National Performance Review. The awards were given to the Partnership Formula Approval Process Team, CEASEFIRE Team, Out-of Business Records Management Team, and Project LEAD Team. The "Disarming the Criminal Program," ATF's firearms trafficking enforcement effort, was a finalist in the Innovations in American Government Awards Program sponsored by Harvard University's Kennedy School of Government.

—Established the Arson and Explosives National Repository which will serve as a statistical data base for arson and explosives incidents and as a valuable investigation tool for other Federal, State and local law enforcement agencies. The information will be available to authorized Federal, State and local agencies.
—Published the Department of the Treasury "Odor Recognition Proficiency Standard" for explosives detecting canines. This is the first Federally Published standard for these types of canines.
—The National Church Arson Task Force issued a report to the President outlining the accomplishments of its second year.
—Deployed Integrated Ballistic Identification System (IBIS) technology in eight new sites to further strengthen the ability of State and local law enforcement to reduce violent crime through technological innovations that help target the violent offender.
—Traced over 37,000 recovered crime guns involved with the Youth Crime Gun Interdiction Initiative.
—Began the development of a joint explosives detection canine pilot program with the Federal Aviation Administration for use at Washington National Airport and Dulles International Airport.
—Initiated a major effort to hire special agents and inspectors for our Office of Field Operations. ATF received, screened, and processed approximately 4,334 special agent applications and 1,072 inspector applications. ATF is currently conducting interviews with plans to hire over 100 special agents and inspectors. We are committed to remaining on a regular hiring schedule, due in part to a significant number of expected retirements, and to prevent the loss of critical expertise.
—Significantly increased the number of crime gun traces (190,000); continued to develop Project LEAD, the illegal firearms trafficking information system; deployed new trace related hardware to more field offices; developed comprehensive, community-based crime gun trace analysis as a new strategic tool for Federal, State, and local law enforcement; and piloted it in 17 sites through the Youth Crime Gun Interdiction Initiative.
—Expanded Project LEAD, a state-of-the-art computer software program which analyzes firearms trace data maintained by the National Tracing Center.
—Established the National Revenue Center in Cincinnati. We have reduced from five to three the regional Technical Services centers in which ATF employees perform tax and permit functions; consolidated resources; and improved the consistency of work products and services.
—Hosted an international conference on fire research that was attended by 65 world experts on the subject. The ideas and information exchanged will enhance our development of the ATF Fire Investigation Research and Education Center in partnership with the academic community.
—Conducted 22 "train-the-trainer" classes with 665 police officers participating from across the United States in ATF's Gang Resistance Education and Training Program (G.R.E.A.T.). The program curriculum, designed to decrease gang violence across the nation, is taught by trained, uniformed police officers and ATF special agents to children in the sixth, seventh and eighth grades. In fiscal year 1997, 471 State and local agencies sponsored G.R.E.A.T. classes for over 314,000 school children.
—Continued development and deployment of a fully integrated state-of-the-art information technology infrastructure via our Enterprise System Architecture which in fiscal year 1997 deployed 1,049 desktop and notebook personal computers to six of twenty three field operations divisions, a total of 58 field offices. All hardware and software meets Enterprise System Architecture standards designed to fulfill our critical business requirements. This is a part of our preparation for the year 2000 requirements.
—Created the Diversion Branch to deal with diversion of cigarettes and distilled spirits across State and national borders in violation of law. The new branch combines investigative, regulatory and intelligence gathering expertise to combat loss of revenue in partnership with State, international and other Federal agencies.
—Designed and commissioned the construction of a Rapid Response Laboratory, a mobile crime laboratory, that provides the versatility required for the uniqueness of each crime scene and will facilitate field analysis.
—Standardized and distributed hand held portable radio units to all special agents for the first time in ATF's history; procured and outfitted two self sustaining mobile radio communications platforms with secure communications capability to support critical incident responses.

—Redesigned and implemented the third generation of our Internet World Wide Web service and ATF homepage, (http://www.atf.treas.gov). ATF web offerings were expanded to include secure Internet services such as a search engine, news groups, and downloadable electronic forms for internal use by our customers and work force.
—Completed the first phase of a procurement subsystem (Procurement Desktop and Program Office Desktop) with the intention of creating an electronic desktop environment for processing all future requisitions.
—Provided 15,893 training opportunities for ATF employees and 34,824 training opportunities for other Federal, State, local, and foreign law enforcement officers, as well as industry personnel.
—Initiated a partnership with the American Re-Insurance Company, U.S. Fire Administration, and the National Fire Protection Association to develop a CD–ROM virtual reality training tool which will raise the base level of knowledge of fire investigators nationwide.

THE YEAR IN PROGRESS

ATF and its predecessor agencies have rendered honorable and effective service for generations. As with all organizations, we have gone through changes. Effective organizations continuously re-examine the way they do business. Over the last several years, we have sought to improve internal controls, accountability, management training and operational processes and systems. These changes have provided the framework for making ATF a stronger more effective organization. With the strong support and encouragement of the Committee, we have begun to make significant strides in these areas.

When I appeared before this subcommittee last year, I talked about implementing a series of operational changes. I feel we have made substantial progress in implementing these changes. As part of our continued work to build a sound and safer America through innovation and partnerships, we face several important issues throughout fiscal year 1998 and into fiscal year 1999:

Headquarters Relocation.—ATF has been pursuing a suitable, secure site to relocate its headquarters, that will provide a safe environment for its employees and mission.

Restoration of Base Budget (Direct Appropriation).—ATF's base budget had a disproportionate share of pay, fixed and operational resources. ATF has made strides to correct this problem in fiscal year 1997 and 1998. We appreciate the Committee's support. With the Committee's continued support, ATF will meet its goal of continuing to correct this problem in fiscal year 1999.

	Percent—		
	1997	1998	1999
Pay	69.58	64.74	60.46
Fixed	16.17	16.62	15.91
Operational	14.25	18.64	23.63
Total	100.00	100.00	100.00

Construction of ATF's National Laboratory Center With the Addition of the Fire Investigation, Research and Education (FIRE) Center.—ATF received approval for funding for site acquisition, design and construction. Implementation anticipates that the site and development planning, design, architecture, and a large percentage of the engineering will be completed in fiscal year 1998. In addition, the private development partner through GSA will begin site development activities.

Implement GPRA.—During fiscal year 1997, the Bureau identified some outcome oriented performance measures for fiscal year 1998, integrated its strategic plan with the budgeting process, and refined its budget activity structure to accommodate its business strategies. In fiscal year 1998, the Bureau will continue to develop systems and collect data to report on these performance measures.

Canine Explosives Detection Program.—The Bureau has initiated the infrastructure necessary to provide training for up to 100 canines for State, local and Federal agencies annually.

Increase Number of Annual Explosives Inspections.—ATF's goal is to increase the annual inspection coverage to 65–70 percent of all explosive storage facilities and to this end will add 26 new inspectors.

National Arson and Explosives Repository.—The Bureau expects to complete the second year requirements for systems development, hardware requirements, and field office on-line access to this information.

Illegal Firearms Trafficking.—A strategy to expand Project LEAD from a personal computer/local area network to a nation wide network by linking the local area networks via a wide area networks is being deployed as part of the Enterprise System Architecture. This should be completed by mid fiscal year 1998.

Continuation of G.R.E.A.T. Program.—The partnership originally established between ATF, the Phoenix Police Department and the Federal Law Enforcement Training Center has been expanded to include the Portland, Oregon Police Department, the Philadelphia, Pennsylvania Police Department, and the Orange County Florida Sheriff's office. The expanded partnership will allow for regional management of the program while continuing to utilize the expertise of each agency to provide gang resistance and anti-violence instruction to children in a classroom setting. ATF will provide funding to approximately 74 different law enforcement agencies through cooperative agreements to support their participation in this community outreach program.

Youth Crime Gun Interdiction Initiative.—ATF's goal is to ensure and support comprehensive tracing in 10 new police departments, to provide a mid year report on city based crime gun trace analysis for all 27 participating sites, and to continue to develop collaborative enforcement strategies and operations against illegal gun traffickers supplying juveniles, gang offenders, and criminals.

FISCAL YEAR 1999 RESOURCE REQUEST

Before I move to more details of our program activities, I will highlight the following key budget changes for fiscal year 1999 which will move us closer to reaching our strategic goals, strengthening the management infrastructure, as well as providing the tools necessary to carry out our unique missions.

In addition to $47,373,000 for maintaining current service levels, our salaries and expenses appropriation request includes the following:

President's Youth Crime Gun Interdiction Initiative: $16,000,000

The President's Youth Crime Gun Interdiction Initiative (YCGII), a component of ATF's illegal firearms trafficking program, includes ATF's firearms records, tracing, and reporting system, associated equipment and training, and additional agents to follow up on investigative information generated by this system. Specifically, ATF is requesting funds to break the chain of illegal supply of crime guns to youth and minors. The initiative proposes to expand the successful pilot program now in 17 cities to a total of 27 cities, including six agents for each of the 27 YCGII field cities (a total of 162 agents). Additionally, the funding is included to:

—Provide comprehensive crime gun tracing by State and local law enforcement;
—Provide rapid high volume crime gun tracing and crime gun market analysis by the National Tracing Center (NTC); and
—Train ATF, State and local law enforcement personnel.

Violent Crime Coordinators: $2,000,000

This project consists of Violent Crime Coordinators (VCC's) to address effectively investigations of recidivist and violent career criminals. The VCC's will assist in ridding American society of those armed criminals that pose the greatest threat to its well being by successfully identifying the best route for prosecution of a case involving firearms violations. Additionally, in support of the effective enforcement of the Federal firearms laws, the VCC's will be able to work closely with representatives from the U.S. Attorney's Office to identify and assist in processing initiatives that are instituted by the Department of Justice, e.g., Triggerlock. Numerous representatives from various U.S. Attorney's offices around the country have met with ATF management requesting these positions and highlighting their importance.

Headquarters Relocation: $32,000,000

ATF's current primary headquarters locations do not meet the security guidelines as described in the Department of Justice's (DOJ) Vulnerability Assessment, dated June 28, 1995. The President directed that "* * * each Federal Facility shall, where feasible, be upgraded to the minimum security standards recommended for security level by DOJ's study." The existing lessor is unable to implement the changes necessary to meet the enhanced security requirements. Therefore, ATF must be moved to a new location to ensure adequate security for ATF employees, pursuant to the President's Directive.

Our fiscal year 1999 budget is the cornerstone for creating a sound, fully balanced Bureau. It balances our pay, fixed and operational costs, while at the same time en-

sures we have acquired the necessary tools to face the law enforcement challenges of the twenty first century.

REDUCE VIOLENT CRIME ACTIVITY

Firearms, explosives, and arson play a prominent role in violent crimes, ATF—with primary enforcement jurisdiction for Federal firearms, explosives, and arson laws—enforces provisions of the Gun Control Act of 1968, the National Firearms Act, the Brady Law, and the Violent Crime Control and Law Enforcement Act of 1994 to combat these types of crimes.

Many Federal laws contain provisions for mandatory extended sentences, and ATF strives to increase State and local awareness of available Federal prosecution under these statutes. To accomplish all of this, ATF pursues an integrated enforcement strategy through four major programs supporting the Reduce Violent Crime activity: Deny Criminals Access to Firearms, Safeguard the Public from Arson and Explosives Incidents, Remove Violent Offenders from our Communities, and Prevent Violence Through Community Outreach. Each of these programs is supported by projects detailed in the following discussion.

DENY CRIMINALS ACCESS TO FIREARMS PROGRAM

The Deny Criminals Access to Firearms program involves projects and services that identify, deter, and stop the sources of and participation in illegal firearms trafficking.

Illegal Firearms Trafficking

ATF reduces the availability of illegal firearms to criminals by identifying illegal sources of firearms and prosecuting illegal firearms traffickers. Overall goals include recommending for prosecution the most active illegal firearms traffickers, preventing future firearms crimes, and reducing crime-associated costs by incarcerating illegal firearms traffickers who supply firearms to criminals, gang offenders, and juveniles. In fiscal year 1997, ATF accomplished the following in support of the nationwide illegal firearms trafficking strategy:

—traced over 190,000 crime guns to supply investigative leads about illegal traffickers;
—developed an illegal firearms trafficking guidebook that is the definitive reference for ATF special agents, as well as State and local investigators, to use during the course of illegal firearms trafficking investigations;
—held illegal firearms trafficking schools for a total of 245 ATF students and 22 State, local and other Federal law enforcement students;
—conducted basic firearms interstate nexus schools and advanced firearms interstate nexus schools for a total of 53 ATF students;
—provided onsite refresher training to field divisions for approximately 450 ATF students; and
—conducted a joint Canadian/ATF firearms school for 35 ATF employees and 55 Canadian law enforcement officers.

Youth Crime Gun Interdiction Initiative

The Youth Crime Gun Interdiction Initiative is a focused component of ATF's nationwide Illegal Firearms Trafficking Program which identifies and investigates the illegal sources of guns to youths and juveniles. In response to increased crimes involving America's youth, ATF developed and deployed the Youth Crime Gun Interdiction Initiative in fiscal year 1996. In fiscal year 1997, the Youth Crime Gun Interdiction Initiative was deployed in 17 cities including Atlanta, Georgia; Baltimore, Maryland; Birmingham, Alabama; Boston, Massachusetts; Bridgeport, Connecticut; Cleveland, Ohio; Inglewood, California; Jersey City, New Jersey; Memphis, Tennessee; Milwaukee, Wisconsin; New York, New York; Richmond, Virginia; St. Louis, Missouri; Salinas, California; San Antonio, Texas; Seattle, Washington; and Washington, DC. Eighty-six criminal investigations were initiated in the 17 sites which resulted in the recommendation of 90 defendants for prosecution, 61 arrests, and 15 sentencings. Many of these investigations are ongoing. A major goal of the Youth Crime Gun Interdiction Initiative is to trace all recovered crime guns in order to identify illegal firearms sources. This goal was met in fiscal year 1997 with approximately 37,000 recovered crime guns traced in the 17 cities.

In July 1997, due to the successful tracing efforts, 17 comprehensive trace analysis reports were produced and released for use by law enforcement to develop community level enforcement strategies. Also in July 1997, the President of the United States announced the expansion of the Youth Crime Gun Interdiction Initiative to 10 additional cities. Efforts in those cities will begin in fiscal year 1998. A more detailed description of the focus and resource request is outlined on page 9 of this

statement. On January 30, 1998, the President confirmed his support for ATF's trafficking program announcing to the US Conference of Mayors that he was requesting $28 million to crack down on illegal firearms trafficking, to trace more crime guns, and hire up to 162 law enforcement personnel to arrest those who illegally supply guns to gangs and juveniles.

National Tracing Center

The ATF National Tracing Center is the only operation of its kind in the world. This facility traces firearms associated recovered by Law enforcement in any Federal, State, local or foreign law enforcement agency. A firearms trace result is frequently the crucial piece of evidence that can link a criminal to a firearms-related crime and allow law enforcement officials to make an arrest. Firearms trace information also provides investigators with leads on illegal sources of the crime-related firearms in their investigations. The Tracing Center is also the only repository for all Federal firearms licensee out-of-business records, where millions of records are currently stored. Specific goals for fiscal year 1997 were to increase the number of trace requests responded to through efficiency improvements involving increased electronic access to the tracing center. All specific National Tracing Center goals for fiscal year 1997 were accomplished, to include the following:

—increased electronic access to the National Tracing Center for State, local, and other Federal law enforcement agencies by establishing electronic batch downloading in six cities and ensuring 18 States placed a crime gun trace request screen on the National Law Enforcement Telecommunications System;

—increased by 60 percent the number of crime gun trace requests received at the National Tracing Center as a result of increased electronic access;

—developed and deployed a new crime gun trace request form, Crime Gun Information Referral/Request Form (ATF F 3312.1), which serves as a trace request, suspect gun entry, stolen firearms information referral, and firearms with obliterated serial number information referral; and

—deployed a new crime gun trace results form which provides the trace requester with enhanced value by supplying an intelligence information in addition to trace results.

Stolen Firearms

The Stolen Firearms initiative seeks to reduce thefts of firearms from Federal firearms licensees and interstate carriers transporting firearms. This initiative is an aggressive enforcement effort determined to reduce the number of stolen firearms from interstate carriers and Federal firearms licensees, which by their very nature are destined to become crime guns.

SAFEGUARD THE PUBLIC FROM ARSON AND EXPLOSIVES INCIDENTS PROGRAM

As an integral part of the Bureau's overall violent crime reduction strategy, ATF's arson and explosives projects are directed toward preventing the criminal misuse of explosives and the crime of arson, as well as providing effective post-incident response. ATF evaluates its success, in part, by the amount of savings to the public resulting from proactive investigations. This is particularly true with arson-for-profit schemes where ATF's efforts have produced tremendous financial savings for the insurance industry, and ultimately the American public, by exposing millions of dollars in fraudulent claims annually.

Prevent Criminal Misuse of Explosives

Through this program, ATF provides resources to identify and pursue those who criminally misuse explosive materials in bombings and arson fires.

ATF maintains the Explosives Incidents System, which is a computerized repository for historical and technical data on reported arson and explosives incidents that is helpful in determining motives, trends, and similarities. Statistical data is available in ATF's annual Arson and Explosives Incidents Report and Arson Case Briefs publications. In addition, ATF is the only agency through which other Federal, State, and local law enforcement agencies can initiate traces of explosives in order to determine their source. This capability is also applicable to foreign commercial and military explosives, ordnance, and munitions.

In ATF resides the only Federal cadre of explosives technology specialists with unique capabilities in the explosives, bomb disposal and arson fields. They construct facsimiles of explosive and incendiary devices; prepare destructive device determinations for court purposes; conduct render safe procedures on destructive devices, improvised incendiary and explosives devices and booby traps; provide expert analyses of intact and functioning explosive/incendiary devices; provide onsite technical investigative assistance during tactical operations, and bombing and arson scene exami-

nations; issue classifications for new explosives and incendiary devices and materials; and keep abreast of the latest technology related to explosives.

In addition, ATF Inspectors, Special Agents and Explosives Enforcement officers provide technical advice on Federal explosives storage regulations; provide training and instruction in all aspects of explosives handling, storage, and destruction for Federal, State, local, and foreign law enforcement officers, and members of the explosives and pyrotechnics industries; participate as explosives origin and cause experts in all National Response Team and International Response Team activations; conduct explosives threat assessments; and assist the Department of State and the Diplomatic Security Service in conducting antiterrorism capability assessments outside the continental United States.

In fiscal year 1997, ATF experts provided onsite technical investigative assistance on 300 incidents; conducted explosive device or booby trap render safe procedures in connection with 25 investigations; prepared 232 written expert witness explosive device determinations; participated in Department of State antiterrorism capability assessments in 14 foreign countries; and provided instruction on explosives investigative and regulatory matters to other Federal, State, local, and foreign law enforcement officers, and members of the explosives and pyrotechnic industries.

Church Fires

ATF established a church fire major case team during 1996 in response to a dramatic increase in church arsons nationwide. The team maintained a central repository for collecting, analyzing, and disseminating information while coordinating and monitoring all aspects of each investigation. This team became the foundation for the President's National Church Arson Task Force. In June 1997, the task force consisting of ATF, Federal Bureau of Investigation, Federal Emergency Management Agency, Community Relations Service, Department of Housing and Urban Development, and Department of Justice, completed its first year of operation and prepared its first year's report for the President outlining the year's accomplishments.

ATF and its major case team were instrumental in the success of the task force and the accomplishments achieved during the first year. ATF was asked to determine the origin and cause of each church fire incident investigated by the task force because of its expertise in arson and explosives investigations. The major case team was asked to provide investigative oversight to ensure each investigation received the necessary resources and priorities. The task force has coordinated the efforts of Federal, State and local law enforcement agencies investigating church fires. By the conclusion of the first year, the task force had opened 429 arson and bombing investigations that occurred at houses of worship. Federal, State and local authorities have arrested 199 suspects since January 1995, in connection with 150 of the 429 investigations. The task force has a 35 percent solution rate, a rate that is more than double the 16 percent solution rate for arson in general.

ATF continues to promote church arson awareness and arson prevention by making outreach presentations to community leaders, churches, and organizations throughout the country. In addition to the outreach activities, the task force distributes the Church Threat Assessment Guide which contains valuable information on the steps that can be taken to prevent fires at houses of worship; the steps to follow after an incident has occurred; and the toll-free numbers to call with information 1–888–ATF–FIRE and 1–888–ATF–BOMB. Originally developed and distributed by ATF, the Task Force has adopted the guide and now distributes it nationwide. The guide continues to be accessible to the public on the ATF web site (http://www.atf.treas.gov). ATF and the task force continue to investigate and recommend prosecution of those responsible for burning our Nation's houses of worship.

Canines

In 1989, ATF and the Connecticut State Police began a formal training program for accelerant-detecting canines to support State and local jurisdictions (accelerant-detecting canines search for liquid catalysts that can be used to speed up the spread of fire). Through fiscal year 1997, a total of 56 accelerant-detecting canines have been trained and certified by ATF for State and local agencies. In fiscal year 1997, ATF recertified 44 canine teams. In March 1998, six additional accelerant detection canine teams will be trained by ATF at the Canine Enforcement Training Center in Front Royal, Virginia.

In 1990, ATF entered into an agreement with the U.S. Department of State, Office of Antiterrorism Assistance to train explosive detection canines for foreign countries. ATF has trained 150 canine teams for the program, which are deployed in eight countries worldwide. In fiscal year 1997, ATF trained 35 canine teams and eight canine trainers for the Department of State, Office of Antiterrorism Assistance. ATF continues to perform assessments of additional foreign countries for

placement in this program. ATF has eight special agent/canine teams stationed in Atlanta, Chicago, Dallas, Miami, Los Angeles, San Francisco, and two teams stationed in Washington, DC.

ATF has developed a national odor recognition proficiency standard for explosives detection canines, published by the Department of the Treasury. ATF will continue to work in conjunction with other Federal agencies employing explosives detection canines to validate and test this standard over the next year. The report of the White House Commission on Aviation Safety and Security, dated September 12, 1997, recommended that ATF continue to work on developing Government-wide standards for canine teams.

Further, the House Committee on Appropriations requested that ATF and the Federal Aviation Administration conduct a joint explosives detection canine pilot program at Washington National Airport and/or Dulles International Airport. ATF, the Federal Aviation Administration and the Metropolitan Washington Airport Authority (MWAA), have signed a cooperative agreement that will allow this canine pilot program to be conducted at Washington National and Dulles International Airports. The goal of the agreement is to allow for the successful execution of a joint agency evaluation of explosives detection canines trained in different ways for use in the airport environment. The pilot program will last from 1 to 2 years and will involve the use of four handler/canine teams.

ATF has trained one special agent handler/canine team and one MWAA handler/canine team to participate in this pilot.

Research Initiatives

In fiscal year 1997, in conjunction with the U.S. Army Corps of Engineers, the National Security Council, and the Defense Nuclear Agency, ATF continued to participate in and direct a project known as Dipole Might. Its objective is to create a computer data base and investigate protocol to assist investigators when processing large car bomb scenes. Several tests were performed in fiscal year 1997.

Currently, ATF has two full-time fire protection engineers, making it the only Federal enforcement agency that employs this level of expertise in conjunction with the CFI program. ATF's fire protection engineers are dedicated solely to the analyses of origins and dynamics of fire as it pertains to criminal investigations.

In fiscal year 1996, President Clinton signed the Anti-terrorism and Effective Death Penalty Act which authorized the Department of Treasury, who has delegated responsibility to ATF, to conduct a study of explosive detection devices. ATF continues to use an Explosive Study Group to study the tagging of explosive materials for purposes of detection and identification; the feasibility and practicability of rendering common chemicals used to manufacture explosive materials inert; the feasibility and practicability of imposing controls on certain precursor chemicals used to manufacture explosives materials; and State licensing requirements for the purchase and use of commercial high explosives. An interim report has been prepared and is currently under review.

In fiscal year 1996, Congress approved funding for the construction of a new National Laboratory Center and Fire Investigation, Research and Education Center. ATF is currently involved in site negotiations and programming for the facility. This stage should be completed by April 1998. The building design is expected to be completed between April 1998 and April 1999. Both buildings will be fully operational by 2001.

Effective Post-Incident Response

ATF has proven through years of practical application that a coordinated and rapid deployment of highly trained and well-equipped individuals and related support functions is critical to the investigation of any arson or explosives incident. This ATF developed "team approach" is the basis for our National Response Team (NRT), Our International Response Team (IRT), division response teams, and arson task forces and is so highly successful that the FBI and other State and local authorities are modeling their teams efforts after ATF's concept. ATF's NRT can respond within 24 hours to major bombing and fire scenes anywhere in the United States. In fiscal year 1997, the team provided effective post-incident response in 36 activations a 60 percent increase from fiscal year 1996. These incidents resulted in $243.2 million in damages, 54 deaths, and 107 injuries. The NRT also provided continued assistance in the investigation of the Olympic Centennial Park bombing, the TWA Flight 800 crash, and most recently, the Birmingham, Alabama abortion clinic bombing.

In fiscal year 1997, ATF issued a customer satisfaction survey to users of the NRT that year. To date, ATF has received 19 of the 28 surveys, all of which have been positive. When all surveys are received, ATF will tabulate the data and use it as a tool to determine the effectiveness of the NRT.

ATF also maintains the IRT formed as a result of an agreement with the Department of State has been deployed to such countries as Peru, Argentina, Pakistan, El Salvador, and Macedonia. Since its inception in 1991, the IRT has been activated 13 times for incidents involving explosives and fires. In fiscal year 1997, the IRT was activated to Suriname to assist in the investigation of an explosion in Paramaribo, believed to be the result of a package bomb.

ATF provides vital resources to local communities in the wake of arson and explosives incidents. ATF pioneered the development of local multi-agency task forces designed to pool resources and expertise in areas experiencing significant arson problems. In fiscal year 1997, ATF led formal arson task forces in 15 major metropolitan areas throughout the United States, and participated in several others. In fiscal year 1997, ATF responded to 763 arson incidents that were responsible for 78 deaths and 166 injuries.

Most recently, ATF is participating in a D.C. Task Force with the DC Fire Investigation Unit. Fire Investigations Unit personnel will have arrest authority after they are trained by the police academy. ATF will be providing investigative support until all personnel are fully trained.

A certified fire investigator and a certified explosives specialist are critical to the success of a comprehensive post-incident response. ATF's certified fire investigators are the only investigators trained by a Federal law enforcement agency to qualify as expert witnesses in fire cause determinations. In fiscal year 1997, 48 of these investigators were stationed throughout the United States. Twenty-nine certified fire investigator candidates are scheduled to complete training in January 1998 and thirteen are scheduled to complete training in April 1999. This will provide strategic placement of these investigators throughout the country to investigate Federal arson crimes and assist Federal, State and local agencies with fire origin and cause determinations and training.

Because many arson crimes involve insurance fraud, these investigations often require complex financial analysis. ATF also brings comprehensive forensic science services, financial auditing services, information systems and equipment, and high-speed data communications to these investigations. This includes Internet access to facilitate the research and exchange of national and international technical data and intelligence.

In fiscal year 1997, there were four certified explosives specialist (CES) training classes through which 96 CES's were fully certified. As of fiscal year 1997, ATF employed a total of 270 CES's.

REMOVE VIOLENT OFFENDERS FROM OUR COMMUNITIES PROGRAM

Imprison Violent Offenders

The Imprison Violent Offenders program involves projects and services to investigate, arrest and recommend for prosecution, the most violent criminals who use firearms and explosives in furtherance of their criminal activity. The Violent Crime Coordinators (VCC) project is one such program. A more detailed description of the focus and resource request for VCC's is outlined on page 9 of this statement.

Achilles

The Achilles program uses specific Federal firearms laws that mandate extended mandatory periods of incarceration to remove the most dangerous armed career criminals and armed drug traffickers from the streets. ATF's Achilles project is the primary foundation and source of the Department of Justice's & U.S. Attorney's "TRIGGERLOCK" prosecution. Firearms use and possession by these violent criminals becomes their "Achilles heel" as they are exposed to lengthy prison sentences under these Federal laws. The firearms they possess yield valuable information regarding their previous criminal acts and criminal associates. Further, the illegal firearms sources for these violent criminals are investigated under ATF's Illegal Firearms Trafficking project.

A major goal is to incarcerate armed violent criminals for long periods of time to prevent future crimes of violence and the costs of those crimes to the American public. An indication of ATF's success in focusing limited resources against only the most violent armed criminals can be seen in the increases in the average length of sentence. The average length of sentence received by defendants under 924(e), the armed career criminal statute, went from 18 years in fiscal years 1992 through 1995, to 19 years in fiscal years 1996 and 1997. The average length of sentence received by defendants under 924(c), the armed crime of violence statute went from 6 years in fiscal years 1992 through 1995, to 7 years in fiscal year 1996, and to 11 years in fiscal year 1997. The sentence received by a defendant is due, in part, to the defendant's criminal history or level of violence during the actual offense. Sen-

tences have substantially increased because ATF special agents have more effectively focused on the most dangerous and violent armed criminals. ATF is putting the most violent criminals in prison for longer periods of time.

Violent Offender

In fiscal year 1992, ATF initiated the Violent Offender Program. This program is an aggressive, proactive approach to identify, investigate, and recommend prosecution of the most violent career criminals nationwide. The program was designed to work as an early safety warning and notification system for law enforcement officers in the field. Information concerning violent career criminals, who meet certain criteria and are currently free in society is entered, into the National Crime Information Center (NCIC) system. If any law enforcement official encounters one of these individuals, and queries the NCIC, the officer will receive a safety advisory that the person is a career offender. If the offender is in possession of a firearm, the officer is advised to contact ATF.

There are currently 1,000 individuals identified as most violent offenders in the NCIC violent offender file. In fiscal year 1996, each violent offender encountered with a firearm had an average of 5.7 prior felony convictions and 30.4 years in prior prison sentences. In addition, 8 of the 17 subjects had previously received life sentences, but were released or paroled early. In fiscal year 1997, each violent offender encountered with a firearm had an average of 4.88 prior felony convictions and 33.29 years in prior prison sentences. In addition, 1 of the 18 subjects had previously received a life sentence, but was released or paroled early. When convicted, these criminals receive mandatory sentencing of 15 years to life in prison, without the possibility of probation or parole.

In fiscal year 1997, based on the above statistics, ATF began to evaluate the violent offender program to determine if modifications were needed or to identify a more efficient method of accomplishing the same desired outcome. To assist in this evaluation process, the Office of Inspector General has completed an independent audit and review at the request of ATF. ATF looks forward to the forthcoming findings and recommendations contained in the final report.

CEASEFIRE

The CEASEFIRE project is centered around the use of state-of-the-art ballistics technology. This technology, the Integrated Ballistic Identification System (IBIS), consists of "Bulletproof" which examines projectiles, and "Brasscatcher," which examines shell casings. The overall CEASEFIRE project goals are to increase the efficiency of firearms examiners, reduce costs associated with the hiring of additional firearms examiners, and to identify those criminals who repeatedly use the same firearm in multiple crimes. Program goals for fiscal year 1997 were to deploy the IBIS technology to eight new sites and increase the use of the technology. Both goals were accomplished.

In an effort to unify Federal resources to deploy ballistics technology, there is an existing proposal to combine IBIS and the Federal Bureau of Investigation's Drugfire System into a federally sponsored program called the National Integrated Ballistics Information Network (NIBIN). The two systems will not be combined into one platform but will make data from the two systems inter-changeable. As proposed, the National Integrated Ballistics Network will create a partnership between ATF, the Federal Bureau of Investigation, and State and local law enforcement that makes the most efficient use of all available resources in reducing firearms-related violent crime. This combined network will be directed by a three-member board, which is currently being formed.

PREVENT VIOLENCE THROUGH COMMUNITY OUTREACH PROGRAM

Community Outreach

This program focuses on community efforts designed to encourage and participate in the prevention of violence.

G.R.E.A.T.

The Gang Resistance Education and Training (G.R.E.A.T.) is a school-based gang and violence prevention program taught by uniformed law enforcement officers to elementary and middle school children. ATF administers the program in partnership with the Phoenix Police Department, National Sheriffs' Association, International Association of Chiefs of Police, and Federal Law Enforcement Training Center.

ATF has provided funding to 74 different agencies to support their participation in the G.R.E.A.T. program. Over 800 different localities are currently receiving the G.R.E.A.T. curriculum in classrooms around the country.

This program has been highly successful in educating young children about the dangers of gangs and violence. A cross-sectional evaluation conducted by the University of Nebraska in Omaha was completed in 1996 and concluded that the G.R.E.A.T. program has had a significant, positive impact on the participants.

COLLECT THE REVENUE

The goal of the Collect Revenue activity is to maintain efficient and effective revenue management and regulatory system that continues to reduce taxpayer burden and Government oversight, and collects the revenue due under Federal laws administered by ATF. Under this activity, there are three major programs: Collect Revenue Rightfully Due, National Revenue Center, and Use Electronic Commerce.

COLLECT ALL REVENUE RIGHTFULLY DUE PROGRAM

Using processes and systems designed to effect maximum revenue collections while imposing minimum taxpayer burden, ATF collected $12.7 billion, before refunds and credits, in taxes, interest, penalties, and fees in fiscal year 1997. Ninety-eight percent of collections are derived from alcohol and tobacco excise taxes. On-site inspections of those who pay alcohol, tobacco, firearms, and ammunition taxes are focused on facilities offering the greatest risk to the revenue based on the volume of operations, history of violations, relative strength of internal controls, and financial condition. Enhanced computers (ESA) and access to National Revenue Center (NRC) record systems will give on-line access to all permittee and license records to field inspectors conducting tax or other compliance inspections. These same systems will allow NRC employees to analyze industry reports and make more accurate projections and trend analyses to identify taxpayers for future inspections.

ATF employees continuously monitor tax collections by auditing tax returns and assessments; initiating enforced collection action; analyzing required reports; and accounting for tax payments, licensing fees, and related refunds and credits. ATF also reviews and approves or disapproves applications and surety bonds submitted by companies that produce or sell alcohol or tobacco products.

When criminal conduct is suspected—as with diversion or label fraud cases—teams of ATF special agents, auditors, and inspectors conduct complex investigations of violations of the Federal Alcohol Administration Act and the Internal Revenue Code. ATF also investigates domestic trafficking in contraband tobacco products. This trafficking deprives states of needed tax revenue and violates Federal law. Also, certain direct shipments of alcohol beverages to consumers without payment of taxes are in violation of both State and Federal laws.

ATF instructed foreign tax police on the U.S. alcohol and tobacco licensing and taxation system. In fiscal year 1997, 203 students from Russia, Ukraine, Belarus, and the Baltic States received this training in order to assist them in combating the spread of organized crime.

NATIONAL REVENUE CENTER

ATF's revenue management program includes a variety of functions based on the processing, auditing, and recording of tax returns and monthly operating reports, as well as the accounting for all deposits and payments for taxes, licenses, permits, and fees from the alcohol, tobacco, firearms, ammunition, and explosives industries.

Effective management of taxpayer accounts and proper receipt of tax returns and payments ensure accurate collections and reporting of all receivables. ATF's collection systems include work by the technical services staffs located in the districts and the Tax Processing Center in Cincinnati. The principal activities of these entities are office audits of tax returns and reports, audits of claims, collection actions, review and approval of applications for permits, registration of plants and surety bonds, and processing and custody of official case files.

During fiscal year 1997, ATF continued efforts to reduce the number of technical services offices, ultimately leading to a single NRC which will process all tax and permit matters nationwide from Cincinnati. The Atlanta office will be closed by the end of fiscal year 1997 and much of the work from the remaining Philadelphia and San Francisco offices has already been transferred to Cincinnati. All functions of the Tax Processing Center will be absorbed into the NRC by the end of fiscal year 1998.

In fiscal year 1997, in the process of centralizing and streamlining the NRC, ATF implemented various technological improvements. Document imaging operations commenced, which will reduce the volume of paper files stored and improve accessibility of information. ATF also began fully automating the processing and analysis of industry operational reports. ATF is working with industry members to provide more timely industry statistics and to provide increased use of electronic commerce for filing and compiling monthly reports at the NRC. A full time customer service

representative position was also created to provide a channel for resolving problems and getting customer input and buy-in on the new changes taking place.

Diversion and Smuggling

ATF is engaged in an ongoing endeavor to reduce the rising trend of illegal diversion activities involving cigarettes and distilled spirits.

Criminal violations committed in these diversion schemes include violations of the Internal Revenue Code record keeping requirements, Federal Alcohol Administration Act permit requirements, Trafficking in Contraband Cigarettes Act, wire and/or mail fraud, money laundering, and conspiracy. ATF's goal is to achieve compliance with U.S. laws that will greatly reduce the illegal diversion of alcohol and tobacco products.

Diversion activities may defraud the United States of tax revenues, such as when non-tax-paid cigarettes and distilled spirits are fraudulently claimed for export markets (for which there is no tax liability) when in fact they may be illegally diverted back into the U.S. domestic market for sale where taxes should apply.

ATF pursues tax assessments against any domestic producer where the documentation offered to ATF to support the tax-free exportation of these products often is either counterfeit or absent. ATF considers administrative action or criminal prosecution against retailers, wholesalers, and manufacturers who knowingly supply smuggling organizations.

ATF participates in joint investigations with the Internal Revenue Service, U.S. Customs Service, Revenue Canada, and State and local law enforcement. These investigations focus on significant tobacco and distilled spirits-related criminal diversion activities in the United States and Canada. ATF is developing a Northeast border strategy to stop the large-scale diversion of alcohol, tobacco, and firearms to Canada.

The seizure of alcohol beverages and tobacco products by ATF agents and inspectors in 1997 has resulted in over $1.1 million being credited to the Treasury Forfeiture Fund. Through our efforts, several members of organized crime groups have been successfully prosecuted. Also, in fiscal year 1997, ATF accepted $405 thousand from distilleries and wholesalers to settle cases involving in illegal activity. There are currently 114 open diversion cases.

Illegal commerce also occurs when alcohol and tobacco are trafficked from States with a low excise tax to States with a high excise tax. As a result of this activity, ATF has experienced an unprecedented increase in alcohol and tobacco investigations. During fiscal year 1997, ATF recommended 70 defendants for prosecution. The possible Tobacco lawsuit settlement currently pending implementation, could include a significant tax increase on tobacco products. Such a tax increase could further exacerbate the tobacco diversion problems by increasing the profit to be made from excise tax evasion schemes.

In an effort to combat the widespread problem of alcohol and tobacco products diverted from legal destinations to illegal destinations, ATF created the Diversion Branch. Its responsibilities are to coordinate the national Alcohol and Tobacco Diversion and Trafficking Enforcement programs; set policies; monitor investigations; track intelligence; provide assistance to field personnel; assist in determining targets; seek assistance from Chief Counsel; maintain liaisons with foreign governments; coordinate with FINCEN to track and identify financial transactions generated by illegal activity; and to work closely with other law enforcement agencies.

Alcohol Trade Issues

The solidification of the European Union, the emergence of new Pacific Rim economies, and the movement of former Soviet States to market economies have had a major influence on the world economy. While this global economy provides new opportunities for U.S. producers of alcohol beverages, the changing political economic landscape also produces discriminatory trade barriers that limit market access to U.S. manufacturers.

ATF assists U.S. businesses in overcoming trade barriers through direct intervention with foreign governments by supporting the United States Trade Representative in negotiations concerning the North American Free Trade Agreement, and with the European Union and deliberations with the World Trade Organization. ATF also monitors and analyzes changes in foreign trade and political policies to anticipate and overcome potential barriers to U.S. interests. ATF represents the U.S. wine and brandy interests through membership and participation in the International Organization of Vine and Wine.

ATF assists the governments of these developing world market economies to establish effective revenue collection models through training courses offered in cooperation with the Department of State.

USE ELECTRONIC COMMERCE PROGRAM

In fiscal year 1997, many ATF applications and other forms were made available to the public on the Internet, as well as information, facts and statistics about ATF and the Regulated industry operations. Imaging operations were launched at the National Revenue Center to reduce storage and manual processing by ATF and to make statistical information more accessible to the public on-line.

In fiscal year 1998, we anticipate commencing the imaging of label approval files. ATF will also explore the feasibility of Optical Character Recognition forms for returns. Streamlined processing of industry reports and returns paves the way for more electronic submissions by ATF's customers.

PROTECT THE PUBLIC

ATF's Protect the Public activity includes goals to complement enforcement with training and prevention strategies through law enforcement and industry partnerships, and reduce public safety risk and consumer deception on regulated commodities. This is accomplished through three major programs: Assure the Integrity of the Products, People, and Companies in the Marketplace; Ensure Compliance With Laws and Regulations Through Education, Inspection, and Investigation; and Inform the Public.

ASSURE THE INTEGRITY OF THE PRODUCTS, PEOPLE, AND COMPANIES IN THE MARKETPLACE

This program ensures that commodities meet safety and product identity standards, and also focuses on keeping ineligible or prohibited persons out of the regulated industries.

Assuring Alcohol Product Integrity

ATF conducts a full range of regulatory functions in the alcohol beverage industry. The Federal Alcohol Administration Act, passed shortly after the repeal of Prohibition, coupled with certain Internal Revenue Code provisions, authorizes ATF to fully regulate the industry and to provide protection to consumers of alcohol beverages.

Each year, through the market basket sampling program, ATF collects thousands of alcohol products from the marketplace for several analyses by ATF laboratories. If any problems or unsafe conditions are found, they are investigated by ATF inspectors. ATF's laboratories work closely with counterparts at the U.S. Food and Drug Administration and with regulatory agencies in many foreign countries. The laboratories exchange information on existing and new analytical methods and on product contamination or adulteration issues discovered by governmental laboratories, both domestic and foreign. This level of cooperation enhances ATF's proactive stance to ensure that contaminated or adulterated products do not reach the U.S. marketplace. In 1997, ATF issued an advisory to consumers sensitive to alcohol that certain ginseng products contain alcohol.

Certificates of Label Approval

ATF is charged with protecting the consumer by preventing false or misleading claims on beverage labels and in advertising. The Bureau enforces the Government Health Warning Statement requirements, prohibits unbalanced and unsubstantiated health claims or misleading and deceptive claims, monitors industry advertising, and conducts investigations of suspected label fraud. ATF is working with industry to develop guidelines under which beverage alcohol products labels will contain consumer advisories to consult with an appropriate authority concerning the health effects of alcohol consumption. With limited exceptions, ATF issues Certificates of Label Approval for every alcohol beverage offered for sale in the United States. There are currently more than 1.5 million approved labels on file.

The Bureau remains strongly committed to customer service standards for label approval processing. At the end of fiscal year 1996, ATF mailed approximately 1,400 customer satisfaction surveys to industry members. In fiscal year 1997, the survey results were tabulated and the feedback provided will be used to streamline the efficiency of the label approval process. ATF and industry are working together to streamline the process by which flavoring ingredients used in beverage alcohol products are reported.

Deny Prohibited or Ineligible Persons Entry into Regulated Industries

Alcohol producers and wholesalers and other users of bulk alcohol are required to obtain a Federal permit. ATF reviews applications, bonds and other documents,

checks on the applicants' background, and conducts field investigations to determine eligibility.

The Gun Control Act of 1968 mandates that every manufacturer, importer, or dealer firearms obtain a Federal firearms license. ATF conducts inspections of applicants for Federal firearms licenses. During these inspections, ATF inspectors explain the Federal firearms laws and regulations, and determine if the applicants are bona fide candidates for a license. Where inspection reveals conflicts with State laws and local ordinances, inspectors make referrals to the appropriate regulatory agency; such as a zoning, occupancy, fire code, or law enforcement agency.

ATF recognizes the value of averting accidents and keeping explosives from the hands of those who are prohibited from possessing them. ATF enforcement provides a system of industry regulation, emphasizing a proactive approach to the problem. Similar to the firearms industry, all manufacturers, importers, and dealers are required to obtain a Federal license from ATF to conduct business and certain users of explosives are required to obtain a Federal permit.

ENSURING COMPLIANCE WITH LAWS AND REGULATIONS THROUGH EDUCATION, INSPECTION, AND INVESTIGATION

Once a person or entity is licensed or obtains a permit to conduct a regulated business, ATF monitors and enforces compliance. Inspections of firearms licensees focus on assuring that firearms are properly accounted for. In the explosives industry, the emphasis is on safe and secure storage of explosives as well as accountability. Alcohol and tobacco inspections check on compliance with product and trade practice provisions. Education initiatives such as industry seminars are utilized in all industries.

Federal Firearms Licenses and Inspections

Once a licensee is engaged in business, inspectors ensure the licensee's compliance with Federal laws and specific record keeping regulations. ATF enforces the licensing provisions of the Gun Control Act of 1968 by conducting on-premises inspections.

ATF implemented procedures for routinely providing the Chief Law Enforcement Officer in each jurisdiction information on the status of Federal Firearms Licensees in that area. Working in partnership with State and local law enforcement officials, ATF can effectively address licensing and illegal firearms trafficking problems.

Explosives Licenses/Permits and Inspections

ATF maintains a regular program of on-site inspections to ensure that explosives are stored in approved facilities, which are secure from theft and located at prescribed distances from inhabited buildings, railways, and roads. These inspections ensure that the licensees and permits keep accurate records of the receipt and disposition of explosive material which are verified through actual inventories of explosives in storage. Unusual discrepancies in records are referred immediately to the appropriate office for further investigation. Inspectors also conduct "forward trace" inquiries on persons who purchase explosives without benefit of a license or permit for "same day use with no overnight storage."

ATF initiated a program that requires each regulatory enforcement area office to notify the local fire department of licensees/permits storing explosive materials and the location of the storage. This was done to aid in minimizing accidental injury to fire officials fighting fires in buildings or structures that may house explosive materials.

Alcohol Industry Inspections

ATF inspects alcohol plants to assure that products are manufactured in keeping with approved formulas and processes, which assure that the actual product fulfills labeling and advertising claims. ATF investigates anti-competitive business practices between alcohol beverage suppliers and retailers to preserve the retailers' economic independence. Attention has focussed recently on the allegations of illegal wholesale payments to retailers to place their products on retailer shelves. The Bureau also investigates consumer complaints or tainted of adulterated alcohol beverages.

Industry Seminars

ATF conducts seminars for firearms and explosives permits and licensees, providing current information on the laws and regulations pertaining to these commodities. Through these seminars, ATF has fostered partnerships with firearms and explosive industry members to prevent tragedies stemming from the illegal use of firearms and explosives. Seminar attendees include industry officials, licensees, permits, and State and local law enforcement officials.

ATF also conducts seminars for alcohol and tobacco permits. These seminars focus on current market trends, compliance concerns, changes in laws, regulations or Bureau policies, and industry-raised issues. In partnership with the States, the seminars are conducted jointly with the State alcohol beverage control agencies to provide the total compliance enforcement picture to those in attendance. In fiscal year 1997, ATF conducted seven seminars reaching approximately 500 attendees. These seminars will continue throughout 1998 and the future.

National Firearms Act

The National Firearms Act requires that certain firearms be registered in what is known as the National Firearms Registration and Transfer Record. The firearms required to be registered are machine guns, silencers, short-barreled rifles, destructive devices, and certain concealable weapons classified as "any other weapons." ATF processes all applications to make, export, transfer, transport, and register National Firearms Act firearms, as well as notices of the National Firearms Act firearms manufactured or imported.

ATF's firearms technology experts provide expert technical support to ATF in all matters relating to the technical aspects of firearms and their classification under Federal laws. Most workload is devoted to supporting law enforcement investigations and programs. The remaining operations focus on technical support to regulatory operations, Chief Counsel, Office of Liaison and Public Information, other Federal agencies, State and local law enforcement, the firearms industry, and the general public.

Firearms and Ammunition Importation

ATF regulates the importation of firearms, ammunition, and other defense-related articles through the issuance of import permits.

ATF maintains close liaison with the Department of State to ensure that the permits it issues do not conflict with the foreign policy and national security interests of the United States. At the direction of the Department of State, ATF lifted the arms trade restrictions imposed against the Russian Federation. Additionally, the Department of State subsequently directed ATF to lift the arms trade restrictions imposed against the Ukraine, Georgia, Kazakstan, Kyrgyztan, Moldova, Turkmenistan, and Uzbekistan.

ATF is currently studying modified semiautomatic assault weapons to determine whether they are importable under the statutory sporting purpose test defined by the 1994 assault weapons law and the standards developed in 1989 by the ATF Working Group. Both the 1989 standards and the 1994 law identify semiautomatic assault rifles by their military features.

INFORM THE PUBLIC

This program publicizes information on ATF policies and regulations, product safety and theft prevention using the Internet, trade publications, seminars, and industry meetings. Such educational efforts promote field understanding and voluntary compliance with regulations. The program also works in partnership with others to better inform, advise, and educate the public.

Industry and State Partnerships

The Industry and State Partnerships Program focuses on working with the industry to help educate the public on ATF's regulated commodities.

The Bureau continues to expand partnerships with regulated industries and State governments. For example, the Office of Science and Technology initiated the Partnership Formula Approval Process, which was instituted for all beverage and flavor manufacturers after a successful trial program. This new business process was a result of a joint effort of ATF, the alcohol beverage industry, and the flavor industry. The result of this collective effort was a dramatic reduction in the average approval time required for flavored beverage alcohol products from eight weeks to less than two weeks. ATF and industry are currently working together to further streamline the process by which flavor ingredients used in beverage alcohol products are reported.

ATF established liaison with several governmental agencies working toward a common goal of public safety in the explosives industry. The Department of Transportation is supplying ATF with a list of its product approval numbers for use in determining the appropriate classification of explosive materials entering into commerce either through domestic production or through importation.

ATF furthered its relationship with industry associations such as the Institute of Manufacturers of Explosives and the American Pyrotechnic Association to develop an Advanced Explosives Training class for all ATF inspectors. The Institute of Man-

ufacturers of Explosives and the American Pyrotechnic Association have been instrumental in providing instruction to inspectors at ATF's training sessions. All classes are conducted at Ft. McClellan, Alabama. Since June 1997, ATF has trained approximately 71 inspectors. More training classes are scheduled for calendar year 1998.

ATF established relationships with the Federal Aviation Administration to explore the mutual regulatory oversight required in the interaction of commercial site operators for commercial space launchers. Launch site operators may include State government agencies, State-chartered entities, State sponsored entities, and commercial entities. At the request of the Federal Aviation Administration, ATF has been inspecting explosive storage magazines at specified major airports. ATF has established a relationship with the Consumer Products Safety Commission to more effectively regulate the fireworks industry. The Consumer Products Safety Commission and Department of Transportation have also been instrumental in providing instruction at the Advanced Explosives Training sessions. The Bureau is also exploring refinement of its relationship with the Mine Safety and Health Agency to further share information regarding explosives and the coal mining industry.

Because of the nature of Federal/State alcohol regulation rooted in the Twenty-First Amendment, ATF works closely with counterpart State liquor control and taxation agencies and industry groups. Current cooperative efforts focus on making ATF a center for industry-related information by making a wide range of data, including pictures of approved alcohol beverage labels, available through automated systems. The goal is to enable States to decrease parallel requirements and systems, to provide more efficient and timely access to data, and to reduce delays to industry in marketing new products. ATF continues to benefit from the cooperation of many State agencies in notifying retail liquor dealers of the liability for payment of Special Occupational Tax. Special Occupational Tax collections totaled $107 million for fiscal year 1997. The 60-year-old Pittman-Robertson Act levies a 10 percent excise tax on handgun sales and long guns and ammunition. In fiscal year 1997, ATF collaborated with the Department of the Interior to distribute $149 million from this tax to States for wildlife restoration projects.

INVESTMENTS IN INFORMATION TECHNOLOGY

In fiscal year 1995 and fiscal year 1996, ATF commissioned external reviews of our data communications network, information systems security, and ATF's overall information technology (IT) infrastructure. The studies, several of which were conducted by personnel from the National Security Agency, confirmed to ATF's Strategic Management Team the pressing need for investments supportive of upgrades in our IT environment.

In fiscal year 1996, ATF's Chief Information Officer (CIO), working with the membership of ATF's Information Resources Management (IRM) Council and with ATF's Information Technology Advisory Board, developed a concept for the acquisition and deployment of an Enterprise Systems Architecture (ESA). In fiscal year 1997, ATF created and staffed an ESA Program Office to work with the Information Technology Standards Working Group, a subcommittee of the IRM Council, in evaluating IT hardware and software offerings in order to define standards for ESA.

In early fiscal year 1997, the IRM Council endorsed and the Strategic Management Team in its role as ATF's Investment Review Board, funded the CIO's recommendation to implement Frame Relay Service for ATF's nation-wide "backbone" data communications network. The ESA Program Manager was able to identify and solicit bids for a "lease to purchase" acquisitions vehicle using an existing GSA contract. ATF was able to end operation of its mainframe at the National Data Center in Falling Waters, WV. Also, ATF, using the ESA hardware and software standards, was able to purchase and deploy 1,049 "ESA-compliant" personal computers to employee workstations in Bureau Headquarters and six of twenty-three Field Operations division offices in 58 city locations nationwide. In early fiscal year 1998, ATF awarded the ESA contract which calls for full deployment by mid-fiscal year 1998.

The Enterprise Systems Architecture is a mix of hardware and software that forms the infrastructure on which a suite of continually evolving application services will be installed to support ATF's Firearms, Arson and Explosives, Intelligence, Integrated Ballistics Identification, Collections, Financial Management, and Personnel and Performance Measurement systems.

The infrastructure consists of:

—a "backbone" communications network capable of transmitting and sharing data instantaneously within and among organizational segments via local, metropolitan, and wide area networks;

—deployment of a mix of desktop and notebook personal computers with simultaneous delivery of training in their use to ATF's approximately 4,000 employees;
—a standardized suite of software consisting of operating systems, telecommunications software, database management systems, applications development tools; and
—upgrades to ATF's mainframe computer so that it can continue to be the host platform for legacy applications, provide a base for client/server applications, and provide archival data storage for recovery purposes for all servers in the configuration.

In fiscal year 1998, ATF will be able to:
—Complete the deployment of the Enterprise Systems Architecture to over 4,000 employee workstations located in Bureau Headquarters and the remaining seventeen Field Operations division offices in 170 city locations nation-wide.
—Provide a standardized office suite, secure electronic mail service, virus detection, encryption, and secure transmissions of data communication via a nationwide area network supporting 228 ATF office locations.
—Provide authorized users secure electronic access to existing Bureau information systems as well as new Year 2000 date compliant systems in development or pilots.
—Provide a means of gathering, transmitting, collecting, analyzing, and sharing intelligence data nation-wide.

Another mission-critical part of ATF's information technology infrastructure is the Tactical Radio Communications Program. With supplemental funding authorized in fiscal year 1997, we were able to replace 900 mobile radios out of an inventory of 2,500 and 122 fixed stations out of an inventory of 410 nationwide.

TRAINING ACTIVITIES

With the support of This Committee, the Bureau has undertaken a number of new training initiatives and enhancements to existing training programs. We have allocated significant resources to support our training efforts and have focused primarily on arson, explosives, and firearms trafficking training projects.

One of our greatest assets is our ability to share that knowledge worldwide with law enforcement and industry personnel. We continue to offer a number of post-blast and general explosives proficiency training courses for both ATF personnel and State, local and international law enforcement personnel. In addition to these activities, the Bureau has developed, under the auspices of the Vice President's White House Committee on Aviation Security and in Concert with the Federal Aviation Administration, a series of four training videos on bomb threat management and improvised explosive device recognition. These videos will assist State, local, and other Federal, and airline industry personnel in improving airline security and airport safety throughout the country. With the support of the Department of State, we continue to conduct post-blast and firearms trafficking training for international law enforcement officers in both Eastern Europe and Latin America.

In fiscal year 1998, ATF has planned for regional training exercises in crisis management. These exercises will consist of realistic crisis scenarios and will allow us to refine the training provided to manage crisis situations.

In concert with the President's Youth Crime Gun Interdiction Initiative (YCGII), ATF has expanded its firearms trafficking training activities with a specific emphasis on agents and local law enforcement in the cities involved in the YCGII program. During fiscal year 1998, we will develop and conduct training on firearms trafficking for each of these sites as well as training on interstate nexus and prosecution issues.

In addition to our classroom activities, we continue to pursue a number of systemic changes designed to improve the quality and effectiveness of our training programs. Our training management database system now provides us with an unprecedented level of information on the amount and type of training provided to each ATF employee. We have undertaken a review of the training provided to new professional employees upon entering on duty with ATF. This review has led to a revised curriculum for training agents, inspectors and other professionals that emphasizes the complimentary and cooperative nature of the work these employees will be doing at ATF. We continue to pursue the instructor development system and the enhancement of the skills and techniques of ATF instructors which elevates the quality of the training courses ATF delivers. We recognize that training is an ongoing process, and are implementing systems designed to ensure that process is meaningful, effective, supports ATF's mission and will advance the ATF's efforts and those with whom we partner.

EQUAL EMPLOYMENT OPPORTUNITY

Career Development

ATF has continued to make progress in providing career development opportunities for women and minorities. Over the past ten years, ATF has seen significant increases in the representation of women and minorities throughout the work force. In 1987, women held 5.4 percent of GS 13–15 positions in ATF; in 1997, that figure was 17 percent. In 1987, minorities held only .01 percent of all GS 13–15 positions; in 1997, that figure was 19 percent. Minorities and women are also gaining greater representation in the SES arena. While they currently hold 18 percent of the SES positions, minorities and women comprise 34 percent of the SES candidate pool.

Recruitment and Hiring

The development of a strong and effective recruitment process is a top priority. For the first time in many years, ATF is in a hiring mode in order to backfill vacancies and keep pace with anticipated retirements. In fiscal year 1997, ATF launched an extensive recruitment program to attract highly qualified applicants reflecting the nation's diversity. Our announcements generated more than 6,000 applications. The first selections began in fiscal year 1997, and will continue into fiscal year 1998. We expect to be in a hiring mode for the next several years to fill these and other critical positions within ATF.

To provide our new employees with a firm footing in ATF, a new two-week orientation training program has been instituted, focusing on the various aspects of our work and mission, as well as ethics, equal opportunity, and diversity.

ATF Early Complaint Resolution Program (ECRP)

The Early Complaint Resolution Program was introduced in December, 1996, as an 18 month pilot program. The program employs outside mediation at the informal stage of the EEO complaint process to help employees and management resolve their differences quickly and efficiently in a non-adversarial setting. It offers an alternative to the traditional Equal Employment Opportunity formal process, which is often lengthy, costly, and contentious. From January 1997 to January 1998, eight cases have been referred for mediation. Five were resolved successfully. As word of the program's advantages spreads, we hope to draw a greater percentage of cases into mediation at the early stage of the complaint process. We have also trained approximately 20 ATF managers, attorneys, labor and employee relations specialists, and equal employment opportunity officials in mediation techniques to enable them to better perform their jobs and assist others in resolving disputes.

PROFESSIONAL REVIEW BOARD AND ATF/NTEU PARTNERSHIP

Illustrating our commitment to ensuring a fair and equitable workplace for our employees, ATF established a Professional Review Board (PRB) and the ATF/NTEU Partnership Council.

The PRB addresses issues of timeliness and consistency in disciplinary actions for all non-bargaining unit employees. Working with the Employee and Labor Relations Branch and Chief Counsel, the PRB (composed of senior Headquarters managers representing a cross section of the Bureau) determines and issues proposals for disciplinary and adverse actions resulting from Office of Inspection investigations.

The ATF/NTEU National Partnership Council, which meets on a quarterly basis, provides a forum to address and resolve issues of mutual concern between ATF management and the National Treasury Employees Union. In the almost 3 years since its inception, the National Council has worked together in reaching solutions to Bureau-wide issues. Feedback received from the facilitator who works with our Council, as well as those of other Federal agencies, indicates that ATF's partnership is one of the most productive and successful organizations of its type. Due largely to the success of the ATF/NTEU Partnership Council in headquarters, a local Partnership Council will also be established within the new National Revenue Center in Cincinnati, Ohio.

MANAGEMENT AND ADMINISTRATIVE EFFORTS

The Executive Staff and I chartered a group comprised of Headquarters and field senior managers to re-evaluate our identity as an agency, our mission, and how we work. The Focus Group also assessed our field structure and identified core processes. Most of the group's recommendations are being implemented in some form, and serve as a basis for a recent field restructuring proposal geared toward achieving a more effective and unified agency.

Further, as a result of information obtained from our stakeholders and customers, every directorate is now in the process of reviewing all services provided. This in-

volves looking for ways to improve programs, services, and several delivery processes. In addition, a "vulnerabilities review team" was formed to recommend ways to minimize the risk of critical weaknesses which could severely harm or destroy ATF, our employees, or others due to an oversight, inaction, or improper action. To their credit, the team identified (among other findings) inadequate controls and safeguards surrounding dynamic entries by ATF agents of residences or other facilities. Treasury's Office of Inspector General concurred with every team recommendation in a report of their independent review of our dynamic entry procedures and controls. Several other administrative and management initiatives are noteworthy. They are in the areas of security, field structure, accountability, and customer service plans.

As a result of the Oklahoma bombing, ATF was provided funding to enhance physical security, both in the field and at Bureau Headquarters. Immediate steps were taken to safeguard employees, and plans are underway to relocate Bureau Headquarters so that we may have more control over our security. In addition, after completion of a security needs study, a number of security enhancements have been implemented in our field installations. ATF has:

—Purchased and installed X-ray machines in 5 facilities where large volumes of mail and deliveries are processed;
—Provided additional guard service and upgraded CCTV coverage at the Headquarters building; and
—Upgraded security equipment at more than 70 field installations.

We will continue to upgrade security equipment at field installations. More than 20 upgrade projects are scheduled for completions during the next fiscal year.

ATF will also continue its drive to become a customer focused organization, which is directly in line with the guiding principles of our strategic plan:

—We created a new position in the Office of the Ombudsman to develop, support, and oversee a problem resolution program for external customers.
—We established the new position of Customer Service Specialist at the Firearms and Explosives Licensing Center in Atlanta and Technical Services in Cincinnati.
—Annually, we publish customer satisfaction reports telling our customers how well we did in meeting our previously published service standards.
—Several groups within ATF, including our labeling section, have sent their customers surveys, the results of which are used to improve service.

Other management support accomplishments include:

—continuing aggressive efforts to maintain an unqualified opinion on financial statements and to successfully address the Office of Inspector general fiscal year 1997 reportable conditions. To date, ATF has received three unqualified financial audit opinions;
—continuing refinement of the budget activity structure that has resulted in a stronger and clearer alignment with the ATF's strategic plan;
—assisting with the development of bureau-wide performance measures in accordance with the requirements contained in the Chief Financial Officers Act of 1990 and Government Performance and Results Act of 1993;
—renewing an agreement with the Department of Defense to access the automated Injury and Unemployment Compensation Tracking System, which will continue to yield new efficiencies and cost savings for the Bureau;
—continuing to meet the Prompt Payment standard of paying 98 percent of all invoices within 30 days;
—ending the fiscal year with a record number of contract actions completed and the dollars saved;
—starting the planning process for implementing a cost accounting system; and
—effectively converting administrative systems to support Headquarters restructuring.

This completes my statement. I will be happy to answer any questions you may have and I would like to express my sincere appreciation of the support that the Committee has provided us. I look forward to working with the Committee to further our mutual goals of safeguarding the public and reducing violent crime.

STATEMENT OF SENATOR FAIRCLOTH

Senator CAMPBELL. Before we continue, I think Mr. Merletti was next, Senator, do you have an opening statement?

Senator FAIRCLOTH. I do, if I may, please, Senator Campbell.

Senator CAMPBELL. Senator Faircloth, go ahead.

Senator FAIRCLOTH. Mr. Chairman, I want to thank you for the leadership you have given to this Treasury Appropriations Subcommittee, and I look forward to working with you in the years to come.

Mr. Chairman, as you know, I have very strong feelings about one of the agencies testifying before us this afternoon, the Internal Revenue Service.

I understand that Commissioner Rossotti will testify at a later date about the IRS budget as a whole, but given that Mr. Brown of the IRS Criminal Investigation Division is here today to discuss a part of the IRS budget, I want to take this opportunity to announce legislation I plan on offering to reduce the size of the IRS staff and, correspondingly, increase in size the Drug Enforcement Administration.

Later today, I will introduce the American Priorities Act to restructure these two agencies. It is my intention, Mr. Chairman, to offer a similar bill as a rider to this year's Treasury appropriation bill.

First, and most importantly, this bill corrects a serious imbalance in our national priorities by transferring one-third of the enforcement agents at the Internal Revenue Service to the Drug Enforcement Administration by January 1999, and, second, by the same date, the bill establishes a Cabinet-level department to marshal the resources necessary to adequately fight a real war on drugs. By so doing, we would affirm our resolve to the American people and those people abroad that this is a war we intend to win.

Over the last 5 years, drug use, which slowed in the 1980's and early 1990's, has increased with a vengeance. Particularly hard hit have been children. Schools are not safe. Children are born addicted to crack and other hard drugs, which are now cheap and plentiful throughout our Nation.

Drug-related violent crime is soaring. Most troubling of all has been the creation of a class of violent drug-addicted youth predators who terrorize our citizens with almost irrational and depraved violent crimes, from car-jacking in shopping malls to drive-by shootings on city streets and gang violence in schools.

Yet, what is the administration's reaction? It claims the so-called war on drugs cannot be easily won; that it will take 10 or more years to even begin to control the drug trade.

Such a piecemeal application of resources is not a recipe for victory. We need a bold and dramatic shift in Federal resources to end the drugs taking over our young people, and that is simply what is happening. If this is to be a true war on drugs, then we need a Desert Storm, not a Vietnam.

Where expertise has been developed within the IRS to fight drugs, that expertise will be retained, but shifted to an agency whose mission is fighting the war on drugs, not waging a war on law-abiding taxpayers. The IRS has over 100,000 employees, 46,000 of whom are enforcement officials.

Recently, congressional oversight has revealed the agency has excess enforcement resources which are not serving the public interest. Now, this is a congressional oversight committee. Instead, these excess resources are being engaged in the bullying of law-abiding American citizens, and it is no wonder that with over

100,000 employees, 46,000 of which are enforcement agents, the IRS is running out of things to do.

By contrast, the DEA, which is at the forefront of stemming the drug trade, has only 8,500 personnel, only one-half or less of whom are special agents, or about 4,000 DEA special agents as compared to 46,000 in enforcement in the IRS.

If the war on drugs is to be won, we need to radically reallocate our natural resources. I would suggest that moving about one-third of the IRS enforcement agents to the DEA is a good first step.

Further, as a member of the Treasury and General Government Appropriations Subcommittee, I plan to offer a version of this bill as a rider to this year's budget.

Mr. Chairman, I held hearings last December on IRS abuses. I can tell you from my own conversations with hundreds of North Carolina taxpayers that the American people live in fear of the IRS like no other agency. I only wish that the drug traffickers who plague our nations were as frightened.

Mr. Chairman, it is time that the Federal Government start investigating drug dealers as intensely and with equal intensity as the IRS investigates American taxpayers.

Thank you, Mr. Chairman.

Senator CAMPBELL. We will now proceed.

Director Merletti, since you are here to testify on behalf of the Secret Service and not the IRS, I think you are safe to proceed. [Laughter.]

Go.

STATEMENT OF LEWIS C. MERLETTI

Mr. MERLETTI. Thank you.

Mr. Chairman, Senator Kohl, Senator Faircloth, I am privileged to come before you today for the first time in my capacity as Director of the U.S. Secret Service.

Present with me today is my executive staff. Among them are my Deputy Director, Bruce Bowen; and my newly appointed Assistant Director for Administration, Jane Vezeris.

While this is my first appearance as Director, my career in the Secret Service spans 23 years, and I am well aware of the historically strong relationship between this committee and the Secret Service. This committee has been most supportive of the agency's people and their mission, and I intend on continuing my agency's tradition of working with all of its members, cooperatively and honestly.

As you know, my agency is charged with the vital mission of protecting the President, the Vice President, foreign heads of state, and others. It also contributes to the protection of the Nation's financial stability by ensuring the integrity of the Nation's currency, financial obligations, and institutions.

Having worked as a special agent in three field offices, and as a supervisor on the protective details of Presidents Ronald Reagan, George Bush, and Bill Clinton, I know firsthand that the protective and investigative missions appear distinct, but are, in fact, inseparable.

The skills developed by agents during their investigative and protective assignments are invaluable to both missions. Most, if not

all, of our training carries with it dual applicability. The Service's unique forensic and technical capabilities are also applied regularly to both our investigative and protective missions.

The Secret Service will work vigorously to meet the unique challenges posed by our protective and investigative missions. The fiscal year 1999 budget request totals $612.8 million and provides the funding necessary to meet those challenges.

New technologies present sophisticated threats to our protectees, and we continue to meet those challenges by developing and applying appropriate countermeasures to detect and neutralize those threats.

By studying assassination attempts worldwide, the Secret Service can assess an assassin's method of attack, weapons of choice, and motivations. These assessments influence our training, resource allocation, security methods, and equipment needs.

In fact, on February 9, 1998, just 17 days ago, a group of terrorists attacked a motorcade of President Shevardnadze of the Republic of Georgia. Within 3 days, a Secret Service team was dispatched to Tbilisi, Georgia, to evaluate that attack. The team returned this past weekend with information which will prove invaluable to our armored limousine project.

As a matter of fact, just made available to me were some photographs which we brought back from that assessment, and I offer these photos, if you would like to take a look at them.

Senator CAMPBELL. Why don't we have those brought up here while you are continuing your testimony.

Mr. MERLETTI. Further, our trip enforced our belief that we must stay current in technology, equipment, and training in order to deal with these threats.

Protection-related initiatives in our 1999 budget request are driven predominantly by three major factors. First, we must be continually vigilant in uncovering and investigating threats through a comprehensive intelligence program. New methods of attack and the emergence of new terrorist group demands additional resources to address this problem.

Second, as previously mentioned, we must combat the new threats with new technology. This will require not only acquiring the new technology itself, but also hiring the employees to operate it.

Third, and perhaps most significant, we must ensure that our agents are properly trained and are at their optimum physical and mental capacities.

This past year, agents working on permanent protective details were working hours the equivalent of one and one-half agents. Incredible work demands resulted in these agents often working weekends and weeks without days off, and longer periods without training. For the safety of both the protectees and agents, it is absolutely essential that protective details are properly staffed.

In fiscal year 1999, we must begin to prepare for the Presidential campaign in the year 2000. Absent an incumbent candidate, we anticipate, as you said, Mr. Chairman, a far greater number of candidates.

Our investigative mission is also being challenged. With the development of highly innovative technologies related to financial

transactions such as electronic banking, the Internet, and wireless telecommunications, there has emerged new methods of defrauding financial institutions, commercial enterprises, and individuals.

Here, too, in the investigative arena, we make every effort to study emerging technological trends in criminal activity in an effort to accurately assess the adequacy of our resources. We had hoped for the inclusion of several investigative initiatives, but we recognized that hard decisions had to be made by others, and, hopefully, we can address those initiatives in the future.

As an agency, we will meet our investigative and protective challenges, as we have throughout our 133-year history. We have been conducting criminal investigations since our inception in 1865 and have provided protection to the Presidents and others for nearly a century.

During the past 8 months that I have served as Director, I have become stronger in my long-held belief that the strength of the U.S. Secret Service lies in its people.

The Secret Service personnel are career civil servants. They carry out their duties with commitment, dedication, professionalism, and competence, day in and day out, in the United States and throughout the world. They take great pride in their agency's history and mission. For that, I am proud of them.

I again wish to thank this committee for its support and, as the Director, pledge my continued commitment and cooperation.

PREPARED STATEMENT

Mr. Chairman, with your permission, I am submitting a more detailed statement for the record and would be glad to answer your questions.

Senator CAMPBELL. Your complete statement will be included in the record.

[The statement follows:]

PREPARED STATEMENT OF LEWIS C. MERLETTI

Mr. Chairman and members of the Subcommittee, I am pleased to be here today. This is my first appearance before this Subcommittee as Director of the Secret Service and I want to let you know that my colleagues and I pledge to continue the forthright, effective, and cooperative working relationship that exists between the Subcommittee and the Service.

With me today, Mr. Chairman, are Bruce J. Bowen, Deputy Director; Jane E. Vezeris, Assistant Director for Administration; Brian L. Stafford, Assistant Director for Protective Operations; Stephen M. Sergek, Assistant Director for Protective Research; Kevin T. Foley, Assistant Director for Investigations; Stephen V. Iannucci, Deputy Assistant Director for Inspection; Charles N. DeVita, Assistant Director for Training; Terrence Samway, Assistant Director for Government Liaison and Public Affairs; and John Kelleher, Chief Counsel.

FISCAL YEAR 1999 APPROPRIATION REQUEST

The Service's fiscal year 1999 funding request totals $612.8 million and 5,042 FTE's, and is comprised of three separate appropriation accounts: the Salaries and Expenses account; the Acquisition, Construction, Improvement and Related Expenses account; and the Violent Crime Reduction Trust Fund account. In addition, funding is to be made available from the Department's Asset Forfeiture Fund. Together, the total funding requested is $23.3 million, or 4.0 percent, above the level of funding the Service received this fiscal year.

With this funding, the Service expects to further advance the attainment of its two mission goals, which are: to maintain the highest level of physical protection possible through the effective use of human resources, protective intelligence, risk

assessment, and technology; and to protect the integrity of the nation's financial systems through aggressive criminal investigations and assessing trends and patterns to identify preventive measures to counter systemic weaknesses.

SALARIES AND EXPENSES (S&E)

The Service's Salaries and Expenses appropriation request for fiscal year 1999 totals $606,357,000 and 5,042 FTE positions, of which $11,700,000 shall be derived from the Violent Crime Reduction Trust Fund (VCRTF). This is an increase of $25,676,000 and 42 FTE's over the fiscal year 1998 appropriated level of $580,681,000 and 5,000 FTE's. This request includes: $6,973,000 and 35 FTE's in program increases; $19,552,000 in upward adjustments necessary to maintain current program performance levels; a net increase of $323,000 transferred from the Acquisition, Construction, Improvement and Related Expenses (ACIRE) account; $7,732,000 in mandatory workload changes; 27 FTE's and $7,864,000 for initiative annualization; and $3,427,000 for a base program initiative. These increases are partially offset by $20,195,000 and 20 FTE's in non-recurring costs.

S&E PROGRAM CHANGES

The Service is requesting $5,049,000 and a total of 25 special agents for assignment to the Presidential, Vice Presidential, and Former Presidential Protective Divisions, and the Special Services Division. The threat of terrorist activity directed at the United States and its interests continue to be a significant concern to the Secret Service. As a result, the Service's security measures are continually reviewed and enhanced as necessary.

The Service is also requesting $1,924,000 and 10 FTE's for critical support in providing Protective Intelligence (PI) Advances required for protection of the President when he travels; the Foreign/Domestic Counterterrorism Program; and the Exceptional Case Study Project in direct support of the risk assessment strategy. These additional positions will enable the Intelligence Division to achieve its goal of conducting all Presidential PI advances, domestic and abroad.

ACQUISITION, CONSTRUCTION, IMPROVEMENT, AND RELATED EXPENSES (ACIRE)

The Service's fiscal year 1999 request for the Acquisition, Construction, Improvement, and Related Expenses (ACIRE) account is $6,445,000; a reduction of $2,354,000 from the fiscal year 1998 appropriation of $8,799,000.

Of this amount, $3,145,000 is required for technical support services, dual operations, moving services, Computer Aided Drawing and Design-Computer Aided Facility Management, building operations contractor support, health and fitness services, and lease-to-own copiers relative to the Service's headquarters relocation. Funding for these fiscal year 1999 requirements is the responsibility of the Service, and is not covered with the construction of the building through the GSA's Federal Buildings Fund.

Also budgeted under this account is $3,300,000 required for operations and maintenance of the physical plant of the Service's James J. Rowley Training Center.

RESULTS ACT

The Performance Report for fiscal year 1997 is included in the fiscal year 1999 budget request. This report presents actual fiscal year 1997 performance results.

Fiscal year 1997 was an extremely productive and demanding year for the Secret Service. The total number of trips for all protectees was higher than the number estimated. Although permanent protectee travel was slightly under that which was estimated, protection of foreign dignitaries was significantly higher. In addition to the normal demands of protection, other significant protection activities during the past fiscal year included the Presidential Inauguration, the Environmental Summit in New York City, the Denver Economic Summit, and the United Nations General Assembly.

With resources being redirected from last fiscal year's Presidential Campaign protective activities back to investigative areas, the Secret Service closed nearly 5,000 more criminal cases during fiscal year 1997 than in fiscal year 1996 for a total of 32,430 criminal cases closed. Continued emphasis on significant cases resulted in 13,649 arrests, an all-time high for the Secret Service. Further, the Secret Service Uniformed Division reported an additional 1,019 arrests.

In accordance with overall Treasury Department goals, the Secret Service continues to place an emphasis on the investigation of financial crime. These cases have a significant impact upon the public and financial institutions. During fiscal year

1997, a total of 2,462 financial institution fraud cases and 2,497 access device fraud cases were closed.

For fiscal year 1996, the dollar value of counterfeit money passed per million dollars of genuine currency was $88. For fiscal year 1997, the volume of counterfeit money passed dropped to $77 per million dollars of genuine currency. This drop means a substantial savings in dollars lost to counterfeiting for the American public.

We continue to focus our efforts to curb the counterfeiting of U.S. currency in foreign countries. A total of $2,938,170 in counterfeit currency was passed and $61,130,551 was seized in foreign countries during fiscal year 1997. This level of counterfeit currency passed is 52 percent below the level of last year.

PROTECTIVE PROGRAM

The Secret Service protective operations program provides security for the President, the Vice President and other dignitaries and designated individuals, as well as the protection of the White House complex and foreign missions within the Washington, D.C. area.

The President and Mrs. Clinton, and Vice President Gore, continued their extensive domestic travel schedules. The President's international travel included visits to 13 countries and Mrs. Clinton visited 10. The Vice President visited five countries last year. In addition, there were 87 foreign trips completed by the former Presidents and their spouses.

With the tremendous support and outstanding work performed by all of the staff within the Service, the Office of Protective Operations successfully coordinated a number of major protective events. The Presidential Inauguration in January 1997 is an excellent example of how the strong working relationships developed by the Service with other federal and local agencies ensured a safe and memorable day for the entire country. The Secret Service also provided security for 168 protectees at a number of major events such as the Caribbean Conference, Volunteer Summit, America's Summit, Economic Summit, Environmental Summit, and the 52nd annual United Nations General Assembly. These events take significant planning, deployment of resources, and coordination with local law enforcement to be successful.

To address the threats of international and domestic terrorism, each of these events required that the Service develop a comprehensive security plan. This placed a tremendous burden on the Service's resources. The Service's preparatory efforts contributed to the success of each and every event. Nevertheless, technological advances throughout the world only enhance the opportunities for terrorists activity. To meet these challenges, the Secret Service must continue its aggressive approach to integrating the latest developments in technology. The compromise of Presidential security is not an option for this agency or the nation.

The Secret Service was faced with a unique situation this past year when First Daughter Chelsea Clinton began her freshman year at Stanford University in California. The effort to provide appropriate and necessary security for Ms. Clinton under these circumstances is an ongoing challenge for the Service.

Progress was made on several projects that are underway for the White House complex, including the new White House Access Control system, construction of booths and barriers along Pennsylvania Avenue, and the installation of additional ballistic windows. At the Main Treasury Building and Annex, additional security cameras were installed to assist with alarm assessment. New perimeter alarms were installed at the New Executive Office Building. Additional security lighting was installed at the Vice President's residence at the Naval Observatory. Additionally, a new Service command post with enhanced security has been constructed at Vice President Gore's Carthage, Tennessee, residence. Currently, a new middle perimeter fence, a guard booth, and an upgraded alarm system are also being installed at this residence.

The Office of Protective Operations is also continuing a process to obtain state-of-the-art primary armored vehicles in support of the protective mission. A contractor has been selected to work with the Service on this effort.

During fiscal year 1999, the Service will commence planning for the 2000 Presidential Campaign and subsequent Inauguration which will take place in January 2001.

PROTECTIVE RESEARCH PROGRAM

The Office of Protective Research has oversight of the Service's protective intelligence, technical security, communications, and information technology resource management support for both the protective and investigative missions.

Protective intelligence serves a critical role in the Secret Service's protective mission. The Intelligence Division develops threat assessments in support of protectee

visits to domestic and foreign settings; provides warning indicators for specific and generalized threat environments; maintains liaison with the mental health, law enforcement, and intelligence communities; and conducts operational studies that are needed to stay at the forefront in the effort to predict the likelihood of danger.

The recently-completed Exceptional Case Study Project (ECSP) will enhance the Secret Service's ability to identify, assess, and manage persons who might pose a risk of violence toward its protectees. The ECSP also developed information relevant to the Service's risk assessment procedures, physical protection techniques and training methodologies. The study analyzed the thinking and behavior of persons known to have attacked, or approached with a weapon, a prominent public official or figure in the United States since 1949.

The Service continued to upgrade its Protective Intelligence Information Systems. This will enhance our capability to search text and report protective intelligence activity. Completion of the upgrade is scheduled for this fiscal year.

The technical security program was instrumental in completing the construction of the U.S. Secret Service Joint Operations Center and the Emergency Operations Center. The facility provides a centralized command, control, and communications center of all physical and electronic security for protection of the White House complex. The Emergency Operations Center provides a single coordination site for multiple-agency response during catastrophic or other emergency situations. This center includes a computerized radio communications system, emergency notification system, multiple-site monitoring of perimeter security systems, video teleconferencing, electronic event recording system, and event data collection and dissemination.

The Service has made significant progress in converting its information technology systems to ensure Year 2000 compliance. A major effort was completed with the conversion of the Financial Management and Accounting System. Also, conversion of 85 percent of all other major mainframe applications was completed. A Year 2000 compliant version of the Service's mainframe operating system is on target for completion by March 1998. The Service will soon establish a Year 2000 compliant mainframe test environment, and begin final certification of all mainframe systems. The Year 2000 compliance issue is the highest priority for the Service's Chief Information Officer (CIO).

The Service is in the final phase of transferring its wide area communications network to the Treasury Communications System (TCS) network. The TCS network architecture is designed to support the Service's planned future information technology architecture. All domestic field offices have been transitioned to TCS. Headquarters and overseas offices are scheduled to be completed by May 1998.

INVESTIGATIVE PROGRAM

The Secret Service's primary investigative mission is the safeguarding of the payment and financial systems of the United States. Historically, this has been accomplished through the enforcement of counterfeiting statutes to preserve the integrity of the United States' currency, coin, and financial obligations, and subsequently in enforcement efforts directed at ensuring the integrity of alternative payment and financial devices supplanting currency.

In modern day society, electronic and computer technologies facilitate many essential activities of everyday life. Their importance to the United States and global financial infrastructures is an illustration of just how dependent society has become on these innovations.

The world's economies continue to merge into one borderless and seamless web, powered by the development of impressive technologies like electronic banking and commerce, electronic payment systems, smart cards and digital currencies. Consequently, all facets of this nation's economy will become inextricably linked.

The Secret Service believes that its primary enforcement jurisdictions will continue to be crucially important in the 21st century. Thus, it has adopted a proactive approach to monitoring the development of powerful new technologies, and has continued to develop partnerships with industry to identify potential vulnerabilities to financial systems.

The Secret Service routinely encounters a number of "non-traditional" organized criminal groups operating on a transnational basis. These diversified criminal groups emanate from the West African, Asian, Middle Eastern, Central/South American, and Eastern European populations. The use of the computer has given these criminals a means to expand globally, coordinating their illicit activities and generating counterfeit and fictitious financial obligations such as Federal Reserve Notes, commercial checks, traveler's checks and credit cards. In his National Security Strategy for a New Century, President Clinton, recognized international organized

crime as a threat to vital national economic interests and pledged that the U.S. would use whatever means are necessary to secure its vital interests.

With the emerging technology and popularity of the Internet, the Secret Service has seen an alarming increase in identity fraud. Accordingly, the Internet will continue to have vulnerabilities which can allow confidential business information and sensitive personal information to be compromised. It is well known that the major Internet Service Providers (ISP's) are constantly updating security measures and have been receptive in establishing liaison with law enforcement in an effort to preserve the integrity of the Internet. Discussions are currently underway between the law enforcement and ISP communities to establish an association designed to share concerns and discuss security issues.

According to the President's Commission on Critical Infrastructure Protection, the U.S. financial system is central not only to domestic and global commerce but also to 10 million jobs and the daily lives of virtually all Americans. That system processes $3 trillion in daily payment transactions, represents $4.5 trillion of bank holdings and $8 trillion in capital and investments. It is increasingly dependent upon various telecommunication systems. Private industry is interested in utilizing the Internet to conduct electronic commerce. This may revolutionize the way business is conducted and continue to promote a more global economy. By the year 2000, there could be one billion users on the Internet. This equates to one billion potential customers. A number of banks are utilizing the Internet to offer on-line banking services. In addition, many retailers are using the Internet to allow customers access to goods and services in exchange for payment by credit card. Such transactions result in the electronic transfer not only of credit card numbers, but also of the subscriber's personal information.

Unfortunately, "hackers" have demonstrated an ability to access and download this information for account takeover schemes and other similar fraud. A criminal can literally take over someone's credit card or bank account, without the victim's knowledge. A criminal's fraudulent use of an individual's personal information to perpetrate a separate fraud can ruin the victims's credit history as well as thwart law enforcement's ability to investigate such activities. As a result, banks and credit card associations have been developing methods of encrypting credit card numbers and customer personal identification information to facilitate secure Internet payments. These precautionary measures notwithstanding, identify fraud remains a problem to the degree that persons with unauthorized knowledge of Internet access codes can still penetrate computer infrastructures.

The Secret Service, through its partnership with private industry, is examining new vulnerabilities associated with "smart cards." In Europe, smart cards used for pay telephones have already been counterfeited. A laptop computer was used to reprogram phone card chips to allow unlimited free calls. This type of chip manipulation is of serious concern to the Secret Service as we move closer to global implementation of this technology in the international financial arena.

Nigerian Advance Fee Fraud has arguably become the most lucrative financial crime committed by Nigerian criminals worldwide. Conservative estimates place the annual financial loss associated with these frauds in the hundreds of millions.

The Secret Service hosts an annual International Nigerian Crime Conference. The most recent conference held in Atlanta, Georgia, was attended by more than 700 representatives of law enforcement (including police officials from more than 20 countries) and the private sector. This typifies the "success through partnerships" philosophy adopted by law enforcement agencies to combat Nigerian and other organized criminal groups. The Secret Service operates under the belief that investigation, interdiction, public education, and partnerships are the building blocks for suppressing criminal activity.

As I mentioned earlier, United States currency is the currency of choice throughout the world. Maintaining confidence in the integrity of the U.S. Federal Reserve Note is of paramount importance to the nation.

Today, thanks in part to the Service's efforts, U.S. currency enjoys worldwide confidence and acceptance. The Federal Reserve estimates that of the $380 billion of U.S. currency circulating, about two-thirds ($250 billion) circulates abroad. GAO testified, before the House, that the willingness of foreigners to hold U.S. currency represents an interest free loan of over $10 billion annually to America's taxpayers. I am very proud of the key role the women and men of the Secret Service play in upholding that confidence and generating that savings.

Counterfeiting production methods have evolved over the years, from the traditional method of offset printing to color copiers and, more recently, to scanners, computers and inkjet printers. Today's counterfeiter with little training, skill or experience, can produce counterfeit currency with computer skills obtained through trial

and error and public information. Counterfeiters using computers could transmit quality images of U.S. currency anywhere, via the internet.

Of the domestic counterfeit currency printing operations suppressed during fiscal year 1997, 73 percent were inkjet in nature, as compared to 19 percent in fiscal year 1995. Currency counterfeiting through the use of computers is likely to increase, since these instruments of production are readily available and continue to improve.

The Secret Service's strategy in combating this counterfeiting trend is threefold. The first concerns legislative proposals. Secretary Rubin has asked the Justice Department to join Treasury in working with the United States Sentencing Commission to review the guideline ranges of imprisonment for counterfeiting cases. The Department will also address the issue of providing the Secret Service administrative forfeiture authority related to instrumentalities of counterfeiting.

The second part of the strategy involves cooperation with computer-related industries to suppress computer-generated counterfeiting of U.S. currency. A meeting with industry representatives is planned to discuss this issue to develop a working plan to identify technological solutions. The Secret Service sees this meeting as the first step in maintaining a continuing dialogue with computer hardware and software manufacturers.

The third part of the strategy involves a public education campaign highlighting the security features in the new currency. In addition, the importance of the public's scrutiny of the currency they receive, as well as the detection of counterfeit currency, will be stressed. We expect to undertake this campaign in conjunction with the introduction of the new $20 Bill.

ROWLEY TRAINING CENTER

The Service's Office of Training has consolidated the construction of the Administration and Classroom Buildings at the Rowley Training Center into a single, cost-effective project that will be presented for competitive bids this March. The anticipated construction start date is this summer, with completion expected next fall.

A state-of-the art close quarters tactical range building (shoot house) has been planned, designed, and approved. It will be offered for competitive construction bids early this spring.

The Service continues to utilize state-of-the-art modeling software for the Security and Incident Modeling Laboratory (SIMLAB) necessary for the development of realistic protective scenarios for training purposes. The Service has begun the SIMLAB pilot training programs for the Presidential Protective Division and the Vice Presidential Protective Division. A major benefit of the SIMLAB program is its utility in the risk assessment process. SIMLAB will ultimately enable the Service to tailor protective manpower to protective threats and to equip detail personnel with protective equipment that matches the expected threat.

The Secret Service has entered into a formal partnership with Johns Hopkins University to pursue cooperative projects that will enhance and validate the efficiency and effectiveness of the Service's law enforcement training. Faculty from Johns Hopkins will participate with the staff of the Rowley Training Center to provide comprehensive instruction in the most innovative police management principles and techniques. This partnership will have a direct impact on curriculum review and will result in modifications to the basic agent training course.

The Office of Training, in cooperation with the American Bankers Association, has designed and developed a pilot financial crimes training course for special agent personnel. In addition, two financial crimes seminars were presented exclusively to U.S. Attorneys from around the nation. Also, six Dignitary Protection Seminars were presented to command level police personnel from various agencies. All of these classes served to enhance investigative and protective cooperation throughout the law enforcement community. In addition, in cooperation with the U.S. Customs Service, the Secret Service has expanded its Counter Assault Team training program to include air interdiction training to accomplish our protective mission.

SECRET SERVICE HEADQUARTERS CONSOLIDATION

Work on the Service's new headquarters building is proceeding on schedule, with construction expected to be complete in the summer of 1999; occupancy is expected to begin shortly thereafter. Concrete slab and column construction is complete to the 7th floor, with the building expected to reach its full height of 110′ this spring. Once the concrete structure is in place, the addition of glass window panels and exterior brick will commence. Interior systems and drywall work will immediately follow the completion of the building's exterior. We are very much looking forward to having our own facility.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions that you or other members of the subcommittee may have.

STATEMENT OF SAMUEL H. BANKS

Senator CAMPBELL. And, last, Mr. Banks, if you would continue.

Mr. BANKS. Thank you, Mr. Chairman.

It is a pleasure to be here today before this subcommittee with Under Secretary Kelly and my colleagues.

The fiscal year 1999 budget request for the Customs Service totals $1.8 billion and 16,766 FTE's. This is an increase of about $125 million and 111 FTE's over the current year. About one-half of that increase is dedicated primarily to maintaining current levels of operation. The other one-half, $68 million and 31 FTE's, is going to be focused in the areas of narcotics, money laundering, integrity enhancement, child labor enforcement, and narcotics detection technology.

Customs' foremost priority continues to be narcotics interdiction. This agency is the first line of defense against drug smuggling into the United States, and the opportunities for smuggling are daunting.

Each and every day, Customs processes 1.2 million people at our ports. That is almost twice the population of the District of Columbia. Each year, we check 18 million commercial shipments and 4.5 million sea containers.

A truck crosses the Southwest border into the United States every 5 seconds. We enforce a myriad of trade laws on those people and goods coming into the country, and, incidentally, we collect over $22 billion in revenue, a 15-to-1 return on our S&E budget. We will also match our enforcement record against anyone, seizing 982,000 pounds of narcotics, $240 million in currency and negotiable instruments, and over 20,000 arrests last year.

How do we face such an enormous workload without a doubling in size? Basically by trying to make careful investment decisions.

With our proposed budget for 1999, $54 million will enable us to continue implementing our 5-year technology plan. That will deploy narcotics enforcement technology at high-risk sea and land border ports. We are going to expand our automated targeting system, a computerized system to help us focus in on those high-risk shipments, and to install large-scale mobile x rays and gamma ray equipment to help sort through and inspect the 129 million conveyances and the 850 billion dollars' worth of trade that crosses our border.

In fiscal year 1999, we will add 54 agents, intelligence analysts, and marine enforcement officers to target and interdict drug smuggling cells and enhance money laundering operations. This modest increase in resources will be focused only on the most high risk and high impact areas.

The sum of $6 million will be dedicated to implement the Integrity Assurance Program, which includes revamping our recruitment screening process, conducting polygraphs, running more undercover operations, and, last, $3 million is to initiate a child labor enforcement program. Mr. Chairman, we believe this is a modest, reasonable, responsible budget, and it will help us to ensure that the Nation's borders are protected.

If you talk to our officers in the field, I think you will find them to be incredibly dedicated and committed to the mission. We need to support them with the right tools, the automation, and the technology to sort through the massive cargo and humanity, to find those violators without impeding legitimate traffic. It is a big job, but not an impossible one.

We will do our best to ensure the money appropriated to us is well spent and that we give you and the American taxpayer the highest return on your investment.

Thank you very much.

PREPARED STATEMENT

Senator CAMPBELL. I thank you for your testimony, Mr. Banks. We will insert your complete statement in the record.

[The statement follows:]

PREPARED STATEMENT OF SAMUEL H. BANKS

Good afternoon, Mr. Chairman and Members of the Subcommittee. I am pleased to be here today and present to you Customs successes from the past year, the current strategies we are undertaking to accomplish our multi-faceted mission, and our fiscal year 1999 budget request. It is our goal over the next year to continue to build upon the excellent working relationship we have with this Committee. Your strong support of the Customs Service has been vital to our success as one of the Nation's primary border interdiction agencies.

While much of our past year's success is the direct result of the ingenuity, dedication and hard work of Customs employees, we have also enjoyed many successes working cooperatively with other Federal, state, and local law enforcement agencies, the trade community, and foreign governments. We will look to strengthen these important partnerships further in the future.

NARCOTICS ENFORCEMENT

Similar to past years, Customs remains in the forefront of our Nation's narcotics interdiction and investigative efforts. Our foremost priority continues to be narcotics interdiction. In fiscal year 1997, Customs nearly matched its all time high seizure record set in fiscal year 1996, by seizing 982,815 pounds of narcotics.

In order to meet the challenge of policing the Nation's borders against drugs, Customs has continued to develop and wed new technologies with conventional inspectional and investigative techniques. Last fiscal year, over 118 million automobiles, 9.3 million trucks, 321,000 railcars, and 4.5 million sea containers entered the United States creating an enormous window of opportunity for drug smugglers and a massive drug enforcement dilemma for Customs. Each year, drug smugglers probe for and exploit weaknesses in Customs enforcement shield in, around, over and under our air, land, and sea ports of entry. Drug Smuggling Organizations continue to diversify their smuggling routes and have increased the sophistication of their smuggling techniques. They have established elaborate front companies, both foreign and domestic, to facilitate the movement of illicit drugs; conspired with dock workers and baggage handlers to form internal conspiracies to circumvent the Customs inspection process; deployed stealth boats and sophisticated air drop procedures to go around established ports of entry; and established sizable spotter networks in and around our ports of entry to "pick and choose" smuggling times and routes.

In fiscal year 1997, Customs continued its efforts to fight smuggling along the Southern Tier of the U.S., including Puerto Rico and the Virgin Islands. Through Operations HARD LINE and GATEWAY, which were made possible with this Committee's support, we have hired, trained, and placed 677 new employees along the Southern border and Caribbean Basin.

In fiscal year 1997, Southwest border seizures under Operation HARD LINE were 33,106 pounds of cocaine, 602,549 pounds of marijuana, and 197 pounds of heroin. Operation GATEWAY, the multi-staged operation designed to address the air and maritime threat in Puerto Rico, the Virgin Islands, and their surrounding waters, also continued to show positive results. Since the start of the second year of operation, March 1, 1997, through January 31, 1998, GATEWAY has resulted in the sei-

zure of $3.4 million in currency, 16,693 pounds of cocaine, 376 pounds of marijuana, and 92 pounds of heroin.

Customs has developed an investigative strategy that focuses activity and resources in those areas where it is estimated the majority of the illegal drugs enter the U.S. The strategy also targets those areas where our intelligence indicates Drug Smuggling Organizations' "command and control" structures are centered. The approach is designed to enhance both internal and external cooperation and intelligence sharing, while maximizing the unique investigative and interdiction capabilities of Customs.

Industry partnerships

To assist in deterring narcotics smuggling, Customs developed and deployed a number of innovative programs and detection technologies that act as force multipliers to meet our enforcement goals. Customs continues to expand its Carrier Initiative Program (CIP) with the truck industry and with Southwest border railroads as well. This program is a joint effort by Customs and the transportation industry to reduce smuggling in commercial conveyances. Presently, 3,900 carriers (875 land, 110 air, and 2,915 sea) have signed agreements with Customs. Building on the CIP, Customs established the Business Anti-Smuggling Coalition (BASC) with Southwest border importers. In fiscal year 1997, information from these two programs resulted in 74 seizures totaling 12,700 pounds of narcotics. We believe these partnerships play an important role in combating narcotics smuggling. Last year alone, 43 percent of the cocaine seizures that were made by Customs as a result of prior intelligence, came from information that was provided to Customs by the trade community.

Building on the success of these programs, Customs has developed the Americas Counter Smuggling Initiative (ACSI), which will expand our anti-narcotics security programs with industry and government throughout Central and South America. This initiative is designed to: strengthen cooperative efforts with legitimate businesses involved in international trade; increase actionable intelligence on narcotics and contraband interdiction; increase participation in CIP and BASC; prevent narcotics from entering the U.S. via commercial cargo and conveyances; increase narcotics seizures throughout the region; disrupt smuggling by an aggressive attack on internal conspiracies; and force smugglers to use riskier methods such as air drops and speed boats. Beginning in January 1998, the Offices of Field Operations, Investigations, International Affairs, and Intelligence began detailing Customs officers to South America to assist exporters, carriers, manufacturers, and other businesses. These employees will perform security site surveys, develop and implement security programs, conduct post-seizure analyses, foster information exchange and follow up activities, and provide guidance on technology deployment and application to safeguard legitimate trade from being used to smuggle narcotics. Target countries include Venezuela, Colombia, Peru, Ecuador, Panama, Costa Rica, and Mexico.

Operation BRASS RING

Although Customs seized nearly 1 million pounds of illegal drugs in fiscal year 1997, more than all other Federal agencies combined, the quantity of cocaine seized nationwide dropped 12 percent and the amount of cocaine seized in Southwest border cargo dropped significantly last year. To address this, Customs is undertaking a tough, new approach in fiscal year 1998 to combat narcotics smuggling called Operation BRASS RING.

BRASS RING builds upon the enforcement momentum Customs has generated through the use of technology, information systems, and trained personnel. Forty-two high risk ports of entry along the Southern Tier and high threat airports and seaports have developed and begun implementing 180-day action plans which incorporate innovative approaches such as mobile blitz teams, cargo movement from small to larger locations which have x-ray technology, railroad inspections, and anti-smuggling spotter initiatives. BRASS RING is also innovative in that it was developed by field personnel and in partnership with the National Treasury Employees Union.

Technology

Technology plays an important role in all Customs counterdrug activities. It provides new capabilities to allow inspections to keep up with changing smuggling techniques, acts as a force multiplier, increases enforcement effectiveness and efficiency and allows us to cope with growing trade and traffic.

With the support of the Administration, Customs has developed a comprehensive and structured 5-year plan to deploy counterdrug technology to the ports of entry, subject to budget resources, to significantly increase the smugglers' risk of detection along the entire Southern Tier of the U.S. This technology includes: non-intrusive

technologies (e.g., fixed and mobile truck x-ray systems, gamma-ray inspection systems for trucks and railcars, and higher energy heavy pallet x-ray systems) to counter the entry of narcotics along the Southern Tier; technology for outbound currency and weapons at ports along the Southern tier; dedicated commuter lanes which depend on technologies such as voice recognition, biometric identification, "smart cards" (a chip on a credit card-sized card which stores information about the individual), and vehicle movement control technologies along the Southwest border; investigative, intelligence, and encrypted, digital, voice communications technology; and automated targeting systems. In addition, over the next five years, we intend to deploy similar non-intrusive inspection technology to high-risk airports and seaports which are not located along the Southern Tier, such as John F. Kennedy International Airport in New York and the Newark Seaport. Recent accomplishments in the development of new and larger-scale non-intrusive inspection systems will provide Customs with the opportunity for unprecedented improvement in the intensity and quantity of inbound inspections of cargo and conveyances.

Customs currently operates four truck x-ray systems in El Paso and Pharr, Texas and Otay Mesa and Calexico, California. In addition, one prototype mobile truck x-ray system and one prototype gamma-ray system are in place at Laredo and El Paso, Texas, respectively. The prototype gamma-ray system uses gamma-ray radiation to penetrate the structure of heavier-bodied trucks, such as propane tankers, to allow Customs to examine both the conveyance and some cargoes for the presence of contraband. Since the first truck x-ray system became operational in August 1995, this system, and the three others that have become operational since March 1997, have been involved in 150 drug seizures totaling over 38,000 pounds of narcotics. By December of 1998, Customs will have four additional fixed site truck x-ray systems operational in El Paso, Laredo, and Brownsville, Texas; and Nogales, Arizona.

We believe this type of technology is invaluable in enhancing Customs narcotics enforcement capabilities without impeding the flow of legitimate commercial traffic. The fixed site truck x-ray and mobile truck x-ray systems can inspect approximately eight full size tractor-trailer trucks per hour. The gamma-ray system can inspect 12–15 tractor-trailer trucks per hour. Both of these systems can inspect any vehicle that is legal for operation on public roadways.

Air and Marine Programs

In fiscal year 1997, the Customs Air Program contributed to the seizure of 51,908 pounds of cocaine, 64,595 pounds of marijuana and 50 pounds of heroin. It also continued assistance to Mexico in the air transit zone and to South American countries in the narcotics source zone.

Since the implementation of HARD LINE and the strengthening of the ports of entry, the marine threat has risen dramatically from its previous levels. Over the past few years, the Marine Program has been scaled back to focus Customs efforts on other methods of deterring narcotics smuggling. In fiscal year 1997, the Customs Marine Program contributed to the seizure of 31,538 pounds of cocaine, 25,040 pounds of marijuana, and 39 pounds of heroin. It is imperative to sustain this successful program.

The Customs National Marine Strategy places an emphasis on intelligence-driven interdiction operations and investigations. Smuggling methods have changed from the very simplistic (boats with bulk marijuana thrown on the decks or in cabins) to the very sophisticated (cleverly engineered hidden compartments, as well as air drops). The contraband has also changed from large, easily detectable cargoes of marijuana to smaller loads of cocaine. Customs future air and marine interdiction successes will be based on a flexible response in meeting new external challenges like those mentioned above.

Railroad inspections

In fiscal year 1997, Customs processed more than 320,000 rail cars at eight major crossings along the Southwest border—Laredo, Brownsville, Eagle Pass, Presidio and El Paso, Texas; Nogales, Arizona; and Calexico and San Ysidro, California. Approximately half this volume crossed at Laredo, Texas. In response to the emerging threat of narcotics smuggling via rail, Customs is increasing its intensive inspections of railroad equipment and is testing non-intrusive technology on railcars. Customs recently completed successful tests of the Vessel and Container Inspection System (VACIS), a gamma-ray imaging system that has been modified for use in the rail environment. Customs also plans to deploy 47 positions to increase rail inspections by Contraband Enforcement Teams, add rail inspection training to its existing Southern Border Interdiction Training course, and perform joint operations with other agencies.

Recently, Customs and Border Patrol officials met to coordinate joint inspection operations on Southwest border railcars. Since the summer of 1997, joint operations have been held at each of the eight major rail crossings with successful results. To date, these efforts have produced several marijuana seizures totaling more than 700 pounds as well as the discovery of 17 railcars with false compartments. Custom is also an active participant in a multi-agency working group formed by Attorney General Reno to address the threat of narcotics smuggling via rail.

MONEY LAUNDERING

Fiscal year 1997 was one of dynamic change in the investigative approach taken in the area of money laundering investigations and initiatives. As a result of the programs implemented in fiscal year 1997, Customs money laundering strategy is now more focused on the disruption and incapacitation of the two key business functions that are the lifeblood of most sophisticated international criminal organizations: laundering and investing the proceeds and profits of their criminal activity. Asset Removal Teams, undercover operations, training foreign counterparts, and the establishment of the Money Laundering Coordination Center, discussed below, have all contributed to improving our money laundering strategy.

In fiscal year 1997, our money laundering efforts resulted in seizures of $257 million in monetary instruments, most of which were related to narcotics trafficking. The Customs-led El Dorado Task Force in New York met with tremendous results in disrupting money laundering in the wire remitter industry. Using a combination of undercover operations and regulatory interventions, such as Geographic Targeting Orders (GTO's), the task force targeted 12 remitters that sent over $1.2 billion a year to South America—$800 million of it to Colombia. Their efforts have reduced the amounts remitted to Colombia by over 30 percent, driving the drug proceeds out of this system and contributing to the overall rise in the cost of laundering drug money.

On legislative and regulatory matters, Customs worked closely with the Department of Treasury and the Financial Crimes Enforcement Network, which resulted in several notices of proposed rule making for enhanced reporting for money services businesses, wire transfer record keeping requirements, and currency and monetary instruments reporting on foreign bank drafts.

For fiscal year 1998, our money laundering strategy will build upon the successes from the previous year. Our Money Laundering Coordination Center will become operational in fiscal year 1998 and will coordinate Customs nationwide undercover money laundering operations and follow-up investigations. Customs also plans to expand the use of covert undercover money laundering operations and continue to increase the use of non-traditional law enforcement methods, such as GTO's, in coordination with the Internal Revenue Service, the Department of Justice, the Financial Crimes Enforcement Network, and state and local law enforcement.

INTEGRITY

While there is no systemic problem of corruption at Customs, it is necessary to develop a strong integrity assurance program to counter perceived and potential threats of corruption. In fiscal year 1997, Customs began an enhanced integrity program to address these issues and redirected resources to strengthen the Office of Internal Affairs (IA). Of the 45 positions identified for this critical program, 35 have been filled or selections made. These employees will be devoted to the new Computer Analysis Division (which will perform forensics, analysis, and assessments of the integrity of automated systems), special operations, inspection and audit, and other similar functions. Activities, such as inspections and audits, will also increase current employee awareness of integrity issues.

Pending funding availability requested for fiscal year 1999, IA will also develop ways to complete background investigations more quickly with a higher degree of reliability, expand its own polygraph capability to address internal investigations of alleged misconduct, and acquire the specialized hardware and software to accommodate the FBI's change to electronic fingerprint technology. Working in concert with the State Department, IA plans to continue to accommodate other countries' requests for integrity and internal investigative training. This effort fosters better coordination with other countries' customs services, and the development of initiatives of mutual benefit in thwarting international corruption of law enforcement personnel. Customs is exploring changes to its hiring mechanisms to ensure that the highest level of integrity in its work force is maintained.

AUTOMATION

Customs has embarked on an aggressive strategy to improve its management of information technology in response to legislative mandates, such as the Clinger-Cohen Act and Government Performance and Results Act, the Federal Acquisition Streamlining Act, and guidance from OMB and GAO. Over the past year, Customs has developed an investment management process that considers the risks, costs and benefits associated with potential information technology (IT) investments. This provides a systematic process within which Customs Investment Review Board (IRB) can make funding decisions and exercise oversight of Customs IT projects. The process instills discipline by making the business sponsors responsible for IT projects, by integrating business and technical risk considerations, and by ensuring adherence to Customs systems development guidelines.

In addition, major Customs IT projects are under ongoing review by the Treasury IRB in order to ensure that these investments meet the criteria of the Clinger-Cohen Act and the goals and strategies of the Treasury Department. One such project, the Automated Commercial Environment (ACE) is reviewed by the Treasury IRB every month. The Treasury IRB evaluates the project's progress against established milestones and performance measures, reviews and approves Customs IRB's ACE funding release requests, approves every status report that is sent to GAO and Congress, and ensures that ACE, as well as Customs enterprise architecture follows GAO's best practices.

Also during the past year, Customs has undertaken an extensive self-examination of how its IT operations support business needs. This effort has enabled Customs to establish the foundation for developing both an enterprise architecture, which defines how information systems and applications support business needs, as well as a technical architecture describing the components of the IT infrastructure. As a result of this effort, Customs has strengthened its ability to develop comprehensive and integrated IT infrastructure assessments and budget proposals. Further, Customs is proceeding with an effort to more fully develop an enterprise architecture and a process for renewing that architecture in conformance with Treasury guidelines and industry best practices.

Finally, Customs is intensively attacking the problem of Year 2000 compliance. Customs recognizes the gravity of the situation of our automated trade and enforcement systems, on which the trade and other law enforcement agencies depend, if our systems are not ready for the Year 2000. Customs is devoting considerable attention and has shifted resources to support the necessary renovation and testing of IT systems; the replacement of IT software, hardware and telecommunications that is not capable of operating in the Year 2000; and in addressing Year 2000 problems in such non-IT areas as laboratory equipment, x-ray machines, and building infrastructure.

While much work needs to be done and many problems can be anticipated, the Year 2000 conversion effort is meeting with some success. As of January, Customs is slightly ahead of schedule for ensuring that mainframe mission critical trade, enforcement and administrative systems are renovated and tested by October 1998. Further, these efforts are currently within budget, although Customs remains concerned about the rising costs of IT professionals in the current tight labor market.

TRADE COMPLIANCE

Through a complete redesign of the trade process and a focus on key industries and importers, Customs has made good progress toward attaining its goal of 90 percent overall compliance and 95 percent compliance for Primary Focus Industries (PFI). PFI's are industries which are of sufficient trade sensitivity to warrant a heightened degree of attention by Customs with respect to imported goods. The agency also has been able to sustain a close to 99 percent duty collection rate.

However, with the substantial growth in world trade, coupled with limited resources, it is becoming clear that Customs ability to meet or sustain all of the goals for trade compliance is increasingly challenged. Customs is continuing to move forward by constantly refocusing its resources on the vital industries and imports, but has adjusted its performance targets to reflect limited resources.

For fiscal year 1998, Customs has set forth an ambitious agenda. In the trade compliance area, Customs will initiate a number of positive initiatives. Included are: an initial prototype of elements of the modernization of Customs automated commercial operations at three land border ports; finalizing and implementing new drawback regulations to tighten control over this program (which was previously identified as a Federal Managers Financial Integrity Act weakness); instituting multi-port compliance efforts focused on three compliance areas (bearings, production equipment, and gloves) to see if greater organizational focus will result in high-

er levels of compliance sooner; continuing the informed compliance program with more focus on high impact areas; and continuing efforts to improve Customs compliance measurement program. Trade Compliance also plans to expand the account based-approach to 150 accounts; initiate over 100 compliance assessments of companies; develop a similar compliance approach for Mexican and Canadian NAFTA goods; increase focus on our international cooperation efforts with other countries, the World Trade Organization, and the World Customs Organization; and finally continue improvement of our commercial financial systems to improve compliance with the Chief Financial Officers (CFO) Act. The $11 million appropriated to the Department of Treasury's Automation Enhancement account in fiscal year 1998, and subsequently transferred to Customs, will continue efforts to modernize Customs automated commercial operations.

Account Management

Customs has prototyped the concept of Account Management. The Account Manager is assigned an account (importer) or group of accounts and is responsible for overseeing the efficient application of Customs processes to the account(s). By viewing import practices from a corporate or account level, Customs can craft strategies to maximize compliance which are reflective of developing business practices. The importer benefits by having a single point of contact within Customs.

In fiscal year 1997, Customs had 25 full-time National Account Managers in place and a growing list of accounts participating in the program. In addition, the prototype of Port Account Management was implemented. The Port Account concept also focuses on major accounts—importers with annual trade value in excess of $10 million. Successful prototyping has led to a January 1998 expansion of the program which now numbers 120 accounts, and further expansion is planned for later in 1998. The Account Management approach, as exemplified by these programs, is the cornerstone for the future of the trade compliance process. While analysis of trade patterns and determination of compliance levels for industries and countries of origin will remain critical for effective operations, an account focus is the means for implementing strategies resulting from such analysis. Customs believes that the vast majority of companies who import goods wish to do so in compliance with laws, rules, and regulations. The Account approach enables Customs to assist compliant companies to maintain compliance, while better using its resources and processes to focus on non-compliant activities. Such a focus will enable Customs to maximize the enforcement of laws and further develop risk management.

PASSENGER

In fiscal year 1997, the performance target of 60 percent of the arriving flights providing Customs advance passenger information was met, and Customs continued to attain a 5 minute or less processing rate for 95 percent of arriving air passengers. Informed compliance projects continued with the establishment of additional self-service informational kiosks at 12 airport departure lounges, production of brief television public service announcements for 8 airport television networks, and AM radio loops at the land borders.

Passenger targeting and identification were enhanced through continued airport analytical unit training, additional automation improvements to the Advance Passenger Information System (APIS), and improvements to APIS primary processing screens. Port Quality Improvement Committees (PQIC's), which are multi-agency, empowered teams established to increase coordination on local passenger processing issues, are in place at numerous land border ports and airports, and are used to coordinate operations between government agencies and industry.

Over the next year, improvements will be made to the passenger compliance measurement program in the commercial air program area. Customs will continue efforts to obtain advance passenger information for 65 percent of all international flights. This will be accomplished by working with various airlines and the Immigration and Naturalization Service.

Customs will also continue to expand automated targeting capabilities; test or install several new technologies, such as automated license plate readers, at the land borders; and continue efforts to increase the compliance levels of non-willful violators. Most arriving persons choose to be compliant when information for compliance is easily available. If the number of inadvertent violations can be significantly reduced, inspectional resources can focus more fully on serious violators.

OUTBOUND

In fiscal year 1997, the Outbound Process made significant outbound interdictions of currency, stolen vehicles, and Exodus violations. Outbound seized more than $55

million in undeclared outbound currency. The majority of undeclared currency going out of the U.S. involved proceeds from illicit activities, with the majority being proceeds from narcotics smuggling into the U.S. Outbound also recovered 2,119 stolen vehicles worth an estimated $35.3 million. In fiscal year 1997, Customs Exodus Program, an intensified enforcement program intended to intercept illegal exportation of strategic technology and data, interdicted 1,034 shipments of weapons, munitions, and critical technology illegally leaving the United States, valued at more than $59 million.

Customs will continue to enforce a wide range of international laws related to illegal trafficking in materials and technologies which threaten U.S. national and economic security and impact on U.S. foreign policy.

To the extent that funds are available, Customs will work to improve the compliance measurement program started last year; continue to work with the trade community to address their concerns in conjunction with the development of the Automated Export System (AES) which will capture all export information; initiate an automated export license system in AES; standardize used car export procedures; and further a number of initiatives to deal with willful violators (e.g., test new outbound examination facilities funded by increased appropriations). Outbound will also evaluate new technologies; support Department of Defense and Department of Energy foreign export control programs; evaluate a stolen vehicle initiative started in the Port of Miami; work with our intelligence units to improve outbound currency interdictions; and continue efforts to implement a credible antiterrorism program in conjunction with the airlines, airport authorities and with the other Federal agencies tasked with this responsibility.

Antiterrorism

In fiscal year 1997, Customs received $62.3 million for antiterrorism initiatives to be used to meet the recommendations issued by the White House Commission on Aviation Safety and Security. To date, Customs has filled 137 of the 140 positions (100 inspectors, 33 agents, 6 intelligence analysts, and 1 technical support position) authorized under the antiterrorism legislation. One hundred inspectors and 10 special agent positions have been assigned to 14 of the largest international airports. In addition, 20 special agents and the intelligence research specialists are working jointly with the Federal Bureau of Investigation and the Central Intelligence Agency at both field and Headquarters locations.

To support efforts to screen baggage and cargo at international airports, $35 million was specifically authorized to purchase equipment under this appropriation. Of this amount, $26.4 million has been designated to purchase joint-use equipment that can be shared with airports, airlines and cargo authorities. Equipment procurement will be accomplished over a three year period. Planned use of the funding includes the acquisition of: mobile x-ray vans with explosive and radiation detection technology; tool trucks; mail x-ray systems; explosive particle detectors; and radiation detection pagers. Also, for joint-use with airport entities, the heavy cargo pallet x-ray will be tested in July 1998 in Miami, Florida.

An additional $16 million is available to further develop the Automated Targeting System (ATS) to identify cargo shipments that may pose terrorist threats. A prototype test of this system is scheduled to take place at New York's JFK Airport in June 1998.

Since October 1, 1997, Customs made many significant interdictions that support aviation safety and security at 17 international airports that have received resources under this initiative. Customs has assisted in three terrorist related arrests, made 65 firearm seizures in baggage and cargo, and made 56 seizures of violative shipments of hazardous materials and dangerous goods that would have been placed on aircraft.

FISCAL YEAR 1999 BUDGET REQUEST

Customs proposed appropriation for fiscal year 1999 totals $1,804,025,000 and 16,766 Full Time Equivalent (FTE) positions.

Budget Highlights

Our Narcotics and Money Laundering Strategy will provide essential resources which will enhance our investigative and intelligence capabilities while enabling Customs to better anticipate and respond to changes in drug smuggling behavior. The $5 million and 27 FTE requested will provide us with additional personnel and investigative assets needed to exploit seizures made at the border and effectively identify and disrupt the transportation and distribution cells of Drug Smuggling Organizations (DSO's) within the U.S.

The Customs Integrity Assurance Program (CIAP) Initiative of $6 million requested for fiscal year 1999 will allow Customs to conduct more special operations in partnership with other Federal agencies, place a much stronger emphasis on intelligence and the analysis of investigative data, and increase contract and computer fraud investigations. In addition, Customs will change the process for hiring law enforcement officers by requiring increased emphasis on pre-employment screening.

The quality recruitment component of the initiative will insure that applicants of the highest quality and integrity are hired by using written tests, suitability assessments, structured interviews, and the redesigned pre-employment process. Customs will use the requested funds to develop ways to expedite background investigations with a higher degree of reliability, expand polygraph capability in order to address internal investigations of alleged misconduct, and acquire specialized hardware and software to accommodate the FBI's change to electronic fingerprint technology.

In order to fully implement an effective child labor enforcement plan, Customs is requesting $3 million and 4 FTE (7 positions) to fund the three main components of the Child Labor Enforcement Initiative:

The first component is the establishment of the Child Labor Command Center which will be located at Customs headquarters and staffed by two special agents and two intelligence research specialists. The Command Center will act as a clearinghouse for information and provide 24 hour "hotline" telephone service to a wide variety of audiences in order to provide a venue for allegations about prohibited importations. The second component is the increase in crucial foreign staffing by assigning three additional special agents to areas where forced child labor is the most common. The third component is Customs engagement in outreach programs with the trade, government, and non-government organizations, taken in concert with in-house programs, to achieve successful enforcement of the Sanders amendment to Customs fiscal year 1998 appropriations act (Public Law 105–61, 111 Stat. 1316).

Our fiscal year 1999 budget request also includes a $54 million Non-Intrusive Inspection Technology Initiative for land and sea ports. As growth in trade and traffic volumes increase, tools to rapidly screen and comprehensively inspect arriving conveyances and cargo must be deployed. This technology will allow Customs to effectively target and detect high-risk traffic without impeding the flow of legitimate commercial traffic. This funding will allow Customs to acquire two higher energy container inspection systems for sea-going containers ($10 million), 12 automated targeting systems for Land and Sea Ports ($3.4 million), and multiple technologies for the Southern land border ($40.6 million). This investment in proven technologies is essential and critical for enabling Customs to blend state-of-the-art equipment with law enforcement intelligence, thereby enhancing counter-narcotics capability.

Congress' fiscal year 1998 enactment of $9.5 million for the Land Border Automation Initiative is recurred in this budget. This will have the ancillary benefit of improving targeting of arriving vehicles for enforcement purposes. This is the second phase of a joint initiative with INS which began in fiscal year 1998. The automated targeting systems, license plate readers, and Treasury Enforcement Communications System replacement program, will free up inspectors to do more careful visual screening and questioning of vehicle occupants for enforcement purposes, thereby resulting in increases in detections of violations and subsequent seizures and arrests.

In addition, Customs is requesting $7.252 million and 80 FTE as part of base resources in response to several mandates. The National Performance Review (NPR) goal to clear most travelers on the southern border in 30 minutes or less and on the northern border in 20 minutes or less by the year 2000 for land border travelers by vehicle, and the legislative mandate contained in the Illegal Immigration Reform and Immigrant Responsibility Act (IIRIRA) of 1996 account for $4.185 million and 46 FTE. The NPR customer service goal is a joint initiative with the Immigration and Naturalization Service (INS) and the Department of Agriculture. The Immigration law authorizes Customs and INS to cover all primary lanes during peak processing hours and in equal numbers. This staffing and the staffing requested for the new border crossings, ($2.706 million/30 FTE) will help to support both requirements. Finally, the adjustments reflect the completion of resource levels for the requirement to staff an additional dedicated commuter lane in El Paso, Texas ($0.361 million/4 FTE).

While we have much to be proud of, Customs is still keenly aware of the importance of continuing to explore new and innovative strategies for improving its performance in protecting our Nation's borders. This concludes my statement for the record. Thank you again for this opportunity to appear before the Committee.

OFFICE OF PROFESSIONAL RESPONSIBILITY

Senator CAMPBELL. Let me ask a few questions, and I think we may have some that we will submit, if you could answer them for the record if we do not get to all of them.

Secretary Kelly, the Office of Professional Responsibility was created by Congress as a way for the Department to maintain oversight over the Treasury law enforcement bureaus. Funding was provided in the fiscal year 1997 and again in 1998 for this office, and I am told that it has been somewhat slowgoing. Could you tell me the current status of that Office of Professional Responsibility?

Mr. KELLY. Yes, Mr. Chairman; we have brought six people on board to date, two administrative personnel and four professional-level people.

Again, the process was certainly much slower than we wanted it to be. It was partly as a result of receiving a very large number of applications. We had over 400 applications for the positions that we advertised for. So just processing those——

Senator CAMPBELL. What was the total manpower you were going to include?

Mr. KELLY. A total of 13.

Senator CAMPBELL. Thirteen.

Mr. KELLY. We are underway now. Hopefully, we will have all of the positions filled by the end of the fiscal year.

Senator CAMPBELL. During consideration of the fiscal year 1998 bill, you requested and received additional statutory authority to allow the Department to become involved in the International Law Enforcement Training Academies. And how is that effort going?

Mr. KELLY. Yes, Mr. Chairman; I think it is going well.

We have established ILEA South, we call it, which is in Panama. We had our first class in Panama started in November. Thirty-two midlevel law enforcement personnel from Central America attended the course. The feedback was very positive. I went to the graduation, and I was very much impressed with the quality of the personnel and their enthusiasm.

Senator CAMPBELL. How long was the course?

Mr. KELLY. The course was 6 weeks, I believe.

Senator CAMPBELL. Is there mostly American instructors?

Mr. KELLY. American instructors from both Justice and the Treasury Department.

We are now going to have another class starting March 9. It is also going to be in Panama. It is going to be in a hotel. We are looking still for a permanent home. We hope to have the facility located at Howard Air Force Base, which, of course, is in a transition stage now.

It is contingent on negotiations between the Department of State, DOD, and Panama to get a central antinarcotics training center located there as well, but we are asking for an additional five FTE's for ILEA South because the FLETC staff is, quite frankly, thin, and we believe we need that type of permanent cadre to be in place as far as ILEA South is concerned.

We also look to staff the Deputy Director's position in ILEA Budapest. We have an agreement with both the State Department and the Justice Department to have kind of rotating positions in

the two current ILEA's and a third one proposed for Thailand. So we think that those positions would be necessary to help us move this initiative forward.

Senator CAMPBELL. If we could name the Panama Center the Noriega Center, there would be some poetic in that, wouldn't there? I am just kidding.

OFFICE OF FOREIGN ASSETS CONTROL

The Office of Foreign Assets Control falls also under your jurisdiction, and you are requesting additional employees for that function. Could you tell me where they will be located and primarily what they will be doing?

Mr. KELLY. Yes, Mr. Chairman; their workload has gone up significantly in the last 2-year period. They are particularly involved in the specialty-designated narcotics traffickers initiative coming out of Colombia. We look to put at least two OFAC personnel in Colombia to help do on-the-ground research——

Senator CAMPBELL. These would be Americans?

Mr. KELLY. Yes, sir.

And, in general, to address investigations and research that has to be in the area of narcotics-trafficking.

Senator CAMPBELL. You are getting good cooperation with the Colombian authorities and not too much danger to the agents?

Mr. KELLY. No; and this has been very much supported by the Ambassador and the DCM there. They are looking for OFAC involvement.

DEATH OF CUSTOMS AGENT

Senator CAMPBELL. During the first week of January, there was a very unfortunate accident that ultimately resulted in the death of a U.S. Customs agent. I do not know if that question should be for you, but perhaps you can answer it.

I understood that the agent was unable to get critical medical attention in a timely manner. Can you comment on that?

Mr. KELLY. Yes; I can. I actually responded to the scene, and Commissioner Banks and I went to the funeral of Manny Zurita, who was the senior special agent.

The accident occurred about 8:30 at night off the coast of the Virgin Islands. The boat ran into a rock, and three agents were seriously injured. Two others were injured attempting to rescue them.

They ultimately made their way to shore, through other boats, on the Virgin Islands. There was a determination made there that the most seriously injured agent, Agent Zurita, should be medivaced to Puerto Rico. He was, in fact, medivaced. This took, of course, a period of time, several hours, and he was not medivaced until about 11:30 at night.

He went to Central Medical Hospital in San Juan, PR. That hospital is a trauma center, but it has a very high volume of patients to deal with. It is the only trauma center on the island of Puerto Rico.

As a result, a certain triage regime was in place when they arrived, and there was some delay in giving adequate medical attention.

We arrived the next day. Agent Zurita had been treated, but one of the other agents who had a compound fracture of his arm had not yet been treated. That was about 4 o'clock in the afternoon. So it was an area of concern for us.

Senator CAMPBELL. Was the area where they were picked up an isolated location, too?

Mr. KELLY. Yes; it was an isolated location. Again, it was in the dark of night. They had to be brought back to the Virgin Islands and then medivaced by helicopter to Puerto Rico.

They did not arrive at the hospital until about 2 o'clock in the morning. This is roughly a 6-hour period of time where they were not in an adequate medical facility, and then, again, they ran into the triage issue.

Senator CAMPBELL. Well, they are dangerous jobs. That is for sure, and we certainly appreciate the courage of people that put their life on the line for us in doing that.

Let me ask a couple of questions. From that experience, have you learned anything that would help in a future operation, if we have any future agents hurt like that or injured in firefights and so on?

Mr. KELLY. I think one of the things that we have to look at is having adequate medical personnel close by during all operations. These are dangerous operations by their very nature, being out on the water in high-speed boats at night, for instance, and I think Secret Service and ATF, they do a fine job in having medical personnel available.

One of the things—all the time, when they are doing, say, tactical operations—I think one of the areas that we want to explore is having, let us say, Customs personnel trained as emergency medical technicians, a certain ratio.

Senator CAMPBELL. As it is now, do the other members of these teams have training in anything other than pure first aid?

Mr. KELLY. To the best of my knowledge, no. There may be some that are trained, but not as a result of a program.

Senator CAMPBELL. Let me go on to Mr. Magaw.

GANG RESISTANCE EDUCATION AND TRAINING PROGRAM

I am aware of the Gang Resistance Education and Training Program [GREAT]. It has been very successful in Colorado, but we have some questions about how local jurisdictions can get involved with that.

Mr. MAGAW. Well, local jurisdictions that are interested in the program—and we do spread the information around so that there would not be any major jurisdictions or even minor jurisdictions unaware—would be aware of the GREAT Program, and they make application. There is a set of guidelines because there are only a reasonable number——

Senator CAMPBELL. So you notify them first that there are applications available——

Mr. MAGAW. Yes, sir.

Senator CAMPBELL [continuing]. And that they can get involved in it?

Mr. MAGAW. Yes, sir; and we are forwarding those out almost daily upon request, and it is being passed along by instructors.

There are almost 3,000 officers trained throughout the country and some in every State, and, as you know, last year we had trained quite a few in your State.

Senator CAMPBELL. Sure.

Mr. MAGAW. And as a result, the word spreads.

Historically, GREAT was in Phoenix and in FLETC where police officers were trained. And now, because of the demand, we are spreading to three other areas in the country. We are going to go to a regional approach. There will be a unit in Oregon, one in Philadelphia, in Orange County, FL, and then the ones that we have now. We hope to continually meet those needs. Some of those cities are funded by their own funds, and then others are funded by the Federal moneys.

Senator CAMPBELL. As you know, there is sort of an exodus of some of the inner-city gangs going out on Indian reservations that are in the proximity of the cities. We have talked about that before.

Are tribal groups also aware of the GREAT Program, and can they avail themselves to the GREAT Program?

Mr. MAGAW. Are you talking about on an Indian reservation, sir?

Senator CAMPBELL. Yes; on Indian reservations.

Mr. MAGAW. Yes, sir; in fact, we are in the process of arranging for and training Indian police officers to perform just that task.

Senator CAMPBELL. Thank you.

FEDERAL FIREARMS LICENSE SECURITY MEASURES

At the January ATF briefing to the firearms industry in Las Vegas, the ATF representatives said at that time that they were preparing some recommendations to license firearms dealers regarding acceptable security measures. When will the committee be able to get a copy of that, and when would it be available to the industry?

Mr. MAGAW. I know it is fairly near final preparation. It will go to the Office of Enforcement and Treasury within a short period of time and be out. I cannot put weeks or months on it, but it is not going to be very long. I would say 60 to 90 days.

Senator CAMPBELL. Sixty to ninety, perhaps. OK. I would appreciate it if the committee could get a copy of that when it is done.

Mr. MAGAW. Yes, sir.

Senator CAMPBELL. Thank you.

Was the industry involved in helping develop those guidelines?

Mr. MAGAW. The industry is conferred with in this particular matter and has been conferred with in the 4 years since I have been here on virtually every firearms or explosive or alcohol study that we are doing.

Senator CAMPBELL. So these are basically guidelines, but not necessarily mandatory recommendations. Is that the way you see it?

Mr. MAGAW. That is right. They are basically guidelines, not mandatory.

They are being drawn up from our experience in collecting information from police departments and others as to how these weapons are being stolen and what are some of the security things that they can take.

Senator CAMPBELL. All right. Thank you.

Perhaps I should ask Under Secretary Kelly. Does the Department of the Treasury have plans to impose mandatory security requirements on firearms dealers or other industry entities?

Mr. KELLY. Not to my knowledge. Obviously, we await recommendations from ATF, but, to my knowledge, there is no such plan.

Senator CAMPBELL. Thank you.

YEAR 2000 PROGRAM

Also, Mr. Magaw, funding was provided last year to deal with costs associated with the year 2000 transition problem. Currently, it is called Y2K. Could you tell me a little bit about that conversion in your agencies?

Mr. MAGAW. Well, the Y2K program is actually very rigid and strict. A timeline program has been set up by Treasury looking at all of their bureaus and units, and we have been involved from the very beginning with that. There are schedules to meet, and we are meeting each one of those schedules. We anticipate that we will meet every requirement in preparation for that Y2K.

REVENUE COLLECTION

Senator CAMPBELL. Most people think of ATF only in terms of guns or tobacco, I guess, but there are a lot of responsibilities. I know you are more aware of them than I am, including the collection of alcohol and tobacco taxes, how much revenue was generated by the ATF in fiscal year 1997, and do you have a projection for fiscal year 1998?

Mr. MAGAW. In fiscal year 1997, there was $12.7 billion.

Senator CAMPBELL. $12.7 billion?

Mr. MAGAW. Yes; and we expect that this year, it will go slightly up to about $12.8 billion.

Senator CAMPBELL. Thank you.

BIRMINGHAM BOMBING

This question, you might not be able to speak about in public, but in your responsibility for the investigations of bombings—I read the newspaper like everybody else, and the recent incident in Birmingham, the man that was identified, it appears that he was the bomber. I know there is pretty much a nationwide search for him. Is there anything you can share with the committee in dealing with that search?

Mr. MAGAW. What I can share, clearly, is that all of the law enforcement entities are working very, very close together. We are using different units of ATF, different units of local police departments, and the FBI. There are over 3,000 leads that have come in.

Senator CAMPBELL. Are there calls that they think they saw him or things of that nature?

Mr. MAGAW. Well, bits and pieces of information, and as they are pieced together and as places are located where this individual and maybe some others involved, where they lived, where they stored things, and as we have probable cause to get search warrants—and when I say we, I am talking all of law enforcement as a team——

Senator CAMPBELL. Sure.

Mr. MAGAW [continuing]. And those searches take place, additional evidence is showing up. So that, the case is progressing very, very well.

Senator CAMPBELL. Thank you.

I would like to go to Mr. Merletti now. This is your first appearance here before the committee. I am sure you have had an interesting first few months in your new appointment.

Your budget request includes a significant amount of additional protection and protective intelligence, $7 million and 35 new employees, for about a 2-percent increase. These, I assume, are very necessary, and you have looked into that. Can you justify those?

Mr. MERLETTI. Yes, Mr. Chairman; staffing on both the Presidential and Vice Presidential protective divisions has been increased due to operational changes necessary to meet an increased threat level.

We in the Secret Service continually reexamine ourselves, and look at how we do our business. We compare ourselves to other worldwide security agencies, and we take a look at what the threat level is.

We found that on the President and Vice President's details, every employee, every FTE, was working the equivalent of one and one-half FTE's. This was having an impact in our ability to train. It was also having an impact as far as our overall effectiveness.

We actually had agents that would go for 30 days out of district, away from home, often in foreign countries, without a day off, return and go back out for a few more weeks. We believe that the impact was largely felt in the area of training.

The training that we provide to the protective details, we term as "perishable training"; if you are not continually redoing these phases of training they will not be second nature.

We ask our agents to do things that may really go against what all natural instinct would be when having to step in the line of fire. So those perishable skills are necessary, and the repetitive nature of training is absolutely essential.

Senator CAMPBELL. Perishable skills, that is an interesting way to describe it.

Was that an American car?

Mr. MERLETTI. That is a Mercedes Benz. That is an armored limo.

Senator CAMPBELL. That was armored, and it blew up? I mean, it got torn apart that——

Mr. MERLETTI. I would like to explain a bit about that particular photograph. As you can see, there was quite a bit of damage done to the front end of the limousine.

Senator CAMPBELL. Yes; right under the hood. It looks like something was set directly under the hood.

Mr. MERLETTI. Well, what actually happened, it was struck with two rocket-propelled grenades, two antitank devices, and the limousine was immediately crippled. It burst into flames.

Senator CAMPBELL. This is a different car. Was this in the entourage?

Mr. MERLETTI. That was the security vehicle, and as you can see, it has been impacted with hundreds of rounds of small arms fire.

Senator CAMPBELL. Small arms.

ARMORED LIMOUSINES

Mr. MERLETTI. But the pertinent point on the limousine is that the limousine failed. That is a commercially available limousine, and they are produced as any normal car is off the assembly line, and then armored subsequent to production.

Our limousines are built differently. Ours are made from the ground up, and that allows us to add extra mass, extra armament. Also, because we build them from the ground up, we are able to protect the critical electronic components that keep a car running. That particular car, that is what happened there. The electronics were knocked out, and the engine failed.

We are able to relocate those critical electronic compartments into our armored compartment. Our vehicle probably would have survived that attack and would have driven away.

Senator CAMPBELL. You order them from the factory with certain specifications, and they build them at the factory for you?

Mr. MERLETTI. Right. There is quite a bit of R&D that goes into it. In fact, it is years of R&D, and then we work as a team in partnership with the corporation that wins the contract and build the vehicle in that manner, but it takes years.

Four vehicles that we are in the process of designing now, the first one will be delivered in the year 2000, and the other three will be delivered in 2001.

Senator CAMPBELL. These limos, we appropriated the moneys in 1997 and 1998 for that R&D that you talked about for the new technology that is going to go into them, in the manufacture of the cars, and we are going to provide additional money in 1999. Will that complete the project for these new series of cars?

Mr. MERLETTI. No; that will not complete the project. There is a shortfall in total funding required of about $3 million. It is a unique funding situation, and we are working with the Treasury Department to resolve that issue.

Senator CAMPBELL. I am inclined to think that costs a little more than your average car, wouldn't you?

Mr. MERLETTI. A few dollars more.

TRAVEL BUDGET

Senator CAMPBELL. Last year, there was a problem with closing out the Secret Service travel account. I know you guys have it tough, particularly in a Presidential year when you have everybody running and you have to change your plans almost hourly because of late commitments. I know the difficulty of doing that, and I admire you for trying to keep up with it, but that resulted in the need to transfer funds from other accounts to cover those expenses.

Your staff has been very forthright about the need for change and to more closely account for the travel expenses. Having heard that already, it is already clear that we might not be providing enough money this year. Would you like to comment on that?

Mr. MERLETTI. Yes; we are looking at a possible shortfall this year, also, and we have——

Senator CAMPBELL. What is your estimate for the shortfall?

Mr. MERLETTI. At this time, I would say about a $13 million shortfall.

I would like to address that issue a little further. Right after I became Director, I personally came to visit with you, and we did discuss that I would see that we put into effect certain mechanisms that would have better accountability and sooner notification. In this instance, we certainly have come to you right when we noticed a problem.

Senator CAMPBELL. Yes; you have.

Mr. MERLETTI. The increase in travel is due not to one particular set of circumstances, but a convergence of circumstances.

No. 1, we are doing business differently. There are new threats that we have developed new countermeasures for. This new technology requires that we send the people out that have the expertise to implement this technology as we travel on our protective assignments. So we do have an increase in the number of people going out on our stops.

There is also an overall increase in the number of protectee stops, and that is due to a number of factors.

We see that a number of foreign heads of states have been visiting the United States, and we have been trying to get an idea as to why that is occurring. Some of the poignant factors that are coming back to us are that the United States is now the sole superpower. Also, the strength of our economy is such that foreign leaders want to visit the United States in order to enter into business ventures in order to boost economies. It is now a global economy.

They are also coming in order to foster international cooperation, and a number of them come here to take advantage of our medical treatment.

So these foreign heads of state that visit our country, we do protect them, and they travel throughout the United States. We have, again, no control of them coming or the number of times that they come.

Eighty percent of our travel budget is directly in support of protection. Twenty percent is nonprotective, and we are certainly able to have total control of it, but the 80 percent is really not within our control.

It is the convergence of those factors that impact us, as well as increased costs that are associated with travel, such as hotel rates and car rentals.

For example, we took a look at the hotel rates in New York City, a place visited by the majority of our protectees, especially foreign heads of state. Last year, we found that the hotel rates increased by approximately 20 percent. So it is factors such as this, all of the added expenses that go into travel, that are all coming together, and are causing a the shortfall in our budget.

PRIVILEGE FOR NOT GIVING TESTIMONY

Senator CAMPBELL. This may be somewhat rhetorical, but you have been pretty much unwavering in your position that Secret Service agents should not be compelled to testify with what they may or may not have seen on duty.

I am certainly a big supporter of the Secret Service, and it brings to mind, what kind of protections they would have if they did and how far we should go with that. Should an agent remain silent, for instance, if he saw a crime being committed while he was on duty?

Do you have any comments about where you fall out on that, when they should and should not testify?

Mr. MERLETTI. Absolutely, Mr. Chairman.

The word that is being used, is "privilege"—I like to use the word "confidentiality." I firmly believe that we should have a privilege or confidentiality. However, that would not apply when it comes to a crime. We are not talking about crime.

What we are discussing is everyday activity and conversations that we overhear or see because of our proximity to our protectees. Proximity is the heart and soul of our protective mission. We are there, as I said earlier, to step into the line of fire. If we would be moved away from our protectees, that would have a critical impact upon our ability to perform our mission.

MEXICO'S NEW DRUG FORCE

Senator CAMPBELL. Thank you.

Mr. Banks, in today's Washington Post, there is an article that talks about the training of Mexico's new drug force, which once trained in the United States. They will then return to Mexico to become a force in that country's counternarcotics efforts. What is your view on that? Do you think that is going to be successful?

Mr. BANKS. Well, I think it can be successful. I read it this morning, Mr. Chairman, and I think it could become a force in that country's counternarcotics efforts.

We have actually worked with the military. I went down to Camp Lejeune with the military, and we worked with a number of countries in Central and South America to kind of look at coordinating and integrating both their military and police organizations so that they are prepared to interact not just within one nation, but even across borders. I have to say that I was fairly well impressed by the efforts being made to integrate those operations.

CUSTOM'S WEAPONS RESTRICTIONS IN MEXICO

Senator CAMPBELL. What is the disposition of our agents carrying weapons in Mexico?

Mr. BANKS. We still cannot carry weapons in Mexico.

Senator CAMPBELL. Still cannot do it?

Mr. BANKS. No, sir.

NONINTRUSIVE INSPECTION TECHNOLOGY

Senator CAMPBELL. There is a $54 million request in your budget for 1999 on nonintrusive inspection technology. I have seen some of these things, and I will tell you what, they are marvelous. ONDCP, I have seen a number of them.

I was talking to somebody today that said they have developed one that does not measure particles in the air and it does not do it by x ray, but it has a way of—you have to be a scientist just to understand this thing, but, apparently, all chemicals when they are subjected to some kind of rays, gamma rays, whatever it is——

Mr. BANKS. Gamma rays.

Senator CAMPBELL [continuing]. Leaves a signature of what that chemical is, and these people who are developing this have a way of measuring, for instance, what is inside of a landmine, what kind

of chemicals are in there. It sounds like something we ought to look into.

Mr. BANKS. It is astounding. We are even looking at a potassium-40 reader because marijuana has large amounts of potassium in it. You can actually gauge that chemically.

There is a lot of spectrograph type——

Senator CAMPBELL. It has got some dope in it, too, huh?

Mr. BANKS. Yes; it does.

NARCOTICS AND MONEY LAUNDERING STRATEGY

Senator CAMPBELL. OK, because I know the traffickers are very good at identifying our resources. More power to us.

There is also a $5 million request for narcotics and money laundering strategy to enhance this Customs investigation and intelligence capabilities. Can you describe that a little bit to us?

Mr. BANKS. We are trying to put the agents heavily into money laundering efforts and some undercover narcotics areas. There is also a piece for intelligence research specialists, and what we have done is establish what we call intelligence collection and analysis teams, especially along that Southwest border to try to integrate tactical intelligence. So they are going there.

And then the last piece of it is on the marine program, and you mentioned what happened in the Virgin Islands with the marine program. The work is dangerous, difficult.

The threat is increasing significantly in the Small Boat Program. The Coast Guard and Customs have really done a decent job of stopping a lot of commercial traffic into Puerto Rico, but now we are getting lots of small boats in from Haiti and the Dominican Republic. So it is a real growth area in terms of the threat.

SEIZURE RATE

Senator CAMPBELL. Mr. Kelly's testimony mentioned that 1 million pounds of illegal drugs were seized in fiscal year 1997 through programs like Hard Line and Gateway, but, as I understand it, the seized cocaine has dropped by 12 percent. Do you have any reasoning for that?

Mr. BANKS. Our numbers in 1997 did indeed drop by 12 percent nationally, and it actually dropped in the Miami area. That is, south Florida is where we saw the drop.

Senator CAMPBELL. Yes.

Mr. BANKS. A lot of people have read the article and think that our cocaine seizures dropped on the Southwest border, and that is not the case. They changed where the traffickers were moving the drugs.

Senator CAMPBELL. Yes; they flow like water. The land of least resistance is where they move to.

Mr. BANKS. That is absolutely correct.

Now, in south Florida, the concern we have is that they are moving into smaller, deeper concealed loads. We are seeing that.

Some of it is in Coast Guard seizures. Their seizures tripled last year in the transit zone. This is actually where we would like to have the seizures happen. We would like to take the drugs before they ever get to the U.S. shores, and we have got our air program

and marine program working in tandem with the Coast Guard. So they have done a dynamite job.

So there is no question. The flux is changing continually.

METHAMPHETAMINE SEIZURES

Senator CAMPBELL. Well, I live in the Southwest, and one of the things we are seeing is a huge increase of methamphetamines, as you probably know, and it is also in small lots and apparently very small, movable labs, and all the problems. Are you seizing more of the chemicals along the border that go into the manufacture of meth, or are you seeing more methamphetamines that have already been concocted?

Mr. BANKS. Actually, we are seizing more of both.

Senator CAMPBELL. Both.

Mr. BANKS. This year, we seized more in the first 4 months than we seized all of last year in both methamphetamine and ephedrine, which is the precursor to make methamphetamine, and it is not huge amounts. So far, this year, we have made 154 seizures of 655 pounds. Most of it——

Senator CAMPBELL. Say that again?

Mr. BANKS. 655 pounds.

Most of it is in California; however, we have seized some in New Mexico and some, the smallest amount, in Arizona.

Senator CAMPBELL. The border States.

Mr. BANKS. It is primarily toward the border States and toward the West. Yes, sir.

Senator CAMPBELL. OK, I thank you.

Senator Kohl, did you have some additional questions?

Senator KOHL. Yes; thank you, Mr. Chairman.

Senator CAMPBELL. I may have touched on a few already, but feel free.

CHILD LABOR ENFORCEMENT

Senator KOHL. I just want to ask a few Customs questions, if I may.

I was pleased to work last year with Senator Harkin on a provision that requires Customs to include forced or indentured child labor and its interpretation of section 307 of the Smoot-Hawley Tariff Act of 1930.

Senator Harkin had hoped to be here today to ask some questions about child labor enforcement and the new proposal to establish a child labor command center, but he had to be in South Korea. So I have included some of his questions with my own.

It is my understanding that Customs is requesting $3 million and four employees to establish a child labor command center. Would you please explain what services this center will provide and how the center will be staffed?

Mr. BANKS. Senator Kohl, first of all, I would like to say this is going to be a very difficult issue to enforce, since it is so difficult to try to determine what products entering the United States are made by child labor. I do not want to underestimate the complexity and the difficulty of doing this job.

The way that we are trying to approach this is in a very collaborative way, especially where there are a lot of advocacy groups out

there that have information in terms of where child labor products might exist.

The first thing that we are setting up is the child labor command center in Washington. We have two intelligence research specialists, and we are setting up a hotline to be able to get basic information to do research. For instance, we were provided some information about hand-knotted rugs, especially out of central Asia. We are trying to do analysis with that information to see if we can trace it down to find an actual violation that we can take legal action on in the United States.

The second thing that we are looking to do with that money is we would like to station three agents overseas to specifically work on trying to identify factories, products, and locations where child labor occurs, so that we can attempt to work with overseas countries on this issue to see if we can gain their support.

And then, last, we will try to build a coalition with labor groups, and with child protection groups. It is kind of like trying to deal with the clothing and the wearing apparel that is made by groups. You cannot do it through law enforcement alone. This has got to be a coalition of groups trying to do this, and there has got to be a lot of education on it. There has to be a lot of communication and building support on a broad basis if we are truly going to impact this issue of products being made by child labor coming into this country.

Senator KOHL. All right. Well, then——

Mr. BANKS. I can provide you a more detailed breakdown in terms of exactly our strategy and our tactics for approaching this issue.

[The information follows:]

CHILD LABOR COMMAND CENTER

The Child Labor Command Center will be staffed by two Special agents and two Intelligence Research analysts. In addition, verification teams drawn from the field offices will be used to travel to suspect countries and examine suspect child labor facilities to confirm information as it is developed by the command center. The command center will also conduct conferences within the government and with private industry to sensitize these groups to this issue and to facilitate the development of information. Confidential sources will be used in connection with the development of information about criminal involvement in child labor. In addition, the foreign offices covering countries suspected of exporting forced child labor made products to the United States will receive additional staffing.

An outreach program is planned in order to build support on a broad based initiative to identify violative sources of merchandise. This program is also expected to support United States importers' efforts to preempt such merchandise from reaching the United States. A public relations effort will involve various media. Including international and national websites, foreign and domestic toll-free numbers, advertisements in the Asian Wall Street Journal and other foreign public service announcements.

Senator KOHL. What can Customs agents actually do in the event that they identify forced child labor?

Mr. BANKS. What we can actually do is detain the products, and then if we can prove that the products were made by forced labor, then we can take action to seize those products.

CUSTOMS AUTHORITY

Senator KOHL. Is there a need to expand the authority of Customs?

Mr. BANKS. I think that our first point on this is we would like to gain better experience in trying to work with coalitions to prove the case so that we can do something about it. We would like to make sure we can operate effectively in this area before we would ask for additional resources.

CHILD LABOR HOTLINE

Senator KOHL. All right. Let us talk about the hotline in the United States for the public to report child labor importation violations. How will consumers be able to identify goods purchased with forced child labor?

Mr. BANKS. Well, it is going to be very difficult for consumers to specifically identify it.

One of the things that we are talking about, obviously, is to meet with manufacturers and to get them to perhaps tag their goods to say that this is not made with child labor. If we can, we will try to get them to label some of their products and get those manufacturers to take a stronger measures, because they actually do factory visits for quality control and a variety of other things. We would like them to go out and check to ensure that those factories that they are buying their products from are not using child labor to manufacture those products.

Senator KOHL. Well, on that point, don't we already have documentation of goods produced with forced child labor entering the U.S. market?

For example, in the case of hand-knotted carpets, shouldn't we be focusing our efforts on preventing these goods from entering the U.S. market in the first place?

For example, does Customs plan on communicating with the hand-knotted carpet importers about abusive child labor in their industry?

Mr. BANKS. Yes, sir.

Senator KOHL. What do you——

Mr. BANKS. That is precisely part of what we need to do: an education effort.

The difficulty is in trying to convert a generic allegation into actual evidence that we can take a legal action on. That has been the most difficult part of this whole enforcement area.

CONFISCATING FORCED CHILD LABOR PRODUCTS

Senator KOHL. What kind of additional information does Customs need to bring a case against importers who violate the law or to issue a detention order on goods made with forced child labor?

Mr. BANKS. The first issue is that we have to prove the case that it was made by forced labor, which is very difficult to do. As soon as we have our people go out and start going into factories, they disappear.

We go out and we do this kind of work on textile transshipment. We can go in and take a look at the types of equipment that they have, and we can look at their employment records and even their payroll records, but with child labor, you cannot just do that. It is even more complex.

When we have put our agents out on the ground overseas, the word spreads unbelievably quickly, and they just scatter on us.

Trying to come up with the actual hard evidence so that we have a case that we can take action on is very difficult to do.

IMPORTATION OF CHILD LABOR GOODS

Senator KOHL. Senator Harkin has been particularly concerned about the past reluctance of Customs to block the import of goods produced with child labor. Do you believe that the Harkin provision is a reasonable interpretation of section 307? Is child labor enforcement an appropriate task for Customs?

Mr. BANKS. Yes, sir; I think that it is an action that, obviously, the Congress wants us to take, that we should take. We want to be able to ensure that we can deliver on this requirement.

CHILD LABOR AND OTHER FORCED LABOR

Senator KOHL. Well, how does child labor differ from the forced labor found in Chinese prison camps and Customs efforts to prevent goods made by prison labor from reaching U.S. markets?

Mr. BANKS. Well, some of it is the same in terms of the reluctance of some of the countries to let us into the factories. In that case, it is the same.

Some of the differences with the forced labor is if you can actually get to the factory, they are there. You can see them. You can see who is working. You can check them.

There are also other indicators in terms of, if you go into a prison labor environment, shaved heads. There are a lot of telltale signs that you can see.

The difficulty of walking into a factory overseas that is using child labor is they just scatter the kids that are underage. As soon as they know you are in the area, they scatter those kids. They either go out of business or they just have other workers there. That is where it gets much more difficult, when you actually get on the ground and try to do this enforcement work.

CHILD LABOR REGULATIONS

Senator KOHL. When can we expect additional regulations relating to child labor enforcement, or do existing regulations for section 307 apply?

Mr. BANKS. We would like to continue to work with this package that you have provided us. We would like to come back with some experiences that we have run into, brief you in terms of the progress that we are making on this and what we can deliver, and then jointly decide where we should take it.

Senator KOHL. Mr. Banks, on November 5, 1997, the International Labor Rights Fund filed a complaint with Customs seeking enforcement of a ban on hand-knotted carpets made with child labor in south Asia. The complaint was based on data from the U.S. Department of Labor's report on child labor. Yet, it is my understanding that there has been no response to the complaint. What is the status of this complaint, and why has it taken so long now for Customs to respond?

Mr. BANKS. Well, it is still a lot of the things that we have talked about in terms of being able to come up with the hard evidence and which shipments have been made by child labor.

We have had a lot of discussions of whether we should go forward with a general ban on all hand-knotted carpets; whether that is equitable and fair to people legitimately trying to bring goods into the country or whether to go with a specific ban or try to get it nailed down in terms of which manufacturers could be involved; is there any complicity on the part of the U.S. importers involved in this, et cetera. These are the difficulties of trying to chase this thing down.

Senator KOHL. Can you give us some hope as to when we can see a resolution of this particular complaint, Mr. Banks?

Mr. BANKS. I would rather have a private briefing with you in terms of exactly where we are with that investigation.

CHILD PORNOGRAPHY DETECTION

Senator KOHL. All right. I would like to ask some questions on the child pornography detection. Customs enforces the Child Protection Act and investigates trafficking in child pornography into and throughout the United States. Through the use of the Customs-established Child Pornography Investigation and Coordination Center, special agents assist the field offices with cases and coordinate Customs efforts to combat child pornography. Can you explain how Customs gets brought into these cases?

Mr. BANKS. I would be happy to.

Actually, there is a variety of ways that we can be brought into a child pornography case. One of the ways it has traditionally been done in the past is we actually intercepted the mail coming into the country. We would intercept magazines and videotapes of child pornography, and I believe we seized last year 325 or so items that came in that were child pornography, either by videotape or by magazine, but the bulk of the work today is actually on the Internet.

We have got 300-plus investigations going on today on Internet child pornography cases. We had 145 arrests last year of people engaging in child pornography—some were family physicians, some were police officers. We have a whole variety of people that are involved in youth programs around the country.

We have set up, as you said, our International Child Pornography Investigation Center in Washington. It is staffed with five agents. We receive tips through a variety of sources. We use confidential informants. We do a lot of the cyber-smuggling-type work through the Internet and then they support field agents around the country to actually work these cases.

We are also working with the National Center for Missing and Exploited Children and have supported their cyber tipline. When this thing gets up and running, the estimate is that we can get between 300 to 400 leads a day. It is being supported by both the FBI and ourselves. FBI handles mostly the domestic cases. We handle mainly the international cases, the ones across the border.

Senator KOHL. What is your level of funding for these activities, Mr. Banks?

Mr. BANKS. I am not sure if I could give you a precise level of funding. I would have to research that a little bit for you further, sir, because of the investigative hours in the field. I would have to give you that for the record, if I could.

[The information follows:]

CHILD PORNOGRAPHY AND EXPLOITATION

Customs has approximately 50 Special Agents in the field dedicated to Child Pornography investigations along with non-personnel costs of $100,000 for fiscal year 1996, $190,000 for fiscal year 1997 and $327,000 for fiscal year 1998. The Customs Child Pornography Enforcement Center has a current staffing level of eight Special Agents which coordinate the investigative activities of the field offices as well as liaison with other federal, state and local law enforcement agencies.

In addition, Customs fiscal year 1998 appropriation included $275,000 for the National Center for Missing and Exploited Children to promote public awareness of the child pornography tipline ($75,000) and to train retired law enforcement officers to assist in the investigation of unsolved missing children cases nationwide (Project Alert) ($200,000).

CHILD PORNOGRAPHY TIPLINE

Senator KOHL. OK. Mr. Banks, funding has been provided since 1995 to promote the child pornography tipline. In fiscal year 1999, funds were also requested to coordinate Customs efforts with the National Center for Missing and Exploited Children, the U.S. Postal Service, the U.S. Secret Service, and the GSA.

Obviously, the tipline is an effort that we and the House support. Have additional resources for the tipline been requested in fiscal year 1999, and if not, why not? Isn't this something that Customs considers important?

Mr. BANKS. Yes, sir; we consider it extremely important, and there were some requests made for this. We did not receive those requests. We did receive in fiscal year 1998 the $25,000 which we gave to the Center for Missing and Exploited Children to help them, and that amount, along with the $50,000 level prior to fiscal year 1998, is recurred in fiscal year 1999 for a total of $95,000 for the tipline.

As a matter of fact, they just recently had an event up on the Hill advertising some of the public education campaign, and along with Under Secretary Kelly, we participated with them in that effort, but, no, sir, we do not have anything added to the $75,000 base in our fiscal year 1999 budget to further enhance our enforcement efforts on child pornography.

Senator KOHL. What is the status of the effort to coordinate Customs efforts on child pornography with the other Government and non-Government entities?

Mr. BANKS. Again, we work with everyone. We work with other law enforcement agencies, including State and locals. They have been really wonderful.

We just had an Internet case in Spokane, where a physician actually engaged in a conversation with an undercover police officer about his desire to have sex with a minor. We got the Spokane policewoman to volunteer to act as the mother in this particular effort, and she did a wonderful job and we made the arrest.

We get tremendous support from State and local police. We get tremendous support working in tandem with the FBI. We have gotten the Postal Service involved. The Secret Service has also been involved in some of these cases.

So this is one area where—when you come up with a specific case—almost everyone is willing to pitch in.

WHITE HOUSE SECURITY CLEARANCE PROCESS

Senator KOHL. OK. Mr. Merletti, I would like to ask you a question.

Last year, when visiting the White House with a staffer, we were ushered into the White House without showing any identification. When I later asked about this, I was told the White House was expecting me. I guess they were also expecting my staff.

Last week, I read that Alice Rivlin, Vice Chairman of the Federal Reserve, was ushered into the White House complex without going through any security clearance. When she questioned why this occurred, she was told that the guards were expecting her, Donna Shalala.

There have been numerous requests to acquire additional security measures around the White House. What good is it to acquire these security devices if people are allowed into the complex without going through the security clearance process?

Mr. MERLETTI. Senator Kohl, we do attempt to facilitate a member and staff of the Senate coming into the White House. We would want to make sure that you were there for your appointment and received a welcome and were easily processed into the White House complex. That really does not impact our security in that we are looking for those that would be attempting to enter to attempt some type of physical harm, and present a danger to the President or to the White House.

The circumstances you referred to regarding Donna Shalala, I am not familiar with the facts. It would be difficult for me to comment on that, but did you say that she came into the complex?

Senator KOHL. Alice Rivlin entered without any security clearance, and then she was told that the guards were expecting her, Donna Shalala.

Mr. MERLETTI. I see. I would have to look into that set of circumstances.

Senator CAMPBELL. Senator Kohl, I think it has something to do with the vehicle you go over there on. I went over there on my motorcycle one time, and I had to answer a whole lot of questions. I will tell you, I thought I was going to be spread-eagle from you guys, but if you are in a big, black Town car, you are probably a little safer.

Senator KOHL. If I were in your situation, I would be worried stiff that something awfully sinister could happen, just in the way in which we are discussing it, and it would be so inexcusable, with all the money and all the security that we have to protect our President, and the White House, of all places, that security systems and regulations would not be the toughest anywhere in the world, and I think everybody in this room would expect security at the White House to be the toughest anywhere in the world.

When you have an experience like mine, as I say, my staff and I got through, and we were simply told that they were expecting us. And then, Alice Rivlin goes through security and—and does not go through security, but is told that it is fine because we were expecting you, Donna Shalala; that that would be—and there must be other incidents that that would be a huge red flag to the Secret

Service with respect to security around the White House. What is your thought?

Mr. MERLETTI. Well, Senator, I do not want to have misinterpreted what I said as a lack of concern about security at the White House.

Senator KOHL. I do not. I do not.

WHITE HOUSE SECURITY CLEARANCE PROCESS

Mr. MERLETTI. I am extremely sensitive to all security at the White House. We will always continue to look at new methods and new technology.

If there was a mistake made, we will find out about that very soon, and I will get the details of that.

However, we do try to have a balance between members of Congress coming up and just someone that would be showing up unexpectedly. We really do quite a bit of training. I mean, training is critical to our mission, and we train our personnel to show proper respect for those that, as we said, are coming for a proper appointment with the President or other members of the administration.

However, if a mistake took place, it is unacceptable and we will look into it and make the necessary adjustments. As I said, I am not aware of that set of circumstances, but I do know about when you came to visit, because after I had visited with you after becoming the Director you had mentioned this, and I did check into that, and we do have photographs of all Senators and Members of the House of Representatives. If you are on the schedule, or if you are coming and we receive a call from the Capitol Police, we do want to expedite your entry.

Now, the other set of circumstances, I will have to look into that.

Senator CAMPBELL. Capitol Police have photographs like that, and I think they are required to memorize the new Senators and Congressmen coming in. Do you have a book like that over there——

Mr. MERLETTI. Yes; we do.

Senator CAMPBELL [continuing]. That you have at the gates so people can recognize you before you came through?

Mr. MERLETTI. Absolutely. We require our people to look at these photographs and try to memorize them.

Actually, I am very glad you brought this up today because, normally, what I am being addressed on is that someone was held up maybe 5 minutes and they did not like being held up when, in fact, they did have an appointment, and people were saying, "Well, can't you make this process faster? I have an appointment." It is refreshing to hear the other side of this, that someone is actually concerned about our security. So I do thank you for that, sir.

Senator CAMPBELL. Would you put glasses and a helmet on my picture so I do not get any more hassles over there?

Mr. MERLETTI. Yes, sir, Mr. Chairman; we will do that.

Senator CAMPBELL. OK. Well, I have no further questions. Senator Kohl, do you?

Senator KOHL. No.

Senator CAMPBELL. OK. With that, I appreciate your appearance to this whole panel, and, Under Secretary Kelly, we will be looking forward to working with you and all of your other divisions. Thanks for coming.

INTERNAL REVENUE SERVICE

STATEMENT OF TED F. BROWN, ASSISTANT COMMISSIONER, CRIMINAL INVESTIGATION

FEDERAL LAW ENFORCEMENT TRAINING CENTER

STATEMENT OF W. RALPH BASHAM, DIRECTOR

FINANCIAL CRIMES ENFORCEMENT NETWORK

STATEMENT OF WILLIAM BAITY, DEPUTY DIRECTOR

INTRODUCTION OF WITNESSES

Senator CAMPBELL. We will now move right along here. I have another commitment. So, hopefully, this next panel can move along a little quicker.

Panel II will be Ted Brown, Assistant Commissioner for Criminal Investigation with the Internal Revenue Service [IRS]; Ralph Basham, Director of the Federal Law Enforcement Training Center [FLETC]; and William Baity, Director of the Financial Crimes Enforcement Network [FinCEN].

All right. If we can move right along.

Were you also staying with this panel, Under Secretary Kelly?

Mr. KELLY. Yes, Mr. Chairman.

Senator CAMPBELL. Did you want to make any additional statements?

[No response.]

We will just go on, then, with Assistant Commissioner Brown. Then we will go to Ralph Basham and William Baity.

We are running out of time a little bit. We have about 30 or 45 minutes in here. So you might like to abbreviate your comments. All the testimony will be included in the record, and we will study it copiously.

STATEMENT OF TED F. BROWN

Mr. BROWN. Thank you, Mr. Chairman. My name is Ted Brown. I am the Assistant Commissioner with IRS Criminal Investigation.

Senator CAMPBELL. You are safe, too, by the way. Our colleague from the Carolinas is not here now.

Mr. BROWN. Yes, sir; I did not expect the target to be painted on me quite that fast.

IRS CRIMINAL INVESTIGATION

I appreciate the opportunity to be here today to discuss the Criminal Investigation Division of the Internal Revenue Service. We have unique financial investigative skills which allow us to meet criminal tax enforcement challenges in support of the overall IRS mission. I also welcome this opportunity to describe the con-

tributions which the fine agents and employees of the Division make to the Federal law enforcement community.

For over 79 years, IRS Criminal Investigation has been solving financial crimes. Our investigations take us to corporate boardrooms, as well as crackhouses. This is because IRS Criminal Investigation special agents fill a unique niche in the law enforcement community, that of financial investigators. The special agent's combination of accounting and law enforcement skills are essential qualities in conducting investigations which have led to the conviction of high-profile criminals who commit sophisticated financial crimes.

It has been our experience that whenever greed leads to crime, whether income tax evasion or international money laundering, IRS Criminal Investigation should be involved.

Further, the success of our investigations enhances voluntary compliance with the tax system, increasing confidence of the American taxpayers in that administration, as well as deterring others from similar conduct.

There is a great demand for the expertise of my agents by other Federal law enforcement agencies and by the offices of the U.S. attorneys. Therefore, it is incumbent upon us to marshal our resources to ensure that our law enforcement program is balanced, not only to protect the revenue and our tax administration system, but to combat financial crime. We deliver this balanced law enforcement program through three mutually supportive strategies: tax gap, money laundering, and international.

TAX GAP STRATEGY

The tax gap strategy enables CI to pursue comprehensive financial investigations that have the greatest impact on narrowing the tax gap. That is a phrase that we have coined to describe the difference between the amount of tax owed and the amount paid. The income tax gap was last estimated to be in excess of $127 billion, and our tax gap investigations encompassed the entire spectrum of legitimate industries.

Voluntary compliance with the tax laws relies heavily on the deterrent effect of successful prosecutions. It is critical for Criminal Investigation to identify and investigate cases which would generate the maximum deterrent effect and, thus, have the most impact on voluntary compliance. Our objective in this strategy is to increase the rate of voluntary compliance, which will reduce the tax gap.

MONEY LAUNDERING STRATEGY

In our money laundering strategy and in concert with our mission of increasing voluntary compliance, we are responsible for enforcing title 31 of the United States Criminal Code and using its financial investigative expertise to investigate the most complex types of money laundering. By doing this, we financially disrupt and dismantle criminal organizations in cooperation with other Federal law enforcement agencies. Our objective is to identify, investigate, and prosecute the most significant tax, currency, and money laundering offenders, and to pursue the assets of those of-

fenders both domestically and internationally for tax and asset forfeiture purposes.

Due to our limited resources and the increasing need for our expertise, CI prioritizes its efforts in currency reporting and money laundering enforcement to address investigations whose size, scope, and complexity require the value-added expertise of our agents.

INTERNATIONAL STRATEGY

Recognizing that financial crimes do not stop at the U.S. border, our international strategy places special agents in strategic foreign countries. These agents are responsible for developing financial information obtained from host governments relating to U.S. income tax violations or money laundering schemes.

The placement of these agents allows us flexibility to gather evidence to support ongoing domestic investigations with international implications. With State and Treasury Department approval, IRS special agents are permanently placed in Mexico, Colombia, Germany, Canada, and Hong Kong. The international strategy enables special agents to work more closely with our foreign counterparts.

Working within these three strategies, we devote our resources to two major programs. The first one described is the fraud program. It encompasses a broad range of illegal activity primarily involving legitimate industries. All statutes under our jurisdiction may be utilized in these investigations. This includes not only criminal provisions of the Internal Revenue Code, but also violations of the Bank Secrecy Act and the Money Laundering Control Act.

FRAUD PROGRAM

The fraud program consists of investigations relating to tax violations, such as failure to file, tax evasion, and money laundering. In this area, we work investigations involving general tax crimes, excise tax violations, illegal tax protestors, illegal return preparers, and questionable refunds. Other fraud programs involving tax and money laundering violations include bankruptcy fraud, financial institution fraud, illegal gaming, health care fraud, insurance fraud, telemarketing fraud, and public corruption.

NARCOTICS PROGRAM

Our other major program is narcotics. The first IRS narcotics investigation was a tax case completed in 1920 when an opium grower failed to claim the income earned from his product. Today, we utilize all available statutes within our jurisdiction to dismantle or disrupt the financial operations of targeted narcotics organizations. Part of the narcotics program includes our participation in the Organized Crime Drug Enforcement Task Force. In fact, in fiscal year 1997, we were a principal partner in nearly 56 percent of all OCDETF investigations nationwide, a level of participation second only to the Drug Enforcement Administration.

During fiscal year 1997, 87 percent of all narcotics investigations initiated by CI involved money laundering or currency crime violations. The quality of the investigations conducted by my agents was evident during fiscal 1997, with 84 percent of our cases resulting

in prosecution recommendations and 89 percent of those with convictions being sentenced to prison.

I will be glad to take your questions when you are ready, sir.

PREPARED STATEMENT

Senator CAMPBELL. Thank you, Mr. Brown. We have your complete statement and it will be made part of the record.

[The statement follows:]

PREPARED STATEMENT OF TED F. BROWN

Mr. Chairman and Distinguished Members of the Subcommittee:

I appreciate the opportunity to be here today to discuss the Internal Revenue Service Criminal Investigation Division's mission and its ability to meet criminal tax enforcement challenges in support of the overall IRS mission. I also welcome this opportunity to demonstrate the unique contributions which the Criminal Investigation Division makes to the federal law enforcement community.

For over 79 years IRS Criminal Investigation has been solving financial crimes. And for nearly that long, IRS Criminal Investigation has been answering the question, "Why is IRS Involved?"

Our investigations take us to corporate boardrooms as well as crack houses. This is because IRS Criminal Investigation special agents fill a unique niche in the law enforcement community: that of financial investigators. The special agent's combination of accounting and law enforcement skills are essential qualities in conducting investigations which have led to the conviction of high profile criminals who commit increasingly sophisticated financial crimes. It has been our experience that whenever greed leads to crime, whether income tax evasion or international money laundering, IRS Criminal Investigation is likely to be involved. Further, the success of our investigations enhances voluntary compliance, increasing confidence in the federal tax system and deterring others from engaging in similar conduct.

There is a great demand for the expertise of IRS special agents by other Federal law enforcement agencies and by the offices of the United States Attorneys. Therefore, it is incumbent upon us to marshal our resources to ensure that our law enforcement program is balanced to not only protect the revenue but to combat worldwide financial crime. We deliver this balanced law enforcement program through three mutually supportive strategies: tax gap, money laundering, and international.

TAX GAP STRATEGY

The Tax Gap Strategy enables Criminal Investigation to pursue comprehensive financial investigations that have the greatest impact on narrowing the tax gap. The TAX GAP is a phrase coined to describe the difference between the amount of tax owed on all sources of income and the amount paid. The Income Tax Gap is estimated to be in excess of $127 billion.

Tax Gap investigations encompass the entire spectrum of legitimate industries. The focus of these investigations is to detect violations of all statutes under Title 26 of the Internal Revenue Code and Title 18, Sections 286, 287, and 371 of the United States Criminal Code.

Voluntary compliance with the tax laws relies heavily on the deterrent effect of successful prosecutions. It is critical for Criminal Investigation to identify and investigate cases which will generate the maximum deterrent effect and thus, have the most impact on voluntary compliance.

Criminal Investigation's objective in this strategy is to increase the rate of voluntary compliance which will reduce the tax gap. We can best achieve this through high impact tax fraud investigations.

MONEY LAUNDERING STRATEGY

In concert with our mission of increasing voluntary compliance with the tax laws, IRS Criminal Investigation is responsible for enforcing Title 31 of the United States Criminal Code and using its financial investigative expertise to investigate the most complex types of money laundering. By doing this, we financially disrupt and dismantle criminal organizations in cooperation with other federal law enforcement agencies.

Our objective is to identify, investigate and prosecute the most significant tax, currency and money laundering offenders and to pursue the assets of those offenders both domestically and internationally for tax and asset forfeiture purposes.

Due to our limited resources and the increasing need for the financial investigative expertise of our special agents, Criminal Investigation prioritizes its efforts in currency reporting and money laundering enforcement to address investigations whose size, scope and complexity require the value-added expertise of our special agents.

INTERNATIONAL STRATEGY

Recognizing that financial crimes do not stop at the United States border, Criminal Investigation's International Strategy places special agents in strategic foreign countries. These special agents are responsible for developing financial information obtained from host governments relating to U.S. income tax violations or money laundering schemes. The placement of these special agents allows us flexibility to gather evidence to support ongoing domestic investigations with international implications. With State and Treasury Department approval, IRS special agents are permanently placed in Mexico, Colombia, Germany, Canada and Hong Kong.

The International Strategy enables special agents to work more closely with their foreign counterparts. The obvious benefit of such relationships is to stop the infusion of money from illegal financial crimes into the global economy. The movement of such funds creates a major concern regarding the underground economy in America as well as in foreign economies.

As a result of our International Strategy, we have been able to help some foreign governments in the drafting of money laundering laws that will assist the entire international law enforcement community in its money laundering investigative efforts. This type of close working relationship, coupled with our money laundering and financial investigative training efforts at the International Law Enforcement Academies, has led to an increase in international cooperation and understanding of the complexities surrounding money laundering activities.

CRIMINAL INVESTIGATION PROGRAMS

Working within these three strategies, Criminal Investigation devotes its resources to two major programs: Fraud and Narcotics.

THE FRAUD PROGRAM

The Fraud Program encompasses a broad range of illegal activity, primarily involving legitimate industries. In this area we work investigations involving; General Tax Crimes, Excise Tax, Illegal Tax Protesters, Return Preparers and Questionable Refunds. Other fraud programs involving tax and money laundering violations include: Bankruptcy Fraud, Financial Institution Fraud, Gaming, Health Care, Insurance, Telemarketing, and Public Corruption. All statutes under Criminal Investigation's jurisdiction may be utilized in these investigations; this includes the criminal provisions of the Internal Revenue Code as well as violations of the Bank Secrecy Act (also known as the Bank Records and Foreign Transactions Act) and the Money Laundering Control Act (also known as the Anti-Drug Abuse Act which included substantive amendments to Title 31).

NARCOTICS PROGRAM

The mission of the IRS Criminal Investigation narcotics law enforcement program is to identify, investigate, and assist in prosecuting members of significant narcotics organizations and related enterprises. In fact, the first IRS narcotics investigation was a tax case completed in 1920 when an opium grower failed to claim the income earned from his product.

IRS Criminal Investigation utilizes all available statutes within its jurisdiction to dismantle or disrupt the financial operations of the targeted organizations. Part of the Criminal Investigation Narcotics program includes Organized Crime Drug Enforcement Task Force (OCDETF) investigations. Criminal Investigation Special Agents are a principal partner in nearly 56 percent of all OCDETF investigations nationwide, second only to the Drug Enforcement Administration (DEA).

During fiscal year 1997, 87 percent of all narcotics investigations initiated by Criminal Investigation involved money laundering or currency crimes violations. The quality of investigations conducted by Criminal Investigation was evident during fiscal year 1997, with 84 percent of our narcotics cases resulting in prosecution recommendations and almost 89 percent of those convicted of narcotics crimes being sentenced to prison.

TRAINING, EXPERTISE AND WORK FORCE

IRS Criminal Investigation is very much aware of consequences of rapidly changing technology, particularly in the field of information systems. Therefore, our training for IRS special agents continues to evolve so that their skills as computer investigative specialists keep their pursuit of financial evidence on the cutting edge of technology. It is interesting to note that with the support of the Under Secretary for Enforcement at Treasury, Criminal Investigation initiated a program to share our expertise in this area with the other Treasury Enforcement Bureaus.

Our Financial Investigative Techniques Course is taught at Treasury's Law Enforcement Training Center in Brunswick, Georgia. The unique investigative techniques utilized in conducting financial investigations make our training in high demand by Federal, state, local and even international law enforcement agencies. Other courses taught to state and local law enforcement agents include: Special Agent Basic Training and Special Agent Investigative Techniques.

We also recognize that the well-rounded law enforcement officer of the future must have the ability to follow a financial trail. This, coupled with our need to recruit a diverse work force, prompted IRS Criminal Investigation to develop a college curriculum course geared toward the college sophomore to pique his/her interest in law enforcement and the investigation of financial crimes. This course is currently being taught in over 20 colleges throughout the United States.

We accomplish our mission with nearly 3,200 special agents and 1,500 support personnel. Some of these special agents and support personnel assist our field agents through forensics at our National Forensic Laboratory in Chicago; through our two permanent employees at INTERPOL; our Trial Illustration Team in Kentucky; the Detroit Computing Center where our Currency Transaction Reports and Forms 8300 are filed and analyzed; and through our Criminal Investigation employees stationed at the El Paso Intelligence Center (EPIC), the Financial Crimes Enforcement Network (FinCEN) and at the Federal Law Enforcement Training Center (FLETC) in Brunswick, Georgia.

CONCLUSION

This brief overview of our strategies and programs provides some insight into the role of the Internal Revenue Service Criminal Investigation Division.

Thank you Mr. Chairman for this opportunity to brief you and the members of the subcommittee on the important role of Internal Revenue Service Criminal Investigation. I will be glad to answer any questions you might have.

STATEMENT OF W. RALPH BASHAM

Senator CAMPBELL. OK. We will continue with Mr. Basham, please.

Mr. BASHAM. Mr. Chairman, Senator Kohl, I am pleased to be here today to report on the current operations and performance of the Federal Law Enforcement Training Center and to support our appropriations for fiscal year 1999.

Even though I am new to this position, I am well aware of the outstanding reputation this organization has acquired over nearly three decades of delivering high-quality training to law enforcement officers from across the country and around the world, and I assure you that I will continue to preserve and build on that reputation.

I would also like to acknowledge my predecessor, Charlie Rankovich. Under Mr. Rankovich's leadership, the Center experienced tremendous growth and came to be recognized as the Nation's premier law enforcement training organization.

While he was at the Center, FLETC grew into a partnership of over 70 participating agencies providing the best law enforcement training available anywhere in the world. Mr. Rankovich leaves behind an organization with a highly motivated and talented staff dedicated to the mission of providing quality, cost-effective training for law enforcement professionals.

I would like to express my deep respect and sincere appreciation for the outstanding and selfless leadership provided by Mr. Rankovich over the last 15 years.

Under the leadership of Secretary Rubin and Under Secretary Kelly, the Center has received strong support and active assistance for carrying out its responsibilities, and throughout the Center's 28-year history, this committee has also been most supportive in its funding of consolidated training and discerning in its oversight role. The success enjoyed by the Center and the success of the consolidated training concept are directly attributable to this committee's strong and consistent support.

Today, I am prepared to discuss the initiatives in our request, which include mandatory workload increases, master plan staffing, the International Law Enforcement Academy, and master plan implementation.

MANDATORY WORKLOAD INCREASES

The Center continues to face an unprecedented increase in its training workload. Last year, the Center delivered more student weeks of training than any other time in its history. The majority of the increase in training workload results from initiatives by the administration and Congress to improve the effectiveness of INS and protecting our Nation's borders. Other factors contributing to the Center's increased workload are security enhancements at Federal facilities, new Federal prisons coming online, and a significant increase in the workload of the Bureau of Indian Affairs.

The initiatives outlined in our request are targeted at increasing the Center's training capacity in response to this growing workload, and they tie directly to the goals outlined in the Center's current strategic plan. As you are aware, I have only been Director for a few days, and, therefore, I have not had sufficient time to review and assess all the goals and measures in the plan. I will be looking at the plan over the next few weeks, and I will be asking the Department, OMB, and this committee for input and support in determining the future of FLETC as we move into the new millennium.

I would like to take a few minutes and discuss in more detail two of the initiatives I mentioned earlier, the master plan and the International Law Enforcement Training Academy for the Latin American and Caribbean region, otherwise known as ILEA South.

MASTER PLAN CONSTRUCTION

To meet the dramatic rise in this training workload, the Center is moving forward on its master plan construction program to increase capacity at both Glynco and Artesia. Through 1998, the Congress has appropriated nearly $83 million for master plan construction projects. By necessity, the master plan has been updated several times over the last few years, and copies of these updates have been furnished to this committee.

It should be recognized, however, that the cost of fully implementing the master plan has increased over time because of inflation and changes necessary to meet the training requirements of our customers. I want to assure you that the FLETC will continue to work through Treasury, OMB, and Congress in dealing with any additional master plan changes.

In the past 2 fiscal years, the Center has completed construction on two additions to the main classroom building at Glynco and has expanded the driver training complex. Additionally, construction is underway on a new dormitory and administration building at Glynco, and a contract was recently awarded for the construction of a new dormitory in Artesia.

Our 1999 request includes just over $16 million to continue implementation of the plan. These funds will be used to construct another dormitory and classroom building at Glynco and for expansion of the cafeteria, construction of a laundry facility, and infrastructure improvements at Artesia. These additional facilities are vital if the closure of the temporary facility in Charleston is ultimately to be realized. However, I must tell you that workload projections have increased since the submission of our budget, and we are now in the process of further analyzing facility requirements to meet this additional workload increase.

INTERNATIONAL LAW ENFORCEMENT TRAINING ACADEMY

Our request for ILEA South is aimed at building strong and lasting relationships with and among law enforcement officials from Latin America and the Caribbean. Current demand for training assistance for the international community resulting from congressional administrative initiatives already exceed the FLETC's available resources. That demand coupled with the added responsibility for management oversight and administrative support of ILEA South make it essential that additional resources be provided.

Mr. Chairman, men and women of the Federal Law Enforcement Training Center are proud of the contribution that they make in providing our Nation's law enforcement officers the training necessary to carry out their vital mission.

I look forward to working with you in the future, and that concludes my comments.

PREPARED STATEMENT

Senator CAMPBELL. Thank you, Mr. Basham. We have your complete statement and it will be made part of the record.

[The statement follows:]

PREPARED STATEMENT OF W. RALPH BASHAM

Mr. Chairman and Members of the Committee, I am pleased to be here today to report on the current operations and performance of the FLETC and to support our appropriations request for fiscal year 1999. As you know, Secretary Rubin appointed me as Director of the FLETC effective February 15, 1998. I am honored by this appointment. While I am new to this position, I can report to you that I am very well aware of the outstanding reputation this organization has acquired over nearly three decades of providing high quality training to law enforcement officers across the country and around the world. My 27 years with the U. S. Secret Service as an Agent, Special-Agent-In-Charge of several field offices, Deputy Assistant Director for Training and most recently as Assistant Director for Administration, have helped prepare me for this challenging assignment. I consider myself most fortunate to have had a long career with a great organization, the U. S. Secret Service, and now the opportunity to lead another great organization, the FLETC, into the next century.

The Center has seen tremendous growth since its establishment in 1970 when a handful of agencies joined together and established the Consolidated Federal Law Enforcement Training Center. The Department of Treasury has been the lead agency for the United States Government in providing the administrative oversight and

day-to-day direction for the FLETC since its creation. Under the leadership of Secretary of the Treasury Robert E. Rubin, and Under Secretary for Enforcement Raymond W. Kelly, the FLETC has received strong support and active assistance for carrying out its responsibilities. This Committee, Mr. Chairman, is owed a debt of gratitude. Throughout the Center's 28 years of service to Federal law enforcement, this Committee has been most supportive in its funding of consolidated training and insightful in its oversight role. Although I have been at the Center for only a short time, it is obvious to me the strong and active role you have played in the success of the Center, and I am looking forward to working with you in the future.

There are now 70 agencies which train at the Center and we expect this growth to continue as more agencies recognize the many benefits of consolidated training, not the least of which is a tremendous cost savings to participating agencies and the Government. Congress can be proud of the quality of the training being provided at the FLETC and the savings realized through consolidation. FLETC's success is the direct result of the strong support we have received from Treasury leadership, this Committee and our participating organizations.

Today, I am prepared to discuss a number of our initiatives outlined in the President's fiscal year 1999 budget. The Center's fiscal year 1999 request is for a Salaries & Expenses (S&E) appropriation of $71,923,000 and 553 FTE, an increase of $6,260,000 and 27 FTE from the fiscal year 1998 level. Our request for Acquisition, Construction, Improvements & Related Expenses (ACI&RE) is $28,360,000, a decrease of $4,188,000 from the fiscal year 1998 level. The S&E and ACI&RE funding requested will support four important initiatives: Mandatory Workload Increase ($1,614,000 and 10 FTE); new construction support ($1,400,000 and 12 FTE); an International Law Enforcement Academy for the Southern hemisphere ($1,500,000 and 5 FTE); and new construction pursuant to our facilities Master Plan ($13,000,000).

In addition to our budget request, the Department of the Treasury will provide the FLETC with $900,000 from the Asset Forfeiture Fund for the purchase of 30 front-wheel-drive driver training vehicles. This is the beginning of a five year phased initiative that will convert our driver training vehicle fleet from rear-wheel drive sedans to front-wheel drive sedans and is necessary to meet the training needs of our participating agencies. I will discuss this and the other initiatives in more detail later in my testimony.

The S&E and ACI&RE request represents an increase of $2,072,000 over the fiscal year 1998 level. Coupled with $900,000 from the Asset Forfeiture Fund and $29,000,000 in funds to be reimbursed to us by our agencies for training related services, our total budget for fiscal year 1999 is $130,183,000.

Before providing this Committee with an overview of Center operations and discussing each of our initiatives in more detail, I would like to take a moment and address progress being made in complying with the requirements of the Government Performance and Results Act (GPRA). As you know the GPRA requires agencies to publish strategic plans covering five years, publish annual performance plans which include measurable goals, and, after the year is completed, to report on actual performance.

In the Center's testimony last year, it was mentioned that the Center embraced GPRA early. At that time the FLETC was working with the Department and the Office of Management and Budget (OMB) to ensure that the Center's strategic plan, development of which began in 1994, was in full compliance with GPRA requirements. Since that time the Center's plan has been shared with this Committee and comments made by this Committee, OMB and the Department to improve the plan have been addressed. Our plan is a part of the Department of the Treasury's strategic plan and was submitted to Congress on September 30, 1997 in accordance with GPRA requirements.

Performance plans required by GPRA are now an integral part of the budget documents sent to you each year. In our fiscal year 1998 budget request last year, we incorporated measures of program performance in addition to the traditional output-oriented workload measures. As you know, good measures of program performance are not always available. Ours are not perfect. However, we are making progress in developing meaningful, quantifiable measures for our programs. As we gain more experience, we hope to improve on the performance measures we use, and we would welcome your continued feedback and suggestions in this area.

Included in our budget request this year is a report on whether or not we achieved each of the targets we proposed for the most recently completed fiscal year (fiscal year 1997). The performance measures used for law enforcement training in fiscal year 1997 included: (1) results of our student quality of training survey, (2) number of student-weeks trained, (3) number of students trained, and (4) variable

unit cost per basic student-week of training funded. Plant operations performance measures include results of our student quality of services survey.

The student quality of services survey and student quality of training survey performance measures are outcome measures. The overall student quality of training index is based on a six point scale, and the overall student quality of services index is based on a five point scale. Both indices are computed using evaluations completed by students attending Center programs. The variable unit cost per basic student-week of training funded is also an outcome measure and is based on training dollars divided by funded student-weeks of training. The final two measures—students trained and student-weeks of training—are output measures and show the student workload at the Center.

I am pleased to report that the Center's performance against established targets was excellent overall. The index for the most critical performance measure in our plan, the student quality of training survey measure, was "5.4". This exceeded the Center's existing standard and performance plan target of "5.0". The student quality of services actual performance index was "4.0" which equals our performance target measure of "4.0". Additionally the FLETC's training costs were below the cost figure established for the variable unit cost per basic student-week of training.

The performance targets for students trained and student-weeks trained as shown in the performance plan were not met. While the workload conducted was somewhat less than the initial projections and the targets in our performance plan, the FLETC did conduct 100 percent of the basic training requested by our agencies in fiscal year 1997. Because workload estimates used in the performance plan are based on Spring 1995 estimates of our customers, it is not surprising to find that there is a variance between the targets and actual workload. The budget process requires that the Center's participating agencies provide these estimates well in advance of funding actions by the Congress and Administration. Although estimates are based on the best available data and the agencies' best guess at the time, changes in Congressional and Administration policy and initiatives that occur in the interim can and do have a dramatic impact on the outcome of actual workload. Therefore, the best measure of the FLETC's performance in this area is whether the Center provided 100 percent of the basic training requested, which in this case we did.

As stated earlier and in the Center's testimony last year, the FLETC will continue to refine existing performance measures and/or identify new performance measures in an effort to more accurately reflect its performance. In the fiscal year 1999 budget request you will find that the Center has revised and added to its performance measures to ensure better linkage between the performance measures being used and the Center's strategic goals. This is part of our continuing effort to provide this Committee with the information it needs to make informed budget decisions.

I believe that this system—setting strategic goals and strategies for the long term, setting annual targets, managing to achieve those targets, and reporting on annual performance—will help all of us manage the Center's programs more efficiently and effectively.

In reviewing our request, and later in our discussions today, I am sure you will find that there is a strong and direct relationship between our budget initiatives and the mission and goals outlined in the Center's Strategic Plan. That mission is to provide quality, cost effective training for law enforcement professionals. It is a vitally important mission and is essential if we are to equip our law enforcement personnel with the skills necessary to deal with increasingly sophisticated and violent crimes.

Four key strategic goals guide the Center in fulfilling its mission. They are:

—Provide high quality training for law enforcement;

—Develop, operate, and maintain state-of-the-art facilities and systems responsive to interagency training needs;

—Effectively organize, develop, and lead FLETC's personnel in support of the Center's mission; and,

—Strengthen partnerships among participating organizations and the FLETC.

The initiatives outlined in our fiscal year 1999 request directly support the mission of the Center and can be tied to one or more of the goals in the Center's strategic plan. Equipment and FTE's requested under S&E for mandatory workload, Master Plan implementation, and the International Law Enforcement Training Academy, are essential if the Center is to provide quality training that is responsive to the needs of its customers. Failure to fund these initiatives could result in a degradation of the services and jeopardize training, putting the Center in a position where it could not meet its customers' training requirements.

For example, if the FTE requested in the mandatory workload initiative are not provided, the Center will not have the instructor resources required to meet the basic training requirements projected by our customers.

Funding requested in the ACI&RE account will allow the Center to continue implementation of its Master Plan. Continued implementation of the Master Plan is necessary if, in the future, we are to avoid the need to invest in costly temporary facilities to meet the training needs of our customers during periods of peak demand. Additionally, temporary facilities adversely impact on the quality of training provided and the quality of life of the student, even though we take steps to mitigate that impact as much as we can. I will discuss this issue more fully, later in my testimony.

OVERVIEW OF OPERATIONS

Now Mr. Chairman, I would like to provide the Committee with a brief overview of the operations of the Federal Law Enforcement Training Center.

The Center was established by a Memorandum of Understanding in 1970 and has experienced tremendous growth over the last 28 years. We currently conduct basic and advanced training for the majority of the Federal Government's law enforcement personnel. We also provide training for state, local and international law enforcement personnel in specialized areas and support the training provided by our participating agencies that is specific to their needs. Currently, 70 Federal agencies participate in more than 200 different basic and advanced training programs at the Center.

There are entry level programs in basic law enforcement for police officers and criminal investigators along with advanced training programs in areas such as marine law enforcement, anti-terrorism, financial and computer fraud, and white-collar crime. Training is conducted at either the main training center in Glynco, Georgia, our training center in Artesia, New Mexico, a temporary training facility in Charleston, South Carolina, or on an export basis at sites across the country.

The temporary training site in Charleston was established in fiscal year 1996 to accommodate an unprecedented increase in the demand for basic training by the participating agencies, particularly that of the Immigration and Naturalization Service (INS) and United States Border Patrol (USBP). Charleston is the direct result of recent Administration and Congressional initiatives to control illegal immigration along the United States borders. Cost for the site's operation and facility maintenance are being funded by the INS.

In addition to the training conducted on-site at one of the FLETC's residential facilities, some advanced training, particularly that for state, local and international law enforcement, is exported to regional sites to make it more convenient and/or cost efficient for our customers. The tremendous demand for basic training over the next four years will increase the FLETC's reliance on export training sites to meet these advanced training requirements. The Center's driver, firearms and physical techniques training facilities cannot accommodate all of the training being requested. Therefore, much of the advanced training requiring the use of special training facilities will have to be accommodated elsewhere.

Realizing that a short-term solution was needed to meet the advanced training needs of our customers until additional facilities are completed under the Master Plan, the FLETC began to identify state and local facilities that could be used to accommodate this training. Several sites have now been identified, and the Center will seek this Committee's permission to enter into agreements with these non-Federal organizations for the use of their facilities on a reimbursable basis. No funding of the FLETC will be used to make capital improvements at the sites. Essentially, FLETC will serve as a "broker" in setting up training arrangements with select non-Federal sites that can accommodate only training that cannot otherwise be conducted at a FLETC site. If approved, the Center will be able to assist its customers in meeting their advanced training needs by facilitating the scheduling of their training at one of these sites. At the same time, with the Center serving as the mechanism for the use of these facilities, the concept of consolidated training through the FLETC will be protected. Additionally, continued implementation of the Master Plan will eventually allow this advanced training to be returned and conducted at the Glynco and Artesia training centers.

Over the years, the FLETC has become known as an organization that provides high quality and cost efficient training with a "can do" attitude and state-of-the-art programs and facilities. There are many substantial advantages of consolidated training for Federal law enforcement personnel, not the least of which is an enormous cost savings to the Government. Consolidated training avoids the duplication of overhead costs that would be incurred by the operation of multiple agency training sites. Furthermore, we estimate that consolidated training will save the Government $114 million in per diem costs alone during fiscal year 1999. This estimate is based on projected fiscal year 1999 workload and per diem rates in Washington

and other major cities of $152/day versus the cost of housing, feeding, and agency miscellaneous per diem of $29.95/day for a student at Glynco. Consolidation also ensures consistent high quality training and fosters interagency cooperation and camaraderie in Federal law enforcement.

FLETC and consolidated training can be viewed as a National Performance Review concept ahead of its time. Quality, standardized, cost-effective training in state-of-the-art facilities, interagency cooperation, and networking are indisputable results of consolidation. However, the concept of consolidated training is fragile and needs constant nourishment and support if it is to remain intact.

WORKLOAD

As I mentioned earlier, the Center is facing an unprecedented increase in its training workload that began in fiscal year 1996 and is projected to continue through fiscal year 2002. The majority of the increase in training workload is the result of the fiscal year 1995 initiative by the Administration and Congress to increase the effectiveness of the Immigration and Naturalization Service (INS) in controlling our borders by increasing the number of INS and United States Border Patrol (USBP) law enforcement personnel. Other factors contributing to the increase include security enhancements at Federal facilities and new Federal prisons coming on-line. Additionally, the Bureau of Indian Affairs (BIA) is also projecting a dramatic increase in the number of students it will need trained beginning in fiscal year 1999.

During fiscal year 1997 the Center graduated 23,329 students, representing 109,116 student-weeks of training. This total included 16,628 students who were trained at Glynco, Georgia, 2,962 students trained at Artesia, New Mexico, 861 students trained at Charleston, South Carolina, and 2,878 students trained in export programs conducted at various locations throughout the United States. There were 10,741 basic students, 9,226 advanced students, 2,562 state and local students, and 800 international students trained, equating to an average resident student population (ARSP) of 2,098. Although the total number of students and student-weeks trained were below the performance targets established for fiscal year 1997, the Center did provide 100 percent of the basic training requested by its customers. The performance targets established for fiscal year 1997 were based on Spring 1995 projections of the 70 agencies we serve. These projections are made in advance of appropriations. Because of circumstances beyond the control of the agencies or the FLETC, the projections changed by the start of the fiscal year, and fewer training requests materialized. This performance measure has been revised in the fiscal year 1999 budget submission and now is based on FLETC providing 100 percent of the basic training requested by the participating agencies.

The Center has seen enormous growth in the training demanded by its participating agencies over the past decade. We have been able to accommodate many, but not all, of these increased training demands by being innovative and undertaking extraordinary measures.

To accommodate training during fiscal year 1985 and again in fiscal year 1989, the Center had to temporarily expand its capacity for housing, dining, classroom, office space, storage, and special training facilities by using temporary buildings and contracted or licensed temporary facilities. Further, the Center has not always had space to accommodate all of our students in on-Center housing and has used contractual arrangements with local motels to house our overload. Many of the temporary measures taken to meet these training demands were costly, and they adversely impacted the Center's operations.

As you are aware, a temporary training facility was established in Charleston, South Carolina, during 1996 because our current facilities do not have the capacity to accommodate all of the training being requested. Principally used to conduct USBP training that cannot be accommodated at the Glynco and Artesia training centers, this facility will be closed once requirements for the Border Patrol buildup are completed. We expect that in fiscal year 2000, sufficient capacity will exist at Glynco and Artesia to meet most or all of the projected training requirements of our participating agencies and Charleston can be closed.

This is the third time since fiscal year 1985 that FLETC has taken extraordinary measures to meet the training demands of its participating agencies. More importantly, it is the second time in the last nine years that a temporary training facility has had to be established. A temporary training facility was established at Ft. McClellan, Alabama, in 1989 to meet a similar increase in the USBP training workload.

Opening temporary training facilities is a time-consuming and expensive process. Capital improvements must be made to bring the facility on line and, unlike capital

improvements made at Glynco or Artesia, there is no permanent return on that investment. The dollars expended are lost when the facility is closed. It also impacts on the cost effectiveness of the training provided and on the student's quality of life and overall training experience. However, as was done in 1989, the Center is taking steps to mitigate any impact the temporary training facility might have on the quality of training provided. We are extremely proud of our reputation for providing high quality, cost effective training and will take the steps necessary to ensure that the quality of training provided at Charleston remains high.

FACILITIES MASTER PLAN

Now, Mr. Chairman, if I may, I would like to brief you and the other Committee members on progress being made in expanding the FLETC's facilities. The Master Plan, presented to Congress in June 1989, provided a basis for the efficient and orderly development of the Center's land and facilities resources. It was and is a comprehensive blueprint to guide the expansion of the Center so that it can more effectively support the present training workload as well as the workload projected for the future. The original plan called for a total investment of $86,010,000.

The Center has recently completed an update of the Master Plan. The update, which is being reviewed by the Department and the Office of Management and Budget, will be provided to the Congress when that review is completed. Through fiscal year 1998, Congress has appropriated $82,717,000 for Master Plan construction. Of this amount $66,960,000 was for Glynco projects and $15,207,000 was for Artesia projects.

At Artesia, major projects that have been completed include: rehabilitation of the cafeteria/student center complex and main classroom building; construction of a physical training complex, completed in October 1991; interim driver/firearms ranges, completed in 1991; a much needed road and sidewalk network at the Artesia main campus, completed in 1992; permanent firearms ranges, completed in 1993; and a driver/firearms administrative support/classroom building, completed in 1996. At Glynco, completed projects include: a dormitory, completed in April 1993; an expansion of the indoor firearms range complex, completed in August 1993; consolidation/expansion of the physical techniques facility, completed in October 1993; an expansion of the cafeteria, completed during 1994; construction of two 25 firing point outdoor ranges completed in 1994; an addition to the Steed classroom building (two state-of-the-art classroom buildings), completed in May 1996; and an expansion of our driver training complex (the addition of control tower, defensive driving and highway response ranges), completed in February 1997.

In addition to those MP projects already completed, construction recently began on a new dormitory and an administrative building at Glynco. These projects are expected to be completed in fiscal year 1999. A contract was also awarded in late January for construction of a dormitory in Artesia. Construction on this project will begin in early March and should be completed in early fiscal year 2000.

The Center's fiscal year 1999 ACI&RE request is in the amount of $28,360,000 and includes $16,124,000 to continue implementation of the Master Plan. The remaining funds in the ACI&RE account are for environmental projects necessary to comply with laws and regulations and to support the minor construction and maintenance projects necessary to protect the Government's investment. Additionally a small amount of the S&E appropriation is used to meet certain facility maintenance requirements.

The $13,000,000 in Master Plan funds requested in our fiscal year 1999 initiative will provide funding to construct a classroom building and a dormitory at Glynco. These facilities are necessary to support the increased basic training workload of the participating agencies. Except for a small amount ($308,000) that will be used for a classroom at Glynco, the remaining $3,124,000 contained in the base will be used for expansion of the cafeteria, a commercial laundry and infrastructure improvements at the Artesia center.

Our Master Plan initiative directly supports goal two in FLETC's strategic plan. That goal is to develop, operate, and maintain state-of-the-art facilities and systems responsive to interagency training needs. Funding is required if the Center is to meet the training needs of its customers. Not funding these initiatives will result in the continued reliance on the more costly method of establishing temporary training facilities to meet training requirements. It also endangers the concept of consolidated training as the larger agencies look at alternatives, such as individual agency sites, to meet their training requirements.

The Center continues to consult closely with its participating agencies so that the design features of each project will meet current and future needs. This close consultation sometimes prolongs the period it takes to design and construct facilities;

however, we feel the time and effort are well spent because it ensures that funds are efficiently and wisely used.

Obviously, changing events have and will continue to dictate modifications to the various projects outlined in the Master Plan. For example, the Center's unprecedented workload has resulted in adjustments to the priority and the reprogramming of funds between some of the projects at Glynco to ensure that the temporary facility in Charleston is closed as soon as possible. However, I want to assure you that the FLETC will continue to work through the Treasury Department, Office of Management and Budget, and the Congress in dealing with these changes.

Mr. Chairman, I want to thank you and members of the Subcommittee for the support given the Center in its Master Plan development and implementation. We are pleased and grateful that Congress has seen fit to appropriate the funds necessary to expand our facilities and better equip the Center to meet the training needs of our customers. Only by doing so is the concept of consolidated training nurtured and strengthened.

Now, if I may, Mr. Chairman, I would like to take this opportunity to further discuss the four remaining initiatives in the Center's fiscal year 1999 budget request which I briefly referred to earlier in my testimony.

MANDATORY BASIC TRAINING WORKLOAD INCREASE

In our fiscal year 1999 request the Center is asking for $1,614,000 and 10 FTE to support the direct cost of basic training resulting from workload increases. As I discussed in some detail already, the Center is faced with an unprecedented increase in its workload. This initiative will allow the Center to fund 100 percent of the direct cost of the discounted projected basic training in fiscal year 1999 (excluding recently updated projections in INS/BIA's workload) and supports goal one in FLETC's strategic plan—to provide high quality law enforcement training.

Our request is in accordance with the current Treasury/FLETC policy that requires funding of the direct cost of basic training. The participating agencies do not request funding for these costs in their budget submissions and are fully expecting and relying upon the FLETC to provide that funding.

MASTER PLAN FTE

As I touched on in my testimony earlier, the Center is requesting $1,400,000 and 12 FTE in support of the Master Plan implementation. Master Plan construction funding provided in fiscal year 1998 and that contained in our fiscal year 1999 request totals nearly $35,000,000. Because FLETC's current administrative staff, including engineering and procurement specialists, are already fully utilized on existing Master Plan and minor construction and maintenance projects, we need additional resources to ensure the prompt processing and completion of these projects. The Master Plan FTE contained in this request will give the Center the additional support personnel necessary for management and oversight of these projects from design through construction and will ensure their timely completion.

This initiative supports goal two of the FLETC's strategic plan which is to develop, operate, and maintain state-of-the-art facilities.

INTERNATIONAL LAW ENFORCEMENT ACADEMY

The FLETC has been involved in foreign training for more than 20 years. Since 1979 the FLETC has provided training to more than 4,000 foreign law enforcement officials from more than 102 countries.

The Center's Office of State, Local and International Training (OSI) serves as the focal point for all foreign training requests received by the FLETC. OSLI, originally established in 1982 by the President to provide much needed training for state and local law enforcement agencies, has proven to be the ideal conduit for FLETC's international training efforts. Since its inception, the OSLI has received broad support from the Federal, state, and local law enforcement communities. They provide subject matter experts for course and program development as well as instructional services. The same network and support structure in place to assist state and local agencies in meeting their training needs made the OSLI a logical focal point for international training at the FLETC.

Two Administration and Congressional initiatives, the Freedom Support Act and the Support for Eastern European Democracies Act, are responsible for much of the upswing in foreign training. As you know, these acts provide law enforcement technical assistance in combating organized crime, financial crime, and narcotics trafficking to Russia, the newly independent states of the former Soviet Union, and other eastern European countries.

The majority of recent training has been provided under the sponsorship of the Department of State's Office of Antiterrorism Assistance and Bureau for International Narcotics and Law Enforcement Affairs. During the last three years programs have been conducted in Russia, Poland, Hungary, Romania and Moldavia. In addition to this training, the FLETC also provides instruction in financial crimes to students attending each session of the program conducted at the International Law Enforcement Academy (ILEA) in Budapest, Hungary.

Requests for training have grown substantially in the last few years, with student weeks of training increasing by more than 200 percent since 1994. During fiscal year 1997 the Center trained 800 foreign students, representing 1,300 student-weeks of training.

In fiscal year 1998 the Center expects to train 1,132 students, representing 2,084 student-weeks of training. The growth in foreign training has been so explosive that FLETC now finds it must deny or delay in responding to some of these requests because facilities or staff to support the request are not available.

Adding to this already heavy international training workload are other Congressional and Administrative initiatives also aimed at increasing international cooperation in combating crime. These initiatives are out pacing FLETC's resources and its ability to support training in the international arena.

In 1995, as part of Congress' and the Administration's objective to enhance cooperation and strengthening international law enforcement efforts, the Department of State established the ILEA in Budapest, Hungary. Drawing on the expertise of U.S. law enforcement agencies and participating nations, ILEA has proven to be a successful model. Although FLETC does not have the lead responsibility for ILEA, FLETC has been actively involved in supporting the training requirements of ILEA since its inception, providing instructional and program development support.

The ILEA in Budapest has enhanced cooperation and strengthened international law enforcement efforts. The great success of the ILEA model has encouraged the Administration to expand on this concept by establishing international law enforcement academies in Latin America and the Far East. At the San Jose Summit on May 8, 1997, President Clinton announced that an international law enforcement training academy would be created in Latin America (ILEA-South) before the end of 1997. Patterned after ILEA-Budapest, the goals of ILEA-South are to expand relationships with and among foreign law enforcement officials from Latin America and the Caribbean, support democracy by stressing the rule of law in international and domestic police operations, foster international cooperation and raise the professionalism of law enforcement judicial officials.

The Department of State selected the Department of the Treasury as the lead agency to establish ILEA-South. In turn, the Department, at the request of the Under Secretary for Enforcement, selected the FLETC to provide management oversight, administrative support, and guide program development for ILEA-South.

The FLETC will serve as the coordinator for this effort on behalf of all the Treasury law enforcement bureaus who are joined together in support of ILEA. A pilot training program, the Criminal Justice Managers Training Program (CJMTP), was recently conducted in Panama City, Panama, during November and December 1997.

Thirty-two students attended the first program offering of the CJMTP. The program was well received and was considered by all those involved to be a great success. Countries represented by students included Belize, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

Our fiscal year 1999 request includes $1,500,000 and 5 FTE for the management of the ILEA-South. Current demand for training assistance from the international community already exceeds the FLETC's available resources. That demand coupled with the added responsibility for management oversight and administrative support of ILEA-South makes it critical that additional resources be provided.

The ILEA-South initiative contained in our request supports goal one in FLETC's strategic plan. That goal is to provide high quality training for law enforcement.

CONVERSION OF THE FLETC DRIVER TRAINING VEHICLE FLEET

Now, Mr. Chairman, I would like to brief this Committee on the need to begin conversion of FLETC's driver training vehicle fleet from rear-wheel drive to front-wheel drive sedans. Although not part of the Center's budget request, this $900,000 initiative will allow the Center to purchase 30 front-wheel drive police package training vehicles and begin the conversion of its driver training vehicle fleet. It will be funded from the Department of Treasury's Asset Forfeiture Fund.

Over the last few years American automobile manufacturers have slowly converted their production from rear-wheel drive to front-wheel drive vehicles. Because of this change, U.S. manufactured police package automobiles are now predomi-

nantly based on front-wheel drive car platforms. As agency fleets age, older rear-wheel drive vehicles are now being replaced by the newer front-wheel drive vehicles. Nearly half of FLETC's 20 on-site participating agencies have started to convert their vehicle fleets to front-wheel drive vehicles, and GSA advises that 96 percent of the cars they purchased in 1996 were front-wheel drive cars.

Since front-wheel drive cars handle differently from rear-wheel drive cars, the FLETC must begin to update its fleet if it is to meet the training needs of the participating agencies. Students must be trained with the same type of equipment they will use when they graduate. This is the only way they can master skills that are essential for them to perform well in their jobs. Failure to provide this training will increase the potential that accidents may occur because the officers were not trained using the appropriate vehicle.

With the funding requested the FLETC will purchase 30 vehicles in fiscal year 1999. Smaller numbers of front-wheel drive vehicles cannot be added to the driver training fleet, as a class cannot have mixed vehicle types during evaluation exercises that require different reactions based on the vehicle type. Thirty is the minimum number of vehicles needed to integrate a different type vehicle into the training and provide continuity as a class rotates through the various special driving ranges.

Currently there are approximately 150 driver training vehicles in the FLETC fleet, and by fiscal year 1999 the average age of these vehicles will be nine years old. This is a five-year initiative with a total cost of $4,500,000.

The FLETC's heavy workload, the addition of two new driving ranges, the aging of the FLETC's driver training vehicle fleet, and the need to train students with the same type of equipment they will use in the field makes it imperative that FLETC begin the conversion of its driver training vehicles from rear-wheel drive to front-wheel drive in fiscal year 1999. This initiative directly supports FLETC's strategic plan goal one which is to provide high quality law enforcement training.

Now, Mr. Chairman, if I may, I would like to take a moment and briefly update the Committee on activities of our satellite training center in Artesia, New Mexico, and the activities of our National Center for State, Local and International Training.

ARTESIA OPERATIONS

The Artesia center was purchased and became operational in 1989. Training facilities at Artesia include a 164-room dormitory (of which 4 rooms are utilized as a library and snack bar), a cafeteria capable of serving 275 students per sitting, two auditoriums—one with seating for 166 and the other with seating for 85, and a physical training complex. There are 23 general purpose classrooms which will accommodate up to 740 students. Special purpose classrooms include a 24-person computer classroom and a 24-person fraudulent document lab. Other specialized facilities at Artesia include practical exercise areas, a mock courtroom, 3 matted rooms for physical techniques training, driver training and firearms ranges, an obstacle course, 36 breakout rooms, a heliport and a rappelling tower.

The Department of Interior's Bureau of Indian Affairs (BIA) Indian Police Academy moved to Artesia during 1993. In addition to the BIA training that is conducted, Artesia also serves as an advanced training site for students posted in the western United States. Additionally, because of its diverse special training facilities, it can accommodate overflow basic training that cannot be done at Glynco due to space limitations. Artesia is playing and will continue to play an important role in meeting the training requirements of the BIA and INS over the next few years.

During fiscal year 1997, the Center trained 2,962 students at Artesia. In fiscal year 1998 we expect to train 4,493 students based on April 1997 and later projections of our participating agencies and we estimate that 5,791 students will be trained at Artesia in fiscal year 1999. The majority of the increase in the fiscal year 1999 training workload is due to the advanced training requirements of the INS, USBP, and Bureau of Prisons.

Other users of Artesia in addition to those already mentioned above include the Bureau of Land Management, National Marine Fisheries Service, and the FLETC's National Center for State, Local and International Training.

The expansion of the Artesia center as authorized by the Congress is continuing essentially as planned. As I mentioned earlier in my testimony when discussing the Master Plan, many of the Artesia Master Plan projects have been completed and are in use. Nine modular buildings have also been installed to accommodate the increase in training workload resulting from the INS buildup and a contract for the expansion of the Artesia dormitory to add an additional 76 rooms was awarded in January of this year. In fiscal year 1998, the Center received Master Plan funding

for expansion of the Physical Training Complex, construction of an Office Building and the balance of funds needed for a Classroom/Practical Exercise Complex. Initial planning for those projects is underway.

NATIONAL CENTER FOR STATE, LOCAL, AND INTERNATIONAL TRAINING

Mr. Chairman, earlier in my testimony I discussed Glynco's National Center's role in supporting the Administration's and Congress' international training initiatives. However, we must not forget the important role played by OSLI in meeting the training needs of State and local law enforcement agencies. If I may, I would like to take a few minutes and brief this Committee on OSLI's state and local training activities.

As I mentioned previously the National Center was established in 1982 by the President to provide much needed training for state and local law enforcement agencies. Since its inception, the National Center has received broad support from the Federal, state, and local law enforcement communities. They provide subject matter experts for course and program development as well as instructional services.

In addition to its international training responsibilities, the National Center is charged with training personnel from state and local agencies in advanced topics designed to develop specialized law enforcement skills.

By combining the staff expertise of the participating agencies and the FLETC with the specialized training facilities already available at the FLETC, the Center is able to provide participants with instruction in advanced programs meeting their specific needs. In most cases the training enables these agencies to be more supportive of Federal agencies and their missions.

During fiscal year 1997, there were 2,562 state and local students trained through the National Center in more than 40 advanced training programs. In fiscal year 1998 we project that 1,812 state and local students will receive training through the National Center.

Because of the success of the National Center, many of these programs are being conducted on an export basis at sites across the country, including our Artesia center. This has proven to be a cost effective method to provide training to state and local agencies. Additionally, exporting training to state and local academies and other locations throughout the country increases the Center's visibility and leads to improved cooperation between the Center and state and local agencies.

In fiscal year 1998, the Center received $1,000,000 and 3 FTE for its Rural Drug Training initiative. The initiative provided funding for the delivery of training programs to state, local, suburban and rural jurisdictions to enhance their effort in combating the flow and sale of illicit narcotics. These programs, the Small Town and Rural Training Series (STAR) were developed in response to an identified need for low cost or no cost training to be provided to small town and rural law enforcement.

Originally the STAR series consisted of four programs: Airborne Counterdrug Operations Training Program, Advanced Airborne Counterdrug Operations Training Program, Drug Enforcement Training Program, and Rural Crime and Drug Enforcement Task Force Training Program. However, in keeping with the original intent of the initiative and as crimes associated with the flow, sale, and use of illicit narcotics continue to grow in numbers and complexity, the STAR series has been expanded to address the many varied elements that contribute to these types of crimes. Programs added to the STAR series by the National Center include: Community Policing Training Program, First Response Training Program, Gangs in Indian Country, and Hate and Bias Crimes Training Program.

I am pleased to report that the Center will conduct approximately 57 STAR series programs and reach approximately 1,500 students during fiscal year 1998. These numbers are even more significant since STAR programs are train-the-trainer programs. They are directed toward either managers or trainers/facilitators who upon completion of a program are capable of replicating the training in their local jurisdictions using the techniques and the materials provided. This has the effect of substantially reducing the cost of training to local jurisdictions and increasing the number of people reached by the training—a multiplier effect.

CLOSING

Mr. Chairman, I am committed to the mission of the Center to provide high quality training at the lowest possible cost. Substantial savings are being realized through the operation of the Center as a consolidated training facility. I look forward to the continued support of this Committee as the FLETC strives to remain a partnership committed to excellence.

I am available to answer any questions you may have concerning this appropriation request.

STATEMENT OF WILLIAM BAITY

Senator CAMPBELL. Mr. Baity.

Mr. BAITY. Thank you, Mr. Chairman, Senator Kohl.

On behalf of the men and women of FinCEN and especially our Director, Stan Morris, who as you know will be retiring this Friday after 30 years of Federal service, we want to thank you for the opportunity to discuss the mission and our fiscal year 1999 budget request of the Financial Crimes Enforcement Network [FinCEN].

FISCAL YEAR 1999 BUDGET REQUEST

The fiscal year 1999 budget request of $24 million continues FinCEN's support to law enforcement investigations, regulatory efforts, and international coordination. In addition, we are proposing that the violent crime reduction trust fund support three program initiatives, $500,000 to produce a statistically based model to measure the magnitude of money laundering, $200,000 to continue training for State and local law enforcement under our Gateway program, and $300,000 to more effectively analyze reports filed by banks and other financial institutions under our regulatory program.

As its name states, FinCEN is a network, a link between the law enforcement, regulatory, and the financial communities. Our strategy, therefore, is to maximize information sharing among our partners in these communities and to foster cost-effective and efficient measures to address the complex problem of money laundering.

As you have heard us before describe to this committee, FinCEN provides case support to more than 150 Federal, State, and local law enforcement agencies. Using advanced technology, specialized analysis, and a variety of data sources, FinCEN links together various elements of the crime, helping investigators find the missing pieces of the criminal puzzle.

To perform this analysis, FinCEN accesses a variety of data bases, one of the largest repositories of information available to law enforcement in this country. Critical information collected in these data bases comes from the financial community, another part of FinCEN's network.

BANK SECRECY ACT

The Bank Secrecy Act, known as the BSA and administered by FinCEN, requires banks and other financial institutions to report and keep records on certain financial transactions.

To further close off avenues to money launderers, FinCEN has ongoing efforts to bring nonbank financial institutions, known as NBFI's, under the umbrella of the Bank Secrecy Act. NBFI's include casinos, broker/dealers, money transmitters, and other financial service providers.

By necessity, FinCEN's network extends to the international community. Building international cooperation, both in the private and public sector, is imperative for two reasons. First, the Federal law enforcement cases involving international crime that we support frequently spill over into multiple national jurisdictions. The only way we can adequately assist our Federal law enforcement counterparts in following the trail of the multinational money

launderer is through linkages through multinational arrangements, such as the G–7 financial action task force and building alliances with financial intelligence units [FIU's], organizations similar to FinCEN that have been established throughout the world.

Second, criminals seek out countries with weak money laundering controls; if antimoney laundering laws are strong in one country, criminals run to another one with weaker links. Organizations like FATF and the FIU's help establish and strengthen laws against money laundering. Building a global consensus in this area is essential.

MAGNITUDE OF MONEY LAUNDERING

FinCEN's program initiatives of fiscal year 1999 will further support its network capabilities and strategies. The first initiative under the proposed fiscal year 1999 budget request is to construct a viable model for measuring the magnitude of money laundering. This will provide information that is indispensable for measuring our performance. We will know whether we are making a difference. With adequate measures of the extent of the problem, it also becomes easier for the Congress, law enforcement authorities, and international organizations to determine the amount and allocation of resources which should be devoted to antimoney laundering and to identify where it fits in national and international enforcement and regulatory agendas.

Although attempts have been made over the years by a number of countries and organizations to estimate the extent of money laundering, these studies have only exposed the lack of sufficient, available data and highlighted the need to develop a model or models for using this data. FinCEN's overriding objective over the next few years, therefore, will be to construct a viable model for measuring the magnitude of money laundering.

GATEWAY PROGRAM

A second initiative addresses one of our most important networking functions, our Gateway Program. State and local enforcement agencies, working with the designated State coordinators, trained on FinCEN-designed software, have direct access to BSA reports, information not readily available from any other source.

Gateway also saves investigative time and money because user agencies can conduct their own research and not rely on the resources of intermediary agencies to obtain BSA reports. All States and the District of Columbia are now online with this system.

In addition, Gateway enables FinCEN to assist State and local agencies in coordinating their investigations among themselves and with Federal agencies through information sharing and exchange of case data.

FinCEN has worked diligently to make this system accessible to as many people as possible. The Gateway training initiative will enable FinCEN to respond to the increasing number of requests it receives each month from State and local law enforcement. It also furthers our goal of leveraging FinCEN's resources to more efficiently and effectively serve our customers.

The third initiative addresses the importance of technology in our efforts to combat money laundering. As you have heard us say before, the world of money laundering is complex and ever-changing. Five years ago, the BSA concentrated on the reporting of currency being deposited in banks. Today, money laundering methods, as well as the financial sector itself, are undergoing constant and dramatic changes. Needless to say, the Government's resources dedicated to this fight have not increased at the same rate. Therefore, we have to do more with what we have and adopt innovative uses of technology.

Our initiative in this area will support the use of advanced technology, often referred to as data-mining. The combination of software and hardware uses a variety of automated and analytical tools to discover patterns and relationships in the data that would otherwise not be found. Taking artificial technology to its next level, data-mining will help make use of very large volumes of data bringing to the surface meaningful groups of information. Hidden activities and interrelationships previously unknown will be discovered. It is using technology at its best.

FinCEN's fiscal year 1999 budget request continues the programs which enable it to support law enforcement investigation, regulatory efforts, and international coordination. The three program initiatives, which we are respectfully proposing be funded from the violent crime trust fund are modest in terms of dollars and cents, but each initiative serves to enhance FinCEN's mission.

The ability to produce a statistically based model to explain and measure the magnitude of money laundering will not only provide law enforcement with indispensable information, but will be cost effective in the long run. The funding for Gateway will improve tools and information for law enforcement in the fight against money launderers.

We appreciate the committee's consideration of our request and the time you have given us today, and we look forward to answering any questions.

Thank you very much, Mr. Chairman.

PREPARED STATEMENT

Senator CAMPBELL. Thank you, Mr. Baity. We have your complete statement and it will be made part of the record.

[The statement follows:]

PREPARED STATEMENT OF WILLIAM F. BAITY

Mr. Chairman and members of the Subcommittee, thank you for this opportunity to discuss the mission and fiscal year 1999 budget request of the Financial Crimes Enforcement Network (FinCEN).

FinCEN works to make the prevention, detection, and prosecution of money laundering and other financial crimes more effective by adding to the knowledge and resources that law enforcement and the regulatory agencies can use to fight them.

The fiscal year 1999 budget request of $24 million continues FinCEN's support to law enforcement investigations, regulatory efforts, and international coordination. In addition, under FinCEN's appropriation, we are proposing that the Violent Crime Reduction Trust Fund support three program initiatives: $500,000 to produce a statistically-based model to measure the magnitude of money laundering; $200,000 for continued training for state and local law enforcement as part of the Gateway pro-

gram; and $300,000 to more effectively analyze reports filed by banks and other financial institutions under our regulatory programs.

COMPLEXITY OF THE PROBLEM

To better understand FinCEN's strategies in combating money laundering, it is important to provide an explanation of the complexity of the problem. Money laundering is the fuel for drug dealers, terrorists, arms dealers, and other criminals to operate and expand their enterprises. In order to unravel their illegal activities, law enforcement must be able to "follow the money trail" made by criminal enterprises. And ultimately, following the money leads to the top of the criminal organization, and thus the dismantling of these enterprises.

The problem of money laundering is enormous and extends far beyond hiding narcotics profits. The dimensions of the problem increase rapidly when one considers, for example, trade fraud and tax evasion. Bank, medical, and insurance fraud also adds billions of dollars to the criminal's profits.

FINCEN'S NETWORK AND STRATEGIES

As its name states, FinCEN is a network—a link between the law enforcement, regulatory, and financial communities. Our strategy, therefore, is to maximize information sharing among our partners in these communities and to foster cost-effective and efficient measures to address the complex problem of money laundering.

As you have heard us describe before, FinCEN provides case support to more than 150 federal, state and local law enforcement agencies. Using advanced technology, specialized analysis, and a variety of data sources, FinCEN links together various elements of the crime, helping investigators find the missing pieces of the criminal puzzle. To perform this analysis, FinCEN accesses a variety of data bases—one of the largest repositories of information available to law enforcement in the country.

Critical information collected in these databases comes from the financial community, another part of FinCEN's network. The Bank Secrecy Act (BSA), administered by FinCEN, requires banks and other financial institutions to report and keep records on certain financial transactions. This requirement serves as a means to deter money laundering and as a way to create a financial trail for investigators to follow criminals and their assets. BSA records include information not only on large currency transactions, but information related to transactions that the banks believe are suspicious; currency transactions at casinos; international movements of currency; and foreign bank accounts. FinCEN puts the rules in place that banks and others must follow to prevent and detect money laundering and also is one of the primary users of the information collected. To further close off avenues to money launderers, FinCEN has ongoing efforts to bring non-bank financial institutions (known as NBFI's), under the umbrella of the BSA. NBFI's include casinos, broker/dealers, money remitters and other financial service providers.

By necessity, FinCEN's network extends to the international community. The proceeds of crime generated in the U.S. move quickly across national boundaries and into the world's financial systems. International crime is just that—international. Building international cooperation, both in the private and public sector, is imperative for two reasons.

First, the federal law enforcement cases involving international crime that FinCEN supports frequently spill over into multiple national jurisdictions and the web of global financial services. The only way we can adequately assist our federal law enforcement counterparts in following the trail of the multinational money launderer is through linkages with multi-national arrangements such as the G–7 Financial Action Task Force (FATF) and building alliances with the Financial Intelligence Units (FIU's)—organizations like FinCEN—established around the world.

Second, criminals seek out countries with weak money laundering controls; if anti-money laundering laws are strong in one country, criminals run to another with weaker ones. Organizations like FATF and the FIU's help establish and strengthen laws against money laundering, leaving fewer avenues for money launderers. Building a global consensus is essential.

FinCEN's program initiatives for fiscal year 1999 will further support its network capabilities and strategies.

INITIATIVE: MEASURING THE MAGNITUDE OF MONEY LAUNDERING

No assessment of an agency's or government's anti-money laundering programs can be a true gauge of its effectiveness, unless it is based on an understanding of the breadth of the problem being addressed. The first initiative under our proposed fiscal year 1999 budget request will help leverage limited law enforcement resources by providing information on where anti-money laundering efforts would best be di-

rected. I would also stress that this initiative is the foundation for our strategic planning and at the heart of measuring our performance. If we are able to construct a viable model for measuring the magnitude of money laundering, FinCEN will be able to review all of its objectives in a more meaningful way. We will know whether we are making a difference.

We believe the ability to measure the magnitude of money laundering will add value in four key areas:

Understanding the magnitude of the crime.—With adequate measures of the extent of the problem, it becomes easier for the Congress, law enforcement authorities, and international organizations to determine the amount of resources which should be devoted to anti-money laundering and where it fits in national and international enforcement and regulatory agendas.

Understanding the effectiveness of counter-money laundering efforts.—Without a baseline, it is difficult to measure how—and whether—efforts to prevent and detect money laundering are working. The absence of scales for measurement, in turn, makes evaluation of particular programs or approaches problematic. It hampers the efficient allocation of resources among various enforcement functions or regions. And it hinders effective justification for (sometimes costly) regulatory measures designed to deter money launderers.

Understanding the macro-economic effects of money laundering.—A central justification for counter-money laundering, especially international counter-money laundering programs, is the adverse effects of money laundering on financial institutions and economies. The International Monetary Fund, in studies of this problem, has indicated a number of possible effects:

—changes in demand for money;
—exchange and interest rate volatility;
—heightened risks to the safety and soundness of financial institutions;
—adverse effects on tax collection and, ultimately, on fiscal policy projections; and
—contamination effects on particular transactions or sectors and behavioral expectations of market actors.

Without reliable data or models that measure the degree of money laundering, it is impossible to prove the fact or gauge the size of these effects.

Understanding the components of money laundering.—Money laundering is often misunderstood. It is not one act or kind of transaction; it can take many different forms, and the proceeds of various crimes are laundered in different ways. Trying to measure the magnitude of the problem forces us to focus on these distinctions and on the different components of the crime we call money laundering.

Although attempts have been made over the years by a number of countries and organizations to estimate the extent of money laundering, these studies have only exposed the lack of sufficient, available data and highlighted the need to develop a model or models for using the data which has been collected.

FinCEN's overriding objective over the next few years, therefore, will be to construct a viable model for measuring the magnitude of money laundering.

INITIATIVE: NETWORK FOR STATE AND LOCAL GOVERNMENTS

FinCEN's second initiative addresses one of its most important networking functions—the Gateway Program. The Gateway network extends to state and local governments in order to ensure the widest possible anti-money laundering effort.

State and local law enforcement agencies, working with designated state coordinators who are trained on the special FinCEN-designed software, have direct access to over one hundred million reports filed under the Bank Secrecy Act, the largest currency transaction reporting system in the world. These investigators also have access to the Suspicious Activity Reporting System which contains reports filed by banks on transactions that appear to represent attempts to launder funds or violate the banking laws. This information often provides invaluable assistance for investigators because it is not readily available from any other source.

The Gateway system saves investigative time and money because subscribing agencies can conduct their own research and not rely on the resources of an intermediary agency to obtain BSA reports. All states and the District of Columbia are now on-line with the system. In fiscal year 1997, Gateway processed 57,663 queries from 50 states. As of February 1, 1998, there were approximately 400 active users of the system.

During the research and analysis process, Gateway electronically captures the information gathered on incoming inquiries and automatically compares this information to subsequent and prior queries from Gateway customers. Over 25,000 subjects have been identified through Gateway.

In addition, Gateway users ask FinCEN to match about 600 new subjects each month against its other databases to identify potential parallel investigations. This technique enables FinCEN to assist state and local agencies in coordinating their investigations among themselves, and with federal agencies through the sharing and exchanging of case data. (In other words, FinCEN has the ability to "alert" one agency that another has an interest in their subject.) In fiscal year 1997, 460 "alerts" were given to agencies that had an interest in the same investigative subject. In just the past four months, 240 "alerts" were issued.

Since the inception of Gateway in 1993 , almost 650 representatives of state and local law enforcement (including state attorneys general offices) have been trained on Gateway. In fiscal year 1997, 166 investigators or analysts from 33 states were trained on the Gateway system.

FinCEN has worked diligently to make this system accessible to as many people as possible. The need for training, however, continues to increase. FinCEN is currently receiving 12 to 15 new training requests each month. The training initiative in FinCEN's fiscal year 1999 budget request is a result of two factors: turnover in positions held by state financial investigators and an increase in the overall number of investigators who are requesting use of the system. Since fiscal year 1996, there has been a 46 percent increase in training requests.

This initiative will further FinCEN's goal of leveraging its resources to more efficiently and effectively serve its customers.

INITIATIVE: GREATER USE OF TECHNOLOGY

The world of money laundering is complex and ever-changing. Five years ago, the BSA concentrated on the reporting of currency being deposited into banks. Today, money laundering methods, as well as the financial service sector, have changed dramatically. Our success at deterring and identifying large currency deposits has forced criminals to use alternative and more sophisticated methods to gain access to the financial systems. As a result, we have had to employ more sophisticated counter measures. Now financial services are provided by hundreds of thousands of entities ranging from traditional depository institutions to broker dealers, state and Indian casinos, check cashers, currency exchangers, issuers and sellers of money orders and travelers checks as well as money transmitters.

Needless to say the government's resources dedicated to this fight have not increased at the same rate. Therefore, we have had to do more with what we have. As indicated earlier, we have done this by developing partnerships with the affected industries that share our mission, as well as with other nations. And we have found another weapon in our arsenal—innovative uses of technology. In this area, FinCEN analysts are pioneers. They use state-of-the-art technology not only to strengthen their own capabilities, but also to improve the means by which they provide investigative support and analysis to law enforcement.

Our initiative in this area will support the use of advanced technology—data mining. This combination of software and hardware uses a variety of automated analytical tools to discover patterns and relationships in data that may otherwise be overlooked. Taking Artificial Intelligence technology to its next level, data mining helps make use of very large volumes of data—bringing to the surface meaningful groups of information.

Let me offer a very simplistic explanation as it relates to the retail industry. Data mining has been used for several years in the retail industry to try and predict the buying habits of consumers. For instance, in what is called the "shopping cart phenomenon," supermarkets use data mining techniques to analyze the buying patterns of shoppers—which in turn help them decide which grocery items should be in close proximity to each other in the shopping isles.

I see FinCEN's application of data mining in a very similar way, not using consumer data—but the data that we already require from banks and other financial institutions. As described earlier, FinCEN uses a variety of information for its analysis—including Currency Transaction Reports; Suspicious Activity Reports; Reports of International Transportation of Currency or Monetary Instruments; Currency Transaction Reports filed by Casinos; and, in the future, reports filed under the proposed Money Services Businesses regulations. Through the implementation of data mining techniques, our analysts would be able to bring to the surface hidden activities and interrelationships that were previously unknown between these various data sources.

For instance, let's assume a business—XYZ Corporation—is under investigation by law enforcement authorities for money laundering violations. After examining the pattern of XYZ's financial activity, we can apply this suspicious activity pattern to the rest of the data bases—and "mine" for other businesses which match the pro-

file we have created. Much like the supermarket trying to determine its customer's buying habits, we also want to predict activity—of potential money launderers. Data mining will allow us to do just that. It's technology at its best.

CONCLUSION

FinCEN's fiscal year 1999 Budget request continues the programs which enable it to support law enforcement investigations, regulatory efforts, and international coordination. The three program initiatives which we are respectfully proposing be funded from the Violent Crime Reduction Trust Fund are modest in terms of dollars and cents, but each initiative serves to enhance FinCEN's mission.

The ability to produce a statistically-based model to explain and measure the magnitude of money laundering will not only provide law enforcement with indispensable information but will be cost effective in the long term. The funding for Gateway, along with our technology efforts, improves the tools and information for law enforcement in its fight against money launderers. We appreciate the Committee's consideration of our request and the time you have given us today to illustrate key aspects of FinCEN's mission.

MONTANA SECRET BANKING PROPOSAL

Senator CAMPBELL. I would like to yield to Senator Kohl, if he has some questions.

Senator KOHL. All right. Well, I will ask Mr. Baity a question and keep it to that.

Mr. Baity, we keep hearing about the Montana secret banking proposal. Last month, they developed regulations that would establish the State as an offshore banking haven to allow special depositories for overseas clients seeking privacy.

Would an overseas client receive any benefit from placing their money in Montana as opposed, for example, to the Cayman Islands or Switzerland? First question.

Mr. BAITY. Well, if I could, Senator, to put it in context, as we understand it, the Montana Foreign Currency Depository Act, as they call it, allows only foreign citizens to invest in a newly created depository institution.

When they first announced their intent to enact this statute, we along with the Department of Justice, met with them and actually testified to ensure that our concerns, especially from the money laundering aspect, would be met. In fact, we did get compliance from Montana. They included in their legislation that any such depository institution would be subject to the Bank Secrecy Act.

We are of the opinion that any depository charter that they would give would clearly be subject to the BSA including all of the reporting requirements.

Senator KOHL. Are there other States that have shown any interest in establishing such an operation?

Mr. BAITY. Yes, sir; in fact, Hawaii is in the process of actually studying the possibility of creating a similar act.

I would point out, to date there has been no charter granted to any institution in Montana, but there remains several issues that we intend to keep monitoring. As you know, when a foreigner or foreign institution wants to open a bank in the United States, a supervisory regulatory agency has the ability to ensure that those persons are not suspected of any criminal activity.

We are concerned with Montana that there is no such provision in place, and we are under discussions with them to ensure that before they move forward, a vetting process will exist, as well as

an ability to train their people for compliance. So we are carefully paying attention to that.

Senator KOHL. I thank you, and I thank you, Mr. Chairman.

SUBMITTED QUESTIONS

Senator CAMPBELL. I have a number of questions to submit to each one of you, and if you could, get those back in writing as soon as you can. We will keep the record open for about 2 weeks, if you could answer those questions for me.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR CAMPBELL

UNDER SECRETARY FOR ENFORCEMENT

Question. Based upon the protective travel shortfalls in the Secret Service budget, what specific recommendations is the Treasury Department considering to address this problem for the long term?

Answer. The Department is carefully reviewing this situation to first determine exactly what is causing the Service's need for increased protective travel funding, and second to identify ways to address it. Once we determine whether the increased level of costs relative to protective travel are expected to continue, and are not simply the result of a temporary and extraordinary jump in protective workload, the Department may consider proposing changes to the Service's fiscal year 1999 Budget Request.

Question. In light of the fact that the Secret Service expects to have a $13 million shortfall in their protective travel budget for fiscal year 1998, how does the Treasury Department plan on providing funds for such shortfalls—now and in the future?

Answer. The Department is considering several options for addressing the Service's protective travel shortfall this fiscal year and will be discussing these options with the Committee.

Question. The fiscal year 1998 Treasury appropriations included a directive to the Office of Professional Responsibility to conduct a study to assess the vulnerability of U.S. Customs Service personnel. Please provide an update on this study. Has the difficulty in hiring staff for the Office of Professional Responsibility delayed or impacted the study?

Answer. We share the Committee's concern regarding potential corruption issues at the U.S. Customs Service and we appreciate your support for the Office of Professional Responsibility (OPR) which will allow us to more closely examine and propose integrity initiatives. Because we did not have the OPR staff on board we hired an individual to conduct a preliminary assessment of Customs' Office of Internal Affairs. This individual is extremely experienced in this area and served as a Federal prosecutor and as the head of the New York City Police Department's Office of Internal Affairs. He has submitted a final draft report to my office, which serves as the starting point of OPR's review.

Unfortunately, it did take longer than anticipated to hire our OPR staff. We received a very large number of applications and the Federal personnel rules made review of those applications cumbersome. We did an extensive review of the applications, which included interviews of candidates conducted by a number of senior officials including myself and the law enforcement bureau heads. As a result of this thorough process, we have hired four professional staff and two support staff for OPR. One of our new hires is a highly qualified Internal Affairs Advisor who has reviewed our consultant's draft report and is now commencing the study requested by the Committee.

GOVERNMENT PERFORMANCE AND RESULTS ACT OF 1993

Agencies were required by the Government Performance and Results Act of 1993 to submit their performance plans with the fiscal year 1999 budget request. The performance of agencies during fiscal year 1999 in meeting their strategic plans will play a large role in the budget decisions made in fiscal year 2000.

Question. Does each account and program activity for the Office of Enforcement have performance measures associated with it?

Answer. While we do not classify the measures by account and program activity, we do have specific performance measures for each of the office's missions.

Question. Does your plan include performance measures for which reliable data are not likely to be available until March 2000?

Answer. No, we currently expect to have sufficient information.

Question. Do you have the technological capability of measuring and reporting program performance throughout the year on a regular basis, so that the agency can be properly managed to achieve the desired results?

Answer. We currently believe that technological capabilities will not restrict our capability to measure program performance.

Question. Throughout the development of the fiscal year 1999 performance plan, what overlapping functions or program duplications were identified?

Answer. No significant overlapping functions or program duplications were identified as part of the performance plan development for the Office of Enforcement.

Question. Did those duplicative programs receive funding in the fiscal year 1999 budget?

Answer. Not applicable. No significant overlapping functions or program duplications were identified as part of the performance plan development for the Office of Enforcement.

Question. What do you believe will be the most difficult performance goal for the Office of Enforcement to reach in fiscal year 1999?

Answer. While we currently feel it is attainable, annual goal 1 will probably be the most challenging. It incorporates the establishment of a new office and the myriad issues that are encountered in such an effort: staffing, organization, operating procedures, etc. in addition to the achievement of the office's goals for the year.

Question. Have you redirected resources to that particular goal?

Answer. Yes. As noted above, this goal involves the creation of a new office within Enforcement, and includes the additional staffing and resources required to meet this goal.

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

VIOLENT CRIME COORDINATORS

Question. The Administration is requesting $2 million for "violent crime coordinators". It is my understanding that these folks will be assigned to work directly with the U.S. Attorneys, at their request, to build cases involving firearms violations. Will the Justice Department assist in funding this program?

Answer. The Justice Department will not assist in funding this program.

EXPLOSIVES INSPECTIONS

Question. You have received funding in fiscal year 1998 for additional explosives inspectors. When those folks are all on board, what percentage of explosives storage locations will be inspected each year?

Answer. Once all staff are hired, trained, and performing inspections, ATF plans that 80 percent of explosives storage locations will be inspected annually.

VEHICLES

Question. Your fiscal year 1999 Budget includes a request of $3,700,000 for vehicle replacement. This is in addition to the planned $4,000,000 disbursement from the Treasury Forfeiture Fund in fiscal year 1999 for vehicles and radios. In fiscal year 1998, ATF received $4,500,000 from the Violent Crime Reduction Trust Fund (VCRTF) for vehicle replacement. This is a total of $12,200,000. ATF currently has 3,894 employees, and is hoping to increase that to 4,038 in fiscal year 1999. That is over $3,000 per employee, including part-time and temporary employees, for vehicles over two years. How do you justify this level of expenditure?

Answer. The average price of an equipped sedan is actually over $20,000 and special purpose vehicles such as special response team vans or mobile laboratories cost much more. Additionally, each ATF employee is not issued a government vehicle.

ATF's fleet has an average mileage rate of over 67,000 miles per vehicle. The average replacement cycle should be three years if the fleet is to remain up to GSA standards. The funding request maintains a direct base so that a regular replacement cycle can be maintained, rather than have sporadic purchases from other funding sources.

GSA SURCHARGE FOR SECURITY REQUIREMENTS

Question. The General Services Administration has decided that they will no longer foot the bill for security enhancements at locations housing Federal agencies. As a result, those increased costs are being billed to the agencies themselves, and funding is requested in fiscal year 1999 Budget for this increase. ATF headquarters is currently leased space and the owner refuses to allow installation of additional security, which is part of the reason why ATF is requesting funding for a new building. However, if GSA is not supplying additional security at headquarters, what is the $1,221,000 increase in GSA rent for?

Answer. The $1,221,000 is not for headquarters nor is it for GSA rent. These funds are for security requirements at our field facilities and are considered a GSA surcharge. GSA is requesting reimbursement for annualized operating costs associated with security enhancements.

YOUTH CRIME GUN INTERDICTION INITIATIVE

Question. The expansion of the Youth Crime Interdiction Initiative into an additional 10 cities also envisions hiring six agents for each of the 27 YCGII cities for a total of 162 agents. The actual tracing of the crime guns is conducted by the National Tracing Center. Will additional resources be necessary to handle the increased number of guns which you hope will be traced as a result of this expansion?

Answer. The additional agents will improve ATF's ability to follow up on investigative leads produced through increased tracing. As far as the National Tracing Center is concerned, we believe that the present staffing levels are sufficient for handling the additional trace requests we anticipate as a result of the YCGII expansion. As the service expands to meet the demands of law enforcement in the long term, we will re-evaluate space and other issues as they become relevant.

GREAT

Question. ATF is requesting $10,000,000 from the VCRTF for grants to State and local jurisdictions for Gang Resistance Education and Training (GREAT) Program. This is the same amount that was appropriated in fiscal year 1998. Will this be sufficient to accommodate all state and local entities who have expressed an interest in participating in GREAT?

Answer. No. ATF has received applications for funding which exceeds the current appropriation by $8,000,000.

Question. If not, what funding level would be necessary in order for all interested parties to participate?

Answer. To meet the current demand for funding, an additional $8,000,000 would be needed.

AMENDMENT TO THE FEDERAL FIREARMS REGULATIONS—NPRM

Question. You will recall that the Department published a notice of proposed rule making on August 27, 1997 concerning an amendment to the Federal firearms regulations. This amendment would require federal firearms licensees to not only post a sign on their premises, but to also provide written notification with each handgun that they sell. This notification would, for example, advise each firearms purchaser about the dangers of a handgun and how to handle one safely. I am sure that the Bureau received many comments on the proposed rule making, Where do we stand on that proposed rule making?

Answer. Over 62 comments were received and evaluated in response to ATF's notice of proposed rulemaking. The final rule and poster are now in review within ATF and should be published in the near future.

Question. What does the Department intend to require in these notices?

Answer. The notice will advise that it is illegal to transfer handguns to juveniles, provide possible penalties for transferring a handgun to a juvenile, state that handguns contribute to juvenile violence, and indicate that safe storage of handguns is advisable. The Bureau is currently evaluating the comments received regarding the notice and will incorporate any appropriate changes in the final rule.

RECLASSIFICATION OF CONVENTIONAL SHOTGUNS—NRA CONCERNS AND REGISTRATION

Question. It has come to my attention that ATF sent letters last summer to a number of Federal firearms licensees regarding ATF rulings concerning the reclassification of conventional shotguns, such as the Striker 12, the Streetsweeper, and the USAS–12, as destructive devices under the National Firearms Act. These rulings were made by the Secretary of the Treasury in 1994. It appears that the letters sent

last summer is the beginning of efforts by ATF to implement the rulings through a voluntary compliance initiative.

I have been told that the National Rifle Association has written to ATF on this matter, offering to widely publish and disseminate information about how owners of these particular firearms can voluntarily comply with the National Firearms Act. The NRA has not yet received a written response. What action is ATF currently taking to address the NRA's concerns and the information dissemination offer with regard to the rulings?

Answer. In August 1997, ATF began to notify Federal firearms licensees of the need to effect registration of certain destructive devices, Striker 12, Streetsweeper, and the USAS–12, under the National Firearms Act. On August 21, 1997, Ms. Tanya Metaksa, Executive Director of the Institute for Legislative Action of the NRA, wrote a letter to Director Magaw regarding this initiative. In its letter, the NRA offered to assist the Bureau in informing the general public on this issue by working with ATF on an article for publication in American Rifleman. We apologize for the delay in our response and are in the process of finalizing our reply.

Question. I understand that ATF is not requiring that a tax be paid to register the shotguns under the National Firearms Act, and that ATF is not trying to obtain the law enforcement certification for registration purposes. However, it will be difficult for the public to respond without any general awareness that they need to do so. What is ATF doing to make the gun owning public aware of this compliance matter?

Answer. The tax situation is only applicable to the registration of the Striker 12, the Streetsweeper and the USAS–12. When an entity or individual attempts to register one of these weapons, on an ATF Form 1, Application to Make or Register a Firearm, ATF does not require the payment of tax or the law enforcement certification. ATF's efforts towards making the public aware of this matter are noted above.

YOUTH CRIME GUN INTERDICTION INITIATIVE

Question. You have asked for an additional $16 million for the Youth Crime Gun Interdiction Initiative and 81 FTE's to go with it. Realistically speaking, how many of those FTE could be hired in fiscal year 1999?

Answer. ATF will hire 162 positions which will equate to the 81 FTE requested in the fiscal year 1999 President's budget request.

Question. Is there any intention to take the funds that would be allocated for salaries and expenses in this additional $16 million and use it to pursue measures that would present additional obstacles or requirements for law abiding citizens to own firearms?

Answer. ATF will not take funds allocated for salaries and expenses in the additional $16 million and use it to pursue measures to present additional obstacles or requirements for law abiding citizens to own firearms.

Question. Is the use of the funds restricted solely to efforts to target the unlawful diversion of firearms to gangs and criminals?

Answer. Yes. All Youth Crime Gun Interdiction Initiative funding is to be used to address the problem of illegal diversion of firearms to juveniles, youth gang offenders, and criminals.

GOVERNMENT PERFORMANCE AND RESULTS ACT—ATF'S PERFORMANCE PLAN

Question. Agencies were required by the Government Performance and Results Act of 1993 to submit their performance plans with the fiscal year 1999 Budget request. The performance of agencies during fiscal year 1999 in meeting their strategic plans will play a large role in the Budget decisions made in fiscal year 2000. Does each account and program activity at ATF have performance measures associated with it?

Answer. Each activity at ATF has performance measures associated with it as outlined in the table below:

Program activity	*Performance measures*
Reduce violent crime ...	Crime related costs avoided. Future crimes avoided. Number of persons trained/developed (non-ATF). Number of Traces. Average Trace response Time (in working days).

Program activity	*Performance measures*
Collect the revenue	Taxes/fees collected from alcohol, tobacco, firearms, and explosives industries (dollars in billions).
	Ratio of taxes and fees collected vs. resources expended to collect.
	Burden hours reduced.
Protect the public	Response to unsafe conditions and product deficiencies discovered. (Explosives).
	Commodity seminars held.

More detailed definitions of our performance measures may be found on pages AFT–34 through 36 of the Department of the Treasury Budget.

Question. Does your plan include performance measures for which reliable data are not likely to be available until March 2000?

Answer. All data is either available now, or under development and will be readily available by March 2000

Question. Do you have the technology capability of measuring and reporting program performance throughout the year on a regular basis, so that the agency can be properly managed to achieve the desired results?

Answer. We are in the process of designing and implementing tracking and reporting systems, compatible with our Enterprise Systems Architecture (ESA), which will capture the results of key projects and programs.

Question. Throughout the development of the fiscal year 1999 performance plan, what overlapping functions or program duplication were identified?

Answer. ATF has contributory goals with the Department of the Treasury and the Office of National Drug Control Policy (ONDCP) in that ONDCP's success in meeting its ten year goals, relies on implementation of Treasury's and ATF's goals on drug interdiction and reduction of violent crime.

ATF's Integrated Ballistics Identification System (IBIS) project is somewhat duplicated by FBI's Drugfire program, but the National Integrated Ballistic Network Board (composed of representatives from ATF, the FBI, and the National Institute of Standards and Technology) is working to interlace the two systems. No other program overlaps were identified during the development of the fiscal year 1999 performance plan.

Question. Did those duplicative programs receive funding in the fiscal year 1999 Budget?

Answer. No other program overlaps were identified during the development of the fiscal year 1999 performance plan.

Question. What do you believe will be the most difficult performance goal for ATF to reach in fiscal year 1999?

Answer. The performance goals associated with the Reduce Violent Crime activity will likely be the most difficult.

Question. Have you redirected resources to that particular goal?

Answer. Yes. The Bureau has moved the Gang Resistance Education and Training (GREAT) Program from the Protect the Public activity to the Reduce Violent Crime activity.

Question. The fiscal year 1997 performance plan was based upon goals of specific performance percentages, some of which were exceeded and others which were not met. For example, the goal for firearms applications was that 84 percent would be processed within 60 days, was not met. However, the number of traces conducted by the National TRACING Center far exceeded the goal of 150,000. Do you also have similar detailed goals for fiscal year 1999?

Answer. We are in the process of developing a set of performance measures and indicators which will reflect the outcome, or results, of ATF's work at the project, program and activity levels. We will continue to track output measures in our records, but future performance measures will be more reflective of outcome oriented results.

U.S. CUSTOMS SERVICE

NON-INTRUSIVE INSPECTION TECHNOLOGY

Question. You have mentioned in your testimony that Customs has developed a five-year technology plan. What did Customs use as its guideline during the development of this plan?

Answer. Customs has briefed Administration and Congressional staffs on this plan between December 1997 and February 1998. Several factors guided us in the development of this plan. These included:

—Our own extensive experience in developing and deploying effective new technologies for non-intrusive inspection, covert tracking and surveillance, communications, and vehicle processing.
—Technical advice and assistance from several agencies, but principally from the DOD Counterdrug Technology Development Program, the ONDCP Counterdrug Technology Assessment Center (CTAC), and the FAA Aviation Security R&D Program.
—The workload volumes, smuggling opportunities, commodity characteristics, and operational constraints at each port included in the plan.
—Knowledge of the new and emerging technologies that will provide effective, timely, and affordable support to our requirements.

Question. Does the five year plan implement a five year replacement cycle for all of Customs' technology?

Answer. We hope that these technologies would have a useful life closer to 10 years rather than five. The plan includes funding for the maintenance, repairs, spare parts, and other logistics support that will keep the new equipment useful through this time period. The plan does not provide a five year replacement cycle or any logistics support for our current technologies that are now in the field.

Question. There is $54 million requested in your fiscal year 1999 budget for non-intrusive inspection technology. Would you characterize this equipment as mobile or stationary?

Answer. These funds will provide a variety of inspection technology including $41 million of new equipment for the Southwest Border, $10 million for equipment at high-risk seaports (2 systems), and $3 million for Automated Targeting System modules for both sea and land ports (12 systems).

A potential array of technology to be procured could be itemized as follows:

The Mobile Truck X-ray Systems (7 systems) are just that; they can travel over any roads to reach a port, can operate in any area wide enough for two trucks to pass, and can be set up or taken down within minutes.

The Gamma-ray Imagers (11 systems) for trucks and sea containers are easily relocated; they require less than half a day to set up or take down and are easily transported in a small truck between ports.

The Heavy Cargo Pallet X-ray System (7 systems) can be transported to another site when necessary, but will require several days to assemble or disassemble. This is a large system, as it must be to handle cargo weighing up to 10,000 pounds and up to 8 feet wide and high.

The Rail Car Examination System (4 systems) we are currently considering is a variation of the Gamma-ray Imager for trucks; it also would be easily relocated between rail sites, although some prior site preparation may be necessary.

Customs, in partnership with DOD, ONDCP, OMB, and the Congress, will continue to evaluate new technologies as they evolve to determine if they would meet our mission requirements. If such technology is found to better fulfill Customs requirements, current plans would be modified to take advantage of this development.

Question. What will be the approximate annualization of maintenance costs for the $54 million of technology requested in fiscal year 1999?

Answer. We expect the annual recurring maintenance costs for this equipment to be approximately $5–$8 million. This includes preventive maintenance, repairs, spare parts, initial and recurring training of operators, compilation of service and performance records, and other logistics support throughout the life cycle of the equipment.

Question. Are there any research and development costs included in the $54 million technology request?

Answer. The requested funding is for the acquisition of proven technology that was developed and evaluated under previous programs by Customs, DOD, or ONDCP. Therefore, there are no R&D costs included in this request. We know that we must remain alert to changing operational requirements and technological capabilities, but expect that any necessary R&D would occur from sources other than this request.

Question. In last year's information submitted as part of the record, Customs listed those technologies which were the most effective, are those same technologies included in the five year plan?

Answer. The technologies we listed last year were the large-scale truck X-ray system, mobile truck X-ray system, transportable gamma-ray imaging system, X-ray vans and pallet X-ray machines, and various hand held devices such as Busters, laser range finders, and contraband detection kits.

The five year plan includes a large number of mobile truck X-ray and gamma-ray imaging systems; the plan also includes an eventual up-grade of the current large scale truck X-ray systems.

The five year plan also includes three inspection technologies that were not fielded or fully defined last year; these are the heavy cargo pallet X-ray, the sea container X-ray, and rail examination systems.

DETECTION TECHNOLOGY

Question. Is there currently technology available to Customs which could be used for the different aspects of the Customs mission, specifically the detection and monitoring of air, land and marine operations?

Answer. There is no single technology or multiple-use system that we are aware of that could detect and monitor targets for all air, land, and maritime activities. However, there are several types of satellite-based electronic tagging and tracking systems that could monitor suspect air, land, or marine movements once the target plane, vehicle or boat has been detected and a tracking device covertly installed.

There are some radar systems currently deployed that either are, or can be, capable of detecting and monitoring most air and maritime targets of interest to Customs. These include the airborne radars in Customs P–3 AEW aircraft and the DOD aerostats that can detect targets up to 150 miles away, and the radars in the Customs Citations and other Customs, Coast Guard, or military aircraft that can detect targets up to several miles away.

The land-based DOD Relocatable Over-the-Horizon Radar (ROTHR) can detect and monitor air targets, and ultimately marine targets, that are several hundred miles away.

Cost benefit analyses for the effectiveness of the P–3, aerostat, and ROTHR were conducted in the early development and cost justification days of these programs. They concluded that each was effective for the multi-agency applications for which they were being used (e.g., Customs, Coast Guard, INS, and DEA enforcement activities, and DOD early warning missions).

INFORMATION TECHNOLOGY

Question. Why did Customs propose a User Fee to fund the ACE program?

Answer. Customs is proposing legislation to increase to the Merchandise Processing Fee (MPF) to generate the revenue necessary to fund the development of the Automated Commercial Environment (ACE) and an enterprise architecture. The funds generated from the MPF increase would be directly available to Customs solely for this purpose. The current automated system is over 14 years old, costly to maintain, and does not provide the flexibility and efficiency required in today's environment. It is widely recognized that Customs must modernize its automated commercial operations in order to meet the needs of the trade community and to comply with various legislative requirements, such as the Customs Modernization and Informed Compliance Act (MOD Act) and the Chief Financial Officers Act.

While some appropriated funding will be required in lieu of MPF collections for costs associated with processing merchandise from countries exempted under NAFTA, the remaining costs for modernization cannot be absorbed from base funds. The Administration sought alternative ways to fund this high priority initiative. The MPF increase was chosen because it attributes the costs directly to those who will benefit the most, and it can consistently generate the funds required over the time needed for deployment.

Question. How will Congress and Treasury be able to maintain its oversight responsibilities of the program if a User Fee is enacted?

Answer. Customs proposal to increase the Merchandise Processing Fee (MPF) is strictly a mechanism to generate additional funding for the modernization of Customs automated commercial operations. It is not intended to circumvent any oversight responsibilities of Congress or the Treasury. If Customs proposal is enacted, the legislation would provide funding through a "current" and "indefinite" appropriation. This would mean that Customs would have to request authority from the Appropriators each year to use the offsetting receipt funds generated by an MPF increase. In addition, Customs would still be accountable for the controls set forth in the Clinger-Cohen Act and Congress would continue to maintain an important oversight role on this project.

In addition, the proposal would not have any impact on Treasury oversight responsibilities. Customs currently provides monthly updates and milestone revisions to the Treasury Investment Review Board (TIRB), and conducts regular working group meetings with Treasury Management and Chief Information Officer (CIO) staff. Moreover, Customs provides periodic briefings to OMB to ensure compliance with "Raines Rules." The OMB apportionment process and Treasury's TIRB oversight role provide additional assurance that resources will be responsibly used. Cus-

toms does not anticipate any diminishment in the oversight responsibilities within the Administration or the Congress if the MPF increase is approved.

CUSTOMS INTEGRITY ASSURANCE INITIATIVE

Question. Customs integrity is a continuing hot-button issue, and there is a new initiative this year for $6 million which would allow Customs to conduct more special operations with other Federal agencies and increased emphasis in integrity throughout the hiring process. What impact will this new initiative have on the vulnerability of Customs Service personnel?

Answer. Customs plans to use the requested funding to reduce the vulnerability to integrity problems of Customs employees. Customs will also revise the pre-employment screening process, thereby reducing the likelihood that unsuitable personnel are hired. Elements of the initiative which will decrease Customs vulnerability include:

Special Operations.—Undercover operations are essential to the successful investigation of allegations of criminal misconduct and corruption by Customs employees. (Corruption investigations are those involving bribery, smuggling, and narcotics.) These operations have special approval mechanisms, in accordance with the Department of the Treasury guidelines, and allow for use of covert activities in accordance with the provisions of Title 19 USC. Customs requires additional funding to conduct additional special operations. During fiscal year 1997, the Office of Internal Affairs conducted 5 undercover operations. These operations cost approximately $425,000, and resulted in 20 arrests, including 5 Customs employees; in addition, 3 Customs employees resigned in lieu of prosecution.

Polygraph Examinations.—Upon OPM approval, pre-employment polygraph examinations will be given to all applicants for criminal investigator positions. This action will reduce the potential of hiring candidates at risk for integrity problems. Polygraphs are presently used as an aid in the investigation of possible criminal activity by employees. During fiscal year 1997, 18 polygraph examinations were used in these investigations: 3 revealed no deception; 10 indicated deception, which resulted in 2 admissions of guilt; 2 were inconclusive; and 3 employees exercised their right to decline participation.

Quality Recruitment Initiative.—Corruption vulnerabilities in the recruitment and hiring process for law enforcement occupations will also be addressed through a revised screening process. This process will consist of a series of "hurdles," including automated prescreening, a test of reasoning skills, suitability assessment tests, and structured interviews. The automated prescreening process will allow use of a touch-tone telephone to answer questions concerning OPM minimum qualifications and general suitability requirements, such as previous or current drug use.

Electronic Fingerprint Technology.—The FBI processes fingerprint checks as a required part of the background investigations performed on all applicants for Customs positions. Background investigations reduce the potential of hiring at risk candidates, thereby improving the integrity of the Customs work force. The FBI has implemented an automated system and expects all Federal agencies to do likewise. Electronic transmission and processing is more efficient and less costly than the use of manual fingerprint cards.

Investigative Support Equipment.—Technical surveillance equipment, communications equipment, forensic equipment and similar items are essential to the successful conduct of additional criminal investigations of Customs employees.

BASE FUNDING AND PROGRAMS

Question. In your fiscal year 1999 request you continued base funding for the Softwood lumber, child pornography investigations, and Project Alert, please list the amount of funding each program will receive as part of your fiscal year 1999 budget. Please elaborate on the Customs' money laundering coordination center, which is to be in operation in 1998, where it is located, and its purpose.

Answer. In addition to standard trade compliance and inspection operations, the President's fiscal year 1999 Budget requests continued base funding for these items as indicated below:

Enforcement of the Softwood Lumber Agreement	$2,000,000
Child Pornography Investigations	75,000
Project Alert	200,000
Total	2,275,000

The Money Laundering Coordination Center (MLCC) was created in 1996 for the purpose of supporting money laundering investigations within the Office of Inves-

tigations (OI). The MLCC, which is located at the Financial Crimes Enforcement Network (FinCEN), serves as the centralized clearinghouse for both domestic and international money laundering pickup operations within OI. All money laundering pickup information collected by the MLCC is collated and stored in the MLCC data base for the purpose of identifying relationships, methods, and trends that exist between past, current, and future money laundering investigations.

MONEY LAUNDERING COORDINATION CENTER

Question. How will the Money Laundering coordination center work or interact with FinCEN?

Answer. The MLCC will work with FinCEN to utilize its resources. FinCEN's Suspicious Activity Reports (SAR's) and artificial intelligence will be utilized to identify money laundering trends that the Office of Investigations field offices are encountering and provide real time intelligence to the field.

BASE FUNDING LEVEL

Question. Is your base fully funded?

Answer. The Custom's Service fiscal year 1999 budget fully funds the necessary cost adjustments for continuing the fiscal year 1998 enacted level of service and the corresponding number of staff years. In the passenger environment, this also includes added full time equivalent (FTE) positions to address statutory requirements for keeping existing lanes open longer and opening newly required crossing points.

Question. How many FTE positions are unfilled?

Answer. Based on the "Explanation of fiscal year 1998 Increases and Decreases" portrayed in the budget as the enacted starting point for building the fiscal year 1999 request, all FTE positions for fiscal year 1999 are funded. Customs' budgeted staffing is expressed in a staff year measurement generally referred to as full time equivalent (FTE) positions. Each budget request, including the current proposal, attempts to identify as accurately as possible the number of FTE that can be "realized" or achieved with the level of funding being requested. "Realized" FTE reflect the conversion into staff years of the aggregate number of positions encumbered for the full year, or shorter periods of time, and other factors such as the number of part time positions. The actual number of positions encumbered at any given point during the year will vary, based on attrition and accession patterns. As a fiscal year progresses, hiring scenarios are fine-tuned so that total realized FTE do not exceed the available budget authority to pay for their labor and support costs, nor the number of FTE that were estimated in the budget. The full number of FTE for a fiscal year is not achieved or known until the fiscal year is completed. Contingencies, such as rent costs for new border crossings in fiscal year 1997, can result in fewer FTE being realized than were proposed.

There is no articulation of authorized versus unfilled positions in the budget. However, each organization uses its own position authorization process as an internal management tool that aims to achieve the FTE usage proposed in the budget. Over a multi-year period, the number of actual or realized FTE is a good approximation of the average positions that were authorized over the course of the year. The number of FTE in the Salaries and Expenses (S&E) appropriation actually realized in fiscal year 1997 was 16,722; the number planned for fiscal year 1998 is 16,655; and the fiscal year 1999 request is 16,766 FTE.

Question. What would it take to fill those positions?

Answer. Although there are no unfilled positions presented in the fiscal year 1999 budget, the cost of realizing any more FTE, by means of establishing new positions, varies greatly with the type of position being funded. Moreover, all of the support costs (e.g., rent, equipment, training, supplies) are a necessary component of new position costs. By way of example, the cost of filling new positions to achieve a higher FTE realization than proposed in the budget would have the same initial cost range as the 111 FTE that are proposed in the budget. For all of the FTE being proposed, the assumption is that the hiring stream would result in an average start date of April 1, meaning that twice as many positions would be filled as FTE realized (i.e., 221 positions are being proposed to realize 111 FTE). In fiscal year 2000, the budget will have to reflect the cost of the average one-half year additional compensation cost for each of these positions, although there will also be a substantial downward adjustment for non-recurring costs such as vehicles, investigative and communications equipment, training, etc.

Question. Is the amount requested to maintain current levels accurate? Please provide a breakout for this funding.

Answer. The maintaining current levels (MCL's) amounts are accurate. All of these amounts, except for the rent and security figures, are generated centrally by

Treasury using standardized factors and methodology, based on the economic policy assumptions contained in the President's budget.

Customs is requesting a total of $60.6 million to meet its increasing obligations due to pay raises, benefits, agency contributions to the civil service retirement funds, and other expected increases in the cost of operations.

Of the total amount, the budget request provides for a $32.2 million increase to pay for the fiscal year 1999 pay raise for three-quarters of a year and annualize the fiscal year 1998 pay raise. This includes $24.2 million requested for the 3.1 percent increase in the fiscal year 1999 pay raise and $8.0 million requested for the annualization of the fiscal year 1998 2.8 percent pay raise.

Customs is also requesting an increase of $7.8 million for benefits to pay the regular increases in the cost of retirement and health benefits, permanent changes of station, and worker's compensation.

Finally, Customs is requesting $10.2 million that is needed to fund other expected non-pay increases in the cost of Customs operations. Customs is requesting $6.5 million for additional General Services Administration (GSA) rent charges for new border inspection facilities, and $3.8 million for additional GSA physical security costs at Customs facilities related to efforts to reduce the threat of violence at Federal properties. GSA has provided an agency-by-agency breakdown of these costs.

AIR/MARINE OPERATION AND MAINTENANCE

Question. Is there level staffing of the Air/Marine branches across the Southern Tier of the United States?

Answer. Customs attempts to deploy staff in such a way to best address the smuggling threat. Response flexibility may be limited by the high cost of relocating enforcement personnel. Within that context, the following statistics are relevant.

—Currently, the Air Interdiction Division has 718 personnel onboard.

—Depending on the level of need, air crews from all the Aviation Branches are deployed from the Southern Tier to foreign assignments in the transit and source zones.

—In February 1998, the Table of Organization (TO) for the Air Interdiction Division was changed to address the high-threat areas along the Southern Tier.

—The Air Interdiction Division is currently recruiting and hiring new personnel to fill existing vacancies in response to the current threat.

For the Marine Enforcement Program, the following statistics are relevant.

—Currently, there are 70 Marine Enforcement Officer positions in the Customs Marine Enforcement Program, which are augmented by 80 Special Agents. The Special Agents are not all assigned to marine enforcement on a full-time basis.

—Beginning in 1995, there was a marked increase in the amount of drugs seized along the Southern tier by the marine enforcement personnel.

—Through Operation Gateway, staffing for the Marine Enforcement Program in Puerto Rico increased by 23 positions.

—Customs is in the process of recruiting and hiring personnel to fill the funded vacancies in the Marine Enforcement Program along the Southern Tier.

Question. How does Customs determine the location of assets and staffing along the Southern tier of the United States?

Answer. Customs determines its staffing and asset distribution based on several factors including workload (both in terms of amount and type of workload (e.g., passenger, cars, trucks, rail, etc.)), smuggling threat, intelligence, and investigative workload.

These factors are used to determine the distribution of Customs available resources to a given port, the job skills those individuals need, and the equipment and information required. Asset distribution is driven by the level of staffing and the nature of the specific threat encountered at a given location.

STATUS OF ACQUISITION OF CUSTOMS P–3 AEW AIRCRAFT

Question. What is the current status of the retrofitting of the P–3 AEW aircraft and the anticipated delivery date to Customs?

Answer. Customs completed negotiations with the prime contractor, Lockheed Martin Aeronautical Systems (LMAS), in September 1997, and the contract was signed in late October. The Customs Service expects delivery of the first P–3 AEW aircraft in August 1999 and the second in March 2000.

MODERNIZATION OF CUSTOMS P–3 AEW AIRCRAFT

Question. Is there a need to modernize the first four P–3 AEW aircraft so that their systems are standardized with those P–3 AEW anticipated for delivery over the next two years?

Answer. The Customs Aviation Program has been reviewing the modernization of its existing P–3 AEW fleet for some time. Currently, all four P–3 AEW's are configured with the APS–138 radar. This system was originally used in the Navy's E–2C Advanced Radar Processing System (ARPS) aircraft. The Navy is updating all E–2C's to an APS–145 Group II configuration. The APS–138 is no longer in production and the Navy's intermediate level support for this system will be withdrawn by the year 2000. Since Customs P–3 fleet represents a relatively small part of the overall P–3 population, spare parts (to the extent available after 2000) will likely become more costly as economies of scale are lost to the manufacturers. This situation is likely to create delays in the availability of the aircraft for counterdrug missions.

Customs is waiting to take delivery of two additional P–3 AEW's over the next 2 years. Both of these aircraft will be configured with the newer APS–145 radar. The cost to retrofit the four existing P–3 AEW's depends on the configuration, but it is estimated at approximately $40–50 million in total.

Question. What would the cost be to standardize the equipment of the first four P–3's in the Customs' inventory, and what would it entail to modernize these aircraft?

Answer. The procurement cost of the new APS–145 radar is approximately $10 million. Current Customs P–3 AEW aircraft are configured with a compatible antenna and dome. Integration of the APS–145 radar would depend on the computer and display that is chosen. An E–2C suite with the new mission computer and display package would cost approximately $15 million installed. We estimate that the APS–145 systems can be built up from the current APS–138 systems on the four existing P–3 AEW's for $40–50 million in total.

The upgrading of Customs current P–3 AEW's to the newer AEW configuration would require the following:

—The replacement of numerous circuit boxes in the radar suite.

—Installation of a variable speed hydraulic motor and rotary coupler.

—Installation of a new mission computer, monitors and associated ducting hardware.

—Installation of a second satellite communication (SATCOM) radio.

Question. Would standardization require the aircraft to be out of service for any length of time?

Answer. It is estimated that modernizing the current P–3 AEW's from the current APS–138 to the APS–145 configuration in the newer P–3 AEW's will take approximately 3 to 4 months for each aircraft during which time they will be out of service.

Question. What benefits and cost savings would Customs have as a result of modernizing the four aircraft?

Answer. The current Customs P–3 AEW's use the APS–138 radar system. The U.S. Navy is in the process of modifying their E–2C aircraft to the APS–145 radar system. This program will limit the supportability for the APS–138 system by the year 2000 because many parts to the APS–138 may not be available after that date, creating delays in the availability of the aircraft for counterdrug missions.

It is difficult to estimate the cost savings of modernizing the P–3 AEW fleet. However, it is believed that the savings would be significant because support for maintenance and supply to one radar system would be much less expensive than for two different systems.

Lastly, the APS–145 radar system offers improved over land search capabilities. Also, the system is capable of processing a significantly larger number of targets without overloading.

RESOURCES DEDICATED TO INSPECTION

Question. What percentage of resources and manpower does Customs devote to inbound inspection and outbound inspection, respectively?

Answer. The Customs Service has 7,814 employees devoted to inspections, of which 353, or 5 percent, are dedicated to outbound.

GOVERNMENT RESULTS AND PERFORMANCE ACT

Question. Does each account and program activity of Customs have performance measures associated with it?

Answer. Both of our major budget accounts (S&E and O&M) have performance measures associated with them. They account for over 99 percent of our appropriations. The other small accounts involve functions which are already captured in the S&E performance measures.

Question. Does your plan include performance measures for which reliable data are not likely to be available by March 2000?

Answer. We do not anticipate any difficulties at this time, as long as our recently developed narcotics and money laundering outcome enforcement measures are acceptable to all external stakeholders (e.g., authorizing and appropriating committees, GAO, OMB, and the public) and the methodology for providing the data is acceptable. Initial feedback has been positive, but more consultation and development is needed.

Question. Do you have the technological capability of measuring and reporting program performance throughout the year on a regular basis, so that the agency can be properly managed to achieve the desired results?

Answer. The Customs Service has the technological capability to provide all of its measurement data on a regular basis, except for its enforcement outcome measures, e.g., the narcotics and money laundering outcome measures. Customs is actively working to develop methodologies to capture data for these measures (drug smuggling organization transportation costs and the cost for criminal organizations to launder money) and will provide these figures when this development is complete. The normal enforcement output data associated with narcotics, money laundering, and other areas, e.g. seizures, arrests, indictments, etc. will be available on a regular basis.

Question. Through the development of the fiscal year 1999 performance plan, what overlapping functions or program duplications were identified?

Answer. The Customs Service during its reorganization review aligned its organization along core process and mission support process lines. In addition, it created two enforcement strategies—narcotics and money laundering. The strategies were subsequently combined with several smaller ones under an Enforcement Systems umbrella. This process/system approach ensures that roles and responsibilities are defined to avoid duplication and overlap.

Question. Did those duplicative programs receive funding in the fiscal year 1999 request?

Answer. There are no duplicative programs in our fiscal year 1999 funding request.

U.S. SECRET SERVICE

2000 PRESIDENTIAL CAMPAIGN

I note that in fiscal year 1999 the Service will begin to gear up for the 2000 elections. Requested is $7.7 million for this preparation year, but I am told that this is the tip of the iceberg.

Question. Why is preparation for presidential candidate protection so expensive.

Answer. Every four years the Secret Service provides protection for major presidential and vice-presidential candidates, nominees and their spouses. Although there is no candidate/nominee protection the year before the campaign begins, there are significant costs associated with preparing for the campaign.

In the year before the campaign, training on campaign procedures must be provided to Service and other Treasury Law Enforcement Bureaus' agents and, due to procurement lead times, equipment for use during the campaign must be leased/purchased.

Question. Why can't equipment purchased for the 1996 campaign be used again in 2000?

Answer. New equipment is purchased for each presidential campaign. Storage of equipment between campaigns is not practical because it would require storage space and become outdated. Therefore, upon the conclusion of a campaign, residual useful equipment and supplies are used to replace old outdated equipment at field offices and protective divisions throughout the country.

Question. Why can't the Secret Service agents use the radios they have now?

Answer. When possible, Secret Service agents do use their issued radios when on candidate/nominee protection assignments. However, Uniformed Division personnel and other support personnel are not issued radios. When on campaign assignments, these personnel must be temporarily issued this equipment. The Service does not have enough radios in inventory for use by all of the personnel involved in candidate/nominee protection. Once the campaign is over, the campaign radios will become part of the Service's radio inventory and used to replace old obsolete equipment.

Question. Why can't the officers from the other Treasury bureaus use their own radios?

Answer. When possible, agents from other Treasury bureaus will use their issued radios when on candidate/nominee assignments. However, not all of these agents

are allowed to bring their issued radio with them on candidate/nominee assignments due to their bureau's own operational needs. Also, some of the other bureaus' radios are not frequency compatible, and cannot be retro fitted for communications within the Secret Service radio infrastructure.

INTERNATIONAL COOPERATIVE ADMINISTRATIVE SUPPORT SERVICES (ICASS) FUNDING

A transfer of $602,000 from the fiscal year 1998 Department of State budget has been provided to the Secret Service to use in support of International Cooperative Administrative Support Services (ICASS). That function has been absorbed in the salaries and expenses budget.

Question. What is the fiscal year 1999 request for that purpose?

Answer. The base level of funding in the fiscal year 1999 budget for use in support of International Cooperative Administrative Support Services, including $602,000 that will remain as part of the base funding, is $1.250 million.

THE CLOSING OF PENNSYLVANIA AVENUE

On February 11, 1998 an editorial appeared in The Hill, one of the two newspapers which specifically cover Capitol Hill and read by members and staff alike. That editorial called for the reopening of Pennsylvania Avenue, in part because presidents should live ". . . close to the people who give them their strength." Although the decision to close that major thoroughfare was made, in part, by the previous Director, we understand that Director Merletti concurs with this decision and would be opposed to reopening this street.

Question. How do you respond to critics of this decision?

Answer. The re-opening of Pennsylvania Avenue has continued to be an issue since its closure on May 20, 1995. As in the past, the Service will cooperate with any inquiry and continue to seek alternative approaches to mitigate any issue viewed as a detrimental effect of the closure.

The Secret Service remains opposed to reopening Pennsylvania Avenue to vehicular traffic. The risk of an attack directed at the White House Complex has not lessened, but rather seems greater with the level and nature of terrorist activity worldwide.

The closure of Pennsylvania Avenue to vehicular traffic eliminates the opportunity for an individual or terrorist group to interject an explosive laden vehicle into the secured perimeters of the White House. Secret Service security decisions for keeping the avenue closed and protecting the White House are based on empirical data concerning White House vulnerabilities to such an attack. These decisions are reinforced by the unique and unparalleled symbolic value to terrorists for targeting and successfully carrying out an attack on the White House. That reality must be recognized, particularly in view of the continuing acts of terrorism and related activities in the United States and abroad.

CLONING OF CELLULAR TELEPHONES

Question. In light of the recent passage of House legislation regarding the cloning of cellular telephones and other electronic crimes, what initiatives, if any, is the Secret Service considering to combat these emerging criminal activities?

Answer. When the recently passed Wireless Protection Act was being drafted, the Secret Service recommended the removal of "intent to defraud" from the language in 18 U.S.C. 1029 only as it pertains to the possession and use of the hardware and software configured to alter telecommunications instruments. This will enable the enforcement of section 1029 to stop the manufacture and distribution of this fraud equipment, for which there is no legitimate purpose.

The Secret Service has aggressively investigated fraudulent activity on U.S. telecommunications systems since the passing of the Omnibus Crime Control Act of 1984. In 1994, the addition of telecommunication-specific language to 18 U.S.C. 1029 enhanced the ability of the Secret Service and federal prosecutors to address the type of criminal activity associated with telecommunication crimes.

In anticipation of final passage of legislation that would remove the "intent to defraud" element from Title 18 U.S.C. 1029 as it pertains to the possession of cloning equipment, a nationwide operation has been formulated in cooperation with the FCC and the Department of Justice Computer Crime Section to locate, identify and potentially arrest individuals and companies that continue to market such items.

PROTECTIVE TRAVEL FUNDING SHORTFALL

Question. Based upon the protective travel shortfalls in your budget, what specific recommendations are the Secret Service and the Treasury Department considering to address this problem for the long term?

Answer. The Department and the Secret Service are reviewing this situation carefully to first determine exactly what is causing the Service's need for increased protective travel funding, and second to identify ways to address it.

ARMORED LIMOUSINE PROGRAM

Question. The Committee has been supportive of the Secret Service's armored limousine program since its inception. With the significant investments made to date, is the fiscal year 1999 request adequate to complete this project?

Answer. No, funding received to date and anticipated through fiscal year 1999 for this project will not be sufficient to complete this program.

MISSING AND EXPLOITED CHILDREN

Question. The Service did not request funding for the Missing and Exploited Children initiative. Can you explain why there was no request?

Answer. The Secret Service has received funding for this initiative since fiscal year 1995. For fiscal year 1999 however, budgetary constraints required highest priority be given to the Service's base mission program.

Question. Would you please provide the Committee with some details on the geographic locations where assistance has been provided by the Secret Service to state and local jurisdictions, as well as some details describing the success of this program to date?

Answer. The following is a geographic list of polygraph examinations conducted during the last two fiscal years in support of the Missing and Exploited Children initiative: Arizona (6), California (8), Delaware (1), Illinois (3), Maine (1), Michigan (5), Missouri (5), New Hampshire (2), Texas (7), and Vermont (1).

A sampling of some of our polygraph successes include:

Houston, Texas.—In June 1997, the Houston Police Department requested Secret Service polygraph assistance in a child abuse investigation. The previous April a nine-month-old child was admitted to a local hospital with serious injuries of a suspicious origin. The stepmother of the child was suspected of causing the injuries but denied any involvement when interviewed by local police officials. On August 13, 1997, the stepmother submitted to a polygraph examination at the Service's Houston Field Office. The results of the polygraph indicated that the woman was deceptive to the relevant questions. She subsequently confessed to slamming the child repeatedly against the floor in an attempt to keep the child quiet, causing all of the child's injuries. Houston Police immediately arrested her.

Oceanside, California.—In February 1996, the Oceanside, CA Police Department requested Secret Service polygraph assistance in the investigation of sexual assault on four juvenile female runaways residing at a State licensed juvenile detention center in San Diego. The girls, ages twelve to sixteen years, alleged that they were coerced to engage in various sexual acts by one of the Center's counselors, a twenty-eight year old male.

The counselor denied the allegations to Oceanside Police and counter-alleged that the girls were making false accusations because of his strict demeanor at the Center. He was administered a Secret Service polygraph examination, which indicated deception on the relevant questions concerning sexual abuse. During the ensuing interrogation, the counselor confessed to engaging in various degrees of sexual assault, including sodomy and rape, against the complaining victims. He was removed from the Casa de Amparo Juvenile Center pending criminal prosecution.

Phoenix, Arizona.—In January 1996, local authorities near Phoenix requested that the Secret Service conduct a polygraph examination as part of an investigation into the suspected sexual assault of an eight-year-old girl by her stepfather. The suspect denied the allegation and agreed to submit to a polygraph examination in the Service's Phoenix Field Office to verify his denial. The examination disclosed the suspect to be deceptive to the relevant questions. During the ensuing interrogation, he confessed to sexually molesting his stepdaughter as well as another seven-year-old girl over a several year period. He was arrested.

Sacaton, Arizona.—On November 1995, local authorities in Sacaton, Arizona requested Secret Service polygraph assistance as part of an investigation of an alleged sexual assault of a 14-year-old girl by her natural father. The girl alleged that her father had touched her private parts in a sexual manner. The father and mother are estranged, but he had custody of three children. The man denied ever touching

his daughter in a sexual manner. He stated that he believed his daughter fabricated the allegation as an excuse to move to her mother's home. The polygraph examination revealed no signs of deception and the criminal investigation was subsequently terminated.

A sampling of the Service's Forensic Services Division's efforts in audio/video tape enhancements and voiceprint analysis includes:

In February 1996, it received a request from the Port Orange Police Department in Jacksonville, Florida to conduct audio enhancement of a taped confession of a suspect admitting to molesting his 10-year-old granddaughter.

In July 1996, it received a request from the Chicago Police Department to conduct a voice comparison of several suspected child abductors and an unknown caller who claimed to be a Las Vegas Police Officer in possession of the missing victim.

In December 1996, it received a request from the Omaha, Nebraska Police Department to conduct audio and video enhancement of a tape of a female soliciting a male to sexually assault her children in order to educate them about sexuality.

In June 1997, it received a request from the National Center for Missing and Exploited Children to conduct a video enhancement to determine if a male captured in a video molesting a young girl was wearing a mask or if special lighting was used to obscure his face.

TREASURY COMMUNICATIONS SYSTEM

I understand that the Secret Service's communications system will be shut down this Spring due to the current contractor's inability to provide continued service.

Question. Is there adequate funding in the fiscal year 1998 budget to start the transition to the Treasury Communications System (TCS)?

Answer. No. The funding in the fiscal year 1998 budget will be adequate to cover the Service's financial obligations for participating in the Treasury Communications System. The Service and the Department of the Treasury are attempting to identify a means of covering the shortfall using fiscal year 1998 funds. The Service's transition to TCS began in fiscal year 1997 and will be completed in fiscal year 1998.

Question. Is the fiscal year 1999 budget submission adequate to complete the transition?

Answer. The funding for TCS in fiscal year 1999 is adequate to cover the Secret Service's financial requirements for this program. As you know, $3.7 million for this program will be derived from super surplus balances in the Treasury Forfeiture Fund as indicated in the fiscal year 1999 budget submission.

GOVERNMENT PERFORMANCE AND RESULTS ACT OF 1993

Agencies were required by the Government Performance and Results Act of 1993 to submit their performance plans with the fiscal year 1999 budget request. The performance of agencies during fiscal year 1999 in meeting their strategic plans will play a large role in the budget decisions made in fiscal year 2000.

Question. Does each account and program activity at the Secret Service have performance measures associated with it?

Answer. The Secret Service has taken the position that each core program should have a set of performance measures. The core programs include physical protection, uniformed security, protective intelligence, and criminal investigations. Taken together, program measures for these core programs cover more than 90 percent of the Secret Service's positions and operating budget.

Question. Does your plan include performance measures for which reliable data are not likely to be available until March 2000?

Answer. The current performance plan and performance report for the Secret Service includes only well established performance measures that have proven to be consistent, valid, and reliable. The Service has resisted efforts to include untested measures. However, we are continuously examining ways to refine our performance plan, performance goals, and performance measures. In particular, we are in the process of developing additional, more outcome oriented measures to estimate the impact of Secret Service law enforcement efforts for inclusion in the fiscal year 1998 performance report. Currently, a project is underway which examines offenders arrested by the Secret Service for financial crime violations. Baseline statistics are being collected to determine the extent of their financial crime prior to their arrest. Given this data, a follow up activity is planned to develop and validate a statistical model to estimate the average annual losses for different types of financial crimes, and the losses prevented due to Secret Service intervention.

Question. Do you have the technological capability of measuring and reporting program performance throughout the year on a regular basis, so that the agency can be properly managed to achieve the desired results?

Answer. The Secret Service is in a good position for measuring and reporting performance measures throughout the organization. The Service's performance measurement system has evolved over a long period of time using a multi-dimensional data base model. This is important because the information from the performance management system can be structured as needed to satisfy information needs at different levels of the organization. Operational, functional, and strategic decisions are supported by altering the dimensions of the data base in ways that tailor the information to specific decisions.

Further, the primary consideration for determining the value of performance measures was whether they had utility for internal organizational decision making. The impact of this approach is that the measures used to satisfy the Government Performance and Results Act reporting requirement are also used for internal management purposes such as individual performance evaluations, assessment of office productivity, allocation of resources, determination of career development needs, and evaluation of program effectiveness.

At present, a new online component to the performance management system is being developed and implemented to bring the contents of the multi-dimensional data base directly to the decisionmakers workstation, rather than on paper. This component allows the decisionmaker to easily select the specific information needed, both in table and graphic form, and apply basic analytical tools.

Question. Throughout the development of the fiscal year 1999 performance plan, what overlapping functions or program duplications were identified?

Answer. A review of the Secret Service's core processes found that there were no overlapping functions or program duplications. The Secret Service is organized along functional lines, with specific responsibilities delineated by program.

Question. Did those duplicative programs receive funding in the fiscal year 1999 budget?

Answer. There are no overlapping core programs within the Secret Service. Therefore, funding duplicative programs is not an issue.

Question. What do you believe will be the most difficult performance goal for the Secret Service to reach in fiscal year 1999.

Answer. Due to an internal realignment of resources the Service's most difficult challenge will be to achieve performance goals for criminal investigations. With increased emphasis being placed on current and new protection responsibilities, the financial crime performance goals for fiscal year 1998 and fiscal year 1999 probably will be the most difficult to achieve.

Question. Have you redirected resources to that particular goal?

Answer. Increased demands to provide support to protective details have resulted in resources being redirected from the investigative mission, and this could result in a difficulty in reaching investigative performance goals. This redirection of resources, while necessary, may limit the Service's effectiveness and its ability to address the burgeoning areas of computer-generated counterfeiting and other financial crimes.

FEDERAL LAW ENFORCEMENT TRAINING CENTER

RURAL DRUG TRAINING

Question. I fully supported funding for the rural drug training program last year, and I am glad to note that this program will continue under your budget proposal. Rural police officers face so much more drug activity now and they need all the training they can get to be able to handle it. For the record, can you explain a bit more about this program?

Answer. In an era where State and local law enforcement is suffering from diminishing resources and additional responsibilities, the FLETC is focusing its limited resources on reaching the largest number of customers in the most cost-effective manner. Two years ago, following an extensive research study, the FLETC determined that 91 percent of the State and local law enforcement agencies in this country have fewer than 50 officers. To meet the needs of these small town and rural agencies which comprise the vast majority of the customers, the FLETC created the Small Town and Rural (STAR) training series. The STAR series is currently comprised of the following programs: Airborne Counterdrug Operations Training, Advanced Airborne Counterdrug Operations Training, Community Policing Train-the Trainer, Drug Enforcement Train-the-Trainer, First Response Training, Gangs in Indian Country, Hate and Bias Crimes Train-the-Trainer, and Rural Crime and Drug Enforcement Task Force Train-the-Trainer.

Each of the STAR programs is directed toward either managers or trainer/facilitators who can return to their jurisdictions with all the materials necessary to replicate the training and techniques in their agencies and surrounding jurisdictions. This approach creates a multiplier effect which will expand the effectiveness of criminal investigations throughout the United States. This multiplier effect is accomplished with a funding investment that is a fraction of the cost that would be necessary if each individual benefited by this training initiative were to be trained directly. In fact, the second level training will permit hundreds of Federal, State, and local law enforcement agencies to benefit at little or no cost.

The FLETC has a two-year schedule to deliver the STAR series programs to law enforcement officers. The target audience is small town and rural law enforcement officers (including tribal police) who typically lack training in these areas. Participants in STAR series Train-the-Trainer programs receive serially numbered instructor graduation certificates. Those who commit to delivering training to small town and rural agencies are then eligible to become FLETC-certified STAR instructors.

This process creates a multiplier effect which provides great benefit for a relatively small fiscal commitment. For instance, if training were provided during the first year for 30 students in 5 delivers of each of the 4 STAR series Train-the-Trainer programs, 600 training facilitators potentially would be prepared to share that training in their geographical areas. If each of those facilitators subsequently provided training for a class of 30, then 18,000 officers throughout the United States would benefit from the funded training.

CONSTRUCTION

Question. You have requested $13 million to construct two new facilities in Glynco—a classroom building and a 233-bed dormitory. If funded, when would these building be completed?

Answer. The classroom building should be completed in July 2000 and the dormitory in March 2000.

CHARLESTON TRAINING CENTER

Question. As you know, the Border Patrol is currently training most of their new employees at a temporary facility in Charleston, South Carolina—although some do still get their training at Glynco, I understand. What is the current status of plans to close down the Charleston site? Is there a specific closure date?

Answer. The current plan is to close Charleston as soon as the FLETC can accommodate the total Border Patrol training workload, which includes both basic and advanced training. While no specific closure date has been agreed upon, the FLETC plans to conduct all of the Border Patrol basic training requirements at Glynco by mid-fiscal year 2000. This target is admittedly very ambitious and presumes that fiscal resources are forthcoming and that no delays are experienced with construction schedules.

Question. What happens if the Charleston facility doesn't close. Will there still be a need for new construction projects requested in your fiscal year 1999 budget?

Answer. The facilities being constructed are a part of the facilities Master Plan, which is designed to assure quality law enforcement training in a consolidated environment. Given the current training needs and the future anticipated growth, the facilities being constructed at Glynco will be fully utilized to meet future demands.

INTERNATIONAL LAW ENFORCEMENT ACADEMY

Question. Funding has been requested both in the FLETC budget and in the Departmental Offices budget for International Law Enforcement Academy (ILEA) operations. Exactly what would these five new FLETC staff be doing? Will they be stationed in Georgia or at ILEA South?

Answer. The new staff will be coordinating logistics and administrative support for ILEA South from the United States point of central management. They will also provide the same kind of support "in country" when programs are in session. Secondarily, the same staff will provide support for the FLETC's role in ILEA Budapest. It is also anticipated that this support will extend to ILEA Bangkok and any other ILEA's that come on line. The staff will be stationed in Georgia, and travel to ILEA South during sessions.

BUREAU OF INDIAN AFFAIRS TRAINING

Question. I am told that the Bureau of Indian Affairs expects a significant increase in their training needs between now and the year 2002. They are currently

training exclusively at Artesia, New Mexico. What steps are you taking to make sure that there are sufficient facilities in Artesia to accommodate this increase?

Answer. The Bureau of Indian Affairs (BIA) has submitted training projections which significantly increase the amount of training at Artesia during fiscal years 1999 through 2002. In fiscal year 1999, the increase will be about 4,000 student-weeks; and in each of fiscal years 2000, 2001, and 2002, the increase is about 6,000 student-weeks. In addition, the advanced training projections will increase about 1,000 student-weeks each year.

To accommodate the increased training projections from the BIA and other agencies, the FLETC is continuing to construct under Master Plan projects which are designed to expand Artesia's capability to address the needs of its customers. Currently, a 76-room dormitory is under construction, with completion scheduled for early 1999. In addition, a Driver Training Range project has been designed and scheduled to begin construction during mid-1998, with completion scheduled for mid-1999. Other funded projects now in design, with tentative completion dates in late 1999 or early 2000, are: Physical Training Building expansion, Classroom/Practical Exercise Laboratory Building, Office Building, and a Security Building.

In addition to the above, the FLETC has identified other facilities required to conduct the increased training. These additional facilities requirements are: 233-room dormitory, two firearms ranges, an ammunition bunker, and a firearms training office building.

It is anticipated that the BIA basic training projections can be accommodated with existing, current and planned construction projects. The BIA advanced training projections should also be accommodated, but will be considered along with the advanced training projections of FLETC's other agency customers.

Question. The justification for your budget request includes information on the savings resulting from the consolidation of Federal law enforcement training—you state that this cost savings/avoidance is estimated to be $160 million annually. However, the Administration is requesting the deletion of continuing language contained in the Title VI General Provisions, Section 616 in the fiscal year 1998 bill, which prohibits Executive Branch agencies from buying, constructing, or leasing facilities for Federal law enforcement training without the advance approval of Congress. This just doesn't make sense to me. Can you explain the rationale behind this request?

Answer. This provision is not needed as the Executive Branch has the authority to control decision-making by agencies affecting the construction of training facilities.

GOVERNMENT PERFORMANCE AND RESULTS ACT

Agencies were required by the Government Performance and Results Act of 1993 to submit their performance plans with the fiscal year 1999 budget request. The performance of agencies during fiscal year 1999 in meeting their strategic plans will play a large role in the budget decisions made in fiscal year 2000.

Question. Does each account and program activity at the FLETC have performance measures associated with it?

Answer. Yes. Both the Salaries and Expenses and the Acquisition, Construction, Improvements, and Related Expenses accounts contain performance measures which link to the applicable goals of the FLETC Strategic Plan—fiscal years 1197–2002.

Question. Does your plan include performance measures for which reliable data are not likely to be available until March 2000?

Answer. We currently have data for each of our performance measures, however, some of our measures are being reevaluated and will likely be revised.

Question. Do you have the technological capability of measuring and reporting program performance throughout the year on a regular basis, so that the agency can be properly managed to achieve the desired results?

Answer. Yes. The majority of the data is captured through automated systems.

Question. Throughout the development of the fiscal year 1999 performance plan, what overlapping functions or program duplications were identified?

Answer. None were identified, however, we are continuing to analyze the performance plan.

Question. Did those duplicative programs receive funding in the fiscal year 1999 budget?

Answer. Not applicable.

Question. What do you believe will be the most difficult performance goal for the FLETC to reach in fiscal year 1999? Have you redirected resources to that particular goal?

Answer. Providing 100 percent of actual basic training requested will be the most difficult goal to achieve. Over the last few years, the FLETC has seen an unprecedented increase in its workload. There were 23,329 student graduates representing 109,116 student-weeks of training in fiscal year 1997. Based on the projections of our participating agencies, this workload will grow to more than 140,000 student-weeks of training in by fiscal year 1998 and fiscal year 1999 and it is expected to remain at approximately the same level through fiscal year 2002.

Question. In reviewing the fiscal year 1997 plan and actual performance, the FLETC exceeded expectations in some areas, such as customer satisfaction with service, and did not meet the plan in others. Some of the goals, such as the number of student-weeks of training, are not totally within the FLETC's control. They fiscal year 1999 plan has discontinued some of the fiscal year 1997 goals and in some cases stated that a new measure is being developed. What lessons have you learned and what changes are you planning?

Answer. It is extremely difficult to measure the FLETC's actual impact, i.e., the impact the FLETC training has on officers of each of the over 70 participating organizations. In a long standing effort to provide the highest quality of service, the FLETC has for several years maintained various program evaluation and feedback mechanisms to ensure customer requirements are met. Many of these mechanisms have been based on responses to agency training needs vs. the budgetary cycle. It has been challenging to continue to manage responsiveness to agencies needs while developing processes which essentially provided for the collection of the same types of data either more or less frequently in order to comply with GPRA. The FLETC is currently examining its entire performance measurement process to ensure a clear linkage to the strategic goals and objectives and to ensure the most appropriate and reliable performance data is collected.

FINANCIAL CRIMES ENFORCEMENT NETWORK (FINCEN)

STATE AND LOCAL LAW ENFORCEMENT

Question. During fiscal year 1998 Congress provided funding for the "Secure Outreach" program which was to provide secure Internet capabilities to Treasury's law enforcement bureaus, what's the status of this program?

Answer. FinCEN has long been an advocate of developing a secure network to enhance the ability of Treasury law enforcement personnel to communicate sensitive case-related intelligence and to access financial data base systems key to their investigations. FinCEN has been allocated $1,000,000 of Crime Bill funds to develop this Secure Outreach Network.

The program will provide on-line communication and information sharing among all the Treasury bureaus. Based on secure Internet access, the security of the system will feature state-of-the-art capabilities in computer, communication, and encryption technology and will be accredited by federal and private experts in the field.

Phase I: Requirements Analysis, system design and specifications, acquisition of network components (circuit, hardware, software), development and testing.

FinCEN has obligated $500,000 of the funds for this phase of the project and has hired the SAIC Corporation to assist us. The effort began in February 1998 with the process of establishing a Secure Outreach working group. The Working Group, comprised of representatives from FinCEN and all the Treasury law enforcement agencies, will address the initial Network requirements with the contractor and follow-up on all stages of development.

Phase II: System Deployment and Technical Support: This phase entails linking approximately 300 Treasury law enforcement officials to the Secure Outreach Network, updating the web content regularly, and providing system and security administration support. FinCEN has obligated $400,000 for this effort. FinCEN plans to allocate an additional $100,000 to perform a study on how to make enhanced BSA data available to Treasury law enforcement agencies via the Secure Outreach Network.

Question. Could this program be expanded to include state and local entities without compromising the Treasury's law enforcement bureaus?

Answer. It is too early to determine if and how the system could benefit state and local entities which in some cases require specialized information. However, based on our experience with the Secure Outreach Network and the secure web site for foreign financial intelligence units (FIU's), FinCEN and the National Association of Attorneys General are currently discussing the possibility of developing a separate secure web site to support state and local law enforcement efforts. As the two sys-

tems are further defined, FinCEN will be exploring ways in which the two could be linked together.

Question. During fiscal year 1998, FinCEN provided responses to questions for the record indicating that FinCEN was anticipating the initiation of a "week-long course covering in-depth applications in financial investigations" offered to Gateway's State Coordinators, what is the status of this program and what are the total resources devoted to this effort?

Answer. Because FinCEN has never received funding in its base for the Gateway program, it has been necessary to set priorities in order to accommodate as many of its customers as possible. Thus, FinCEN is delaying, in part, the development of a special intermediate training program designed for experienced Gateway users, and instead is focusing on ensuring all of its customers have the basic training required to use the system. As a result, no resources have been devoted to this effort. The need for this basic training continues to increase for two reasons: turnover in positions held by state financial investigators and an increase in the number of investigators who are requesting use of the system.

In fiscal year 1997, 166 investigators or analysts from 33 states were trained on the Gateway system. However, state officers and analysts tend to be rotated from one job assignment to another every two to three years, and when new people move into these positions, FinCEN is called on to again provide training.

Second, states have been increasing the number of people within their organizations who need to have access to Gateway. When the program first began four years ago, FinCEN trained two persons per state. Now that the system has proven its usefulness, some states have 25–30 users.

Question. The fiscal year 1997 and fiscal year 1998 Senate bills included language which expressed the Committee's concern that there were not sufficient resources devoted to assisting state and local law enforcement to make use of FinCEN's resources. How has FinCEN responded to the Committee's desire to see more resources devoted to state and local law enforcement?

Answer. FinCEN has been very successful at leveraging its own limited resources by encouraging and facilitating greater state and local participation in attacking criminal proceeds. FinCEN staff have also made a number of visits to state and local agencies explaining the range of financial transaction data available and how it can be used to support the financial aspects of criminal investigations.

In addition, FinCEN staff has provided basic Gateway training classes and has worked with the states in keeping them up to date with FinCEN capabilities. Since the inception of Gateway in 1993, almost 650 representatives of state and local law enforcement (including state attorney general offices) have been trained on Gateway. In fiscal year 1997, 166 investigators or analysts from 33 states were trained on the Gateway system. As a result, Gateway inquiries in fiscal year 1997 were up 20 percent from fiscal year 1996. FinCEN has also been instrumental in assisting several states in creating financial investigation units.

CURRENT ISSUES

Question. During the last fiscal year, many new Financial Intelligence Units (FIU's) were created. How are those newly created FIU's assisting FinCEN in its work?

Answer. In the past five to ten years, governments have begun to realize that addressing the complex issue of money laundering requires people with unique and multiple skills—including financial analysts, criminal investigators, regulators and computer scientists. Increasingly, they have chosen to bring together these critical anti-money laundering skills within analytical agencies that have become known, over time, as financial intelligence units (FIU's)—counterparts to FinCEN. Using information provided by banks and other sources, FIU's use innovative analytical methods and tools to process this information and increase its value before providing it to law enforcement and other appropriate authorities.

In June 1995, FinCEN, in cooperation with its Belgian counterpart, brought together a group of FIU's at the Palais d'Egmont-Arenberg in Brussels. These FIU's agreed to meet regularly to find ways to cooperate, especially in the areas of information exchange and the sharing of expertise, and has now become known as the Egmont Group.

One of the Egmont Group's key achievements was to develop a definition of what exactly constitutes an FIU and then, in June 1997, to promulgate this definition in the Egmont Group's Statement of Purpose. Having an FIU definition facilitates cooperation among units at all levels by providing a common, baseline assumption about the functions of the unit—that they are analytical intermediaries working to

support national anti-money laundering programs—and is potentially the first step in creating a worldwide network of such units.

At the time the Statement of Purpose was adopted in 1997, 28 agencies participating in the Egmont Group met the FIU definition; just two years before, only 14 units would have met the definition. Currently, there are some twelve "candidate" FIU's that are being studied by the Group to see whether they meet the Egmont definition. At least half of these units became operational since January 1997. There remain another two dozen jurisdictions throughout the world that are in various stages of developing or establishing an FIU. With the establishment of these units, there came a need to develop relationships and find additional ways for the FIU's to interact. FinCEN has taken the lead in this effort.

Since its creation, the Egmont Group has also developed a model memorandum of understanding for the exchange of information and has laid the groundwork for an FIU training program. Another extremely significant accomplishment of the Egmont Group has been the creation of a secure Internet web site. The Egmont Secure Web—developed primarily by FinCEN—is intended to facilitate international cooperation and foster increased international communications and mutual assistance in combating financial crime among the FIU's of the Egmont Group.

It is hoped that the Egmont Secure Web specifically and the growing informal network of FIU's known as the Egmont Group generally will play an ever more critical role in the support of anti-money laundering investigations. Just as FinCEN is able to assist federal, state, and local law enforcement from various regions of the United States by bringing disparate pieces of information and individual (but related) investigations together, so FinCEN can reach out through the Egmont Group to other FIU's to obtain information that might prove critical to a U.S. federal, state, or local investigation.

In fact, FinCEN has been able to support a number of federal investigations by gathering information from its FIU counterparts. This is information that might only be obtained with difficulty or not at all through other channels. As a participant in this worldwide "network," FinCEN can likewise assist certain foreign jurisdictions in providing them the critical anti-money laundering information they need to investigate a case.

Question. There have been articles recently in the papers regarding the advent of gambling over the Internet to locations where gambling is permitted. How does this new trend of cybergambling affect FinCEN's work?

Answer. Internet gaming, like Internet banking operations, provides a unique and new challenge for law enforcement. Many of our traditional investigative and regulatory authorities will be tested if this industry begins to gain greater acceptance in the marketplace.

It is clear that FinCEN lacks the ability to require the adoption of adequate safeguards on this new industry by reliance on domestic laws and programs alone. Most of these businesses are located off-shore, beyond our legal and regulatory reach.

FinCEN has been engaged in a dialogue with this new industry, domestic and foreign casino regulators and law enforcement to encourage the development of programs to deter and detect money laundering transactions occurring over these new systems.

For example, last July, the Caribbean Financial Action Task Force, known as CFATF, and FinCEN co-sponsored a two-day conference involving senior government officials from the Caribbean and South America, addressing the critical components of anti-money laundering programs affecting casinos, including internet casinos. This conference provided concrete, pragmatic measures that both the private and public sector can take in order to discourage illicit uses of these operations.

A more specific meeting of the CFATF will be held this May at which the threat of Internet gaming will be discussed and at which the CFATF is expected to make recommendations for prospective consideration and adoption by its members.

It should be noted that Internet gaming raises a host of law enforcement and regulatory issues that are independent of our general anti-money laundering concerns. These include consumer protection issues, the right of states to prohibit or regulate the manner in which their citizens can conduct gambling activities, and the ability of state governments to investigate and license gaming operations in their state.

While these areas overlap to some extent with our anti-money laundering programs, our chief interest is in ensuring that internet gaming operations—like those conducted at traditional casinos—are subject to effective anti-money laundering controls such as accurate and retrievable audits trails, rules requiring the identification of customers, suspicious activity reporting, and the adoption of industry programs to ensure compliance with applicable anti-money laundering laws and regulations.

BASE FUNDING

Question. Is your base fully funded?

Answer. The base is not fully funded to cover current operating levels.

Question. How many FTE positions remain unfilled?

Answer. We are projecting 16 unfilled FTE in fiscal year 1998.

Question. What would it take to fill those positions?

Answer. It would require an additional $1,120,000.

Question. Is the amount requested to maintain current levels accurate? Please provide a breakout of those funds.

Answer. The budget includes: Mandatory cost increases, $835,000; and adjustment for contractor support to maintain the base, $330,000.

GOVERNMENT RESULTS AND PERFORMANCE ACT

Question. Does each account and program activity of FinCEN have performance measures associated with it?

Answer. Yes, each program activity has measures.

Question. Does your plan include performance measures for which reliable data are not likely to be available by March 2000?

Answer. Yes, we anticipate reliable data for all measures.

Question. Do you have the technological capability of measuring and reporting program performance throughout the year on a regular basis, so that the agency can be properly managed to achieve the desired results?

Answer. Yes, we have the capability of measuring and reporting program performance.

Question. Through the development of the fiscal year 1999 performance plan, what overlapping functions or program duplications were identified?

Answer. We did not detect any overlapping functions or program duplications.

Question. Did those duplicative programs receive funding in the fiscal year 1999 request?

Answer. There were no duplicative programs.

QUESTIONS SUBMITTED BY SENATOR SHELBY

UNDER SECRETARY FOR LAW ENFORCEMENT

STATUS OF VARIOUS STUDIES

Question. Late last year, the President ordered the suspension of certain semi-automatic firearms and announced that a study would be conducted by the Treasury Department to determine whether the importation of these weapons were consistent with the sporting purposes test established under 18 U.S.C. Sec. 9259(d)(3). What is the current status of this study? Will it be completed within the 120-day review period undertaken by the Treasury Department?

Answer. We are very close to completing the review. We expect to have the review completed shortly.

Question. I have significant concerns with the implications of this study and, therefore have keen interest in knowing whether the Treasury Department has already made any preliminary findings with regard to this review. Has the Treasury Department made preliminary findings to date?

Answer. The review is not yet complete. Given that fact, and the need to ensure that all possible options are considered, it would be inappropriate for me to comment. We look forward to sharing the review's findings when it is completed.

Question. It is my understanding that a draft report on the use of taggants in general explosives has been provided to the Main Treasury by the Bureau of Alcohol, Tobacco and Firearms (ATF). What is the status of this report? When is a final version expected to be completed?

Answer. A draft of this report was submitted by Treasury to the Committee on March 4, 1998. ATF will issue another progress report in 1998, and a final report, as mandated by law, within 30 days after conclusion of the study.

Question. Does this draft report on the use of taggants in general explosives include any fertilizer findings made pursuant to Treasury's consultation with non-profit fertilizer research centers relating to the regulation and use of fertilizer as a pre-explosive material?

Answer. Based upon the ATF Explosives Study Group's work to date, and the report submitted by the International Fertilizer Development Center, the Progress Report states that current information suggests there is no current way to render am-

monium nitrate inert and still have it retain its properties as a fertilizer. However, there is ongoing research in this area. Additional work also will continue on the "Be Aware for America" program conducted by the Fertilizer Institute in conjunction with ATF.

Question. A separate study to be conducted by a panel of five experts appointed by the National Academy of Sciences was authorized on black and smokeless powder. What is the status of this study?

Answer. The National Academy of Sciences has a study on black and smokeless powders underway.

Question. Have any results of the study been provided to you?

Answer. During the week of March 2, 1998, National Academy of Sciences held public meetings on black and smokeless powders. There are no results as of this date.

Question. When do you expect the study to be completed?

Answer. The National Academy of Sciences expects that the study on black and smokeless powders will be completed in September 1998.

Question. Would you please provide a copy of that report when it is completed?

Answer. The National Academy of Sciences is writing and producing the report. However, when they release the study, ATF would be pleased to provide the Committee a copy.

Question. Is it true that the ATF plans a follow on fertilizer study that may be conducted with the International Fertilizer Development Center (IFDC) in Muscle Shoals, Alabama?

Answer. Yes. ATF is in the process of finalizing a second contract with IFDC.

Question. If so, would ATF make any recommendation for including plastic taggants in pre-explosive materials until such a follow-on fertilizer study or any other pending studies were completed?

Answer. ATF does not currently expect to propose such recommendations for including plastic taggants or any other taggants in ammonium nitrate fertilizer until all follow-on pertinent studies are completed.

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

ATF REORGANIZATION

Question. With regard to the new reorganization in progress at ATF that would place 1811's as the ultimate supervisors of field compliance staffs, will these criminal enforcement agents be trained to be sensitive to the needs of the gun industry, the gun collecting community and others who must regularly interact with ATF for compliance service needs?

Answer. ATF management is committed to ensuring that the special agents in charge have a full understanding of these relationships and associated issues. This would be a continuing area of focus, both during our process of preparing for the reorganization and after implementation.

In order to give the special agents in charge (and certain District office staff members) an initial exposure to dealing with industry members from a regulatory perspective, the District Directors are coordinating briefing/training sessions. We have already conducted one prototype briefing/training session for the special agents in charge and their staffs in the northeastern part of the country. Four other sessions are planned in the next two months to cover the special agents in charge and staffs in the remaining parts of the country. Included in these sessions are discussions of the regulatory role in dealing with firearms industry members.

In May, we are holding a senior management conference in Cincinnati. Included in the agenda for that conference are sessions on program issues from a regulatory perspective.

As an on-the-job training initiative, the special agents in charge would be expected to familiarize themselves with the industries through visits to various industry members. The Special Agents in Charge would also be responsible for maintaining liaison with industry representatives and trade associations.

This reorganization is currently pending departmental and OMB approval.

Question. When will the reorganization become effective, and to what extent has it already been implemented?

Answer. The proposed implementation date for the field reorganization is October 1, 1998. As with any major organizational action, there will be long term implementation steps, such as satisfying the space requirements of all offices. We are awaiting final approval from the Department and OMB before commencing implementation.

Question. Please provide a copy of the ATF's reorganization efforts showing a field office by field office breakdown and organizational directory.

Answer. Please see Attachments.

[The information follows:]

Field divisions	State(s)	Field offices	Special agents/inspectors
Atlanta	Georgia	Division	10
		Atlanta I (F/A trafficking)	10
		Atlanta II (Arson)	8
		Atlanta III (Achilles)	6
		Atlanta IV (Gangs)	9
		Macon	9
		Savannah	9
		Southeast DO	10
		Atlanta AO	10
		Total	81
Baltimore	Delaware	Division	6
	Maryland	Baltimore I (Arson)	7
		Baltimore II (HIDTA)	5
		Baltimore III (Achilles)	6
		Baltimore IV (HIDTA)	6
		Hyattsville	10
		Wilmington	6
		Baltimore AO	10
		Total	56
Boston	Connecticut	Division	11
	Maine	Boston I (Arson)	8
	Massachusetts	Boston II (Achilles)	9
	North New York	Boston IV	9
	New Hampshire	Burlington	6
	Rhode Island	New Haven/Hartford	9
	Vermont	Portland/Concord	7
		Providence	3
		Worcester/Springfield	5
		Buffalo	10
		Albany	6
		Syracuse	5
		Hartford AO	10
		Boston AO	13
		Bath POD	1
		Albany POD	2
		Buffalo AO	7
		Syracuse POD	2
		Total	123

Field divisions	State(s)	Field offices	Special agents/inspectors
Charlotte	North Carolina South Carolina	Division	8
		Charlotte I	8
		Charlotte II	11
		Charleston (Achilles)	9
		Columbia	7
		Fayetteville/Wilmington	10
		Greensboro	8
		Raleigh	9
		Greenville	8
		Charlotte AO	9
		Greensboro POD	4
		Fayetteville POD	1
		Columbia POD	3
		Total	95
Chicago	Illinois	Division	13
		Chicago I (OCDETF)	12
		Chicago II (F/A trafficking)	9
		Chicago III	11
		Chicago IV (Arson)	11
		Oakbrook I	11
		Oakbrook II	10
		Oakbrook III (Explosives)	9
		Springfield	7
		Fairview Heights	8
		Midwest DO	12
		Fairview Heights POD	5
		Oakbrook POD	10
		Peoria POD	2
		Total	130
Columbus	Ohio Indiana	Division	
		Cleveland I	10
		Cleveland II	10
		Cincinnati	9
		Columbus	8
		Toledo	6
		Youngstown	6
		Fort Wayne	5
		Indianapolis	10
		Merrillville	11
		Cincinnati AO	11
		Cleveland AO	8
		Columbus POD	2
		Indianapolis POD	3
		South Bend POD	2
		Total	101

Field divisions	State(s)	Field offices	Special agents/in-spectors
Dallas	North Texas Oklahoma	Division	10
		Dallas II (Arson)	6
		Dallas III (F/A trafficking)	11
		Dallas IV (Achilles)	9
		Fort Worth	8
		Lubbock	7
		Oklahoma City	10
		Tulsa	9
		Tyler	7
		El Paso	8
		Southwest DO	21
		El Paso POD	1
		Lubbock POD	2
		Oklahoma City POD	3
		Total	112
Detroit	Michigan	Division	11
		Detroit I	14
		Detroit II (Arson)	11
		Detroit IV	12
		Detroit V (Achilles)	12
		Flint	11
		Grand Rapids	14
		Detroit AO	11
		Flint POD	1
		Grand Rapids POD	1
		Kalamazoo POD	2
		Total	99
Houston	South Texas	Division	8
		Houston I	9
		Houston II (Achilles)	9
		Houston III (Arson)	4
		Houston IV (OCDETF)	4
		Houston V	8
		Austin	12
		Beaumont	6
		Corpus Christi	6
		McAllen	7
		San Antonio	11
		Houston AO	11
		Beaumont POD	1
		San Antonio AO	5
		Total	101

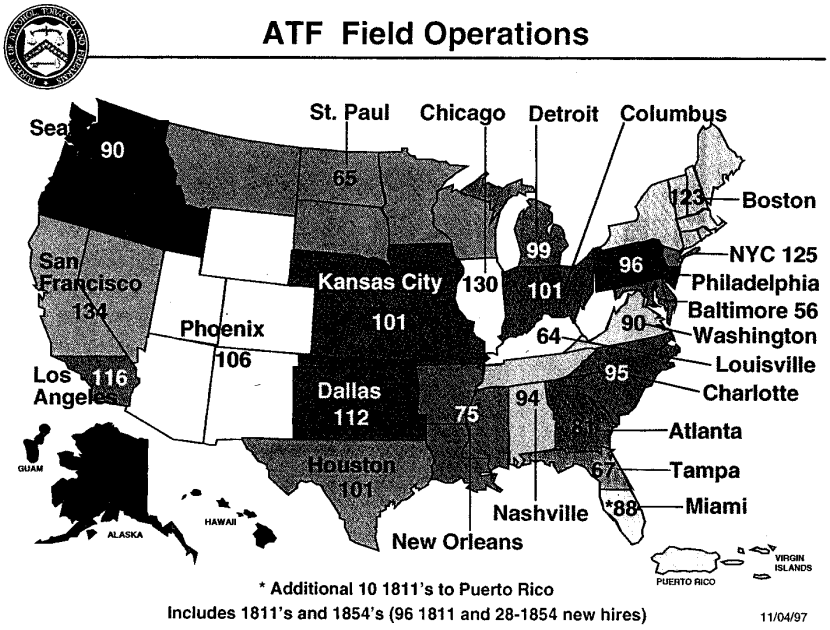
Field divisions	State(s)	Field offices	Special agents/inspectors
Kansas City	Iowa	Division	11
	Kansas	Kansas City II	9
	Missouri	Kansas City III (Arson)	7
	Nebraska	Omaha	9
		Des Moines	8
		Wichita/Kansas City I	10
		Springfield/Cape Girardeau	8
		St. Louis I	7
		St. Louis II	8
		Kansas City AO	9
		St. Louis AO	10
		Des Moines POD	2
		Omaha POD	3
		Total	101
Los Angeles	South California	Division	9
		Los Angeles I (Metro)	12
		Los Angeles II (Achilles)	13
		Los Angeles III (Arson)	8
		San Diego I	10
		San Diego II	8
		Santa Ana	12
		Van Nuys	9
		Riverside	11
		Los Angeles AO	13
		San Diego POD	2
		Santa Ana AO	7
		Van Nuys POD	2
		Total	116
Louisville	Kentucky	Division	13
	West Virginia	Louisville	9
		Bowling Green	5
		Charleston/Wheeling, WV	9
		Lexington/Ashland	7
		Bardstown POD	2
		Frankfort AO	5
		Louisville AO	9
		Owensboro POD	1
		Charleston POD	3
		Falling Waters POD	1
		Total	64

Field divisions	State(s)	Field offices	Special agents/inspectors
Miami	South Florida	Division	10
	Puerto Rico	Miami I	8
		Miami II	10
		Miami IV (Achilles)	9
		Miami V	9
		Fort Lauderdale	8
		West Palm Beach	8
		Puerto Rico	9
		Miami AO	9
		Puerto Rico Operations (RE)	8
		Total	88
Nashville	Alabama	Division	12
	Tennessee	Birmingham/Huntsville	13
		Mobile	7
		Montgomery	6
		Nashville	11
		Chattanooga	9
		Knoxville	10
		Memphis	11
		Birmingham AO	6
		Mobile POD	2
		Nashville AO	6
		Winchester POD	1
		Total	94
New Orleans	Arkansas	Division	7
	Louisiana	New Orleans II	10
	Mississippi	New Orleans III	11
		Baton Rouge	7
		Little Rock	9
		Shreveport	7
		Gulfport	5
		Jackson/Oxford	7
		Little Rock POD	5
		New Orleans AO	5
		Shreveport POD	1
		Jackson POD	1
		Total	75

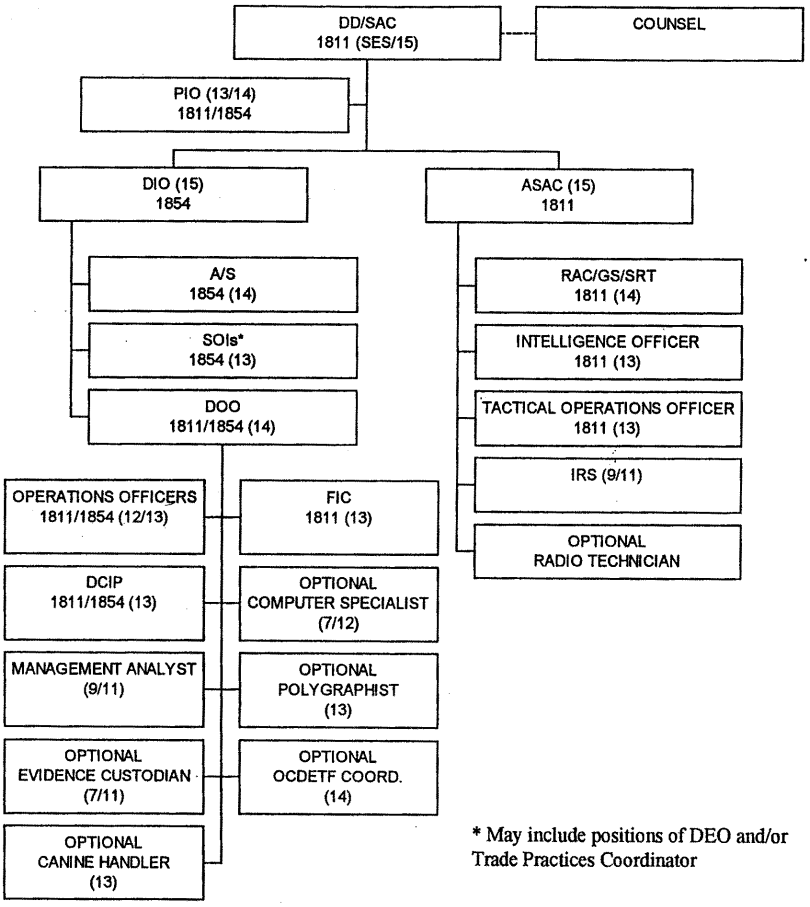
Field divisions	State(s)	Field offices	Special agents/in-spectors
New York	New York (Metro)	Division	8
	North New Jersey	New York I	10
		New York II	11
		New York III (Arson)	14
		New York IV (F/A trafficking)	13
		New York V (HIDTA)	10
		New Jersey II	13
		New Jersey (Arson)	7
		Fairfield AO	10
		Melville POD	5
		North Atlantic DO	21
		Melville POD	2
		White Plains POD	1
		Total	125
Philadelphia	Pennsylvania	Division	10
	South New Jersey	Philadelphia I (F/A trafficking)	8
		Philadelphia II (Arson)	8
		Philadelphia III (Achilles)	8
		Pittsburgh I (F/A trafficking)	7
		Pittsburgh II (Arson)	6
		Camden/Atlantic City	7
		Trenton	5
		Harrisburg	7
		Reading	3
		Kingston POD	3
		Lansdale AO	12
		Pittsburgh AO	8
		Trenton POD	4
		Total	96
Phoenix	Arizona	Division	9
	Colorado	Phoenix I	9
	New Mexico	Phoenix II (Achilles)	9
	Wyoming	Tucson I	8
	Utah	Tucson II	6
		Albuquerque	11
		Denver I	9
		Denver II	8
		Colorado Springs	7
		Cheyenne	5
		Salt Lake City	7
		Phoenix AO	4
		Tucson POD	2
		Denver AO	7
		Albuquerque POD	2
		Salt Lake City POD	3
		Total	106

Field divisions	State(s)	Field offices	Special agents/inspectors
St. Paul	Minnesota	Division	8
	Montana	St. Paul I	12
	North Dakota	Fargo/Sioux Falls	8
	South Dakota	Billings/Helena	7
	Wisconsin	Milwaukee	9
		St. Paul AO	12
		Helena POD	.....
		Fargo/Sioux Falls	.....
		Milwaukee AO	9
		Total	65
San Francisco	North California	Division	10
	Nevada	San Francisco I (F/A)	8
		San Francisco II (Arson)	9
		Fresno/Bakersfield	9
		Oakland (Achilles)	9
		Sacramento	12
		San Jose	7
		Reno	4
		Las Vegas	10
		Fresno POD	5
		Modesto POD	1
		Napa POD	2
		Oakland POD	2
		Sacramento AO	13
		Western DO	19
		San Jose AO	8
		Santa Rosa POD	5
		Reno POD	1
		Total	134
Seattle	Alaska	Division	8
	Guam	Seattle	13
	Hawaii	Anchorage	5
	Idaho	Boise	5
	Oregon	Guam	2
	Washington	Honolulu	6
		Portland I (Arson)	10
		Portland II (F/A-Achilles)	6
		Spokane	8
		Yakima	4
		Anchorage POD	1
		Boise POD	1
		Portland AO	12
		Seattle AO	9
		Total	90

Field divisions	State(s)	Field offices	Special agents/inspectors
Tampa	North Florida	Division	10
		Jacksonville	8
		Orlando	10
		Pensacola	6
		Tallahassee	8
		Tampa	11
		Jacksonville POD	3
		Tampa AO	8
		Winter Haven	2
		Fort Myers	1
		Total	67
Washington	District of Columbia	Division	9
		Falls Church I (Arson)	8
	Virginia	Falls Church II	9
		Washington I (HIDTA)	8
		Washington II (Cease Fire)	7
		Washington III (HIDTA)	7
		Bristol	5
		Norfolk	8
		Richmond	10
		Roanoke	7
		Falls Church POD	3
		Norfolk POD	1
		Richmond AO	7
		Roanoke POD	1
		Washington POD	.....
		Total	90


ATF Field Operations
Sea
90
St. Paul
65
Chicago
Detroit
Columbus
123
Boston
NYC 125
Philadelphia
Baltimore 56
Washington
Louisville
Charlotte
Atlanta
Tampa
Miami
San Francisco
134
Kansas City
130
99
101
96
90
64
Phoenix
106
101
Los Angeles
116
Dallas
112
95
94
75
Houston
101
67
*88
Nashville
New Orleans
GUAM
ALASKA
HAWAII
PUERTO RICO
VIRGIN ISLANDS
* Additional 10 1811's to Puerto Rico
Includes 1811's and 1854's (96 1811 and 28-1854 new hires)
11/04/97

DIVISION OFFICE ORGANIZATIONAL CHART



Question. What steps will be taken to communicate this to the public and to give the public guidance as to who they can interact with at ATF?

Answer. Considering the industry and their trade associations as the major part of the public who interact with ATF, our top headquarters and field managers have already attended several industry meetings to respond to questions about the restructuring proposal. We have reached out to not only the national trade associations, but also trade associations in the States, which are comprised of local industry members. We will continue this effort.

This restructuring also would require changes in several publications that list our office addresses. Modifications to those publications are in our long-term plans. Local field offices would be responsible for making any necessary adjustments to local information directories.

Question. Are you considering doing a special guide?

Answer. There are several possibilities under consideration to communicate our organizational changes to the public. These include publication of the changes in the Federal Register, and standardized brief articles for media and trade association publications.

U.S. CUSTOMS SERVICE

RETROFITTING PROGRAM FOR CUSTOMS P–3 AEW AIRCRAFT

Question. In the report that accompanied the fiscal year 1998 appropriations for the Customs Service, this Committee requested that a report be submitted by January 31, 1998 on the status of the P–3 retrofitting program. What is the status of this report?

Answer. The Customs Aviation Program report was completed on February 6, 1998. The report was sent to the Committee on February 25, 1998. A copy is attached.

STUDY ON THE ASSETS NEEDED TO CONDUCT INTERDICTION OPERATIONS IN THE TRANSIT ZONE

Question. I understand that the U.S. Interdiction Coordinator's (USIC) Office is in the final stages of preparing a study on the assets needed to conduct interdiction operations in the transit zone and its recommendations being formulated for executive review. Do you know when the report will be issued and are you aware of the recommendations of the Customs Service? Have the draft versions of this study been used to formulate the fiscal year 1999 budget request in terms of the assets needed for drug interdiction?

Answer. Customs believes the USIC's report is scheduled for release in the next several weeks. The Aviation Program provided a great deal of input in the development of the report.

Customs will consider the study recommendations in its future budget requests.

MODERNIZATION OF CUSTOMS P–3 AEW AIRCRAFT

Question. I understand that there is a need to modernize the first four P–3 AEW aircraft to standardize the systems with the aircraft that will be delivered over the next two years. Is the Customs Service reviewing this and what are the costs associated with such an effort?

Answer. The Customs Aviation Program has been reviewing the modernization of its existing P–3 AEW fleet for some time. Currently, all four P–3 AEW's are configured with the APS–138 radar. This system was originally used in the Navy's E–2C Advanced Radar Processing System (ARPS) aircraft. The Navy is updating all E–2C's to an APS–145 Group II configuration. The APS–138 is no longer in production and the Navy's intermediate level support for this system will be withdrawn by the year 2000. Since Customs P–3 fleet represents a relatively small part of the overall P–3 population, spare parts (to the extent available after 2000) will likely become more costly as economies of scale are lost to the manufacturers. This situation is likely to create delays in the availability of the aircraft for counterdrug missions.

Customs is waiting to take delivery of two additional P–3 AEW's over the next 2 years. Both of these aircraft will be configured with the newer APS–145 radar. The cost to retrofit the four existing P–3 AEW's depends on the configuration, but it is estimated at approximately $40–50 million in total.

DETECTION TECHNOLOGY

Question. The Administration requested funding for additional border patrol agents and for technology that would assist Customs inspectors. Is there technology that could be used that would provide capabilities that could be used for interdiction activities that would assist a multitude of efforts, such as detection and monitoring air, land and maritime activities?

Answer. There is no single technology or multiple-use system that we are aware of that could detect and monitor targets for all air, land, and maritime activities. However, there are several types of satellite-based electronic tagging and tracking systems that could monitor suspect air, land, or marine movements once the target plane, vehicle or boat has been detected and a tracking device covertly installed.

There are some radar systems currently deployed that either are, or can be, capable of detecting and monitoring most air and maritime targets of interest to Customs. These include the airborne radars in Customs P–3 AEW aircraft and the DOD aerostats that can detect targets up to 150 miles away, and the radars in the Customs Citations and other Customs, Coast Guard, or military aircraft that can detect targets up to several miles away.

The land-based DOD Relocatable Over-the-Horizon Radar (ROTHR) can detect and monitor air targets, and ultimately marine targets, that are several hundred miles away.

Cost benefit analyses for the effectiveness of the P–3, aerostat, and ROTHR were conducted in the early development and cost justification days of these programs. They concluded that each was effective for the multi-agency applications for which they were being used (e.g., Customs, Coast Guard, INS, and DEA enforcement activities, and DOD early warning missions).

QUESTIONS SUBMITTED BY SENATOR FAIRCLOTH

UNDER SECRETARY FOR ENFORCEMENT

Question. Mr. Secretary, Section 809 of the Antiterrorism and Effective Death Penalty Act, Public Law 104–32 mandated that the Department of the Treasury conduct a study, which would assess the threat to law enforcement officers from the misuse of firearms and ammunition. What is the status of that report, and what is its expected completion date?

Answer. The report has been drafted and submitted to an appropriate review process by ATF. We anticipate the report will be completed in the next few weeks.

Question. ATF was directed by both Houses of Congress in 1998 to cooperate with State and local law enforcement to ensure the prompt return of recovered firearms to their legal owners. Has ATF complied with this request? If so, could you provide the Congress with supporting documentation?

Answer. Yes. ATF has complied with this request by complying with existing laws. ATF works with State and local law enforcement by identifying the purchaser of record for a firearm that has been used in a crime. However, ATF cannot make the determination to contact the known firearm owner since that contact could jeopardize an ongoing criminal investigation and possibly endanger lives. Since a firearm is sometimes the only key to many crimes, the integrity of a criminal investigation may be violated if ATF were to adopt any other policy than furnishing only the firearms trace requestor with the purchaser of record for a firearm.

Stolen firearms that come into ATF's possession during the course of an investigation are returned to the lawful owners at the conclusion of the investigation, in compliance with existing laws and as long as no insurance claim has been paid.

PROMPT RETURN OF RECOVERED FIREARMS

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BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

AVERAGE VIOLATIONS PER INSPECTION FOR FIREARMS

Question. Director Magaw, in ATF's Budget justifications, ATF stated in its summary performance report for fiscal year 1997, under average violations per inspection for firearms, that .61 violations were identified per inspection, as oppose to 1.6 as anticipated. Are these results due to better than expected compliance?

Answer. The performance results for average violations per inspection of firearms licensees were as we had anticipated. In fiscal year 1997, we completed 6,258 firearms compliance inspections and cited 3,824 violations. This represents an average occurrence of .61 violations per inspection. The average number of violations per inspection had remained relatively constant over the past three years.

The 1.6 violations per inspection in the material that was referenced, was the result of an error in the percentages calculation that was not detected before the performance plans were forwarded. The data was taken from fiscal year 1995 results,

which were the latest available at the time. That year, the Bureau completed 13,141 inspections and found 8,126 violations for an average of 0.61837 valuations per inspection, not the higher erroneous percentage.

Question. Why was better than expected compliance noted as an explanation for explosives performance, but not to firearms?

Answer. The compliance level for Federal firearms licensees has remained relatively constant during the past 3 fiscal years.

COMMUNITY BASED STRATEGIC TRACE ANALYSIS AND DATA BASES

Question. Director Magaw, what is meant by ATF's proposal to provide more community based strategic trace analysis to support collaborative ATF/local law enforcement activity?

Answer. In order to uncover illegal firearms traffickers and enable cities to reduce violent crimes by decreasing the amount of illegally sold firearms to their communities, ATF is attempting to achieve comprehensive crime gun tracing among all law enforcement agencies nationwide.

There are two reasons for seeking to achieve comprehensive tracing. First, it maximizes the number of leads that can be developed for illegal trafficking. Second, it provides cities with information about the guns used in crimes, thereby allowing law enforcement for the first time to analyze patterns of crime gun characteristics. Examples of information include how many crime guns are being recovered from juveniles and how many crime guns are originally sold within state where they are recovered. For the Youth Crime Gun Interdiction Initiative cities, ATF is analyzing the crime gun traces and providing reports about the types and sources of crime guns by age group. Providing trace information and community crime gun patterns to State and local law enforcement allows for targeted and efficient uses of limited resources. These reports for local officials are known as "strategic trace analysis," to distinguish them from Project LEAD. Project LEAD provides investigative trace analysis aimed at individual cases rather than strategic enforcement.

Question. What information will ATF share from the Federal Trace System (FTS) data base with the local law enforcement community?

Answer. ATF is mandated to support local and State law enforcement in their fight against violent crime. To accomplish this mission, ATF has formed a close working relationship with State and local law enforcement. In this regard, ATF has made its FTS data base available to State and local law enforcement. This also includes Project LEAD, the Bureau's innovative computer software program for analyzing crime gun trace data.

The Youth Crime Gun Interdiction Initiative cities are working closely with ATF to develop more rapid, efficient methods of submitting trace requests and receiving trace results. The lessons learned from these efforts will eventually be applied to law enforcement agencies nationwide.

Question. Are there any data bases being developed by ATF or which ATF is helping to develop for use by local law enforcement?

Answer. ATF is not in the process of developing any new data bases for use by ATF or by State and local law enforcement. ATF is in the process of further enhancing our Project LEAD software which performs analysis of crime gun trace data in the existing firearms tracing system data base. Project LEAD is used by ATF and is shared with State and local law enforcement who are working with ATF to identify illegal sources of crime guns. ATF has also developed a set of standardized trace analysis reports that support local law enforcement collaboration with ATF, by providing a summary picture of the crime guns recovered and traced in a particular jurisdiction.

The existing firearms tracing system/crime gun information data base maintained by the National Tracing Center has been audited by the U.S. General Accounting Office (GAO) to ensure that ATF is maintaining the records in an efficient manner and in accordance with the law, as well as ensure that systems being used to track the records are not to computerized firearms registrations which would be against Federal law. The GAO audit conclusion stated that ATF is effectively managing the information and acting within the guidelines proscribed by Federal law.

U.S. CUSTOMS SERVICE

ENFORCEMENT OF THE SOFTWOOD LUMBER AGREEMENT WITH CANADA

Question. Last year, Congress directed an additional $2 million to Customs for enforcement of the 1996 U.S.-Canada Softwood Lumber Agreement, to make the reconciliation of import and export data necessary for effective enforcement of the

Agreement more prompt and accurate. First, I would like to know what has happened to this $2 million? How was it utilized? Second, I would like to know what is needed to ensure that enforcement of the U.S. Canada Softwood Lumber Agreement and future reconciliation under the Agreement is prompt and fully effective?

Answer. Customs allocated the $2 million for personnel at Northern Border ports, the Office of Field Operations (headquarters), the Office of Strategic Trade, and the Office of Regulations and Rulings. The remainder of this funding was used to support increases in travel and contractual support costs related to the enforcement efforts described below.

Customs is fully committed to enforcing the Agreement. To do so Customs has established local criteria (cargo targeting of lumber shipments on suspected companies or classification) and conducted intensive examinations of lumber mill works followed by detailed questions of importers, as appropriate, concerning the classification, and the validity of province of first manufacture in an attempt to detect circumvention of the Agreement. Customs has referred some questionable transactions for review by Canada in accordance with the terms of the Agreement.

Customs has devoted considerable resources in the area of reconciliation and conducts quarterly reconciliation of U.S. imports with Canadian exports with the Department of Foreign Affairs International Trade (DFAIT). Two meetings were held in Ottawa and one in Washington, D.C. during which Canadian and U.S. officials committed to complete the reconciliation cycle 6 to 12 months after a given quarter has taken place. An additional meeting is scheduled for the end of March in Chicago. Customs has developed an improved data extraction technique and will continue to streamline and automate the many steps required to perform an accurate and timely reconciliation. However, timely reconciliation is not only dependent on U.S. Customs, but also relies on the Canadian's response to their own data reviews.

Question. I understand that a potential loophole in the U.S. Canada Softwood Lumber Agreement has been created by a U.S. Customs decision that Canadian lumber which has a hole drilled into it by Canadian companies is no longer considered "lumber" subject to the Lumber Agreement. Canadian firms are openly advertising drill presses as a means to use this loophole and avoid the agreement. First, what is being done about this? Second, how do you justify your agency's request for increased authority to enter into trade agreements with an apparent inability to enforce agreements already in place?

Answer. Customs continues to dedicate significant resources to its field ports to inspect and question suspect shipments of drilled lumber to determine its actual use, and requests documentation to include commercial billing invoices, proof of payment and purchase orders.

A ruling was issued by the National Commodity Specialist Division in New York in February, 1997, which held that for Customs classification purposes, stud lumber which was pre-drilled for electrical wiring fell under Harmonized Tariff Schedule classification subheading 4418. Since this classification subheading is outside the scope of the Softwood Lumber agreement with Canada, concern was expressed that the agreement was being circumvented. In October, 1997, a Federal Register Notice was published soliciting comments regarding commercial uses of such studs to assist Customs in determining the correct classification. Over 5800 comments were received in response to the notice. Customs is working expeditiously to issue a decision in the near future.

Customs has not requested increased authority to enter into trade agreements; that is the role of the United States Trade Representative. What Customs has requested, is to be included in trade agreement negotiations because enforcement of international trade agreements is a responsibility of the Customs Service. Customs is currently responsible for the enforcement of some 15 international trade agreements and is of the view that active involvement when future trade agreements are being reached will ensure that provisions negotiated are legally, commercially and operationally enforceable.

RETROFITTING PROGRAM FOR CUSTOMS P–3 AEW AIRCRAFT

Question. In the report that accompanied the fiscal year 1998 appropriations for the Customs Service, this Committee requested that a report be submitted by January 31, 1998 "on the status of the P–3 retrofitting program, including an assessment of the current operational requirements and the potential impact on interdiction effectiveness were the fleet to be expanded by one or two additional P–3 AEW aircraft." What is Customs response to this request?

Answer. The Aviation Program completed its report on February 6, 1998. The report was submitted to the Committee on February 25, 1998. A copy is attached.

MODERNIZATION OF CUSTOMS P–3 AEW AIRCRAFT

Question. I understand that there is a need to modernize the first four P–3 AEW aircraft to standardize the systems with the aircraft that will be delivered over the next two years. Once the aircraft are standardized in the fleet, operating and maintaining the aircraft will be much more cost effective. Is Customs reviewing this, and what are the costs associated with such an effort?

Answer. The Customs Aviation Program has been reviewing the modernization of its existing P–3 AEW fleet for some time. Currently, all four P–3 AEW's are configured with the APS–138 radar. This system was originally used in the Navy's E–2C Advanced Radar Processing System (ARPS) aircraft. The Navy is updating all E–2C's to an APS–145 Group II configuration. The APS–138 is no longer in production and the Navy's intermediate level support for this system will be withdrawn by the year 2000. Since Customs P–3 fleet represents a relatively small part of the overall P–3 population, spare parts (to the extent available after 2000) will likely become more costly as economies of scale are lost to the manufacturers. This situation is likely to create delays in the availability of the aircraft for counterdrug missions.

Customs is waiting to take delivery of two additional P–3 AEW's over the next 2 years. Both of these aircraft will be configured with the newer APS–145 radar. The cost to retrofit the four existing P–3 AEW's depends on the configuration, but it is estimated at approximately $40–50 million in total.

QUESTIONS SUBMITTED BY SENATOR KOHL

UNDER SECRETARY FOR ENFORCEMENT

Question. This past January a Customs agent, Manny Zurita, died while providing protective assistance to the President. There is some question whether his 2 school age children can continue to attend the DOD school since they are no longer dependents of a Federal employee. What is the status of this issue?

Answer. This is an issue that is of great concern to me. We have asked the Department of Defense to evaluate current authorities to permit the Zurita children to continue their schooling until their education is complete. While we have not received a formal response, we have been told that authority does not exist to waive the dependency requirement. We have learned that for the current school year, the Zurita children will be permitted to finish out the term. However, the matter of their long-term education is more difficult due to the current law. The children are currently ages 9 and 11. The DOD schools are the only affordable English-language schools in Puerto Rico for the dependents of Federal personnel. Senator Grassley has introduced legislation which would permit the Zurita children to attend the DOD schools for the remainder of their education. His bill is very comprehensive and addresses all of the restrictions currently in place which place a burden on Customs families. I am hopeful the legislation will pass prior to the end of this school year.

Question. At the last House Law Enforcement Hearing, the Under Secretary said, "We are never going to arrest our way out of the drug problem." He went on to say that an important component in reducing drug demand is education. Do the funding levels for Treasury law enforcement agencies include adequate resources for this type of education?

Answer. While the missions of the Treasury law enforcement bureaus do not focus as directly on demand reduction as certain other agencies, we do make important contributions. One of our principal efforts is ATF's Gang Resistance Education and Training (GREAT) Program, which educates youths about the dangers associated with membership in gangs, including drug use. The fiscal year 1999 budget includes $10 million to support this program. In addition, whether the problem is counterfeiting, collection of import and other taxes, bank-related financial crimes, or firearms and explosives violations, our bureaus seek to educate and inform the industries involved to reduce the number and kind of violations. By doing this, we can focus criminal investigations on major violations. When we see a new and threatening problem, we try to respond with preventive measures. For instance, Customs noticed an increase in complaints about Rohypnol abuse in Florida and Texas. This led to Customs' enforcement of FDA's law barring importation of unapproved drugs. We believe this has stopped a problem, affecting mainly a few states, from spreading further. Funding for these types of activities is sufficient, but with additional funding we could establish more GREAT programs across the country.

Question. The fiscal year 1999 budget request includes $800 thousand and eight employees for new enforcement policies and programs including Enhancing Southwest Border and Caribbean Policy Development and Oversight. The Washington

Post recently ran a series on the rapid expansion of drug trafficking throughout the Caribbean. That article also addressed a decrease in U.S. aid to Caribbean nations.

Does this economic aid have an impact on drug trade? Is it a better expenditure of funds than trying to stem the increasing tide of drug trafficking? Is this something the office will be reviewing as part of the Caribbean Policy development?

Answer. The Caribbean region and the Southwest border remain major transit points for illegal narcotics entering the U.S. As to both areas, therefore, we must ensure full implementation of Treasury Enforcement bureaus' counter-narcotics activities; the active support of other nations; and the oversight and policy roles played by the Office of Enforcement. As to the first element, we have taken strong measures in recent years, particularly through Customs' Operations Hard Line and Gateway.

As to the work of other nations, we believe that technical and economic aid provided to the Caribbean and other areas leads to better counter-drug activity. Direct counter-narcotics training, assistance, and funding allows other nations to strengthen their own interdiction and investigations in response to drug traffickers and money launderers. Treasury bureaus and offices provide vital assistance in the Caribbean and other points in all such areas. In addition, assistance provided by the U.S. government and individual agencies allows for institution building in other nations that makes them less vulnerable on a long term basis to narcotics trafficking.

Finally, as part of its Caribbean and Southwest border policy development, the Office of Enforcement places a high priority on ensuring full implementation of bureau counter-narcotics efforts and participation in the formulation of policies and issues relating to cooperation provided by other nations. In fact, we view such oversight and policy development roles as essential to the short- and long-term success of our counter-drug efforts.

Question. This funding level also provides funding and personnel required to meet the workload demands related to International training. The Federal Law Enforcement Training Center is also requesting funds for this initiative. Please explain what the status is of the international training program and what these and the FLETC resources will provide?

Answer. As crime becomes increasingly international in nature, law enforcement's efforts to combat crime must also extend beyond the borders of the United States. U.S. law enforcement needs the assistance of foreign law enforcement agencies in fighting crime. Therefore, it is in our best interest to assure that foreign law enforcement agencies receive appropriate training. In recognition of this, the first International Law Enforcement Academy (ILEA) was established in Budapest approximately two years ago under the direction of the FBI. It has proven to be very successful.

To help combat drug trafficking and other crime problems in the region, in August 1997, it was agreed that Treasury would develop an ILEA for Latin America, known as ILEA South. FLETC is taking the lead for Treasury in providing management oversight, administrative support, and guiding program development for ILEA South. Treasury and FLETC moved quickly to name a Director, select a staff, and develop a core curriculum. The first ILEA South training program was held in Panama City, Panama, during November and December 1997. Thirty-two students from eight Central American countries attended the program. The program was extremely well received and was considered by all those involved to be a great success.

The signing of a permanent agreement with Panama regarding ILEA South has been delayed by the need to first conclude the negotiations for the Multilateral Counter-narcotics Center (MCC), which is also to be located in Panama. We are hopeful that the MCC negotiations will be concluded in the near future so that an ILEA agreement can then be finalized. In the interim, a second ILEA South course is now in progress in Panama.

As the professional law enforcement training agency within the Federal government, FLETC is the proper agency to oversee the development of ILEA South. The success of the first training course, which included instructors from both the Treasury and the Justice law enforcement agencies, is a tribute to FLETC's ability to bring together instructors from diverse agencies and develop a cooperative team relationship. This team approach reinforces one of the messages we are trying to convey to the Latin American countries—the importance of law enforcement agencies working together cooperatively.

To permit FLETC to continue its outstanding ILEA training efforts, the fiscal year 1999 budget requests an additional 5 FTE and $1.5 million. These FTE are necessary because currently FLETC's staffing is stretched very thin. FLETC has only been able to develop ILEA South because the other Treasury bureaus have detailed employees there to provide assistance. Keeping employees on long-term details for this purpose is not cost efficient. The FBI devotes significant resources to

the support of ILEA Budapest. For the ILEA developed by Treasury to be equally successful, we must have adequate resources to support it.

Treasury has also requested 2 FTE's to oversee international training efforts. These positions do not duplicate the positions at FLETC, but rather are intended to compliment them. By agreement between the Departments of State, Justice, and the Treasury, each ILEA is to be run by a Director and a Deputy Director. These positions will alternate between the Departments of Justice and the Treasury. For example, the current Director of ILEA South is from Treasury, and the Deputy Director is from Justice. To permit Treasury to staff these Director or Deputy Director positions, additional positions are needed. When Treasury is selecting a Director or Deputy Director, it will pick the best candidate from among the candidates nominated by the various Treasury bureaus and assign him/her to the Treasury position. Since the Director or Deputy Director will not always be selected from the same Treasury bureau, it is necessary to place the FTE's for these positions within the Treasury Department.

Question. The Office of Foreign Assets Control is requesting resources to expand anti-narcotic and counter-terrorism activities. A portion of the funding will be used to develop and track activities related to approximately 300 companies that provide fronts for drug trafficking activities. Explain this activity and the long term costs of the initiative?

Answer. In addition to sanctions against the principal figures identified in Executive Order No. 12978, the Order blocks property and interests in property of foreign persons determined to (a) play a significant role in international narcotics trafficking centered in Colombia, or (b) materially assist in or provide financial or technological support for, or goods or services in support of those designated. Furthermore, it blocks all property and interest in property subject to U.S. jurisdiction of additional persons, such as front companies and individuals, determined to be owned or controlled by, or to act for or on behalf of those designated as "Specially Designated Narcotics Traffickers" or "SDNT's".

As the result of OFAC's collection, investigation, and analysis of financial, business, and other information from a wide variety of sources, 424 businesses and individuals have now been identified as SDNT's. This has had the significant impact of denying the designated businesses and individuals access to U.S. financial and commercial markets. More specifically, OFAC has determined that one-third of the SDNT businesses have gone into liquidation. Because of OFAC designations, three Colombian banks have closed about 300 accounts of SDNT individuals. One of the largest SDNT commercial entities, with an annual income exceeding $136 million, has been reduced to operating on a cash basis.

The funding requested for OFAC anti-narcotics efforts in fiscal year 1999 is needed to continue the research and identification of additional SDNT entities, prepare evidentiary documentation for designation of new SDNT's, closely track activities of current SDNT's to transform themselves into new front companies and designate the transformed entities, acquire information resources, establish electronic data systems, and provide foreign country administrative support for OFAC personnel assigned to Bogota, Colombia. The additional staff requested would conduct SDNT program operations in Washington, D.C. and Bogota, and also include financial and commercial compliance personnel to ensure sanctions enforcement and to administer blocking of assets. We expect costs for these personnel and activities to continue through the duration of the program.

Question. The Office of Enforcement keeps open the lines of communications with other law enforcement agencies, such as the agencies housed in the Department of Justice. What efforts are made to facilitate increased communication?

Answer. The Office of Enforcement plays an important role in coordinating and facilitating communications between Justice and Treasury. It provides one focal point for providing information, analysis and policy determinations. Cooperation between the Departments of Justice and the Treasury has improved dramatically over the last few years. While there is always room for additional improvement, I believe that cooperation is currently at an all-time high. This is a result of the frequent communication and close coordination between the two Departments.

The Office of Enforcement works with the Department of Justice on a daily basis. I speak to and attend meetings with the Attorney General, Deputy Attorney General, and heads of the Justice law enforcement bureaus regularly. Members of my staff speak to their counterparts at Justice on a daily basis.

Additionally, the Office of Enforcement coordinates closely with Justice on all significant law enforcement matters. A variety of working groups meet regularly on important issues, such as the Southwest border, white collar crime, money laundering, and terrorism.

Question. Who determines which law enforcement agency will take the lead in an investigation? In other words, how is it determined that the law enforcement agency with the greatest expertise coordinates the enforcement effort?

Answer. The Federal law enforcement agencies each have unique areas of expertise and jurisdiction. When an investigation involves a matter that is clearly within the jurisdiction of one agency, that agency will take the lead and work with other agencies as needed.

In those circumstances where there is overlapping jurisdiction, memorandums of understanding have been developed which detail the responsibilities of the respective agencies. Despite these efforts to ensure clear lines of authority, situations do develop where two agencies may claim jurisdiction over an investigation. In those instances, the Special Agents in Charge of the field office of the respective agencies attempt to resolve the question. If this is not possible, further discussions between the senior managers of the agencies will occur in Washington. The Departments of Justice and the Treasury become involved in these discussions, as necessary.

Question. Do the Treasury law enforcement agencies have adequate resources to conduct parallel operations with the Department of Justice, such as Customs and INS Border Patrol activities?

Answer. Treasury law enforcement bureaus have unique areas of expertise which complement those of other law enforcement agencies. For example, INS and Customs work together on cases and task forces involving illegal narcotics and other contraband smuggling. Since INS and Border Patrol staffing continues to increase, we anticipate that we will be called upon to participate in even more joint investigations. The current budget request for Treasury law enforcement for fiscal year 1999 includes funds for increasing Customs capabilities both through human resources and technology so that Customs personnel can more efficiently and intelligently carry-out their responsibilities. Additional Customs funding and resources would enhance Treasury's ability to respond to growing workloads at our nation's ports of entry.

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

YOUTH CRIME GUN INTERDICTION INITIATIVE

Question. ATF is requesting an additional $16 million for the Youth Crime Gun Interdiction Initiative. This brings the fiscal year 1999 request to over $28 million. This extra funding will expand the program to an additional 10 cities and will hire additional staff, but how will the increased funding reduce youth violence?

Answer. The additional $16 million for the Youth Crime Gun Interdiction Initiative will assist in breaking the chain of illegal supply of crime guns to youths and minors. This can be accomplished by additional staffing (81 FTE's) to follow up on investigative information; comprehensive crime gun tracing by State and local law enforcement; rapid high volume crime gun tracing and crime gun market analysis by the National Tracing Center; and training of ATF, State, and local law enforcement personnel.

Question. The program, which started as a two-year research project, has been operating for over a year. Have there been any successes the committee should be aware of?

Answer. Since the inception of the Youth Crime Gun Interdiction Initiative, more than 36,000 firearms have been traced in the 17 pilot cities. During fiscal year 1997, a total of 86 criminal investigations involving individuals illegally trafficking in firearms to youths/juveniles (and adults), as well as armed violent crimes being committed by youths/juveniles, have been initiated in 16 of the 17 YCGII sites. Many of these are multi defendant investigations, and many involve the illegal trafficking of firearms to street gangs comprised of youths and juveniles. In these cases, 90 defendants have been recommended for prosecution, 61 have been arrested, and 1 has been sentenced. In addition, the standardized, community based trace analysis reports produced by ATF provide Federal, State, and local law enforcement with a new tool for developing local crime reduction strategies.

GREAT

Question. The Gang Resistance Education and Training Program, or GREAT program, ties education to law enforcement and provides training in over 50 locations. Please provide an evaluation of its success.

Answer. The GREAT program currently provides training in over 1,400 communities throughout the United States. The table below summarizes the progress through fiscal year 1997:

Fiscal year	Appropriation	Funded agencies (States) [1]	Cities sending officers for training [2]	Police officers trained	Students trained
1992	$800,000	4(1)	74	536	.....
1993	2,400,000	12(3)	149	289	.....
1994	7,500,000	21(8)	310	536	.....
1995	16,000,000	43(18)	244	498	[3] 500,000
1996	10,700,000	40(18)	364	601	221,000
1997	11,000,000	74(22)	471	665	324,291

[1] Represents law enforcement agencies that have received congressional funding each year—not cumulative.
[2] Not cumulative.
[3] Through fiscal year 1995, law enforcement agencies did not fully report the number of students who graduated. A conservative calculated estimate puts the number at 500,000 from fiscal year 1992 to fiscal year 1995. The current reporting system relies on law enforcement agencies requesting graduation certificates for their students.

At the beginning of the 1994–95 school year, a national evaluation of the GREAT Program was launched by the University of Nebraska at Omaha. The primary objective of the evaluation was to assess the effectiveness of GREAT in terms of attitudinal and behavioral consequences. The second objective of the evaluation was to assess the instruction of GREAT officers. In fiscal year 1997, preliminary results of the evaluation indicated the positive impact that GREAT has on children. A preliminary analysis of the cross sectional evaluation of students completing the GREAT Program found that students reported lower levels of delinquency, impulse behavior, risk-taking behavior and approval of fighting as well as HIGHER levels of self-esteem, parental monitoring, parental attachment, commitment to positive peers, antigang attitudes, perceived educational opportunities and positive school environment. The preliminary results of the evaluation of the instruction of the GREAT officers found that the strongest aspect of GREAT training is the talented and dedicated group of individuals that comprise the National Training Team. A copy of the cross sectional evaluation report is attached.

[CLERK'S NOTE.—The evaluation report does not appear in the hearing record but is printed in the November 1997 issue of the National Institute of Justice Research in Brief printed by the U.S. Department of Justice.]

The five-year longitudinal study, the third part of the evaluation, continues into its second year. The University of Nebraska evaluators will provide a status report after they have evaluated the data collected after the first year.

Question. Why are no additional funds being requested to expand this program?

Answer. Due to budgeting constraints, no increased funding is requested for the GREAT program. However, other programs like the Youth Crime Gun Interdiction Initiative and the Violent Crime Coordinators complement and enhance the efforts of the GREAT program indirectly.

Question. If additional funds were provided, could ATF expand the program to provide summer programs?

Answer. Yes. National studies show that over 80 percent of youth violent crime is committed when the juveniles are on summer break or after school before their parents return from work.

Current Cooperative Agreements require communities to present the program in three phases: 1) Teach the core programs, 2) provide a Summer Component, and 3) provide a Parent Program.

Most communities who receive GREAT funds have well developed summer programs which reinforce the lessons presented to the youths during the classroom exercises.

Additional funds would permit ATF to offer more communities money.

Question. How would the summer camp program be set up?

Answer. The communities could be required to demonstrate the commitment by the police department, school district, parks & recreation department; local businesses; local colleges or universities; and/or other community based programs to collaborate in providing healthy environments for youths to develop and grow.

VIOLENT CRIME COORDINATOR

Question. ATF is requesting $2 million and 15 FTE for Violent Crime Coordinator to ensure a greater success rate in cases presented for prosecution under the Justice department's "Project Triggerlock." Please explain ATF's connection with "Project Triggerlock."

Answer. The Department of Justice's Project Triggerlock primarily focuses on prosecuting firearms violations that will fall within the jurisdiction of ATF. ATF de-

veloped the Achilles Program, which focuses upon the aggressive identification of criminals who are vulnerable to the sentencing enhancements found under 18 U.S.C. section 924 (c)and (e). The primary objective of the Achilles Program is to incapacitate armed drug traffickers, violent street gang members, and armed career criminals who terrorize our neighborhoods and account for a disproportionate percentage of criminal activity. Another objective of the Achilles Program is to increase State and local awareness of the two Federally enhanced penalty statutes in order to better coordinate law enforcement resources and efforts and to augment existing State or local firearms laws or a lack thereof. These Federal cases are prosecuted by U.S. attorneys through the Department of Justice's Project Triggerlock.

Question. Please explain what the violent crime coordinators will do.

Answer. The violent crime coordinators (VCC), who are senior agents, must successfully accomplish the following tasks to fulfill the requirements of the job: establish threshold prosecution levels with the U.S. attorney's office to ensure only those cases which the U.S. attorney's office will prosecute federally are pursued; evaluate all firearms-related cases referred for prosecution by local , State, or other Federal agencies and determines which judicial system is best suited for that case based on the threshold levels of prosecution previously determined; establishes effective liaison and working relationships with the various State, local, and other Federal agencies in the VCC's jurisdiction; maintain the integrity of the Gun Control Act and the National Firearms Act by ensuring that each State or local officer, referring a case in Federal court has met all the elements of proof; gather and exchanges intelligence derived from observed trends and from defendant interviews; ensure firearms from all referred cases are traced, thus enhancing the ability of Project LEAD to generate information on illegal firearms trafficking; in cities with CEASEFIRE Projects capabilities, ensures firearms from all referred cases are test fired and that the shell casings and projectiles are subjected to Integrated Ballistic identification Systems (IBIS) testing, thus enhancing the IBIS data base and increasing the likelihood of ballistic matches; and participates in, or coordinates, numerous interviews, reports, and trials which require a great deal of investigative and courtroom experience. Additionally, the VCC performs the full range of criminal investigative duties, e.g., extensive planning and coordination of complex investigations involving major conspiracies, multiple jurisdictions, multiple defendants, etc. The VCC will interact directly with State and local law enforcement officers and other Federal agencies to establish a method to pre-identify armed violent offenders and determine the most effective avenue for prosecution.

NATIONAL REVENUE CENTER

Question. Consolidating the National Revenue Center in Cincinnati will cost approximately $2.6 million. That funding will complete the consolidations and relocate the employees. What savings are projected as a result of consolidating these services?

Answer. Current estimates show that once it is complete, savings in cost of space, communications (voice and data), and personnel will eventually be $2.7 million per year. The savings arise from going from six locations to one location and from reducing the overall number of personnel needed by eliminating duplication of effort at the multiple sites.

JOINT EXPLOSIVES DETECTION CANINE DETECTION PILOT PROGRAM WITH FAA

Question. The fiscal year 1997 House report requested ATF set up a joint explosives detection canine pilot program with FAA at National or Dulles Airports. ATF has recently signed a memorandum of understanding with FAA and the Metropolitan Washington Airport Authority to conduct this program. Why has it taken so long to get this program underway?

Answer. The pilot program is underway. Explosives detection canines and handlers were selected during fiscal year 1997. Two ATF-trained and certified explosives detection canines were assigned to participate in the pilot program in October 1997. A memorandum of understanding was signed with FAA in November 1997. FAA and ATF canine teams have been training at Dulles airport. Recently, contracts were finalized with two independent outside firms to conduct actual canine testing and to evaluate the personnel impact of the two different programs.

Question. How will the pilot program be conducted?

Answer. A contracting firm was hired by the FAA to study the overall impact each program has on its personnel participating in the pilot. Another contracting firm was hired by FAA to develop and conduct the actual testing of the explosives detection canines in the airport environment.

Question. Other than ATF and FAA, will any other agencies participate?

Answer. The participation of the Metropolitan Washington Airport Authority (MWAA) has been a vital part of the pilot program. MWAA is supplying canine handlers and the facilities in which to train and test the canine teams. The pilot will be utilizing both the Ronald Reagan Washington National Airport and Dulles International Airport.

Question. How long will the pilot last?

Answer. The pilot program is scheduled to last 1–2 years. The actual canine testing portion is divided into 3 phases and is scheduled to last 15–18 months. All details prior to the actual canine testing are being finalized by ATF and FAA.

Question. How will the results be reported?

Answer. The results of the pilot program will be reported in a joint report signed by ATF and FAA.

CANINE EXPLOSIVES DETECTION PROGRAM

Question. The fiscal year 1998 appropriation provided $3.9 million and 17 employees for the Canine Explosives Detection Canine Program. The fiscal year 1999 Budget indicates the funding is reduced. What is in the ATF base for Canine?

Answer. ATF will have $3,968,000 and 23 FTE in the fiscal year 1999 base for the canine explosives detection program. This does not include $1,000,000 expected from the Treasury Asset Forfeiture Fund in fiscal year 1999.

Question. Why has the funding level reduced?

Answer. ATF expects $1,000,000 in funding for the canine program in fiscal year 1999 from the Treasury Asset Forfeiture Fund (TAFF). This program also competes for funding—as do many programs—with other Administration priorities. Therefore, the canine program was reduced from $7,942,000 to $4,968,000.

Question. How will this impact the program?

Answer. The reduction will obviously mean that ATF will be able to train fewer canines for State and local law enforcement than it otherwise would have been able to train.

Question. How many ATF explosives detection dogs are operating in the United States?

Answer. ATF currently has 8 ATF-trained and certified canines working throughout the United States with ATF Special Agent/canine handlers. ATF has also trained and certified a canine working in conjunction with the pilot program. This canine is being handled by a local MWAA police officer.

INTERNATIONAL ENFORCEMENT BRANCH AND ARMS DIVERSION

Question. Is arms diversion allied with counter terrorism?

Answer. In certain cases, arms diversion and terrorism may be allied. ATF has known that decreasing the availability of illicitly trafficked firearms to the international illegal market will deter their use by terrorist groups, narcotics traffickers, and the criminal elements operating in foreign countries.

Question. Where does the International Enforcement Branch (IEB) have field offices?

Answer. The International Program and Policy Section, which was formerly known as the International Enforcement Branch, currently has field offices located in Bogota, Columbia; Mexico City, Mexico; and Ottawa, Canada.

Question. What can the IEB do to reduce the flow of weapons across the borders?

Answer. The International Programs and Policy Sections, in conjunction with the National tracing Center, is attempting to have all U.S.-source firearms that are recovered abroad traced through the National Tracing Center. With foreign law enforcement providing the description of crime guns recovered in their locale, ATF is able to identify non-licensed individuals, as well as any Federal firearms licensees, who are illegally supplying arms to foreign markets. Information developed is forwarded to ATF field divisions where international trafficking investigations are conducted.

The International Programs and Policy Section, in conjunction with ATF's training and Professional Development Directorate, conducts illegal firearms trafficking assessments and training for foreign countries. The assessments and training serve to identify and address problem areas related to firearms in the respective countries.

Question. If there is international government involvement in the firearms diversion, what steps can be taken to limit the activities?

Answer. One way that the United States can prevent firearms diversion is by encouraging other nations to mark firearms at the time of manufacture and import, as well as by establishing or maintaining a system of import, export, and in-transit licenses or authorizations to govern the legal commerce in firearms. These two prin-

ciples are part of the OAS Convention to Combat Illicit Manufacturing of and Trafficking in Firearms, Ammunition, Explosives and Related Materials signed last year at OAS Headquarters in Washington, which will soon be sent to the U.S. Senate for ratification. The U.S., together with its Group of Eight partners, will also attempt to seek the adoption of a similar instrument in the context of a planned UN Convention on Transitional Organized Crime. The U.S. believes that agreements such as the OAS Convention will go farther in securing international cooperation to prevent legally traded firearms from being diverted into criminal hands and, were diversion to occur, secure other nations' cooperation to investigate, prosecute, and incarcerate those guilty of this crime.

Question. What is the involvement of revolutionary groups in arms trafficking.

Answer. Revolutionary groups are a way that those involved in arms trafficking obtain weapons of war. Their ability to acquire arms legitimately is, for obvious reasons, very limited. So they look toward trafficking to obtain this much needed commodity for their revolution.

Arms trafficking for these groups depends on many factors: the size of the group, its location, its finances, its goals, etc. One group may be involved in the trafficking of arms such as tanks from the former Soviet Union and another may be purchasing firearms one or two at a time and then mailing them home to a compatriot to use in the cause.

In the past, ATF has had many investigations involving groups that were trafficking firearms and explosives in support of their cause. The types of arms ranged from one or two firearms to hundreds of firearms. The explosives ranged from black powder to hundreds of pounds dynamite.

DATA BASES RELATED TO GUN TRACING INFORMATION

Question. Are there legislative restrictions that complicate or reduce ATF's abilities to collect or to create data bases related to gun tracing information?

Answer. ATF has had to be very careful and sensitive to the guidelines established under current appropriations' restraints and yet, supplies all State, and Federal law enforcement agencies with the crime gun tracing in support of their investigations. However, ATF's National Tracing Center continues to strive for more efficient analytical capabilities without establishing a national firearms registry.

INTERNAL REVENUE SERVICE

CRIMINAL INVESTIGATIONS (CI)

Question. CI has been involved in some tax gap cases that involved National Basketball Association referees and travel budgets. What was this all about and how did the IRS identify there was a potential problem?

Answer. The IRS cannot discuss on-going investigations. However, within the past year, four NBA referees have pled guilty to filing false tax returns charges.

Question. There are a number of militia groups interested in developing a separate government. They are taking opportunities to distribute their own financial notes to avoid paying debts to financial institutions. These groups, like other tax protesters, try to develop fraudulent procedures for claiming tax exemptions. Please explain what the IRS can do to ensure that these individuals are paying their fair share of taxes.

Answer. Tax protesters are not a recent phenomena. During the past two decades CI has helped convict thousands of illegal tax protesters for tax and money laundering violations.

Currently, CI is devoting approximately 4 percent of its total resources to tax protester investigations. At any given time CI has approximately 200 tax protesters under active investigation. During fiscal year 1997, CI initiated 176 investigations of tax protesters, 117 indictments were returned and 89 convictions were obtained, with many cases awaiting trial. Of those tax protesters sentenced to prison (82.3 percent), the average prison sentence was 31 months.

Some of our most significant successes in the past few years were against the leadership of the "Freeman" movement. The Freeman and Republic of Texas movements are notorious for using the type of bogus financial instruments about which you are inquiring. Leroy Schweitzer, head of the Freeman, was sentenced to two years in prison for failing to file Federal income tax returns. Schweitzer and his followers still await trial on a multitude of charges arising from their efforts to create worthless monetary instruments and other criminal activity which culminated in the standoff in Justus, Montana.

Elizabeth M. Broderick, a hairstylist from California, attended a seminar organized by Freeman Leroy Schweitzer where she learned how to create worthless monetary instruments and market them to others. Broderick became prominent in the Freeman movement by hosting numerous seminars in California. These seminars ultimately resulted in the creation of over $800 million in phony warrants. Many citizens were defrauded through the use of these warrants. Unsuspecting individuals who believed they could discharge their debts using these instruments were financially ruined. Broderick realized over $1.2 million from these schemes. She was charged with 28 felony violations, including money laundering. At trial, the self-styled "Queen of Liens" was convicted on 25 counts and sentenced to more than 16 years in prison.

In Iowa, seven members of the "We the People" organization were convicted of 41 counts of mail fraud and conspiracy to commit money laundering. These individuals engaged in a plan to promote a scheme which offered millions in "damages" from a Colorado court case against the Federal Government if a $300 filing fee was paid to the defendants. Scott E. Hillenbrand, the group's leader, was convicted and sentenced to 188 months in prison. Other members of his group received sentences ranging from 37 to 87 months.

These are just a few examples of the cases in which CI has been involved. Tax protest investigations are a high investigative priority because illegal tax protest activity adversely affects not only voluntary compliance with the tax laws but the lives of many citizens as well.

Question. The Tax Gap, or the difference between the amount of tax owed and the amount paid, is estimated to be approximately $130 billion. To have the greatest deterrent on non-tax compliance the CI identifies and investigates cases that will generate the most publicity. How does IRS determine which cases to take on?

Answer. IRS Tax Gap criminal investigations consist of tax investigations involving legal industries.

CI is focusing enforcement activities on tax gap investigations that reduce the tax gap and increase voluntary compliance. During fiscal year 1997, 1,252 individuals were sentenced on tax gap charges and 74 percent of those sentenced were sent to prison.

For IRS Criminal Investigation, the tax gap encompasses our "Fraud Program." The Fraud program covers a broad range of illegal activity, primarily involving legitimate industries. All statutes under Criminal Investigation's jurisdiction may be used in these investigations. This includes not only Title 26 of the Internal Revenue Code but also violations of the Bank Secrecy Act and the Money Laundering Control Act. During the last several years, the national priorities relating to the Fraud Program have been investigations concerning Bankruptcy Fraud, Healthcare Fraud, Unscrupulous Return Preparers and Illegal Tax Protesters. Additionally, we invested substantial resources in the investigation of Excise Tax Fraud, Financial Institution Fraud, Gaming Fraud, Public Corruption, Telemarketing Fraud, Questionable Refund Fraud and General Tax Fraud.

In addition, CI has identified significant areas of noncompliance which have been brought about by changing economic, political and social conditions. These "emerging issues" consist of Foreign and Domestic Trusts, Pension Fraud and Entitlement and Subsidy Fraud (Non Healthcare).

The CI field offices consider the above priorities and emerging issues in expending investigative resources and balance the investigative attention given to each area. Further, the overall deterrent impact which can be made in an industry, geographic area and occupation caused by an investigation and subsequent prosecution are also considered. Also, the sentencing guidelines are considered in the selection process because in these times of scarce resources, the single most important factor is the deterrent effect that can be achieved by a prosecution. Absent unusual circumstances, the investigation will not be opened unless the actions of the target are serious enough to warrant incarceration upon conviction.

The concept of voluntary compliance is dependent upon changing the behavior of those who would evade taxes through fraud and deceit. This can only be achieved through seeking out, prosecuting and informing the public about those who are benefiting the most from fraud schemes; those who are innovators in perpetrating fraud; and those who by their behavior lure others to evade taxes.

Question. Does the agency look at cases that will provide the greatest "bang for the buck" in terms of bringing in revenue?

Answer. CI does not pursue an investigation solely because that individual case may result in the collection of substantial additional tax dollars. Instead, CI recommends prosecution of those who violate the tax laws to demonstrate the IRS commitment to ensuring that all taxpayers pay their fair share of taxes: It is a matter of public trust for those who are honest, and it is a matter of a warning for those

who attempt to evade their taxes or commit a currency crime. To accomplish this, we institute investigations and recommend prosecution across a broad geographic, economic and occupational spectrum. The resultant publicity, therefore, serves the dual purpose of ensuring public confidence and deterring fraud. However, absent unusual circumstances, a case will not be opened unless the actions of the target are serious enough, (for example involve enough omitted income) to warrant incarceration under the sentencing guidelines upon conviction.

Question. Please explain how the Questionable Refund Program operates. Do the analysts review random returns or are the returns flagged by another procedure?

Answer. The Questionable Refund Program (QRP) is a nationwide multifunctional program established by IRS in January 1977. The purpose of this program is to detect and identify fraudulent returns, stop the payment of the false refunds and refer QRP Schemes to District Office Criminal Investigation (CI). Returns with questionable civil issues are referred to other Service Center functions.

The program's major detection operations occur in the ten Service Centers. Questionable Refund Detection Teams (QRDT's) conduct preliminary pre-refund reviews of millions of questionable returns identified by manual and computerized screening techniques. False return schemes meeting specific criteria are referred to field offices for possible criminal investigation. The false returns not meeting criminal referral criteria are retained by the applicable QRDT. Duties performed by QRDT personnel include, but are not limited to, scanning returns, verification of income claimed on suspicious returns, placing Master File CI controls on false returns, monitoring all QRP/CI controlled Master File accounts, developing the full scope of identified QRP schemes, referring QRP Schemes to District Office CI, utilizing the Treasury Enforcement Communications System (TECS) for transmitting scheme information to other QRDT's, providing QRP support for district office CI personnel, handling QRP court ordered restitution cases, and responding to taxpayer refund inquiries pertaining to QRP controlled MF accounts, etc.

The QRDT's do not review returns on a random basis. The main source of returns selected for the QRP involves elaborate computer programs that apply weighted criteria against every refund return (individual returns, e.g., 1040, 1040A, 1040EZ, 1040PC, TeleFile, on line returns, etc.) that is processed. The criteria are developed and refined yearly based upon the profile of fraudulent returns previously discovered and compared against a known sample representative of all returns that are filed. These computer programs are capable of modification or data insertion when schemes are identified, to allow for expansion of the total extent of the filings. Other computer runs monitor the addresses of returns and identify significant trends of filings.

Throughout the year, as schemes are developed, the QRDT's utilize the resources of numerous other service center functions to assist in identifying the totality of the schemes. The QRDT's receive assistance from Returns Processing, Information System Management, Electronic Filing, Internal Audit personnel, Adjustments, Notice Review, etc. In addition, referrals are received from return preparers, informants, banks, and the Secret Service.

The program relies to a great extent on the labor intensive scrutiny of paper documents for indications of fraud. The advent of Electronic Filing (ELF) and direct deposit refunds have provided ever increasing challenges. The amount of refund fraud increased dramatically in conjunction with the implementation of ELF and increased Earned Income Tax Credit. Accordingly, the need for more sophisticated fraud detection methods became critical.

The Electronic Fraud Detection System (EFDS) is the major fraud detection tool for ELF returns. EFDS was developed by Research Division, the Los Alamos National Laboratory, Criminal Investigation Branch and the Electronic Filing Branch at the Cincinnati Service Center (CSC). EFDS gained support and priority due to both internal and external concern over the tax system's vulnerabilities to fraud.

During the 1994 Filing Season, EFDS was prototyped at the CSC Criminal Investigation Branch. In the 1995 Filing Season, limited functionalities (Prescan & Query) were rolled out to the other ELF Center QRDT's. For the 1996 Filing Season, additional workload management features were included and the system was further rolled out to the NON-ELF Center QRDT's.

We continually pursue EFDS improvements as well as various other avenues in order to thwart the attempts of fraudsters and to protect the revenue.

Question. Does the Program utilize the Revenue Protection Strategy?

Answer. Yes. The Revenue Protection Strategy was built on a four-pronged approach to the problem of fraudulent or questionable claims:

—*Research.*—Conduct statistically valid and other data analysis of abuse areas to identify the nature of the problem and develop appropriate responses.

—*Prevention.*—Design up-front validations of return information to prevent fraudulent or questionable claims from entering the filing system.
—*Detection.*—Develop improved detection systems to identify multiple-return fraud schemes and patterns of abuse among groups of taxpayers.
—*Enforcement.*—Where appropriate, pursue criminal investigation and prosecution of fraudulent refund claims. In addition, select appropriate returns for pre-refund examination of claims to ensure only valid claims are paid.

Since inception and implementation, the main focus of the QRP has been to protect the revenue. Due to its very nature, QRP has been, and continues to be, on the cutting edge of detecting all types of tax abuse. QRP has been responsible for the identification of substantial tax related issues existent in other programs within the Service, resulting in hundreds of millions of dollars in savings, e.g., Illegal Tax Protesters, Abusive Tax Shelters, Earned Income Tax Credit abuse.

The Service believes that the Revenue Protection Strategy can reduce the Service's vulnerability to fraud and abuse and prevent the issuance of substantial dollars in false or inflated claims. Thus, the service needs to continue to focus our efforts to identify questionable claims for refundable credits such as the Earned Income Tax Credit.

Question. Criminal Investigation prioritizes its efforts in currency reporting and money laundering to ensure its resources are used for those cases that require the financial expertise provided by your staff. Please explain how you prioritize your cases.

Answer. Due to its limited resources and specialized expertise, CI has prioritized its efforts in currency reporting and money laundering enforcement, concentrating on those investigations whose size, scope, and complexity require the financial investigative expertise of its special agents. Selection and prioritization of targets for investigation are made in accordance with minimum standards set by the Assistant Commissioner (CI), and in furtherance of the mission of CI. National Office review and management oversight ensure compliance with these concepts.

Question. What percentage of cases does Criminal Investigation turn down?

Answer. The percentage of cases turned down by CI cannot be determined because cases which are not pursued are not tracked.

U.S. CUSTOMS SERVICE

DRUG SMUGGLING IN THE MIDWEST

Question. Customs is requesting an additional $50 million in fiscal year 1999 to acquire non-intrusive inspection technology for land and sea ports. And, we are aware of the continuing problem of drugs coming across our border, particularly the Southwest Border and Miami. But, there are drugs coming into the international airports across the country. What is being done in the Midwest to combat increased drug activities? For example: What efforts or resources are Customs employing at the Chicago International airport to stem the increase of heroin that is flowing into Milwaukee?

Answer. Most major airports have Customs Passenger Analysis Units (PAU's) assigned, which employ the latest in information and information technology, to select high-risk passengers for examination, in advance of their arrival. The PAU uses Advance Passenger Information (API), which is an electronic passenger manifest sent to Customs by air carriers in advance of the flight's arrival, to conduct extensive name checking against several data bases of known and suspect violator information. In addition, PAU's use non-suspect information to identify passengers who, although they have no previous records, may be traveling for the purposes of violating the law. Through performance measurement, Customs has determined that PAU's are about 55 times more effective than simple random inspections.

Customs also employs highly trained roving inspectors, whose sole purpose is to identify narcotics smugglers. This elite force has proven to be an effective tool to combat drug trafficking, and is used as a model for many foreign customs agencies.

Customs Chicago O'Hare airport PAU and rover inspectional units are a highly trained and motivated interdiction force employing the latest in information and information technology, along with training in observational behavioral analysis, in an effort to identify the few narcotics smugglers from among the 3.2 million air passengers arriving each year. In addition, nine canine enforcement officer teams are employed at Chicago O'Hare, and are used to locate narcotics in cargo, baggage, and among passengers.

Chicago O'Hare also employs a new concept in Customs tactical targeting, known as the ICAT, or Information Collection and Analysis Team. The ICAT employs Cus-

toms inspectional, intelligence, and investigative resources, in a single cohesive unit. The ICAT provides inspectors with tactical targets from arriving passengers.

Chicago is also home to the Combined Agency Border Interdiction Network or CABINET. This unit, formed in the 1980's, includes resources from among Customs, six other Federal agencies, and foreign customs agencies. Its sole purpose is to use available information on aliens to target for drug smugglers, with a specialty of West African heroin smugglers. As a result of its close proximity, a special relationship exists with inspectors at Chicago O'Hare airport.

AUTOMATIC LICENSE PLATE READERS

Question. Funding was provided in fiscal year 1998 for automatic license plate readers. Is this initiative now being funded in the base? How many license plate readers were acquired with the fiscal year 1998 funding? Where are these readers being used?

Answer. Funding was provided in fiscal year 1998 for license plate readers as part of the first phase of the Land Border Automation initiative, which also contained funding for the replacement of Interagency Border Inspection System primary terminals and Automated Permit Port/Remote Video Inspection technology. Congress' fiscal year 1998 enactment of $9.5 million for this initiative is recurred in the Crime Bill base for fiscal year 1999.

The Customs Service, in cooperation with the Immigration and Naturalization Service, has placed license plate readers in Southern California and Blaine, Washington. The priority for installation of license plate reader equipment for the Federal Inspectional Service agencies is the southern border. Customs expects that by the end of fiscal year 1998, installation will be underway at Nogales, AZ; El Paso, Laredo, and Brownsville, TX. Customs will continue the nationwide deployment of automatic license plate readers, Automated Permit Port/Remote Video Inspection technology, and the replacement of Interagency Border Inspection System primary terminals with the funds requested in fiscal year 1999.

DETECTION TECHNOLOGY

Question. The Customs Service has a strong presence on the U.S. Mexican border. The Administration has requested additional funding for border patrol agents and for technology that would assist Customs inspectors. Is there technology available that would serve multiple efforts such as detection, monitoring air, land, and maritime activities? If such technology exists has a cost benefit analysis of its effectiveness been conducted?

Answer. There is no single technology or multiple-use system that we are aware of that could detect and monitor targets for all air, land, and maritime activities. However, there are several types of satellite-based electronic tagging and tracking systems that could monitor suspect air, land, or marine movements once the target plane, vehicle or boat has been detected and a tracking device covertly installed.

There are some radar systems currently deployed that either are, or can be, capable of detecting and monitoring most air and maritime targets of interest to Customs. These include the airborne radars in Customs P–3 AEW aircraft and the DOD aerostats that can detect targets up to 150 miles away, and the radars in the Customs Citations and other Customs, Coast Guard, or military aircraft that can detect targets up to several miles away.

The land-based DOD Relocatable Over-the-Horizon Radar (ROTHR) can detect and monitor air targets, and ultimately marine targets, that are several hundred miles away.

Cost benefit analyses for the effectiveness of the P–3, aerostat, and ROTHR were conducted in the early development and cost justification days of these programs. They concluded that each was effective for the multi-agency applications for which they were being used; i.e., Customs, Coast Guard, INS, and DEA enforcement activities, and DOD early warning missions.

U.S. SECRET SERVICE

SECURITY OF SECRET SERVICE PROTECTEES

Last year in response to a question for the record concerning "* * * the level of security the Service would feel comfortable with * * *", the Secret Service responded "* * * the Service is comfortable with the level of security that we are currently providing to our protectees". The Service went on to say that "* * * the level of threats to the president have remained constant over the past four years." However, the fiscal year 1999 budget requests an additional 25 employees and $5 million

for assignment to the Presidential, Vice Presidential, and Former President protection details.

Question. Why are additional personnel requested?

Answer. The Service is comfortable with the level of security that is currently being provided to protectees. However, in order to provide this level of security, Service personnel assigned to protective details are currently working inappropriate levels of overtime, approximately 19 percent more than agents assigned to the Service's five largest field offices. Also, due to operational needs, the protective details do not have the staffing necessary to ensure that regular training is achieved. The additional staffing will ease this situation and enhance the operational effectiveness of the protective details.

Question. What has changed since the Service responded to these questions last spring?

Answer. Nothing has changed. The Service is comfortable with the level of security that is currently being provided to protectees. The issue is the level of overtime that is being worked by detail personnel, and our inability to schedule regular training for these employees.

Question. Will this request fund anything other than personnel?

Answer. This request will fund personnel and their concomitant equipment and training only.

PROTECTIVE TRAVEL FUNDING SHORTFALL

The fiscal year 1999 budget requests less funding for travel and related costs than the Service received in fiscal year 1997. The fiscal year 1997 travel allocation may not have been sufficient to cover the actual cost accrued.

Question. Is the fiscal year 1999 request sufficient to meet the projected travel needs in that year?

Answer. The Service is currently in the process of re-evaluating funding requested for travel expenses.

The Service is reviewing some of its assumptions regarding the annual level of protective travel costs. The actual costs of travel, including hotel and per diem costs, have increased beyond what had been anticipated. Also, both the level of protectee travel and the nature of that travel, especially for the President and foreign heads of state and government visiting this country, have changed. The President's level of foreign travel is beyond what was anticipated, and the number of foreign dignitary visits to this country has increased significantly. Finally, the Service has also made changes to the way protection is provided to its protectees when travelling, especially the President. Greater use is being made of technologically sophisticated equipment. New threats continue to be identified that necessitate the development and deployment of new counter-measures. Deploying these new counter-measures requires increasing the number of specially trained personnel that must travel with the President. All of these factors are being weighed as we re-evaluate both fiscal year 1998 and fiscal year 1999 travel needs.

Question. Are there some projections on the level of travel a second term President conducts toward the end of the term?

Answer. The Service does not make a zero-based projection of its annual travel expenses each year. Development of the annual travel budget is not founded on differing yearly assumptions regarding the upcoming travel schedules of the President and other protectees. The information regarding protectee travel plans is simply not available for use in making annual projections when preparing the fiscal year budget. Rather, the travel budget simply reflects the assumption that, except for major extraordinary events, e.g., an economic summit held in this country, a visit by the Pope, or a presidential campaign, travel activity and travel costs, adjusted for anticipated inflation, will remain constant. There are no assumptions made, nor costs projections rendered, relative to the second term, or for that matter, any period of time for the incumbent President.

Question. What systems are in place to ensure that travel costs can be accommodated by the allocation requested?

Answer. There is nothing the Service can do to absolutely ensure that its travel allocation is adequate. Approximately eighty percent of its travel budget is spent on fulfilling its mandated protective responsibility, and is therefore effectively controlled not by the Secret Service, but by those individuals that we protect. However, having said this, the Service can ensure that it carefully monitors its travel budget, and knows where spending stands vis-a-vis this budget at any given time. Having current travel costs information, along with knowing the future travel plans of protectees as soon as possible, will allow the Service to make budget adjustments and, depending on the magnitude of any unexpected increase in travel costs, propose

to the Congress a reprogramming of funds from elsewhere in the budget to cover any shortfall.

The Service has made some changes in its operating procedures to ensure that it has the best and most timely information possible regarding its travel expenditures. It has re-emphasized the importance of obtaining trip and itinerary information from the protectee details as soon as possible. New cost accounting procedures to provide domestic and foreign travel costs in a more timely and detailed manner have been established. Finally, the Service has a working group that continues to analyze travel data and costs-tracking issues.

MISSING AND EXPLOITED CHILDREN

In recent years the subcommittee has provided funding so that the Secret Service could expand some of their unique forensic resources as they apply to Child Exploitation Cases. Since many State and local law enforcement agencies are experiencing limited budgetary resources, initiatives such as this one could prove invaluable in investigations into child victimization cases.

Question. Please provide the committee your brief assessment of the Service's involvement into child victimization cases.

Answer. During the last two fiscal years, the Service's forensic support for the Center for Missing and Exploited Children (CMEC) has included polygraph examinations, handwriting examinations, voiceprint comparisons, audio and video enhancements, age progressions/regressions, and fingerprint research and identification. Of the 39 polygraph examinations involving missing and exploited children, twenty-five (25) subjects were found to be deceptive. Of these, twenty-two confessed to the allegations of sexual/child abuse. A suspect in one of these examinations, which was conducted in Houston, TX, admitted that she critically injured her one year-old son by intentionally running over the child's head with the wheels of her automobile. Another suspect in Schereville, Illinois admitted helping his girlfriend drown her eight-year-old stepdaughter in the family's bathtub.

Three of the more noteworthy handwriting examinations conducted by the Service involved child assaults and homicides. In one, a handwriting examination was conducted for the Chicago Police Department with handwritten notations left on the abdominal area of an unidentified, unconscious young girl who had been beaten and raped. The markings were made with a marking pen and were compared against the handwriting specimens of a number of suspects. This comparison resulted in implicating an individual. The suspect was confronted with this and other evidence and admitted to the assault. The case was highly publicized in the Chicago area and was dubbed the *Girl X* case. The second investigation involved a handwriting examination conducted for the U.S. Attorneys Office, in Washington, D.C. in the matter of the homicide of a 12 year-old boy. The Service examined letters that were purportedly gang letters written by gang members referencing the slaying of this youth. An incarcerated suspect was identified as having written some of the letters to other gang members. The third involved handwriting and ink analysis examinations, as well as audio enhancement, for the Boulder, CO Police Department investigating the JonBenet Ramsey homicide.

We have also obtained all of the known handwriting specimens from the pedophile files managed by the CMEC and entered them into the Forensic Information System for Handwriting (FISH), the Service's unique automated handwriting recognition computer application. Interestingly, the first identification that FISH made for the CMEC was the author of an anonymous threat directed at the Center itself.

Our network of connectivity with most of the state and local Automated Fingerprint Identification Systems (AFIS) has allowed us to process requests received from local police seeking missing children, kidnappers, and serial rapists. We also received a request from the U.S. Customs Service to develop latent fingerprints on pornographic materials recovered in the search of the residence of a Florida State Patrol Officer. This officer had been identified as a suspect in a case involving improper advances directed at a seventeen year-old male victim. The officer's prints were subsequently developed on the submitted materials. Our pending acquisition of a state-of-the-art vacuum metal deposition device will permit us to provide an outstanding means of developing latent fingerprints on non-porous surfaces, many of which are common in homicide investigations. Use of a first generation device, which is now inoperable, allowed us to develop fingerprints of murder suspects on plastic garbage bags recovered in two homicide investigations.

The U.S. Secret Service has deliberately focused its research efforts to improve the process of developing children's latent fingerprints. These efforts began when scientists from the Oak Ridge National Laboratory (ORNL) asked chemists from the Service's Forensic Services Division to act as scientific/forensic advisors for their

project involving the analysis of children's fingerprint residues. ORNL had been requested to assist a local police department with a child abduction case. When investigators were unable to find any of the abducted child's prints in the suspect's car (despite witnesses placing the child in the suspect's car), ORNL performed instrumental analysis methods to see if there were chemical differences between adult and child prints. Preliminary results from their limited initial study indicated that there were differences.

The U.S. Secret Service, after obtaining funding through the Technical Support Working Group (TSWG), contracted with the Pacific Northwest National Laboratory (PNNL) in Richland, Washington to follow up and expand beyond the data obtained at ORNL. PNNL's work, which just recently began, will focus not only on a rigorous analysis of latent print residues, but will also address how these residues change with time (up to 6–9 months), an aspect not investigated by ORNL. Samples will be obtained from both male and female subjects of varying ages and analyzed using some of the most advanced and sensitive analytical instrumentation available. Particular emphasis will be focused on the results obtained from the analyses performed on children and adolescent print residues. It is hoped that once a comprehensive understanding of both the organic and inorganic components of children's prints (and how these compounds are modified with time) is obtained, that further research efforts could be focused on creating new processes for visualizing the more stable compounds identified in this study. Using the currently existing processes, it is difficult to recover children's prints from crime scenes after a day or so. Therefore, it is hoped that the results from this research will assist law enforcement agencies worldwide in investigating and prosecuting cases involving missing and exploited children.

The Service also utilized its Triggerfish technology, which tracks cellular phone communications, to locate a known child abductor and two kidnapped children in Miami, Florida.

The Service now has three graphic artists who can support the CMEC with requests for age progression and regression, as well as two audiovisual forensic scientists who can enhance audio and video tapes and conduct voiceprint analysis. In January 1998, the Forensic Services Division also produced a public service announcement videotape featuring the Director of the National Center for Missing and Exploited Children.

Since initiating the Children's Identification System (KIDS), which provides parents with a printed document that contains the thumbprints and a photograph of their child, the Service has processed more than seven thousand children at different sights across the country. The Service utilizes Livescan fingerprint equipment and digital cameras to produce the documents. Frequently, KIDS support is provided at events hosted for local and state law enforcement personnel where the Service publicizes the availability of the forensic support described above to the investigators actually tasked with suppressing these heinous crimes.

Question. Please explain why funding was not requested in fiscal year 1999.

Answer. The Secret Service has received funding for this initiative since fiscal year 1995. For fiscal year 1999 however, budgetary constraints required that limited funds be targeted to the Service's core mission responsibilities.

FINANCIAL CRIMES

At last year's hearing there was a discussion on 4–1–9 or "Advanced Fee Fraud" cases. At that time over 350 businesses and individuals in Wisconsin had been sent solicitation letters.

Question. Please provide an explanation of the types of fraud you have detected.

Answer. Advance fee frauds emanating from Nigeria are targeting citizens throughout the world, and have resulted in financial losses in the hundreds of millions of dollars. The U.S. Secret Service initiated a pilot program dubbed "Operation 4–1–9" designed to assess the financial losses to U.S. citizens, and to combat advance fee fraud through bi-lateral and multi-lateral operations with our foreign law enforcement counterparts.

Financial losses reported to the Secret Service by American citizens have exceeded $100 million dollars. Experience has shown that many victims are often reluctant to report their losses due to fear or embarrassment, and it is likely that the actual financial losses far exceed the reported figures.

Investigations have also shown that the proceeds of these advance fee frauds are being diverted into other types of criminal activities, including the trafficking of narcotics.

The Secret Service has developed a data base consisting of over 80,000 advance fee fraud letters. Using this data base the Service has identified the locations of sus-

pected fraudsters in Lagos, Nigeria. Agents of the Secret Service, acting in an advisory capacity, have accompanied Nigerian law enforcement authorities in the execution of a number of search warrants, resulting in the arrests of advance fee fraudsters in Lagos.

Secret Service agents have accompanied a number of U.S. victims of advance fee fraud to London where, in conjunction with the London Metropolitan Police, they have participated in a number of "lure operations" resulting in the capture of Nigerian criminals.

Investigative information, in the form of telephone/facsimile numbers and bank accounts known to be associated with the receipt of the illicit proceeds of advance fee frauds, has been passed through our overseas offices to law enforcement authorities in Canada, France, Germany, Hong Kong, Malaysia, Monaco, the United Kingdom, and other countries.

Advance Fee Fraud (AFF) letters and faxes are confidence schemes and appear as various proposals from "officials" of Nigerian Government ministries or existing companies, or involving Nigerian Government contracts. The letters and faxes contain official-looking stationery with appropriate government seals, stamps, and signatures. Names and addresses of potential victims are obtained through various trade journals, business directories, magazine and newspaper advertisements, chambers of commerce, and the Internet. These criminals do not target a single company, but rather send out mailings en masse.

All AFF proposals share a common thread. The proposals are unsolicited, emphasize the urgency and confidentiality of the deal, and require the victim to pay various government and legal fees and taxes before receiving what turns out to be nonexistent money.

Part of the criminal's ruse is to have the victim travel to Nigeria (either directly or via a bordering country) to meet with a Nigerian Government "official(s)" to complete the transaction. Once in Nigeria, these criminals will attempt to solicit more money from the victim, either by continuing the elaborate ruse, or, if that fails, physical intimidation.

Advance Fee Fraud confidence schemes usually fall into the following categories: Transfer of Funds from Over-Invoiced Contracts; Contract Fraud (C.O.D. of Goods and Services); Conversion of Hard Currency (Black Money); Sale of Crude Oil at Below Market Prices; Purchase of Real Estate; and Disbursement of Money from Wills (Benefactor of a Will).

Transfer of Money From Over-Invoiced Contracts

About 90 percent of AFF are over-invoiced contract scams. The scam involves an offer to transfer large sums of money into an overseas bank account owned by a foreign company. The money comes from over-invoiced contracts from a Nigerian company or one of the Nigerian Government ministries (that is, Central Bank of Nigeria, Nigerian National Petroleum Corporation). The author of the letter claims to be a government or bank official who is willing to pay the victim a generous commission of up to 30 percent for assisting in the transfer of the funds. Initially, the victim is asked to provide company letterhead and bank information to initiate the transfer of funds. The victim soon finds out that he or she is required to pay various "transaction fees" before the money can be released. The victim can be strung along for months or years paying various fees and taxes before realizing that the money does not exist.

Conversion of Hard Currency (Black Money)

The letter or fax entices the victim with a "chance of a lifetime" offer. Once the victim agrees to allow the criminals to obtain a visa for him or her and meet them in Nigeria, (or a neutral country) the following scenario occurs:

The victim will be shown a suitcase allegedly full of U.S. currency in $100 bill denominations that was temporarily defaced with a black waxy material (Vaseline and iodine) to mask their origin. The criminals tell the victim that there is $40 million dollars in the suitcase. However, in order to remove the material and restore the notes, the victim must purchase a special solution (commercial cleaning fluid). The cost of this "special" solution ranges from $50,000 to $200,000. The victim will receive 40 percent of the $40 million as his or her "commission."

The criminals will wash one of the bills with the special solution restoring the U.S. currency to its original form. In an effort to alleviate any doubts the victim may have, the victim will be asked to pick out another $100 bill at random to be cleaned. Before the criminal cleans the bill, the victim is momentarily distracted by one of the criminal's accomplices. During that split second, the criminal using slight of hand, will pull out a real $100 bill from his sleeve and clean it in front of the victim. The "treated" notes are given to the victim to take to a bank for verification.

In some instances, as a sign of good faith, the victim will be able to keep the suitcase for a short time, until the victim gets the money to buy the solution. To prevent the victim from opening the suitcase, the victim is told that exposure to the air will cause the black substance to ruin the money. Ammonia is placed inside the suitcase in the event the victim opens the suitcase giving the impression that the money is disintegrating.

The criminals walk away with the victim's money, and the victim ends up with a suitcase full of blank paper.

Sale of Crude Oil at Below Market Prices

The victim is offered special crude oil allocations at lower than the market rate. As in other AFF business proposals, the victim is required to pay special registration and licensing fees to acquire crude oil at below market price, only to find that the "sellers" have disappeared once the fees have been paid.

Purchase of Real Estate

This fraud involves an offer to purchase real estate using the services of a real estate broker or a "well established" business executive. Once a home is located, the broker or person acting on behalf of the home buyer is required to pay certain fees to complete the transaction in return for receiving a normal commission.

Disbursement of Money from Wills

In this variant of the money transfer fraud, charities, religious groups, universities, and nonprofit organizations receive a letter or fax from a mysterious benefactor interested in the group's cause and wishing to make a sizable contribution. Before the contribution can be released, the recipient must first pay an inheritance tax or various government fees and taxes. The victim also may be requested to travel to Nigeria and/or a bordering country to collect the "gift."

Question. How is the Secret Service dealing with these scam artists?

Answer. The Secret Service has undertaken a three pronged approach: (1) education, (2) interdiction, and (3) investigation, to combat this growing problem. The Secret Service is the lead agency in twelve task forces throughout the United States whose focus is the investigation of financial crimes committed by Nigerian criminals. Membership in the task forces includes representatives from the Department of State-Diplomatic Security Service, the Drug Enforcement Administration, the Federal Bureau of Investigation, the Immigration and Naturalization Service, the U.S. Customs Service, the U.S. Postal Inspection Service, and numerous local and state law enforcement agencies.

The President's International Crime Control Strategy, and other initiatives such as Presidential Decision Directive (PDD) 42 recognize the global threat posed by organized criminal groups. The Secret Service has established liaison with both the Department of Justice, Office of International Affairs, and the Department of State regarding prosecutorial guidelines, extradition, and coordination of international advance fee fraud activity. Secret Service agents occasionally perform temporary duty assignments in Lagos to assist the Nigerian Special Frauds Unit in the investigation of these crimes. The Secret Service is involved in bi-lateral and multi-lateral initiatives with law enforcement agencies throughout the world, to include the Metropolitan Police in London, the Bundeskriminalamt in Germany, and the Royal Canadian Mounted Police in Toronto, Canada. The Secret Service is the lead agency in the G–8's U.S. Delegation to the Law Enforcement Project Sub-Group for the Project Based Initiative on West African Fraud.

American citizens are losing their life savings, and more, to these fraudulent schemes. At least two Americans have lost their lives after traveling to Lagos in pursuit of an advance fee scheme. The Secret Service is working with the Department of State, Department of Commerce, Department of Justice, Better Business Bureaus, and others as part of a comprehensive public awareness campaign which has successfully prevented large numbers of American citizens from falling victim to these crimes. The Secret Service has given countless national print, radio and television interviews on the subject.

The Secret Service has added a section on advance fee fraud to its home page on the Internet. Public response to this web page, via telephone, mail, and e-mail has revealed more than $100,000,000 in losses incurred by victims of this type of fraud. Several other visitors to this site have reported being solicited for funds for apparent advance fee schemes. Gaining information via this web site has prevented some of these individuals from becoming victims of this crime, while others have been able to avoid additional losses. Investigative leads obtained from victims throughout the world have identified Nigerian criminals, and in some instances, non-Nigerian accomplices, resulting in the arrest of these criminals, and the seizure of millions of dollars in illicit proceeds.

DETECTION OF COUNTERFEIT U.S. CURRENCY

Question. What is the status of the Secret Service overseas program?

Answer. Since 1994, the Service has requested an additional 33 overseas positions.

Question. How many positions does the Secret Service currently have overseas?

Answer. The Secret Service currently has a total of 36 agent positions and 14 support positions, assigned to its 13 overseas offices.

Question. How does this relate to the number of positions requested?

Answer. Of those requested positions, 25 positions have been approved. Positions which have not received Chief of Mission approval include three positions in Moscow; three positions in Mexico City; and one position each in Bogota and Manila.

Question. Have you worked with the State Department to create offices where needed?

Answer. Although the Service currently is not pursuing the Manila position, it continues to work closely with the State Department and appropriate Chiefs of Mission in obtaining approval for the other requested positions.

According to the summary performance report the Service anticipated better results in the number of counterfeit notes seized and closing of credit card and financial institution fraud cases. Now it appears the Service has reduced its targets for fiscal year 1998/1999.

Question. Why are the performance targets reduced?

Answer. The change to financial crime performance goals for fiscal year 1998 and fiscal year 1999 was due primarily to an internal realignment of priorities and resources. Specifically, a greater emphasis is being placed on current and new protection responsibilities. The effect of this change will likely be that the overall quantity of cases closed and arrests will drop slightly.

Although the number of credit card/access device fraud cases closed was somewhat lower than anticipated, most of the other investigative program performance goals were either met or exceeded during fiscal year 1997. Both measures of case quantity and quality improved during fiscal year 1997. The total number of financial crime cases closed, the percentage of high priority cases, and the percentage of cases resulting in prosecution at the Federal level all increased. In addition, a record number of arrests for financial crime violations and corresponding indictments were reported during fiscal year 1997.

Question. What problems did you experience in 1997 that resulted in not meeting the projected goals?

Answer. A change in the means by which counterfeit currency is produced goes a long way toward explaining why performance goals were seemingly not met. The level of counterfeit notes passed to the public tends to change from year to year. However, the amount of counterfeit currency seized is more volatile and often fluctuates. These fluctuations depend on the number and aggressiveness of counterfeiting plant operations, the type of counterfeiting processes used to produce the counterfeit notes, and whether the operation is located domestically (or in a cooperative foreign country), or in a country with an uncooperative government.

Recently, there has been a shift in the technology used to produce counterfeit currency. The current pattern moves away from using the older offset printing techniques to using the new high quality laser and ink jet printers. This shift means that counterfeiters no longer need to produce large stocks of counterfeits during a single production run for distribution at a later time. With the new laser and ink jet technology it is as efficient to produce only that which is being passed or sold at that time as it is to produce a large volume. As a result, there are smaller inventories of counterfeit notes on hand to be seized when these operations are suppressed.

Question. Were fewer counterfeit notes passed?

Answer. As noted above, the amount of counterfeit U.S. currency passed varies slightly from year to year. In fiscal year 1997, a total of $34.7 million in counterfeit U.S. currency was passed worldwide. This figure represents a 3 percent drop from the previous fiscal year.

Question. How do you know the number of notes that were passed?

Answer. Counterfeit notes passed come to the attention of the Secret Service in two ways. First, a citizen, merchant or local bank may discover what they believe is a counterfeit note and report it directly to the local Secret Service office. An expert in counterfeit detection will determine if the note is genuine or counterfeit. If counterfeit, it will remain in the possession of the Secret Service, be inventoried for possible use as evidence, and reported for statistical purposes. Counterfeit notes of better quality may remain in circulation until they reach a Federal Reserve Bank. Notes detected at the Federal Reserve are turned over to the local Secret Service

office. These notes are also inventoried and reported for statistical purposes. In theory, and empirically demonstrated, virtually all counterfeit notes placed in circulation will ultimately be detected and reported to the Secret Service.

FEDERAL LAW ENFORCEMENT WIRELESS USERS GROUP

Continued funding is requested for the Federal Law Enforcement Wireless Users Group (FLEWUG). FLEWUG was established to provide radio inter-operability.

Question. Is there currently a Treasury-wide effort that requires all the law enforcement agencies to acquire radio and communications systems that are inter-operable. Could alternative efforts be developed that would provide for inter-operability outside of FLEWUG?

Answer. It has always been the goal of the FLEWUG not to reinvent or duplicate efforts by other federal, state, or local agencies in achieving interoperability. Rather, the FLEWUG views its role as a facilitator and repository of the various techniques that public safety agencies are currently utilizing to link radio systems with different technologies and different radio frequencies to achieve interoperability. More importantly, the FLEWUG brings a national level focus to the problems faced by the public safety community as a whole, and this visibility encourages the development of more efficient solutions to this problem. The FLEWUG seeks both hardware and software solutions in developing interconnectivity between the numerous land mobile radio systems currently in use, and those being planned. This means focusing on land mobile radio systems that are both vendor specific and vendor neutral, using both analog and digital technology. Additionally, the FLEWUG is positioned to take a more global view of the situation and has undertaken a number of feasibility studies that underscore the magnitude of the problem. To a great extent the FLEWUG envisions the Public Safety Wireless Network (PSWN) as being the network of networks in linking independently developed federal, state, and local networks together. The FLEWUG plans to follow its feasibility studies with a number of proofs of concept tests that will demonstrate cost effective technology solutions.

Question. Are efforts being made to work with state and locals to achieve interoperability over time?

Answer. This Federal effort has a very aggressive program working with its state and local counterparts. A complete, bottom-to-top analysis of federal, state, and local public safety use of land mobile radio systems in the San Diego Imperial Counties of Southern California and a multi-state, multi-county study with the metropolitan Washington DC area Council of Governments is currently being conducted. These analyses will provide the first complete picture of regional communications systems and will form the foundation for proof of concept testing for achieving seamless inter and intra governmental wireless communications systems. In these two studies alone, the FLEWUG has contacted over 400 public safety officials. Three symposiums that focus on the key issues facing the public safety community in developing shared radio systems have been sponsored by the FLEWUG. The symposiums were conducted in Charlotte, North Carolina; Harrisburg, Pennsylvania; and Sacramento, California. Attendance at symposiums continues to increase as word of these symposiums has spread through the public safety community. Over 200 people attended the most recent symposium in Sacrament, California.

Question. How does radio spectrum impact on these efforts?

Answer. The FLEWUG continues to support the findings of the Public Safety Wireless Advisory Committee (PSWAC) report that identified the public safety need for a total of 97.5 MHz of spectrum over the next 15 years. Additionally, the PSWAC report recommended the allocation of 2.5 MHz of spectrum for interoperability from new or existing allocations. The FLEWUG is working with the Federal Communications Commission (FCC) and the National Telecommunications and Information Administration (NTIA) to identify spectrum for interoperability purposes in all radio bands used by the public safety community. At the same time the FLEWUG is also looking at possible regulatory impediments to sharing radio spectrum between federal, state, and local agencies, and ways to improve public safety radio spectrum management between the FCC and NTIA.

FEDERAL LAW ENFORCEMENT TRAINING CENTER

STATE AND LOCAL TRAINING

Question. What Law Enforcement training do you provide state and local enforcement officials, and how do you determine who will receive this training?

Answer. The FLETC offers more than 50 training programs in advanced topical areas for personnel from State and local law enforcement agencies. These programs

develop specialized law enforcement skills through training not readily available from other sources. Since 1983, the FLETC has delivered training to over 40,000 State and local law enforcement officers throughout the United States.

FLETC Directive 30–01.P "Policy Governing the Sponsorship and Selection of State and Local Students for Center Advanced, In service, Refresher, and Specialized, (CAIRS) and State and Local Training Programs" has been in place since June 1984. Generally, this directive indicates that training slots will be distributed on the basis of date and time receipt on a first-come, first-served basis. When the number of applications for a particular program exceeds the number of training slots available, the applications are divided according to geographic region and allocations are made by region on a first-come, first-served basis. For instructor training programs, additional criteria are applied: those agencies requiring FLETC certification will receive first priority based on date and time of application receipt, and agencies with broader training impact (students to be trained) will receive second priority based on time and date of application receipt. In all cases, however, students must meet the eligibility requirements of the specific program to which they are applying. These requirements vary by program.

In an era where State and local law enforcement is suffering from diminishing resources and additional responsibilities, the FLETC is focusing its limited resources on reaching the largest number of customers in the most cost-effective manner. Two years ago, following an extensive research study, the FLETC determined that 91 percent of the State and local law enforcement agencies in this country have fewer than 50 officers. To meet the needs of these small town and rural agencies which comprise the vast majority of our customers, the FLETC created the Small Town and Rural (STAR) training series. The Star series is currently comprised of the following programs: Airborne Counterdrug Operations Training, Advanced Airborne Counterdrug Operations Training, Community Policing Train-the-Trainer, Drug Enforcement Train-the-Trainer, First Response Training, Gangs in Indian Country, Hate and Bias Crimes Train-the-Trainer, and Rural; Crime and Drug Enforcement Task Force Train-the-Trainer.

Each of the STAR programs is directed toward either managers or trainer/facilitators who can return to their jurisdictions with all the materials necessary to replicate the training and techniques in their agencies and surrounding jurisdictions. This approach creates a multiplier effect which will expand the effectiveness of criminal investigations throughout the United States. This multiplier effect is accomplished with a funding investment that is a fraction of the cost that would be necessary if each individual benefited by this training initiative were to be trained directly. In fact, the second level training will permit hundreds of Federal, State, and local law enforcement agencies to benefit at little or no cost.

The FLETC has a two-year schedule to deliver the STAR series programs to law enforcement officers. The target audience is small town and rural law enforcement officers (including tribal police) who typically lack training in these areas. Participants in STAR series train-the-trainer programs receive serially numbered instructor graduation certificates. Those who commit to delivering training to small town and rural agencies are then eligible to become FLETC-certified STAR instructors.

This process creates a multiplier effect which provides great benefit for a relatively small fiscal commitment. For instance, if training were provided during the first year for 30 students in deliveries of each of the 4 STAR series train-the-trainer programs, 600 training facilitators potentially would be prepared to share that training in their geographical areas. If each of those facilitators subsequently provided training for a class of 30, then 18,000 officers throughout the United States would benefit from the funded training.

Question. The local law enforcement agencies are responsible for covering the costs associated with traveling to and from the FLETC to acquire the training. Is the FLETC aware of any grants or other Federal programs that local law enforcement agencies could utilize to increase their access to these programs?

Answer. Not only are State and local law enforcement officers responsible for covering the costs associated with traveling to and from the FLETC, they also must fund their per-diem and lodging during training. Additionally, those programs without funding from other sources to cover tuition costs, must also pay for their tuition costs. The FLETC actively pursues funding from a variety of sources to help offset the cost of training for State and local officers. However, other than those listed below, the FLETC is not aware of any other Federal programs that provide funds to attend this training.

Through Crime Bill initiatives, $1 million has been designated to offset tuition cost for Rural Drug training, which has become part of the STAR training series. In addition, the FLETC partnered with the Department of Justice, Office of Community Oriented Policing Services, to deliver the STAR community Policing Train-the-

Trainer Program. Over 25 training programs will be delivered during the next two years at export training sites across the country. The training is tuition-free. Participants must fund their own travel, meals, and lodging. The Environmental Protection Agency (EPA) funds all the cost of the training, including tuition, travel to and from the FLETC, and per-diem and lodging during training for State and local enforcement and regulatory personnel.

To reduce travel costs for officers, the FLETC delivers training at multiple sites through export and telecast training to regional small town and rural areas.

In addition to the training conducted on-site and one the FLETC's residential facilities in Georgia, New Mexico, and the temporary facility in South Carolina, the FLETC also utilizes State and local training facilities that could be used to accommodate increases in training. Using these available sites can make it more convenient and cost efficient for customers to acquire required training.

Question. Could using these facilities give the FLETC greater ability to accommodate increases in training? Don't these facilities provide greater opportunities for State and local law enforcement agencies to participate? Is the FLETC pursuing greater flexibility in developing these remote locations?

Answer. Arrangements have been made with a number of academies, law enforcement agencies, and colleges with criminal justice programs to enable them to serve as sites for repeated training deliveries for State and local law enforcement. The delivery of this training primarily as export makes it more accessible and cost-effective for State and local law enforcement, since it reduces their travel costs.

Recent research conducted by the FLETC documents that these small town and rural agencies do not have the financial resources to send officers great distances to training, nor are they able to spare officers for long periods of time. However, because they form the vast majority of police agencies in this country, these agencies' contributions to combating drugs and hate and bias crimes is essential to the Federal government's ability to deal with these crises. From the information presented above, it can be concluded that there is a definite need for low cost or no cost training to be provided to small town and rural area law enforcement—training that meets their documented needs and training that is delivered to the crossroads of America, right to the doorsteps of these officers. The FLETC has responded to his need by developing pertinent training and designing an appropriate delivery system.

FINANCIAL CRIMES ENFORCEMENT NETWORK (FINCEN)

The Gateway System provides state and local law enforcement agencies direct, online access to Currency Transaction Reports and Suspicious Activity Reports filed under the Bank Secrecy Act.

Question. What can Wisconsin expect to get out of having access to these data bases? Can the State and local organizations have access to these data bases without receiving the training?

Answer. Through the Gateway system, state and local law enforcement agencies, including those in Wisconsin, have direct, on-line access to reports filed under the Bank Secrecy Act, the largest currency transaction reporting system in the world. BSA reports contain information such as large cash transactions, casino transactions, international movements of currency, and foreign bank accounts. Investigators utilizing the Gateway system also have access to the Suspicious Activity Reporting System which contains reports filed by banks on transactions that appear to represent attempts to launder funds or violate the banking laws. This information often provides invaluable assistance for investigators because it is not readily available from any other source. It has proven very useful to state and local agencies in financial crime investigations as well as other kinds of cases.

Using FinCEN-designed software, the Gateway system saves investigative time and money because subscribing agencies can conduct their own research and not rely on the resources of an intermediary agency to obtain BSA records. All states and the District of Columbia are now on-line with the system. Analysts at the Wisconsin Department of Justice have been trained on the Gateway program, and use the system in support of case work. In fiscal year 1997, Wisconsin performed 229 Gateway queries.

During the research and analysis process, Gateway electronically captures the information gathered on incoming inquiries and automatically compares this information to subsequent and prior queries from Gateway customers. FinCEN is then able to electronically match these new subjects against its other data bases to identify potential parallel investigations. This technique enables FinCEN to assist state and local agencies in coordinating their investigations among themselves, and with fed-

eral agencies, through the sharing and exchanging of case data. (In other words, FinCEN has the ability to "alert" one agency that another has an interest in their subject.)

As part of its outreach effort and as resources permit, FinCEN has been enhancing its support to the states through on-site training for Gateway users. Such briefings include a discussion of how other states are successfully using the BSA data; how the data can be used to support various financial aspects of cases; and unique ways to attack criminal proceeds. Wisconsin also could benefit from this expanded BSA training, including use of the alert system as described above. FinCEN provided such demonstrations to the Wisconsin Gateway users in 1995; additional training is planned in fiscal year 1998.

Relative to training, state and local enforcement authorities are not permitted access to the data without the benefit of training. Training is imperative to successful use of the system and understanding its capabilities. Equally important to understanding the complexities of the system is the need to ensure that each user understands the security procedures in place to protect against the misuse of the system, as well as the legal agreements and disclosure rules that must be made clear to each participant prior to using the system.

Question. Could this training be placed on line for automatic access? Or is there anyway that the training for this equipment could be standardized, such as through FLETC?

Answer. FinCEN has been exploring various options in the development of training alternatives including "training modules." However, none have yet been finalized. The training alternatives under discussion include sites such as the Federal Law Enforcement Training Center and the FBI training facility in Quantico, VA.

However, it is important to note that components of FinCEN's training program involve security procedures, key stroke instruction, the recognition of the value of the information, its application to investigations, legal agreements and the disclosure procedures. One-on-one training, as opposed to on-line training, allows each training component to be tailored to the individual participants.

We are all aware of FinCEN's international responsibilities and the need to make the world of international finance aware of FinCEN's existence.

Question. What activities and resources, other then those dedicated to the Gateway Training Initiative, are being requested to assist State and Local financial crime enforcement activities?

Answer. The $300,000 request for additional funding for the improvement of the analysis capabilities of Suspicious Activity Reports (SAR's) through data mining would be extremely beneficial to state and local enforcement. SAR's provide enforcement authorities at all levels with valuable intelligence information which could be used to assist on-going investigations and aid in the development of new investigations. The results of this improved ability to analyze these highly effective reports would be passed along to our state and local partners.

Federal officials estimate the money launderers in New York City funnel more than $1.5 billion to Colombia and $500 million to the Dominican Republic.

Question. Stopping those transactions at home would be an area to focus on, wouldn't it? What could be done to stop the transactions before the money got to Colombia or the Dominican Republic?

Answer. As the committee knows, Treasury has employed a Geographic Targeting Order ("GTO") to target the flow of laundered funds through money transmitters in the New York metropolitan area to Colombia and the Dominican Republic. A GTO is a device that enables the Treasury to impose additional reporting and record-keeping requirements where necessary to carry out the purposes, and prevent evasions, of the BSA.

Money launderers use legal channels for illegal purposes; that is true when they use the banking system, and it's true when they use the money remittance system operated by non-banks. Our strategies have been to make it more difficult for illegal transactions to take place within these channels. To keep illegal users of the system away, Treasury has employed a combination of special regulatory rules; vigorous surveillance and auditing in the wake of those rules; and swift prosecutions when criminal activity is revealed as part of these strategies.

In August 1996, a GTO (the "Colombian GTO") was put in place in the New York metropolitan area with respect to cash-purchased remittances to Colombia. As a result of the Colombian GTO and the criminal enforcement of its terms, the flow of laundered funds through the targeted transmitters in the New York metropolitan area dropped dramatically; in fact, several of those transmitters have stopped remitting funds to Colombia altogether.

In addition, during the operation, currency seizures increased dramatically. For example: during the first six months of the GTO, $50 million was seized from var-

ious sources along the eastern seaboard. This figure is approximately four times higher than it has been in prior years. The dramatic increase in currency seizures attributable to the GTO, as well as information from various undercover operations, indicates that the GTO has forced money launderers to resort to bulk currency smuggling to move their money.

The Colombian GTO was renewed several times before finally expiring in October 1997.

In September 1997, additional GTO's (the "Dominican GTO's") were put in place both in the New York metropolitan area and Puerto Rico, with respect to cash-purchased remittances to the Dominican Republic. As of this date, the Dominican GTO's are still in effect. One of the largest transmitters in this market—Remesas America Oriental ("RAO")—has pled guilty to felony money laundering and structuring charges, and has had its license revoked by the New York State Banking Department.

A longer-term regulatory approach to protecting the industry from money launderers is now being finalized. Under three BSA rules proposed last May, all money services businesses would be required to register with the Treasury; money remitters and sellers of traveler's checks and money orders would be required to report suspicious activity; and money transmitters nationwide would be subject to reporting and recordkeeping requirements similar to those imposed by the Colombian and Dominican GTO's.

Question. What is the status of FinCEN's Non-bank Financial Institutions Regulations? Is any funding being requested in fiscal year 1999 to insure these regulations can be implemented?

Answer. Based on the Colombian GTO and other initiatives, it became clear that a nationwide approach, which went beyond currency reporting, was needed for money services businesses (MSB's). FinCEN's study of the industry, undertaken by Coopers and Lybrand, helped to further profile and define this group of diverse businesses.

Proposed rules were announced in May 1997 to respond to vulnerabilities in the MSB industry as well as to implement the requirement of the Money Laundering Suppression Act of 1994 that the Treasury register this group of businesses.

The first proposed rule would require that MSB's—which include money transmitters or remitters, money order issuers and sellers, travelers check issuers and sellers, retail currency exchangers and check cashers—register with the Department of the Treasury. A second proposal would extend suspicious activity requirements to money transmitters and issuers, sellers and redeemers of traveler's checks or money orders. The third proposal would require money transmitters to report currency transactions of $750 or more that involve the transmission of funds to any person outside the United States.

FinCEN held five public meetings last summer to elicit comments on the proposed rules. The written comment period ended on September 30. FinCEN has reviewed the comments and is finalizing the proposed rules based on industry concerns, where appropriate.

Treasury has indicated it will allocate $2.5 million from Treasury Super Surplus balances in the Treasury Forfeiture Fund to FinCEN for MSB implementation fiscal year 1999. This amount would be used for guidance, interpretive advice, oversight, coordination and data analysis.

Question. Has the IRS requested the funding necessary for the information systems and data processing required to get this initiative started? What was the substance of the comments you received during the public comment period?

Answer. The IRS has indicated that they are requesting $14 million, which includes funding for information systems and data processing; examination resources; and notice and outreach to diverse retail and financial communities.

The MSB Rules have attracted significant attention and controversy, and generated enormous effort, both by FinCEN and representatives of the affected industries. Eighty-two comments on the Rules are under review; approximately 30 of the comments are detailed ones, some running to more than 50 pages of text. We are still in the process of analyzing the comments and will provide the Committee under separate cover a summary of the comments we have received from the industry.

Question. What type of security activity would be identified as suspicious activity. Is a review of that activity already subject to Security and Exchange Commission review?

Answer. Securities broker dealers are already subject to currency transaction reporting requirements—and all other reporting and recordkeeping requirements—under the BSA.

In addition, FinCEN has developed in close cooperation with the SEC and the industry, a proposed regulation that will require securities broker dealers to report

suspicious activity to FinCEN. The suspicious activity required to be reported will include money laundering, for which there is no existing system of reporting.

A draft rule should be published this spring.

Question. What steps can FinCEN take that the SEC would not be authorized to take?

Answer. While FinCEN is not in a position to delineate the SEC's full range of authority, FinCEN has been explicitly provided very specific and important statutory authority to prevent, detect and deter money laundering. Moreover, FinCEN has an infrastructure in place to provide for the processing and dissemination, with appropriate safeguards, of reports of suspicious transactions.

Question. Please explain what Card Clubs are and how they are used to provide for money laundering activities? What regulations has FinCEN issued that impact card clubs?

Answer. In order to close a gap identified by federal and state law enforcement, FinCEN has brought card clubs, which are responsible for nearly $9 billion of yearly wagering activity, under anti-money laundering requirements.

The regulation, which was issued in its final form on January 13 of this year, goes into effect on August 1, 1998 and affects those card clubs with more than $1 million in gross annual gaming revenue.

Most frequently found in California, card clubs typically offer facilities for gaming by customers who bet against one another, rather than against the establishment.

Card clubs are at least as vulnerable to use by money launderers as other gaming establishments, both because of their size and because those institutions often lack the controls found at casinos.

Under the final rule, card clubs—including those operated on tribal lands—would be treated in the same manner as casinos (i.e., subject not only to currency transaction reporting rules but to the full set of provisions to which casinos in the United States are subject—a comprehensive recordkeeping system and a compliance program containing anti-money laundering safeguards.)

QUESTIONS SUBMITTED BY SENATOR MIKULSKI

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

BALTIMORE OFFICE STAFFING

Question. Two years ago, I was given an assurance by the Deputy Director that the Baltimore Office of the ATF would not suffer any loss of manpower as a result of ATF's reorganization and consolidation. I have recently discovered that contrary to the commitment I was given by the Deputy Director, there has been a loss of manpower in the Baltimore Office. Why has this commitment not been fulfilled?

Answer. Staffing reductions in the Baltimore field office are due to attrition. There have been several key retirements throughout the agency. For the first time in many years, ATF is in a hiring mode in order to backfill vacancies and keep pace with anticipated retirements. In the past 3–4 years, ATF has seen a 14 percent reduction in its overall special agent population.

In fiscal year 1997, ATF launched an extensive recruitment program that generated more than 6,000 applications. The first selections began in fiscal year 1997, and will continue into fiscal year 1998.

Question. When will the manpower in the Baltimore Office be restored to its previous levels?

Answer. We expect to be in a hiring mode for the next several years to fill these and other critical positions within ATF.

PETITIONS FOR RULEMAKING

Question. After ATF receives a petition for rule making, could you outline the procedure ATF follows in obtaining comments, formal or otherwise, and how the petition would be considered by ATF until this process is completed? How long does this process usually take?

Answer. After ATF receives a petition, an ATF Specialist is assigned to analyze, research and evaluate it for completeness and for compatibility with the law. Once this process is complete, we prepare a Notice of Proposed Rulemaking for publication in the Federal Register in order to afford the public and those concerned with the industry an opportunity to comment. Prior to publication, rulemaking documents are thoroughly reviewed and vetted by various ATF and Treasury offices. Petitions are treated as internal matters up until the point of publication. Depending

on the complexity of the issue or issues involved, the entire process could take up to a year or even more before publication of a rulemaking document.

Question. How many petitions does ATF receive each year?

Answer. Each year, ATF receives approximately 20 formal petitions to change the regulations. Requests for interpretations of, rulings on, and variances from the regulations are much more numerous. In addition, most regulatory changes that occur do not arise from petitions. Regulatory reform efforts, law and policy changes, and improvements developed and proposed by ATF are the reasons for many of the changes implemented.

Question. What types of petitions are received?

Answer. Petitions to ATF request amendments or revisions to alcohol, tobacco, firearms or explosives regulations. A large majority deal with alcohol matters, as these regulations are more detailed and complex, involving both tax and regulatory issues.

Question. What percentage are approved/denied?

Answer. The approval rate is approximately 75 percent.

QUESTIONS SUBMITTED BY SENATORS GORTON AND MURRAY

U.S. CUSTOMS SERVICE

INTELLECTUAL PROPERTY RIGHTS

Question. The Customs Service first issued proposed regulations liberalizing the release of information on seized and detained goods to intellectual property rights owners in 1993. Now, five years later, final regulations have still not been issued, and Customs still operates under outdated, ineffective regulations. The existing regulations cripple the ability of IP rights holders to pursue private remedies. Do you agree this is an acute problem? What is keeping Customs from promptly issuing final, comprehensive regulations liberalizing the release of such information?

Answer. New Customs regulations to provide intellectual property rights (IPR) owners sample merchandise and disclose information regarding the identity of persons involved with importing infringing goods, will be published on March 11, 1998, and will become effective 30 days later. The change will assist Customs in making infringement determinations and enable IPR owners to more expeditiously proceed to enforce their property rights by means of appropriate judicial remedies.

Question. We understand that disclosure policy differs port-to-port. Don't we need a uniform, nationwide policy?

Answer. Customs has reconciled any field inconsistencies in disclosure which have come to Headquarters' attention. We do need a uniform nationwide policy on disclosing information and samples in intellectual property rights cases, and the new regulations should ensure assistance in this effort. The IPR disclosure regulations will be effective the second week of April. In order to ensure uniform application of the new disclosure regulations, Customs internal IPR committee will discuss monitoring at its March 1998 meeting. The IPR committee consists of representatives from all concerned Customs offices.

Question. Piracy of intellectual property rights of Americans is estimated to cost our economy and trade balance billions of dollars annually. In our view, private industry and the federal government must work together to attack this problem. Promulgating final regulations providing for greater release of information is a critical first step. What else can Customs do to aid IP rights holders?

Answer. During the last five years, Customs has seized over $230 million worth of merchandise involving IPR violations. Besides implementation of the new disclosure regulations, Customs constantly conducts "in house" IPR training programs, provides speakers to industry groups such as the International Anticounterfeiting Coalition (IACC) and the International Trademark Association (INTA), and cooperates with IPR holders through border enforcement "interventions" such as those recently done for Underwriters Laboratories and the golf club industry.

SUBCOMMITTEE RECESS

Senator CAMPBELL. I thank this subcommittee. As I mentioned, the record will stay open for about 2 weeks. I thank you for appearing.

With that, this subcommittee is recessed.

[Whereupon, at 3:24 p.m., Thursday, February 26, the subcommittee was recessed, to reconvene at 1:32 p.m., Thursday, March 5.]

TREASURY AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1999

THURSDAY, MARCH 5, 1998

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 1:32 p.m., in room SD–124, Dirksen Senate Office Building, Hon. Ben Nighthorse Campbell (chairman) presiding.

Present: Senators Campbell, Shelby, Faircloth, Stevens, and Kohl.

DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

STATEMENT OF CHARLES O. ROSSOTTI, COMMISSIONER

ACCOMPANIED BY:
ARTHUR GROSS, CHIEF INFORMATION OFFICER
JOHN DALRYMPLE, DEPUTY CHIEF OPERATIONS OFFICER

OPENING REMARKS

Senator CAMPBELL. The Treasury and General Government Subcommittee hearing will be in order. Senator Kohl has said he may or may not be able to attend today. He has a conflict, and we will probably have a few drifting in and out.

I want to welcome you today, Mr. Rossotti, and I understand that Mr. Arthur Gross is going to be with you?

Mr. ROSSOTTI. Yes.

Senator CAMPBELL. I welcome everyone to this second hearing of the Treasury and General Government Appropriations Subcommittee.

This afternoon we will be discussing the fiscal year 1999 budget request of the Internal Revenue Service. I do not need to tell you, as you know, just being new to the job, that the IRS is probably not, in the eyes of many constituents, the most favored agency in the U.S. Government, and your mail runs as mine does so you are aware of that.

But clearly, as a result of some of the testimony in recent months, particularly on the House side, I think we have been given an opportunity to really do some major reforms that will be looked at with a little better judgment by the constituents and taxpayers of this country. That bill did pass the House and is currently under consideration in the Senate Finance Committee, as you know.

As a matter of fact, Senate Majority Leader Lott has indicated that it will be his intention to bring that bill before the full Senate by the end of the month.

This is a critical period for the IRS and I certainly compliment you on taking on a very, very tough job in facing a myriad of problems that you have to deal with. But it is a good step forward to resolving some of the conflicts.

Conversion of all of the agency's computers is certainly going to be recognized and the year 2000 must be some of the highest priorities that you face. Certainly it is not going to be cheap, and we have to do it relatively soon.

The IRS collected $1.5 trillion in taxes in fiscal year 1997 and expects to collect that much plus probably another $750 million in fiscal year 1998. Tax collections is a necessary function, sometimes called a necessary evil, too, but it is something we are all faced with. It is also, I think, a recognized fact that over 80 percent of American taxpayers are voluntary taxpayers, not trying to get away with something. They are doing their duty, and civic duty as good citizens. The IRS certainly needs to work with them and not against them.

Taxpayers of this country are demanding that the IRS provide reliable customer assistance instead of functioning as an adversary. The Federal agencies I think, and IRS included, can learn a great deal from the private sector, in which many people who, if they need assistance and they talk to the first person, that first person if he does not have the answer will try to find it from another person. Unlike some of the experiences they have had with the IRS where the first person they deal with seems to be a judge and jury in their problems.

The IRS is requesting a total of almost $7.9 billion for operating expenses and an additional $323 million for information technology investments in fiscal year 1999. A total of over one-half of a billion dollars more than fiscal year 1998.

This committee must determine whether the IRS needs that level of funding and, if not, what programs can be reduced or cut or streamlined so that we do not have that outlay.

With that, Senator Kohl, I am glad you are here. I just made an excuse for you, saying that you might be a little late. I would yield to you.

STATEMENT OF SENATOR KOHL

Senator KOHL. Thank you very much, Senator Campbell.

Much has happened over the past year, since the last time we held this hearing. The Internal Revenue Service has appointed a new Commissioner with a strong background in management and information technology. Congress is considering passing sweeping new legislation to restructure the IRS. Plans are being developed to realign the IRS along customer service lines. And hopefully a request for a proposal to hire a prime contractor for the tax modernization effort will be released shortly.

I know we will be discussing all of these changes during this hearing, but before we get into those issues I want to briefly say a few words about the need to change the culture at the IRS.

Last fall, as we recall, most of us were very upset by the abuse of taxpayers that the Senate Finance Committee hearings laid before the country. Many of these problems were not caused by rogue agents acting without knowledge of their supervisors. Instead, many of these abuses resulted from IRS employee performance measures that demanded more collections without regard to fairness or common decency.

In other cases, it appears the IRS employees were intoxicated with a "I am from the IRS and I can make your life difficult" attitude.

We here in Congress have a responsibility to drive these problems out of the IRS, and I know the Commissioner shares this goal. He has already moved to fix these problems with the development of new performance standards and with a new focus on customer service throughout the IRS.

But the question is when will these taxpayers actually see changes and how much is it going to cost them to be treated fairly.

Entire Federal agencies are run with the kind of money that the IRS is requesting for customer service improvements, over $950 million. For this type of investment this committee and the country should expect to see an immediate turnaround in customer service. Immediate changes and not a series of reports of discussions. Instead, what we need are results.

Finally, calling for increased customer service and requiring an elimination of IRS taxpayer abuse does not require elimination of the agency. That would be like killing the patient in order to cure him. As much as no one wants to admit it, we need a national revenue collection agency. None of us likes to pay taxes but we all want to maintain a strong national defense, educate our children, get help saving for retirement, keep our streets safe, secure our borders, protect our environment, and much, much more.

Now these services cost money and so there is no such thing as a free lunch. Instead of wasting time on a who hates the IRS more debate, I urge all of us in Congress, the IRS, and the country to work together to make our tax collection system work.

Again, I am happy that we have this opportunity to talk with the new Commissioner and discuss various options for improving the Internal Revenue Service.

Thank you much, Mr. Chairman.

Senator CAMPBELL. With that, Mr. Rossotti, if you would like to go ahead, all of your testimony will be included in the record so you can ad lib or abbreviate, whatever you would like to do.

STATEMENT OF CHARLES O. ROSSOTTI

Mr. ROSSOTTI. I would like to just summarize some of the testimony and the rest will be in the record.

Thank you very much, Mr. Chairman and Senator Kohl.

What I really want to discuss today is how we can use the fiscal year 1999 budget to begin the transformation to the kind of agency that both of you, in your opening statements, said we should be. As I would state it, our goal is to make the agency provide a far better level of service to the taxpayers and be a service agency.

And I, by the way, believe we can do that while continuing to reduce the size of the agency in relation to the American economy.

I think another way to put this is that we need to shift the focus of the agency from just its own internal operations to become an agency that views its whole job as helping taxpayers comply with the tax laws that are on the books.

To accomplish that, both our service and our compliance goals are going to have to change a lot of things at the IRS. We are going to have to modernize our business practices, our organization, and our technology. This is going to require a period of investment over the next several years in both the organization and the technology.

What I see in the fiscal year 1999 budget is the foundation for this. I think it is absolutely essential that we begin this now, as Senator Kohl said, and some of this will play out longer. But it is also important that we deliver some key service improvements to the taxpayers in fiscal year 1999. I will discuss some of those, as to how we expect to do that specifically in the near term.

But I would like to just take a moment, if I could, to summarize some of the long-term goals and changes that I think we need to really get the level of service up to what it should be for taxpayers. There are really five key elements to this concept.

BUSINESS PRACTICES

The first one is that we have to rethink all of our business practices, from customer education, the way filing is done, the way collection is done, the way compliance is done. And each of those has great promise to improve by taking advantage of things that are known in the private sector, and even in the IRS. But the common theme is to turn it around and focus on understanding and solving problems from the taxpayer point of view.

One of the keystones of doing that is that we have to understand that not all taxpayers have the same kind of problems. A college student who can file with a small return and a phone call is different from say a senior citizen that may have Social Security income, and very different from a small business that has a more complex relationship. So one of the things we need to do is to tailor our services to the needs of each particular group of taxpayers.

ORGANIZATION STRUCTURE

The second major area of change is the organization structure. The current organization structure of the IRS which has evolved over the last 45 years is really outdated. It is no longer capable of allowing the managers in the structure to really take the actions they need to to help taxpayers in the appropriate way. Nor, I believe, is it really capable of providing the right foundation to modernize the technology.

In the testimony, in chart 4, I have outlined what I believe is the logical way for the IRS to be organized in the future, which is very similar to the way many private sector companies are organized into lines of business, each one of them aligned with serving a particular group of taxpayers.

The four units would each be responsible for serving one group of taxpayers. Individual taxpayers that are wage and investment income primarily, small businesses in another category, large businesses, and then finally your whole tax-exempt sector. With this

concept each of these units would be completely responsible for serving from end to end each of these groups of taxpayers.

I think what is important is that the management teams in each of these groups would then be able to become much more knowledgeable about the particular problem, say of a small business, and be able to take action on those and to be held accountable, which is one of the criticisms of the IRS today, you cannot hold anybody accountable. Partly that is because of the way the place is organized.

MEASURES OF PERFORMANCE

Another point that is very important, which I think that both Senator Campbell and Senator Kohl alluded to in your opening statements is the idea of having measures of performance that are really appropriate to what we are trying to accomplish. The key here is to have measures from the customer or the taxpayer's point of view as well as from the business results, and also measuring our productivity and our employee's point of view.

The key here is to make sure that we are measuring what we want to, which is to provide the right kind of service to taxpayers while ensuring the compliance is fair, but not cause inappropriate behavior toward taxpayers, or to provide incentives that would undermine our service approach. We are working on those measures right now.

NEW TECHNOLOGY

The final element, of course, is new technology because we absolutely need to replace the obsolete base of technology in the agency. The recently issued technology blueprint that my colleague here, Mr. Gross, was the primary author of and the new organization that is being built under the CIO, will provide the basis for managing this evolution of technology. But in addition, it is extremely important that we make the organizational and business changes that I outlined because building computer systems to fit old business practices and a complex organization will not work.

So those are the long-term concepts. I think they hold great prospect for improvement over a period of time.

But during this time, we also must make some step-by-step improvements and, in addition, we must handle the mandatory changes that you outlined are required for the century date change, the so-called year 2000 problem.

YEAR 2000 DATE CHANGE PROBLEM

To just outline how we expect to do this in fiscal year 1999, we have organized it into five major initiatives during fiscal year 1999. The first one is completing the century date change. This is one of the most critical elements in our budget and our most pressing priority.

COMPLETING THE CENTURY DATE CHANGE

But the beginning of the 1999 filing season, less than 1 year from now, most of our system changes that are required for the century date change must be completed. And then during the remainder of

1999, after the filing season, the principal task will be final testing and complete certification, which is still a very large estimate.

The entire cost in 1999 in the budget is $234 million and, of course, that is absolutely essential in order to avoid what would be disastrous consequences if we do not correct this problem.

CUSTOMER IMPROVEMENTS

The second major priority in the 1999 budget is to make near-term improvements for the customer, much as Senator Kohl said we must do. We are going to try to do this through a very focused problem of near-term changes which include improving the clarity of the notices we send out to taxpayers as well as the forms and publications, better telephone service so you will be able to get through easier, better walk-in service for those taxpayers who like to deal face to face, expanded electronic filing, improved training of our customer service representatives so they will have the right information to give to the taxpayers, some strengthened support for small businesses, increased staffing for the taxpayer advocate's office, which is one of the most important in resolving issues, and a new initiative creating what we call our citizen advocacy panels which will be an outreach effort with common citizens to help them connect better with the IRS.

It shows in chart 5 in my testimony, the total incremental cost of all these initiatives in fiscal year 1999 is $105 million.

TECHNOLOGY IMPROVEMENTS

The third major program, and what is going to be necessary to ensure that customer service remains on the up trend, will be some nearer term technology improvements. These are really necessary for the size of agency we have just to maintain an acceptable level of service.

The major ones in fiscal year 1999 are the completion of a call routing system to route our phone calls, deployment of computers to field collectors who currently have no computers at all, and replacement of some computers used by field agents who depend on them for examinations.

And finally, the last item is an increase in what is called product assurance, which is an essential way of testing software before it is put back into the tax system so that changes do not result in errors that could result in problems for taxpayers. There is a chart in the testimony, chart 6, which summarizes these.

TECHNOLOGY INVESTMENTS

The fourth item, which is shown in chart 7, is that during 1997, and this current year, we are making careful preparation for the longer term technology investments we must make, which will involve replacing the really obsolete base of technology we have in the agency today.

The beginning of this was the publication of the modernization blueprint, the establishment of a systems life cycle which is a methodology to manage our technology, and the publication of a draft RFP which we hope to complete soon.

In fiscal year 1999 we will continue this process by strengthening the internal IRS system's management capabilities and go ahead with the award of the prime contract. The initial task on the prime contract will be focused on completing the methodology life cycle that we need in order to manage this technology and on implementing the first two subreleases, which are just particular projects within the technology modernization blueprint. These are aimed at providing better telephone service and other communication capabilities which are essential capabilities that underlie everything else we do.

Chart 8 shows these longer-term investments.

MODERNIZATION OF THE ORGANIZATION

Finally, the fifth one is an item currently listed as $25 million to support the modernization of the organization. This is the transition to the new customer focused organization structure. We are currently engaged in a study with the aid of a management consulting firm to better define exactly how we will implement this new organization and we will come back to the committee with more detail on exactly how this $25 million would be used to help us transition to this new organization when we complete this study this summer.

BUDGET OUTLOOK

Finally, just to summarize the budget picture, let me go over for just a moment the historical perspective as I inherited it. This is pretty well summarized in a couple of charts, charts 9 and 10 in my written testimony. I think what these simply show is that the IRS budget over the last 3 years, when you take out the extra costs of the century date change piece, has actually gone down about 7 percent.

Of course, the workload of the IRS does grow every year because the economy grows and collections grow. We have increased the number of returns about 8 percent and the dollars collected about 24 percent over this period.

I also have to note that the recent tax act, the Taxpayer Relief Act of 1997, added about 800 changes to the Tax Code and these are all reflected not only in the computer programs, but they ripple through the IRS, requiring new forms, new publications, and of course, new training of the employees so that they can talk to the taxpayers intelligently about the new tax law.

So these have been some difficult conflicting trends with which we are presented as we begin to modernize the agency. I do want to stress to the committee, though, that I personally am not one who believes that budget dollars are the solution to everything at the IRS. That is not what I believe.

We obviously need the dollars to do the specific things, but simply throwing money at them will not solve them. We have to do all the changes in an orderly way, that I outlined—better business practices, organization structure, roles and responsibilities that stress accountability for management, new measurement system, as well as new technology.

If we can use the money effectively as an investment to do those things, then I think we can accomplish our goals.

So I just want to conclude by saying that I believe that there is a new day at the IRS. I took the job because I think we can transform the agency into a place that actually helps taxpayers and is on their side, with the exception of the very small number of people that do not willingly comply. Then we need our enforcement powers. But most of the taxpayers are there to comply. We should be there to help them do it.

I also believe that we can do this while shrinking the IRS as a fraction of the economy. I think it could become a smaller percentage of the economy as time goes on by taking advantage of some of these improvements. We cannot do that overnight, and it will take some investments in order to modernize our approach. But with the support of Congress, I believe it can be done.

Thank you very much, Mr. Chairman.

PREPARED STATEMENT

Senator CAMPBELL. Thank you, Mr. Rossotti. We have your complete statement and it will be made part of the record.

[The statement follows:]

PREPARED STATEMENT OF CHARLES O. ROSSOTTI

Mr. Chairman and Distinguished Members of the Subcommittee: In my testimony today, I would like to set forth how the IRS budget for fiscal year 1999 can be used to begin the transformation of the IRS into an agency that provides a far greater level of service to taxpayers than it does today while continuing to reduce its size in relation to the U.S. economy.

Today, the IRS does its basic job of collecting with integrity 95 percent of the funds of the Federal government, while processing returns from 125 million individual taxpayers and 7 million businesses. Over the last two years, much study and attention has been given to the IRS, by the Treasury Department and the Restructuring Commission, by the National Performance Review, by the GAO and Congressional committees. From this work a broad consensus has formed that the IRS must shift its focus from its own internal operations to become an agency that helps taxpayers comply with the tax laws by understanding and solving problems from the taxpayer's point of view. The budget before you sets the stage for this long-term shift in focus and direction at the IRS.

From the taxpayer's point of view, the IRS provides service in two ways.

First, the IRS serves each taxpayer, one at a time. These interactions range from the routine, such as providing forms or information about refunds, to more complex interactions such as when additional money may be due because of an audit. As shown in Chart 1, of the IRS's 100,000 FTE's, approximately 64,000 work directly in contact with taxpayers in these kinds of interactions. In fiscal year 1998, the IRS will answer over 120 million phone calls, provide walk-in service to nearly 9 million taxpayers, and will examine nearly 1.3 million individual returns. These activities have an enormous impact on the lives of most Americans.

Despite recent improvements, the IRS today does not meet the public's legitimate expectations of service from the IRS. Our goal must be to provide prompt, accurate and professional treatment of taxpayers each time they deal with the IRS based on what we know to be their specific needs. The measures in this budget are important steps towards meeting this goal.

Second, the IRS provides service to all taxpayers by ensuring that compliance is fair. Our tax system depends on each person who is voluntarily complying having confidence that his or her competitor or neighbor is also complying. While the overall compliance level is estimated to be 87 percent, there is significant unevenness of compliance and our estimates of compliance are incomplete and out of date. A decrease of even one half of 1 percent in compliance would more than equal the entire budget of the IRS. Our goal should be to increase the fairness as well as the overall level of compliance.

I believe that the IRS can accomplish these goals for increased service with the work force that we have, which is dedicated and competent but handicapped by outdated practices, structures and technology. In other words, I believe that the IRS can handle the ever increasing workload generated by a rapidly growing economy

while greatly improving service to taxpayers without significantly increasing the size of the work force.

If we can accomplish this ambitious productivity goal, our objective will be to continue to shrink the size of the IRS in relation to the economy while increasing productivity faster than private sector financial institutions.

In order to accomplish these service and productivity goals, we must modernize the IRS business practices, organization and technology. This will require sustained investments for a period of years in technology and organizational modernization. The fiscal year 1999 budget we are requesting is absolutely essential to begin this long-term transformation. At the same time, it is designed to allow us to deliver some key service improvements to taxpayers in some important areas during fiscal year 1999.

Before I discuss the specific elements of our fiscal year 1999 budget request, let me first outline the long term direction we must pursue to modernize the IRS. Then I will describe the strategy for accomplishing this long term change while delivering improvements to taxpayers step by step.

MODERNIZING THE IRS

To accomplish the goals we seek for the IRS, we must make fundamental changes which will take time but are essential for the IRS to meet the public's legitimate expectations for service from its tax agency. Let me lay out my concept of how we can modernize the IRS. The modernization concept includes a renewed mission with emphasis on service and fairness to taxpayers and practical goals and guiding principles which define the path forward. It is designed to enable us to answer the basic question: how can the IRS shift its focus and become the customer oriented agency it must become?

I should also note that this concept was developed after the details of the budget before you were completed. Thus, much of what I will discuss here does not have a specific corollary in our fiscal year 1999 submission. Nonetheless, the budget priorities that I will discuss later are perfectly consistent with the concept and five key elements discussed below, and represent an essential first step toward a modern Internal Revenue Service.

FIVE KEY ELEMENTS

We will reach our goals of service to each and to all taxpayers through changes in five key areas, each complementing the others. These five areas, along with the goals and guiding principles are summarized on Chart 2.

Revamped IRS business practices that will focus on understanding, solving and preventing taxpayer problems

Each of the IRS's business practices, from customer education to filing assistance to collection, holds great promise for improvement by our gaining a greater understanding of the particular problems that taxpayers have and focusing continuously on solving them. In most cases, there are very close parallels in the private sector that we can draw on.

For example, our business practices should make filing easier for all taxpayers by providing easily accessible high quality assistance to those taxpayers who need help in filing and by having more returns filed electronically. Just as companies develop very particular marketing programs to reach customers with differing needs, we can help taxpayers more effectively by tailoring our publications, education, communications and assistance programs to taxpayers with particular needs. College students who often can file with a simple 1040EZ form and a 10 minute phone call have very different needs from senior citizens with social security and investment income who may be best served through a network of volunteers who specialize in the needs of seniors.

This principle of tailoring our services to the needs of particular groups of taxpayers is a cornerstone of how we can dramatically improve our service to taxpayers as well as our internal productivity.

As another example, some of our most difficult interactions with taxpayers occur when additional money may be due and collection activity is required. Today, 90 percent of the active collection activity by the IRS telephone and field collectors is on accounts that are more than 6-months old, and most are much older than that. This is the reverse of practices in the private sector. The proven keys to effective collection are to identify as promptly as possible customers who may present risk of non-payment and to work out a payment program that addresses the particular payment problem of that customer. This helps the customer as well as the collecting agency and minimizes the need for enforcement actions.

Organizational structure built around taxpayer needs

The IRS organizational structure no longer enables its managers to be knowledgeable about and take action on major problems affecting taxpayers nor is it capable of modernizing the business practices and technology needed to achieve our goals. The principal IRS organization today, as shown in Chart 3, is built around 33 districts and 10 service centers. Each of these 43 units is charged with the mission of serving every kind of taxpayer, large and small, with simple or complex problems, in a defined geographical area. If a taxpayer moves, the responsibility moves to another geographical area. Further, every taxpayer is served by both a service center and a district and sometimes more than one. Service centers and districts each perform customer service, collection and examination activities for the same taxpayer.

For example, in the collection area, there are three separate kinds of organizations, spread over 43 organizational units, that use three separate computer systems to support collection. Each of these three types of units collects from every kind of taxpayer, from small businesses to wealthy individuals.

There are 8 intermediate levels of staff and line management between a front line employee and the Deputy Commissioner, who is the only manager besides the Commissioner who has full responsibility for service to any particular taxpayer. Although important improvements have been made in this structure over the last few years, notably the reduction in the number of districts, the fundamental problem remains: the structure is far too complex and accountability is weak.

Fortunately, there are solutions to this organizational problem which are widely used in the private sector and may enable us to better serve the American taxpayer. The approach I am discussing today is to organize around the needs of our customers, the taxpayers. Just as many large financial institutions have different divisions that serve retail customers, small to medium business customers, and large multinational business customers, the taxpayer base falls rather naturally into similar groups. This fact simply reflects the structure of the U.S. economy.

Therefore, as shown in Chart 4, one logical way to organize the IRS is into four units, each charged with end-to-end responsibility for serving a particular group of taxpayers with similar needs. These units could replace the four regional offices and a substantial part of the national office, allowing the national office to better fulfill its responsibilities of oversight and broad policy rather than operations. As I noted at the outset, this is a concept—a concept that will require outside validation. I am initiating a review of this concept because I believe we need to refocus and realign the efforts of the IRS toward our customers—the American taxpayers. Of course, during and after the review, we may need to revise this proposal, depending on the results.

By organizing in this way, the management teams for each unit could learn a great deal about the needs and particular problems that affect each group of taxpayers. The tax code is extremely complex but most of it does not apply to each group of taxpayers.

There are 100 million filers, comprising about 140 million taxpayers, who have only wage and investment income. For this very large group, almost 80 percent of all taxpayers, the primary needs are improved assistance in filing or in getting information about an account or a refund. Collection problems are relatively limited since most of their taxes are paid through withholding by employers. Compliance problems are concentrated in the area of dependent exemptions, credits, filing status, and deductions, many of which can be addressed in part by better education of taxpayers with the assistance of volunteer groups and preparers. Improved phone service and more walk-in "retail" sites where taxpayers can get quick, in-person assistance are also important.

Another very important group of taxpayers is small businesses, including sole proprietors and small business corporations. There are about 25 million filers in this category. Compared to other individual taxpayers, this group has much more frequent and complex filing requirements and pays much more directly to the IRS, including tax deposits, quarterly employment returns and many other types of income tax returns and schedules. Providing good service to this group of taxpayers is more difficult than wage and investment filers, and compliance and collection problems are also much greater. Small start-up businesses in particular need special help. By dedicating a fully responsible unit to providing all IRS services for the self employed and small business, this unit will be able to work closely with industry associations, small business groups and preparers to solve problems for the benefit of all.

Larger businesses, although few in number, pay a substantial share of their tax in the form of withholding, employment and excise taxes, and corporate income taxes. Complex tax law, regulatory and accounting questions, including many issues arising from international activities, dominate the work of the IRS in serving this

group. A management team and unit dedicated to serving these taxpayers will be able to understand and solve these problems more effectively than at present.

Finally, the tax exempt sector, including employee plans, exempt organizations and state and local governments, represents a large economic sector with unique needs. Although generally paying no income tax, this sector pays over $190 billion in employment taxes and withholding for employees and manages $5 trillion in tax exempt assets. This huge sector will benefit from a dedicated unit that understands its special problems.

Management roles with clear responsibility

Since each unit will be fully responsible for serving a set of taxpayers with like needs, the management teams responsible for each of these units will be able to become knowledgeable about the needs and problems of their customers, and be held fully accountable for achieving specific goals in serving them. Furthermore, having learned about problems, managers can cut dramatically the time required to communicate with the work force and implement solutions. Because the organization would be "flatter," there would be fewer layers of management. Front-line employees and first-line managers would have a much closer identification and communication channel to people with general management responsibility.

For each unit, a cohesive management team will be established which will be able to organize internally in ways that are appropriate to the particular needs of the taxpayers they are serving. I believe that highly qualified managers, from internal or external sources, will be far more attracted to these kinds of management jobs than those in today's complex structure.

Balanced Measures of Performance

It is essential to have measures of organizational performance that balance customer satisfaction, business results, employee satisfaction and productivity. It is particularly important that performance measures do not directly or indirectly cause inappropriate behavior toward taxpayers, and that they provide incentives for service-oriented behavior.

The establishment of management teams with clear responsibility for serving large groups of taxpayers with reasonably common characteristics and needs will help make it possible for the first time to develop realistic and meaningful measures of organizational performance in the areas of customer satisfaction and overall compliance on a continuing basis. This will help eliminate the problem that has plagued the IRS for decades, namely the use of "enforcement" results as a key measure of success.

New Technology

One of the limiting factors in our ability to modernize our business practices at the IRS today is our computer systems, which are extremely deficient in their ability to support our missions and goals. But computer systems essentially represent a detailed codification of the business practices and organization structure that exist. Building new computer systems to support the old business practices and complex organization structure will not work.

The recently issued technology modernization blueprint and the new CIO organization provide an outstanding and professional basis for managing the evolution of our technology. The revamped business practices and rationalized organizational structure I discussed earlier will provide a sound basis for completing and implementing the modern systems envisioned in the blueprint.

The management teams in each unit will be able to act as knowledgeable and responsible business owners to work with the centralized professional information systems organization and outside contractors. For the first time, this will establish all the critical elements needed to manage a large-scale technology/modernization program successfully.

STRATEGY FOR MODERNIZATION AND SERVICE IMPROVEMENT IN FISCAL YEAR 1999

While there is great potential to improve the IRS service and productivity, it will require a period of years to achieve the major changes outlined above. During this period, we must make improvements step by step. In addition, mandatory requirements for change must be met, notably the large project required to update computer systems for the Century Date Change. To accomplish all this change in an orderly fashion, during fiscal year 1999 our budget effort is focused on five major initiatives.

1. Completing the Century Date Change program.—Preparing for the Century Date Change is one of the most critical elements of our 1999 budget. By the beginning of the 1999 filing season, nearly all of the systems changes required for the

Century Date Change must be completed. During the remainder of fiscal year 1999, the principal tasks will be the completion of testing and certification, still a large effort that will cost $234 million in fiscal year 1999. In addition to the year 2000 project expenditures, this includes the cost of completing the mainframe consolidation and integrated submission and remittance processing systems replacement. I cannot stress enough the importance of this effort. The funds I am requesting here are vital to ensure that we will be able to meet our commitment to providing essential service to each and every taxpayer and to avoid the potentially disastrous effects of an uncorrected Century Date Change problem.

2. Making near-term improvement to service for taxpayers.—The second critical component of the budget is a set of specific activities designed to improve service to taxpayers in the coming year. As we proceed with our long-term efforts to modernize the agency, we must also take some actions that can be implemented now. During fiscal year 1999, we will pursue a highly focused initiative to improve service to taxpayers through improved clarity of notices, forms and publications, better telephone service, more walk-in service, expanded electronic filing, improved training of customer service representatives, strengthened support for small businesses, increased staffing for the taxpayer advocate's office and the creation of Citizen Advocacy panels.

Chart 5 shows estimated incremental costs of $103 million related to these essential near term service improvements for fiscal year 1999.

3. Investing in essential near term technology.—Because of the greatly increased financial demands of the Century Date Change during the past two years (fiscal year 1997 and fiscal year 1998), nearly all investment in basic hardware and software to support current operations was eliminated. In an agency in which two-thirds of the employees deal directly with taxpayers based on information in the agency's computer systems, this lack of investment results directly in lowered service to taxpayers as well as lowered morale of employees who are doing their best to serve taxpayers. In order to ensure that customer service remains a top priority as we move toward the year 2000, this budget includes investments that are necessary to enable us to just maintain an acceptable level of service.

The major near term investments for fiscal year 1999 are completion of a call router system, funding for which is included in improved service to taxpayers, deployment of computers to field collectors who currently have no computers, and replacement of computers used by field agents who depend on them for examinations. In addition, increases in product assurance are essential for adequate testing of changes to tax systems before they are put in production to keep records on millions of taxpayers.

Chart 6 shows fiscal year 1999 near term investments in technology.

4. Investing in long term technology modernization.—As shown in Chart 7, the IRS existing base of technology is extremely old and deficient in its ability to support the mission of the agency. We must replace it. In fiscal year 1997 and 1998 careful preparation for this major and difficult task began through the publication of the modernization blueprint, the beginnings of an establishment of an internal systems life cycle management process, and publication of a draft RFP. We expect to issue a final RFP before April 1, 1998.

In fiscal year 1999, the process of long term modernization will continue with the strengthening of the IRS internal systems management capabilities and processes and the award of the Prime contract. The initial tasks on the Prime contract will be focused on completing the systems management life cycle and on developing the first two subreleases of the technology modernization blueprint, which provide telephone and other communications capabilities that are basic functions essential to support all IRS operations. Let me stress that they are independent of a specific organizational structure and are fully compatible with the modernization concept I outlined earlier. In fact, the two subreleases will also provide a practical way of testing and refining the management processes of the IRS and the Prime before proceeding to more challenging projects that are more closely tied to more detailed modernization business requirements.

Additional subreleases of the blueprint will be very carefully planned and coordinated with modernization of the business processes and organization before they are allowed to proceed.

Chart 8 shows the fiscal year 1999 budget for longer term technology modernization, in two parts: IRS capabilities for managing and supporting modernization, including funding of the integrated support contract, as well as funding for the Information Technology Investment account for the Prime contractor.

5. Organizational Modernization.—The fiscal year 1999 budget includes $25 million to support the long term modernization of the organization described earlier. These funds will be used to provide for a number of activities relating to the mod-

ernization concept discussed earlier and, though not yet fully specified, will include recruiting, relocation and retraining of people as well as preparation of detailed plans for reorganization. Greater details on the use of these funds and organizational plans will be available when the initial study is complete in early summer of 1998.

HISTORICAL PERSPECTIVE

Before summarizing the fiscal year 1999 budget, let me review what has actually happened over the last few years.

As shown in Charts 9 and 10, over the last three years the IRS budget, net of costs for the Century Date Change, has actually declined by 7 percent, while dollars collected have gone up by 24 percent, returns processed have increased by 8 percent and the Taxpayer Relief Act of 1997 has added about 800 changes to the tax code. These increases in volume of activity and in changes in the code ripple through the IRS, requiring new forms and publications, training of employees and updating of technology.

The net effect of these conflicting trends presents us with new challenges as we move to modernize the agency. However, I strongly believe that budget dollars alone will not solve the problems facing the IRS—these challenges will only be solved through revamping business practices, realigning the organizational structure, redefining roles and responsibilities for management, creating a balanced measurement system, and investing in technology that supports a modernized IRS.

The work force has been reduced through attrition and buyouts resulting in a less than optimal deployment. Fast growing economic areas of the country—those with the highest demands for IRS employees' skills have seen the largest reductions in the work force. In places where the demand for IRS employees was weakest, the opposite has been true.

Workers across the board lack adequate professional training to keep up with the tax laws and regulations, impairing their ability to serve taxpayers. Past reductions in the training budget have not been fully restored. This factor shows up markedly in employee surveys and is a critical factor we need to address as we strive to ensure proper treatment of taxpayers.

Because nearly all available technology investment funding in fiscal year 1997 and fiscal year 1998 was diverted to the Century Date Change, there was minimal replacement of basic hardware and software to support front line workers, leading to an erosion of an already seriously deficient technology base.

RECAP OF FISCAL YEAR 1999

In fiscal year 1999, we have prepared a budget that supports the beginning of the transformation of the IRS which we have outlined above. It allows us to continue current operations while working on the five initiatives that form the strategy for near term improvement and long term modernization. It also sets the stage for the kinds of productivity improvements we will need to provide good customer service within the budget constraints under which we must necessarily operate.

Our total budget request for fiscal year 1999 is $8.196 billion and 99,829 FTE. This covers funding of the Processing Assistance and Management, Tax Law Enforcement, Information Systems and Information Technology Investment Appropriations. In addition, we are requesting $143 million and 2,184 FTE in funding outside the caps for the EITC. The total budget request includes a net increase of $529 million and 1,232 FTE over the fiscal year 1998 level, as shown in Chart 11.

Of this increase, $176 million represents part of the cost that would be needed simply to maintain the current level of operations, taking into account inflation and mandatory pay increases. This $176 million level is less than the full cost of maintaining current levels. We have absorbed as much of the difference as possible without diminishing service to the taxpayer.

The remaining increases from fiscal year 1998 levels are for the priorities discussed above (less a $2 million reduction in our Information Technology Investment Account):

—Improved near term customer service ($103 million);
—Near term and long term technology investments (net of $227 million); and
—Organizational modernization ($25 million).

CONCLUSION

In conclusion, I believe that there is a new day at the IRS. I believe we can transform the IRS into an agency that helps taxpayers meet the obligations imposed by the tax laws while ensuring that compliance is fair. We can do this while increasing productivity and shrinking the size of the IRS in relation to the economy. This will

take time and investments to modernize technology, business practices and organization. But, with the support of the Congress, it can be done.

CHART 1.—IRS EMPLOYMENT BREAKDOWN

	FTE—				
	Full time	Seasonal OTFTP	Total	Percent of full time	Percent of total
Direct Taxpayer Contact					
Customer service	15,722	4,735	20,457	18.3	20.3
Taxpayer advocate	383	5	388	0.4	0.4
Walk-in service	830	331	1,161	1.0	1.2
Customer education	217	44	261	.3	.3
Underreporter	1,357	355	1,712	1.6	1.7
Exam	20,906	376	21,282	24.3	21.1
Collection	10,537	117	10,654	12.2	10.6
Criminal	3,881	159	4,040	4.5	4.0
Appeals	2,042	19	2,061	2.4	2.1
EP/EO	1,755	41	1,796	2.0	1.8
Total customer contact	57,630	6,182	63,812	67.0	63.5
Submission processing	7,386	7,175	14,561	8.6	14.4
Information systems	7,165	175	7,340	8.3	7.3
Forms distribution	246	362	608	.3	.6
Inspection	1,162	6	1,168	1.3	1.2
International	432	41	473	.5	.5
Counsel	2,511	72	2,583	2.9	2.6
Management and support	9,541	413	9,954	11.1	9.9
Total	86,073	14,426	100,499	100.0	100.0

Notes:
1. Included all people in N.O. and R.O. in Management and Support.
2. Used fiscal year 1998 financial plan, as of January 31.
3. Management Support Includes: SOI, Research, Mgt. Services, DSS, Finance, HQ, Procurement, Communications, CTR, Bldg. Del. and IS–EITC.
4. Direct taxpayer contact numbers include non-SES managers below District level.

Modernizing America's Tax Agency

Internal Revenue Service

Help People Comply with Tax Laws, Ensure Fairness of Compliance

Guiding Principles
- Understand and solve problems from taxpayer's point of view
- Expect managers to be accountable - knowledge, responsibility, authority, action
- Use balanced measures of performance
- Foster open, honest communication
- Insist on total integrity

Goals

Service to Each Taxpayer:
- Make filing easier
- Provide first quality service to each taxpayer needing help with his or her return or account
- Provide prompt, professional, helpful treatment to taxpayers in cases where additional taxes may be due

Service to All Taxpayers:
- Increase fairness of compliance
- Increase overall compliance

Productivity Through a Quality Work Environment:
- Increase employee job satisfaction
- Hold agency employment stable while economy grows and service improves

Revamped business practices aimed at understanding, solving and preventing taxpayer problems
- Customer education - work with preparers, volunteers and industry groups - tailored services
- Customer service - easier access; clear responsibility for each account; more attractive electronic filing
- Collections; early help for people with payment problems
- Compliance - more focus on identifying and preventing recurring problems

4 Operating Units

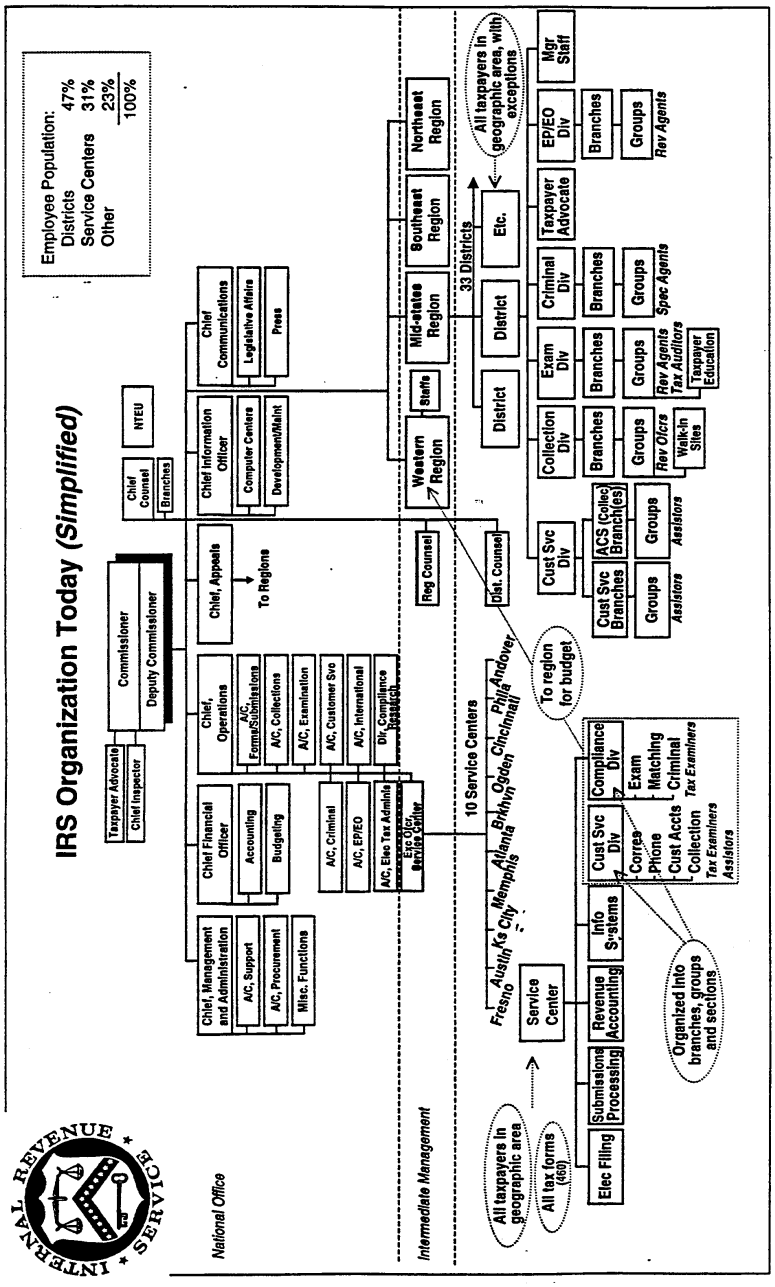
Each dedicated to helping taxpayers with like needs:
Wage and Investment Income
Small Business/Self Employed
Large Business
Employee Plans/Exempt Orgs.
- Services tailored to needs of taxpayers
- Knowledgeable management team who can act to solve problems
- Many fewer layers
- Makes it clear who's responsible
- Pattern similar to private sector
- More independent taxpayer advocates

Management roles with clear responsibility
- Jobs defined in manner similar to private sector
- Broader range of experience, external as well as internal
- Management teams
- Jobs more attractive to internal and external candidates

Balanced measurement of performance
- Tied to goals
- Externally validated
- Financial management tied to plans and goals

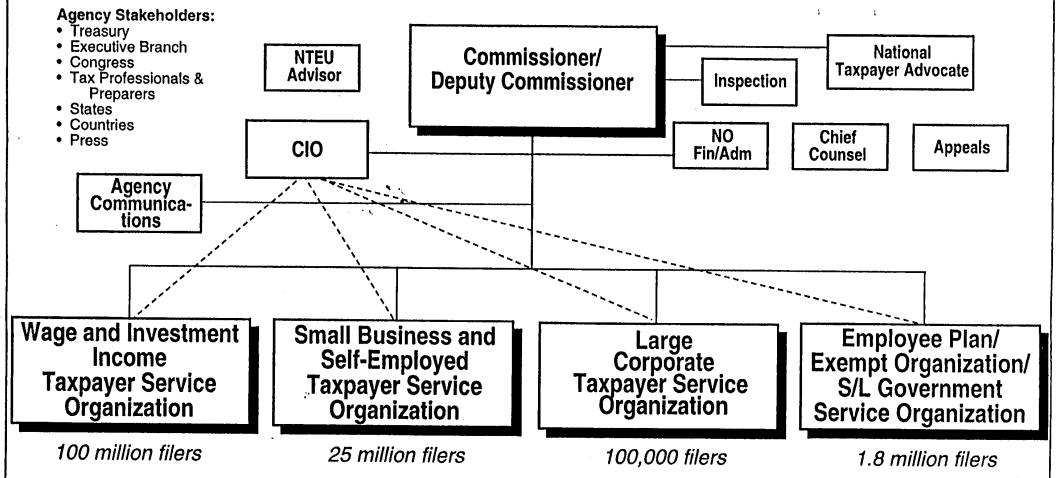
New technology
- Central, professional management
- Common standards and architecture
- Partnership among business owners, CIO and private sector contractors
- Flexible evolution driven by business goals

Chart 3


IRS Organization Today (Simplified)
Employee Population:
Districts 47%
Service Centers 31%
Other 23%
100%
National Office
Intermediate Management
Taxpayer Advocate
Chief Inspector
Commissioner
Deputy Commissioner
Chief Counsel
Branches
NTEU
Chief Information Officer
Computer Centers
Development/Maint
Chief Communications
Legislative Affairs
Press
Chief, Management and Administration
A/C, Support
A/C, Procurement
Misc. Functions
Chief Financial Officer
Accounting
Budgeting
Chief, Operations
A/C, Criminal
A/C, EP/EO
A/C, Elec Tax Admin
Area Office
Service Center
A/C, Form/Submissions
A/C, Collections
A/C, Examination
A/C, Customer Svc
A/C, International
Dir, Compliance Research
Chief, Appeals
To Regions
Reg Counsel
Western Region
Staffs
Mid-states Region
Southeast Region
Northeast Region
33 Districts
District
Collection Div
Exam Div
Criminal Div
Taxpayer Advocate
EP/EO Div
Etc.
Mgr Staff
Branches
Groups
Rev Agents
Rev Agents
Tax Auditors
Spec Agents
Taxpayer Education
Rev Offcrs
Walk-In Sites
All taxpayers in geographic area, with exceptions
10 Service Centers
Fresno
Austin
Kc City
Memphis
Atlanta
Brkhn
Ogden
Chcinnati
Phila
Andover
Dist. Counsel
To region for budget
Cust Svc Div
Cust Svc Branches
ACS (Collec) Branch(es)
Groups
Assistors
All taxpayers in geographic area
All tax forms (800)
Service Center
Elec Filing
Submissions Processing
Revenue Accounting
Info Systems
Cust Svc Div
Compliance Div
Correa
Phone
Cust Accts
Collection
Tax Examiners
Assistors
Exam
Matching
Criminal
Tax Examiners
Organized into branches, groups and sections

Top Level Organization Concept

Agency Stakeholders:
- Treasury
- Executive Branch
- Congress
- Tax Professionals & Preparers
- States
- Countries
- Press



All line operations conducted by 4 major operating units, each serving a major group of taxpayers with like needs. These replace 4 regions and part of NO. Technology management is centralized, but each operating unit is the business owner for systems that support it. NO becomes much smaller corporate headquarters. Each operating unit is internally organized differently, tailored to specific needs of its market.

CHART 5.—*Enhance Customer Service*

Initiatives	
Improve clarity of notices, forms, pubs	$5,000,000
Provide better telephone service	50,000,000
Make it easier to get answers in person	6,000,000
Expand electronic filing	3,000,000
Strengthen support for small business	1,000,000
Shift how performance is measured	1,000,000
Improve customer service training	23,000,000
Strengthen Taxpayer Advocate's Office	10,000,000
Create citizen advocacy panels	5,000,000
Total	[1] 103,000,000

[1] Includes $42 million contained in the Information Systems Appropriation.

CHART 6.—*Near-Term Technology Investments*

	Fiscal year 1999 increase [1] (IS appropriation)
Business lines investments:	
Integrated collection system	$61,000,000
Field agent exam computers	33,000,000
Integrated personnel system	14,000,000
Other systems	17,000,000
Subtotal	125,000,000
Other investments:	
Enhance customer service (Includes $19 million for call routers)	42,000,000
Operational systems (Includes $16 million for product assurance)	33,000,000
Organizational modernization	6,000,000

[1] Refer to Chart 11 for further details.

CHART 7.—IRS PRINCIPAL SYSTEMS

Computer systems	Vintage	Technology platform
Master files (Taxpayer records)	1965	IBM—tape files
Integrated data retrieval (On-line access/customer service)	1978	UNISYS
Automated collection system (Telephone collections)	1985	IBM
Field agents' exam computers	1990/1991	DOS laptops
Revenue officers' personal computers	1/3 paper, 2/3 1996/1997.	UNIX laptops
Customer service rep. tax law information	Paper	3-ring binders

Telephone system: Manual call routing; no screening voice response unit; limited voice messaging; circuitry bottlenecks due to design flaws; minimal systems management capability; and no predictive dialing.

CHART 8.—LONGER TERM TECHNOLOGY INVESTMENTS

	Fiscal year 1999 (IS appropriation)	
	Budget	Increase
Modernization Program:		
Program management/architecture and engineering	$31,000,000	
Security	17,000,000	$17,000,000
Systems life cycle and performance measures	18,000,000	18,000,000
Phase I blue print implementation	13,000,000	13,000,000
Architecture/engineering/infrastructure	21,000,000	21,000,000
Subtotal	100,000,000	69,000,000
Investment account: Information technology investment	323,000,000	

CHART 8.—LONGER TERM TECHNOLOGY INVESTMENTS—Continued

	Fiscal year 1999 (IS appropriation)	
	Budget	Increase
Total longer term technology investment	423,000,000	[1] 69,000,000

[1] Refer to Chart 11 for further details.

Chart 9

Work Increasing; Resources Decreasing

(FY 1995 - FY 1998)

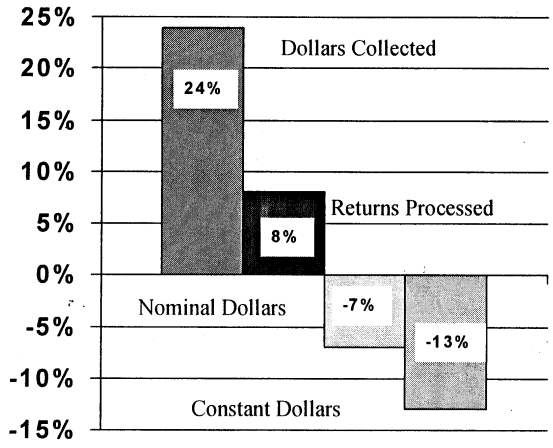


CHART 10.—IRS BUDGETS

[Dollars in millions]

	Fiscal year appropriations—			
	1995	1996	1997	1998
Processing, assistance and management	$1,704	$1,724	$2,882	$2,926
Tax law enforcement	$4,390	$4,097	$3,036	$3,144
Information systems	$1,388	$1,527	$1,287	$1,272
Total operating appropriations	$7,482	$7,348	$7,205	$7,341
Less: Y2K costs [1]	.....	.....	$175	$384
Total operating appropriations less Y2K:				
Nominal dollars	$7,482	$7,348	$7,030	$6,957
Constant dollars	$7,482	$7,195	$6,716	$6,478
Workload:				
Net revenue collected	$1.270T	$1.376T	$1.504T	$1.575T
Primary returns processed	193.3M	196.2M	202.6M	208.4M

CHART 10.—IRS BUDGETS—Continued

[Dollars in millions]

	Fiscal year appropriations—			
	1995	1996	1997	1998
Information system investment	.....	.....	.....	$325
Total IRS appropriations	$7,482	$7,348	$7,205	$7,666
Earned income tax credit	.....	.....	.....	$138

[1] Includes mainframe consolidation, DSP/ RPS and product assurance related to Y2K.

CHART 11.—INTERNAL REVENUE SERVICE FISCAL YEAR 1999 BUDGET

[Dollars in millions]

	Processing, assistance and management	Tax law enforcement	Information systems	Information technology investments	Total
Fiscal year 1998 base	$2,926	$3,144	$1,272	$325	$7,667
1. Maintaining current levels (MCL)	91	108	44	.....	242
Less:					
Nonrecurring costs	.....	.....	−14	.....	−14
Absorbed w/in base	−28	−17	−8	.....	−52
Net MCL's	63	91	[1] 23	.....	176
2. Enhance Customer Service	58	3	[2] 42	.....	103
3. Information systems:					
Operational systems	.....	.....	[3] 33	.....	33
(Balance of increases/decreases not included in Nos. 1, 2, 4 and 6)					
Modernization program	.....	.....	69	.....	69
Business line investments	.....	.....	125	.....	125
Subtotal information systems	.....	.....	227	.....	227
4. Organizational modernization	16	3	6	.....	25
5. Decrease in information technology investments	.....	.....	.....	−2	−2
6. TIMIS (payroll) transfer	29	.....	−29	.....	.....
7. Realignments	70	−70	.....	.....	.....
Subtotal, increases	236	[1] 26	[1] 269	−2	529
Fiscal year 1999	3,162	[1] 3,170	[1] 1,541	323	8,196

[1] Totals do not add due to rounding.
[2] Includes $19 million for call routers.
[3] Includes $16 million for product assurance.

ADDITIONAL COMMENTS

Senator CAMPBELL. Mr. Gross, did you have additional comments?

Mr. GROSS. No, Mr. Chairman.

Senator CAMPBELL. I notice that you are going to be leaving us on April 1. It will be your last chance to impart some wisdom with the U.S. Senate.

Mr. GROSS. I just want to thank the committee. The committee has been extraordinarily supportive of all of our efforts to properly fund the critically important programs that the Commissioner has just outlined.

Senator CAMPBELL. Before we go to any questions, we have had some Senators come in. Senator Faircloth, did you have a statement?

STATEMENT OF SENATOR FAIRCLOTH

Senator FAIRCLOTH. I do, and I will make it brief, Mr. Chairman.

Mr. Chairman, I thank you for holding this hearing. I think it is important and I think it gives us an opportunity to welcome the new Commissioner, Chairman Charles Rossotti, to speak to the committee and tell us what he plans to do.

Mr. Rossotti is the first businessman to head the IRS since World War II. I certainly welcome him and what he plans to do. I had a visit with Mr. Rossotti and I was quite impressed with his plans and what he wants to do.

He has taken on maybe one of the worst jobs around. If he were looking for a more difficult one, he could have taken the District of Columbia or maybe the FAA but I am glad that he has taken it.

As we all know, the very mention of the word Internal Revenue Service simply frightens the life out of most people. I could not help but laugh, somebody said that—I believe it was you, Mr. Rossotti—that the Internal Revenue Service is here to help you. That is the oldest joke in the book, that I am from the Internal Revenue Service and I am here to help you. That is not usually what most people relate to having the IRS call on them.

We had some public hearings and I will not go into that, in the time here, but just some of the most atrocious things came out of the public hearings, just ludicrous things. One lady that the IRS recommended very strongly she go into bankruptcy and she is still in business and has gotten rich 10 years later, she did not go in bankruptcy.

One young man, working for Wal-Mart at $6 an hour, got a bill for $300,000,028.15 from the Internal Revenue Service. He did not pay it.

But the Internal Revenue Service is in need of reform as much as any governmental agency ever did. As we all know, they went into an equipment buying spree over a period of 6 or 7 years, and put somewhere near 3.5 billion taxpayer dollars in new equipment that turned out to be a total fiasco. As I understand it, and I have not had anybody—if there is anybody from Revenue knows better, that it is pretty much a total loss down the drain, and got to go back to ground zero and start again.

Now that type of thing would never happen in the private sector. If it did, the company would be broke. But it would not just have gone on, repeated mistakes and things done wrong.

So I am here to say that, to the new Commissioner, he has a tremendous job. He comes to it with an excellent background and knowing how to run things and knowing how to make them work. And not only that, his background centers somewhat strongly on the technological or the computer aspect of it.

Mr. Commissioner, we welcome you and we look forward to having more hearings. I wish you well and we intend to observe your changes and improvements. Thank you.

Senator CAMPBELL. Senator Shelby.

STATEMENT OF SENATOR SHELBY

Senator SHELBY. Mr. Chairman, I will try to be brief, I was a little late getting here.

First of all, I want to congratulate you, on you undertaking this task and it is a task, and I wish you well. I want to pledge to you, I am going to do what I can to help you succeed.

But I do not think it is any mystery what my view is of the IRS. I chaired this subcommittee for several years and I made it very clear that I believe the agency is too big and bloated and it has too much power over the lives of our citizens.

I want to commend you for what I believe, from you, that you are a well-intentioned man and you have good intentions to try to fix the problem. But at the end of the day, I believe what you can do to address the problems is limited. The complexity of the Tax Code is creating the environment that we have at the IRS.

I am an advocate of a total overhaul of our tax system, a flat tax. I know that is something that Congress will have to speak to.

In the meantime, I wish you well in your endeavors. Thank you.

Senator CAMPBELL. Senator Stevens.

STATEMENT OF SENATOR STEVENS

Senator STEVENS. Mr. Chairman, I just dropped by to welcome Mr. Rossotti, also. I do think that the problem in IRS is one of attitude, not legality and not the existing laws and not the complexity of the code, but attitude. The attitude that has built up in recent years with the personnel of IRS is that the average taxpayer is guilty before he has even been investigated. I think that gets reflected to us every time we go home.

Our people really, as Senator Shelby said, fear the IRS now rather than look to them for assistance in honestly paying their bills.

I think you have a big job ahead of you, and I wish you well.

Senator CAMPBELL. We will go ahead and trade off on the questions and do two or three rounds, Mr. Rossotti. I will ask the first one.

CITIZENS ADVOCACY PANELS

The IRS recently announced the launching of their citizens advocacy office, or panels, I guess they were. I do not think you have set up offices, yet. There have been a number of them, Milwaukee, Brooklyn, Seattle.

I wanted to ask you two questions along that line. First of all, they apparently are volunteer panels. First all, the Brooklyn, Milwaukee, Seattle, I noticed there was none in mid-America or the Rocky Mountain area. That is the first question.

The second question I would like to ask you, what is their purpose going to be?

Mr. ROSSOTTI. First of all, you are right, Senator. We did have the idea of starting with four but eventually, as soon as we learn enough about them, we will spread them to the other parts of the country. The purpose of starting with these initial four was just to get some experience before we roll them out to the rest of the country.

Of course, it is a new idea, which is one of the reasons we want to be careful about figuring it out.

The purpose of it is to work with the taxpayer advocates in the local offices and to essentially advise the taxpayer advocate from the average citizen's point of view about how the kind of problems that the average citizen is having complying with the tax load can be dealt with. Of course, the taxpayer advocate program is where the people who are having trouble with the IRS can get some help.

This has been around for a long time but one of the immediate things that we are doing is really trying to strengthen this program a great deal. I think it has much more potential to help taxpayers than has been realized so far.

We are increasing the staffing of these taxpayer advocates but the citizen advocacy panels will be an additional way. What we will do is have a small group of ordinary volunteer citizens work with the taxpayer advocate. They will not be able to deal with individual taxpayer cases, of course, but the taxpayer advocate will report to them on the kinds of problems that taxpayers are having in that local area and will seek their input and their advice as to how these problems can be resolved.

As we get it rolled out, I think it has the potential of identifying from the average citizen's point of view what the kind of problems are that people really want us to work on. And then, in the annual report that the taxpayer advocate gives to Congress, we can provide suggestions for tax law changes if necessary.

Senator CAMPBELL. How many people are going to be on these panels?

Mr. ROSSOTTI. I think that we are going to have fewer than 10, small enough and with people who would be on for a limited period of time so they could rotate.

Frankly, we are still experimenting. I mean, this is a brand new thing and that is why we do not want to start with the whole country all at once. But we are going to start——

Senator CAMPBELL. Then you will reimburse them for the time they have to——

Mr. ROSSOTTI. No; they would be just totally volunteers.

Senator CAMPBELL. Just voluntary?

Mr. ROSSOTTI. Just volunteers.

Senator CAMPBELL. And they would basically be a committee that recommends things to IRS?

Mr. ROSSOTTI. Exactly. And also try to be an outreach, to make the taxpayer advocate program more visible.

One of the things we find is there are a lot of taxpayers who have problems that could be solved or helped by the taxpayer advocate. But partly due to our inability to make this program known well enough, people do not know they have this channel. So we are hoping this will be another way of making it known.

Senator CAMPBELL. Thank you.

IRS EMPLOYEE BROWSING

Last year, I am sure you are aware that we did a hearing on the issue of IRS employees doing what was called browsing, just arbitrarily going through taxpayers' files without any probable cause, without any reason to do so. At the time, the IRS acknowledged—this was before you came on board—but they did acknowledge at the time they had a lot of security measures that were lacking in the current system to provide sufficient protection for the taxpayer files.

Could you give the committee an update on what has happened, on perhaps not only the employees who were caught browsing, but also on the systems you are going to put in place to try to prevent that?

Mr. ROSSOTTI. Yes; actually, this is something about which there was considerable action before I got to the agency, and the law was changed last August to make it a potential misdemeanor and require removal of employees who are caught.

But internally within the agency, there was quite an extensive program that started about a year ago and a lot of it has already been implemented. We call it UNAX for unauthorized access. The motto is stop UNAX in its tracks. We have gotten every employee in the IRS to be required to take a training program, and to sign a certification that they have had this training program.

We have also done some technical things to try to identify, through our computer systems, cases of unauthorized access. And finally, I have assigned to the inspection service, which is our internal investigative group, the responsibility for investigating all cases and to adjudicate these on a central basis.

From the early returns on this, it looks as though there has been a drop of at least one-half, if not more, in the number of cases. But there are still cases and we are not going to be satisfied until we get them down to zero.

Senator CAMPBELL. I know that some were recommended for some counseling or retraining or so on, but there were a few that I very frankly thought should have just been flat fired, if they could have been.

Mr. ROSSOTTI. There were 153 that were fired in fiscal year 1997, flatout separated.

Senator CAMPBELL. Good.

Mr. ROSSOTTI. Of course, there are still due process rules that employees have to——

Senator CAMPBELL. I understand.

PROBLEMS OF SMALL BUSINESSES

I came from the private sector where I was a small businessman before I was elected to Congress, and I know that small businessmen need a great deal of assistance. The forms they get and the

things that they have to go over are very, very complicated, and I am sure you agree with that.

Perhaps you could tell us, in your new plans, how you are going to address some of the problems small businesses have that private citizens do not.

Mr. ROSSOTTI. First of all, let me just say, Senator, I totally agree with you. In fact, Senator Faircloth and I were talking about this in his office this morning. I think that of all the segments of the taxpaying population, the IRS does the poorest job in serving small business.

It is partly, not so much because it does not want to, but it is more complex for small business and often the small businessperson does not have the full-time accountants and other people to help them.

I think the biggest thing in the long term that we are going to do is to basically organize an entire unit to work strictly with small business. We can then have all the services that small business needs in one place, and have people brought in, including people who have worked in small business, to help run this agency.

That is the long-term solution, and that will enable us to really understand, case by case, the particular problems of different kinds of small businesses and work with them.

In the meantime, we are doing some things to try to improve service, as we are doing in other areas. We are trying to make some of the filing easier. For example, one of the things that just came out relates to the 941, which is something that all small businesses with employees have to file quarterly. We have now tested that and people will be able to file through a simple telephone call. We are also going to try to work to provide better assistance to small businesses throughout the districts when they need help.

But I think the long-term solution is that this is such a huge and important sector of the economy that we really need to not just have it be a side issue but to be sort of a major focus of an entire unit, with the right kind of people focused on solving their problems. I think that will ultimately go a long way.

Senator CAMPBELL. May I also recommend that when you set up your volunteer advocacy programs, you have somebody on there who understands small business or knows what it is to go through that.

Mr. ROSSOTTI. Oh, we most certainly will. We most certainly will.

Senator CAMPBELL. Since we have a number of people here, I will go ahead and yield to Senator Kohl. If we could keep our questions down to maybe about 5 minutes or so, it will give everyone an opportunity.

NONCUSTODIAL PARENTS

Senator KOHL. Thank you. I would like to talk about noncustodial parents who claim child tax benefits for just a minute, Mr. Rossotti. There are several tax benefits in our current Internal Revenue Code that go to taxpayers who have dependent children. These include head of household filing status, the earned income tax credit, the tax exemption for dependent children, the dependent care tax credit, and the new $500 per child tax credit.

In 1996 the Health and Human Services Inspector General found that many noncustodial parents were incorrectly claiming these benefits, even though by law they can only go to the custodial parent. HHS Inspector General estimated that at least $200 million and possibly $1.5 billion in tax losses may result annually from noncustodial parents incorrectly claiming child-related tax benefits.

The inspector general of HHS recommended that information that is or will soon be available on State child support registries could easily form the basis of an antifraud initiative. HHS will share information on custodial parents with IRS for information on who is claiming child-based tax benefits resides. An initiative that I sponsored to allow this sort of data exchange was passed as part of last year's tax bill.

I understand that there are some problems with the States collecting the data HHS needs to make this antifraud program work. But I also understand that HHS and IRS are confident that those State child support systems will be up and running soon.

So my question is what steps are you taking to move this effort forward? Have you been in consultation with HHS? And in your opinion, when will we begin to see results from this program?

Mr. ROSSOTTI. I would like to ask my colleague, Mr. Dalrymple, to answer that question for me, if that is OK.

Mr. DALRYMPLE. Senator, we have been working closely with HHS around this issue, and we actually helped them design the way some of the information would be gathered to make sure that it is more helpful. And notwithstanding that fact, we do understand that they have had some problems gathering the data from the States, as you mentioned.

I do not know that we actually have an exact timeline in place yet, but I would be more than happy to provide information for the record later, to determine exactly when that is going to be. But, as you said, we expect this to be extremely beneficial to the Service in combating this potential area of fraud or abuse and expect to work quite closely with HHS. In fact, part of the initiative that we had on the EITC funding that we got last year, was to go directly to HHS, or I should say is funneled through us to go to HHS to help build that data base.

Senator KOHL. My office is very interested in trying to see to it that we get this program not only underway but up and running so that we can save this money. I would appreciate it if you will take it as a matter of priority.

Mr. DALRYMPLE. It is an absolute priority with us.

Senator KOHL. I thank you.

TAX COUNSELING FOR THE ELDERLY

The fiscal year 1999 budget requests $3.7 million for the Tax Counseling for the Elderly Program. Since this program was first authorized in 1978 it has grown to include 53 sponsors assisting more than 1.6 million elderly taxpayers.

I would like to ask you, Mr. Rossotti, to describe what kind of assistance is actually provided to the elderly, who provides the assistance, how they are compensated, whether or not we are reaching all elderly who require the assistance, and how much money is needed to ensure that every elderly person who requires assistance

would receive it? Would you describe the program and how it is going?

Mr. ROSSOTTI. Let me once again ask Mr. Dalrymple to give the details, but I just want to say one general point because I think this is an important one. I think that one of the opportunities we have to provide better service to many segments of the population, including especially the elderly but others including various small businesses, is by taking advantage of partnerships and relationships with various kinds of associations and volunteer groups.

I have met with several of these, including AARP, and they are very anxious to work with us, if we can only get out and provide some support to them.

I personally want to tell you that I think this is in keeping with what people in the private sector do. You do not try to do it all yourself. You go out and try to work with others to help you. This is a very, very promising area.

As far as the specific tax counseling, I will ask Mr. Dalrymple to give a few more details.

Mr. DALRYMPLE. As you mentioned, we have spent up to $3.7 million last year and we are going to spend up to that amount this year. We also supplemented this with computer equipment and some other equipment, in addition, from our offices. We helped 1.5 million taxpayers in fiscal year 1997 and expect to do somewhat more than that this year.

There were 53 sponsors for the program. The largest, of course, was AARP as Mr. Rossotti just mentioned.

This really is a very important program for us and one with which we have had a very long history. In fact, my mother uses TCE and has for a number of years. She lives in Iowa and, in fact, I was home a few years ago and asked her if she would like me to do her tax return, and actually she somewhat politely told me that she only trusts the folks at the TCE counseling center, with whom she could make appointments to do that for her.

So I recognize how important this is to folks, because they become quite dependent on it. We are going to strive to make this much more available.

We have gone out this year for the first time on our Internet site and asked for more sponsors, and we are getting quite a response from that. This will be for the 1998 tax year, 1999 filing season.

CENTURY DATE CHANGE

Senator KOHL. Good. One last question, century day change. Mr. Commissioner, as you indicated in your statement, century day change or year 2000 is one of the most critical elements of the fiscal year 1999 budget. We understand that the IRS is also requesting funds in fiscal year 1998.

How is the IRS going to cover the costs of these requirements? What happens if the year 2000 is not funded, particularly if your requests for the telecommunications systems is not funded?

Mr. ROSSOTTI. Well, I think that whatever happens, we simply have to make these changes. I think that we do need the funding to make these changes. If we do not get the funding, we will have to find something to solve this problem, because we cannot allow these systems not to be updated.

I do think that we are getting a much closer control over what we need to do than was the case even 6 months or 1 year ago. This is simply the fact that we have been working very hard to identify all of the individual components that we have to update. This is something that every large business in America is going through.

In the case of the IRS, it is a gigantic task because we have, for example, about 90,000 individual application programs. We have hundreds of thousands of pieces of hardware and software products that we have to identify.

We are now getting to the point where all of the high-priority ones have been identified. We are getting to the still essential but slightly less priority ones, and I think we are very close to having them all identified.

I have spent considerable time on this program. It was one of the first things that I looked at when I got into office. My own assessment of this program is that while there still is considerable risk as there would be for anything this huge, I do believe that we have identified those risks and we have got some actions in place to manage those. And, assuming we can get funding and that we can continue on, I do not think we are going to have a catastrophic failure here.

There could be problems, given the magnitude of it, but I think we can manage those at this point, assuming we can get the funding.

Senator KOHL. Thank you. Thank you, Mr. Chairman.

Senator CAMPBELL. Senator Faircloth.

Senator FAIRCLOTH. Thank you, Mr. Chairman.

NEW INFORMATION TECHNOLOGY SYSTEMS

Commissioner Rossotti, I do not mean to pursue the—and I know you had absolutely no hand in this absolutely—equipment mess up from word one. I mean, you were out working up the money to pay for it.

But maybe what is the IRS budget annually?

Mr. ROSSOTTI. The total IRS budget?

Senator FAIRCLOTH. Yes, sir.

Mr. ROSSOTTI. This year we are asking for about $7.9 million plus the investment, the $300 million investment, for the information technology.

Senator FAIRCLOTH. For the what?

Mr. ROSSOTTI. For the new systems, the new information technology.

Senator FAIRCLOTH. I am trying to comprehend how the new system is roughly $300 million. How could we waste at least 11 times that much on a system that did not work, was not working? It is just mind-boggling how it—and if somebody is there with you that could explain how you could do that?

Mr. ROSSOTTI. Let me try to do the best I can. First of all, unfortunately, we are just beginning the replacement effort of the new system. Mr. Gross has been working for about 2 years to outline a plan for it, and we are just ready to begin. The money that we are asking, the $300 million, unfortunately is not going to be just for 1 year. I mean, we are going to be working at this probably for another 10 years, I would say, or at least 7 to 10 years. I do not

know that it would be that amount of money per year, but this is a very, very big program.

The IRS has one of the most enormous information technology systems anywhere in the world, so we are not talking about something small here.

As to your question of how did it fail? Of course, I was not there but I have studied it a little bit, not in detail. I will tell you, I think that in the private sector large technology programs do fail, also. The difference is that the failures are identified earlier, as you noted, and you do not go so far down the road.

Senator FAIRCLOTH. That really was my question.

Mr. ROSSOTTI. And so I do not know entirely why it was not identified earlier. But I think if we look at what are the things that need to be done, that we are putting in place here to make sure that it does not fail again, there is a whole series of them.

One of them is simply having professional management of the information technology function. Unfortunately, Mr. Gross is leaving us but he has brought some new people in and he has built the beginnings of a real professional organization. He has also agreed to continue to consult with us after he leaves, fortunately, and I am committed to recruiting a person from the private sector who is a professional person to be the overall manager.

Second, we are going to use the best contractors, outside contractors. In this day and age you do not try and do these things yourself, not only to buy the hardware but to actually put it all together and to integrate it. So we are going to do that.

The third thing that is very important is that technology does not stand by itself in business. It has to work with the people who are using it to design it. That has been a problem, as well. Part of my concept here in the future would be to have a much closer or clearer sense of ownership of these new systems by the people actually in the agency and using it.

And finally, I have spent 28 years in this business, I am just committing myself here to try to oversee this thing, to try to make it successful. But it is going to take time and there are risks associated with it.

That is the best answer I can give, not having been here during the period when it was done.

Senator FAIRCLOTH. At least we do not plan to repeat the mistakes of the last one?

Mr. ROSSOTTI. Not if I can help it.

SECTION 6103

Senator FAIRCLOTH. You might not be familiar with this, certainly in 4 months you probably have not. But there is one section of the Tax Code, section 6103, that was put in and intended to protect the taxpayers' privacy, was the purpose of it. But now it is being used by the IRS and IRS attorneys to shield the inner workings of the IRS from the scrutiny of Congress in many ways and many times.

Do you, or is someone accompanying you, what ideas do they have for opening up the IRS for better congressional oversight?

Mr. ROSSOTTI. Senator, let me just say, that is one section of the code I have learned, even though I am not a tax lawyer. I learned 6103 even before I was confirmed.

I believe that there is a lot more disclosure and a lot more information that we can give to Congress, as well as the public, without violating 6103. In my confirmation hearing before the Senate Finance Committee and Senator Roth back in October, that was one of the things that I said that I thought was going to be my policy, to help improve the agency.

I do not believe that you can solve problems until you have acknowledged honestly that they exist. And so from the very first day that I was in office, I sent out a memo and an e-mail and a voice mail to every employee saying that open communication and honest acknowledgement of problems was going to be something that we were going to have to face up to and do.

I do not know that we will succeed in that instantly, but in every way that I can I am pursuing that policy.

I do not really think that 6103 is that much of an obstacle to it. All it says is that you cannot release a specific taxpayer's information. But if you look, for example, at the internal audit reports and the GAO reports that are done, which are many, very little of them have reference to individual taxpayer information. We are now sending all of our internal audit reports over to the committee here, and as far as I am concerned we will continue to follow that practice and try to respond every way we can.

I am committed to acknowledging problems and solving them, not trying to cover them up.

Senator FAIRCLOTH. Thank you. One other quick question, if I may, Mr. Chairman.

INTERNAL ETHICS PROBLEMS

Could you provide the committee with any statistics or with statistics on internal ethics problems within IRS employees? I would like a breakdown on how many employees have been disciplined over the past 3 years.

Not names, of course, but how many have been disciplined over the last 3 years, and for what offenses and what type of punishment was merited.

Mr. ROSSOTTI. We can do that. I do not have it with me, but I would be glad to get back to you on that.

Senator FAIRCLOTH. I am sure you do not, but if somebody could get that.

Mr. ROSSOTTI. We will get you that, Senator.

Senator FAIRCLOTH. Thank you so much.

[The information follows:]

For 1996, 1997, and thus far in 1998, employees have been disciplined for the following offenses that relate to ethical issues: general conduct matters; Taxpayer Bill of Rights II violations; and employee tax matters. Punishment ranged from admonishment, reprimand, suspension, up to removal.

Category	*Employees disciplined*
General conduct matters	1,895
Taxpayer Bill of Rights II	64
Employee tax matters	501
Total	2,460

DISPROPORTIONATE AUDITS OF SOUTHERNERS

Senator CAMPBELL. Senator Shelby.

Senator SHELBY. Thank you, Mr. Chairman.

I would like to get into a story that surfaced recently about the IRS disproportionate audits of southerners, being a southerner. I think Senator Coverdell asked the General Accounting Office for a study there. I am sure you are familiar with it.

When the General Accounting Office study conducted for Senator Coverdell found that 47 percent of taxpayers audited at random reside in 1 of the 11 Southern States. These States, including my State of Alabama, account for just 29 percent of the population.

How do you explain that? Is this just seeking out people? Is that getting into the auditing of the investment tax credit? Or what is it? And is not 47 percent a pretty disproportionate share of so-called audits?

Mr. ROSSOTTI. Let me just say, Senator, first of all I am still learning myself where these audits are.

Senator SHELBY. Sure, I know you are.

Mr. ROSSOTTI. And how they are done. I am continuing to work to try to find out, because I certainly do not believe that it is our job to target anybody unless there is a real good reason to do it.

I do have the study and I have had a little bit of time to look at it. It does appear that, in this particular study, the real reason was that 84 percent of these particular audits were really designed to study the EITC program, which is a program which has had, as I understand it, some significant problems with money being claimed that was not owed. And there was actually encouragement by Congress to study this.

Senator SHELBY. I will be the first one to tell you, we do not want anybody to cheat the system, game the system, on anything. But on the other hand, when 47 percent of the audits come out, that is sort of troublesome.

So you have got to have a good reason for it, and I know you were not there.

Mr. ROSSOTTI. I think that in this particular case the principal reason was not any deliberate targeting but simply the fact that it was mostly a study of EITC problems. Eighty-four percent of it was the EITC, and it happened that there are more EITC recipients in some of the Southern States than there are in other places. I think that was the reason why, in this particular case, that came out that way.

But more generally, I just want to try to assure you, I have not studied all this yet, but we are going to do the best we can to try to make sure that the whole process is absolutely fair and that nobody is unfairly targeted. The sole purpose of doing audits is to encourage compliance.

BUDGET REQUEST

Senator SHELBY. It is my understanding in the budget request that the IRS is asking for $143 million and 2,184 FTE, full-time equivalent, positions for the EITC appropriation. Can you explain that in detail? That is a lot of money, $143 million.

Mr. ROSSOTTI. Let me just say that this was the money that I think was specifically added by the Congress last year, to request the IRS to do this. So this was requested by the Congress, as I understand it, but Mr. Dalrymple can tell you exactly what we are going to do with this money.

Mr. DALRYMPLE. This last year we were given $138 million and, you are right, in the 1999 budget——

Senator SHELBY. Mr. Dalrymple, could you pull the microphone up?

Mr. DALRYMPLE. Too far away? Maybe it is not on. OK.

At any rate, we were given $138 million in this last budget year and I think the 1999 budget reflects $143 million, as you mentioned.

That was a direct result of a lot of concerns. They were basically twofold. One, that we make sure we reach all of the people who need to be reached. And two, that we get as much of the overclaim rate out of the system as possible.

What we have done in 1998, and we will continue in 1999, is basically on one hand, to ensure that everyone who should be eligible is claiming, we have sent informational letters to the top 100 employers, most likely to employ taxpayers who would be eligible. We sent notices to over 6 million EITC recipients, informing them of the advanced earned income credit, because we know that people are much more compliant who use the advanced earned income credit. We sent approximately 2.5 million notices to taxpayers who did not claim the credit but appear eligible for the credit.

And we also worked with the Social Security Administration to send out a document in their reporter which reaches over 6 million employers, to give them information about this.

We are also providing toll-free telephone assistance for EITC questions 24 hours a day, 7 days a week on a special line.

On the other side of the ledger, because we want to make sure that we have also reduced as much of the overclaim rate as possible here, we also expect to protect over $1.2 billion this year through our math error operations, which Congress gave us authority to use in this area, and through additional examinations this year.

EARNED INCOME TAX CREDIT

Senator SHELBY. Mr. Dalrymple, do you know how the earned income tax credit works? Do you know the mechanics of it?

Mr. DALRYMPLE. I generally know, yes.

Senator SHELBY. How is that? It is not a credit against what you earn, it is a check if you do not earn a certain amount of money, is it not?

Mr. DALRYMPLE. It is a refundable credit, you are right.

Senator SHELBY. For example, if I earn *x* dollars and I was supposed to pay taxes, would I get my taxes back? In other words, if I qualified for that, or would I get my taxes back plus a subsidy, a welfare check?

Mr. DALRYMPLE. You could get more than the taxes.

Senator SHELBY. I would get more back than I ever paid in; is that right?

Mr. DALRYMPLE. You could, at certain incomes.

Senator SHELBY. So that is a misnomer, is it not, when you say it is an earned income tax credit? You are really giving a subsidy out, are you not? You are giving a check out for me that I did not earn; is that correct?

Mr. DALRYMPLE. Senator, you are now asking questions of someone who administers the law, versus someone who——

Senator SHELBY. I am just asking you mechanically. Let us say I earned $25,000 and I was cut so much taxes, would I get that money back if I qualified, plus other money that I never earned? Do you see what my question is?

Mr. DALRYMPLE. It really depends on your circumstances.

Senator SHELBY. I understand that, but that is not what I am asking you. I am asking you that you do not just get your tax money back, you get a welfare check back; is that right?

Mr. DALRYMPLE. Well, you can get a credit over and above your tax.

Senator SHELBY. Now do you get a credit or do you get a check?

Mr. DALRYMPLE. You get a check.

Senator SHELBY. That is right. A lot of difference, is there not?

Mr. DALRYMPLE. You get a check back.

Senator SHELBY. So why do they call it a credit?

Mr. DALRYMPLE. I really cannot answer that.

Senator SHELBY. Congress did that, did they not?

That is a big thing. I think a lot of people do not realize in America what that is. It is a big handout. I know you did not create the program, and neither did I.

Tax Code complexity, the Tax Code is very complex; is it not?

Mr. ROSSOTTI. Yes, sir.

Senator SHELBY. In addition to being a nightmare for most taxpayers, including this one here, the Tax Code's complexity obviously poses very substantial problems for your agency with regard to administration. Would that be a given?

Mr. ROSSOTTI. Certainly.

CHANGES IN THE TAX CODE

Senator SHELBY. You have noted, in your prepared testimony, that there were about 800 changes made to the Tax Code that "ripple through the IRS, requiring new forms and publications, training of employees, and updating of technology."

Obviously, this ultimately ends up costing more money for compliance and administrative costs; am I right, sir?

Mr. ROSSOTTI. Yes, sir.

Senator SHELBY. Can you give me a better idea of what is triggered when Congress makes significant changes to the Tax Code? Or have I already said it?

Mr. ROSSOTTI. I think you just said it.

Senator SHELBY. I think it was alluded to, the employee disciplinary procedures that might not be there, I am not sure. In April of last year the subcommittee held hearings regarding the issue of IRS employees browsing or snooping at taxpayers' files, which most Americans thought were confidential, you know, that they were dealing with the IRS and they had a right of privacy there, and so forth. And I believe they do. At that time, it was expressed that

serious concerns about holding employees accountable through severe disciplinary actions.

MISTREATMENT OF TAXPAYERS

A common theme throughout your prepared testimony today is the goal of making the IRS perform more like a private financial institution. Last fall Senate Finance Committee brought to light severe mistreatment of taxpayers by employees of the Internal Revenue Service, people that you are their superior.

The private sector has a very simple solution to those kind of problems and you know about it, you have been there. It fires people. You cannot put up with that kind of stuff.

Do you know how many people have lost their jobs as a result of the misconduct outlined in the Finance hearings last fall? And in addition, how has the agency changed its policies to expedite the termination of rogue employees, employees at the IRS that snoop and disseminate information that is confidential for the average American taxpayer?

Mr. ROSSOTTI. That is a very, very good question, Senator.

Let me address the issue that has been an issue longer, which is the unauthorized access. I think I summarized this in answer to a previous question, but with the help of Congress we did get a new law, a change in the law in August, which made it much easier to discipline employees, made it clear that losing your job or even criminal prosecution would be a consequence of unauthorized access.

And we also, as I said, have put in some significant programs to make it clear that this is going to happen. We call it unauthorized access [UNAX], and every employee has now gone through a required training program, has signed a certification, and we have added a special central way of processing these cases.

Senator SHELBY. Let me ask you this, as a new boss over there, I certainly wish you well, and I believe you have a great attitude and I hope you will retain it as you delve into the problems there.

Mr. ROSSOTTI. Thank you.

Senator SHELBY. If you find out, and you are the head man, that people are snooping into taxpayer's files and disseminating this information—I am talking about the average American taxpayer—are you going to fire those people, are you going to pension them off, or what are you going to do? Reassign them? I think that is important.

Mr. ROSSOTTI. We have got the authority——

Senator SHELBY. No, sir; what are you going to do? You are going to set the tone.

Senator CAMPBELL. If the Senator would yield, he did testify earlier that they had fired, what was it, 140?

Mr. ROSSOTTI. 153 in fiscal year 1997.

Senator CAMPBELL. 153 you have fired.

Senator SHELBY. That is good.

Mr. ROSSOTTI. I mean, it does not happen in all cases because there are some cases where there are mitigating circumstances. Even in private business, I did not just fire everybody the first time that somebody did something wrong. So you do want to have due

process for people, and it is a little longer I have found in the Federal Government.

Senator SHELBY. Too long, is it not?

Mr. ROSSOTTI. Well, it is longer, but I think if you pursue it you can still make it happen.

Senator SHELBY. Do you believe that the American taxpayers who file their taxes should have the benefit of confidentiality with the Internal Revenue Service?

Mr. ROSSOTTI. Oh, most definitely.

Senator SHELBY. And should that be one of the highest orders at the agency?

Mr. ROSSOTTI. Yes, sir; absolutely. And I think that, in this area, most of this was done, I have to say, before I got here. There is a very aggressive program to do this, and we have better technology to detect when people are doing it, and the number of incidents has dropped dramatically.

It is still too high. We still need to go down to zero, or as close to zero, but I think there are some real programs in place to make this happen.

Senator SHELBY. Mr. Chairman, I have one last question, if you will permit me.

TAXPAYER SERVICE

Taxpayer service is very important, and you probably went into it earlier and I did not get here at the beginning. Taxpayer service, when someone contacts the IRS should they not be able to rely upon the advice they get from the IRS? Or if they cannot, why give the advice at all? Because a lot of people in America are frustrated with the advice they have gotten from the IRS, to rely on what they get.

Would it not be better not to give advice than to give erroneous advice that frustrates the process, frustrates the people, and destroys the respect they have for your agency?

Mr. ROSSOTTI. Yes; that is right. It would be better to not give advice than give erroneous advice. And this area of customer service has been really acknowledged to be quite deficient.

There are significant improvements in this filing season, at least in the quantity certainly, of being able to get through, and the measurements of quality. I do not think we are still at an acceptable level of quality, but we are measuring it. We are measuring it better.

All I can say is we are not going to be satisfied until we get—we will never get to 100 percent, I do not believe, but we can certainly improve significantly.

Senator SHELBY. Thank you. Thank you, Mr. Chairman.

INFORMATION ACCURACY RATE

Senator CAMPBELL. If I might add something to Senator Shelby's comments and questions, it is my understanding that the IRS initiated a toll-free number in order for taxpayers to get information on how to comply with a particular tax law and how to fill out certain tax forms. In 1997, according to the IRS statistics, the accuracy rate for the taxpayer inquiries were 96.1 percent, which is great except for the 3.9 percent that did not. And they relied on informa-

tion provided by the IRS but then learned later that it was wrong information. When the IRS demanded additional taxes and fines, of course it created some real problems.

My question, in addition to Senator Shelby's question, is how are they going to be able to rely on information? You may never get to 100 percent, but is there an appeals process they have to go through when they have gotten bad information?

Mr. ROSSOTTI. I think that there is a number of solutions here. Probably the most important solution is 96 percent is certainly better than it was, but that is still 3.5 percent and that is not good enough.

I think in many businesses, one of the things that you have found is that you set a goal, you get to a certain point, and you find OK, now we can take that 3.5 percent, and if we cut it in half that is 1.7 percent, that will be a big improvement. That is one of the most important things, to just give the best advice in the first place.

I think one of the things that we have in this 1999 budget is some additional money. It is in customer service, but it is really for training the employees. One of the reasons, of course, that you do not give the right advice is you do not train the employees with the right information. In 1999 that is going to be particularly important because we have all these tax law changes.

I can tell you the employees are very frustrated when they do not have the right training and then they get into a phone call with a client, with a taxpayer. I am still calling them clients because that was what I used to call them on my previous job.

Senator CAMPBELL. There is a lot of money in the training. You also have a request to provide better telephone service for over $50 million. I will tell you, I do not know of anything more frustrating than calling a Federal agency now and you cannot find a live, warm body. What you get is a recording, press one for so and so, press two for so and so, you know the routine.

If we are going to add $50 million to this, can we anticipate some kind of improvements where people can talk to human beings?

Mr. ROSSOTTI. The point is to be able to have more people on the phones, No. 1; and to schedule them when people call. One of the biggest things about calling is just simply scheduling. In other words, for the average person, there is a pattern of calling. People call in the evenings, for example, when they are free. They do not necessarily call at 10 o'clock in the morning when they are working, so we are extending the hours of service.

Senator CAMPBELL. And Saturdays, as I understand.

Mr. ROSSOTTI. And Saturdays, we are open Saturdays. Those are the kind of things that we need to do.

We also need better technology to put the calls across the Nation in the right place where the people are. So those are some of the things that we are trying to do, and we will be working on. I think in 1999 we can make some significant progress.

Senator CAMPBELL. Let me go on to a couple of other short ones, before I yield to Senator Kohl.

TAX LAW ENFORCEMENT SECTION

In fiscal year 1998 there were more employees in the tax law enforcement part of the IRS than there are in processing and assistance. Given the fact that over 80 percent of the taxpayers are voluntarily paying and have no problems at all, why do we need so much of the budget in the enforcement section?

Mr. ROSSOTTI. There are a significant number of people in the compliance functions. That is correct, Senator. I think that the biggest single category of people in that category are simply the people doing examinations. A lot of those people are doing examinations of corporations as well as individuals. There are a lot of corporations that pay a lot of taxes in this country.

The actual examination rate for individual taxpayers is a little over 1 percent, and it is really in the nature of a spot check, as I would see it, to make sure that the people who are fairly paying are not victimized by the small percentage of people who do not pay. And it does take quite a few people even to do 1 percent examinations of those returns.

But let me just say that, longer term as we go forward here, what we can do is handle more returns but we can maintain the level of compliance without adding to the number of people. I think, in other words, we can shrink the number of people in the IRS in all the functions as a fraction of the economy.

We cannot do that overnight, because it takes reorganization and it takes technology, but I do think over time it can shrink.

MANAGEMENT OF PURCHASING PROCESSES

Senator CAMPBELL. Last question before I yield, we are being asked to put an awful lot of money into purchasing new high technology equipment. I was interested in how you purchase things.

No. 1, since you have offices all over the country, is there going to be some kind of management control so that field offices are not purchasing something that simply cannot be hooked up or utilized? What is the process by which you intend to do some of the purchasing?

Mr. ROSSOTTI. Yes, sir, Senator. That is one of the big changes over what was done in the past. We are centralizing not just the purchasing—that is just one part of it—but the entire management process for all the information technology in the central group here that would be headed by the chief information officer.

That is partially done today and we are moving more in fiscal year 1999. As part of the year 2000 we are centralizing more. But I think within a few years we will have it almost completely centralized in terms of its management.

The other big change is that most of the development of the new systems, including new equipment, will be managed through one major prime contract where the single contractor will be the integrator and will make sure all this fits together, which is the way it is done, for the most part, in the private sector.

Senator CAMPBELL. Senator Kohl.

ELECTRONIC FILING

Senator KOHL. Thank you, Senator Campbell. I will just ask one question, Mr. Rossotti.

Would you talk about electronic filing for a bit? What the percentage of taxpayers are who file electronically now and how you intend to progress on this, what your timetable is, and what the American taxpayer can look forward to by way of electronic filing?

Mr. ROSSOTTI. Yes; well, this year we have some pretty good news in the early filing season. I think we are up, John what is it, about 20——

Mr. DALRYMPLE. We are over 24 percent above where we were last year across the board.

Senator KOHL. How many Americans file electronically now?

Mr. DALRYMPLE. So far this year, we have had approximately 17 million people file electronically this year. In all of the last filing season we did about 19 million, just a fraction over 19 million. So we are running substantially ahead of where we were last year, to the tune of about 20 to 24 percent ahead of last year.

Mr. ROSSOTTI. It is still though, to get to your question, there are still many more that are filing by paper. I think it is about 80 percent or so paper, still. We will have to see how it comes out by the end of the year.

But of course, if we continue to grow, what is happening is that the number of returns on paper is gradually going down and the number of electronic returns is going up very rapidly. So if you extrapolate over the next 4 or 5 years, we will cross these lines.

However, it is not going to happen just by our standing by and watching it. There are some very aggressive things that we have to do. We really do not have as good of an electronic filing program as we need to have. There is still too much paper involved even in some of the electronic filing. Even though you file electronically there is still, in some cases, some paper you have to send in which really does not make a lot of sense. That is because of some of the problems with having signatures that are authorized.

We are working very aggressively right now to come up with an improved electronic filing system for next year, for fiscal year 1999, that would eliminate some of these problems and accelerate the trend toward electronic filing.

Senator KOHL. As we look out the next 3, 4, 5, 6, 7, 10 years, what is your estimate of what the percentage of Americans filing electronically will do?

Mr. ROSSOTTI. Well, I do not know what the exact percentage is, but I think if you just extrapolate the trends that we are on and we do some other things, it will not be too long before it will be certainly the majority. And ultimately you will never get to 100 percent—well, I will not say never, but it may take quite a while before you get to 100 percent.

But certainly the predominant form of filing in the future, and it will not be too far into the future, will be electronic.

Senator KOHL. Thank you, Mr. Chairman.

YEAR 2000

Senator CAMPBELL. The year 2000, and I keep hearing that, that year is the time when all of the computers, what, do they go crazy or something?

Mr. ROSSOTTI. Yes.

Senator CAMPBELL. As I understand it, they will not be able to recognize between a six-digit bar code and an eight, or something. I know that the IRS has worked very hard on that, to try to get ahead of the curve, but could you give me just a little nontechnical overview about how you are moving forward to prevent this doomsday effect that we keep hearing about?

Mr. ROSSOTTI. Yes; I will. In simple terms, there are two things that you have to do. In some of the computer programs you have to do what is called renovate them, which is just make some changes to them so they can accommodate the century date.

And the other thing you have to do on some of the products that you have bought from the outside, is to get new versions of them, new pieces of hardware and software. These are the two basic things you have to do.

The final thing you have to do, after you do that, is test it all to make sure it works.

Basically in terms of the first two, the renovation and replacement, our plan is to have most of that done, almost all of it done, at the end of this calendar year, 1998, before we start next year's filing season. There may be some that would hang over, but for the vast majority of it we would have it done. And we have an enormous amount of management time going in to making that happen.

What would happen during next year, calendar 1999, is the final testing of all this to make sure it works. It is a very big program. The whole thing all together, over 3 years, is more than a $900 million program, which is really enormous in terms of management in any business.

But fortunately, mostly due to work that Mr. Gross did before I ever got here, it is a well-organized program. That is not to say there are not risks associated with it, but I think we understand where those risks are.

Senator CAMPBELL. Well, I do not know, frankly, what it is going to mean to the average mom and pop out on the farms paying their taxes if something does not work, but hopefully it will be ironed out by then.

MISPRINTED BAR CODES

It was recently discovered that an IRS contractor misprinted the bar codes on about 1 million address labels. As I understand that, unless that is fixed, the completed tax returns will actually go back to the taxpayer rather than the IRS. They will get their own mail back.

I would really like to know what steps you are taking to try to correct that? Is there something going to be done before April 15, so these people will not be in jeopardy of missing the deadline?

Mr. DALRYMPLE. Yes; in fact, we have already begun mailing letters out to the taxpayers, informing them of that, with additional bar coded envelopes so that they can mail their returns properly.

We have identified exactly who they are. The vendor who was responsible for that took responsibility for mailing out these corrected ones.

Senator CAMPBELL. When something like that happens, what actions do you take against the vendor? Do you just not deal with them anymore? Is there some kind of a bonding system or a penalty or how do you deal with it?

Mr. DALRYMPLE. Each year, of course, when we contract with vendors we look at their past performance. We deal with a number of vendors in terms of mailing out forms and publications.

Part of the penalty phase would be looking at whether we are going to use this particular vendor again. We traditionally have one or two problems during the filing season because of the volumes involved. The vendors are supposed to have very careful quality controls in place.

In this particular situation it was unacceptable to us because from what we thought would have happened with that vendor, they would have caught this much earlier because their quality control would have been much sooner than having as many of these documents go out as did.

Senator CAMPBELL. Are the vendors responsible for the additional cost of correcting the mistake?

Mr. DALRYMPLE. Yes; they are.

Senator CAMPBELL. OK. Do you have any additional comments?

EITC PROGRAM

Mr. DALRYMPLE. Can I just clarify one thing for the record?

Senator CAMPBELL. Sure.

Mr. DALRYMPLE. When Senator Shelby was asking earlier about the EITC taxes, I think it is important to get on the record that those also were intended to refund the payroll taxes in addition to the income taxes, and I do not think I made that perfectly clear in an earlier statement.

Senator CAMPBELL. He might not hear the tape. You might wish to drop him a line and correct that so he will be aware of that.

Mr. DALRYMPLE. I will. I absolutely will.

PREPARED STATEMENT

Senator CAMPBELL. Before we adjourn, with unanimous consent to be included for the record a statement by Senator Coverdell, who wanted to be here with us, but could not today.

[The statement follows:]

PREPARED STATEMENT OF SENATOR COVERDELL

Chairman Campbell, members of the Subcommittee, and guests, I appreciate this opportunity to submit testimony as you consider fiscal year 1999 funding for the Internal Revenue Service (IRS) in the Treasury/Postal Appropriations legislation. Although I would very much like to have delivered these remarks in person, I am prevented by an unavoidable scheduling conflict.

As you may be aware, I released earlier this week a General Accounting Office (GAO) report regarding the use of random audits by the IRS. The finding that the IRS has targeted low-income taxpayers was shocking, but not unexpected. In my travels throughout Georgia, invariably I have been approached by individuals who found themselves within the sights of the IRS, and they were scared to death.

More and more, I saw a pattern. The Georgians who approached me were not wealthy nor were they CEO's of big corporations. They were ordinary, law abiding

taxpayers who earn a wage or run a small business or operate a family farm. Some were struggling just to make ends meet. Many were frankly confused as to what they had done WRONG to deserve the attention of the IRS. Thanks to the GAO report on IRS random Audits, now we know that many of them had done NOTHING to warrant such attention.

Low income taxpayers are defenseless when confronted by the IRS, and I suspected that is exactly why they had been targeted. It is troubling to know that my suspicions have been confirmed. Now is the time to do something about it. It is important to mention again that these are audits of taxpayers whose returns indicated NO WRONG DOING. Of all the random audits of returns filed by individual taxpayers in this Nation from 1994 to 1996, over 90 percent were conducted on taxpayers earning LESS than $25,000. This is unconscionable.

The incredible Finance hearings last Fall brought to the Nation's attention the abuses the IRS has inflicted upon taxpayers. I want to quote from one witness, Jennifer Long, who is a field agent with the IRS. She said, "As of late, we seem to be auditing only the poor people. The current IRS Management does not believe anyone in this country can possibly live on less than $20,000 per year, insisting anyone below that level must be cheating by understating their true income."

Moreover, at a recent field hearing of the Senate Committee on Small Business, the Director of the Georgia State University Tax Clinic testified that when confronted by the IRS, low-income taxpayers end up paying more tax than they actually owe. I believe the IRS knows this.

When its campaign of random audits against the poor was uncovered, the IRS made the outrageous claim that it is only responding to a congressional mandate to root out fraud in the Earned Income Tax Credit (EITC) program. This is just one more instance of the lengths the IRS will take to misdirect congressional and public scrutiny from its shameful activity. In fact, Congress has passed no mandate, no edict, instructing the IRS to target poor taxpayers with random audits.

After uncovering these very troubling facts, the question remains, what should be done to put a stop to this practice? First, I believe we must prohibit the practice of random audits. We must remove this brutal tool from the hands of the IRS and put a stop to this indiscriminate targeting. In addition to legislation I will be introducing soon to prohibit random audits, I believe it is critical that restrictions be placed upon the appropriations Congress allocates to the IRS. Specifically, I refer to the $716 million in funding through 2002 authorized in the Balanced Budget Act of 1997 to support the EIC Compliance Initiative of the IRS.

Congress provided $138 million in fiscal year 1998 to the IRS and trusted it to use that money appropriately. Since that time, we have learned of the IRS' outrageous use of random audits as a tool of its EIC Compliance Initiative and of its attempt to misdirect the responsibility for that action. Clearly, the IRS cannot be given free reign in this matter without inviting abuse of low income taxpayers.

The Subcommittee and Congress has before it the opportunity to protect these low income taxpayers who are otherwise defenseless when confronted by the IRS. As you consider funding for the IRS' EIC Compliance Initiative in fiscal year 1999, authorized at $143 million, I urge you to prohibit these funds from supporting the practice of random audits.

Once again, thank you for allowing me to testify today and to express my deep concerns.

SUBMITTED QUESTIONS

Senator CAMPBELL. I appreciate you being here and I have several other questions that I am going to submit. If you would answer those in writing, I would certainly appreciate it.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR CAMPBELL

Question. Mr. Rossotti, the Senate Majority Leader has announced that he expects to have an IRS reform bill before the Senate this month. I am sure you have been in almost constant contact with Senator Roth, Chairman of the Senate Finance committee, to discuss this issue. Based upon the bill you expect to see emerge from the Finance Committee, do you believe that your operating expenses will decrease or increase.

Answer. The IRS reform bill is very consistent with the direction of organizational modernization that we have proposed and in fact directs some organizational and procedural changes. Some of the taxpayer bill of rights provisions will require significant changes to computer systems. The Senate Finance Committee is working with us to develop effective dates for these provisions that are feasible in light of Century Date Change and other tax law requirements. Assuming that mutually acceptable dates can be worked out, we should be able to make the changes envisaged by the restructuring bill within the limits of the fiscal year 1999 budget as now submitted. The restructuring bill does, however, make it even more essential that the amounts requested for technology and customer service improvements, as well as the $25 million requested for organizational modernization, be approved.

Question. What efforts have been made to include taxpayers in these reform discussions?

Answer. The IRS' Office of Public Liaison and Small Business Affairs maintains a very active liaison relationship with the practitioner and small business communities, the Tax Executives Institute, Inc., Federation of Tax Administrators, American Association of Retired Persons, the payroll community, and the Commissioner's Advisory Group (CAG). This program enables IRS to maintain an interactive and frequent communication system to share information about the new concept of operations and request stakeholder feedback. These organizations represent nationwide practitioners and stakeholders. Through their members' daily interaction with taxpayers and IRS employees, these organizations are perfectly suited to assist us in our assessment of our customers' (the taxpayers) needs and concerns.

The Deputy Commissioner or I have personally briefed these groups about my proposal to modernize the IRS.

The CAG, composed of representatives from major market segments, has undertaken an in-depth study of the proposal. Members will convene in working sessions to discuss scenarios based on the currently proposed organizational structure and the implications this could have on taxpayers and practitioners. In addition, the CAG will also work with Booz-Allen & Hamilton to provide feedback about the new concept of operations. The CAG will present formal recommendations about their findings during upcoming public meetings.

Booz-Allen & Hamilton will also meet with the various practitioner, small business, and stakeholder groups to discuss their constituencies' key issues and concerns.

Question. The fiscal year 1999 budget requests a total of $25 million from three accounts for organizational modernization. However, the budget justification provides no details about this proposed reorganization or modernization, other than a breakout of the requested funding by object class. Your testimony before this Committee included information about a reform plan you are investigating. However, I am told that this is still in the development stage. Exactly what organizational modernization is envisioned which will cost $25 million? If it is your own reform plan, which divides the organization along business lines, how were you able to determine the cost of a plan which has not yet been finalized?

Answer. The $25 million requested for organizational modernization will support my proposal to move the IRS to a more customer-focused organization. These funds will be used to begin implementation of the organizational changes described in the modernization concept, including training, relocating, or retiring portions of our work force, as well as using the services of professional consulting firms who specialize in reorganizing organizations. This cost is a rough estimate of the funds needed in the short term to begin the modernization efforts; the consultants conducting the validation study will also provide a more accurate estimate of the total cost of implementation. We will provide more detail to the Committee staff.

Question. Does each account and program activity for the Internal Revenue Service have performance measures associated with it?

Answer. In our budget submission, there are performance measures associated with every account and program activity. IRS has three levels of key measures to focus the energies of the organization on attaining the mission: the mission-level indicator, the objective-level measures, and the budget-level measures. The measures appear in the fiscal year 1998 President's Budget, dated February 2, 1998. These measures are all being reviewed in light of our goal of transforming the IRS from an internally focused organization to one which views itself from the taxpayer perspective and in light of the elimination of use of all enforcement statistics for measuring organizational performance. We have a task force working on this problem and plan to get the assistance of expert outside consultants. We expect to have interim results to use for measuring performance during fiscal year 1999. These measures will build on some of the measures included in the budget submission.

Question. Does your plan include performance measures for which reliable data are not likely to be available until March 2000?

Answer. The reality is that the IRS at this moment has very few performance measures that are meaningful, reliable, and appropriate. There are very few measures of customer satisfaction and the business measures traditionally used have largely been eliminated. It will be a major job to develop new ones and at best in fiscal year 1999 we will have an interim set of measures.

In addition, the IRS today has no reliable measures of overall compliance . The figures generally cited are extrapolations of 10-year-old data. Furthermore, we have at present no proposal or plan to solve this problem. It is essential that this problem be solved, but we do not have an acceptable solution.

Question. Do you have the technological capability of measuring and reporting program performance throughout the year on a regular basis, so that the agency can be properly managed to achieve the desired results?

Answer. Yes, the Service has a longstanding tradition of measuring and reporting program performance in order to achieve its desired results. Our cyclical Strategic Management Process establishes long-range goals which drive the creation of near-term goals with their associated measures and targets. The near-term measures and targets are reflected in the Annual Performance Plan and used throughout the year to track and report on program performance. The last step in the cycle is a summary assessment of accomplishments known as Business Review, the results of which are used to update the long-range goals. The Service uses the Executive Management and Support System (EMSS), an automated management information system, to facilitate the monitoring of program performance.

However, these measures are all being reviewed in light of our goal of transforming IRS from an internally focused organization to one that views itself from the taxpayer perspective and in light of the elimination of the use of all enforcement statistics for measuring organizational performance. We have a task force working on this problem and we expect to engage expert outside consultants to assist in this task. We expect to have interim results to use for measuring performance during fiscal year 1999. These measures will build on some of the measures included in the budget.

Question. Throughout the development of the fiscal year 1999 performance plan, what overlapping functions or program duplications were identified?

Answer. Any changes to the mission or function of our current organization at the division level ("Division" applies to all organizations two levels below the Commissioner, regardless of official title) and above are subject to the approval of the senior executives and a multi-functional review. At times, lower level changes affect division level mission or function; when they do, these procedures apply to them as well. This safeguards against programmatic overlaps or duplications, while facilitating the creation of cross-functional programs such as Electronic Tax Administration (ETA). ETA's purpose, to "revolutionize how taxpayers transact and communicate with the IRS," requires that they draw from multiple IRS organizations such as Tax Forms and Submission Processing, Information Systems Modernization, the Office of Public Liaison, and others.

Question. Did those duplicative programs receive funding in the fiscal year 1999 budget?

Answer. In the framework of the current organizational structure, there is a specific reason for each organizational unit and program. However, in the course of reviewing the entire structure of the organization as part of our organizational modernization study, we will be looking carefully at how we can streamline the structure. In fact, this is the only way that the IRS will be able to meet the increased demands of service to taxpayers and the increased workload from a growing economy without adding to overall staffing levels.

Question. What do you believe will be the most difficult performance goal for the IRS to reach in fiscal year 1999?

Answer. Two of the most important customer service measures for IRS to achieve in fiscal year 1999 are Toll Free Level of Access and Tax Law Accuracy Rate for Taxpayers. For Toll Free Level of Access, we plan to increase the level of access from 70 percent in fiscal year 1998 to 86 percent in fiscal year 1999. This is a substantial increase given that we had previously planned an fiscal year 2002 goal of 80 percent for this measure. Equally important is maintaining a high level of accuracy for the responses provided to taxpayers and that target for fiscal year 1999 will be 96 percent.

Question. Have you redirected resources to that particular goal?

Answer. Yes, the IRS requested budget increases of $103 million to be directed to all of the customer service goals, especially the two critical goals: Toll Free Level of Access, and Tax Law Accuracy Rate for Taxpayers.

CUSTOMER SERVICE

Question. There are provisions within your fiscal year 1999 budget which focus on enhancing customer service. Overall, this increase is only 1 percent compared to your fiscal year 1998 budget and I believe that we would all place a greater emphasis on the need for the improvement of customer service within the IRS. I know that you only came to the IRS late in this budget cycle so I would only ask what you believe is a reasonable percentage the IRS should be spending on customer service?

Answer. While the increase as a percentage of our total budget may be small, in terms of the budgets for each of the individual service oriented activities of toll free telephones, walk-in service and taxpayer education, the increases are larger. The toll free increase in fiscal year 1999 is actually 13 percent over fiscal year 1998 and the walk-in increase is 5 percent. Taxpayer Education was increased by 20 percent in fiscal year 1998. So, there is significant emphasis on those program areas that we feel is appropriate at the present time and is consistent with our ability to measure short term change.

However, there remains a great deal of improvement required before the IRS reaches an acceptable level of service to each taxpayer who needs it. As noted in the answer to the above question, we will need to modernize both the organization and the technology in order to free up the resources and to have the management structure needed to meet this service deficit and meet increased workload without significantly increasing overall staffing levels.

TELEPHONE ACCESS

Question. Mr. Rossotti, one initiative in your fiscal year 1999 budget request is to provide better telephone service for $50.3 million. Today, what is the percentage of calls that the IRS is actually answering and I'm not talking about people actually getting into the queue, but the percentage of calls that actually get answered by a real person at the IRS?

Answer. As of 3/14/98, 75 percent of the calls attempted to the various IRS toll-free telephone lines this filing season were answered by an assistor. This represents an improvement over the 56 percent of all calls that reached an assistor during the same period last year.

FILING SEASON SERVICE LEVEL COMPUTATION

[As of March 14, 1998]

Filing season	Calls to IRS (attempts)	Calls answered	Service level (percent)
1998	32,160,816	24,187,669	75
1997	41,697,669	23,210,084	56

Question. What percentage of improvement does the IRS anticipate as a result of this additional $50.3 million?

Answer. We anticipate significant improvement with the roll out of the intelligent call router, expanded hours and better scheduling and forecasting of the workload.

Question. What would it take to have the IRS answering close to 100 percent of the calls that come in?

Answer. One challenge for the IRS in providing service to 100 percent of its customers is that the telephone calls are not equally balanced over the course of the year. In fact, the greatest number of calls are received over a five month window of time beginning in early February and ending in late June. Consequently, additional staff and equipment resources need to be allocated accordingly. The establishment of the Customer Service organization is a step in that direction. By making use of a diverse work force that has the appropriate training and skills to shift from one type of work (i.e., responding to correspondence or working the Automated Collection System inventory to front line telephone service) to another where a peak demand is occurring has resulted in the higher level of service that has been provided in 1998. We must continue to refine our ability to do this as well as improving our systems to route calls without human intervention. It is possible eventually to reach a 90–95 percent level—which is a private sector standard, but this will take several years.

Question. How long is the average wait-time a taxpayer is on hold before getting someone to talk to?

Answer. Wait-time is calculated at the local site level based on individual application (type of question). Local management uses wait-time as a tool to determine where to place staff and when to have traffic transferred to another site. Some of the nearly 500 applications are very heavily used and some are rarely used. The sites provide staff to the applications based on historical data and move staff when it appears necessary. However, in 1999, with the full roll-out of the call router, telephone traffic becomes a corporate asset and wait-times will be available on a national level.

Question. How will this improve with the additional $50 million?

Answer. With the roll out of the intelligent call router and the implementation of better scheduling and forecasting techniques, wait-time will decrease. Calls will be directed to a location where the caller will have the best chance for the least amount of wait-time where staff has been scheduled for phone work based on improved forecasting techniques.

TAXPAYER ACCESS

Question. Mr. Rossotti, another initiative in this year's request is to make it easier for taxpayers to get answers in person. IRS is requesting an additional $5.6 million to extend the hours of district offices and having them open on Saturdays. With this $5.6 million, how many of the district offices will be open longer?

Answer. $2.5 million of the $5.6 million will be used to expand our Saturday Service. Currently, selected walk-in offices are open for six Saturdays starting March 7, 1998, and ending April 11, 1998. In fiscal year 1999, Saturday service will start on January 23, 1999 and continue through April 10, 1999 for a total of 12 Saturdays. We expect to have over 150 offices open on any given Saturday. The remaining $3.1 million will be used to conduct Problem Solving days. Each district office will conduct a minimum of one Problem Solving day per month.

Question. How long before we can see this change?

Answer. Problem Solving days will start in October and expanded Saturday Service will start in January.

Question. How do you intend to accommodate those taxpayers which do not live near a district office?

Answer. The toll-free telephone line is one of the best ways of receiving IRS service. Information is available on our systems about the various services we provide and the telephone number for the services. IRS has commissioned a task force to perform an analysis of the service IRS does provide to taxpayers to determine what gaps in service exist. The task force will develop recommendations on effective methods for filling those gaps.

SMALL BUSINESS

Question. Mr. Rossotti, an additional initiative is focused on strengthening support for small business, for $1.1 million. It is my understanding that small businesses are the taxpayers which have the most difficulty complying with the tax law. What else are you proposing to improve service to small business?

Answer.

—Develop easy to read and understand forms, publications and notices.
—Reduce the burden for reporting, filing and recordkeeping.
—Provide more easily accessible, correct service the first time.
—Apply fair treatment consistent with the law.
—Expand the roles of our Compliance employees to include education of start-up and existing small businesses, particularly when a deposit or a penalty for failure to file is assessed.
—Establish a small business tax assistance hotline.
—Mail the taxpayer a Your Business Tax Kit, a Tax Tips Calendar and other pertinent information when they apply for an EIN.
—Expand marketing to small business outlets to make them aware of IRS products and services.
—Continue partnership with SBA to have IRS products available at their various locations, i.e., Business Information Centers, Small Business Development Centers, Women's Entrepreneurial Networks.
—Ensure that Districts are more uniform in the outreach efforts with the small business community.
—Apply "softer" penalties for first time offenders in major programs, i.e., EFTPS.
—Partner with other federal, state and local agencies to inform and educate, i.e., licensing offices.
—Develop avenues for open communications with the small business community, i.e., e-mail, specific mailing address, VMS mailbox.

—Develop multi-agency small business CD–ROM.
—Develop small business kits and publications in Spanish and other languages.
—Focus more outreach efforts to Hispanic and other ethnic outlets.
—Continue expansion of small business information provided on the IRS Homepage using plain language to explain regulations, procedures and tax information.

Question. Although I know you do not track your budget this way currently, how much would you estimate of IRS' budget is in some way supporting the small business community beyond the $1.1 million requested in this year's budget?

Answer. We do not separately track time spent supporting the small business community within our financial systems. However, significant portions of our various Servicewide customer service programs support small business. These programs include the Problem Resolution Program (PRP), Customer Service, and Taxpayer Education.

Question. As a person who has just come from the private sector, what do you think it would take to address their needs?

Answer. The new IRS focus on helping people comply with tax laws while ensuring fairness and uniformity of compliance will address all taxpayers' needs including those of the small business community. The IRS must become fundamentally committed to customer service. We must shift our focus, as many large companies have already done, from expecting our customers, the taxpayers, to understand and navigate the IRS according to our internal operations, to thinking about everything from the taxpayer's point of view. Revamped IRS business practices will focus on understanding, solving, and preventing taxpayer problems. Our work will be designed and organized around major taxpayer groups with similar needs and compliance requirements. The majority of taxpayers fall into one of four customer groups: individual taxpayers with wage and investment income; small business and self-employed taxpayers; large business taxpayers; and, employee plans, exempt organizations, and state and local governments. By dedicating a fully responsible unit to providing all IRS services for the self-employed and small business communities, we will be able to work closely with industry associations, small business groups, and preparers to solve problems for everyone's benefit. This is the long term solution to provide adequate service to small businesses.

IRS EMPLOYEE TRAINING

Question. Mr. Rossotti, we have all heard about the horror stories highlighted in the Senate Finance Committee's hearing. Within your fiscal year 1999 budget, there is $22.5 million requested to improve customer service training. What is the total amount that the IRS spends each year on customer service training for its employees?

Answer. In fiscal year 1997, we spent $49 million in training. In fiscal year 1998, the amount is planned at $43.5 million.

Question. Who does that training?

Answer. Recognizing that we need to improve the development and delivery of training, IRS has begun to use outside contractors, affiliated with colleges and universities, to provide skills development to Customer Service employees. These courses include communications, listening, decision making, analysis, and 'customer service' skills. This training is being provided to employees while concurrent managerial classes are provided on coaching and skills reinforcement techniques to support the training objectives. However, generally, instructors are IRS employees and managers who have successfully completed Basic Instructor Training and possess the skills and technical knowledge necessary for a Customer Service Representative.

Question. Do you intend to do a review of how the IRS currently trains its employees with regard to how it treats the taxpayer?

Answer. A memorandum dated January 2, 1998, requests that each regional office provide a monthly report on the training curriculum that was delivered, period delivered in, area trained, number of employees trained and hours expended to train. A critical part of our training program is the emphasis that is placed on providing professional, accurate, and fair treatment to every taxpayer.

I intend to charge our soon-to-be-selected executive for IRS Training with the responsibility to conduct a thorough review on the training development and delivery systems within the IRS. How IRS treats taxpayers will be one element of this review, which will also include the required leadership, expertise, funding, and technology necessary to ensure an effective training program within the IRS. With regard to specific training to improve treatment of taxpayers, IRS is developing and will deliver the following two courses for frontline employees:

—Interviewing Techniques for Revenue Officers; and

—Establishing and Maintaining Quality Public Service in the IRS.

Question. Do you believe that with the additional $22.5 million plus the total funds the IRS is spending on training IRS employees for customer service that we can turn around the customer service the IRS delivers?

Answer. We believe we can make a significant improvement that will have a direct effect on the ability of our employees to assist taxpayers accurately. However, the 1999 filing season will be a much more difficult filing season than in recent years because of the many complex changes to the tax law that are effective in tax year 1998 and because of the massive technology changes required to comply with the Century Date Change. Thus, increased training effectiveness will be required to prepare our employees to even an adequate level. Furthermore, the IRS lacks a fully effective and modern training preparation and delivery strategy and organization. Therefore, as with many dimensions of the IRS, it will take several years and major structural change to reach the desired level of training.

TAXPAYER ADVOCATE OFFICE

Question. There is $10 million to strengthen the Taxpayer Advocate's Office. How will this help the taxpayer and what will this provide them that they do not already have?

Answer. There are four areas in which increased funding for the Taxpayer Advocate will have a direct and beneficial effect on taxpayers:

—A second Problem Resolution Program position is being restored to each of the former district offices that were downsized as a result of IRS restructuring. Each of these 30 offices has been authorized at least two full-time PRP employees, who report to the taxpayer advocate in their district headquarters, yet are available to handle local taxpayers' needs in person.

—The local telephone numbers of all of the district taxpayer advocates are being published in directories for the first time, which will make direct access to PRP far easier for taxpayers. Taxpayers will have a distinct listed number for PRP, instead of being directed to call the standard toll-free "1040" number. Additional PRP staff will be required to handle the increased phone traffic.

—A new nationwide toll-free number is being created specifically for PRP. Taxpayers will be able to seek resolution of problems, without charge, and without first having to call the existing Customer Service "1040" number. The toll-free PRP calls will be routed to centralized locations where trained assistors will deal, on-line, with the less complex incoming issues. More complicated tax cases will be forwarded to the taxpayer advocates in taxpayers' local offices for resolution.

—Additional staff will be added to the district taxpayer advocates' offices, in order to handle the anticipated increase in Applications for Taxpayer Assistance Orders (ATAO's). These requests (Forms 911) for hardship relief can only be acted upon by taxpayer advocates, and it is assumed that applications in fiscal year 1999 will increase after the IRS begins including the form in all Collection-related notices issued by service centers. The result for the taxpayer is that there will be a greater opportunity to apply for and, if warranted, receive relief from impending compliance actions.

Question. In your fiscal year 1999 request there is mention to increase the Taxpayer Advocate's powers. Can you outline for the Committee how you anticipate increasing this office's powers?

Answer. One specific change is that the Taxpayer Advocate has been given authority to issue Taxpayer Advocate Directives, which have the effect of mandating administrative or procedural changes, on a Servicewide basis, within other IRS functional areas. In this way, the Taxpayer Advocate may enforce systemic changes that he/she believes are necessary and in the best interest of taxpayers. The Taxpayer Advocate's role in IRS will also be expanded through ensuring the full exercise of his or her statutory powers, the selection of a Taxpayer Advocate from outside the IRS, a reiteration of the independence of all the local taxpayer advocates and the endorsement by the Commissioner and the Secretary of the Treasury to support in very visible ways their desire to buttress this independence and expansion of the use of powers. In addition, internal commitments to give the Taxpayer Advocate more staff to carry out the mission, establishing a new "800" number to provide direct access to the program, and undertaking a professionally developed major publicity campaign to advertise the program will all aid in the accomplishment of the above.

MODERNIZATION

Question. Mr. Rossotti, your fiscal year 1999 budget contains a request for $323 million which is to be utilized for "capital asset acquisition". Last year this subcommittee had the same request for an advance appropriation by IRS, but part way through the year, IRS then changed its mind and decided that it "may need to spend the funds". Although you were not part of last year's cycle, I did want your intentions for this seed money for the record.

Answer. The funding requested for the Information Technology Investment Account for fiscal year 1999 provides the "seed money" to support Modernization and begin implementation of much needed improvements in the area of Customer Service. In fiscal year 1997 and fiscal year 1998 careful preparation for this difficult task began with the publication of the Modernization Blueprint, the initial stages of establishing an internal systems life cycle management process, and the publication of a Request for Proposals for the Prime Systems Integration Services Contractor. In fiscal year 1999, long term modernization will continue with the strengthening of IRS internal systems management capabilities and the award of the PRIME contract. The initial task of the PRIME contract will be to complete the systems management life cycle and to develop the first two subreleases of the Modernization Blueprint, which provide telephone and other communications capabilities that are basic functions to support all IRS operations. All technology projects involve a significant degree of risk and changes as they proceed, but good management can manage change to produce ever improving results. Finally, I want to assure you that no money will be spent on any subreleases beyond these first two without my personal review and judgment that adequate business cases and control of risk factors exist.

TAXPAYER BURDEN

Question. In IRS' strategic plan submitted last year, there is mention that the IRS plans to "contain the growth of taxpayer burden cost for the IRS to collect $100 at $10.48 compared to $9.38 for fiscal year 1996". If I am reading this right, what this says to me is that the IRS is increasing the cost for the taxpayer burden with the $10.48 target. Can you comment?

Answer. It is possible to calculate and define taxpayer burden as we have in the past, limiting the definition to include paperwork burden, consistent with Paperwork Reduction Act requirements. This accounts for time taken by taxpayers in the following four activities: 1) record keeping beyond what they would normally be required to do; 2) learning about a tax law or form; 3) preparing the form; and 4) copying, assembling, and sending the form to the IRS. One wage rate is used for both businesses and individuals when hours are converted into taxpayer cost in terms of dollars. For the strategic plan to which you refer, we employed an alternate accounting method. This recomputation includes not only paperwork burden, but also post-filing contacts taxpayers have with IRS including audits, responding to notices, and complying with collection activities. We also utilized different wage rates for individuals and businesses. Since the strategic plan was written, IRS has decided to calculate burden consistent with prior years, until more formal estimates can be made. Regardless of which accounting method is used, taxpayer burden cost to collect $100 is increasing. The anticipated increase is explained in the next question.

IRS recognizes that the current method of calculating taxpayer burden has significant weaknesses. The model covers only the burden of IRS tax forms and regulations ignoring post-filing burden, is unable to capture changes in burden due to alternative filing methods (e.g., on-line filing, tax preparation software, and electronic filing), is based on outdated estimates, and does not differentiate wage rates for different types of taxpayers.

Question. Mr. Rossotti, we need to be decreasing the taxpayer's burden, not increasing it, and we need to focus on making it easier not harder for the taxpayer to voluntarily comply. What will the IRS do to decrease the amount of time and effort it takes for the taxpayer to voluntarily comply?

Answer. This year the IRS has taken several steps to make it easier for taxpayers to file their tax returns and help them voluntarily comply with the tax laws. For example, telephone assistance is now available 16 hours a day, 6 days a week for taxpayers to get answers to their account and tax law questions. We expanded walk-in service to six Saturdays beginning March 7, 1998 through mid April, and taxpayers wishing to call our tax form toll-free line for tax forms and publications can do so 16 hours a day 6 days a week. Internet services on our IRS Homepage also offer access to tax forms, answers to frequently asked questions, and taxpayers can E-mail us and receive general answers to tax law questions. We have also made it easier for taxpayers to file their returns. Results so far this filing season indicate

that electronic filing increased 24 percent over the same period last year, and TeleFile is up 26 percent.

Future initiatives: This spring, small businesses nationwide will be able to file Form 941, Employer's Quarterly Federal Tax Return, over the telephone, and we expect over 1.2 million returns to be filed using this option. Next year, we will continue to make it easier for taxpayers to file their tax returns by expanding telephone assistance to 24 hours a day, 7 days a week. We also plan to introduce new payment options, allowing taxpayers who file their returns electronically to pay their taxes with a direct withdrawal from their bank accounts.

The President's budget for fiscal year 1998 showed basically static funding for IRS through fiscal year 2002. Faced with that scenario, IRS said that staffing levels would decline and most programs would suffer, with enforcement programs receiving the greatest reductions.

Question. In your fiscal year 1999 submission, the IRS performance target for taxpayer burden is $8.55, up from $8.52 in fiscal year 1997, in essence each year the cost to the taxpayer is increasing. Can you explain?

Answer. Taxpayer Burden Cost to Collect $100 is composed of two elements: Burden Cost and Revenue. The anticipated increase in Burden Cost to Collect $100 from $8.52 in fiscal year 1997 to $8.55 in fiscal year 1999 is driven by Burden Cost which we anticipate will increase slightly faster than Revenue. Burden Cost is composed of burden hours multiplied by wage rate. Burden hours are expected to rise approximately 1–2 percent per year as the filing population increases and as wage rates are expected to increase 3 percent each year. Overall, between fiscal year 1997 and fiscal year 1999, we anticipate Burden Cost will increase 10 percent while Revenue estimates provided by Treasury's Office of Tax Analysis will increase only 9 percent. Higher burden hours also result from more accurate filing figures as well as complexities associated with the Small Business Job Protection Act, the Taxpayer Relief Act, and additional lines on several tax forms. IRS continues to promote burden reduction efforts including electronic filing which help contain the rise in Burden Cost to Collect $100.

SUBMISSION PROCESSING

The IRS fiscal year 1999 budget request includes $888.4 million and 15,113 FTE for Submission Processing, a budget activity within the Processing, Assistance, and Management appropriation. The following questions relate to that budget activity.

PROCESSING TAX PAYMENTS

Question. Given the extra cost to the Government, and the lack of conclusive evidence on burden, why does IRS continue to have taxpayers send their tax returns to the lockbox banks?

Answer. IRS considers it too burdensome to require taxpayers to mail their Form 1040 return separate from their payment and voucher. IRS is conducting focus studies to measure individual taxpayers' reactions to the different payment mailing concepts. FMS and IRS are planning a study to compare lockbox and service center processing. Once the data is compiled, a decision will be made on whether or not to continue directing Form 1040 returns/payments to the lockbox banks.

Question. What, if anything, does IRS plan to do to develop more conclusive evidence on burden?

Answer. IRS is conducting focus studies to measure individual taxpayers' reactions to the different payment mailing concepts. FMS and IRS are planning a study to compare lockbox and service center processing. Once the data is compiled, a decision will be made on whether or not to continue directing Form 1040 returns/payments to the lockbox bank.

Question. How much did the government pay banks in fiscal year 1997 to handle individual income tax returns?

Answer. FMS reports that from October 1996 to June 1997, they paid the lockbox banks approximately $8.3 million for individual income tax return handling. FMS has not completed the calculation of lockbox costs for the entire year. In fiscal year 1996, FMS paid lockbox banks $10.8 million.

Question. How much does it expect to pay banks for that service in fiscal 1998?

Answer. Presently the cost is unknown. FMS is currently negotiating 1998 lockbox costs and since costs are tied to the Consumer Price Index, they cannot increase more than 2.2 percent.

Question. Why are these costs paid by FMS rather than IRS?

Answer. FMS is the U.S. government's financial manager. It manages Federal payments and collections, promote sound financial management practices by Federal agencies, oversee the Government's central accounting and reporting systems, pro-

vide information for investment decisions and manage the Government's relationship with commercial and Federal Reserve Banks. As a part of its role, FMS designates Financial Agents of the government, and monitors the daily deposit flows to the U.S. Treasury. The use of lockbox technology for collection of taxes is one mechanism managed by FMS for Federal agencies. FMS pays all IRS lockbox processing costs except those connected with the processing of installment agreement user fees. IRS reimburses FMS for these costs.

Question. Since the proposed FMS study could have a significant impact on IRS operations what does IRS know about the study's status?

Answer. FMS has advertised in the Commerce Business Daily to offer public vendors an opportunity to bid on the float study. FMS hopes to award the contract soon. The study will be conducted during the April peak to compare the service center and lockbox processing. This study should indicate any and all savings that are realized through the use of lockboxes.

Question. Assuming the study is done and shows that it is not cost effective to process Form 1040 payments at lockboxes, will IRS return this workload to its service centers?

Answer. If the study shows that is not cost effective to continue processing Form 1040 payments at lockbox, IRS will use this and other information in determining if the workload should be returned to the service centers.

Question. Is the new remittance processing system being sized to handle the additional workload if IRS should decide it is more cost effective to process the remittances in-house? If not, why not?

Answer. We are conducting a pilot of the new remittance processing system. The results of this pilot will be used to validate the hardware needs at each site. We will also determine what additional equipment, if any, will be needed to process the lockbox 1040 returns/payments if the work is returned to the centers.

PROCESSING TAX RETURNS

Question. What does it cost IRS to process an individual income tax return filed on paper? Please break out the cost by type of return (i.e., 1040, 1040A, 1040EZ, 1040PC) and explain what type of costs are included and what are not. What does it cost IRS to process an individual income tax return electronically (not including those filed by telephone)? Please break out the cost by type of return (i.e., 1040, 1040A, 1040EZ) and explain what type of costs are included and what are not. What does it cost IRS to process an individual income tax return filed via telephone (i.e. TeleFile? Please explain what type of costs are included and what are not.

Answer. The IRS recently calculated the fiscal year 1996 fully-burdened cost of submission processing in the Service Centers. This study is almost completed and will be published shortly. "Submission processing" is defined as that portion of tax return processing from receipt of a tax return at the service center to the point where the return data is ready for posting to the IRS computer master file. "Fully-burdened" means that we have attributed an appropriate portion of overhead and support costs to submission processing, using activity based costing concepts. The cost information currently available is the full amount obligated in fiscal year 1996 that is attributed to each type of return, including the full cost of capital investments made in 1996. Note: While we plan to revise the treatment of capitalized assets to amortize them over their useful life, the results of this revised approach are not yet available.

TOTAL FISCAL YEAR 1996 COST OF SUBMISSION PROCESSING

Based on the results of this study, we determined that the fiscal year 1996, fully-burdened cost of submission processing in the Service Centers was $827 million. This represents 11 percent of the IRS budget. The main cost components of this $827 million are labor, rent, computer and headquarters support, and overhead. Note: As a result of these costs being fully-burdened, these costs are larger by definition than those associated with returns processing in budget submissions. Of the $827 million, $72 million was the cost of processing electronic returns (e.g., 1040, 1040A, 1040EZ, 1040EZ TeleFile, 941, 5500, 5500–R, 5500–C). The remaining $755 million is the cost of processing all other returns, whether submitted on paper, tape or by other means.

The costs below include the following: labor and non-labor (e.g., rent, supplies, etc.) costs within the Service Centers which directly or indirectly support the processing of returns from receipt to good tape plus the unpostables operation; appropriate Information Systems costs; direct headquarters support and oversight; and support services host site and headquarters overhead costs (e.g. budgeting, accounting, personnel management, training, etc.). Capital investments obligated in fiscal

year 1996 are included in full. Capital investments obligated prior to fiscal year 1996 are not included. Costs incurred upstream of the data capture processing (e.g., design, printing and distribution of tax forms and instructions) and downstream of data capture processing (e.g., archiving and retrieval of tax returns, compliance activities) are not included.

COST OF PROCESSING 941 AND 1040 RETURNS FILED ELECTRONICALLY

Return type	Fiscal year 1996 volume of returns filed	Fiscal year 1996 fully burdened cost per return [1]
1040 ELF	6,074,986	$4.69
1040A ELF	4,560,478	4.69
1040EZ ELF	1,499,356	4.63
1040EZ TeleFile	2,840,973	[2] 5.11
1040EZ TeleFile	2,840,973	[3] 3.58
941 ELF	272,000	2.61

[1] Including full fiscal year 1996 obligations for capitalized assets.
[2] Includes fiscal year 1996 one-time TeleFile investment costs.
[3] Excludes fiscal year 1996 one-time TeleFile investment costs

COST TO PROCESS AN INDIVIDUAL INCOME TAX RETURN FILED VIA TELEPHONE (I.E. TELEFILE)

Based on the results of this study, we determined that the fiscal year 1996, fully-burdened cost of submission processing of an individual return filed via TeleFile was $5.11 per return when fiscal year 1996 one-time TeleFile investment costs are included. This cost would be $3.58 per return if fiscal year 1996 one-time TeleFile investment costs were excluded. In addition to the previous description of costs included in this answer, the TeleFile costs include the one-time TeleFile investment cost of equipment to expand our capacity to receive TeleFile calls (included in the $5.11) and the costs of an average of two toll-free calls per TeleFile return filed.

COST OF PROCESSING INDIVIDUAL RETURNS FILED ON PAPER

Return type	Fiscal year 1996 volume of returns filed	Fiscal year 1996 fully burdened cost per return [1]
1040 Other-than-full-paid (i.e. refund or balance due)	44,561,449	$4.07
1040 Full-paid (i.e. with remittance)	15,500,170	5.35
1040A Other-than-full-paid	16,561,316	3.35
1040A Full-paid	2,284,331	5.12
1040EZ Other-than-full-paid	7,851,986	2.40
1040EZ Full-paid	1,025,330	4.44
1040PC Other-than-full-paid	5,778,103	3.05
1040PC Full-paid	1,258,056	5.13

[1] Including full fiscal year 1996 obligations for capitalized assets.

POTENTIAL SAVINGS FROM ELECTRONIC FILING

To understand the cost tradeoffs between electronic and paper returns filings requires an understanding of the fixed and variable components of these costs at various points of the electronic/paper filing mix. The IRS has begun a new study to determine this. Until that study is complete we will not have a definitive answer. However, at this point we can get some idea of this by looking at certain known costs for fiscal year 1996 for the Form 1040 family of returns and making preliminary judgments.

In fiscal year 1996 the cost per return for electronically filed Form 1040 family of returns was $4.76, while the cost for paper filings was $4.49 (not including upstream/downstream costs). The small differentiation in cost between paper versus electronic processing is encouraging, as electronic filing expenses are amortized across 15 million Form 1040 family of returns versus the 95 million for paper Form

1040 family of returns. Also, it is clear that much of the paper filing costs in fiscal year 1996 are related to labor, which results in high variable costs, while most of the electronic filing costs were fixed costs. Also, there may be other non-financial reasons (such as reduced taxpayer burden) that would compel an aggressive pursuit of electronic returns.

If these data hold up in our study, this means that as electronic returns increase we will have substantial opportunity for savings in our variable (labor) costs. However, this data is preliminary. We do not yet know whether any additional fixed cost investments will be necessary to support increased electronic filing. It seems clear though, that the cost differences in variable costs favor increased electronic filing, and will result in labor savings.

ELECTRONIC FILING STRATEGY

Electronic filing is the primary component of IRS' Electronic Tax Administration (ETA) program whose overall mission is to revolutionize how taxpayers transact and communicate with the IRS. One of the key strategies for ETA is to make electronic filing, payment and communication so simple, inexpensive and trusted that taxpayers will prefer these to calling and mailing. Although the IRS has been continually expanding the electronic filing program over the past several years, some forms and schedules are still not accepted which prevents certain taxpayers from participating. In addition, paper, in terms of the signature jurat, W–2's and other forms, is still part of the electronic filing system. The IRS recognizes that steps must be taken to simplify the system and to make it more convenient and easier to use. Initiatives are already underway to move toward a truly paperless system beginning with a pilot of electronic signature alternatives in 1999. In addition, next year for the first time, taxpayers filing balance due returns will be able to pay using an Automated Clearing House debit payment as part of the electronic return.

The IRS is currently in the process of developing a comprehensive Strategic Plan for Electronic Tax Administration which will clearly articulate ETA's mission, strategies and business goals, as well as the tactical initiatives to achieve those goals. Additionally, the Strategic Plan will describe the substantial market segments that exist for ETA, as well as the significant challenges that must be addressed if electronic filing, payment and communication are to become the preferred and most convenient means of taxpayers' interaction with the IRS.

Question. What is the status of the electronic commerce strategy?

Answer. A draft version of the Strategic Plan for Electronic Tax Administration is expected to be made available for public comment later this spring

Question. When can the Committee expect to see a final product?

Answer. The Committee will be receiving a draft version of the plan later this spring when it is released for public comment. The plan will be issued in final after the comments have been received, reviewed and/or incorporated into the plan.

Question. What key factors have contributed to the delays in completing the strategy?

Answer. Ownership and accountability are two key factors which affected completing the strategy. In the past, the Administration, Congress and other external stakeholders have been frustrated by the lack of a focal point for Electronic Tax Administration activities within the IRS. Last year, the IRS took an important step toward clarifying the responsibilities for Electronic Tax Administration by establishing a new organization headed by an Assistant Commissioner devoted exclusively to the management of existing and planned programs. Bob Barr, the new Assistant Commissioner for Electronic Tax Administration, who joined the IRS last fall has made the development the strategic plan one of his top priorities.

GENERAL

It is our understanding that the National Performance Review (NPR) made over 200 recommendations on how IRS can improve its customer service. Likewise, the National Commission on Restructuring IRS made recommendations aimed at improving customer service. The Commissioner has stated that improving customer service is one of his highest priorities. Also, earlier this year, the Commissioner outlined a plan for improving customer service by reorganizing IRS into four major operating units, each serving a group of taxpayers with like needs.

Question. Which of the many NPR and Commission recommendations have been implemented or are targeted for implementation?

Answer. The Commissioner established the Taxpayer Treatment and Service Improvements Program to bring discipline and rigor to the setting and tracking of priorities of those changes which have the most direct and lasting impact on the treatment of and service to taxpayers. A steering committee comprised of senior Treasury

and IRS executives has been providing active oversight of the program. More than 245 NPR and Commission recommendations have been catalogued by the Taxpayer Treatment and Service Improvements Program staff. Analysis and implementation of the recommendations are in an early stage, since the final NPR report was issued very recently.

Six recommendations with significant immediate impact have been implemented:

—Ban the use of measures such as enforcement statistics to rank districts and to set dollar goals for districts and service centers.

—Open district offices on Saturdays during the busiest weekends of the filing season.

—Expand the number of taxpayers who are eligible to use TeleFile, the telephone filing system. Nearly three million additional TeleFile packages were sent to taxpayers for the 1998 filing season.

—Increase the number of forms that can be filed electronically, and educate customers about the benefits of electronic filing. In 1998 two additional forms are being accepted electronically as well as returns with an Individual Taxpayer Identification Number and an Adoption Taxpayer Identification Number. All other forms and schedules not currently accepted electronically are being analyzed. In conjunction with an advertising agency, IRS launched a public education campaign on electronic filing benefits. Through February, conventional electronic filing had increased by 20 percent over last year.

—Expand telephone service to 6 days a week, 16 hours a day since January 2, 1998.

—Establish a new full time position of a "notices gatekeeper" who has the authority and accountability to manage the entire notice process.

Three other recommendations are presently being carried out. They are the monthly Problem Solving Days which started on November 15, 1997; the tracking and reporting of the status of cases identified as a result of Problem Solving Day activities; and expansion of the TeleFile program to let many small businesses use their telephones to file Form 941 and report their employment taxes starting in April 1998.

Another 71 recommendations are in the process of being implemented. These are primarily ones which are planned to be completed within the next 18 months. The recommendations cover the following areas: the contents of notices; clarity and issuance criteria; further expanding telephone service; improving the availability of forms and publications; expanding services available through the Internet, electronic mail and CD–ROM; expanding availability of services in languages other than English, further expanding electronic filing and other electronic services; improving service to small businesses; reviewing the fairness and effectiveness of all penalties; improving handling of undelivered mail and updating taxpayer addresses; improving the system for handling non master file cases; improving the resolution of taxpayer problems; developing a balanced scorecard of measures to evaluate the IRS and its employees; and improving employee training in customer service.

Although specific action plans have not yet been developed for the remaining recommendations, the vast majority of them are targeted for implementation within the next 19 to 24 months.

Question. Which, if any, NPR or Commission recommendations does IRS not plan to implement, and why?

Answer. There are no NPR or Commission recommendations which IRS does not currently plan to implement. However, the timeframes of implementation are still being considered.

Question. Which, if any, of the recommendations would no longer be valid in light of the Commissioner's reorganization plans?

Answer. Both the recommendations and the current reorganization plans are focused on improving service to the taxpaying public. However, the reorganization plan is currently at a high-level conceptual stage, while the recommendations are focused at a more specific program and functional level. Although the overall concepts behind the recommendations would remain valid, is it apparent that recommendations in several areas could be subject to modification as a result of the new concept for modernizing the IRS. Examples of such areas are the design of telephone systems for serving specific taxpayer segments, the nature and location of walk-in services, the design and content of training packages for employees directly serving taxpayers, and the nature of employee programs at various locations.

TAXPAYER SERVICE

Questions. How many FTE's from across the agency does IRS plan to devote to true taxpayer assistance (e.g., answering the phones, responding to correspondence,

providing walk-in service, conducting education programs, providing forms and publications, working problem resolution cases) in fiscal year 1999? How does that plan compare to the actual number of FTE's devoted to those activities in fiscal year 1997 and number expected in 1998? Please break those numbers down by the type of assistance (e.g., the number of FTE's devoted to answering the phones).

Answer:

IRS FTE'S DEVOTED TO SPECIFIC PROGRAM ACTIVITIES

Program activity [1]	Fiscal year—		
	1997	1998	1999
Telephone:			
Toll free operations [2]	6,582	6,955	7,868
Automated collection systems	3,095	3,240	3,240
Subtotal, telephone	9,677	10,195	11,108
Correspondence:			
Adjustments/taxpayer relations	5,019	4,576	4,576
Service center collection branch	2,849	2,699	2,703
Service examination branch	3,044	3,222	3,227
Document matching	1,897	1,682	1,682
Subtotal correspondence	12,809	12,179	12,188
Other:			
Walk-in—Face-to-face	1,080	1,191	1,248
Taxpayer education	247	297	297
Problem resolution program	418	437	628
Forms and publications	90	90	103
Customer service reserve	.....	216	.....
Subtotal, other	1,835	2,231	2,276
Total	24,321	24,605	25,572

[1] Includes activities in all IRS Appropriations.

[2] The 226 FTE for the fiscal year 1999 Customer Service training initiative has been included in the Toll Free Operations pending finalization of training plans within the correspondence functions to determine an optimal allocation.

CUSTOMER SERVICE

The IRS' fiscal year 1999 budget request includes a program increase of $103.0 million and 1,024 FTE to enhance customer service. As described in IRS' budget estimates, that money will be used, among other things, to improve taxpayer service, strengthen the Taxpayer Advocate's Office, and pay for additional Problem Solving Days.

Question. In response to a question from this Committee last year, IRS provided a breakdown of the FTE's being requested for the Telephone and Correspondence budget activity. The breakdown showed the number of FTE's included in that budget activity for (1) the Problem Resolution Program, (2) Toll Free Operations, (3) Adjustments/Taxpayer Relations, (4) Service Center Collection Branch, (5) Automated Collection System, and (6) Service Center Examination. Please provide the same breakdown for fiscal year 1999.

Answer:

IRS FTE'S FOR TELEPHONE AND CORRESPONDENCE ACTIVITIES

Program	Fiscal year—		
	1997	1998	1999
Problem resolution	418	437	628

IRS FTE'S FOR TELEPHONE AND CORRESPONDENCE ACTIVITIES—Continued

Program	Fiscal year—		
	1997	1998	1999
Toll-free phones	6,582	6,955	7,868
Adjustments/TP relations	5,019	4,576	4,576
Collection branch—Correspondence	2,849	2,699	2,703
Automated collection system—Phones	3,095	3,240	3,240
Service center examination	3,044	3,222	3,227

Note.—Fiscal year 1998 figures for the Telephone and Correspondence activity were taken from the Financial Plan. Fiscal year 1999 figures are taken from the fiscal year 1999 President's Budget.

Question. How many FTE's from across the agency does IRS plan to devote to true taxpayer assistance, e.g., answering the phones, responding to correspondence, providing walk-in service, conducting education programs, providing forms and publications, working problem resolution cases, in fiscal year 1999? How does that plan compare to the actual number of FTE's devoted to those activities in fiscal year 1997 and the number expected in 1998? Please break those numbers down by the type of assistance, e.g., the number of FTE's devoted to answering the phones. In response to a question from this Committee last year, IRS provided a breakdown of the FTE's being requested for the Telephone and Correspondence budget activity. The breakdown showed the number of FTE's included in that budget activity for (1) the Problem Resolution Program, (2) Toll Free Operations, (3) Adjustments/Taxpayer Relations, (4) Service Center Collection Branch, (5) Automated Collection System, and (6) Service Center Examination. Please provide the same breakdown for fiscal year 1999.

Answer:

Program	Fiscal year—		
	1997	1998	1999
Toll free—Phones	6,582	6,955	7,868
Adjustments/taxpayer relations—Correspondence	5,019	4,576	4,576
Automated collection system—Phones	2,869	3,231	3,231
Collection branch—Correspondence	2,850	2,699	2,703
Examination branch—Correspondence	3,044	3,222	3,227
Total, customer service activity	20,364	20,683	21,605
Document matching underreporter—Correspondence	1,669	1,682	1,682
Document matching SFR—Correspondence	228	.....	.....
Total, document matching activities	1,897	1,682	1,682
Walk-in	1,112	1,191	1,248
Taxpayer education	198	297	297
Problem resolution	418	437	628
Customer service activity	.....	20,683	21,605
Not included above:			
Customer service reserves	.....	216	.....
Information systems for customer service	.....	9	9
Total, customer service	.....	20,908	21,614

The Customer Service training initiative included in the National Performance Review of 226 FTE has been included within the Toll Free component of Customer Service pending finalization of training plans within the correspondence functions to determine an optimal allocation.

Question. How does IRS decide on how much to spend on the different customer service programs? Please provide information showing how much IRS spent or plans

to spend and the number of full-time equivalent staff years allocated to the different programs for fiscal years 1997, 1998, and 1999. Please include in these figures any costs/staff years associated with detailees from other functions, such as Exam staff who are detailed to help answer telephone calls. Also, provide information on the number of taxpayers served or expected to be served by the different programs during those years.

Answer. Actual and estimated expenditures by program follow:

FTE

Program	Fiscal year—		
	1997	1998	1999
Toll free	6,541	6,944	7,694
Taxpayer education	247	297	297
Walk-in	1,112	1,191	1,248
Total	7,900	8,432	9,239

Note.—The Taxpayer Education and Walk-in figures include Information Systems resources.

Program	Fiscal year—		
	1997	1998	1999
Toll free	$259,519,000	NA	NA
Taxpayer education	13,036,000	$15,902,000	$17,540,000
Walk-in	112,509,000	51,671,000	54,014,000
Total	385,064,000	67,573,000	71,554,000

See note above.

Due to the consolidation of Customer Service management activities into one activity in fiscal year 1998, dollar breakouts for Toll Free are not available for fiscal years 1998 and 1999 since our planning models are geared to FTE's.

SERVICE DATA BY PROGRAM

Program	Fiscal year—		
	1997	1998	1999
Toll free calls answered	116,972,333	127,600,000	132,406,000
Walk-ins served	6,400,000	9,900,000	9,900,000
Taxpayers served through volunteers, taxpayer education, and outreach activities	3,799,151	3,395,382	3,463,290

Question. What is your accessibility goal for fiscal year 1998 and how are you doing in relation to that goal?

Answer. IRS set an accessibility goal for fiscal year 1998 at no less than a 70 percent level of access. As of March 14, 1998, using the level of access measure agreed upon between IRS and GAO (calls answered + abandoned calls divided by total attempts), the fiscal year cumulative level of access for all Customer Service toll-free telephone lines is 89 percent. The filing season cumulative, as of the same date, is 91 percent.

Question. Please provide information on your actual and expected accessibility rates, staffing and hours of operation for fiscal years 1997, 1998 and 1999. With the expanded hours of operation in 1998, how many more taxpayers have you been able to serve?

Answer. The accessibility goal for fiscal year 1998 is 70 percent, and 86 percent for fiscal year 1999. As of February 28, 1998, the fiscal year cumulative level of access is 88 percent. In fiscal year 1997, a different formula was used to compute level of access. Thus, the goal and actual access rates are not comparable to fiscal year 1998 and fiscal year 1999. Staffing for 1997 and 1998 is 6,664 FTE's and 7,229 FTE's respectively. The IRS plans to provide customer service seven days a week,

24 hours a day (7×24) in fiscal year 1999. We are currently in the process of determining the staffing required to meet this goal and for the expansion of our hours of operation to 7 days a week and 24 hours a day (7×24). Hours of Operation for fiscal year 1997 were 7:30 a.m. to 5:30 p.m. on the general information (1040) number and from 7:30 a.m. through 9:00 p.m. on the notice and refund numbers. Since January 1998, the hours of service were permanently expanded to six days a week, 16 hours a day, Monday through Saturday (7:00 a.m. through 11:00 p.m.). As of February 28, 1998 the IRS answered 26.5 million calls compared to 26.3 million as of a comparable period in fiscal year 1997. Although the number of calls answered in fiscal year 1998 is relatively the same as that answered in fiscal year 1997, the impact of the additional staffing is evident in the reduction in busy signals and the increase in the level of access. By having the staffing available to answer the call the first time the customer calls, we have decreased overflows (busy signals) by over 70 percent.

Question. Does IRS plan to continue detailing employees from other functions during peak periods to telephone assistance as was done in fiscal year 1997? If not, where will the necessary staffing come from? How does the detailing of employees affect the performance of their home units?

Answer. Yes, historically, Examination and Collection provided employees to help with answering phone calls and working in walk-in during periods of high volume. This fiscal year we are also detailing employees from Automated Collection sites and from other areas of the service centers to supplement existing staff. Examination staff is also being utilized to answer specific topics where the taxpayer is asked to leave a message for call back. This process, commonly referred to as "Call Back Messaging" provides personal call back assistance while drawing upon the IRS' highly skilled technical staff, who are often not co-located with telephone operations/systems. At this point, it is too early to assess the impact on the other operations providing support to answer telephones.

Question. What has been your experience with the interactive applications during fiscal years 1997 and 1998?

Answer. By the end of calendar year 1997, the following 10 interactive telephone applications were operational nationwide. Overall 30 million calls were received by the Telephone Routing Interactive System (TRIS) in fiscal year 1997. Of those 30 million, 24 million were routed to Customer Service Representatives, 3 million abandoned, and 3 million completed in (TRIS). The number of calls completely automated by each application in fiscal year 1997 is shown in the answer to the next question. Fiscal year 1998 information is not yet available. TRIS completed over 3 million calls in fiscal year 1997. Since fiscal year 1998 will be the first year that TRIS will be available at all sites with a larger variety of applications, we estimate that TRIS will complete twice as many calls (or 6 million) in fiscal year 1998. For the future, we are currently piloting two additional TRIS applications—Refund Release and Refund Trace. Refund Release allows the caller to provide information needed to release a refund being held due to discrepancies such as name changes, name misspellings, or transposed or incorrect social security numbers. Refund Trace allows the caller to file a claim for a lost, stolen, or destroyed refund check, or sends Form 3911 for the caller's use in making a claim if the caller is not eligible to process the claim over the phone. An application to assist callers with questions regarding the earned income credit is currently being planned.

Question. What are your expectations for fiscal year 1999 and beyond?

Answer. From now through 2000, TRIS is in an enhancement and maintenance phase. Future TRIS applications are prioritized in the modernization blueprint with rollout scheduled to begin in 2002. Until then, we will be analyzing management information data to determine and implement improvements to the existing applications.

Question. Please describe each application and provide information on the number of taxpayers who accessed, abandoned and completed the different applications.

Answer:

Refund Inquiry—after the caller enters the Taxpayer Identification Number, (TIN), he/she can obtain the status of his/her refund, filing and expected refund amount (2.7 million calls completely automated in fiscal year 1997).

Location—allows the caller to get the mailing address for filing return or making payment (66,083 calls completely automated in fiscal year 1997).

Voice Balance Due—allows eligible callers to set up a payment plan or receive a 30- or 60-day extension of time to pay (200,570 calls completely automated in fiscal year 1997).

VPPIN—provides security and authentication solution for applications providing tax account information. Each caller establishes a unique PIN before accessing

interactive applications that provide account information. This replaces the disclosure interview performed by Customer Service Representative.

Payoff—provides caller with account payoff balance as of the call date or as of a date up to 120 days in the future (25,280 calls completely automated in fiscal year 1997).

Transcript—allows caller to request account transcript, return transcript, or Form 4506 to order photocopy of return. Generates a cover letter and requested item to a caller's address of record (61,652 calls completely automated in fiscal year 1997).

Credit View—provides a caller with the status of a selected payment or list of up to last six payments made. (Call data not yet available. Application did not become operational until February 1998.)

Debit View—provides a caller with detail or summary on account for a chosen tax year. (Call data not yet available. Application became operational February 1998.)

Survey—offers statistical sample of callers the option to participate in customer satisfaction survey. Asks maximum of three questions regarding automated service received (12,000 surveys completed).

Call Referral—asks for the phone numbers of certain callers to account applications who have a need to speak with Exam, Collection, or Special Procedures. Generates a daily report of phone numbers for follow-up by the various areas. (Call data not yet available. Application became operational February 1998.)

Question. Have you solicited taxpayers' views on the interactive applications, particularly those taxpayers who abandoned their calls? If no, why not? If yes, what have you learned, and what actions have you taken as a result?

Answer. Our automated survey application (see description in response above) surveys a sample of callers who completed the applications. Response data compiled from fiscal year 1997 indicates that 12,448 callers were offered the survey and 8000 of those agreed to participate. The majority of callers who participated found the applications easy to use, were satisfied with the service offered, and found it convenient.

Customer satisfaction surveys on toll-free and Automated Collection System will be administered by a contractor during 1998 and will include a question regarding customer's level of satisfaction with automated service. Results will be tabulated quarterly. In addition, a more comprehensive automated survey is expected to be in place by next filing season that would have the capability of asking callers more detailed, directed questions (for example, why they defaulted out of automated service). We are also continuing to analyze our TRIS management information system data, which provides details about where in TRIS applications callers are defaulting so we can make improvements such as clarifying messages, increasing response times allowed, and adjusting business eligibility rules where possible to increase the number of callers who can use the system successfully.

Question. How many interactive applications do you plan to implement and what is the schedule for development and implementation?

Answer. By the end of calendar year 1997, the following 10 interactive telephone applications were operational nationwide. We are currently piloting two additional TRIS applications—Refund Release and Refund Trace. An application to assist callers with questions regarding the earned income credit is now in planning stage. Future TRIS applications are prioritized in the modernization blueprint with rollout scheduled to begin in 2002. Until then we will be analyzing management information data to determine and implement improvements to the existing applications.

Question. By fiscal year, how much have you spent on interactive applications and what are your future spending plans?

Answer:

Fiscal year 1997 actual expenditures:	
Labor	$4,049,000
ADP (hardware/software purchases and maintenance)	617,000
Contractor services	3,038,000
Telecommunications (purchase and maintenance)	918,000
Other (travel, overtime, awards, supplies)	394,000
Total	9,016,000
Fiscal year 1998 spending plan projections:	
Operational activities	6,422,000
Deployment activities	40,000

EITC application activities	820,000
Total	[1] 7,282,000
Fiscal year 1999 spending plan projection	7,700,000 +38 FTE
Fiscal year 2000 spending plan projection	6,619,000 +38 FTE

[1] Does not include Y2K $$ for Y2K activities (app. $2M).

Question. What are the return on investment and other expected benefits from use of interactive applications?

Answer. TRIS will help move work from correspondence to telephones. Resolution over the phone will take minutes rather than days as required via correspondence. TRIS reduces burden by increasing IRS business hours, thereby allowing for increased taxpayer access. It also allows taxpayers the flexibility to resolve certain issues themselves, which may reduce stress levels for taxpayers who are anxious about talking to IRS employees. TRIS provides easy access to procedural and account information such as refund inquiries. Taxpayers need not wait in queue for available Customer Serve Representatives (CSR's). Once in the system, assistance begins immediately. The technology enables CSR's to improve productivity and resolve more issues using fewer resources.

The projected benefits from TRIS over the 10 year period (1996–2005) total $814.9M. This is comprised of FTE benefits of $781.5M and telephone savings of $33.4M.

Question. Why did IRS change its call-back goal for 1998 from 2 business days to 3?

Answer. In order to optimize customer access, an initiative was put in place in fiscal year 1997 and fiscal year 1998 whereby taxpayers can leave a message containing their questions on designated technical tax topics. These questions are then answered by technical Compliance professionals who are not necessarily co-located with the telephone operations/systems. In fiscal year 1998, the recording that taxpayers hear when leaving a message was changed to indicate that calls will be returned within three business days (fiscal year 1997 recording was two business days). The recording was changed at the beginning of this filing season in anticipation of an increase in message workload and because allowing an extra day to try to contact the taxpayer would increase the probability that we would be able to reach the taxpayer by phone (callers who cannot be contacted by phone are sent a letter.) In order to provide the same level of assistance in fiscal year 1998 as was provided in fiscal year 1997 to these taxpayers and because anticipated workload increases have not materialized, we have continued to maintain our internal goal to answer within two business days.

Question. In 1997, what percent of the calls received on the voice messaging system were returned within 2 business days?

Answer. During fiscal year 1997, data on the success rate of Call Back Messaging callbacks was not captured nationally. For fiscal year 1998, a more formalized process for quality review of the Call Back Messaging program has been established.

Question. So far this year, how many taxpayers left a message and how often did you meet your goal of returning the taxpayers' call within 3 business days?

Answer. As of the week ending March 7, 1998, taxpayers left 707,473 requests for information through customer messaging. Based on information to date, captured through the Quality Review process, 100 percent of the taxpayers who left usable messages were contacted within two business days. (A usable message is one that contains sufficient information for a call back such as the name or telephone number).

Question. For those that were not returned within 3 days, why were not they?

Answer. Based on information to date, captured through the Quality Review process, 100 percent of the taxpayers who left usable messages were contacted within two business days. (A usable message is one that contains sufficient information for a call back such as the name or telephone number).

Question. How does IRS ensure that a taxpayer's call is actually returned?

Answer. Quality reviews administered at the local level ensures that the calls are returned timely.

Question. Can IRS tell us the extent to which persons who are told to leave a message decide not to?

Answer. Of the 845,019 opportunities for customer messaging, 707,473 customers left messages and 137,546 elected not to leave a message. This represents 16.3 percent of the total.

Question. How, if at all, has IRS changed its position on the importance of/need for walk-in service?

Answer. IRS recognizes and supports the view that walk-in services are an important product line for serving taxpayers. Although most of the services performed in walk-in offices can be obtained elsewhere, some taxpayers trust and rely on the personal interaction of the walk-in situation.

Question. How many full service walk-in sites (defined to exclude sites that merely distribute forms) were open during the 1998 filing season, and how does that compare to the 1996 and 1997 filing seasons?

Answer. Currently, the are 403 open walk-in sites. In 1996, there were 448 open offices, and in 1997, there were 418.

Question. To what extent, if at all, does IRS plan to increase the number in 1999?

Answer. IRS is currently reviewing the service provided by the existing walk-in sites and has commissioned a task force to make recommendations regarding what should be done to improve existing service, including a review of the number of walk-in offices.

Question. What information and services are available to taxpayers via IRS' web site?

Answer. Below are examples of IRS Digital Daily Services (all items are updated and current; bolded items are new this year)

Over 600 statistical reports and/or databases

—Tax topics, short explanations of approximately 150 tax subjects

—News releases

—An electronic tax calendar with individual, business, and excise tax dates

—The Internal Revenue Bulletin, issued weekly; contains Revenue Rulings and Procedures, Treasury Decisions, Notices and other items of general interest

—Almost 200 frequently asked tax questions and answers

—Tax regulations and plain English summaries

—The capability to comment officially on proposed regulations

—Sign-up for the Digital Dispatch, an E-mail newsletter of the latest tax news

—Market Segment Specialization Audit Techniques Guides, training tools which describe how we handle certain industry-specific tax issues; currently 17 guides are available on industries as diverse as pizza restaurants, clergy, musicians, and Alaskan commercial fishing

—Coordinated Issues Papers, over 80 documents which describe IRS' current thinking on industry-specific tax issues

—Customer service standards

—Thousands of tax forms, publications, and instructions; tax year 1992 to current;

—Portions of the Internal Revenue Manual

—Local news from field offices

—On-line want ads for IRS jobs

—A Tax Professionals' Corner with news and information geared specifically for this customer base

—A series of 26 interactive "Tax Trails" which allow taxpayers to click yes or no to a few questions and get the tax answers they need to complex tax issues

—IRS Year 2000 program information, of particular interest to our electronic trading partners

—Advance Notices; prior to issuance in the Internal Revenue Bulletin, these public notices provide late breaking tax news; the notices are widely used by tax research services

—Disaster relief kits to assist customers who may need to apply for loans and obtain copies of prior year returns; links to FEMA

—Information on electronic tax payment and filing options

—Free downloadable tax software

—Capability to answer tax law (no account) questions via E-mail

—Links to related information and government sites such as state tax forms

—Information on other electronic information services such as fax and CD–ROM

—Extensive contact information such as where to file and key IRS phone numbers

—A variety of exempt organization information such as how to apply, forms, educational materials, frequently asked questions and answers, a tax kit, a database of exempt organizations and types of exemptions

—Small business tax information such as Work Opportunity Credit details, an electronic Your Business Tax Kit for businesses just starting out, a Tax Tips Calender geared just for small business, and information on employee versus independent contractor issues

—Third party processor information (lock boxes)
—Special notices on important tax news such as the Taxpayer Relief Act
—Taxpayer Bill of Rights; related training materials and reports to Congress on taxpayer rights
—Taxpayer Advocate Program information, including a directory for Problem Resolution and the 911 form for emergency relief
—International Tax Forum, a newsletter for tax professionals
—Tax Supplement, a compendium of articles normally used by news media to help spread the word on tax changes
—Collection Financial Standards
—Promotional kits for electronic return preparers
—Information on educational materials, conferences and exhibits.

Question. What additional services do you have planned for the web site?

Answer. Our Internet site is updated daily. Thousands of pages of tax information were added just last month. Local news is also available from our field offices such as calendars of small business tax workshops.

Tax professionals play a vital role in helping serve American taxpayers as well. To help them help others, we developed a tax professionals' corner on our web site which provides information on workshops, tax research materials, certifications, and how to become an electronic return preparer. We could not have been as successful without the help of industry to define its needs and help in the planning and development. Members of the IRS Commissioner's Advisory Group helped develop the Tax Pro Corner. We will expand this area based on recommendations and input from tax practitioners and the Commissioner's Advisory Group.

We are currently testing a few Fill-in-the-Blank Tax Forms, available via the Net. We plan to make at least 250 of the most popular forms available for taxpayers to fill in on-line this year. Users can download forms from the IRS home page or the IRS Federal Tax Forms CD–ROM, fill in the blanks on their own computers, and print them out. Feedback thus far has been extremely positive and the majority of those customers who do comment request more fillable forms.

Expand Tiered Distribution of Electronic Information (1998–2002).—Two key programs will be developed. The Corporate Partnership Program provides CD–ROM's of IRS tax products to large businesses. The companies place the CDS on their internal networks and provide free access to their employees. Other federal and state government entities may also join this program. This program will be expanded through 2002. The second key area is the Library program which currently provides IRS CD–ROM's to public libraries. In 1999 we will add web-based and E-mail services for librarians to assist them in distributing tax information. For example, the status of arrival dates for tax forms and CD shipments for filing season and back ordered materials would be important to this audience. This program will be expanded in 2000 to libraries which are not "public" (such as those in private colleges). For taxpayers, this will result in increased accessibility.

Develop On-Line Learning Lab (1998–1999), Expand (2000–2002).—We are improving our taxpayer education program, particularly for first time taxpayers, students aged 13–18 who learn about taxes in school. We are developing an on-line learning lab which will cover, among many topics, the reasons we pay taxes and how they can meet their tax obligations. Particularly important is availability of electronic filing options and teaching electronic filing by electronic filing. The web-based education program will also have a companion CD product. Interactive games and activities will make taxes—almost fun! First time taxpayers will learn electronic filing methods rather than paper filing and learn to interact electronically with IRS. The initial web site will be available in May 1998, with the first school year availability for 1999. Additional services for other customer groups will be added during the years 2000–2002 (for example, on-line practitioner workshops, small business workshops, tutorials for updates in specialized tax fields such as estate and gift tax).

Note: the draft opening screen is available now. A poster size image can be made available with two days notice. The lab will be an on-line "Zine," part of the Digital Daily. The Zine is called Taxi, short for Tax Interactive.

Expand CD–ROM, Fax, and Internet Service Capacity and Products, Add Media (1998–2002).—More IRS products will be added to all media, particularly products which promote electronic filing and payments. For example, in 1999 we plan to add locator services on the Internet for electronic return preparers. Taxpayers will be able to put in a zip code or city and get a list of certified ERO's near them. We plan to add DVD services in 2000. Additional services currently being examined include undelivered refunds, employment information, job announcements and position descriptions via fax-on-demand. Better tax research bases will be available because we will use "intelligent" text information which is accessible through a normal

Internet browser interface and will provide significantly increased search capabilities.

Expand Cross-Government Initiatives for One-Stop Service.—This year, IRS began the first project to develop a cross-government CD–ROM for start-up businesses. The CD will be useful for anyone who is starting a new business and will provide information from a variety of government agencies. The CD will be available in 1999. Additional cross-government services will be deployed through 2002. We expect this to be our first fully blended Web/CD project. In certain topic areas the CD would automatically go to a selected web site for updates, combine the updated information with the CD information, and present the most current combined information in a single interface.

Question. Are their security concerns or other reasons that limit services you provide on the web site?

Answer. Our choices for Internet services have primarily been driven by customer needs and usage rather than security concerns. Yes, we do have security concerns, but so do our customers in private industry. Very few citizens currently do their banking on the Internet. Certainly, we expect that to change shortly as industry and government security standards for Internet evolve. We are prepared to add new, secure services as our customers move to using secure Internet services.

Question. What data, other than the number of "hits", does the IRS have to indicate how its web site is being used?

Answer. Although predictive indicators such as hit counts, downloads, fax transmissions are useful to gauge taxpayer response, we will continue to use and expand on additional measures which provide better information on customer service improvements (increased availability, improved quality, faster service, improved accommodations for persons with disabilities, and more convenient hours) and business results (reduced waste, reduced distribution costs, improved production rates, improved time to market, lower cost per customer served) . Currently, for example, we code a sampling of forms so we know where they came from. Separate codes are used for Internet, fax, and CD services. Last year, 6 percent of forms sampled in submission processing sites came from Internet. Another example is the cost per form distributed. Via Internet the cost is about one penny compared to telephone orders at about $3. The time it takes to mail forms to international taxpayers is about two weeks or more and via fax or Internet, taxpayers get what they need in minutes. Even within the U.S. it takes 7–10 working days to deliver forms by mail. We constantly examine the most popular Internet products and ensure that taxpayers can get to this information with a minimum number of clicks from anywhere in the site.

Question. To what extent, if at all, has use of the web site reduced the demand on other sources of assistance, including telephone and walk-in sites?

Answer. Last year we know that more than 19 percent of tax forms submitted as tax returns came from the tax packages we mailed out. Approximately 6 percent of the tax forms submitted came from Internet. In 1996, the first year of operations for our Internet services, 2 percent of the forms sampled were from our Internet site. So, in one year we saw a tripling from this one source. The percentage of forms submitted that come from tax packages has decreased over the past two years since we have provided Internet service. Two years ago more than 30 percent of the forms we sampled came from tax packages. Likewise, the percentage of forms coming from our toll-free number for tax forms distribution centers and from walk-in centers has decreased. Similarly, we have seen, for the first time ever, a small decrease in the number of callers who try to reach us by telephone. By tracking and analyzing these trends we can plan resources to meet our customers' changing needs.

Our goal is to make it more convenient for people to get the tax information they need. That is why we provide a broad range of choices for taxpayers. For some that may be Internet. For others it may be telephone services or a visit to their local library. The number of Americans with Internet access is increasing dramatically and we want to meet that service need.

This is a difficult area to quantify however, telephone demand has decreased in the past two years, even though we have answered more calls.

As for walk-in, part of the way we gauge the results of various channels for distributing tax information is to track the number of tax forms submitted back to us from various sources. We code forms in order to track the effectiveness of our distribution channels for our customers. Forms coming from the Internet have a different code than those in public libraries or from our distribution centers, for example.

Question. Have you surveyed taxpayers to get their view on the services you provide via the web site? If not, why not? If so, what have you learned from the taxpayers, and what actions have you taken on what you have learned?

Answer. Yes, we have surveyed taxpayers to get their views. We have learned much not only about the needs of taxpayers but about the impact of our Internet services are having on other IRS services. We have found that surveys alone, however, do not provide the detailed input we need. As just a few examples, there are numerous products that have been added based on taxpayer feedback from a variety of sources. Based on taxpayer E-mail received, we added Applicable Financial Rates to our site in less than two weeks. We added more searchable publications and fill-in-the-blank forms based on feedback from E-mail as well. Our Public Liaison Office arranged for us to meet with representatives of the small business community and we added a recommended reading list for small businesses. Our trading partners wanted a tax professional's area and we worked with representatives from that arena to design and implement that section of our web site. We work closely with the IRS Public Liaison Office and the Commissioner's Advisory Group to track user needs and gather input. We have also found through survey that 98 percent of taxpayers who use Internet to ask tax law questions would have gone to our phone system. This is incredibly useful information which also tracks with the trend we have seen—a decrease of traffic into our phone sites. This also says that the Internet can help us in our efforts to provide better phone service by diverting some traffic.

Our budgeting for different customer service alternatives is based primarily on trends in customer demand. For example, over the past two years we have seen a dramatic rise in customer demand for electronic services. Taxpayers are increasingly using convenient electronic media such as Internet, fax, and CD–ROM services to get the tax information they need. Another example of our responsiveness to changing customer needs is our IRS TaxFax system. Taxpayers can retrieve tax forms and information any time of day or night. We have found that some of the most popular IRS TaxFax products, as we predicted, are products for new or small businesses. One half million fax orders were filled this January and February—just two months. This figure is well over double last year's total at that time.

Question. How, if at all, does IRS' Annual Performance Plan (APP) for fiscal year 1998 differ from its fiscal year 1997 Plan as it relates to customer service?

Answer. In the fiscal year 1997 Annual Performance Plan, IRS began moving toward a budget structure consistent with its major business lines—Customer Service, Submission Processing, Compliance and the Support Functions (including Human Resources and Information Systems). In fiscal year 1997, the Customer Service business line included non-face-to-face responses (telephones, automated systems or written) to taxpayers on tax law and tax account issues and early resolution of less complex collection and examination cases. This business line also included the Problem Resolution Program, an independent complaint-handling system to assure that taxpayers' problems which have not been resolved through normal channels, are promptly and properly handled. In fiscal year 1998, the Customer Service business line broadened to include the Automated Collection System and the Document Matching Program (which enables IRS to identify and follow up on income reporting discrepancies) as well as the programs listed for fiscal year 1997.

Greater resources, both in terms of dollars and staffing, were directed to customer service in fiscal year 1998 as compared to fiscal year 1997 (assuming the same list of programs is compared in both years). In fiscal year 1997, approximately $717 million and 18,978 full-time employees supported customer service [figures were obtained from the fiscal year 1997 Annual Performance Plan, dated December 4, 1996, and the draft fiscal year 1998 Annual Performance Plan, dated February 27, 1998]. In fiscal year 1998, these resources increased to $827 million and 20,255 employees. This redirection of resources is consistent with the emphasis on customer service.

In fiscal year 1998, IRS began working with a contractor in the development of IRS-wide customer satisfaction surveys for all business lines which interact with the public (e.g., telephone assistance, walk-ins, compliance, etc.). The surveys will provide statistically valid samples of customers who actually had contact with IRS. Data from the surveys will allow a detailed analysis of taxpayers' opinions relative to specific IRS business lines. Moreover, the data will lead to improved business practices that meet taxpayers' expectations.

Question. Without comparable measures for the different programs, how can IRS be assured that it is getting the greatest return on its overall investment in customer service?

Answer. Your question assumes that a single scale or measure is appropriate for all of our customer service programs and that Return on Investment is the best measure for customer service. We believe that gauging the return on our various customer service initiatives requires a number of different measures because the services themselves are very different and do not lend themselves to a single scale or measure. For example, programs that deliver telephone service, walk-in service and taxpayer education differ substantially and cannot be compared with a single

measurement tool. Rather, we prefer to remain committed to supporting all of our customer service lines, and study them from the perspective of customer satisfaction.

For many years, IRS has conducted customer satisfaction research to assess how taxpayers value different programs and attributes of the tax processing system. Historically, we have conducted surveys of small businesses, individuals and tax practitioners. The analysis of survey data includes identification of trends based on previous survey results, and an identification of program strengths and areas for improvement. Summary reports from the surveys are distributed throughout the organization. For fiscal year 1998, IRS plans to utilize the recently completed customer satisfaction survey to help better assess the effectiveness of our investment in customer service. Based on the results of these surveys, we plan to direct resources in a manner that increases the aggregate level of customer satisfaction.

Question. What plans does IRS have to develop measures for all of its customer service programs that will enable it to compare their effectiveness, measure the quality of services provided, and obtain the views of taxpayers?

Answer. New measures of customer satisfaction are a critical part of the development of the balanced scorecard for IRS. During September 1997, the IRS began working with a contractor in the development of Servicewide customer satisfaction surveys for all business lines which interact with the public (e.g., telephone assistance, walk-ins, compliance, etc.) Phase I of the surveys was implemented in March 1998, and includes surveys for Collection, Examination, Employee Plans/Exempt Organizations, Customer Service (Toll Free, Automated Collection System, Service Center Examination, and Walk-ins) and Appeals. Phase II, a detailed analysis of the survey results, will be implemented by December 1998. The results of Phase II will enable us, with the assistance of a contractor, to develop better measures of customer satisfaction for all of our programs, including Compliance and Appeals.

Question. How, if at all, can management and Congress use IRS' performance measures to evaluate resource allocation decisions? For example, a decision to detail compliance staff to help answer the telephone will likely reduce compliance results and increase the level of telephone access (both of which would probably be reflected in IRS' measures), but how can one determine the overall impact of that decision on IRS' mission effectiveness?

Answer. IRS's existing measurement system is able to detail the direct impact on performance of some of our resource allocation decisions like the one mentioned in the question—detailing compliance staff to answer phone calls during the filing season. These measures are all being reviewed in light of our goal of transforming the IRS from an internally focused organization to one which views itself from the taxpayer perspective and in light of the elimination of use of all enforcement statistics for measuring organizational performance. We have a task force working on this problem, and we expect to engage expert outside consultants to assist in this task. We expect to have interim results to use for measuring performance during fiscal year 1999. These measures will build on some of the measures included in the budget submission.

PROBLEM SOLVING DAYS

Question. How much did it cost IRS to hold the initial national problem solving day on Saturday, November 15, 1997?

Answer. The estimated cost is $1.5 million, based on the average spending for 4 months of problem solving days (PSD). A precise number for a given month's events is not available for two principal reasons. First, the PSD expenditures are being "flagged" via use of a new code in IRS' accounting system, and employees are to use this code for time spent planning PSD's, dealing with taxpayers during PSD's, and also working the cases that result from PSD's. Therefore, at any given time, the staff hours being reported may represent past, present and future PSD's, with no means of differentiating among them. In addition, when an employee earns compensatory time or credit hours for off-hour PSD work, the time is not reported in the payroll system as PSD time until the employee actually uses the comp time or credit hours, which might be weeks or months later.

Question. What were the major components (e.g., employee salaries, overtime, office space, utilities, etc.) of these costs?

Answer. The major spending categories, over the course of 4 months, have been: salaries and benefits (67 percent), overtime (21 percent), travel (4 percent) and utilities and guard services (4 percent). The other 4 percent consisted of a variety of support items.

Question. How much did it cost IRS to hold subsequent problem solving days in December 1997 and January and February 1998?

Answer. For the reasons stated in response to another question, the best estimate for individual monthly PSD expenses is to take an average of spending for all PSD's conducted to date. The average monthly cost after four scheduled PSD's is $1.5 million.

Question. How many taxpayers visited IRS with problems during the problem solving days in November 1997 through February 1998?

Answer. The number of taxpayers who visited problem solving days is as follows:

Month	*Number of Taxpayers*
November, 1997	8,418
December, 1997	4,257
January, 1998	4,125
February, 1998	3,065
Total	19,865

Question. How many of those taxpayers had their problems resolved as a result of IRS' problem solving day initiative?

Answer. For November, 90 percent of the taxpayers' cases have been closed; for December, 80 percent of the cases have been closed and for January, 70 percent of the cases have been closed. A taxpayer's problem (case) is not considered closed until it is fully resolved. However, closing a case does not necessarily mean that the resolution is what the taxpayer has requested or wanted. The rationale for the resolution is explained to the taxpayer, along with any follow-up action that could be taken.

Question. How many were resolved in the taxpayer's favor?

Answer. In general, IRS does not keep statistics about in whose favor the decision is made. We have groups studying the problems that cause the most taxpayers problems. For example, audit reconsiderations caused taxpayers the most problem solving day cases. Of the cases studied, approximately 60 percent of the cases were resolved with full or partial abatement of the additional tax assessed. These cases were certainly resolved in favor of the taxpayers.

Question. What kind of follow-up is IRS doing to ensure that problems are being resolved and that corrective actions agreed to during the face-to-face meetings actually happen? Assuming there has been some follow-up, what has IRS learned?

Answer. Procedures are in place to ensure that no case is considered closed until all case issues are addressed, fully resolved and all corrective actions are accomplished. IRS management reviews all cases, verifying that all necessary actions have been taken to resolve the taxpayer's problems. Only at this point is a case considered to be closed. Quality review is then done for a statistically valid sample of the closed cases to further verify that the proper actions have been taken to resolve the case.

IRS has learned that there are many benefits to both taxpayers and employees in having face-to-face contact on these problem solving days. Having all the functional areas and management levels represented at the problem solving days, working in a team effort, really expedites resolution of taxpayer problems. The problem solving days embody the ideal of "one stop service" for taxpayers.

Question. How much does IRS estimate this initiative will cost in fiscal year 1998, considering costs already incurred and anticipated costs for the rest of the year?

Answer. Based on costs incurred through February, the IRS estimates that Problem Solving Days for all of fiscal year 1998 will cost between $12–$15 million. Most of these costs will be employee salaries and benefits which are not an incremental cost; they were already budgeted before the Problem Solving Days initiative was implemented.

Question. How many taxpayers does IRS project will visit IRS as a result of the problem solving day initiative in fiscal year 1998?

Answer. IRS has made no projections because this is a new program. However, based on current receipts, if the taxpayers continue to visit PSD's at an average of 5,400 per month, it is projected that approximately 59,000 taxpayers will visit IRS during the eleven month period from November, 1997 through September, 1998 (the end of fiscal year 1998).

Question. How many of those taxpayers does IRS project will have their problems resolved?

Answer. All cases are worked to resolution and subjected to management review prior to closure. Resolving a case does not necessarily mean that the solution is what the taxpayer may desire or request, but the outcome and rationale are explained to the taxpayer, along with other steps that may be taken.

Question. What actions has IRS taken to hold down the costs of the problem solving day initiative?

Answer. On a Servicewide basis, we have decided to hold more coordinated national events than in the months since November, 1997. After that first national Problem Solving Day (PSD), we encouraged our 33 district directors to rotate their events among various cities and towns within their geographic areas and also allowed them to select the days and times for themselves. More recently, we have chosen to be more structured, by fixing two or three days only during a month, from which the various offices must choose their PSD's. This approach reduces publicity expenditures somewhat, but more importantly, limits the amount of time during each month when we must maintain access to our tax databases. In turn, that reduces the money spent on the computer specialists who must keep systems up and maintained during off-hours, as well as trimming hardware/software maintenance fees and utilities charges. We have also begun holding PSD's on weekdays, with hours extended into the evening, rather than hosting the events only on weekends. In March, 1998, two-thirds of the PSD's were held on weekdays which, while still affording taxpayers the opportunity to obtain help and deal with IRS face-to-face, reduced our overtime expenditures considerably.

At the district level, as the offices have gained experience in hosting several PSD's, they have found ways to more efficiently plan for resource usage. They now know better how many taxpayers to expect at a given site and time, and can arrange their staffing and other support services (e.g., guards and utilities) accordingly to meet, but not exceed, the expected demand.

Question. Has IRS identified systemic problems as a result of the issues raised by taxpayers during the problem solving day initiative? What are the major systemic problems identified; what actions has IRS taken or does it plan to take to address these problems in the future?

Answer. Study groups commissioned by the Taxpayer Advocate are focusing on four areas that cause a majority of taxpayer problems: audit reconsiderations, offers-in-compromise, installment agreements, and penalty issues. These study groups are gathering data and analyzing these problem areas in depth. They are making recommendations to correct the underlying problems, often expanding outside the realm of the problem solving day cases to get a complete understanding of the systemic and procedural problems.

Question. Recognizing that IRS already has a Problem Resolution Program in place, what actions will IRS take to direct taxpayers having problems to that program rather than to a separate problem solving day initiative?

Answer. IRS has recognized that it needs to improve publicity about, and access to, the Problem Resolution Program (PRP). We expect that these actions should reduce the need for taxpayers to participate in the Problem Solving Day program, and instead provide ongoing access to the PRP program itself, so that taxpayers do not need to wait for a local PSD opportunity. Nevertheless, because of the evident benefit to certain taxpayers, IRS does intend to make the Problem Solving Day initiative a permanent feature operated under the auspices of the local Taxpayer Advocates.

Question. How, if at all, has workload generated by Problem Solving Days affected the ability of the Taxpayer Advocate to handle the regular Problem Resolution Program workload?

Answer. On a nationwide basis the workload has increased to the levels of two years ago. While in certain offices there are special workload burden issues, overall the workload is manageable. However, because of this program and planned increases in workload from new publicity efforts, additional staffing is being allocated to all offices to assure that all workload can be managed without compromising quality standards.

Question. What are IRS' current plans with respect to future Problem Solving Days?

Answer. IRS plans to conduct 12 problem solving days in every district office in 1999, and has made the Problem Solving Days a permanent ongoing program available for taxpayers.

Question. Does IRS expect to continue having such days past fiscal year 1999?

Answer. Yes. We see this as an ongoing program.

CONTROLS TO ENSURE FAIR TREATMENT OF TAXPAYERS

Question. What is the status of IRS efforts to develop a management information system to ensure that taxpayer abuse is identified and addressed and to prevent its recurrence?

Answer. To help develop management information on complaints IRS receives from taxpayers, a three-part definition of a taxpayer complaint was developed. The

first category is complaints about employee behavior which violate specific statutes or the Code of Conduct. This activity is tabulated by the Chief Inspector and included in the semi-annual report of the Inspector General. The second category is complaints about IRS system failures or problems. These are reported in the statutorily mandated annual report (fiscal year basis) of the Taxpayer Advocate. The third category is complaints about employee behavior which is inappropriate in carrying out official business, e.g., rudeness or overzealousness. This behavior is reported in the Customer Feedback System in an annual report (calendar year basis) mandated by Congress.

Question. What is the status of efforts to change the current information systems maintained by IRS, the Treasury Inspector General, and Justice to include specific data elements for taxpayer abuse?

Answer. While we cannot comment on those systems not under the control of IRS, within IRS we are now reviewing the Customer Feedback System to see if it can be improved.

Question. What is the status of the needed changes to this system that are required to ensure accurate and objective data?

Answer. The Customer Feedback System (CFS) was implemented to collect the data needed to prepare the annual report on taxpayer complaints required by TBOR2. Managers complete Form 10004, Customer Feedback Record, when a taxpayer complains to them about the conduct of one of their employees. As part of the IRS' review of correspondence for the fourth quarter of fiscal year 1997, every Form 10004 prepared during that period was reviewed. To date we have not identified any weaknesses with the accuracy and objectivity of the data collected however, we continue to be concerned with the consistency of participation in CFS. The number of 10004's prepared varies significantly from site to site and function to function. We have taken and continue to take actions to increase awareness of the program and encourage completion of the 10004's as required. These actions include: articles in management publications (Leaders Digest and A Manager's Tool Kit); recertification for all managers as part of the filing season readiness review; program reviews; reviews of data by function; top level management emphasis on the program and many local initiatives to raise the profile of the CFS program.

Question. How can IRS meet the mandate in the Taxpayer Bill of Rights 2, which requires the IRS to file an annual report on taxpayer complaints, if the Customer Feedback System does not contain accurate and objective data?

Answer. We believe the data reported is accurate and objective. Our concern is to insure that all instances of taxpayer complaints are reported on Form 10004 and we are continuing to emphasize the importance to managers of their participation. Ongoing reviews and publicity have contributed to an increase in volumes reported in recent months.

INFORMATION SYSTEMS—CENTURY DATE CHANGE EFFORT (YEAR 2000)

Question. What progress has IRS made in completing unfinished assessments and identifying funding for these areas? How will the $42 million be spent?

Answer. The assessment of how we propose to spend the $42 million is complete. We have specific approved line items for expenditure of the entire $170 million appropriated in fiscal year 1998 for Year 2000 conversion work. Consistent with the notification sent to Congress on February 9, 1998 (as part of our quarterly Appropriations report), IRS plans to spend the $170 million as follows (including realignment of the $42 million).

Congressional category	Congressionally enacted	New alignment	Increase/decrease
Conversion and testing	$79,000,000	$84,000,000	+$5,000,000
Telecommunications	23,000,000	51,000,000	+28,000,000
ADP equipment	13,000,000	21,000,000	+8,000,000
Operating system S/W	17,000,000	9,000,000	−8,000,000
CDC project office/program management	9,000,000	14,000,000	+5,000,000
Certification	7,000,000	11,000,000	+4,000,000
Contingency	42,000,000	.....	−42,000,000
Offset within IRS budget	−20,000,000	−20,000,000	.....
Totals	170,000,000	170,000,000	.....

It must also be noted that significant additional needs have been identified for fiscal year 1998, and that some areas are still under assessment. IRS expects that its Tier 2 (minicomputer) and telecommunications costing will be complete by the end of July 1998. Tier 3 (microcomputer) systems, needs identified through systems integration testing, and the non-information technology (non-IT) area may take longer to finalize. Some of these areas will have fiscal year 1999 implications. Also note that areas of uncertainty and identification of new needs will continue into fiscal year 1999.

Question. What is IRS' latest estimate of its additional funding needs for fiscal year 1998? Has IRS identified potential funding sources to cover its needs? If yes, what are they?

Answer. The latest estimate of additional funding needs in fiscal year 1998 is about $64 million for year 2000 conversion work (a revision to our estimate of $90 million contained in the January Report to Congress). IRS has tentatively identified a source for $50 million of this need, but this will require Congressional approval to re-program certain expired unobligated balances.

The President submitted a fiscal year 1998 Supplemental request for a number of agencies on February 20, 1998. Included in that supplemental was a request for the Department of Treasury to have authority to transfer up to $250 million among Department accounts for Y2K requirements, subject to advance notice to the House and Senate. Also included was a request for authority to make unobligated fiscal year 1998 balances available through September 30, 1999, subject to advance notice to the House and Senate. There was no request for additional funds for IRS in the supplemental. With this authority, the IRS should be able to cover any remaining unfunded Y2K needs, including those which will be identified later. In addition, Treasury has recently committed to fund the Treasury Communications System (TCS) conversion, which should free up the majority of the $29 million IRS has previously reserved for that purpose.

Question. Please explain how IRS can consider the assessment for its mission critical systems complete. Why are contingency funds necessary if the mission critical systems have been fully assessed?

Answer. The IRS considers its assessment of mission critical systems complete because all have been analyzed for year 2000 impact and committed to a conversion phase. For each mission critical system an executive has made a commitment to convert it and has allocated technical resources to complete the conversion. Furthermore, the agency is conducting a weekly progress oversight process and I receive a monthly progress report.

Some unresolved issues remain, however, especially in the areas of telecommunications, Tiers 2 and 3 infrastructure, vendor products, and externally exchanged files. Contingency funds are required to cover any unforeseen Y2K impacts, or problems that are likely to be discovered in some areas. It has been our experience that additional needs are uncovered as we progress through the conversion process. IRS has established several mechanisms to identify additional needs or problems early: (1) systems integration testing; (2) the Risk Analysis process; (3) the Contingency Management process; and (4) External Trading Partner Risk Analysis. Nine internal audits have commenced to address the adherence to standards and the efficacy of the implementation of the Y2K conversion efforts.

Question. How do the areas still under assessment impact mission critical operations?

Answer. The IRS expects minimal impact on its mission critical operations resulting from areas still under analysis. Issues and potential problems will be discovered through the processes put in place for early detection of such items, and this identification will occur either prior to or in fiscal year 1999. The Risk Assessment and External Trading Partner outreach programs are in place, and systems integration testing will begin in January, 1999 and is scheduled to be completed by October, 1999. The Contingency Management process for applications is in place, with the COTS and external trading partner portions to be implemented soon. As new products or requirements are identified, they will be evaluated and solutions will be integrated into the Year 2000 Project Master Plan for tracking progress. The budget will also be adjusted accordingly to include any additional requirements.

In addition, we have ongoing processes in place that will help us ensure that Telecommunications provides the essential infrastructure to allow the Mainframe Consolidation systems to operate.

Question. What progress has IRS made in converting its systems to date? Please provide this information in terms of the names of mission critical systems that have had their applications, systems software, and hardware converted and tested.

Answer. Of 126 Mission Critical applications systems, 75 have been renovated, 60 tested, and 59 systems have been implemented into production as of Phase 3. Please see the attached list of systems for specific names.

These counts address our applications programs. These systems also rely on commercial software and hardware, telecommunications systems, electronic data from sources outside IRS, and to some extent, on equipment generally outside the scope of information technology, for example, building security systems and environmental controls.

The IRS has established detailed conversion plans for each area and dedicated resources have been assigned to execute the plans. Progress in each area is monitored on a weekly basis and corrective actions are taken to ensure the progress is on schedule.

Question. Are there any areas for which IRS is at risk of not meeting this goal? What is IRS' plan for addressing those areas that it may not be able to convert on time? Given that IRS has less than 2 years to fix and test all of its systems, what contingency plans is IRS prepared to implement in each of the following scenarios: (1) funds are not available to convert all mission critical systems by 2000, (2) there is not enough time to convert all mission critical systems by 2000, or (3) unexpected system failures occur for a variety of possible reasons including unassessed areas, conversion oversights, or incomplete testing? Does IRS have Year 2000 contingency plans for those systems that are critical to the collection of $1.4 trillion in annual revenues? If no, why not?

Answer. The IRS has identified four potential risk areas that could affect the IRS' not being fully Year 2000 compliant. They are Telecommunications, Tier 2 hardware and software, Tier 3 hardware and software, and External Trading Partners Data Exchange.

IRS has established detailed conversion plans for each area and dedicated resources have been assigned to execute the plans. Progress in each area is monitored on a weekly basis and corrective actions are taken to ensure the progress is on schedule.

I chair a monthly Executive Steering Committee meeting to address immediately the critical issues and risks associated with the Year 2000 efforts. In addition, I frequently communicate with selected IRS and other stakeholders on an individual basis to monitor the progress of specific components of the Year 2000 effort. I have met with the General Accounting Office and the IRS' Internal Audit function to ensure an independent view of the situation. I also met with Booz-Allen & Hamilton on their Independent Validation and Verification risk assessment.

Given the scope of the IRS program and its critical importance to both the nation's economy and its taxpayers, it is imperative that the IRS' mission critical systems continue to function properly in the new millennium. Because the risks are significant, despite the progress made, the IRS has developed feasible contingency plans to neutralize any adverse impacts of a less than fully successful century date program. These contingency plans reflect the IRS functions as well as those of our data exchange partners. The overall IRS contingency planning strategy is to focus our efforts on planning for only those aspects of the program that may not be completed timely and/or fully successfully.

The IRS has scheduled for conversion of all its application systems by January 1999, allowing the remainder of 1999 for integration testing, system level testing, and certification, and to address any unexpected conversion items. Contingency procedures will be developed and implemented for products if they become dangerously behind schedule. The IRS' Year 2000 Contingency Management Plan tracks Y2K remediated progress and allows us to create specific contingency plans when a need arises.

With over 41,000 components and approximately 47 percent of mission critical systems converted and implemented as of January 1998, the IRS conducted a post-implementation (Phase 3) Review. As a result of this review, the IRS identified several lessons learned which were applied to all systems. Specific technical solutions, standards implementation and testing procedures were modified to reflect these lessons learned. In preparation for a similar review process after Phases 4 and 5, the IRS has instituted additional metrics. During fiscal year 1999 the IRS will implement an end-to-end test or systems integration testing of all systems. If a failure or problem occurs in the systems integration testing, an existing requirement for a contingency plan will be invoked.

Question. What is IRS' fiscal year 1999 budget request for each of the following areas:

a. Mainframe consolidation?

b. Integrated Submission and Remittance Processing System?

c. Year 2000 conversion efforts (i.e., those activities not covered by "a" and "b"?).

Answer. IRS refers to its non-infrastructure related Year 2000 efforts as Year 2000 "conversion" work.

a. The IRS' fiscal year 1999 budget request for the Service Center Mainframe Consolidation is $76 million.

b. The IRS' fiscal year 1999 budget request for the Integrated Submission and Processing System is $18 million.

c. IRS' fiscal year 1999 budget request for Year 2000 conversion activities is $140 million.

Question. How much of the request for mainframe consolidation is attributed to the need to make IRS' mainframe computers Year 2000 compliant? How much is attributed to non-Year 2000 data center consolidation efforts?

Answer. As a result of the business alternatives analysis for mainframe consolidation, of the total investment required for Mainframe Consolidation initiative, $265 million represented the minimal cost required to achieve Y2K compliance through upgrading the existing legacy environment. The analysis to break this cost down by year has not been completed.

OVERVIEW OF COST AND DOLLAR BENEFITS (FISCAL YEARS 1997 TO 2006)

[Dollars in thousands]

Delivery alternative	Contract costs		Total life cycle funding	Cost savings
	Investment	O&M		
Stay-in business	$265.0	$357.2	$1,815.2	.....
Consolidation (with Lease To Purchase)	321.4	222.8	1,311.2	$503.9

The mainframe consolidation program has four parts. Two of these—the Communications Replacement System (CRS) and the replacement of desktop devices, with the associated telecommunication infrastructure—are mandatory for Y2K compliance. The CRS cannot be upgraded and must be completely replaced. The Terminal Replacement Project replaces approximately 17,000 desktop workstations which cannot be otherwise modified or upgraded. The proprietary telecommunications infrastructure supporting connectivity between mainframes, as well as workstations at approximately 700 sites, requires significant modification or replacement. These projects are currently on schedule to be completed by December 1998.

The other two parts of the mainframe consolidation program involve the replacement of existing IBM and UNISYS mainframe computers, in each of the ten service centers, with mainframe computers in the Martinsburg and Memphis Computing Centers. The Consolidation project is driven principally by the requirement to ensure Year 2000 compliance for all mainframe platforms. The benefit/cost analysis provided within the current Consolidation Business Case indicates that the chosen solution provides the greatest return on investment versus a "pure" Year 2000 solution upgrading antiquated equipment in place, and offers a cost savings of $503.9 million over a ten-year period. There are a number of additional benefits, as described within the business case, which provide standardization, satisfy other business requirements and position the IRS for subsequent modernization activities. These include:

—Reduced IRS Information Systems Operations and Maintenance Costs

—Improved IRS taxpayer data quality

—Improved Disaster Recovery and Business Resumption capabilities.

Question. Has IRS identified any additional Year 2000 funding needs for fiscal year 1999 since the budget request was submitted to Congress? If so, what are those needs?

Answer. IRS requested $50 million in Year 2000 contingency funds for fiscal year 1999. At this time, we have additional needs estimates for several area of conversion work, totaling approximately $39 million in fiscal year 1999. The majority of these needs occur in the areas of non-IT ($19 million), Tier 3 hardware ($11 million), and human resources retention allowances ($6 million). IRS plans to meet these needs out of the $50 million Contingency portion of the fiscal year 1999 President's Budget request. Also, the Service Center Mainframe Consolidation (SCMC) Project is re-evaluating its fiscal year 1999 needs and impacts, and may require additional funding as a result of schedule delays, and modified capacity and disaster recovery requirements. IRS is conducting further capacity analysis due to recent changes to its level of service (e.g., 6 by 16 hours of operations for Customer Service) as well as the additional functionality and the increase in locations for the Integrated Collection System. IRS is also reviewing modified disaster recovery requirements which

call for more backup capabilities and shorter time frames for recovery operations. If the requested Treasury reprogramming authority is approved, it should yield sufficient flexibility to address unforeseen problems.

Question. What has IRS done to ensure that its current budget provides sufficient resources to modify and test its systems to address these changes at the same time it is modifying and testing its systems for its century date change effort?

Answer. The work required to accomplish Year 2000 conversion is competing for the same resources as the work required for the other efforts to which IRS is committed in this time frame, and this is a concern. In response to this, I have established the monthly Executive Steering Committee meetings to address Year 2000 impacts and 1999 filing season issues together in an integrated fashion. All aspects of these areas, including testing and resource requirements are addressed and follow-up actions assigned. I have asked that all potential additional needs be flagged and evaluated to monitor their resource and schedule impacts and risks through the monthly meetings.

When Year 2000 resource shortfalls are identified, IRS assesses its priorities and, when feasible, realigns funding from less critical activities. If there are still unfunded Year 2000 needs, IRS works with Treasury and OMB to identify funding sources or request additional funding as appropriate. Our requests for contingency funds are one way of ensuring that all necessary resources are available as, and when needed.

One of the major areas we have requested funding for is contractor support to leverage our internal resources, especially in the area of systems testing and certification. In some areas, such as new hardware or operating environments (systems software), contractor expertise has been added to get the new systems rolling and allow internal staff to come up to speed. Also, many requests for systems enhancements are not being honored during this period and will accumulate for later implementation. The effects of accumulated attrition are also a factor in IRS' level of concern about its ability to do everything the IRS needs to do in this time frame. The Commissioner recently sponsored a six-part human resources initiative which should help in this area, especially with the retention of IRS experienced computer personnel and the recruitment of additional systems development and testing personnel to backfill behind significant attrition.

MAINFRAME CONSOLIDATION

Question. Is the data center consolidation proceeding according to its original schedule?

Answer. The Terminal Replacement and Communications Replacement Systems components, which need to be replaced to become Y2K compliant, are proceeding according to plan and are on track. Augmentation activities associated with Service Center legacy systems have begun in the initial five sites to be cut-over and are proceeding slightly behind schedule based upon training and operational issues. The Service Center Replacement System and the Integrated Collections System/Automated Collections System/PRINT projects are proceeding behind schedule based upon requirements to conduct much more thorough and exhaustive testing of new technologies and systems beyond what was originally envisioned when the project plan was first developed. IRS has developed several contingency options is currently reviewing them to assess impacts to the project critical path and business case due to schedule delays, and modified capacity and disaster recovery requirements. IRS is conducting further capacity analysis as a result of recent changes to its level of service (e.g., 6 by 16 hours of operations for Customer Service) as well as the additional functionality and the increase in locations for the Integrated Collection System. IRS is also reviewing modified disaster recovery requirements which call for more backup capabilities and shorter time frames for recovery operations. A decision regarding which option will be selected will be made by early June 1998, at which time we will provide an updated status assessment and the impacts on funding needs and the business case.

Question. If not, what problems has IRS encountered and what are IRS' plans to address them?

Answer. The challenges facing consolidation are typical of any large and complex information systems project. It is also true that the risks associated with the project are increased as a result of requirements to achieve Year 2000 compliance in a rapid time frame. Impacts experienced to date include:

(1) Programmatic issues, such as the scope and duration of testing required to verify the capacity and performance of new systems and architectures. Several contingency options have been developed and are under review which provide more comprehensive verification and validation of new products within the IRS processing

environment. To mitigate these risks, additional testing will be required to support capacity and performance, Disaster Recovery, Security, and Business Resumption planning and analysis.

(2) Operational issues associated with the development of new standard operating procedures (SOP's) and inter-organizational service level agreements (SLA's). Interdisciplinary teams composed of Service Center, Computing Center, and Business personnel have been created to address modifications required to over 400 SOP's based upon new technologies and the improved telecommunications infrastructure. A Business Project Manager, reporting to the Executive Officer for Service Center Operations as a matrix partner within the Project Management Office, has been charged with developing and coordinating all required SLA's. These will define the new working relationships between the computing and service centers, as well as the support to be provided between information systems organizations within the service centers and their local business area partners.

(3) Personnel issues associated with staffing, training, and relocating personnel within very aggressive timeframes. Extended negotiations with the National Treasury Employees Union contributed to a later than expected implementation of the consolidation staffing plan. This has placed pressure upon the project critical path in regards to staffing ramp-up within the consolidated computing centers, as well as the associated relocation and retraining timeframes necessary to ensure successful filing season operations. The IRS is committed to taking whatever steps necessary to retain key expertise within the IRS and has provided a number of retraining and relocation incentives to employees electing to pursue careers within the consolidated computing centers. For those employees who remain within the Service Centers, several options are under evaluation for providing remote access support, temporary or long-term details to other computing or service centers, or retraining and assimilation within other areas in the IRS organization.

(4) Technical issues associated with the delivery sequence of both commercial and IRS developed applications. Given the myriad of thousands of technology components, the interdependencies between individual systems and projects are enormous. The IRS is pursuing very aggressive management and oversight of all supporting vendors and organizations to ensure timely and quality delivery of products and services. Although there have been some impacts to the critical path, these have been mitigated through alternative testing schedules and options, as well as through interim manual procedures.

Question. What are IRS' current cost/savings estimates for mainframe consolidation and how have they changed from the initial estimates?

Answer. The cost savings adjusted to remove investment costs, normal business operating costs, and revenue benefits are $503.9 million. This cost reflects projected life-cycle dollar savings resulting from consolidation. As a result of the on-going schedule contingency analysis, it is expected that these figures will change and updated information will be provided as it becomes available. However, given the initial very strong return on investment (ROI) results outlined within the Consolidation Business Case (330 to 350 percent), it is expected that any option will continue to support a positive ROI.

Question. What accounts for the changes, if any?

Answer. As has been previously stated, changes in the cost/savings estimates are under review as part of the overall contingency analysis and will be made available as this process is completed in early June 1998.

Question. What impact have schedule slippages, if any, had on projected costs/savings?

Answer. The IRS is currently reviewing potential schedule modifications. The impact of schedule changes on cost is being analyzed. Several issues as previously described (e.g., capacity and disaster recovery) are driving potential modifications. The IRS will take appropriate measures to update its business case and inform the Senate of any significant modifications once the contingency analysis is complete.

Question. What specific aspects of this consolidation are required to help IRS achieve Year 2000 compliance?

Answer. Communications Replacement System (CRS) cannot be upgraded for Y2K compliance and must be completely replaced. The Terminal Replacement Project replaces approximately 17,000 workstations which cannot be otherwise modified or upgraded for Y2K compliance. The proprietary telecommunications infrastructure supporting connectivity between mainframes, as well as workstations at approximately 700 sites, requires significant modification or replacement for Y2K compliance. These components are currently on schedule and are scheduled to be completed by December 1998. The SCRS and ICS/ACS/PRINT projects achieve Year 2000 compliance while satisfying additional business requirements, as opposed to a "pure" Year 2000 solution upgrading antiquated equipment in place. The Consolida-

tion business case identified alternative solutions for achieving Year 2000 compliance and determined that the current approach offered the best ROI.

Question. In the event that aspects of this consolidation fall behind schedule, what parts, if any, could be delayed without jeopardizing Year 2000 compliance?

Answer. The mainframe consolidation program has four separate parts. Two of these, the Communications Replacement System and the replacement of desktop devices, are mandatory for Year 2000 because the systems they are replacing cannot be made Y2K compliant. These two projects are currently on schedule and are scheduled to be completed by December 1998. The other two parts of the program involve the replacement of current IBM and UNISYS mainframe computers in each of the 10 Service Centers, with the new mainframe computers in the Martinsburg and Memphis Computing Centers. This aspect of the consolidation provides substantial annual cost savings and standardization, and positions the IRS for subsequent implementation of the modernization blueprint. It will also eliminate the need for upgrade of some vendor products and for testing and certification for Y2K compliance at each of the Service Centers. However, it is not mandatory to complete conversion of all Service Centers to the new technology to achieve Y2K compliance. Currently, one of the Service Centers has been converted to the new technology and is operating successfully. If the schedule for the mainframe consolidation components slips, the IRS has the option of remediating the legacy platforms in the nonconsolidated service centers for Y2K compliance. Contingency plans are under development which address the requirement to pursue remediation of the legacy SCRS and ICS/ACS/PRINT environments in the event that some Service Centers operations cannot be migrated prior to January 1, 2000.

Question. What portion of the total cost estimate is attributed to the need to make systems Year 2000 compliant?

Answer. As a result of the business alternatives analysis for mainframe consolidation, of the total investment required for Stay-in Business, $265 million represented the minimal cost required to achieve Y2K compliance through upgrading the existing legacy environment. The analysis to break this cost down by year has not been completed.

The consolidation solution offered the best return on investment for achieving Year 2000 compliance as well as satisfying other business requirements. The business case outlines the following figures. In this case, the Stay-in Business alternative represents the cost of upgrading and operating legacy technologies in-place to achieve Year 2000 compliance. However, it does not include the additional investment necessary to position the IRS for future modernization, which is inherent within the Consolidation alternative.

OVERVIEW OF COST AND DOLLAR BENEFITS (FISCAL YEARS 1997 TO 2006)

[Dollars in thousands]

Delivery alternative	Contract costs		Total life cycle funding	Cost savings
	Investment	O&M		
Stay-in business	$265.0	$357.2	$1,815.2	
Consolidation (with Lease To Purchase)	321.4	222.8	1,311.2	$503.9

Question. What has IRS done to independently verify actual costs against projected costs?

Answer. Several steps are initiated as part of the overall budget and program management methodology. Vendor Invoices received against task orders/delivery orders are forwarded to the relevant Project Manager and COTR to validate that goods and services were received in accordance with the established work and cost breakdown structures. These are then reviewed within the context of the project and overall Consolidation Resource Management and Spending plans to ensure actual costs are were within projections and identified in accordance with the baseline Master Plan. Costs are ultimately reconciled with the consolidation business case and the initial contractor Program proposal to verify actual costs against projected costs. This method ultimately ensures that both positive and negative cost impacts are identified and addressed as quickly as possible.

By utilizing a contracting paradigm which establishes fixed-prices for hardware and software products, while managing services under a time-and-materials arrangement, vendor risk is mitigated more effectively versus a fix-priced "for everything" approach. This ultimately yields significant cost savings to the Government

for services, and at the same time builds a greater level of accountability into the management process.

Question. What impact has this had on projected savings?

Answer. Because we have not yet defined the contract's parameters, the impacts of our costs verification are not known at this time. IRS anticipates that, as a result of its efforts to build a greater level of accountability into the management process and once contract parameters have been defined, it will achieve cost savings in services and lower hardware and software prices. However, the project is likely to incur cost increases as a result of changes in requirements for security, disaster recovery, and the scope and duration of testing which will impact the schedule completion and result in a continuation of some service center operations. As soon as the net impacts of the cost increases and decreases are finalized, we will provide the Senate with updated information.

Question. How much has been obligated to each of the major consolidation contractors?

Answer. For the period July 1997 through March 19, 1998, the IRS has obligated the following to each of the major consolidation contractors:

Contractor	Actual obligations [1]	Expenditures [2] (based on invoices paid)
UNISYS [3]	$130,705,373	[4] $12,576,453
IBM [3]	40,595,088	.....
TRW Telecom	27,877,000	[5] 2,940,000
Total	199,177,461	15,516,453

[1] The $199 million in obligations reserves funding for the entire fiscal year 1998 contract costs. The remaining balance (approximately $7 million) will be used to cover maintenance for terminals and mainframes.

[2] The $15.5 million currently expended does not reflect our efforts to assess contractor's cost proposals and define costs, or our efforts to negotiate the fixed-price components of the contract. Once these actions and our assessment of the modifications to the schedule are completed, we will provide updated cost and business case information to the Senate.

[3] Includes the cost of other, less prominent, subcontractors.

[4] Unisys/IBM as of March 19, 1998.

[5] As of January 1998.

Question. How does this compare to planned obligations?

Answer. Planned obligations for each of the major consolidation contractors for the period July 1997 through year-to-date March 1998 are as follows:

Contractor	*Planned obligations*
UNISYS [1]	$121,665,896
IBM [1]	35,360,192
TRW Telecom	49,641,350
Total	206,667,438

[1] Includes the cost of other, less prominent, subcontractors.

Question. Is the contractor responsible for doing all system testing for mainframe consolidation?

Answer. The contractor and the IRS jointly conduct evaluations and tests supporting functional, capacity and performance, Security, and Disaster Recovery capabilities, as well as mutual implementation of the five-step process of testing, verification and validation associated with the migration of individual Service Center operations.

Question. If so, is IRS undertaking any independent assessment of the testing to help ensure the results are reliable?

Answer. The IRS provides coordination and oversight to all vendor-related testing. IRS technical personnel conduct independent assessments of all vendor testing, to include review of documented test plans and procedures, observation of the test activities within secure test environments, and the evaluation of pre- and post-test baseline data to determine if results are consistent with testing objectives. These results are also evaluated against current legacy and historical IRS systems profiles to determine if new baseline results are consistent with the minimum operational capabilities. In addition, Y2K certification must be performed by the IRS Product Assurance organization. Upon completion of these activities, the contractor submits individual systems to the Government as Ready For Use (RFU), at which point the Government accepts the systems and enters them into operation.

In addition, the IRS is in discussion with its Federally Funded, Research and Development Center to conduct an independent review of its performance and capacity testing and overall test plans.

Question. With the heavy dependence on contractors to complete consolidation in a very short time frame, how does IRS plan to monitor contractor efforts?

Answer. At the individual project level, Government Project Managers and COTR's monitor day-to-day performance in accordance with work-and cost-breakdown structures associated with individual task/delivery orders. These are further monitored at the Program level and summarized for initial executive review as a standard weekly report. Program management includes a Configuration Control Board with project, business, and vendor representation, supported by an issues tracking system and database; a Risk Management Committee which maintains contingency plans for each project issue; and an executive committee with first-line representation from both the vendor and IRS communities. In addition, I have implemented an executive steering committee which convenes monthly to review ongoing status and the project implementation strategy. This committee includes representatives from the Treasury, and NTEU, as well as the IRS information systems and business sponsors.

Question. Given IRS' past difficulties in developing clear business requirements for contractors, what types of activities did IRS undertake to help ensure that the contractor was provided a clear set of business requirements for mainframe consolidation.

Answer. The overall scope for technical and functional requirements for Consolidation was first identified during the development of the Consolidation Business Case. Initial project implementation required the vendor to develop and deliver a comprehensive Project Master Plan which was based upon Government Furnished Information validated by the IRS at the time of writing. The Project Management Plan is then updated on a quarterly basis with oversight through a joint Treasury-IRS executive steering committee. All IRS organizations provide updated input in coordination with the Project Management Office. These updates are then controlled within the Project Management Office through the Configuration Control Board, which evaluates each modification as a Basic Change Request. The results of these actions are quantified in terms of cost, schedule, and risk impacts, and forwarded to the Program Manager, and ultimately the Program Executives, for review and final action.

SYSTEMS MODERNIZATION

Question. Does IRS plan to postpone further work on the details of the May 1997 modernization blueprint until implementation plans for the revised organizational structure have been developed? When are those plans expected to be complete?

Answer. The IRS is actively engaged in Modernization and is not postponing further work on the details of the May, 1997 Blueprint until plans are in place for the revised organization structure.

Specifically, the IRS issued the Request for Proposals for a Prime Systems Integration Services Contractor on March 26, 1998. The Prime Contractor will partner with the IRS and its contractors (i.e., Integration Services Contractor TRW and the Federally Funded Research and Development Center) to develop and deploy the Systems Life Cycle, develop the requisite program management capabilities and continue work on the first two subreleases for Modernization, Primary Telephone Call Routing and Management and Enhanced Secondary Telephone Call Routing and Management, respectively. The current estimated implementation date for these subreleases is December, 1999 and November, 2000. The IRS views the technology modernization as defined in the Blueprint as an enabler of the organizational modernization.

The anticipated completion date for plans for the organizational modernization structure will be made available as soon as it is known. The IRS has begun detailed analysis with Booz-Allen and anticipates providing timeframes and implementation strategies in the near future.

Question. Could the proposed reorganization also affect IRS' current effort to consolidate all data processing in 2 centers? If so, how?

Answer. It is not anticipated that the proposed IRS reorganization would affect the mainframe consolidation activities, which are scheduled to be completed in 1999.

Question. In light of the Commissioner's reorganization plans, the CIO's resignation, and the RFP's delay, how have IRS' plans for completing each component of the modernization blueprint (system life cycle, architecture, requirements, and sequencing plan) and commencing modernization changed?

Answer. The IRS is moving forward with acquisition of the Prime Systems Integrated Services Contractor for Modernization and the first two subreleases of Phase I/Release 1 as planned. Any future Modernization activity would be performed consistent with and in support of the organization modernization and approved by internal and external oversight including the Commissioner, Treasury and Office of Management and Budget. As previously stated, we believe that technology modernization, defined in the Blueprint, enables organizational modernization. Attached for your information is a description of longer-term technology investments associated with the fiscal year 1999 budget.

Question. Why was release of the RFP delayed, and what is the current status? Does IRS still plan to award the Prime contract by October 1, 1998?

Answer. The Request for Proposals (RFP) for a Prime Systems Integration Services Contractor was originally scheduled for release on January 15, 1998. The issuance of the RFP was delayed to provide the newly appointed Commissioner an opportunity to perform due diligence related to content and scope of the document. The RFP was released on March 26, 1998 with an award date by December 1998.

Question. With so many other major efforts on its plate-a major reorganization, century date change, mainframe consolidation, and the replacement of IRS' primary returns processing and remittance processing systems—how does IRS expect to move forward with an award for a prime contractor?

Answer. The single most important priority for the IRS is the Y2K program which is managed by IRS technical staff and supported by contractors other than the PRIME offeror teams. This team is solely dedicated to Y2K activities. Likewise, all activities for mainframe consolidation and the Integrated Submissions and Remittance Processing System are supported and managed by IRS and contractor teams other than the PRIME offerors.

However, the IRS recognizes that although these critical programs need to progress, there is an immediate need for the PRIME to arrive and bring with it the requisite technical and management capabilities for the IRS to proceed with Modernization and implement much needed improvements in the area of Customer Service.

The first two subreleases of Modernization will be managed by IRS and PRIME contractor staff who are not involved in the activities mentioned above. Additionally, the scope of these subreleases was crafted to ensure minimal design impact on IRS legacy systems which are the focus of the Y2K effort, mainframe consolidation and Integrated Submissions and Remittance Processing System.

Question. Has the Commissioner agreed to the mainframe-centric blueprint that the CIO and his team created? If not, how will his disagreement affect future plans?

Answer. As defined in the Commissioner's Statement before the Senate Finance Committee on January 28, 1998, the Organizational Modernization is based on five key elements, as follows:

—revamped IRS business practices that will focus on understanding, solving and preventing taxpayer problems;
—organizational structure built around taxpayer needs;
—management roles with clear responsibility;
—balanced measures of performance; and
—new technology.

The new CIO organization, the Modernization Blueprint and the recently released request for proposals for a Prime Contractor provide an outstanding and professional basis for managing the evolution of our technology. The revamped business practices and Organizational Modernization will provide a sound basis for completing and implementing the modernized systems envisioned in the Modernization Blueprint, including the mainframe centric solution and centralized databases, and will be tied to the development of lower level requirements for design and development through the Prime Contractor.

ENFORCEMENT—EXAMINATION

Question. What plans does IRS have to use dollars collected to help measure and report audit results?

Answer. IRS did not agree that the collection rate, as used by GAO, should be used as the sole measurement of the effectiveness or productivity of our audit program for large corporations. There are various actions outside of the control of the Examination function which can occur after an audit has closed. Items such as Net Operating Loss and Credit Carrybacks, as well as post closure abatements, can have a significant impact on the amount ultimately collected. The current budget does not include a collection rate as a measure of audit results.

Many of the measures which IRS used in the past were business results measures involving IRS' tax law enforcement activities. While some of these business results measures tracked items such as cycle times and case dispositions, many were essentially productivity indicators that recorded dollar revenue per FTE for particular enforcement activities. Neither extensive external (customer) information nor employee satisfaction information has been used in evaluating organizational performance. Thus many managers and employees have focused primarily on productivity.

To address this imbalance, the IRS has established a task force, the New Measures Task Force (NMTF). The ultimate aim of the NMTF is the development of a new, balanced measurement system for the IRS that is equal to the "best in class" in private industry. Such a system would reflect the new organizational structure of the IRS (to be aligned with major taxpayer groups) and would measure how well the IRS is meeting its strategic goals by incorporating measures of customer satisfaction and employee satisfaction with measures of business results and compliance.

In the nearer term, however, the goal of the NMTF is to develop, in partnership with a contractor, an interim set of balanced measures that would move the IRS toward this ultimate goal. This task shall include the identification of measures for customer satisfaction, employee satisfaction, and key activity/productivity and quality measures. Specifically, one of the sub-tasks will be to develop and determine quality measures for each area. This is likely to require substitute measures for the cycle time and dollar revenue per FTE measures previously used in Examination and Collection. As part of the substitute measures, and building on ongoing IRS work in this area, the NMTF and the contractor will work to develop more qualitative measures of the quality of case work for Examination and Collection (including timeliness, accuracy, resources used, and assistance to the taxpayer to remain in compliance).

Among other things, IRS' Employee Plans/Exempt Organizations (EP/EO) Division monitors employee pension plans and exempt organizations and examines returns filed by those plans and organizations. According to IRS' fiscal year 1999 budget estimates: "Because of the size, complexity, and resources of exempt organizations, and the large sums invested in employee benefit plans, the potential for abuse is great * * *". Despite that potential for abuse, IRS data show that the number of EP/EO employees has steadily declined from 2,448 at the end of fiscal year 1992 to 2,194 at the end of fiscal year 1996. Likewise, although the number of returns filed by exempt organizations and employee plans increased from about 1,654,000 in 1992 to about 1,750,000 in 1995, the number of such returns examined decreased from about 42,000 in fiscal year 1993 to about 25,200 in fiscal year 1996. IRS' budget request for fiscal year 1999 calls for the same number of full time equivalent staff years as in fiscal year 1998 with a slight decrease in funding.

Question. What factors govern IRS' decision that an apparent discrepancy on a tax return should be handled through service center correspondence rather than a face-to-face audit by the district office?

Answer. Generally, the complexity of the issue(s) involved determines which office or type of employee is assigned an audit. Returns with the fewest and simplest issues are performed in our service centers. As the issues become more complicated, they are more likely to be assigned to a district office. The IRS tries to use the technique which is the least intrusive and least burdensome method for the taxpayer while still adequately resolving potential discrepancies.

Question. Does IRS have plans to shift any district office audit workload to service centers? If so, what types of workload will be shifted, how will the service centers be prepared to handle the new workload, and when will the shift occur?

Answer. IRS is involved in preliminary discussions about the feasibility of shifting some work from the district offices to the service centers. The work we would consider is primarily 1040A returns with total positive income below $25,000 and possibly some non-1040A returns with total positive income below $25,000. District Office Examination has had preliminary conversations with the Service Center Examination Division on the potential transfer of workload. We are considering the shift of this work in conjunction with our Examination Occupational Study project on Tax Auditors and Revenue Agent positions. However, because this is at a conceptual stage, we have not addressed specific issues including how the service centers will handle the workload and the timeframes when the shift will occur.

Question. How do district audits compare to service center audits in terms of traditional audit results (e.g., percent of audits that resulted in no recommended change in tax liability, amount of recommended tax change per audit, and direct hours invested per audit)?

Answer:

	No change (percent)	Recommended dollar change per return	Hours per return
Revenue agent individual	10	$19,330	22
Revenue agent corporate	24	58,562	58
Tax auditor	14	3,447	4
Service center	14	3,247	1

Data is fiscal year 1997. Data does not include Coordinated Examination Program results.

Question. How often do taxpayers request a reconsideration of the results of a district office audit compared to the results of a service center audit?

Answer. In fiscal year 1997, approximately 74,000 returns examined in district offices were appealed to the IRS' Appeals function. For the service centers, approximately 8,000 returns were appealed.

Question. For both district office and service center audits, how does IRS ensure quality during the audit and measure quality after the audit?

Answer. *Ensuring Quality During The Audit.*—Auditing Standards Examination has auditing standards which define the technical quality of completed casework. The standards address concepts of scope, audit techniques, technical conclusions, workpaper preparation, reports, and time management. Each standard is composed of key elements describing specific components of an examination which are present if a quality examination is conducted. The Auditing Standards describing case quality parallel the Critical Elements used to evaluate employee performance.

Managerial Oversight Group managers are responsible for the procedural and technical quality of the work produced by examiners under their supervision. Management practices, appropriate for the individual examiner, are selected to provide oversight and quality control. For example, managers may choose on-the-job visitations, in-process case reviews, or workload reviews as a method of direct involvement for examiners. Experienced examiners with reputations for strong technical skills would require less "hands-on" supervision. Branch Chief oversight ensures that the appropriate tools are selected and are used with sufficient regularity.

These are not the only management practices used to control and improve technical case quality. Managers may use the Individual Development Program (IDP) to identify an examiner's specific needs, determine corrective action, and monitor success. Examiners have access to technical expertise through the Industry Specialization Program (ISP) and Market Segment Specialization Program (MSSP) and each district provides continuing professional education (CPE).

Measuring Quality After the Audit.—Examination Quality Measurement System (EQMS) is used to collect data regarding examination results and the examination process. IRS conducts post-audit reviews of randomly selected cases to determine compliance with the Auditing Standards and collect process measures. A Customer Satisfaction survey is also sent to every taxpayer selected for an EQMS case evaluation. The survey addresses concepts such as the fairness of the examination, if the taxpayer was treated with respect, and whether the taxpayer was satisfied by the services provided. The data from the case evaluation and the taxpayer's response are associated to provide a more complete and accurate picture of the examination process.

Question. How valid are the DIF formulas for returns being filed in 1998?

Answer. Existing DIF Formulas were derived from data of the last TCMP surveys, 1987 returns for corporations and 1988 returns for individuals. Certain revisions of DIF Formulas resulting from major changes in the tax laws are implemented between TCMP surveys as needed to reflect the impact of law changes on the relative ranking of returns. These formula revisions are not considered updates of the DIF Formulas. Only data from examinations of randomly selected returns can serve as the basis for DIF Formula updates.

Question. As the formulas age, has IRS noticed any differences in the returns being selected through DIF and/or in the results of audits done on DIF-selected returns?

Answer. The results of audits done on DIF selected returns has remained relatively stable. Since we believe that these formulas do deteriorate over time, these stable results could be caused by more selective screening of returns and/or a drop in voluntary compliance.

Question. What plans, if any, does IRS have to update DIF with statistically valid research data or to replace DIF with some other objective selection method(s)?

Answer. Until such time as the IRS has access to statistically valid research data, such as that collected through a TCMP-type compliance survey, we will continue to

be unable to update DIF. IRS has conducted research on alternatives for developing workload selection systems as a replacement for DIF and will continue its research in this area. However, none of the techniques that have been investigated performed better than, or even as well as, DIF.

Question. Please explain how the Market Segment Workplan works. Is its use negating the need for DIF?

Answer. Each region is presently participating in a test to convert the traditional Examination Plan to a market segment based plan. The test districts are North Florida, New Jersey, Illinois and Pacific-Northwest. The method that was developed allows a district to re-sort the traditional Activity Code workplan to determine the fallout of returns by market segment by district and post-of-duty. Feedback from the test indicates the primary benefit of the market segment plan is in determining the placement and assignment of market segment examiners.

The market segment workplan does not negate the need for DIF because it is not a return selection process. The system for the ordering and delivery of returns is still based on DIF scored returns.

Question. What is the status of the IRS' effort to collect data on taxpayer satisfaction with the audit process, and how will IRS use the data?

Answer. Examination Divisions in each of our 33 district offices have received responses from taxpayers who received survey letters. Quarterly data from October–December 1997 has been compiled.

The responses received from the taxpayers will be coupled with the data collected from our internal reviewers on the quality of closed examinations. This data will be used to identify systemic improvements to the audit process. In addition, districts will be monitored based on a customer service index tied to fairness, respect and satisfaction with the audit process.

Question. GAO reported in its High Risk Report on IRS that the inventory of tax debts at the end of fiscal year 1996 was $216 billion. (GAO/HR–97–8, Feb. 1997). What was the inventory at the end of fiscal year 1997? Please provide a detailed breakdown of these receivables by their collection status at the end of fiscal year 1997. And please identify how much of this inventory represents valid financial receivables versus compliance assessments and how much IRS expects to eventually collect.

Answer. The Gross Accounts Receivable Dollar Inventory as of September 30, 1997, was $236 billion. The attached charts show the collection status of the entire inventory, and a breakdown of the Currently Not Collectible inventory by condition.

As the GAO stated in its report on our audited financial statements, IRS' unpaid assessments balance after auditor adjustments was about $214 billion. These adjustments arose primarily to eliminate the double counting from the trust fund recovery penalties assessed against officers and directors of businesses who were involved in the non-remittance of federal taxes withheld from their employees. The related unpaid assessments of those businesses are reported as tax receivables, but the IRS may also recover portions of those businesses' unpaid assessments from any and all individual officers and directors against whom a trust fund recovery penalty is assessed.

This unpaid assessments balance has historically been referred to as IRS' taxes receivable or accounts receivable. However, a significant portion of this balance is not considered a receivable and a substantial portion is largely uncollectible.

Of the $214 billion of unpaid assessments, $76 billion represents writeoffs. Writeoffs principally consist of amounts owed by bankrupt or defunct businesses, including many failed institutions resolved by the Federal Deposit Insurance Company (FDIC) and the former Resolution Trust Corporation (RTC). In addition, $48 billion of the unpaid assessment balance represents amounts that have not been agreed to by either the taxpayer or a court. Due to this lack of agreement, these compliance assessments are likely to have less potential for future collection than those unpaid assessments that are considered federal taxes receivable or financial receivables. The remaining $90 billion of unpaid assessments represents financial receivables.

About $28 billion of the $90 billion financial receivables balance is estimated to be collectible. Components of the collectible balance include installment agreements with estates and individuals, as well as relatively newer amounts due from individuals and businesses who have a history of compliance. The remaining $62 billion of the financial receivables balance is estimated to be uncollectible due primarily to the taxpayer's economic situation, such as individual taxpayers who are unemployed or have other financial problems. However, IRS may continue to collect for 10 years after the assessment or longer under certain conditions. Thus, these accounts may still have some collection potential if the taxpayer's economic condition improves.

Question. Is that report now available? If it is, can IRS tell us the amount of new receivables identified in the past 3 years and the collection outcome of these receivable? If the report is not available, when will it be?

Answer. IRS' Enforcement Revenue Information System (ERIS) tracks dollars collected on accounts that become delinquent from the date of assessment until the account is resolved or until the statute expires. The IRS can provide the amount the IRS has collected on assessments that were made during fiscal years 1997, 1996, and 1995, but cannot provide detailed information on collections specific to existing unpaid assessments in the inventory as we report them in our reports on the Gross Accounts Receivable Dollar Inventory.

The report that will show the dollars collected from new receipts versus dollars collected is not yet available. This report is being developed to support the information we report in our financial statements for the gross accounts receivable dollar inventory. This report is not yet available because the IRS has had to make changes in how we report on this unpaid inventory to comply with the standards defined in the Statement of recommended Accounting Standards Number 7, Accounting for Revenue and other Financial Sources and Concepts for Reconciling Budgetary and Financial Accounting. It has also been delayed due to Year 2000 programming. This report should be available by 9/30/99.

Question. How soon after the April 15 filing deadline did IRS send out its nonfiler and underreporter notices for tax year 1996?

Answer. We scheduled tax year 1996 notices for various intervals after the April 15th filing deadline. The first batches of notices were mailed to taxpayers during November, 1997 and February, 1998. Additional batches have been scheduled for May and August, 1998.

Question. Does IRS expect any changes to those time frames for tax year 1997?

Answer. We are continually evaluating the timing of these notices. It is our goal to get the notice to taxpayers, with accurate information, as quickly as possible. The schedule for tax year 1997 notices has not been finalized.

Question. GAO testified at the Senate Finance Committee hearings in September 1997 that the IRS did not have the information systems necessary to identify the extent to which its collection enforcement tools—liens, levies, seizures—may have been used inappropriately. What steps has the IRS taken to develop information systems needed to determine the extent to which liens, levies and seizures are used appropriately?

Answer. We do not believe that information systems can be developed that can adequately determine the extent to which liens, levies, and seizures are used appropriately. Case files contain a number of forms, documents and case history about the tax delinquent case. Some of the documents include hand written case history entries, correspondence, financial analysis decisions, hardship determinations, steps taken to locate assets, and investigation results relating to the equity in the asset. An analysis of all of these documents are necessary to determine if the lien, levy, or seizure was appropriate. We believe that the best way to identify the appropriateness of an enforcement action is a review of the case by reviewing officials. Because a review of the case file is necessary, and an analysis must be made as to the appropriateness of an action, we do not believe a systemic, information systems approach would be feasible.

There are, however, a number of non-systemic initiatives in use, and some initiatives under way, which track inappropriate enforcement actions. Currently, there are a number of review systems, independent of Collections, that are able to identify instances of inappropriate Collections actions. These include the Collections Appeals Program, Problem Resolution Program, and results from the Problem Solving Days initiative. Collections uses this information to determine seizure and sale trends. Historically, these systems show minor activity, usually in the 4 percent range. Collections is also recommending increased regional oversight of seizure cases and tracking the number of seizures denied by approving officials. The reasons for denial will be loaded on a newly designed seizure and sale tracking system.

The appropriateness of lien filings must also be measured by taxpayer contact and managerial case review. The Automated Lien System (ALS), which generates Notices of Federal Tax Liens and their releases, allows for the insertion of a code designated for an "Erroneous" Lien situation. However, an analysis of the facts and circumstances of those cases shows that more often than not, these errors are the result of employees inputting incorrect entity information (such as incorrect name spelling, address, etc.), rather than an inappropriate judgment that a lien should be filed.

Question. What additional controls, if any, over the use of these enforcement tools have been incorporated since these hearings?

Answer. Since the Senate Finance hearings, a number of additional controls and taxpayer safeguards against abuse have been placed on the use of enforcement tools incorporated into collection procedures. Here is a list of some of the changes:

—The District Director or Assistant Director must approve all seizures of principal residences and their contents (even if it is the residence of someone other than the taxpayer, e.g. a taxpayer's tenant). Also, the Director or Assistant Director must approve all seizures of perishable goods.

—Procedures have been revised to require revenue officers to give the taxpayer an opportunity to file a corrected return before enforced collection proceeds when a liability is based on a substitute for return. (Under substitute for return provisions, the IRS prepares a tax return based upon third party information after the taxpayer has been afforded the right to file a tax return voluntarily, but neglects or refuses to file a tax form.)

—Publication 594, "Understanding the Collection Process," which is mailed with all Notices of Intent to Levy, is being revised to make it more useful to taxpayers. In addition, a "tear-off" copy of Form 911, "Application for Taxpayer Assistance Order," is being added to the Publication.

—District and Service Center Directors review all complaint correspondence and confirm to the Taxpayer Advocate that all cases have been properly resolved.

—District management met with all Compliance employees to correct any misunderstandings about the employees' responsibilities when dealing with taxpayers.

—Revenue Officers are required to refer to the Taxpayer Advocate any instances when the taxpayer says that collection action will cause a hardship.

—Deputy Commissioner Michael Dolan has assigned an executive to conduct a review of the lien and notice of levy processes and recommend legislative and procedural changes that will balance the rights of taxpayers and the IRS' responsibility to collect the correct amount of tax.

Question. In fiscal year 1996, IRS issued over 3 million levies compared to 750,000 liens and 10,000 seizures. Given the relatively large volume of levies, please explain how this enforcement tool is used in the collection process and what controls exist to ensure it is used appropriately.

Answer. Generally, a notice of levy is used when someone other than the taxpayer has the taxpayer's property and can turn it over by merely writing a check. This usually involves bank accounts, wages, commissions, or accounts receivable of a contractor. On the other hand, seizure generally involves property or rights to property in the hands of a taxpayer such as vehicles, buildings, and business property. The Internal Revenue Code lists the types of property and income that are exempt from notices of levy and seizures. Policy statements also limit what IRS can levy.

Generally, employees initiate levies as a follow-up action when the taxpayer has not responded to a Notice of Intent to Levy, or taxpayers may be contacted and then miss deadlines for providing needed information or have broken a promise to pay or some other commitment.

Frequently, the levy elicits responses from taxpayers who have not responded to calls and/or letters in addition to collecting dollars. Generally, the levy is released if the taxpayer responds before proceeds are sent. The taxpayer contact provides financial or other information to resolve the case, most often by granting an installment agreement, but also through short-term payment arrangement, a currently not collectible determination under hardship provisions, or a tax adjustment.

The levy must be released if an installment agreement is granted unless the agreement specifically allows for the levy, or if the levy is causing an economic hardship, or for other reasons specified in the Internal Revenue Manual.

Procedures involving levy releases apply both before and after levy proceeds are received. As a result of TBOR2, the IRS now has the means to return the proceeds of a levy to a taxpayer even after the IRS has processed the payment.

The Taxpayer Bill of Rights also added provisions to the IRC that allow taxpayers to sue the government for damages, based on actions or inactions of IRS employees. If an IRS employee disregards the provisions of the IRC and its regulations in the course of his or her duties, the taxpayer may bring an action against the IRS to recover damages under IRC 7433.

Safeguards are built into our billing system to ensure that taxpayers are systemically notified of their rights. The taxpayer is advised in our notices and publications about how to question the liability if it is wrong, how to get help if a levy would cause a hardship, and how to appeal collection actions. If the taxpayer questions the liability, the IRS' Policy P–5–16 is to withhold collection of any liability that is in doubt. Before a notice of levy is issued, taxpayers are sent at least two notices asking them to pay the amount owed. These are the ten day notice and demand (which includes Publication 1, Your Rights as a Taxpayer) and the thirty day notice of in-

tent to levy (which includes Publication 594, The Collection Process). Often, there are more notices sent when individual income tax is owed. There is also an active Collection Appeals Program (CAP) which enables taxpayers to appeal proposed or executed liens, levies, seizures and termination of installment agreements. Other information is available to taxpayers regarding the Collection Appeals Program in Publication 1660, Collection Appeal Rights for Liens, Levies, Seizures and Termination of Installment Agreements. The reverse of Form 9423, Collection Appeal Request, also provides information to the taxpayer on how to file an appeal. The procedures also require that Publication 1660 for a Collection Appeal will be included with the Notice of Seizure.

Question. What actions has IRS taken regarding the employees found to have violated taxpayer rights and/or the spirit and intent of Taxpayer Bill of Rights legislation?

Answer. I have requested the Chief Inspector to conduct a comprehensive audit of general policy as well as investigate specific allegations. The reports will also focus on executive and senior management responsibility for issuing written guidance to the field on the use of enforcement statistics. As reports are completed, we are committed to fairness, objectivity, and consistency in reviewing the findings, taking corrective actions and deciding appropriate administrative actions. In this respect, we have devised a two-step decision making process. The first step consists of a panel that includes executives inside and outside the IRS who will review the results of the investigations. Members of this panel are: Doug Browning, Customs Assistant Commissioner for International Affairs; Steven Colgate, Assistant Attorney General for Administration; and Dave Mader, IRS Chief Management and Administration. This panel will propose corrective and/or administrative actions. The second step of the process is for situations where the proposed corrective and/or administrative action(s) requires a reply and final decision by another official. For actions requiring the second step, Kay Frances Dolan, Deputy Assistant Secretary of Treasury (Human Resources) has been designated. Deputy Assistant Secretary Dolan will make the final decisions on any adverse actions resulting from the first panel. This two-step process will continue as additional investigations are completed.

Question. If IRS no longer uses "dollars collected" as a performance measure, how will it evaluate the performance of its collection employees?

Answer. Collection employees should never have been evaluated on the measure of "dollars collected." Nonsupervisory collection employees performing collection activities continue to be evaluated based on meeting, exceeding, or failing to meet the critical elements and performance standards of the position they occupy as outlined in their position descriptions. The critical elements and performance standards for these employees should not have contained in the past and do not currently contain numerical measures of performance or statistics such as "dollars collected." The immediate supervisors of nonsupervisory employees are evaluated on their ability to meet their critical elements and performance standards, not on numerical measures of performance or statistics such as "dollars collected." Although "dollars collected" as a performance measure has been used organizationally, it is not to be used at any time in a way that would identify the product or performance of any individual collection employee.

Question. Without a "dollars collected" measure, will IRS collections staff be more inclined to defer collection action or consider delinquent accounts uncollectible? Is there a possibility that collections on delinquent accounts will decrease while the size of the accounts receivable inventory increases significantly?

Answer. The possibility always exists that Currently Not Collectible (CNC) action will be used as an inventory control device resulting in fewer dollars collected and increased accounts receivable. The quality of the determination is the key to limiting this possibility. National Office reviews concentrate on the quality of case actions taken in the CNC case. The Regions are also expected to include CNC quality in their reviews of district operations. The Collection Quality Management System reviews a sample of hardship and operating corporation CNC's to determine the quality of actions taken. Collection is also studying other post action review possibilities to minimize inappropriate CNC determinations.

Question. IRS' fiscal 1999 budget estimates include funding for further development of the Inventory Delivery System. This system will centralize collection case processing and use automated methods to evaluate delinquent accounts for collectibility so that the most productive accounts receive priority attention. What is the status of the system, and how many IRS field locations are using it?

Answer. The Inventory Delivery System (IDS) is being developed in three phases, with the first release scheduled for pilot early in 1999. No field locations are currently using the system.

Question. Has IRS evaluated the results of the system? If so, what do those results show?

Answer. Results derived from the system will be evaluated during each of the three pilots and prior to implementation of each release. However, we are currently analyzing a sample of approximately 800 cases processed by an earlier test of the Financial Analysis Program (FAP) piece of the functionality. FAP provides for upfront identification and systemic closure of "hardship" cases and will be delivered early in 1999, as part of the first pilot. We have not yet completed this analysis, but the goal is to find any weaknesses in the FAP process and fix them prior to the upcoming pilot.

Question. What is the current status of ICS, and where is it being used? Once ICS is rolled out of these 13 sites, will all field offices have it? If not, how many offices remain?

Answer. As of April 1, 1998, the Integrated Compliance System (ICS) is fully installed and operational in all Collection offices in 21 of the IRS' 33 districts. The remaining 12 districts plus A/C (International) which do not have ICS, are scheduled for implementation in calendar year 1999. Once ICS is installed in these remaining 13 "sites," no other offices remain.

Question. Why was ICS not rolled out to the 13 sites in 1998? If IRS was appropriated funds for this rollout in 1998, how were these funds used?

Answer. Although ICS requested funds to complete its rollout in 1998, none were included in the IRS' final budget for fiscal year 1998. Instead, the IRS directed all available deployment funds to its top priorities, the Century Date Change and the Service Center Mainframe Consolidation initiatives. To complete the roll out, $60.7 million has been included in the IRS' budget request for fiscal year 1999. The current plan to complete ICS rollout assumes that the requested funds will be available.

Question. Many of IRS' functions, in particular the management and disposition of assets seized from delinquent taxpayers, are extremely labor and paper intensive. How much of the paperwork associated with asset seizures is affected by ICS? Has ICS made revenue officers more productive in controlling managing, and disposing of seized assets?

Answer. ICS provides automation to the issuance of the forms and letters that revenue officers are required to complete before taxpayer assets can be seized and sold. ICS has made revenue officers more productive in controlling, managing and disposing of seized assets by reducing the time it takes to prepare these forms and letters.

Question. Several years ago Collection adopted new procedures using Collection financial analysis in the development of payment schedules. Collection financial analysis applies national and local expense standards to help ensure that taxpayers are not inflating their expenses and to help IRS obtain maximum payment. How have these new procedures affected IRS' ability to obtain maximum payment?

Answer. The Collections financial analysis standards were instituted to ensure fairness and consistency in determining a taxpayer's ability to pay a delinquent tax liability. The standards limit excessive expense claims, but they also provide national allowances for basic expenditures which were often overlooked in the previous system.

Although difficult to quantify from available reports, we believe from interviews with revenue officers and group managers that the Collections financial analysis procedures are increasing dollars collected from higher-income taxpayers while increasing the likelihood that lower-income taxpayer accounts will be reported as currently not collectible.

Question. What has been the effect of IRS classifying delinquent cases as currently not collectible? About half the delinquent cases in IRS receivable inventory were so classified in 1996.

Answer. The overall percentage of currently not collectible (CNC) showed a slight decline for fiscal year 1997. The number of tax periods reported currently not collectible due to hardship (the category to which the new collection financial analysis procedures apply) decreased 11.2 percent from fiscal year 1996 to fiscal year 1997, and dollars collected on taxpayer delinquent accounts increased 2.6 percent. However, we cannot definitively say this occurred due to the collection financial analysis procedures.

The Collections Financial Analysis (CFA) standards have no impact on defunct corporation or bankruptcy CNC's, as payment from continuing income is not an option in those cases.

COMPLIANCE RESEARCH

Question. In the absence of TCMP, what statistically valid data does IRS have to measure overall tax compliance as well as compliance among particular types of taxpayers?

Answer. Since the completion of the last TCMP survey we do not have any new statistically valid data to measure taxpayer compliance.

Question. Does IRS have any plans for improving these data or to find such data for use in measuring tax compliance?

Answer. Following the cancellation of the proposed survey in 1995, the IRS decided to bring in an outside expert (Price Waterhouse) to look at the IRS' needs for compliance data and to recommend what alternatives exist for obtaining these data. Price Waterhouse has issued a final report that the IRS is still considering before making any decisions.

Question. What is the current compliance level [Total Collection Percentage]? How confident is IRS about the reliability of that estimate?

Answer. Our most recent estimate of the Total Collection Percentage (TCP), the total amount of income and employment taxes paid voluntarily and timely or collected through enforcement in a given fiscal year, expressed as a percentage of the corresponding true tax liability for that year, is 87.3 percent for fiscal year 1997. That estimate relies on compliance data that are 10 or more years old.

Question. Does IRS believe that it can attain 90-percent compliance by 2001? If not, what is its revised goal?

Answer. We are no longer setting specific goals for increasing the Total Collection Percentage. We do not yet know for sure how much of an increase IRS can realistically induce, since we do not have an effective way of monitoring changes in overall compliance.

Question. Whatever the goal, what help does IRS need from Congress?

Answer. We are currently considering recommendations made by Price Waterhouse in its report on the Taxpayer Compliance Measurement Program. In order to perform its mission, the IRS will eventually need some way to measure compliance on an ongoing basis.

Question. What is the status of the Compliance Research and Planning Approach, and how is IRS assessing its effectiveness?

Answer. The IRS created the Compliance Research and Planning approach in 1993 to merge the Compliance 2000 philosophy with a rigorous compliance research system. The Compliance 2000 envisioned using non-enforcement efforts to correct unintentional noncompliance and reserving enforcement efforts for intentional noncompliance.

The National Office Research and Analysis (NORA) function was established in the Research Division and 33 District Office Research and Analysis (DORA) functions were established in the IRS District Offices. NORA serves as the central organization providing support to the DORA's. The DORA's:

—develop measures of national and district compliance levels,

—profile potentially noncompliant market-segments,

—perform studies and tests to research any issues arising from these profiles, and

—develop treatments to address these noncompliance issues.

There are currently 12 measures projects, 34 profiles, 34 studies and tests, and 3 test treatments underway. These projects are guided under the auspices of various Cooperative Strategy Working Groups (CSWG). These CSWG's are composed of managers from both NORA's and DORA's.

The three treatment studies are the Duplicate SSN, Self-Employment Tax, and Electronic Transfer Projects. These have all progressed from the profiling and testing phases to the treatment phase. All the treatments are using non-enforcement efforts to address unintentional noncompliance and raise the level of compliance. These measures projects provide the baseline data to determine the effectiveness of the new approach. Planning for fiscal year 1999 has started to determine the best studies and test projects to pursue into the treatment phase.

Question. How is IRS ensuring that the necessary data on compliance can be collected and tracked?

Answer. The Collection Research Information System (CRIS) was started early in the establishment of the Research and Planning Approach to provide compliance data for DORA research and provide measures of noncompliance. CRIS has evolved (and is evolving) through several stages:

—CRIS Working File—CRIS was used in fiscal years 1994 and 1995 for training DORA staff. It had 75 data elements limited to one market segment.

—Interim CRIS was delivered to all DORA's in the winter of 1996. It expanded to 800 data elements and samples of individual and business filers for all market segments.
—Final CRIS is currently undergoing final validation with training for all DORA's to begin this spring. It includes over 2,500 data elements on a sample of seven to ten million individual filers with more than 3 years of data.

CRIS also contains measures of noncompliance developed by the DORA's. As various treatments are implemented, the effectiveness of these treatments can be tracked by applying these measures to the compliance data contained in CRIS. It should be noted, however, that the CRIS measures of reporting compliance are based on the latest available Taxpayer Compliance Measurement Program (TCMP) results.

Question. How does IRS know/decide on which compliance issues to research?

Answer. The DORA's first profile a potentially noncompliant market segment using data from CRIS. The purpose of the profiling is to identify any potential compliance issues for further research. Profiling is guided by the Market Segment and Profiling CSWG.

After profiling, the results are evaluated by the Compliance Studies and Tests CSWG to determine which compliance issues are researched further in the studies and tests phase. The final results are then reviewed for potential development of treatments.

Question. How will IRS use the research results to (1) plan compliance workload and allocate resources across programs and (2) link to IRS various measures, goals, and strategic objectives?

Answer. (1) The "Compliance Research and Planning Approach" is intended to identify more efficient, effective, and economical ways of treating taxpayer noncompliance. Tested treatments or programs, which exhibit successful results, are evaluated against current programs, which encumber existing resources. This evaluation is part of the Operations Planning Process which leads to the development of the Operations Plan—a multi-year, multi-functional, data-driven planning document which allocates all Operations resources to specific programs for a given year.

Research programs that appear to employ a more efficient, effective or economic strategy for combating noncompliance are incorporated into the Operations Plan and are allocated resources. These resources are taken from less efficient and effective existing noncompliance programs. The ultimate goal of the Operations Plan is to attain an optimal level of resources in each program to maximize the impact on compliance. The Office of Compliance Research, in conjunction with the Operations functions and an outside contractor, is currently developing a model to assist in achieving this optimal resource allocation.

(2) Before new strategies or programs are incorporated into the Operations Plan, strategy owners (typically two IRS executives—one in National Office and one in the Field—assigned to oversee development, implementation, and review) are required to submit documentation. This documentation details the project's purpose/description, resource impacts, benefits, goals, and performance measures. These goals and measures must link to the broader strategic objectives of Operations and the overall mission and objectives of the IRS. Failure to provide any portion of this required information could prevent a strategy from receiving resources and being implemented at a nationwide level.

As the Operations Plan is developed each year, it directly supports the development of the Service's overall strategic planning document—IRS Strategic Plan and Budget (SPB).

EMPLOYEE PLANS/EXEMPT ORGANIZATIONS

Question. Given the "great potential for abuse," how does IRS justify the downward trend in EP/EO staffing and examinations?

Answer. Beginning with the fiscal year 1996 Appropriation, the EP/EO FTE level has declined as the IRS absorbed budget reductions.

However, for several years, the level of staffing available to EP/EO within the appropriated budget has resulted in a decrease in EP/EO's ability to maintain the most effective oversight of a growing universe and has increased the potential that EP/EO may be unable to fulfill its Congressional mandate of ensuring that tax-exempt entities comply with the requirements for exemption and that benefits for employees in qualified retirement arrangements are preserved.

The ultimate punishment for violation of tax exempt laws is revocation of a tax exempt organization's charter to operate. This is a time-consuming process for IRS staff and a disruptive process for the tax exempt organization. "Taxpayer Bill of Rights 2" (Public Law 104–168) provided for other measures that IRS could take in

lieu of revoking an organization's charter. Specifically, the law provided for a series of excise taxes and penalties if certain charitable organizations failed to meet qualification requirements. These "intermediate actions" give the IRS a new tool that should deter abuse and improve enforcement.

Question. What steps has IRS taken to ensure that the new excise taxes and penalties are being assessed where appropriate? How many organizations were assessed taxes and/or penalties in fiscal year 1997 and how much was collected that year? How much does IRS expect to collect in fiscal years 1998 and 1999? What are the most prevalent violations for which charitable organizations were penalized?

Answer. The IRS is working with the Treasury to develop regulations to provide guidance concerning the new excise taxes. Promulgation of the regulations in proposed form is a priority on the 1998 Business Plan. In the interim, the IRS has taken several steps to inform IRS personnel and tax exempt organizations about the new requirements. We issued Notice 96–46, 1996–2 C.B. 212, to advise tax exempt organizations of the new requirements and invite public comments for the IRS to consider in drafting future guidance. We also advised IRS exempt organizations personnel of the new requirements through memoranda and our Continuing Professional Education program, and encouraged our exempt organizations examination personnel to consult with National Headquarters staff when they encounter potential excess benefit transactions during examinations of exempt organizations. However, we do not yet have the capability to identify excise taxes paid under section 4958 from the total amount of excise taxes paid by exempt organizations. Excise taxes under section 4958 are reported on Form 4720, which is the form that has been used to report private foundation excise taxes under Chapter 42 of the Code and which was easily adaptable to section 4958 excise taxes. The computer programming necessary to identify Forms 4720 reporting section 4958 taxes will not be completed until 1999. We do not, however, expect to collect substantial amounts of tax under section 4958, as we anticipate that the provision will have a very positive effect on compliance by tax exempt organizations with the prohibition against inurement of the earnings of tax exempt organizations.

Question. How, if at all, has the availability of penalties and excise taxes reduced the need to revoke charters?

Answer. The primary effect of the section 4948 provisions will be to ease the IRS' administrative burdens in promoting compliance. We do not anticipate that the excise tax provisions will substantially reduce the need to revoke exempt status (we should note that issuing and revoking charters is a function of the states) because they will most often be applied in situations in which under prior law the IRS was reluctant to revoke because of the potential harm to a charitable organization's beneficiaries. Historically, the IRS has revoked the tax exempt status of few organizations, usually around 20 per year. IRS practice was to attempt to resolve the compliance problems through a closing agreement so that the organization's charitable work could continue. This often unwieldy process will be eased by the availability of section 4958 sanctions, which are targeted at the transgressors, not the objects of an organization's charitable mission. The section 4958 sanctions will not, however, eliminate the need to revoke tax exempt status in egregious cases, such as the situation in the recently decided Tax Court case, *United Cancer Council* v. *Commissioner.* Treasury had proposed that the gross receipts threshold for determining if an exempt organization has to file be raised from $25,000 to $40,000.

Question. What would be the rationale for changing the filing threshold? How would this affect EP/EO's workload?

Answer. The proposal to raise the filing threshold was made by Internal Audit after a study of the exempt organization return-filing universe. The rationale is that since the $25,000 threshold was established in 1982, inflation has made many small organizations subject to the filing requirement. We are currently studying the proposal and requested input from the public as well as other users of Form 990. There is a question whether an increase by the IRS would substantially reduce the burden on small organizations because many of the 33 states that accept Form 990 in fulfillment of state filing requirements are reluctant to raise the threshold. Also, it is not clear that raising the threshold would significantly reduce the IRS' return-processing workload. We are also considering whether to increase the threshold for filing Form 990-EZ, which is currently available to organizations with less than $100,000 in gross receipts and less than $250,000 in assets.

GAO's report on not-for-profit hospital conversions (GAO/HEHS–98–24, Dec. 16, 1997) raises issues of interest to IRS. GAO reviewed 14 such conversions and found that nearly $1 billion in net proceeds from the conversions was provided to foundations, most of which had broadly defined missions that focused primarily on health and wellness. The foundations, in turn, awarded grants to a variety of health-related activities as well as a tutoring program, an adult care giver training program,

and a summer remediation program. Other grants supported arts, public safety, and community development. For two conversions, proceeds totaling $115 million were not directed to charitable purposes. The Internal Revenue Manual does not directly address how the distribution of proceeds from hospital conversions to charitable activities should be done. There is a presumption that the nonprofit hospital's charter to provide charitable care—the basis of its tax exempt status—will be transferred to a tax exempt foundation to continue charitable activities.

Question. Does IRS see the need to clarify current regulations so that the distribution of these charitable assets is done consistently on a national basis?

Answer. Current law addresses distribution of assets upon dissolution of a tax exempt organization, which is a responsibility that is divided between the IRS and the states. The IRS' primary concern in a takeover of a charitable organization by a for-profit entity is that the charity receive fair market value in the transaction, and that those proceeds are used for charitable purposes. The IRS' tools to carry out this responsibility are the authority to revoke, retroactively, the exempt organization status, or apply the section 4958 excise taxes on excess benefit transactions, and in the case in which the sale proceeds are transferred to a newly-created organization, the authority to determine whether the new organization is organized and operated exclusively for charitable purposes. The authority to seek a specific application of the sale proceeds rests with the State of incorporation through its ability to enforce, at equity, the terms of the dissolution provisions of the exempt organization's governing instrument. This joint authority is made possible by the requirement in section 501(c)(3) that an organization be organized and operated for charitable purposes to qualify for exemption. Section 1.501(c)(3)–1(b)(4) specifically provides that an organization does not satisfy the organizational test unless its assets are dedicated to an exempt purpose, so that upon dissolution, its assets would be distributed, either pursuant to a provision in the organization's articles or by operation of law, to one or more exempt purposes.

Of the 14 GAO case studies, 3 involved joint operating agreements between not-for-profit and for-profit ventures. IRS has raised questions about the tax implications of such arrangements. Specifically, the operation of the joint venture might result in charitable assets being used for private benefit, thereby creating a basis for revoking the tax status of the charitable entity. In its December 1997 report, GAO referred to a forthcoming IRS ruling that was expected to clarify these concerns.

Question. What is the status of the ruling? What impact will it likely have on joint ventures as they currently operate? How widespread is the use of such joint operating agreements in the health care field?

Answer. On March 4, 1998, the IRS released Rev. Rul. 98–15, 1998–12 I.R.B. 6 (March 23, 1998). It describes two situations involving joint ventures in which an organization that operates an exempt hospital described in section 501(c)(3) of the Internal Revenue Code forms a limited liability company (LLC) with a for-profit corporation and then contributes its hospital and all of its other operating assets to the LLC. The revenue ruling applies a facts and circumstances analysis and holds that in one situation the organization continues to qualify for exemption because the activities of the joint venture further the organization's charitable purpose and, in the second situation, the organization no longer qualifies because the activities of the joint venture do not further the organization's charitable purpose and confer impermissible private benefit on for-profit partners. We hope this recent guidance will be helpful to the public. In addition, there is currently pending before the Tax Court *Redlands Surgical Services* v. *Commissioner* which involves issues in this area.

We do not have precise data on the scope of the use of joint ventures in the health care field but instead customarily look to a variety of public sources for information on transactions in this area.

SPECIAL AGENT RETIREMENTS

Question. How many of those eligible to retire in fiscal year 1997 did retire that year?

Answer. In Criminal Investigation, there were 167 special agent retirements during fiscal year 1997. In addition, 30 special agents left through normal attrition.

Question. Does IRS still believe that about 550 special agents will have retired by the end of fiscal year 2000?

Answer. Yes, in fact, we now believe that an average of 200 special agents will retire each year through fiscal year 2000. Added to the 167 that retired during fiscal year 1997, a total of 767 will have retired from fiscal year 1997 through fiscal year 2000.

Question. Last year, in discussing its plans for overcoming the potentially adverse effects of a high turnover of special agents, IRS told this Committee that it would

reduce its commitment to the "War on Drugs" and concentrate on "Tax Gap" investigations. IRS also said that its support of narcotics and money laundering investigations would be limited to the resources provided by the Organized Crime Drug Enforcement Task Force of Justice, which would be a 50 percent reduction from then-current levels. According to IRS this reduction would seriously curtail its ability to participate in multi-agency drug task forces sponsored by local U.S. Attorneys and would significantly reduce the amount of funds flowing into the Treasury Asset Forfeiture Fund from IRS investigative forfeitures. Did IRS follow through on the plans described above?

Answer. The IRS received the President's fiscal year 1998 Budget Request. Therefore, IRS has not found it necessary to significantly reduce its commitments to other Federal agencies, multi-agency task forces, and United States Attorneys Offices to provide its expertise in financial investigations, which is usually required for the successful prosecution of narcotics-related violations.

Question. If not, what did it do differently, and why?

Answer. Approval of the President's budget for fiscal year 1998 has enabled the agency to maintain program delivery relatively consistent with last year's results, despite some reduction in full-time equivalents (FTE) realized. During fiscal year 1997, the IRS increased its percentage of enforcement efforts in "Tax Gap" investigations related to legal industry income. The direct investigative time (DIT) for "Tax Gap" investigations was 59.7 percent, a slight increase from the prior two fiscal years; DIT in fiscal year 1995 was 56.8 percent and DIT in fiscal year 1996 was 59.4 percent.

While DIT on "Tax Gap" investigations has increased slightly, the DIT on narcotics-related investigations has remained relatively the same, although FTE on narcotics-related investigations has decreased commensurate with the agency's realized FTE.

Question. Have the consequences suggested by IRS come true?

Answer. Seized property pending forfeiture has declined due to non-budgetary reasons.

Question. For example, has there been a noticeable effect yet on the amount of funds flowing into the Forfeiture Fund?

Answer. The value of property seized for forfeiture significantly decreased during fiscal year 1997. Seizures during fiscal year 1997 total $56.6 million, as compared to fiscal year 1996 seizures of $71.7 million. The value of property forfeited, particularly judicial forfeiture actions, often lags behind the value of property seized for forfeiture. The agency, therefore, anticipates that the amount forfeited and deposited to the Treasury Forfeiture Fund will continue to decrease, subsequently reflecting the amounts seized for forfeiture. However, due to the judicial processes required, the actual forfeiture of property seized in fiscal year 1997 may occur as early as two months and as long as three or four years after seizure.

The amount forfeited during fiscal year 1997, and subsequently transferred to the Treasury Forfeiture Fund, has increased over the prior fiscal year. During fiscal year 1997, $72.6 million was forfeited, as compared to fiscal year 1996 forfeitures of $42.1 million; however, one single forfeiture of $32 million skews the fiscal year 1997 total. Seizures, totaling $32 million, related to a health care fraud investigation, were forfeited during fiscal year 1997 and are being returned to governmental victims of the fraud as restitution. Absent that one forfeiture, the actual dollars forfeited would have decreased $1.5 million.

Question. How, if at all, will the fiscal year 1999 budget request change existing circumstances, either for better or worse?

Answer. Receipt of the full fiscal year 1999 President's budget request will allow IRS to provide approximately the same level of commitment to the "War on Drugs" as in fiscal year 1998. IRS has been revamping its special agent basic training program, which it expected to complete in time to train special agents being hired for fiscal year 1999.

Question. What is the status of this effort?

Answer. The Special Agent Basic Training (SABT) redesign effort is on schedule and will be implemented with the next class of students scheduled to arrive for orientation on May 19, 1998. Three additional classes have already been scheduled before the end of this fiscal year (July, August and September); additional classes, commencing approximately six weeks apart, are anticipated during fiscal year 1999 and beyond.

Question. Does this effort represent a shift to on-the-job training versus the developmental form of training used in the past?

Answer. No. The overriding goal of the redesigned program is to graduate new agents with decision making/problem solving skills equivalent to the experience level of an agent with two years field experience, thereby substantially reducing on-

the-job training efforts by the field. As detailed below, the redesign effort represents a substantial change in the methods used to present the developmental training material to our students.

The SABT redesign effort has resulted in the development of a three-phased learning process at the National Criminal Investigation Training Academy (NCITA):

1. The first phase of training is a one-week orientation or Pre-Basic Training Program that became essential with the implementation of the new centralized hiring process that will also be implemented with our May 19, 1998 class. During this week long program, all personnel and administrative matters relating to new hires formerly accomplished at the district level will be completed at the NCITA. In addition, students will receive training in the Investigative Thought Process, Professionalism, Time Management and Core Values which includes IRS policies relating to ethics, diversity, quality and sexual harassment. The students will also be tested on their knowledge of federal tax law and familiarized with the computers and computer systems assigned to them upon their arrival at NCITA.

2. The second phase of SABT training is the nine-week Criminal Investigator Training Program (CITP) that is sponsored by the Federal Law Enforcement Training Center (FLETC). This course, which has remained unchanged, is comprised of criminal investigators (special agents) from Treasury Department, Justice Department and other Federal agencies. The course includes blocks of instruction in criminal law, criminal court procedures, rules of evidence, defensive tactics, arrest techniques, weapons familiarization and other courses of common interest to Federal criminal investigators.

3. The third phase and heart of the redesigned SABT program is the Special Agent Investigative Techniques (SAIT) course. This 12 week course has been completely revamped and is presented in a highly interactive, facilitative adult learning environment. The overall course presentation has been modeled, to a large degree, after the internationally acclaimed Royal Canadian Mounted Police (RCMP) recruit training program.

SAIT students are placed in an office environment with facilitators (on-the-job instructors (OJI's) for every six to eight students, as well as a group manager advisor responsible for the overall evaluation of each student's performance. The students are exposed to over 40 courses that are presented to them in a facilitative mode as they complete two separate investigations. The courses are presented "just in time" for the students to implement their newly acquired skills in a problem solving approach to maximize their learning experience and complete their assignments. During each step in the problem solving process, students are challenged to critically examine their actions in light of IRS mission statements, policies, customer needs, and core values. In addition to the numerous practical exercises, classroom exercises, and case studies, we have also produced approximately 40 videos which serve to advance the case story line and to visually depict special agents interacting in the proper manner with witnesses, third parties and subjects of an investigation.

The overriding goal of this interactive training environment is to achieve results in line with documented RCMP successes graduating new agents with an approximate equivalent experience level of two years in the field. Consequently, the redesigned SABT program will place much less of a burden upon the field for OJI activities, as field experiences are duplicated within the NCITA to enhance and reinforce the learning experiences of its trainees. These more experienced trainees will be able to work cases with minimal direction and guidance, rather than having their field OJI lead the new agent through the investigative process. Under this new model, the OJI will become more of a mentor than an instructor.

Question. What are its advantages and disadvantages, if any, compared to past training?

Answer. The primary advantages of the use of the facilitative problem solving approach to training are threefold:

1. The NCITA will supply to the new field agents decision making/problem solving skills equivalent to an agent with two years field experience. The increase of the equivalent experience level of our trainees is critical to our mission due to the aging of our work force. We are currently losing more agents to retirement than we can hire and train to replace them. The experienced agents remaining in the work force will be hard pressed to accomplish program goals, even without the additional burden of training a new generation of agents. The prior SABT program was an instructor focused, OJI intensive process. The redesigned SABT process is learner focused and will greatly reduce the demands upon the field to develop our new agents to their full working level.

2. The facilitative, problem solving approach used in the redesigned SABT program provides us with a vehicle to teach and reinforce investigative thinking skills and to critically evaluate proposed actions in light of IRS mission statements, poli-

cies, customer needs, and core values. On almost a daily basis, trainees will be challenged to develop an action plan during their problem solving exercises to accomplish their investigative goals. In each and every instance, the trainees will be required to critically evaluate their action plan to be certain that it is consistent with all IRS mission statements, policies, customer needs, and core values, thereby reinforcing the investigative thought process once the agents are placed in the field.

3. Our new program will incorporate not only technical skill development, but will enhance critical people/behavioral skills, such as presentation skills, leadership skills, and active listening skills, etc., as well as instill in each agent the desire to become a life long learner. This new program extensively uses practical exercises and role playing. The trainees are required to successfully resolve situations and circumstances involving people from diverse social, economic, and cultural backgrounds. With the additional emphasis we place on these types of skill development, the trainee will return to the field much better equipped to perform tasks requiring these skills, whether dealing with peer agents, managers, other IRS Divisions, other agencies, and most importantly, the general public.

Question. Are there cost savings from reduced relocation costs, less formal training, or training overhead?

Answer. The redesigned SABT Program does not impact relocation costs relating to the students trained at the NCITA, nor are training overhead costs materially affected.

The 22-week redesigned SABT Program includes a one-week orientation/pre-basic training program, a nine-week CITP course and a 12-week SAIT course. The 21-week prior SABT program included a two week Tax-CI course, the nine-week CITP course and a nine week SAIT course. Personnel matters relating to new hires, as well as other administrative details, certifications and orientation were handled in the district offices prior to the trainee reporting to the NCITA. Consequently, the difference in length of the old and new versions of the SABT course is minimal.

The new program requires the participants to attend 22 consecutive weeks of training. The previous program included a break between the CITP and SAIT segments, requiring Government funded round trip transportation for all participants between the Federal Law Enforcement Training Center and each participant's post of duty. These mid-course transportation costs are eliminated in the redesigned program, resulting in cost savings to the IRS.

The advantages of the redesigned program in sending new agents to the field with an equivalent experience level of two years on the job places a significantly lighter burden upon the field for OJI responsibilities and will result in the new agents becoming productive in a much shorter period of time. Substantial savings are realized by minimizing the burden placed upon experienced field personnel for OJI duties, thereby allowing those experienced agents to concentrate on direct investigative responsibilities. Additional savings are realized as our new agents will become productive in a much shorter period of time.

Question. Are training programs for other employees, such as revenue agents and revenue officers, also being revamped?

Answer. A team from Corporate Education and the Assistant Commissioner (Examination) has been formed to review all levels of basic recruit training for revenue agents and tax auditors. The team will review the course material for the appropriate use of financial status audit techniques and for the inclusion of modules that specifically address the professional treatment of taxpayers.

There have been some improvements in revenue officer training. A course in "Interest Based Interviewing Techniques" is mandatory for Continuing Professional Education in fiscal year 1998. This course is the first step in our commitment to delivering Conflict Management to Collection employees. The course presents the use of conflict management principles as a method of conducting taxpayer interviews to enhance taxpayer/revenue officer interactions, reduce the level of stress, and help to promote a customer service-oriented atmosphere for employees.

Question. If so, please provide details, including information on specific subjects or job dimensions that IRS has identified as needing more emphasis during either classroom or on-the-job training.

Answer. In addition to the ongoing review of basic recruit training, a separate but related activity is our work on Occupational Competency Models (OCM's) for revenue agent and tax auditor occupations. We will be matching competencies identified for successful performance with existing course material to identify additional training needs.

A course focusing on the principles of customer service and fair treatment of taxpayers is being developed during fiscal year 1998. This course is the beginning of a Public Service curriculum for Collection, which will contain courses in active lis-

tening, interpersonal skills, etc. We expect that this course will be available for delivery in fiscal year 1999.

DISPUTE RESOLUTION

Dispute Resolution

Every year, IRS must attempt to resolve thousands of disputes with taxpayers over tax liabilities. Traditionally, IRS has done this through its Office of Appeals. Resolving disputes through the Office of Appeals takes a long time and is costly to both IRS and the taxpayer. Since the early 1990's, IRS has been attempting to implement various alternative dispute resolution methods, such as early referral and mediation, to improve the cost-effectiveness of dispute resolution within IRS and to reduce the burden and cost imposed on taxpayers, particularly corporations.

Question. For each alternative dispute resolution method used in fiscal year 1997, please provide data on how often it was used, what type of taxpayers were involved (e.g., individuals, corporations), and the results.

Answer. The Appeals organization has a track record of independence and impartiality.

1. Its mission is to resolve tax controversies without litigation on a basis that is fair and impartial to both the Government and the taxpayer.

2. Its organizational placement within IRS ensures separation from both the enforcement and litigating functions. The National Director of Appeals reports directly to the Deputy Commissioner and has line authority over Appeals operations throughout the nation.

3. Its history since formation in 1927 repeatedly shows its effectiveness in resolving disputes. Most taxpayers who disagree with adjustments choose to come to Appeals without docketing their case in the Tax Court. Each year, Appeals reaches agreement on 85 percent to 90 percent of the cases that come before it. For the fiscal year 1997, Appeals received almost 77,000 cases and disposed of just under 72,000 cases. In comparison, about 1,200 tax cases a year are resolved in the courts.

Appeals Initiatives to Resolve Disputes (See Attachment 1 at end of Senator Campbell's questions for a description of each program.)

Early Referral.—The early referral process, including employment tax, has been used in 54 cases, involving approximately $7.8 billion in proposed adjustments, and thus far has resulted in approximately $3.6 billion in agreed adjustments.

Mediation.—Sixteen mediation requests have been made, of which nine were denied because they did not meet the mediation criteria. One mediation case involving $70 million in disputed adjustments was successfully resolved. This resulted in $37 million in agreed adjustments. One case involving approximately $1.9 billion in disputed adjustments was successfully resolved after the agreement to mediate was signed, but prior to any mediation session. This resulted in approximately $1.3 billion in agreed adjustments. Two cases involving approximately $46 million did not resolve. Three cases involving approximately $114 million are in process.

Simultaneous Appeals/Competent Authority.—Eleven simultaneous Appeals/competent authority cases have been completed and one taxpayer withdrew from the process. There are sixteen other cases in process, involving over $800 million in proposed adjustments.

Collection Appeals Program (CAP).—For the fiscal year 1997, Appeals received 1,479 CAP cases and closed out 1,461 cases. Of those cases closed, Collection's action was fully supported in 1,054 cases, Collection was partially reversed in 207 cases and fully reversed in 200 cases. It is important to note that a CAP appeal requires that taxpayers discuss their dispute with the IRS employee's manager to attempt resolution before coming to Appeals. Most CAP cases are actually resolved at the management level.

Question. Were there any significant developments/changes in the use or availability of alternative dispute resolution methods in 1997 and the first half of fiscal year 1998? Last year, for example, IRS told this Committee that it anticipated expanding mediation to cases or issues involving at least $1 million in dispute. Has that step been taken? If no, why not? If yes, what have been the results?

Answer. *Bankruptcy Appeals Process.*—With the issuance of Announcement 97–111 on November 6, 1997, Appeals began testing a new Bankruptcy Appeals dispute resolution program. We anticipate conducting a review of this program at the end of June 1998. The purpose of this process is to eliminate litigation in Bankruptcy Court on certain IRS related issues by providing an administrative forum within Appeals to settle these disputes. There are numerous benefits to this process. It provides taxpayers with a no-cost, risk-free opportunity to resolve disputes. Taxpayers who are not satisfied with the proposed resolution are free to litigate the matter in Bankruptcy Court. Furthermore, in all instances where a resolution is reached, this

process also provides benefits to all entities related to this process: the IRS, the taxpayer's estate, and the Bankruptcy Court. The IRS will not expend resources incident to litigation, the taxpayer's estate likewise will not expend such resources and this will increase the estate's value to creditors, and congestion in Bankruptcy Court calendars will be reduced.

International Penalties.—Appeals is considering extending the concept of the early referral procedures contained in Rev. Proc. 96–9 by providing for an expedited appeal of the following penalties: I.R.C. Sections 6038(b), 6038A(d), 6038B(b) and 6038C(c), which are not subject to deficiency procedures. This expedited referral procedure will allow taxpayers an administrative appeal prior to the payment of the penalty. We expect to publish a Revenue Procedure by June 1998.

Appeals Request For Review.—Appeals is developing a form for taxpayers to request an administrative appeal, along with a customized Publication 5 that explains the Appeals process, which taxpayers and their representatives have told us would facilitate the Appeals process. We expect to begin testing this form in a Service Center in May 1998. This form will significantly reduce the time span to resolve these cases in Appeals and the taxpayer burden in using the Appeals process.

Mediation.—Mediation is currently limited to Coordinated Examination Programs (CEP) cases assigned to Appeals Team Chiefs. The initial one-year mediation test period concluded in October 1996 and Announcement 97–1 extended the test of the mediation procedure set forth in Announcement 95–86 for an additional one-year period that concluded in January 1998. We have recently completed our review of the mediation procedure and we are considering expanding the mediation process to include more cases or issues. We expect to publish an announcement on the new mediation program in April 1998.

Employment Tax.—Announcements 96–13 and 97–52, allow taxpayers whose returns are being examined to request early referral of one or more employment tax issue(s) from district compliance functions to Appeals. The purpose of early referral for employment tax issues is to resolve them more expeditiously through simultaneous action by the District and Appeals. These Announcements are part of the IRS' strategy designed to improve employment tax administration for all taxpayers, including those who are small business owners. We expect to publish a Revenue Procedure with the final procedures when the two-year test concludes in May 1998.

Question. What specific goals and measures—both qualitative and quantitative—does IRS use to assess whether each of the alternative methods works? What have these measures shown to date about how well the various methods meet their goal(s)?

Answer. TRACES: Appeals has initiated a review of Appeals functions and processes to come up with new, key performance indicators that will foster continuous improvement and provide improved customer satisfaction. These key performance indicators are known as "TRACES" were developed for: Timely, Responsive, Accurate, Complete Service, Education, and Sustention Rate. These key factors focus on providing better products and services by reducing cycle/lapse time, providing prompt hearings for taxpayers and making settlements that are fair, impartial, technically and procedurally correct.

Customer Satisfaction Surveys: ADR Programs.—Through the recently established evaluation programs, Appeals encourages taxpayers using dispute resolution programs to comment on the procedures. Evaluation is the key to determining whether Appeals is successfully meeting its goals. Evaluation can also be used to assess the need for changes in administering the program and in determining what our customers value. In 1996, the Office of Management and Budget approved taxpayer customer satisfaction surveys for the early referral, simultaneous Appeals/Competent Authority and mediation programs.

The responses to our customer satisfaction surveys reveal that both the early referral and simultaneous Appeals/competent authority procedures help taxpayers resolve their cases more quickly than using the standard procedures. Also, taxpayers responded that they saved money by using mediation instead of having to litigate the issues.

Appeals ADR initiatives offer prompt and less expensive methods for taxpayers to resolve their disputes after good faith negotiations have failed in Appeals or agreement cannot be reached with Compliance. When any of these programs enable the taxpayer and the IRS to reach agreement, burdens and costs to both of them are reduced.

Appeals Process.—As part of its on-going evaluation of dispute resolution programs, the Office of the National Director of Appeals conducted a Customer Satisfaction Survey in June 1997 to collect feedback from taxpayers about the Appeals process. Of the 6,800 taxpayers and tax practitioners who were mailed a two-page survey, 43 percent chose to participate in the survey.

The survey was designed to capture information about the taxpayers' knowledge and understanding of the Appeals process. Key elements of the survey were the taxpayers' ratings for their level of satisfaction in nine facets of the Appeals process, including:

—How long it took:
  —to get a case to Appeals;
  —for Appeals to schedule a conference; and
  —to get a case through Appeals
—Correct application of the law to the facts of the case
—Appeals fairness and impartiality in resolving the case.

The survey captured other data relating to how well the Appeals officer explained the Appeals process and the outcome of the appeal.

Some of the findings are:

—84 percent of respondents would use Appeals again
—70 percent satisfied (completely or somewhat) with Appeals fairness and impartiality
—70 percent satisfied (completely or somewhat) with the overall Appeals process.

Future customer surveys.—The IRS announced in IR–98–7 that in a new series of upcoming surveys, taxpayers who have dealt with the IRS will be asked to complete questionnaires to rate the service they received. A private contractor will conduct customer satisfaction surveys of all IRS functions, beginning in March 1998. In that announcement, the IRS stated, "For the first time, we're looking at specific services through our customers' eyes." Appeals has endeavored to adopt this focus since 1995 with its TRACES measures noted above. Appeals will use results from these new taxpayer surveys, along with those from the 1997 survey, to improve the administrative Appeals process, make sure it is more customer friendly and achieve a high quality product by striving for continuous improvement and customer satisfaction.

Collection Appeals Program.—Our goal on CAP cases is to provide an expedited decision (within 5 days) that is the most appropriate resolution for the dispute. To measure numbers we track of how many cases we received and how cases are closed by type of appeal (i.e. lien, levy, seizure, or termination of installment agreement) and whether decisions are timely.

We measure quality by CAP caseload reviews. We have completed two reviews. The first was a 100 percent review of all CAP cases closed during the first 90 days of the program. The second was done as part of the Nationwide Appeals Review Program, which reviews selected issues or types of cases when they are closed. Our program reviews have shown that generally case decisions are being made appropriately. The numeric data indicates that CAP is being used and decisions are generally timely, i.e. within the 5 days.

PERFORMANCE MEASUREMENT

Question. What progress has been made in developing an overall balanced measurement process?

Answer. The IRS is in the process of analyzing and redesigning its entire measurement system from the development of corporate measures to how the measures are used and interpreted by management and employees. The redesign effort will consist of two phases. Phase I comprises a near-term goal to develop a set of practical, interim measures which are aligned with the IRS' current organization structure and can be used in fiscal year 1999 to measure IRS district and service center performance. Phase II of this effort, which will build on the results of Phase I, will entail the development of a new measurement system that is equal to the "best in class" in private industry and that is aligned with the IRS' modernized organizational structure.

In late 1997, the IRS established a task force, the New Measures Task Force (NMTF) to lead the effort of developing a balanced measurement system. This task force includes IRS executives, managers, and technical experts, as well as representatives of the National Treasury Employees Union (NTEU), Treasury, and the Office of Management and Budget (OMB). The NMTF has outlined an action plan for moving the IRS from its current measurement system to one with a more balanced approach and is working to integrate a number of ongoing projects involving customer and employee satisfaction surveys, exam and collection quality measurement systems, and other measures refinement activities into its overall approach. The IRS is in the process of selecting a contractor to work with the NMTF in developing the balanced set of measures.

Question. Are the five measures cited by Internal Audit still being used as measures? If so, how?

Answer. The five measures cited by Internal Audit were: (1) dollars collected, (2) dollars collected per full time equivalent, (3) total dollars collected as a percentage of current year receivables, (4) average cycles per Taxpayer Delinquent Account (TDA)/Taxpayer Delinquent Investigation (TDI) disposition, and (5) TDA/TDI average hours per entity disposition. Of these measures, measure No. 1, dollars collected, will continue to be tracked at the national level, because it is a budgetary measure. Measures No. 2, 3 & 5 have been dropped from the Annual Performance Plan and will not be used for purposes of business review evaluations. Measure No. 4, average cycles per Taxpayer Delinquent Account (TDA)/Taxpayer Delinquent Investigation (TDI) disposition, is a Budget level measure, so results will be used for reporting purposes, but the measure will not be used in business review evaluations. Data for these measures is still available on our Management Information Systems, but a district will only be able to access information about its own results and the composite Servicewide results.

Question. In light of recent testimony on over-zealous collection activity and IRS reliance on enforcement statistics, how does IRS plan to meet this mandate in the future? (mandate refers to requirements of the Government Performance and Results Act—GPRA)

Answer. These measures are all being reviewed in light of our goal of transforming the IRS from an internally focused organization to one which views itself from the taxpayer perspective and in light of the elimination of use of all enforcement statistics for measuring organizational performance. We have a task force working on this problem, and we expect to engage expert outside consultants to assist in this task. We expect to have interim results to use for measuring performance during fiscal year 1999. These measures will build on some of the measures included in the budget submission.

Question. What plans, if any, does IRS have to improve the reliability of this performance measure?

Answer. We do not have any plans currently.

Question. What are IRS' plans to ensure that its strategic plan contains results oriented measures that can be used to assess how well its strategic goals are being met for the Customer Service and Compliance business lines?

Answer. The IRS recognizes that many of its existing measures are output-oriented. The New Measures Task Force will work with private sector experts to address that imbalance and identify results-oriented measures for all its business lines. These measures will be included in the IRS' strategic plan and will be used to monitor success in meeting strategic goals.

OTHER

Question. Given the additional resources provided in fiscal year 1998 for the Earned Income Credit initiative and the President's budget request for fiscal year 1999, how, if at all, has IRS' long-range outlook changed?

Answer. Out-year budget estimates included in the fiscal year 1998 budget request were based on OMB assumptions that agencies would be required to absorb inflationary increases (including annual pay raises). Given the labor-intensive nature of the IRS' budget and the compelling need for technology investments (e.g., Century Date Change) long-range resource forecasts suggested steadily declining FTE levels.

The fiscal year 1998 budget, enacted by the Congress, provided the first "real dollar" increases to the IRS' budget since fiscal year 1995. While FTE levels during that three-year period had fallen by more than 10 percent (from 112,000 to fewer than 102,000), the fiscal year 1998 budget allowed IRS to stabilize its work force at nearly 101,000 FTE. The IRS' fiscal year 1999 request includes 1,462 additional FTE—primarily for enhanced customer service in connection with the National Performance Review. The agency's renewed commitment to customer service and organizational modernization is based—in part—on maintaining these FTE levels during the next five to seven years. It should be noted that although the Earned Income Tax Credit initiative is designed to combat noncompliance and reduce overclaim rates, most of the FTE and dollar investments are in customer service staffing in the service centers (e.g., correspondence examinations and Questionable Refund Detection Teams), education and outreach, and compliance research—not traditional enforcement programs that have been most directly affected by prior year budget cuts.

Question. Is it not fair to say that any anticipated decline in enforcement programs is due not so much to inadequate funding but rather to a conscious decision to emphasize customer service?

Answer. The loss of the fiscal year 1995 Compliance Initiative funding and the recent emphasis on customer service have contributed to a long-term reduction in traditional, face-to-face enforcement programs. Prior year reductions in core Compliance programs such as Examination, Criminal Investigation and Collection were accomplished largely through attrition, early-out retirements and buyouts. Losses in key employment categories (e.g., revenue agents, special agents and revenue officers) in a tight labor market make recruitment of new hires difficult and technical training expensive. Beyond FTE cuts, disproportionate reductions to support costs such as training, supplies and automation have strained managers' ability to "do more with less." The fiscal year 1999 budget request would partially restore prior year cuts and help stabilize funding for these critical activities.

Question. How many employees are in these so called temporary customer service type jobs? What type of work are they doing? What is the likelihood that IRS will continue to keep these employees in their current positions?

Answer. There is a total of 114 Customer Service employees in temporary positions. They range in grade from GS–4 to GS–13 and include employees in Walk-in offices, the automated collection system, toll free telephones, in addition to clerical and analyst positions. IRS plans to evaluate the sites in April 1999 to determine the next step to take regarding these positions.

Question. In March 1997, GAO reported that IRS did not have well-defined procedures for requesting and processing innocent spouse claims (GAO/GGD–97–34, Mar. 12, 1997). GAO recommended that IRS (1) develop new or modify existing publications to better inform and educate taxpayers about the availability of and criteria for innocent spouse relief, (2) develop a tax form and procedures for requesting and either granting or denying such relief, (3) provide additional guidance to IRS employees to better insure consistency in processing innocent spouse cases, (4) establish a cost-effective process for monitoring consistency, and (5) update regulations to reflect current requirements. What steps has IRS taken to implement each of GAO's recommendations?

Answer. (1) New Publication 971, Innocent Spouse Relief, is under development and we expect to make it available early in April 1998. (2) New Form 8857, Request for Innocent Spouse Relief, is in the final stages of review and we expect to make it available for distribution early in April 1998. However, we expect the form to be available on the IRS Web page by the end of March. (3) Pipeline processing instructions have been updated to ensure proper processing of Form 8857. Cincinnati Service Center will be the central location to process Form 8857. Receipt and Control, Code and Edit, ERS, and Rejects will route Form 8857 to the Examination function for review. In addition to pipeline processing, Files instructions have been completed and updated accordingly.

Question. What has IRS done to implement each of the recommendations in the cited GAO report?

Answer. The IRS currently has a program in place to reconcile all Form 8610's and supporting documents, i.e., Form 8609's and Carryover Allocation Contracts. All state agencies have been reconciled for 1995 and 1996. This process will be improved with electronic filing, which we are currently testing.

The revised Form 8610 was made available to the public January 1, 1998. However, Form 8609 has not been revised to date since a "Carryover Allocation" document will also require a regulation change. This has been discussed with Chief Counsel. An effective date of January 1, 1999 is expected.

The IRS is generating a semiannual extract report which provides information on taxpayers claiming the Low Income Housing Credit on business tax returns. This information is run against the Low Income Housing Database of Forms 8609's filed by the states which give the amount of the credit allocated.

Form 8823 (Low Income Housing Credit Agencies' Report of Noncompliance) was revised and made available to the public effective January 1, 1998. It clarifies the types of noncompliance State Housing Agencies must report to the IRS.

We continue to identify projects with audit potential using classification specialists to evaluate Forms 8609 and 8823 against filed returns. In conjunction with State Housing Agencies, we are expanding a selection process which focuses on the developers of projects.

Question. What is the status of IRS' actions on NARA's recommendations? Has the backlog of uninventoried records been removed?

Answer. In his letter dated December 1, 1997, Michael Miller, Director of the Records Management Program at NARA, advised David A. Mader, Chief Management and Administration, how pleased NARA is with the progress IRS has made in implementing their recommendations. Mr. Miller also stated NARA agrees that IRS has successfully implemented all but one of the 58 recommendations. The one outstanding recommendation deals with records created by the Philadelphia Service

Center during the 1985 filing season; NARA urged IRS to make another attempt to locate these records. As a result, representatives of the Service Center and the records management staff conducted an in-depth inventory, and recently uncovered approximately 2 cubic feet of records. This information was reported in our final status report to NARA on March 31, 1998. Closure of this last recommendation will mean that all 58 were implemented within 2 years of the submission of our initial action plan on March 6, 1996. NARA has stated that this is a record that no other agency has achieved.

Our work has resulted in the submission of Records Control Schedules for all uninventoried backlogs. Each schedule identified the unique management and policy records of the organization. Several major schedules are still awaiting action by NARA; however, others have been approved and are being implemented, i.e., schedules covering records of the former Historian; former Commissioners, as well as the current Commissioner; Chief Counsel; Information Systems; Communications; and Legislative Affairs.

Question. It is my understanding that the IRS is losing the potential to collect hundreds of millions of dollars in overdue taxes due to problems in determining which accounts are collectible and which are not. What action is the IRS taking to develop information on written-off accounts to determine whether cost-effective collection measures can be developed and applied?

Answer. The Inventory Delivery System, a system under development, will centralize collection case processing and use automated methods to evaluate delinquent accounts for collectibility so that the most productive accounts receive priority attention. The system has three releases planned. The first release containing Financial Analysis Profile and basic core functions to support case assignments and data base updates is scheduled for pilot in February 1999. The second release with Telephone Number Research is scheduled for August 1999 with a third release containing Address Research in 2000.

Question. What is the status of IRS efforts funded through the new Earned Income Credit Compliance Account?

Answer. This year, the IRS has taken a number of proactive efforts as part of the Earned Income Credit Initiative, including:

—Sent notices to over 6 million EITC recipients informing them of the advance EIC payment option.
—Sent an informational letter to the top 100 employers most likely to employ taxpayers who would be eligible for the credit.
—Sent notices to approximately 2.5 million taxpayers who did not claim the credit but appear eligible for the credit.
—We are providing toll-free assistance for EITC questions 24 hours per day 7 days a week.
—We expanded outreach efforts to service EITC eligible low income and elderly taxpayers by providing tax information and return preparation during the last three Saturdays beginning March 28.
—We designated March 28 as EITC Awareness Day, where walk-in sites provided taxpayers with up-to-date information regarding the new tax laws and the penalties associated with intentional noncompliance, and assisted EITC eligible taxpayers with return preparation.
—Informational products such as stuffers, posters, employee and employer brochures were provided to local offices to use in partnering efforts with groups and agencies.
—As of March 19, 1998 we have issued 47,730 EIC Math Error Notices for Invalid/Missing Social Security Numbers.

[ATTACHMENT 1]

DESCRIPTION OF APPEALS ADR PROCEDURES

Early Referral

Early referral procedures, contained in Revenue Procedure 96–9, expedite Appeals consideration of key issues that are "unagreed" (the taxpayer does not agree with the proposed examination adjustment). Appeals officers begin reviewing the unagreed issue while the examination of other issues continues, allowing for the possible settlement of key unagreed issues, and possibly closing the entire case in the Examination function, reducing costs for the taxpayer and the IRS.

Early Referral—Employment Tax

Although the early referral program was initially limited to Coordinated Examination Program cases, in Announcement 96–13 the IRS extended the early referral

provisions to employment tax issues on a one-year test basis. Announcement 97–52 extends the test of the procedures for early referral of employment tax issues for an additional one-year period beginning on May 27, 1997.

IRS examiners now consider the taxpayer's eligibility for employment tax relief under section 530 of the Revenue Act of 1978 before initiating any examination of the relationship between a business and a worker. Taxpayers that disagree with the District's determination regarding the application of section 530 have the option of immediately requesting early referral of the issue from the District to Appeals.

Effective August 5, 1997, section 1454 of the Taxpayer Relief Act of 1997 added a new section 7436 to the Internal Revenue Code. Section 7436, as amended, provides new judicial review rights concerning certain employment tax determinations. Generally, Code section 7436 applies to employment tax cases in which the IRS has determined that at least one worker should be reclassified as an employee and/or that the taxpayer is not entitled to relief under section 530 of the Revenue Act of 1978. The law requires that any employment tax that depends upon such determinations cannot be assessed unless the taxpayer has been given an opportunity to file a petition for Tax Court review of the IRS' determinations on those two issues. If, during the course of the employment tax examination, the taxpayer and Examination are unable to agree on worker classification and/or section 530 issues, the taxpayer will be strongly encouraged to request early referral of these unagreed issues from Examination to Appeals. The enactment of I.R.C. § 7436 does not change the early referral procedures.

Mediation

The IRS, in Announcement 97–1, extended the test of the mediation procedure set forth in Announcement 95–86. Mediation is used later in the administrative process, after good faith negotiations have failed to produce resolution. Factual issues, such as valuation and transfer pricing issues, are appropriate for mediation. Appeals is considering expanding the mediation program. Cases over $10 million in dispute that currently qualify for mediation account for only 1 percent of the inventory in Appeals, but 88 percent of the dollars in dispute. Cases over $1 million in dispute are 4 percent of the inventory, but 95 percent of the dollars. Mediation is a negotiation between the parties assisted by an objective and neutral third party mediator who has no authority to impose a decision. Mediators can come from Appeals or outside the IRS. Co-mediators can also be used.

Appeals process.—The mediation procedure in Appeals is specifically designed to be used at the end of the administrative process, as a final attempt to resolve a dispute before litigation. Appeals has built a strong record of success through our standard techniques of dispute review and conferencing. Most tax controversies are resolved through the time-tested successful negotiation process of the Appeals conference. Very few cases are litigated—about 1,200 in any given year. The vast majority of cases are successfully resolved without the need for any additional resources. While there are relatively few taxpayers using the ADR initiatives, these cases involve a significant amount of the dollars in Appeals inventory. As a result, Appeals ADR processes initially focused on the cases that involve the majority of disputed dollars coming into Appeals.

Relationship to early referral.—Taxpayers presently can use the mediation procedure in conjunction with early referral. By combining the two procedures, taxpayers may be able to expedite their resolution. After early referral negotiations are unsuccessful, taxpayers are able to then request mediation if the early referral issue satisfies the mediation criteria. However, early referral currently has a broader application and is available for all CEP cases; by expanding mediation, all early referral cases could be covered.

Simultaneous Appeals/Competent Authority

Section 8 of Revenue Procedure 96–13 allows a taxpayer who has filed a request for competent authority assistance to also request simultaneous Appeals consideration of the competent authority issue. The procedure encourages taxpayers to request competent authority assistance and the participation of Appeals while a case is under Examination jurisdiction.

Collection Appeals Program

The Collection Appeals Program (CAP) started in April 1996 and allows taxpayers to appeal lien, levy or seizure actions proposed by or made by the IRS. Before this time, the only opportunity a taxpayer had to appeal these actions was through the Collection manager and up through Collection's chain of command. This is the first time in the history of U.S. taxation that an appeal on these Collection actions through an independent organization such as Appeals was possible. In January 1997, appeals of installment agreements proposed for termination were added to the

program. This installment agreement appeal right was provided for in the Taxpayer Bill of Rights 2 and the IRS decided to add it to CAP.

Any taxpayer may request an appeal and we expect to reach a decision in 5 days. This ensures taxpayers a quick decision and that collection activities will not be delayed unnecessarily.

QUESTIONS SUBMITTED BY SENATOR SHELBY

AUDITS OF SOUTHERNERS

Question. One explanation the IRS has given in its defense for auditing a disproportionate number of southerners, is that a disproportionate number of people from these states file for the Earned Income Tax Credit which has been targeted because it is known to be an area where compliance is a problem. Can you tell me if this correlation can fully explain why so many of my constituents were targeted?

Answer. There appears to be a large number of workers earning less than $29,290 and claiming EITC qualifying children in the southern states. Historically, southern states have had the largest percentage of returns claiming EITC. Where there is a larger population of tax return filers claiming EITC, there is a high potential for abusive and erroneous EITC claims. The returns we focus on have the same characteristics nationwide, but the fall-out is greater in the South.

Question. In the fiscal year 1999 budget request, the IRS is asking for $143 million and 2,184 FTE positions for the EITC compliance initiative. Can you please submit a formal plan to the subcommittee outlining the program's goals and the initiatives that will be used to accomplish them?

Answer. A formal plan for fiscal year 1999 will be completed and submitted to the subcommittee by the end of May, 1998.

Question. In the plan please explain in detail what tasks these FTE positions will perform and how specifically the appropriated funds will be allocated with the program.

Answer. A formal plan for fiscal year 1999 will be completed and submitted to the subcommittee by the end of May, 1998.

FINANCIAL MANAGEMENT

Question. On several occasions, the GAO has found that it could not conduct reliable audits of the IRS because the agency's financial statements were in such disarray. I have said in the past and continue to believe now that it is ironic, to say the least, that the IRS requires more of taxpayers than it does of itself. The IRS requires taxpayers to keep receipts for several years to justify their deductions while the IRS cannot reliably account for billions of dollars worth of tax revenues. Having said that, in a report to Congress provided by the GAO in December on the financial audit for the fiscal year 1996 custodial financial statements there is a table that lists recommendations that GAO has made in the past and the degree of progress that has been made. Unfortunately, the body of the report and the table in Appendix 1 provide very little detail as to the response of the IRS to these recommendations. Can you have your staff provide the subcommittee with detailed and concise written explanation as to what specifically the agency has done thus far in order to implement the GAO recommendations?

Answer. In response to the statement that "the GAO has found that it could not conduct reliable audits of the IRS because the agency's financial statements were in such disarray," the IRS is pleased to report that on February 26, 1998, the GAO has given an unqualified—or "clean"—opinion on the reliability of the IRS' fiscal year 1997 Custodial Financial Statements. The statements audited by GAO were IRS reports on taxes collected and refunds paid during fiscal year 1997. GAO also can attest to and has assured Congress and the American people that our reports on $1.6 trillion in revenue collected and $28 billion in accounts receivable are reliable. This GAO opinion means it could reconcile the total revenue reported to the total taxpayer account records IRS maintains, substantiate the amounts for various types of taxes collected and determine that accounts receivable estimates were reliable.

While we recognize that the IRS needs additional work to assure that its financial house is in order, we believe this February, 1998 GAO Report is a significant step in this right direction.

In response to the question—the GAO has made 59 recommendations through their financial statement audits for the last six fiscal years, which have improved financial management at the IRS. The attached IRS detailed action plan, developed in cooperation with GAO, addresses corrective actions and tracks the progress to-

ward correcting deficiencies and implementing GAO recommendations. Of the 59 recommendations, 51 have been closed. Of the remaining eight recommendations, IRS and GAO have mutually agreed that no action was required for one, and we anticipate closure of the remaining seven (six by September 30, 1998, and one by November 1, 1998). The IRS is committed to working with GAO to resolve these recommendations and believes that through mutual cooperation and effort this goal will be achieved.

TAXPAYER SERVICE

Question. One of the reoccurring problems that I hear about from my constituents is that when they call the IRS they often cannot get through. Once they do, they are transferred around multiple times until they find the "right" person. Then after getting the run-around, they often receive erroneous information from IRS officials. Under current law, taxpayers can only be relieved of responsibility of bad advice from the IRS when they have received it in writing. In other words, there has to be a paper trail. I know you have outlined some of your plans to deal with this problem, but do you think it would be reasonable to have the IRS provide advice in writing to taxpayers when requested so we can avoid these kinds of problems?

Answer. Taxpayers can currently send their questions in writing to the IRS and request and receive a response in writing. The IRS will also respond in writing when a taxpayer calls for assistance and requests a written response. Section 6404 (f) provides for abatement of penalties and additions to tax that result from erroneous written advice by the Service. However, in order to qualify for relief, both the request for advice from the taxpayer and the IRS' response must be in writing. Requiring that both the request and the response be in writing allows a proper evaluation of whether the taxpayer provided sufficient information on which correct advice could have been based. Most taxpayers requesting tax assistance call the IRS rather than write, and this is the most effective way for the taxpayers to get information and for the IRS to provide it. Based on the volume of individuals calling the IRS for tax assistance, it would require substantial resources to have taxpayers ask all their questions in writing and have the IRS respond in writing.

EMPLOYEE DISCIPLINARY PROCEDURES

Question. In the summary of the IRS fiscal year 1999 budget request there is a section that outlines the disciplinary action which resulted from unauthorized accesses of taxpayer files by IRS employees. It indicates that "161 employees were removed/separated from the IRS." Does this mean that they were fired and are in no way, shape, or form working for the American Taxpayer any more?

Answer. Employees who are accused of committing an unauthorized access are accorded due process rights prior to being removed. An employee can resign without prejudice at any time during an investigation as long as the departure occurs prior to issuance of proposed disciplinary action. If eligible, the employee may retire. Such an employee could be hired by another Federal agency and IRS would not know about it. If they resign or retire after notification of a proposed action, a record is placed in their Official Personnel Folder (OPF) and is available to any prospective government employer. Similarly, a removal is documented in the OPF. It is unlikely another agency would choose to hire such a person. IRS would not rehire anyone for whom an investigation had been opened and it appeared that the charges would be substantiated.

Question. Were they given incentives to leave?

Answer. The IRS Buyout program specifically excluded paying incentives to anyone for whom a proposed disciplinary action had been initiated. If someone was under investigation but the case had not reached a point where misconduct was substantiated, then it was possible for a buyout to have been paid.

Question. One taxpayer that my staff has worked closely with reported that an IRS official told her to "get a real job" in order to help pay off her husband's tax liability. This sort of flippancy is obviously uncalled for and very inappropriate. Many financial institutions monitor incoming phone calls to ensure that customers are being treated politely by customer service personnel when they call in. Does the IRS have any similar system in place to monitor the conduct of its employees?

Answer. Yes. In addition to a nationally managed Quality Measurement Program, IRS managers evaluate their employees through telephone monitoring to ensure that our customers are treated in a courteous, professional manner as well as to ensure that the information we provide is complete and accurate. The Customer Service Organization redesigned the Critical Job Elements (CJE) and Standards for the Customer Service Representatives. These are used to evaluate Customer Service Representative performance and will be implemented nationally on May 1, 1998.

The redesigned CJE's reflect a strong customer focus. The most important job element is Customer Service. When managers evaluate their employees on this element they consider specific standards including Customer Focus, Interpersonal Sensitivity, Oral Communication and Listening, and Influencing and Negotiating. The results of the monitoring are documented and shared with the employees and are used in the Performance Appraisal Process.

We also agree that a comment like the one described in your question is completely unacceptable. We believe the implementation of our new performance standards for Customer Service Representatives will help assure such comments are not made.

QUESTIONS SUBMITTED BY SENATOR KOHL

GENERAL

Question. The IRS is setting up Special Disciplinary Panels to provide objective assessments regarding allegations of taxpayer abuse. The panel will have authority to impose sanctions against employees when warranted. These sanctions could lead to dismissal. Are you proposing legislation to provide these executives outside the Federal Government with the authority to fire a Federal employee?

Answer. The Special Review Panel consists of executives from Customs, IRS, and Treasury. The panel is receiving assistance from a small staff of IRS and Treasury employees representing Counsel and management, and will have IRS technical experts available to provide guidance or clarification as needed. Adverse or disciplinary actions, if warranted, will be decided by the Deputy Assistant Secretary of Treasury (Human Resources). No legislation is currently proposed to delegate authority for these types of personnel actions.

Question. Are the Taxpayer Advocate Panels and Problem Solving Forums working together to share information to develop a unified approach to deciding how to work with Taxpayers?

Answer. Yes. The Taxpayer Advocates are now responsible for the Problem Solving Day program, including assuring that cases are completely worked, that case data are analyzed, and systemic problems and possible solutions are identified. In addition, in the future when Citizen Advocacy Panels become operational, the Taxpayer Advocates will be responsible for integrating data flowing from the panels into their advocacy efforts and assuring the inclusion of such data where appropriate in the Taxpayer Advocate's report to the Congress.

Question. Are the groups working with the Special Disciplinary Panels? And, what about the contractor that is putting together the plan to restructure the IRS along customer service lines?

Answer. The special disciplinary panel, which includes individuals from outside the IRS, was established to provide fairness, objectivity, and consistency in reviewing the findings of Inspection reports, recommending corrective actions and appropriate administrative actions. As an independent panel, it will not be working with the Taxpayer Advocate Panels (officially known as the Citizen Advocacy Panels), individuals working on Problem Solving Days, or the contractor that is conducting the validation study of the modernization concept. However, any lessons learned from the work of the disciplinary panels will be shared with the Taxpayer Advocate, the CAP's, and the contractor.

ELECTRONIC FILING

Question. I know the IRS agrees that by the year 2007 no more than 20 percent of all returns should be filed on paper. Has the IRS estimated the number of returns that could be filed electronically with existing equipment?

Answer. As would be required by the pending IRS reform legislation, the IRS is currently in the process of developing a Strategic Plan for Electronic Tax Administration which is designed to eliminate barriers, provide incentives and use competitive market forces to make significant progress towards the overriding goal that 80 percent of all tax and information returns be filed electronically by 2007. As part of this effort, the IRS will be clearly articulating the strategic objectives and business goals for 2007 that it is proposing for Electronic Tax Administration.

Furthermore, the IRS believes that it has sufficient capacity to process the projected electronic filing volumes. However, as part of its strategic planning process for Electronic Tax Administration, the IRS will be re-assessing its current technical infrastructure to ensure that it is positioned to handle the expected demands of the future. Not only does the IRS expect a significant increase in the number of Electronic Return Originators who transmit returns for taxpayers, but it also envisions

developing additional products and services which will enable individual taxpayers and businesses to transact and communicate directly with the IRS.

Question. What percentage of all taxes filed are filed electronically?

Answer. The following chart provides the projected volumes for 1998.

PROJECTIONS FOR 1998 [1]

Form	Total volume	Total ETA	Percent of total
1040	123,950,600	[2] 20,979,700	17
941	24,109,600	3,521,000	15
1041	3,517,800	1,032,100	29
1065	1,745,800	.....	.....
5500	1,215,700	14,400	1

[1] Source of data: Document 6194, Calendar Year Return Projections for Districts & Regions (Rev. 1–98) except for Form 941 Total ETA volume which includes the Form 941 mag tape volume.
[2] Includes TeleFile returns.

Question. I know we have discussed this, but could you tell me once again what the estimated savings are from filing electronically?

Answer. A study was recently initiated by the IRS to better understand the cost tradeoffs between electronic and paper filings which will involve further analysis of the fixed and variable components of these costs at various points in the electronic/paper filing mix. Until this study is completed, we do not have a definitive answer to this question. However, at this point, we can get some idea of this by looking at certain known costs for fiscal year 1996 for the Form 1040 family of returns and making preliminary judgments.

In fiscal year 1996 the cost per return for electronically filed Form 1040 family of returns was $4.76, while the cost for paper filings was $4.49. Capital investments obligated in fiscal year 1996 are included in full. Capital investments obligated prior to fiscal year 1996 are not included in the costing process. Costs incurred upstream of the data capture processing (e.g. design, printing, and distribution of tax forms and instructions) and downstream of data capture (e.g., archiving and retrieval of tax returns, compliance activities) are not included. The small differentiation in cost between paper versus electronic processing is encouraging, as electronic filing expenses are amortized across 15 million Form 1040 family of returns versus the 95 million for paper Form 1040 family of returns. Also, it is clear that much of the paper filing costs in fiscal year 1996 are related to labor, which results in high variable costs, while most of the electronic filing costs were fixed costs. Also, there may be other non-financial reasons (such as reduced taxpayer burden) that would compel an aggressive pursuit of electronic returns.

If this data holds up in our study, this means that as electronic returns increase we will have substantial opportunity for savings in our variable (labor) costs. However, this data is preliminary. We do not yet know whether any additional fixed cost investments will be necessary to support increased electronic filing. It seems clear though that the cost differences in variable costs favor increased electronic filing, and will result in labor savings.

Question. Can the IRS make any additional incremental changes or investments that would increase the electronic filing such as leveraging the existing Third Party filing program?

Answer. Yes. The IRS has a number of initiatives underway for leveraging the existing Third Party filing program. To begin with, the IRS recognizes that it needs to do a better job of informing and educating taxpayers and practitioners about the benefits of electronic filing and plans to build on its 1998 Filing Season Public Service Campaign which was developed in conjunction with its advertising agency, Emmerling Post. This year's campaign, which introduced a new name and logo, IRS e-file, promoted the use of electronic filing options with primary emphasis on practitioner electronic filing. This year's campaign also included an evaluation component consisting of third party preparer surveys, an attitude and awareness survey among taxpayers, and an analysis of paid media tests. In addition, a quantitative market research survey was conducted by Russell Marketing Research, Inc. from March 13, 1998 through March 27, 1998. The final report which is due in May will provide demographic and psychographic data that will assist IRS in targeting taxpayers within markets more efficiently. Furthermore, the IRS recognizes that tax practitioners authorized to electronically file tax returns to the IRS (Electronic Return Originators) must be recognized, managed and motivated as ETA product and serv-

ice distributors. Much as the private sector employs store front operations (whether independent, franchise or corporate owned), the IRS depends upon tax practitioners to promote electronic filing and payment to taxpayers. In support of this vital channel, the IRS will seek to support ERO's with national advertising, promotional kits, education and training, secure communications, management information systems and various product and service incentives available depending upon an ERO's success in marketing Electronic Tax Administration products and services.

Question. $2.5 million is requested to expand electronic filing including electronic taxpayer "authentication" that eliminates the need for them to issue a separate written document. Where are you in terms of providing electronic authentication?

Answer. Electronic Tax Administration prepared a Draft IRS Electronic Authentication Principles and Strategy document in late January, 1998. The document will be used as a starting point to develop and publish an authentication policy. The policy will be subject to public review and the Internal Revenue Manual procedure before becoming an official IRS policy.

The intent of the policy will be to establish a frame work for the selection, implementation, and use of alternative methods of signature. A strategy and tactical plan will be developed to support the electronic authentication policy.

For 1999, the IRS will work toward an authentication pilot(s) as a means of increasing electronically filed returns. The pilot will use an alternative method of signature to replace the paper Form 8453. In addition, a waiver will be requested to eliminate the need for submission of paper W–2, W–2G, and 1099R attachments by pilot participants.

Our preference is to accept private sector proposals through ETA's Request for Proposal (RFP), which will require minimal IRS involvement for the 1999 authentication pilots. However, as a parallel activity, we are developing a Request for Information Services for an IRS-built pilot to be used in the event that no acceptable proposals are received through the RFP.

In addition, the Office of Chief Counsel is analyzing the paper attachments which are currently required by statute and regulations. Chief Counsel's analysis will identify those attachments which may be received electronically rather than as a paper attachment. Based on the analysis, Electronic Tax Administration will determine, from a business perspective, how IRS e-file will be expanded to include attachments identified by Chief Counsel. For example, this expansion could be done through additional programming or through a request to waive the requirement to send the attachment.

Question. Does the IRS have the systems in place to continue electronic communication with the taxpayer. How would you ensure the system provides sufficient privacy?

Answer. The IRS has been answering general tax law questions submitted over the Internet since 1996. These questions submitted over the Internet are held by a Fedworld server until downloaded into an E-mail processing system for review and response. Currently, the questions must be downloaded one at a time. Within the processing system, the answer is entered into a response box and sent (with the original question) back to Fedworld to be sent to the E-mail address provided by the customer. The IRS employee must have Internet access and a login and password to have access to the questions.

Beginning in March, 1998, questions will be automatically downloaded (every 15 minutes) to a server that is within the "Treasury firewall". When the questions are answered, the server will reformulate the response into an E-mail to be sent to the customer.

The IRS is not currently accepting specific tax account questions through the Internet. Customers are told on the site that we will not answer such questions and they should not provide personal identifying information.

Question. IRS' date for preparing an electronic commerce strategy has slipped several times. When can we expect to see a final product and what factors contributed to delays?

Answer. As would be required by the pending IRS reform legislation, the IRS is developing a Strategic Plan for Electronic Tax Administration. This effort is headed by Bob Barr, the new Assistant Commissioner for Electronic Tax Administration, who joined the IRS last fall and who has made the development of the strategic plan one of his top priorities. A draft version of the strategic plan is expected to be made available for public comment later this spring.

Ownership and accountability are two key factors which affected completing the strategy. In the past, the Administration, Congress and other external stakeholders have been frustrated by the lack of a focal point for Electronic Tax Administration activities within the IRS. Last year, the IRS took an important step toward clarifying the responsibilities for Electronic Tax Administration by establishing a new or-

ganization headed by an Assistant Commissioner devoted exclusively to the management of existing and planned programs.

EARNED INCOME TAX CREDIT

Question. Given that there are already high error rates in filing the EITC—half of which are honest mistakes—have you considered a new communications effort to ensure that these individuals are made aware of their eligibility for the EITC and that they file correctly for it?

Answer. The IRS has taken a number of proactive efforts to inform and educate taxpayers about the Earned Income Credit. These efforts include:

—Sending notices to over 6 million EITC recipients informing them of the advance EIC payment option;

—Sending an informational letter to each of the top 100 employers most likely to employ taxpayers who would be eligible for the credit; Sending notices to the approximately 2.5 million taxpayers who did not claim the credit but appear eligible for the credit;

—Providing toll-free assistance for EITC questions 24 hours per day, seven days a week;

—Expanding outreach efforts to service EITC eligible low income and elderly taxpayers by providing tax information and return preparation during the last three Saturdays of the filing season beginning March 28, 1998;

—Designating March 28, 1998 as EITC Awareness Day, where walk-in sites provided taxpayers with up-to-date information regarding the new tax laws and the penalties associated with intentional noncompliance, and assisted EITC eligible taxpayers with return preparation; and

—Providing informational products such as stuffers, posters, employee and employer brochures to local offices to use in partnering efforts with groups and agencies.

Question. GAO's review of the IRS audit techniques has determined that the IRS is focusing its resources on audits of taxpayers claiming the EITC? Why?

Answer. District Examination is focusing a very small part of its resources on EITC returns. As of February 20, 1998, there were 1,506,173 returns in inventory. Of these returns, 38,207 were identified as having EITC as an audit issue. This represents less than three percent of returns. Resources are focused on EITC because of the high degree of concern over error rates in EITC filing.

Question. What is the IRS' return on investment in these cases?

Answer. The IRS has not conducted a study on return on investment for EITC cases. Resources are devoted to EITC because it is a recognized area of noncompliance.

Question. Has the IRS conducted a study to determine that these types of cases provide the greatest return on investment?

Answer. No. However, return on investment is not the sole criterion used to select returns. A system based solely on return on investment would omit issues such as the indirect impact of examining returns and insuring that all classes of returns are subject to examination.

INFORMATION SYSTEMS

Question. Does the language on Page 9 of your statement: "Additional sub-releases of the blueprint will be very carefully planned and coordinated with modernization of the business processes and organization before they are allowed to proceed" indicate that there may be a change in the modernization plan for totally integrated and secured data bases and infrastructure as detailed in the modernization blueprint?

Answer. No. As defined in the Commissioner's Statement before the Senate Finance Committee on January 28, 1998, the Organizational Modernization is based on five key elements, as follows:

—revamped IRS business practices that will focus on understanding, solving and preventing taxpayer problems;

—organizational structure built around taxpayer needs;

—management roles with clear responsibility;

—balanced measures of performance; and

—new technology.

The new CIO organization and the recently issued Modernization Blueprint and the Request for Proposals for a Prime Systems Integration Services Contractor, provide an outstanding and professional basis for managing the evolution of our technology. The revamped business practices and Organizational Modernization will provide a sound basis for completing and implementing the modernized systems envi-

sioned in the Modernization Blueprint including the mainframe centric solution and centralized databases, and will be tied to the development of lower level requirements for design and development through the PRIME contractor.

Question. It is my understanding that in the past field offices have purchased systems and equipment without worrying about its integration with the existing IRS systems. How can IRS ensure complete continuity and commitment to the modernization efforts and to the Integration Support contractor?

Answer. Several active steps have been taken to ensure that newly purchased systems and equipment are approved only if they are consistent and compliant with existing systems, the Modernization Blueprint architecture and sequencing plan. With the issuance of the Modernization Blueprint in May, 1997, a Standards Profile was issued. All purchases must be technically consistent with the Standards Profile. To ensure consistency across the board, effective October, 1997, the Office of Procurement no longer accepts paper requisitions. Requisitions are only accepted electronically using a Request Tracking System. Within this system, the appropriate approvals are required from the Chief Information Officer organization. Requisitions for more than $100,000 require the approval of the Director, Government Program Management Office, who is responsible to ensure consistency with the Modernization plan and compliance with the technical standards. In addition, a Project Office has been established to centralize procurement of key infrastructure components and ensure workstation and system standardization in the field.

The Request for Proposal for a PRIME Systems Integration Services Contractor, issued March 26, 1998, demonstrates our strong commitment to the modernization effort and to the existing Integration Support Contractor. The IRS and the PRIME must ensure the continuity and commitment of the Integration Support Contractor to provide for the near-term completion of process improvement projects and the longer term engineering and architecture service. As part of the proposals, the PRIME Offerors must ensure continual involvement of our existing Integration Support Contractor.

Question. As it relates to Y2K efforts, where is the IRS in terms of its inventory of the computer code comprising IRS' Core Business Systems?

Answer. IRS' inventory has been completed and is maintained on the IRS Integrated Network & Operations Management System (INOMS). IRS inventory includes all applications developed either by IRS employees or contractors, all commercial-off-the-shelf (COTS) products, telecommunications systems and Tiers 1, 2 & 3 hardware. IRS created an application inventory for Y2K. We are working to ensure we can keep it accurate and current. IRS has had an inventory of hardware and commercial software but to be useful to Y2K we have had to upgrade it to make it more of a management tool. The upgrade has included a four-month effort to insure every product has an industry standard name and appropriate management control assigned. IRS has had telecommunication products in several separate inventories, some controlled by IRS, some by vendors, and some by Treasury. We are acting to consolidate these inventories.

Question. When do you expect to complete the Code Remediation Phase and be ready to enter into the test and evaluation phase and who will actually conduct this phase?

Answer. The test and evaluation phase has begun for the majority of IRS applications. Year 2000 conversion is being done in five phases between January 1997 and January 1999. Each phase involves code remediation and testing prior to production. Code remediation and testing are complete for all programs that were implemented through January 1998 (Phase 3). All code remediation is scheduled to be completed prior to January 1999.

IRS tracks data by component (e.g., application program, job control language), system (consisting of one to many components), and lines of code. As of February 27, 1998, a total of 66.5 percent of IRS mission critical applications were Y2K compliant and tested. Certification of these applications will be completed no later than October 1999. A total of 46.8 percent of our systems have had all of their applications software converted to be Y2K compliant and are in production.

Inventory tracking category	Total	To be retired	Mission critical					
			Converted		Tested		Implemented	
			Number	Percent	Number	Percent	Number	Percent
Components (application program and COTS software)	84,857	11,689	56,789	78.64	48,016	66.49	41,474	57.43
System	127	1	75	59.52	60	47.61	59	46.82

Inventory tracking category	Total	To be retired	Mission critical					
			Converted		Tested		Implemented	
			Number	Percent	Number	Percent	Number	Percent
Lines of code (million)	49.8	13.1	23	66.09	17.8	51.12	16.6	47.78

Unit and compatibility testing are done by the programmer in the development organization. After unit and compatibility testing, the application is sent for Systems Acceptability Testing (SAT), which is primarily conducted by the Product Assurance Division, with the assistance of contractors, for Information Systems applications. Field and Customer applications will be SAT tested locally using guidelines developed by the Product Assurance Division. Certification is being done by the Product Assurance Division or by the field organizations using guidelines prepared by the Product Assurance Division and will be completed by October 1999.

CUSTOMER SERVICE

Question. I have been in touch with the IRS in the past about the need to improve customer service and I am pleased that the IRS has increased the number of days and hours during which taxpayers can call for information, but we are not there yet. Beyond all the training, what additional steps are you taking to improve customer service?

Answer. In fiscal year 1999, on the toll-free telephone lines, the IRS plans to further expand its service to provide telephone assistance seven days a week, 24 hours a day. Also, in fiscal year 1999, IRS plans to provide its customers with an 86 percent Level of Access and decreased queue times. The level of telephone access through the month of February, 1998 was 90 percent. This compares with a 68 percent level of access at the same time during 1997, and shows a marked improvement in customer service at the IRS. In the walk-in program, IRS will expand Saturday service from six Saturdays in 1998 to 12 Saturdays in 1999.

Question. Are you aware that many callers' efforts to get answers to questions are being routed to a voice mail system that only offers to call them back within 2 to 3 days. What alternatives are you considering to this situation?

Answer. In order to optimize customer service when demand far exceeds the existing staffs' and telephone systems' capability to handle the volume, we are asking the taxpayer to leave a message on specific tax topics for callback. We are then utilizing Examination staff to respond to these messages. This process, commonly referred to as "Compliance Messaging" provides personal call back assistance while drawing upon the Service's highly skilled technical employees who are often not colocated with telephone operations/systems. Because our efforts to increase the taxpayer access to our assistors have had very good results in 1998, and because we expect greater improvement in 1999, we are reviewing the policy of Compliance Messaging and will probably not need to use this callback method to respond to taxpayer inquiries next year.

Question. Many individuals who have been assessed tax penalties often ask if they can be abated once payment of the tax has been arranged for. There are numerous categories of "reasonable cause" on which a decision to abate penalties can be based, but they do seem to lend themselves to varying interpretations by different staff in different offices. What can be done to ensure that everyone has an equal chance to have a penalty abated and determinations are more consistent?

Answer. Internal Revenue Manual (21)000, Customer Service, was published and distributed to the field on October 31, 1997. The purpose of this IRM and IRM (20)000, Penalties, is to provide instructions and guidelines for Customer Service Representatives in responding to all taxpayer inquiries (including requests for penalty abatement for reasonable cause). In combining the work processes of various functions to achieve a greater degree of initial contact resolution, this IRM is a tool that will allow the assistor to provide more responsive customer service in a consistent and fair manner.

QUESTIONS SUBMITTED BY SENATOR COVERDELL

Question. In the GAO report entitled "IRS' Use of Random Selection in Choosing Tax Returns for Audit" and in recent press reports, the IRS claims it is engaging in random audits pursuant to congressional instruction. Please explain in specific detail how the IRS supports the notion that the Congress of the United States mandated the IRS engage in random audits.

Answer. The IRS does not support the statement that Congress mandated random audits. Because Congress specifically asked the IRS to study the compliance level of EITC filers, a scientific statistical sample of that filing population was examined. This statistical sample limited the inconvenience to the taxpaying public by limiting those affected to the 2,472 returns examined. The report does state that, "Traditionally, the only IRS program using widespread random selection has been the Taxpayer Compliance Measurement Program (TCMP)."

Question. Please comment on the appropriateness of the IRS using random audits when more than ninety percent of random audits of individuals from 1994 to 1996 are employed against low income taxpayers earning less than $25,000 as reported in the GAO report entitled "IRS' Use of Random Selection in Choosing Tax Returns for Audit."

Answer. The population of EITC filers is approximately 20 million taxpayers. The IRS conducted a compliance study of that filing population. A scientific statistical sample needed to be employed to efficiently perform that study. Using this technique, 2,472 returns were examined which represented a very small percentage (approximately 0.01 percent) of that filing population. Those who claim EITC are typically low income and earn less than $25,000; therefore, we were sampling lower income taxpayers.

Question. Please comment on the appropriateness of the IRS confining random audits within individual states when conducting an information gathering project or compliance initiative, for example focusing on small business in Georgia that simultaneously file Schedule C losses and qualify for EIC benefits.

Answer. As previously stated by GAO in "IRS' Use of Random Selection in Choosing Tax Returns for Audit," "During fiscal years 1994 through 1996, IRS did not randomly select returns for audit from either the population of all taxpayers or all returns . . . IRS audit sources do not rely on random selection from the population of all returns but rather IRS selects returns having characteristics indicative of potential noncompliance."

This information gathering project identified a population of returns having characteristics of potential noncompliance. Available resources would not permit the examination of all returns in this population to determine the level of noncompliance within this population. Therefore, a sample of this population was examined by the Georgia District which initiated the project.

The Information Gathering Project is a tool that is used to identify and measure the level of noncompliance. It usually involves a relatively small sample of returns in a limited geographical area. Based on the results of the sample, the enforcement action may be expanded to other taxpayers with similar return characteristics within or outside the sample geographical area, action other than enforcement may be taken (taxpayer education or seeking legislative change), or no further action may be deemed necessary.

To summarize, if an information gathering project uncovers a significant area of noncompliance, the enforcement or non-enforcement action taken will not be confined to an individual state.

SUBCOMMITTEE RECESS

Senator CAMPBELL. With that, I appreciate you being here and this subcommittee is recessed.

[Whereupon, at 2:48 p.m., Thursday, March 5, the subcommittee was recessed, to reconvene at 10:17 a.m., Thursday, March 12.]

TREASURY AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1999

THURSDAY, MARCH 12, 1998

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:35 a.m., in room SD–192, Dirksen Senate Office Building, Hon. Ben Nighthorse Campbell (chairman) presiding.

Present: Senators Campbell, Faircloth, and Kohl.

DEPARTMENT OF THE TREASURY

OFFICE OF THE SECRETARY

STATEMENT OF HON. ROBERT E. RUBIN, SECRETARY

ACCOMPANIED BY NANCY KILLEFER, ASSISTANT SECRETARY FOR MANAGEMENT

OPENING REMARKS

Senator CAMPBELL. The Treasury Subcommittee will be in session. Good morning. Today, we will be reviewing the fiscal year 1999 budget request for the Department of the Treasury. With us this morning is Secretary of the Treasury, Robert Rubin, and he will be accompanied by his assistant secretary for management, Nancy Killefer.

The Treasury Department is our Nation's tax administrator, revenue collector, law enforcer, and financial manager. For example, the IRS collected $1.5 trillion in taxes last year, the Customs Service collected almost $20 billion, and the ATF collected almost $13 billion last year alone. The Department's law enforcers include the Secret Service, the IRS enforcement arm, ATF, Customs, and FinCEN. It also includes FLETC, which provides consistent training for law enforcement, not only for Federal agencies but for States and locals as well.

However, there is much more to the Department of the Treasury than just the law enforcement and collecting of taxes and fees. For example, there is someone actually responsible for keeping track of how much money the Government spends and receives every single day. The savings bond program is part of the Bureau of the Public Debt, which encourages the country to invest and save.

The Comptroller of the Currency protects American citizens by making sure that our local banks comply with the law. The Bureau of Engraving and Printing which prints our paper money and the

U.S. Mint which makes our coins are part of the Treasury Department also. In addition, if there is a monetary crisis somewhere in the world, such as in Mexico or Asia, it is the International Affairs Office that develops recommendations for how this country should respond.

In short, the Department of the Treasury is responsible for making, protecting, and tracking our Nation's money.

Perhaps one of the biggest problems facing the Department right now is the year 2000 century date change conversion. The Treasury Department has identified almost $174 million in additional costs in fiscal year 1998 to make sure that when January 1 in the year 2000 rolls around that the Department's computers do not crash. This is an addition to the funds provided during the regulatory fiscal year 1998 budget cycle.

I want to welcome you, Mr. Secretary. And with that, I would ask Senator Kohl if he has an opening statement.

STATEMENT OF SENATOR KOHL

Senator KOHL. I thank you, Mr. Chairman. I have just a few brief remarks.

As usual, Secretary Rubin, it is a pleasure to have you before us. We appreciate you taking the time to meet with us here today, especially since we know that you are busy with the International Monetary Fund and the Asian governments.

As you know, the Treasury agencies involved in the Asian crisis are not within the jurisdiction of this subcommittee. However, I hope that we will have an opportunity to discuss some of these issues during the course of the hearing, even if it is just to get you to tell us whether or not this is the time to invest in an Asian emerging market stock fund. [Laughter.]

In terms of appropriations, let me say that I have enjoyed working with you on a number of Treasury issues this past year. I especially appreciate all the help that you gave us in getting my child care tax credit included in the President's budget and I hope that we can get it done this year.

I look forward to working with you on this year's appropriation for the Department of the Treasury. I know that you have a number of priorities that you want to see funded in fiscal year 1999. I am not sure whether we will be able to accommodate all of them, but I very much hope that we will be able to fund those departments and those programs that will help you carry out your vision of the Department of the Treasury.

Thank you, Mr. Chairman.

Senator CAMPBELL. Senator Faircloth, do you have any comments before we start?

STATEMENT OF SENATOR FAIRCLOTH

Senator FAIRCLOTH. Thank you, Mr. Chairman. Thank you for holding this hearing. I welcome our two witnesses this morning. Thank you, Secretary Rubin and Ms. Killefer.

The President is requesting $12.3 billion in fiscal 1999 for the Treasury Department, which is an increase of a little over 7 percent. The funding, as we all know, supports a wide range of things

including banking policy, law enforcement, domestic economic policy, tax policy, and tax administration.

Mr. Chairman, as you well know, I have a particular concern over one of the agencies involved, and that is the Internal Revenue Service. I was pleased to have a very good meeting with Mr. Rossotti, the new Commissioner of Revenue last week, and he readily said that much had to be done to reform the IRS. It was a very good meeting. I would also note that Secretary Rubin has said that many things needed to be done to change the IRS.

IRS OVERSIGHT BOARD

I have introduced legislation that I think will do the job. It is an oversight board composed entirely of private citizens with authority to oversee the Internal Revenue Service and to delve into—pretty much a free hand to delve into whatever is going on in the Internal Revenue Service. I think it has become such an in-house unit and that the commissioners have only been there for a very short time.

I mean, I cannot quote them specifically, but the history of people that have served as head of the Internal Revenue Service, their tenure has been very, very short. So it has become an entrenched group of people who simply have run it as they saw fit without any real oversight from the rest of the Government really.

The $4 billion they wasted on a failed computer system is just the ultimate in how not to run a business. So in my view, the board needs to be totally separate from the influence of anyone; a total civilian board. And this legislation also gives the board explicit authority to delve into such areas as audits, collection, and procurement, which have been the subject of much of the abuse.

Mr. Chairman, I thank you for holding the hearing and I look forward to working with you and, Mr. Secretary, also with you. I thank you.

Senator CAMPBELL. Thank you.

Mr. Secretary, if you would like to proceed?

STATEMENT OF SECRETARY RUBIN

Secretary RUBIN. Thank you very much, Mr. Chairman. Let me say that we are delighted to be here. Nancy Killefer is our Assistant Secretary for Management and Chief Financial Officer.

As you said, we are requesting an appropriation of $12.3 billion, which is an increase of 7.2 percent. But we have gone over this very carefully. It has been developed in a manner consistent with the administration's focus on fiscal discipline and getting to a surplus. Basically, the increase is necessary to maintain current operations by supporting mandatory cost increases as well as increased workload. We also feel it is extremely important to invest in critical capital improvements and important program enhancements.

As you said, Mr. Chairman, Treasury plays a key role in an extraordinarily wide range of the core functions of Government, from tax collection, law enforcement, financial management, tax policy, banking policy, and very importantly, international economic policy, and domestic economic policy. We have focused very hard, with such a broad portfolio, on both the question of customer service and greater efficiency—that is to say, reducing the cost of what we do.

Our budget was designed in a manner consistent with and pursuant to a Treasury strategic plan. We have performance plans for each of our missions. We have taken the GPRA, this planning requirement that had come from Congress, with great seriousness, and we have tried to conduct, and I believe have conducted it in a way that makes it not just a bureaucratic exercise but a living part of our thinking about Treasury today and in the years ahead.

We have provided the committee with a detailed presentation of our 1999 request. I would like to, if I may, just focus on, or highlight I should say, four areas: departmental offices, the IRS, law enforcement, and then the area you mentioned, Mr. Chairman, the year 2000 issue.

Let me start with departmental offices, if I may, because it is something that I think is very often overlooked in the budget discussion and yet is exceedingly important to the contribution the Treasury makes to the affairs of our country. Departmental offices contain policy groups that have experienced enormously increased challenges this year. Tax policy through regulation implementing the tax changes that were made last year in 1997—that is, the tax cuts, loophole closures, and simplifications. They have an enormously expanded workload as a consequence.

International economic policy area is providing leadership not just for this country, but I think it would be fair to say in some fair measure for the world in dealing both with the immediate crisis in Asia, and I would say equally importantly with the question of modernizing the architecture of the global financial system.

Economic policy, which is deeply involved in international areas as well, is very much focused on entitlement issues that the President raised, particularly Social Security, in the State of the Union Address.

And law enforcement, which has both expanded policy objectives and also expanded oversight objectives.

We also have in departmental offices our centralized management functions for the whole of Treasury, and we have had a very strongly enhanced focus on management at Treasury over the last few years. The consequence is an expanded workload focusing particularly on human resources and technology; this focus will not only maintain the excellence of Treasury now but create the Treasury of the future.

In addition, our budget request has a 5-year restoration repair program for our historic building. The total cost is expected to be $130 million over 5 years. As you know from having visited our building, it is really a marvelous building. It is a historic gem. At the same time, it is one of those rare historic gems that is a good working building. But it is in desperate need of repair.

Second, let me turn to the Internal Revenue Service which Senator Faircloth raised. I would say it was not longer than a month or two after I became Secretary of the Treasury that I became aware of—say 2, 3 months—of the serious problems at the IRS—in some measure, I might say, as a result of the work of this committee and your companion committee on the House side.

IRS REFORM

Over the last 2½ years, Senator, we have been involved in a highly intensified focus on reform and change at the IRS. This has led to dramatic change in certain areas. Technology is on a different path, and I think now on a constructive path, though there is an enormous amount of work to do going forward. There has been increased electronic filing. There has been increased telephone access, and we have very substantially strengthened the taxpayer advocate.

Perhaps as importantly as anything, we have brought in a new type of Commissioner, as you know. A man who instead of being a tax person, had been a CEO of a large private sector company and happens to also have very substantial computer expertise. You all have met with Charles Rossotti, who I must say, is off to an extremely good start.

We have lost our Chief Information Officer, as you know, who made a tremendous contribution and we are very energetically involved in a search for a new CIO. Meanwhile, Charles Rossotti, who has great expertise in this area, is himself spending a lot of time on this.

While a great deal, I believe, has been accomplished, there is also an enormous amount, far more to do I would say going forward than we have done in the past, although I do think this 2½ years has been a period of really very substantial change and very important change. These problems took a long time to develop and they are going to take a long time to resolve.

Our budget request includes a whole series of measures that we think will help move forward the reform of the IRS. Let me just mention a few, if I may. First, we asked for additional resources for customer service, including increasing and improving the quality of telephone access, the rewriting of notices and forms, expanding the taxpayer advocate staff, and implementing citizen advocacy panels.

Second, our request would position the IRS to move forward with implementing the modernization blueprint. I do not think there is any question that modernizing technology is absolutely requisite to accomplishing improvements in customer service, efficiency, tax compliance, and financial reporting.

On a broader front, as you all know, Commissioner Rossotti has a broad organizational concept for changing the structure of the IRS, and we requested funding to move forward with that. And I might add, it is a very constructive plan.

Finally, our request includes important restoration funding for essential business line investments. What has basically happened is over the last couple of years we have deferred and reallocated what would have been our business line investment into the critical Y2K project. But the result is that our frontline people are using a tremendous amount of outmoded computer equipment. We believe that any good business that had diverted funds to these issues, they would provide money to replace that equipment. I will return to Y2K in just a moment.

LAW ENFORCEMENT

On the law enforcement side we have, as Mr. Chairman said, extensive and critical law enforcement responsibilities. We request an increase of 5.7 percent, or $172 million, to a total of $3.2 billion for law enforcement. That requested increase goes to meet mandatory cost increases and also to fund increased activities in dealing with narcotics trafficking, illegal firearms—including the youth crime gun interdiction initiative, a special program we have with respect to reducing trafficking of illegal firearms to young people—and then Presidential protection and improving White House security.

There will also be increases with respect to fighting financial crime, particularly counterfeiting and money laundering, and for training law enforcement officers, which as you know, we do for most of the agencies in the Federal Government.

Let me say, if I may, on law enforcement that we have enormous pride in both the quality and the esprit of our bureaus. I spend time on this on a regular basis, on an ongoing basis. We have been extremely supportive of our law enforcement bureaus at Treasury. For example, we have supported Secret Service's decision to enhance White House security, protected the ATF against strident attacks, and assisted all the bureaus in the securing of appropriate funding. At the present time, we are moving forward with initiatives on new threats with respect to counterfeiting.

YEAR 2000

Finally, let me say a word or two about the issue you raised, Mr. Chairman, and one that I do believe—I agree with you—is of pressing importance to our Nation, which is the question of Y2K. As you know, many computer systems only have two digits, the two zeroes, because that was the way of shortcutting with respect to programming, which was fine and dandy except we are now getting to the year 2000 and the two zeroes will come up as 1900, which is not optimal. The consequence is many computers will not be able to perform their functions.

We are an agency with massive computer activities; the second most, I believe, in the Federal Government after the Department of Defense. Year 2000 compliance is an exceedingly high priority with us. I meet biweekly with our Assistant Secretary, and also with our highly respected Treasury CIO to track progress to try to identify problems.

Our fiscal year 1999 budget includes $253 million to address the Y2K problem. We have also submitted a supplemental request for close to—I think the supplemental request is actually $250 million, and we have identified close to $200 million, I think in the neighborhood of $175 million actually, that we currently see as needing for 1998, this year. We look forward to working with you very closely on the Y2K funding, and as I say it is absolutely critical that this get done, and tested, and implemented in time.

In both the public sector and the private sector, the cost estimates and timelines on Y2K compliance have exceeded expectations. In order to make sure, or do everything we possibly can to make sure that we meet the challenges on time, what we are focusing on is our critical missions. It is an enormous challenge but we

have made great progress. I think it would be fair to say that we are on schedule for almost everything. Not everything, but almost everything, with respect to our mission critical systems.

Let me conclude on one personal note if I may, Mr. Chairman. When I became Secretary I went to dinner with a friend of mine who had been in two administrations at Treasury. What he said was that any Secretary will be faced with an enormous array of issues, including a multitude of policy issues and you have to decide what your priorities are. He said having served in the Treasury Department in two administrations that in his judgment your No. 1 priority should be continuing the excellence of a truly extraordinary institution.

I think he was absolutely right. We have a terrific group of people at Treasury and we are trying to do everything that we can to make sure this continues to be an outstanding institution to serve the American people. We very much look forward to working with this committee, as we have had a very good working relationship with in the past, toward meeting this objective.

Thank you very much. Ms. Killefer and I would be delighted to respond to anything you would like to ask us.

PREPARED STATEMENT

Senator CAMPBELL. Thank you very much, Mr. Secretary. We have your complete statement and it will be made part of the record.

[The statement follows:]

PREPARED STATEMENT OF ROBERT E. RUBIN

Mr. Chairman, members of the Committee, I appreciate the opportunity to testify on the Treasury Department's fiscal year 1999 budget request. With me today is Nancy Killefer, our Assistant Secretary for Management and Chief Financial Officer.

Treasury is requesting $12.3 billion in fiscal year 1999, an increase of 7.2 percent over fiscal year 1998. This increase is necessary to maintain current operations by supporting mandatory cost increases and meeting anticipated workload requirements in fiscal year 1999; to invest in critical capital improvements for future efficiencies and program improvements and for addressing future workload growth; and to accomplish important program enhancements.

Our request is critical to supporting Treasury's important and wide-ranging mission. The Treasury plays a key role in the core functions of government, including tax administration, revenue collection, law enforcement, financial management, tax policy, banking policy, international economic policy and domestic economic policy. As just a few examples, we fight narcotics trafficking and money laundering through Customs and other agencies, and manage the federal government's debt structure at the Bureau of Public Debt. We manufacture and protect the nation's currency, process the federal paychecks for millions of Americans, and help develop policies related to the budget, the nation's tax structure, international economic matters, and inner city economic development.

With such a broad portfolio, we take very seriously the notion that we must continually seek new ways to improve services and lower costs. Towards meeting these purposes, our budget request supports Treasury's Strategic Plan and provides a performance plan for each of Treasury's primary missions and we, and I as Secretary, have worked to make GPRA not a required exercise, but rather a live, integral part of our thinking to improve how we fulfill our many missions. More broadly, we believe that we must not do anything that threatens the fiscal discipline so many have worked so hard to restore in this country, and which has been critical to the strong economic conditions of the past five years.

We've already provided the Committee detailed presentation material on the extent of our fiscal year 1999 request. Let me now highlight four areas—Departmental offices, the IRS, law enforcement, and the year 2000 problem.

First, let me discuss Departmental Offices. Departmental Offices contain the policy groups that are meeting greatly increased challenges in the current environment: tax policy, which is developing the regulations to implement the tax cuts, loophole closers and simplifications of last year's budget; international economic policy, which is providing leadership for the United States and the world in response to the short and long-term issues of financial instability in the global economy; economic policy, which is deeply involved in international economic issues, entitlement reform, and the economic initiatives in the President's budget; and law enforcement, which has expanded policy and oversight objectives. Departmental Offices also contain the central management functions for all of Treasury, and in furtherance of our very serious focus on management, human resources, and technology, these functions are being enhanced.

In addition, our budget request includes funding for a five year restoration and repair program of the historic Treasury Department building. Part of this funding—which totals $130 million over five years—is needed for our ongoing restoration of areas damaged by the fire in 1994, and part is needed for general restoration. The Treasury building is one of the gems of our government, as well as being a workplace. It is important to maintain this historically significant and beautiful building for future generations.

Second, let me turn to the Internal Revenue Service.

Shortly after I first became Secretary, I became aware of serious problems at the IRS. In many cases, those problems came to my attention as a result of the work and diligence of this Committee. Over the last two and a half years we have been engaged in a highly intensified process of change and reform at the IRS that has led to dramatic change with respect to technology—though that is just the beginning of getting to where we need to go—increased electronic filing, improved telephone service and a greatly strengthened Taxpayer Advocate. Perhaps most importantly, and symbolizing our commitment to thoroughgoing change, we brought on board a new type of Commissioner, Charles Rossotti, who had extensive experience as a CEO in the private sector, with expertise in computer systems. And, let me just add, we are looking very hard to find a new CIO to replace Art Gross, who has done such an outstanding job in that position.

However, while important steps have been taken, the great bulk of the challenges lie ahead. Just as these problems took a long time to develop, it is going to take a great deal of time and effort by all of us to build the kind of IRS that the taxpayers deserve. We are committed to working with you to accomplish that goal. Our budget request includes a series of items to advance this effort.

First, our request includes additional resources to improve customer service, including increasing and improving the quality of telephone access, rewriting of notices and forms, expanding the Taxpayer Advocate staff, and implementing Citizen Advocacy Panels.

Second, our request positions the IRS to move forward with implementing the Modernization Blueprint, which is absolutely a requisite to improvements in customer service, efficiency, tax compliance and financial reporting. On a broader front, the budget provides seed funding as the Service moves more fully to implement its new organizational concept.

Finally, our request includes important restoration of funding for essential business-line investments. This funding has been deferred and reallocated over the past two years to address immediate Year 2000 requirements, about which I will say a few words in a moment. However, significant needs still exist for these investments in order to replace critical items such as aging computer equipment for front-line examination personnel. This investment is essential to our goal of providing efficient compliance operations and effective service to taxpayers.

Let me turn now to our budget request for Treasury's law enforcement activities.

As this committee well knows, Treasury has extensive and critical law enforcement responsibilities executed by Customs, the Secret Service, Alcohol, Tobacco and Firearms, the IRS, FinCEN, and the Federal Law Enforcement Training Center. To strengthen these critical efforts, the President's fiscal year 1999 budget for Treasury law enforcement bureaus totals $3.204 billion, an increase of $172 million or 5.7 percent above last year. We need this increase to meet certain mandatory cost increases, and to enhance our activities in combating narcotics trafficking, reducing illegal firearms trafficking to young people, improving Presidential protection and White House security, investigating financial crimes, and training law enforcement officers.

Mr. Chairman, we at Treasury have enormous pride in the quality and esprit of our law enforcement bureaus, and of the men and women who serve in them, often putting their lives on the line. I spend time on an on-going basis on law enforcement issues, and we at Treasury are committed to fully supporting the efforts by the law

enforcement bureaus to do their jobs, as in the Secret Service decision to enhance White House security, ATF's reforms and its defense against strident attacks, and the securing of appropriate funding.

Finally, Mr. Chairman, let me say a word about an issue of pressing importance to our nation and one on which we are keenly focused at Treasury: the Year 2000 date change problem. As you know, many computer systems rely on two digit dates as a result of a short cut computer programmers widely used until recently. The year 2000 would be entered as "00" but interpreted as "1900." As a result, these computers will not be able to execute many required functions properly as of January 1, 2000. As an agency with massive computer system activities second only to the Defense Department in the Federal government, this issue is one of the highest priorities to us. I meet bi-weekly with Assistant Secretary Nancy Killefer and our highly respected Treasury CIO to track progress and focus on problems.

Our fiscal year 1999 budget includes $253 million to address this problem at Treasury. Treasury's date change needs are also part of the Administration's fiscal year 1998 Supplemental Budget Request. We have identified close to $200 million in additional needs in the current year that must be funded if we are to complete the fixes in time, but the supplemental proposed by the Administration includes additional flexibility of up to $250 million in order to fund these requirements. To date, we have identified new requirements of approximately $175 million that need to be addressed this fiscal year. We look forward to working together with the Committee in addressing these critical requirements.

In both the private and public sectors, cost estimates and time lines on Y2K compliance have exceeded expectations. So that we can meet this challenge in time, Treasury is focussing on only those systems most critical to its mission. The challenge is enormous, but we have made significant progress thus far and continue to be on schedule for almost all our mission critical systems.

Mr. Chairman, let me conclude on a personal note. Throughout my experience in government, which includes two years at the National Economic Council, and three years at Treasury, I have been continually impressed by the intelligence, professionalism and dedication of the people with whom I've had the opportunity to work.

A Secretary of any Department faces a lot of challenges, including a multitude of policy issues, and has to make judgments about priorities. When I was first nominated to be Treasury Secretary I had dinner with a former Treasury official who had served with two administrations and who advised me that my highest priority should be to focus on maintaining and building on the excellence of this institution. He was absolutely right. We have been intensely focused on management issues in my tenure and it is in that spirit that I ask you to approve our budget request. Let me also say that I have been continually impressed by the capability, the professionalism, and the commitment of the people at Treasury and the Bureaus, and they deserve our support on their work to fulfill their wide range of responsibilities in serving the American people. I also feel that in my time at Treasury this Committee has made a major contribution to the management of Treasury through its constructive and knowledgeable analysis and review, and through its support for funding. Thank you very much and I look forward to working with all of you in the future as we face our challenges.

YEAR 2000

Senator CAMPBELL. Ms. Killefer, do you have any additional comments?

Ms. KILLEFER. No; I do not.

Senator CAMPBELL. Priorities, we have some around here too, as you know, Mr. Secretary. You talked at length about the Y2K problem. We are going to do our best, but clearly we have some limited resources too, as you know. I was going to ask you, between the Y2K and funding for the IRS modernization do you see the Y2K as a priority? I know they are somewhat hooked together.

Secretary RUBIN. That is a good question, Mr. Chairman. I think the problem that we have had is the problem that you are correctly raising. On the one hand, Y2K is imperative. We cannot come to the year 2000 and not have the IRS and FMS and the other parts of Treasury have computers that are ineffective. On the other

hand, it is for exactly that reason that for the last 2 years we have not invested in upgrading equipment.

I think what we have got to do, and we did—what the administration did—was to weigh all of our priorities and everything else. We did not request money for a lot of things we would love to do, but anything that you see in our request was a result of triage. It was a result of a lot of things dropping off the table.

So I think we must have the Y2K money. But I also think we need to continue our modernization if we are going to have a modern IRS, and I think we have to replace this outmoded business equipment.

Senator CAMPBELL. What is the total estimated cost for the Y2K problem?

Secretary RUBIN. Overall? About $1.4 billion over 4 or 5 years. And we have spent some of that already. We are expecting to spend about $600 million this year, if I remember correctly, and about $400 million next year.

Senator CAMPBELL. So is it your belief that we are on track to be able to complete all the necessary changes by January 1, 2000?

Secretary RUBIN. Let me give you a first answer and let me ask Nancy Killefer to follow up, if I may. I think it is fair to say, though I think you really should get Nancy Killefer's comment on this, that we are on schedule with virtually everything. I think in FMS, the part of FMS that has to do with accounting—not payments, not Social Security checks or things of that sort, but intragovernmental accounting, I think that we are behind where we would like to be. Nancy.

Ms. KILLEFER. That is correct. We do view ourselves on track for all our major mission critical systems, with the exception of the GOALS Program at FMS which deals with intragovernmental accounting. So it will not affect payments to the American citizen. Our concern in FMS, which is slightly behind where we would like them to be, is that we have prioritized the systems to deal first with those systems that affect the American citizen, to ensure that they get their Social Security payments on time, all of their payments. Those systems are actually well on track.

Senator CAMPBELL. It sounds like a really complicated system to me, so I assume you do not just turn on the switch on January 1, 2000. Is there a testing process that you have to go through?

Ms. KILLEFER. Yes.

Senator CAMPBELL. And some way of measuring the mistakes, the normal discord you have from mistakes?

Ms. KILLEFER. Absolutely. The systems are already being put in production and tested as we speak. Our desire for 1998 money is to ensure that we get all of the systems completed by the end of this fiscal year and are in a testing mode in 1999, correcting any problems before we go live in 2000. So we have test sites and contingency plans in place. You are exactly right, it is not an easy process.

Senator CAMPBELL. It is not an easy one to understand for me either. When you are testing—this is maybe off the subject a little bit—while you are testing you have the backup systems still in place that cross-check with the tests?

Ms. KILLEFER. We actually have separate test sites, so that we are not testing on the production systems as they are working. We are testing in the same environment with which they work, but it does not affect our ongoing operations. One of the challenges will be bringing it all live so that we check every interface.

IRS CHIEF INFORMATION OFFICER

Senator CAMPBELL. Thank you. I am glad you did mention Mr. Rossotti. I met with him too, as Senator Kohl has, and Senator Faircloth has too, and I am impressed, to say the least, with his energy and his thoughtfulness and his determination to try and correct an awful lot of problems that we hear about from our own constituents. I just think he is a terrific addition to the IRS.

In light of Arthur Gross' departure, I would think that the importance of not delaying the search for the prime contractor to fill his shoes is very important. How is that going?

Secretary RUBIN. There are two separate issues there I think, Mr. Chairman. One is getting his replacement, and we are very energetically involved in doing so. It is not an easy task but we are extremely focused. I can tell you that Commissioner Rossotti is extremely focused on it because right now he is doing a lot of that. He knows he wants to get the right person in there so he does not have to do it as much as he is doing it. So I can assure you we are focused on that.

On the question of a prime contractor which is a slightly different question, I think our RFP has gone out—no, it is in draft form. Where do we stand on that?

Ms. KILLEFER. It has gone out for comment. We have already received comments back from the two primes that they are able to respond, and we expect to have it out by the end of the month for them to then submit bids. So we are on track with that.

Senator CAMPBELL. My own personal view is that to get really top, qualified people in the IRS when they are taking such a beating nationwide is not an easy thing to do. I think a lot of people that would normally consider serving in a Government office would think twice about taking on that job.

Secretary RUBIN. You are right and yet I think there is—you are absolutely right on the one hand. On the other hand, this is a sort of two-sided coin. This is why Charles Rossotti came with us, because he saw something that had a lot of problems and he felt, and I think rightly felt, that he had a leadership at Treasury that was committed to change. And he said, here is an opportunity to really do something. We need to find somebody now to be CIO who has exactly the same feeling.

Senator CAMPBELL. If he makes the kind of changes and improvements that are necessary over there before he leaves we will have to talk to them about printing up a special medal for him.

Secretary RUBIN. We can put him on the dollar bill or something. [Laughter.]

IRS CUSTOMER SERVICE

Senator CAMPBELL. The IRS is requesting $103 million for improved customer service based upon national performance review

recommendations. Has the IRS begun implementation of any of those recommendations?

Secretary RUBIN. Yes, and I think with effect. The problem solving days have turned out to be very successful. I went to the first one, and it was very interesting. You see people there and they come and they meet with people from the IRS. It is really an opportunity to get access to people and get problems solved.

Another thing that struck me about it, I think maybe that struck me most about it was the IRS people wanted to be of service. They felt good about being of service to the people who came. So I think that has been very successful. They have started now opening their offices, on March 6, for what 6 days a week now?

Ms. KILLEFER. Actually, many of those things have been implemented. I had the opportunity to cochair that task force and we have implemented many of the changes. As you know, starting last Saturday, we opened the IRS offices on Saturdays. There are over 150 locations to help people prepare their forms, in order to get out in front of April 15. We have extended already the access to the telephone system to 6 days a week, 16 hours a day, and we are going to 24 hours a day beginning in 1999. We have started rewriting the notices. We have instituted problem solving days.

We have banned measurements that we thought led to potentially unfair treatment of taxpayers.

Senator FAIRCLOTH. I am sorry, you have banned what?

Ms. KILLEFER. We have banned measurements that we thought were detrimental to our service to the taxpayers. We have and are launching this month a customer service survey that will be used as a measurement system to truly understand customer satisfaction.

So there are an enormous number of the recommendations that are already being implemented. We do need additional funding to continue to support all of the many measures that I think will make a very meaningful difference to the American taxpayer.

Secretary RUBIN. Could I say one other thing, Mr. Chairman?

Senator CAMPBELL. Yes.

Secretary RUBIN. I think people are seeing the effect—we had dinner about 3 or 4 weeks ago with a group of Senators on a totally different subject; nothing to do with any of this. But we were sitting around having drinks before dinner—one drink each or something. But anyway, sitting around having drinks before dinner. [Laughter.]

Senator CAMPBELL. That is on the tape.

Secretary RUBIN. It was interesting. A number of them said that constituents had told them that there was a noticeable difference in the atmosphere at IRS offices. So I think this is not only doing exactly what Nancy just said, but I think it is starting to affect the culture and the way people behave.

Senator CAMPBELL. I commend you for that. I had an opportunity last year to visit the IRS office in Colorado Springs that had just been firebombed a few days before. I do not even know if they have caught that guy yet. He did leave some clues around there that the ATF got a hold of.

Senator FAIRCLOTH. Was it a bad audit? [Laughter.]

Senator CAMPBELL. I do not know. To my knowledge, they have not caught him yet.

Senator FAIRCLOTH. I thought you got an audit.

Senator CAMPBELL. I did get an audit, but I did not go to that extreme. I know that some people are just at their wits ends and literally take up arms against the IRS. If we can make an improvement to try to make sure people feel they are being treated fairly, I think that they would rather come to us and talk to us about it than just getting the fire out and going straight to the IRS at nighttime.

INTERFACE BETWEEN INTERNATIONAL AFFAIRS AND LAW ENFORCEMENT

Mr. Secretary, most, if not all the Treasury law enforcement bureaus are impacted by events that are really in an international arena. The counterfeiting of money is an example, and international drug trade and so on. Is there any overlap or formal cooperation internally of the Treasury law enforcement bureaus and the international affairs division of Treasury?

Secretary RUBIN. Yes; I would say it is both formal and informal. It is informal in the sense that everything reports into the Deputy Secretary and myself, so we will bring people together as needed on issues. But it has also been formalized in quite a number of areas. For example, there are very important issues with respect to the application of sanctions. OFAC applies sanctions against terrorist groups, narcotics groups, and the like. They now review their activities with people from the international area because there are overlapping concerns, as you correctly say.

On sanctions policy for the administration there is now an interagency process. But within Treasury we have an intraoffice process, if you will, that meets on a regular basis. Areas like money laundering and counterfeiting, which are both law enforcement and international. There is a great deal of formalized interface. So the answer is yes.

RENOVATION OF TREASURY BUILDING

Senator CAMPBELL. You talked about the importance of $16.5 million for renovation and modernization of the main Treasury Building. Is that the total estimated cost, and what is the completion date if we can fund that?

Secretary RUBIN. The total estimated cost at this time is about $130 million. When is the completion?

Ms. KILLEFER. It is a 5-year program.

Senator CAMPBELL. Thank you.

Senator Kohl, do you have some comments or questions?

Senator KOHL. Thank you, Mr. Chairman.

IMF

Secretary Rubin, as we understand it, the U.S. participation in the IMF does not increase the Federal budget. Our current core contribution to the IMF now totals approximately $36 billion and the administration is asking that we increase that contribution by

approximately $15 billion more. That would be $50 billion committed to IMF's core funding.

Now many people perceive this money to be another form of foreign aid. We may say it is still ours, but I and others say that we will probably never see that money again. So can you explain in simple terms how this works?

Secretary RUBIN. Sure. Let me start by saying, Senator, that I think it is imperative that we do it and we do it quickly. We live in a very dangerous world right now. Hopefully it is a world that will not—hopefully it is a world in which we will work our way through the Asia crisis, and other things will not ignite, and a reasonable degree of stability will remain. But there is a risk. I think a low probability risk, but a risk.

Senator Faircloth has heard Chairman Greenspan and me address this in another committee. He said the exact same comment I have. Low probability, but nevertheless there is always risk that the kind of thing that we have seen happen in Asia could expand out and envelop developing countries around the world. If that happened, that could have severe impacts on us, on our economy, our workers, our businesses, and our farmers.

The IMF is badly underfunded right now. So every day that it goes on being underfunded we do not have the capacity to deal with that problem, should it develop. The consequence is, we believe it is imperative to get funding and get it now.

In terms of your direct question, what we do is we—we are asking for, as you correctly said, another $14.5 billion of what is called quota money. What happens is, it is a commitment. If the IMF draws it down, then without going through all the technicalities, the bottom line of it is that we put up cash at the IMF and we get back a claim against the IMF. And the IMF is a rock, solid credit.

The Congressional Budget Office will score that at zero effect. So there is no effect on the deficit. It is a little bit like a credit union or a bank. When the IMF is finished using that money, our commitment remains. Think of it as a line of credit in a sense from a bank. Maybe that is the way to think about it. When the IMF is finished using it, they will give us the money back but they still have the right to take it down from us again.

If we want to cancel that right, if we actually want the money back permanently, we have the right to say we need it for balance—we can get it back. We have the absolute right to get it back. But what we have to do is say we need it for balance of payments purposes, in which case it is then ours again, not theirs.

Senator KOHL. I understand. But in reality, is it not fair to say that the money that we contribute to the IMF is money that we are not likely to ever see again?

Secretary RUBIN. No; I do not think I would agree with that actually. I think my reaction would be slightly different. I presume what we will do is make a practical judgment as time goes on what best serves our economic and national security interests. Unlike foreign aid, once you have given foreign aid to a country, it is gone.

Senator KOHL. Legally gone.

Secretary RUBIN. You cannot get it back. You have not loaned it to them. You have given it to them.

Senator KOHL. Right.

Secretary RUBIN. This is a situation where we, in effect, have loaned it to the IMF or put it on deposit, if you will, and we can get it back as long as we assert—and there is nobody who has a right to overrule our assertion—as long as we assert that we need it for balance of payment purposes. So 5 years from now, or 10 years from now, or whatever, if the U.S. Government decides it wants the money back, unlike foreign aid, it just says we need it for balance of payments purposes and they get it back.

Senator CAMPBELL. Senator, would you yield just for one comment?

Senator KOHL. Yes, go ahead.

Senator CAMPBELL. You talked about risk. Let me tell you, we face some risk too. When you go home and tell constituents that you want to increase America's share of the IMF and they read every day in the paper stories like the President of Indonesia, Suharto, who they say is worth $40 billion whose whole government is just rife with nepotism and cronyism and literally everything else, and they know many times in our past history, whether it was Bautista, or Rhee, or Peron or whoever, so much money has been siphoned off to put in Swiss bank accounts, believe me it is a hard sell at home. You should understand that.

Secretary RUBIN. Senator, I totally relate to that. I do understand it. Let me say, as far as I am concerned, I do understand that and I think that is what makes it such a difficult issue in this body. And our judgment is a judgment based on only one thing and one thing only, and it is what Chairman Greenspan and I have testified to now before a number of committees. That is our economic interest. That is the sole—and our national security interest. Our economic and national security interest.

But this is one of those very difficult things, politically difficult, but I think economically imperative.

Senator CAMPBELL. Thank you, Senator.

Secretary RUBIN. Could I just add one other thing, if I may, Senator? What you said is absolutely right. On the other hand, it is interesting, we have had the Farm Bureau strongly supporting what we are doing and very actively supporting us. The Business Roundtable is very actively supporting us, the Chamber of Commerce is very actively supporting us, the National Association of Manufacturers is very actively supporting us. These are not groups that have automatically supported this administration on all of our initiatives. But they are all not only——

Senator CAMPBELL. I think they understand that the ripple effect of lost exports to that country could be in the long term more detrimental than putting the money in the IMF. I understand that, too. But to talk to the average person on the street in your hometowns, they have real problems.

Secretary RUBIN. You are right. It is a difficult issue.

Senator CAMPBELL. Senator Kohl.

Senator KOHL. Just to go on in connection with that. We have heard that there is criticism that the IMF should focus more on being an effective force in working with countries that receive credit to ensure that they are aware of steps that they must take to demonstrate political and economic progress. Is this a role that you believe the IMF should focus more resources on?

Secretary RUBIN. Let me divide it in three pieces, if I may, Senator. It is obviously a very important question. I think that for all kinds of reasons, political pluralism, human rights, and similar kinds of issues are issues that we should pursue. They are our traditional values as a country.

There was a little piece in the Washington Post today about Thailand. It was very interesting. They quoted the new Prime Minister of Thailand as saying that because he has a democracy it was easier, or they could more readily adopt the kind of reforms they need to come back. I do believe that democracy, over the long term at least, is a better form of government economically. That is in the interest of these countries and also in our interest. So I think that we should pursue these objectives in all possible fora.

Now having said that, in the programs that are designed to deal with financial instability that take place in a time of crisis and where wrenching changes have to be made very quickly, there are practical limits on how much you can do—these are extremely difficult to get done. I have now lived through a few of them. They are very difficult to get done.

I think that in those kinds of programs what you need to do, at least I think, is to limit yourself, or the IMF needs to limit itself I should say, to the reforms that will help reestablish financial stability and confidence, because that itself requires wrenching change and is extremely difficult to do. But I think we need to pursue these other objectives in all ways that are practical.

Now in these reform programs there are very often measures that do address some of what you are talking about.

Senator KOHL. All right. What do you think, Mr. Secretary, of establishing a formal IMF advisory committee that would oversee IMF lending decisions?

Secretary RUBIN. If you mean oversee them in the sense of before they are made, I think that that is probably not practical. These decisions tend to get made in a very short period of time. In the case of Korea I think it would be fair to say that there were three or four critical days, and if the IMF and the international community had not moved with dispatch, that there was a very realistic chance that the banking sector in Korea might have been in default with untold possible consequences for our country because of the possible ripple effects and so forth.

If you are talking about some sort of a review process, I think those are the kind of things that are realistic and worth considering.

BUDGET SURPLUS

Senator KOHL. Mr. Secretary, there has been a lot of discussion on the budget surplus. It is my understanding that the Federal Government as we know will spend over $1.7 trillion in 1999 and yet our revenues will exceed the outlays. Do you believe we are entering into a new era of surplus which will be longlasting? Are you concerned about whether that, in fact, is a conversation that will not become reality? And if we do have surplus, what should we be doing with our surplus?

Secretary RUBIN. It is obviously a very important question you raise. The Office of Management and Budget and the CBO both

project surpluses that go on for a long time. And I know in the case of OMB because I was involved in it, the assumptions are, I think it would be fair to say, quite conservative.

Senator KOHL. Let me just ask this question.

Secretary RUBIN. But I must say, life——

Senator KOHL. Just a couple years ago we were seeing deficits as far as the eye can see. What has changed?

Secretary RUBIN. One thing certainly changed. In 1993, you had a powerful debt reduction program put in place that had I think—not I think, it did have very dramatic effects. That in turn spurred a recovery. Then the recovery reduced the deficit further. You had a healthy interaction between deficit reduction policy and a strong economy. That I think has really dramatically changed the fiscal position of the United States and economic conditions in this country. And I think as a consequence we are for the first time in a long, long time a nation with its economic house in order.

Having said that, going forward all that I said about these conservative assumptions notwithstanding, your point is also correct, or at least the implicit point, which is life sometimes has some surprises and can take turns one had not expected. So I think one needs to be very prudent about how one thinks about this surplus. I think the President had it exactly right. By addressing Social Security we are dealing with the long-term fiscal position of the country, and I think his idea of not doing anything with this surplus until we address Social Security is a fiscally sound thing to do in an uncertain world.

TAX CODE

Senator KOHL. Mr. Secretary, some people say we should sunset the IRS, or that we should replace the income tax with a sales tax, or perhaps we should go to a simplified flat tax. Mr. Secretary, what do you think about these proposals? How do you respond when people say that we should eliminate the IRS or that we can eliminate income taxes?

Secretary RUBIN. You could eliminate income taxes but you are still going to have some expenditures. So I think you need some revenues. I did not go to business school, but I sort of picked this stuff up when I was on Wall Street. [Laughter.]

Senator KOHL. I just want to make the point that some of those people who talk about eliminating the IRS, eliminating income taxes then do not say what you just said.

Secretary RUBIN. I will give you a more serious answer. I think that the idea of sunsetting—I have said this before and probably I will say it again—I think the idea of sunsetting the Tax Code without having a fully developed alternative that you can evaluate is a genuinely terrible idea. Because I think the problem is that if you ever enacted such a thing, you create an uncertainty that could undermine our economy.

If you do not know what a house is worth because you do not know whether the mortgage interest is deductible—I know you are very involved with business, Senator. If you do not know how to evaluate investment because you do not know how depreciation is going to be treated, it seems to me the uncertainty could truly undermine our economy. So I think it is a genuinely terrible idea.

Senator KOHL. So you would say some of the discussion I have heard in the House about taking a vote to sunset the IRS in and of itself, standing all by itself, is ludicrous?

Secretary RUBIN. Sunsetting the Tax Code I think is ludicrous. Not ludicrous, I just think that it—yes, it is in the neighborhood of ludicrous. It is in that neighborhood, I think. If you get rid of the IRS you are going to have to have somebody else perform that—if you are talking about the IRS as an administrative unit, then you have to eliminate that IRS and immediately create a new IRS to enforce the Tax Code. So I do not think that that is a particularly practical idea.

IRS COLLECTIONS

Senator KOHL. Mr. Secretary, it is my understanding that the IRS is losing the potential to collect hundreds of millions of dollars in overdue taxes due to the problems in determining which accounts are collectible and which are not collectible. What action is the IRS taking to develop information on written-off accounts to determine whether cost-effective collection measures can be developed and applied?

Secretary RUBIN. We have a 10-year writeoff rule if I remember correctly.

Ms. KILLEFER. Yes; that is correct.

Secretary RUBIN. I am not quite sure what that question goes to. There are a lot of questions about collection. For example, Commissioner Rossotti feels that the IRS should move more quickly on collections than it does today, and that it will get a higher collection—a better result in terms of collections as a consequence. But beyond that—Nancy?

Ms. KILLEFER. A couple of things. I am not quite sure of the ramifications of all your questions. In looking at business practices at the IRS I think it is very clear to the Commissioner, and I would agree with that, that many of them, in addition to our technology, need to be modernized. Collections is clearly an area—my background is all in the private sector—that suggests that we need to make some major changes.

Private sector collection practices specialize in getting to the delinquent person very early in the process—literally within the first 60 days—and dealing with them. They tend to come in three groups: the people that want to pay that just have to figure it out and are able to pay, the people that also want to pay but are unable to financially and you work out a payment system with them, and the people that will not pay and those you use enforcement activities on.

We believe very strongly that the IRS needs to modernize its collection processes today. We do not get tax debts until they are virtually 180 days old, which is not the time to be dealing with them. It is going to take systems modernization to get those records earlier in the process. So really it is a very long term change. But I do think collection practices need to be modernized.

In addition, you may be referring to a couple of programs now that deal with taxpayers who want to pay but are financially unable. One is called the Offers in Compromise Program, and then there is an appeal program. We are actually looking at the Offers

in Compromise Program now. There are two study groups working on improving it, and the Commissioner is part of that. The appeals process has actually been a very successful program at the IRS.

Senator KOHL. That is good. Thank you.

Thank you, Mr. Chairman.

IMF

Senator CAMPBELL. Before I ask Senator Faircloth, there was one thing that came across my mind when you were talking about the IMF, and that is how much we actually pay into the IMF fund. What is our contribution to the IMF?

Secretary RUBIN. As a percentage?

Senator CAMPBELL. As a percentage and a dollar amount?

Secretary RUBIN. I think Senator Kohl had it right, we have $36 billion of commitment of which about $18 billion has been drawn down and $18 billion is——

Senator CAMPBELL. $36 billion commitment?

Secretary RUBIN. Yes; of which $18 billion has been drawn down.

Senator CAMPBELL. How often?

Senator KOHL. That is total.

Secretary RUBIN. It gets drawn down as needed. The last time you actually increased the commitment, which may be what you are driving at, was in 1992. As was true then, so is true now, the rest of the world was ready to go. We were the only ones who were holding back. When Congress approved the increase in 1992, the rest of the world completed their approval process, I think, within 6 days.

Senator CAMPBELL. Is our commitment the largest of any of the contributors to the IMF?

Secretary RUBIN. Sure. We also have the largest economy. We have about 18 percent of the votes and we put up about 22 percent of the money, which just so happens is about our percentage of world GDP.

Senator CAMPBELL. Thank you.

Senator Faircloth.

Secretary RUBIN. Which does internationalize the burden, because it means the rest of the world has put up 78 percent or thereabouts. I may be off by a percent or two.

Senator FAIRCLOTH. Thank you, Mr. Chairman.

TAX CODE

Mr. Secretary, I do want to give praise in bringing Mr. Rossotti and being able to bring that type of man into the Internal Revenue Service. He is, as you mentioned or you alluded to, his expertise is running a major corporation. Not only he ran it, he put it together and made it run, and it is in electronic data processing. So he sounds like exactly what we need.

Ms. Killefer, are you with the IRS?

Ms. KILLEFER. No; I am not, sir. I am the Assistant Secretary for Management with Treasury, but I do work closely with Commissioner Rossotti.

Senator FAIRCLOTH. We hear over and over, the biggest complaints we get in the office are private citizens and IRS problems. Some of them—I have held a couple of hearings and people come

that are just appalling stuff. You could not believe it, but yet it proves to be true in many cases.

I must say that I have been in business all of my life since I was 18 and have had many, many audits by the IRS and have all been very satisfactory. I have never felt abused or put upon or anything else. But I see these people come in. And the thing that really bothers me, they are usually very small taxpayers. In fact we have never had what I would consider a major taxpayer that had a competent auditing firm call us or bother us. It is always a mom-and-pop type thing, and usually the amounts involved are just not that much money.

You said to sunset the code is a mistake. And we all know that income has ultimately got to meet outgo, so we have to collect the taxes. But what happens to the boondoggle of 17,000 stacked up pages, the incomprehensible code that we have today?

Now I think anybody would know that that is as bad as—what do you do? How do you get rid of 15,000 of those pages?

Secretary RUBIN. Let me try and take it in two pieces, if I may, because you said something that I think, Senator, we very strongly identify with. So let me, if I may just comment on that. I think you correctly have a concern about the people who have been abused or have not been treated properly by the IRS, something we very much agree with. I think as much as any of us agree, Commissioner Rossotti agrees even more, and his commitment is to try to change that.

One of the things that he is doing is putting in place a program—his reorganization plan involves having a unit that will deal with small business. In addition, the NPR made some similar, or the NPR/Treasury/IRS Customer Service Task Force made some similar suggestions of having special capabilities to deal with the problems of small business. So I think your point is well taken.

But the code is overcomplicated. We have tried to—not tried to, we have introduced and then had enacted a number of simplifications as we have gone along. But it is still too complicated and I think all of us need to focus on simplification every way we can. I think we can have good debates about different simplification measures, whether we should do them or not do them.

But what I was saying was that having a debate on a simplification measure, or even debating the progressive tax system versus the flat tax—I do not happen to think flat tax is a good idea. But that is a legitimate debate it seems to me reasonable people can have, and Congress can decide one way or the other. All I was saying was that to simply do away with the code and not have a fully developed alternative seems to me to have enormously serious and negative implications.

Senator FAIRCLOTH. We have to collect taxes, and if the code is called the law—there is nobody foolish enough to think that——

But I am still saying that the 17,000 pages, how do we simplify it to a process that most citizens, or the intelligent people can understand it? As it is today even CPA's do not understand it.

Secretary RUBIN. You are right. It got complicated because an awful lot of people wanted to accomplish an awful lot of economic, social, and other purposes. I think that the only way it is going to get simplified is if Congress and the administration work together

on trying to reduce its complexity. As I said, we had something like—I apologize for not remembering the number, Senator, but something like 40 or 45 or 50 simplification measures that were enacted in 1997, some of which were quite meaningful. Some of them were relatively small. And we continue working along those lines.

But we do have a complex economy and a complex society, and that is reflected in our Tax Code. But I totally agree with you. I think we should work toward simplification, but I think that, as I said a moment ago, I think sunsetting is, for the reasons I said, a very undesirable idea.

Senator FAIRCLOTH. If the Congress simplifies anything, the leopard will have shed his spots.

Secretary RUBIN. The what?

Senator FAIRCLOTH. If the Congress simplifies anything, the leopard will have shed his spots, because simplification is not what we usually do.

Secretary RUBIN. I think there is a bit of truth to that, but that is part of the problem. Both Congress and the administration have—not necessarily this administration, all administrations have a lot of problems as they try to simplify the Tax Code. But I agree with you, I think simplification is a very important objective.

I might add, I do think, Senator, that there are measures that one could take that could make this Tax Code simpler for the great preponderance of people, the people of relatively simple economic situations, and I think that is something we can all work on. For example, last year we made profits on homes not subject to tax if they were under $500,000. That actually makes a difference for a lot of people.

IMF

Senator FAIRCLOTH. I was being a little flippant, but usually when we get into it it gets more complex rather than simpler.

The IMF problem that bothers me, the core of the problem is this. In the new arrangement for borrowing, the use of the stabilization fund, is it not inevitable that we are encouraging high-risk loans, high-interest loans around the world? Now we have all seen the buildings that were built in Asia that were not needed, that were not financially feasible. They just built a building. No. 1, as a monument to the building or the financier, because his building was higher than somebody else's building. And the propensity of international bankers to lend pretty freely; very freely.

We have seen all sorts of harebrained projects throughout the world, but now we are looking at them in Asia. The International Monetary Fund, by whatever method it does it, is bailing these banks out. It props up the country, it props up the economy. One way or another, the money is funneled back to stabilize a loan that should never have been made. That is what bothers me about the monetary fund.

Would you comment on what I said, or is it totally wrong?

Secretary RUBIN. No; I do not think it is totally wrong. You and I have discussed this before. I think it is a legitimate and serious concern. It is one that, as you know, we share. I think the problem that we have, as we have discussed before, Senator, is that the kind of financial instability that we are now trying to deal with in

Asia—and that is an extremely complicated, difficult situation that, although some countries are on better footing than they were, is still a very complex situation with a lot of work lying ahead and a fair bit of uncertainty.

These situations create an enormous threat to our economic well-being. It is because of that that we have the view, and Chairman Greenspan and I have testified on a number of occasions that our view is that, while what you say is a serious concern and a byproduct of these programs, what we need to do is to work to restore financial stability, strengthen the IMF so that we can do that and at the same time, try to improve the architecture so that in the longer run we can deal with this problem. I think that is the answer.

Now having said that, in Asia—and I think I take some comfort from this and I suggest you might as well—there have been and will be enormous losses by creditors. Creditors and investors have been very badly hurt in Asia, and I think that is actually a salutary effect. I also think, and I have spoken to a lot of people in the international banking world, and Chairman Greenspan said the same thing in an open hearing, I do not think that bankers have been influenced in their judgments by an expectation that the IMF would be available to provide support if trouble developed.

I think there was overlending. But I think what happened is what you always see in markets, or virtually always, which is markets tend to go to extremes. I think as the years went on and people were doing well, they started to forget about risk.

So do I think we need to deal with the problem that you have raised? Yes; but do I think that we have an overwhelming imperative to have a strong IMF that can protect our interests while we are trying to improve the architecture to deal with this problem better? The answer would also be yes.

Senator FAIRCLOTH. What was that word that I know we discussed at one time, moral?

Secretary RUBIN. Moral hazard. That is precisely the issue. We agree.

IMF PROPOSED REFORMS

Senator FAIRCLOTH. There is much talk we are hearing in the Congress about reforming the—reforms, imposing reforms and constraints on the IMF. Has the Treasury come up with any proposed reforms of IMF?

Secretary RUBIN. We have not formally submitted proposed reforms. Let me say, there are two types of reforms that are being discussed. One are reforms of the IMF. We have been working with members in both parties and in both houses on——

Senator FAIRCLOTH. I know Chuck Hagel is——

Secretary RUBIN. Exactly, precisely. We have been working with Senator Hagel. He has taken the lead in it. We have been trying to help as he has worked his way through this.

There is another set of reforms which are, I think in a larger sense maybe even more significant. In fact, I do think they are more significant, which are the changes that need to be made in the architecture of the international financial system. Those are going to take longer to put in place.

But they all revolve around the same kinds of things: greater transparency and disclosure, which can be helpful in preventing crises and can be helpful in terms of providing public awareness of how the IMF functions; mechanisms that relate to the problem you just mentioned, which is how do we bring the private sector in more so they bear as fully as possible the consequences of their actions; reforms that go to the question that Senator Kohl raised of what the content of these programs are, although I think we have to recognize the realistic limitations on that. Those are the kinds of things that we are talking about.

Senator FAIRCLOTH. Thank you, Mr. Secretary.

Secretary RUBIN. Thank you, Senator.

Senator CAMPBELL. Do you have anything further?

Senator KOHL. No.

Senator CAMPBELL. I think we are done grilling you for the morning, Mr. Secretary. We certainly appreciate you being here and wish you the best.

Secretary RUBIN. Thank you, Mr. Chairman. We look forward to working with you.

SUBMITTED QUESTIONS

Senator CAMPBELL. Mr. Secretary, we have additional questions for the Department and we would ask that you respond as quickly as possible.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR CAMPBELL

FISCAL YEAR 1999 BUDGET REQUEST

Question. Mr. Secretary, Treasury has two distinct functions—fiscal management and law enforcement. How do you balance the needs of these two functions?

Answer. These functions are equally important within the Department as is demonstrated by the equal under secretary capacity they both hold within the Department. Treasury, in both its program direction and in resource allocation, looks carefully at the individual issues all across the Department in an effort to direct proper attention to all essential functions. At any particular time, it may appear that one area has more attention than another, however, over time, all areas are balanced as part of the senior policy deliberations in the Department.

Mr. Secretary performance goals for the Department have been included with the budget request for the past three years. In some cases, the Department has done very well in reaching stated goals. Sometimes though the agency just doesn't quite make it.

Question. Based on your experience of the past three years, what lessons has the Department learned about setting realistic goals? How does the Department develop performance goals for agencies who are totally dependent on others to reach those goals?

Answer. As you point out, Treasury has made a serious and sustained effort to base its resource requests on quantitative performance goals, to manage to achieve those goals, and to report on achievements to Congress and the public. This has been a difficult process for our programs. In many cases, we have struggled to identify appropriate performance measures for programs where results are inherently difficult to measure. However, we are committed to continuing to use performance measures to manage our programs because of their great promise to help us achieve the best possible mission results.

Once measures have been identified, goal achievement has often been impacted by unpredictable changes in external factors (e.g. shifts in demand, crises such as terrorist incidents which affect priorities). As we gain more experience with measurement, our ability to forecast and set realistic, but challenging, targets will con-

tinue to improve. However, there clearly will always be some limits to our ability to set the right goals.

Question. Mr. Secretary, what is the status of the search for a new Treasury Inspector General? Are you looking for an auditing or law enforcement background in your search for a new I.G.?

Answer. The IG is appointed by the President and confirmed by the Senate. We are looking for the best qualified candidate consistent with the statutory obligations of the office, particularly, as it relates to investigations and financial audits. We are moving on a expedited basis.

Question. Although Secretary Albright's report is not due to Congress until later this month, I would be interested to know the current status of your participation in this task force. Are there any preliminary thoughts you wish to share on what the Justice Department can do to help countries reduce and prevent crime?

Answer. Although The Department of Treasury cannot address Department of Justice efforts in the international crime realm, Treasury's law enforcement bureaus—including the Bureau of Alcohol, Tobacco, and Firearms (ATF); the Customs Service; the Internal Revenue Service (IRS); the Secret Service; the Financial Crimes Enforcement Network (FinCEN), and the Federal Law Enforcement Training Center (FLETC)—have numerous initiatives to help other nations prevent and combat crime in their societies that may impact U.S. citizens, our economy, and institutions.

Treasury's law enforcement personnel stationed abroad work closely with their foreign counterparts to pursue violations involving trade; smuggling of contraband such as drugs, alcohol, tobacco, firearms, stolen vehicles, wildlife, and child pornography; and financial crimes including money laundering, counterfeiting, and electronic access device schemes. Treasury currently has 115 agents stationed in foreign countries. In fiscal years 1996–1997, the Customs Service handled more than 5,664 international cases, the Secret Service closed over 3,200 cases abroad, and the Internal Revenue Service's Criminal Investigation Division (CID) handled more than 230 foreign cases.

Treasury has implemented extensive bilateral training programs for foreign counterparts to improve their abilities to collect, analyze, and share financial and other law enforcement information. Treasury has taken the lead in creating a new International Law Enforcement Academy (ILEA) for Latin America. The ILEA promotes regional cooperation against crime and forges valuable working relationships between U.S. and overseas law enforcement officers. U.S. and foreign law enforcement officers utilize techniques learned at the academy and participate in investigations leading to the dismantling of organized crime syndicates. Treasury law enforcement bureaus are also active participants in the training provided to eastern European countries at the ILEA in Budapest, Hungary. For example, agents from the IRS's CID present instruction covering basic financial investigative techniques designed to provide the students with an understanding and appreciation of financial crimes.

By strengthening its presence abroad and establishing domestic and foreign programs, the U.S. Secret Service is a forerunner in combating counterfeiting, advance fee and credit card fraud, and other financial crimes that cost consumers, financial institutions, and governments billions of dollars each year.

IRS's CID continues to emphasize State Department initiatives under the Freedom Support Act (FSA) and the Support for Eastern European Democracies (SEED). Emphasis is also placed on South and Central American countries as well as Caribbean nations. These areas represent CID's primary international concern because they are areas that most impact the U.S. in financial crime matters, including money laundering and other financial crimes.

Another example of the Treasury Department's strategic goal of fighting crime and violence internationally is the role ATF plays in support of the Office of National Drug Control Policy (ONDCP) in its international war on drugs. ATF participates in ONDCP projects such as Achilles and Gang Resistance Education and Training (GREAT) and with both the High Intensity Drug Trafficking Area (HIDTA) and Organized Crime Drug Enforcement Task Force (OCDETF) enforcement efforts. Beyond OCDETF support, ATF's International Response Team directly responds to international bombing incidents and provides training to international law enforcement officers on post-blast and improvised explosives investigative techniques. ATF's International Trafficking in Arms (ITAR) expertise is of interest in United Nations and Organization of American States negotiations to curb the illegal manufacture and trafficking of arms, as is ATF's training of international investigators on firearms identification and tracing. Additionally, in the strategy of prevention of criminal exploitation of international trade, ATF works with the Office of the United States Trade Representative and through oversight of the regulated industries to

prevent illegal diversion of regulated commodities (e.g., beverage alcohol and firearms).

Another component of prevention is coordination between federal agencies and private sector organizations that operate overseas. For example, the Customs Service has implemented two industry partnership programs—the Carrier Initiative Program (CIP) and the Business Anti-Smuggling Coalition (BASC) that involve foreign and domestic importing, manufacturing, distribution, and carrier communities in anti-drug efforts. These and other programs, such as the Americas Counter Smuggling Initiative, have strengthened cooperative efforts with the international trade community, increased awareness of contraband trafficking in the commercial environment, and disrupted internal conspiracies.

Treasury is actively engaged in negotiating with other governments to eliminate financial safe havens. These cooperative efforts include providing assistance in drafting money laundering laws and regulations, assisting in the establishment of anti-money laundering institutions, and providing training in civil and criminal financial crimes enforcement.

With Treasury's support, for instance, Mexico has enacted anti-money laundering regulations that impose large currency transaction and suspicious activity reporting requirements on Mexican financial institutions. Treasury has assisted Mexico in creating a Financial Intelligence Unit (FIU) to collect and analyze financial investigative information. FinCEN, the U.S. FIU, is recognized as a leader in the field and has supported the development of FIU's throughout the world. There are currently 28 FIU's worldwide.

Treasury, in conjunction with our counterparts in the United States, works with other countries to develop and promote anti-money laundering standards through multilateral efforts such as the Summit of the Americas, the Financial Action Task Force, the Caribbean Financial Action Task Force, the Inter-American Drug Control Commission, the Egmont Group (of FIU's), and others. Through these processes, Treasury supports a system of common standards, the cooperation of FIU's, and asset forfeiture and sharing. It also participates in mutual evaluations of other countries' compliance with international anti-money laundering standards and recommended improvements.

Multilateral efforts have contributed to the enactment of anti-money laundering laws and regulations in several countries. In Europe, for example, since January 1994, Austria, Finland, Greece, Ireland, Monaco, the Netherlands, and Spain have implemented new money laundering legislation ranging from the criminalization of money laundering to the creation of monetary transaction reporting systems.

The Treasury Department has worked with more than a dozen countries especially vulnerable to money laundering to encourage them to address their deficiencies through a two-pronged approach of assistance with anti-money laundering programs and warnings about the consequences of inaction. In cooperation with our counterparts in the Departments of Justice and State, Treasury has contributed to maximizing the efforts of foreign police forces, prosecutors, and judges through training and technical assistance programs.

Treasury has also actively participated in the negotiation of bilateral treaties and other arrangements with other nations. One example has been to effect the recovery and return of stolen vehicles taken abroad by criminal gangs operating in the U.S.

Additionally, through Presidential Executive Order 12978 issued under the International Emergency Economic Powers Act (IEEPA), the Treasury Department has identified businesses and individuals acting as fronts and middlemen for significant narcotics traffickers centered in Colombia. Through the IEEPA economic sanctions that the Executive Order imposed against the Colombian narcotics cartels, those fronts and middlemen known collectively as Specially Designated Narcotics Traffickers (SDNT's), are prevented from doing business with U.S. persons anywhere in the world and are denied access to the U.S. financial system.

These SDNT's have been denied access to banking services not only in the U.S., but also in Colombia by Colombian financial institutions. For example, the Treasury agency that administers the IEEPA sanctions, the Office of Foreign Assets Control (OFAC), has identified nearly 400 closed Colombian bank accounts affecting nearly 200 SDNT's; and anecdotal evidence points to hundreds more closed accounts affecting SDNT's. In addition, SDNT's have been forced out of business or are suffering financially. Over 40 SDNT companies, with estimated combined annual sales of over $200 million, were liquidated or were in the process of liquidation by February 1998. These effects are in addition to the as yet unquantified, but very real, costs to the SDNT companies and individuals of being denied access to the U.S. financial and commercial systems.

Economic sanctions under IEEPA directed against non-state foreign national security threats are a powerful weapon that is being used against not only drug traffickers but also certain Middle East terrorists.

As outlined above, the Treasury Department and its bureaus are taking a proactive approach to help other countries reduce and prevent crime. We plan to continue sharing our knowledge and experience with foreign law enforcement officials and believe that we will continue to reap many benefits from doing so, both domestically and abroad.

THE PERFORMANCE PLAN

On September 30 of last year, agencies submitted their first strategic plans as required by the Government Performance and Results Act, popularly known as the Results Act. With this year's budget justifications, agencies are submitting their first annual performance plans under the Results Act. To its credit, the Treasury Department has voluntarily done performance plans and reports at its own initiative for several years. Therefore, Treasury already has some experience under its belt.

Question. In general, how satisfied are you with Treasury's performance goals and measures in the law enforcement area? For example, are they as results-oriented as they could be? Do they target and measure the right outcomes? Do they set the bar neither too low nor too high?

Answer. I am pleased with the progress Treasury has made to date in developing performance measures for its many and varied programs, but I also recognize that much more work is needed—particularly in the law enforcement arena—to institute an effective performance management system throughout the Department.

Over the last several years we have moved from limited reporting of traditional workload statistics to a planning and reporting process based on a mixture of workload, quality, customer service, and outcome measures. But, as you know, measuring the true impact of government programs is rarely a straight-forward exercise. We cannot normally use established private sector measures like return-on-investment. Measuring results is especially challenging for our law enforcement programs. We are working within the Department to address this issue and we have begun discussions with Justice on creating a performance measures working group. Treasury personnel are rising to this challenge, and with their continued hard work combined with feedback from our stakeholders (Congress, customers, partners, etc.) we will continue to improve our capacity to define and measure program success.

Question. Are you confident that the law enforcement components have reliable data sources, information and financial management systems, and other resources needed to set realistic performance goals and measure actual accomplishments under these performance goals?

Answer. The Department—including our law enforcement bureaus—has made substantial progress in the last several years in improving the data systems which support our financial and performance reporting. You can see this progress in the dramatic improvements in our audit results. As our measurement systems evolve and change over the next several years, we will continue to focus on data validity and reliability. In addition, in our performance plans and reports we will seek to provide the reader with a full description of each performance measure, including its definition, data sources, and the reliability of the data (e.g., confidence intervals for statistical data).

Question. Does your plan include any performance measures for which reliable data are not likely to be available in time for your first Results Act performance report in March 2000? If so, what steps are you taking to improve the reliability of these measures?

Answer. We recognize that improving the reliability and validity of performance data is a major challenge to the efforts by both Congress and this Administration to successfully use performance management to maximize our program results. We are working with Departmental, bureau, and Inspector General staff to improve the quality of our data. As noted above, we believe in "truth-in-reporting" and will seek to provide the reader with a full description of each performance measure, including its definition, data sources, and the reliability of the data (e.g., confidence intervals for statistical data).

Question. Based on your fiscal year 1999 performance plan, do you see a need for revisions to the strategic plan you issued on September 30, 1997? If so, what revisions are needed and when do you plan to make them?

Answer. No. We currently do not plan to engage in an early revision of the Department-wide strategic plan. We want to make use of the strategic thinking and direction that evolved during last year's planning process to craft our fiscal year

2000 budget request and to improve our performance measures. Some Treasury bureaus may revise their individual strategic plans during 1998. If so, they will consult with Congress and other stakeholders during their plan revision processes as required under the Results Act.

Question. The IRS hearings last Fall highlighted the familiar principle that you get what you measure, and demonstrated how the wrong performance measures can give the wrong incentives to federal employees. Balanced performance measures that take into account to citizens as well as other objectives are particularly important in law enforcement. What are you doing to ensure that your performance measures do not cause unintended consequences or undesirable effects on employee behavior?

Answer. Feedback from the National Performance Review/IRS/Treasury Customer Service Task Force, recent congressional hearings, and Internal Audit reports indicated that the IRS performance measures used in fiscal year 1997 did not strike a proper balance between customer service and fair enforcement of tax laws. As a result, the IRS has designated a task force to develop a balanced scorecard of performance measures. During fiscal year 1998, the IRS will be working with OMB, Treasury, and the National Treasury Employees Union and a contractor to develop this balanced scorecard that will evaluate the IRS on: customer satisfaction, employee satisfaction, and business results. A primary goal of this balanced scorecard measurement system will be to ensure that IRS treats all taxpayers fairly, while emphasizing quality customer service and respect for their rights.

More generally, the Department is very sensitive to the fact that inadequate measures—for law enforcement and other programs—can result in undesirable behavior. Our common challenge is to continue to refine and improve our measures for all of our programs, making certain that a proper balance is maintained and that unintended consequences are avoided. Congress is encouraged to help us in this effort by giving us feedback on our recently submitted performance plan, especially where there is a sense that the current set of measures may lead to improper results.

Question. What have you done to ensure accountability within your agency for achieving performance goals? Is achieving performance goals tied directly to your systems for evaluating and rewarding agency managers?

Answer. I have designated a senior Treasury policy official as the lead official responsible for implementing each objective in the Treasury-wide strategic plan. These objectives are supported by bureau strategic goals and objectives. The bureau goals and objectives in turn are supported by the individual annual performance targets in our performance plan. I intend to hold these lead officials responsible for achieving their objectives. I expect them to manage their subordinates accordingly.

Our current performance evaluation process for evaluating agency managers is not tied directly to the Department's strategic and performance plans. However, we are currently studying how to strengthen the connection between these evaluations and our plans.

Question. How were your performance measures chosen? How did the agency balance the cost of data collection and verification with the need for reliable and valid performance data?

Answer. Treasury's current performance plan has evolved over the last several years. Measures are prosed by individual programs which make changes in response to their own experiences in using their measures to manage, and in response to feedback Treasury, OMB, Congress and other stakeholders. Our measures are in the process of being evolved from traditional output indicators to a balanced set of customer satisfaction, employee satisfaction and business results measures. For each new measure which involves new data collection efforts, program managers need to balance the cost of collection against the usefulness of the measure. In many cases, significant investments in data collection are justified by the ability of managers to run their programs more efficiently using the new data.

MANAGEMENT PROBLEMS

GAO has identified 25 "high-risk" areas within the federal government that are particularly vulnerable to fraud, waste and error. Two of these areas are specific to Treasury law enforcement operations: Customs Service financial management and Treasury forfeited asset management. Based on an initial reading, your performance plans don't appear to significantly address these problems. The only reference I found was a goal to "focus on internal controls of the asset forfeiture program to eliminate weaknesses in the program that can result in lost revenue." However, this goal is very general and is not accompanied by any performance measures.

Question. Your performance plans include specific goals, measures, and timetables to resolve your two high-risk areas? If not, why not?

Answer. The ways in which these GAO high risk issues are addressed in the fiscal year 1999 Treasury performance plan are detailed below.

Forfeited Assets Management.—The Forfeiture Fund chapter of the performance plan addresses this issue and the GAO's concerns (page TFF–17) but does not include a specific performance target on the subject.

Customs Service Financial Management.—Treasury's performance plan includes a goal to achieve an unqualified audit opinion on the Department-wide consolidated financial statement for fiscal year 1999 (page DO SE–43). Achieving this goal will require an unqualified opinion on the Customs financial statement. Customs achieved an unqualified opinion for fiscal year 1997 on its financial statement. However, despite this opinion, Customs continues to have material weaknesses which the Department is committed to correcting. Customs has specific action plans and timetables in place to address its material weaknesses.

Question. Are you willing to amend the performance plans to do this?

Answer. My staff would be happy to work with Congressional staff on how we can refine the performance plan to make it more useful to Congress. They are available to discuss how these management issues are addressed and any other areas where Congress believes improvements can be made.

GAO has indicated that a key factor in resolving high-risk areas is a real sense of commitment and accountability on the part of agency managers. At least one agency has adopted a specific performance measure of getting off the GAO high-risk list by a date certain.

Question. Are you prepared to revise your plans to include performance measures making such a commitment for your high-risk areas and establishing such accountability for you and your managers?

Answer. The ways in which the GAO's high risk list is addressed in the fiscal year 1999 Treasury performance plan are detailed below.

Forfeited Assets Management.—The Forfeiture Fund chapter of the performance plan addresses this issue and the GAO's concerns (page TFF–17) but does not include a specific performance target on the subject.

Customs Service and IRS Financial Management.—Treasury's performance plan includes a goal to achieve an unqualified audit opinion on the Department-wide consolidated financial statement for fiscal year 1999 (page DO SE–43). Achieving this goal will require unqualified opinions on the Customs and IRS financial statements. Both of these bureaus achieved unqualified opinions for fiscal year 1997 on their financial statements. However, despite these opinions, they continue to have material weaknesses which the Department is committed to correcting. Both Customs and the IRS have specific action plans and timetables in place to address their material weaknesses.

Collection of IRS Tax Receivables and IRS Filing Fraud (Particularly Earned Income Credit (EIC) Claims).—The IRS chapter of the performance plan addresses accounts receivables (page IRS, SD–11) and includes a number of performance measures related to its compliance activities. However, as noted in other answers, feedback from the National Performance Review/IRS/Treasury Customer Service Task Force, recent congressional hearings, and Internal Audit reports indicated that the IRS performance measures used in fiscal year 1997 did not strike a proper balance between customer service and fair enforcement of tax laws. As a result, the IRS has designated a task force to develop a balanced scorecard of performance measures. During fiscal year 1998, the IRS will be working with OMB, Treasury, and the National Treasury Employees Union and a contractor to develop this balanced scorecard that will evaluate the IRS on: customer satisfaction, employee satisfaction, and business results. Consequently, the current plan for the IRS is an interim plan, and may be changed as the balanced scorecard measurement system is developed.

IRS Tax Systems Modernization.—The IRS's plans to ensure the effective use of its information technology investment resources are discussed in the IRS chapter of the plan on pages IRS, IS–1–25 and IRS, IT–1–8.

Year 2000.—Treasury's performance plan includes a goal to have all "Mission Critical" information technology systems Year 2000 compliant in fiscal year 1999 (page DO SE–43).

Information Security.—GAO's information security concerns and IRS's security plan are discussed in the IRS chapter of the fiscal year 1999 Treasury Performance Plan (page IRS SD–11). In addition, information security for the Department as a whole is addressed with the goal "Regularly review those Treasury bureau security programs, for compliance with national and departmental policy, that have been established to ensure security of Treasury's vital assets." In fiscal year 1999, the goal is to review four of these programs (page DO SE–41).

My staff would be happy to work with Congressional staff on how we can refine the performance plan to make it more useful to Congress. They are available to discuss how these management issues are addressed and any other areas where Congress believes improvements can be made.

With respect to the forfeited assets fund, GAO recommended that Treasury and Justice achieve greater efficiency by working together on the management and disposition of property from their parallel but separate forfeited asset inventories. Yet, neither agency appears willing to do so.

Question. This seems like an easy thing to do. Why can't the two agencies cooperate here?

Answer. The two agencies are working together. Last fall, the Director of Treasury's Executive Office for Asset Forfeiture and the head of the Marshals Service's asset forfeiture office met with GAO representatives to explore the best way to help get federal seized property programs off GAO's high risk list. Following that meeting, Treasury and marshals have taken practical steps to achieve greater efficiencies through cooperation. In December and January, real property auctions conducted by Treasury's seized property management contractor, EG&G Services, for the first time included properties in the forfeited inventory of the Marshals Service. Not only did the auction results far exceed the expectations of the Marshals property managers but the January sale in Puerto Rico brought in 112 percent of fair market value.

Our cooperation and search for greater efficiencies has not stopped with this one initiative. Treasury and Marshals are also underwriting a series of joint conferences as part of an extensive training initiative to focus attention on the management of the forfeiture program and, particularly, its seized property component. These conferences are geared toward mid-level managers from Treasury and Justice law enforcement bureaus as well as U.S. Attorneys' Offices. Our first conference was held in early April in Miami with several more planed for the balance of the year in those districts with the greatest volumes of seized property.

Question. If Treasury and Justice are unwilling or unable to cooperate on something as straightforward as this, what does it say about their ability to work together on more complex law enforcement activities?

Answer. Seized property management issues are but one segment of the very broad area in which Treasury and Justice law enforcement organizations cooperate every day. Reverse asset sharings are those monies deposited in the Treasury Forfeiture Fund as a result of equitable sharing with Treasury law enforcement bureaus based on their contributions to other federal, mostly Department of Justice, investigations. Such reverse asset sharings have gone from just under $3 million in fiscal year 1995, to almost $10 million in fiscal year 1996 and to over $11 million in fiscal year 1997. Clearly, Treasury and Justice law enforcement organizations are cooperating not only in the seized property arena, but also on operational matters of increasing scope, complexity and value.

Question. Can we have your commitment to follow up on this issue and report back to the Subcommittee?

Answer. We appreciate the Subcommittee's concern with this matter as it reflects our own desire to make seized property management as efficient as possible so that savings realized there will be available to directly strengthen law enforcement through the other payment authorities of the federal forfeiture funds. We will be glad to keep you apprised of our progress in this area.

In addition to the agency-specific high-risk areas, two other government-wide high-risk areas are particularly serious at Customs: the Year 2000 computer conversion problem and information security. Treasury's Inspector General also has identified these areas as among the Department's 10 most serious management problems.

Question. Do your plans contain specific goals, measures, and timetables to resolve these problems? If not, why not? If so, what are they? Are you confident that these goals and measures are sufficient to resolve the problems? If not, what more can you add to get the job be done?

Answer.

High-Risk Area—Year 2000:

The Year 2000 problem is the most important information technology issue facing the Department of the Treasury today. If not addressed and resolved, this issue could have a substantial impact on our critical mission systems and the delivery of essential government services. Continuous executive level involvement in this matter is essential to our success. The high priority of this issue is reflected in the Treasury Strategic Business Plan for fiscal years 1997–2002 in which Ensuring Year 2000 compliance is a major objective to achieve the goal of improving management operations. The specific Year 2000 goal is to accomplish the century date change to

ensure that Treasury systems will operate properly in the Year 2000. Treasury has an aggressive overall Year 2000 program in place that actively involves senior executives across the Department and bureaus, and incorporates metrics reported at least monthly to ensure that sufficient resources and efforts are applied to resolve the problem. For those mission critical systems requiring repair or replacement, the milestones are completion of renovation or development by October 1998 and implementation by December 1998. Treasury is on target to complete the conversion, testing, validation, and implementation of all mission critical systems to ensure continuous operation in the year 2000 and beyond.

High-Risk Areas—Information Security:

Information security for the Department as a whole is addressed with the goal, "Regularly review those Treasury bureau security programs, for compliance with national and departmental policy, that have been established to ensure security of Treasury's vital assets. In Fiscal 1999, the goal is to review four of these programs (page DO SE–41).

Reviews of these programs highlight areas for program improvement. We are confident that the compliance review program is sufficient to resolve the problems.

Customs Service problems with ACE:

Customs' new Automated Commercial Environment (ACE) system for handling import data has been under development for some time and has experienced many problems. This Subcommittee, other Congressional committees, GAO, and the Treasury Inspector General all have pointed out the problems with this troubled system.

Question. Do your plans contain specific goals, measures, and timetables to resolve the problems with the ACE System? If not, why not? If so, what are they?

Answer. The development of ACE is being monitored on an ongoing basis under the auspices of the Department's Chief Information Officer (CIO) and the Treasury Investment Review Board (TIRB). The development of ACE is underway in phases and the CIO, with the concurrence of the TIRB, has instituted a review process of weekly progress reports from the ACE Team, monthly reports to the TIRB, and quarterly reports to the Congressional appropriation committees. These reports include tracking of expenditures, milestones, and identification of project problems. Customs is reporting specific performance measures on the development phase of ACE, while operational performance results await the outcome of the operation of the upcoming NCAP prototype, a major part of ACE.

The GAO concerns related to ACE are primarily associated with problems regarding the establishment of Customs information systems architecture. The architecture has been reviewed recently by the Private Sector Council, composed of CIO's from major private sector companies, and an independent review of that architecture has been completed as well. Based on these reviews, plans and a schedule are in place to refine the IT architecture to make it a "best practice" in conformance with the Treasury Information Systems Architecture Framework.

Question. Are you confident that these goals and measures are sufficient to resolve the problems? If not, what more needs to be done?

Answer. We are confident that the processes in place at the Customs Service and at the Department to manage ACE development, and to resolve the architecture issues as they affect ACE, are sufficient to ensure success of the ACE project. Customs has made significant improvements in its development approach with respect to major projects such as ACE and in the establishment of its information architecture. The attention being devoted to ACE and the Customs architecture efforts by the Treasury CIO office and the TIRB will provide that assurance. The Treasury CIO office will continue to keep the Congressional staff informed as to the progress and problem resolutions with respect to ACE, and will ensure that the concerns of GAO and the Congressional committees are addressed.

In a letter to Majority Leader Armey dated January 16, 1998, the Treasury Office of Inspector General described what they consider to be the 10 most serious management problems within the Department.

Question. I would like to submit this letter for the record, and I request that you submit for the record a response that describes what specific goals and measures in your performance plan, if any, address each of these 10 areas.

Answer. The ways in which these issues are addressed in the fiscal year 1999 Treasury performance plan are detailed below.

Information Technology Investment Management.—Treasury's performance plan includes a goal to have Clinger-Cohen compliant investment controls in place in all bureaus in fiscal year 1998 (page DO SEE–42).

Year 2000 Compliance.—Treasury's performance plan includes a goal to have all "Mission Critical" information technology systems Year 2000 compliant in fiscal year 1999 (page DO SEE–43).

Data Security at IRS, FMS, and USCS.—GAO's information security concerns and IRS's security plan are discussed in the IRS chapter of the fiscal year 1999 Treasury Performance Plan (page IRS SD–11). In addition, information security for the Department as a whole is addressed with the goal "Regularly review those Treasury bureau security programs, for compliance with national and departmental policy, that have been established to ensure security of Treasury's vital assets." In fiscal year 1999, the goal is to review four of these programs (page DO SEE–41).

FMS's Ability to Produce Government-Wide Financial Statements.—The FMS section of the Treasury Performance Plan contains a preliminary statement "To comply with the Government Management Reform Act (GMRA), FMS will prepare a Government-wide Audited Consolidated Financial Statement in Spring 1998." Specific performance measures address the percentage of agency reports for the consolidated financial statement (CFS) processed by FMS within the established standard accuracy range, and the decrease in unresolved prior year recommendations and audit findings that prevent a clean opinion on the audit of the Consolidated Financial Statement (page FMS–34). To enhance the systems to collect data, it also has a measure regarding enhancement to the Government On-line Accounting Link System (GOALS) (page FMS–34 and 35).

Treasury's Ability to Produce Consolidated Financial Statements.—Treasury's performance plan includes a goal to achieve an unqualified audit opinion on the Department-wide consolidated financial statement for fiscal year 1999 (page DO SEE–43).

Financial Management at IRS.—As noted above, Treasury's performance plan includes a goal to achieve an unqualified audit opinion on the Department-wide consolidated financial statement for fiscal year 1999 (page DO SEE–43). Achieving this goal will require an unqualified opinion on the IRS financial statement. The IRS achieved an unqualified opinion for fiscal year 1997 on its financial statement. However, despite this opinion, the IRS continues to have material weaknesses which the Department is committed to correcting. The IRS has specific action plans and timetables in place to address their material weaknesses.

Department's Debt Collection Initiatives.—The FMS chapter of the performance plan contains the following Performance Goal: "By fiscal year 2002, FMS manages a consolidated debt management function that will concentrate all Federal delinquent debt collection efforts and produce improved results." Specific measures monitoring achievement include the percentage increase over fiscal year 1997 baseline of FMS-managed Government-wide collected delinquent debt, percentage of current market share of Federal Program Agencies (FPA's) with debt servicing requirements which have referred their debts in compliance with the Debt Collection Improvement Act (DCIA) of 1996, and increased Government-wide delinquent non-tax debt collections over fiscal year 1995 baseline (page FMS–31 and 32).

Electronic Fund Transfer (EFT)/Electronic Benefits Transfer (EBT).—The FMS section of the performance plan dealing with payments contains the following performance goal: "By fiscal year 2000, there is a world-class delivery of all Federal government payments and associated information to their ultimate destination." Success indicators of this goal include the dollar savings by reducing the number of check payments, the percentage of transmissions of value (payments) and associated information made electronically, the number of states in which direct Federal EBT is available, and the percentage of planned EBT systems implemented (page FMS–23 and 24).

The FMS section dealing with collections contains the Performance Goal: "By fiscal year 2002, the Federal Government's cash management environment has integrity, meets customer requirements and results in a lower cost of Federal Government." This goal is supported with measures of electronic collections as a percentage of total collections, the percentage of corporate withholding taxes collected electronically, the percentage increase over prior year in transmissions of value (collections) and associated information made using financial Electronic Data Interchange (page FMS–28).

Protecting Taxpayer Rights and Compliance Activities and Revenue Protection.—The IRS chapter of the performance plan addresses accounts receivables (page IRS, SD–11) and includes a number of performance measures related to its compliance activities. However, as noted in other answers, feedback from the National Performance Review/IRS/Treasury Customer Service Task Force, recent congressional hearings, and Internal Audit reports indicated that the IRS performance measures used in fiscal year 1997 did not strike a proper balance between customer service and fair enforcement of tax laws. As a result, the IRS has designated a task force to

develop a balanced scorecard of performance measures. During fiscal year 1998, the IRS will be working with OMB, Treasury, and the National Treasury Employees Union and a contractor to develop this balanced scorecard that will evaluate the IRS on: customer satisfaction, employee satisfaction, and business results. Consequently, the current plan for IRS is an interim plan and may be changed as the balanced scorecard measurement system is developed.

Implementing the Government Performance and Results Act.—Treasury's performance plan includes a goal to achieve full compliance with GPRA for the Department and its bureaus in fiscal year 1998 (page DO SEE–43).

SPECIFIC PERFORMANCE GOALS AND MEASURES

Customs' goals and measures for its drug interdiction efforts focus on activities and outputs, such as quantities of illegal drugs seized. While these may be useful, they do not measure the effectiveness of drug interdiction efforts in achieving their ultimate objective: reducing the supply of illegal drugs in the United States.

Question. In order to better comply with the Results Act, have you considered more outcome-oriented goals and measures?

Answer. Yes we have. In fact, we have adopted outcome measures for narcotics and money laundering in our fiscal year 1999 Annual Performance Plan. They are:

1. Drug Smuggling Organizations' transportation costs,
2. Changes in smuggling behavior,
3. Costs for Criminal Organizations to launder money, and
4. Money laundering systems disrupted.

Initial feedback on the use of these measures as outcomes has been very favorable. fiscal year 1998 will be the year baseline data is developed for these measures.

Although we have adopted these new measures, we will continue to monitor and report traditional enforcement measures, i.e. seizures, arrests, and indictments, because they help in the analysis of our overall impact on the supply reduction problem. In addition, they along with other performance measures complement the ONDCP measurement approach.

Question. For example, aren't there indicators that do reflect the availability of illegal drugs in the community.

Answer. Unfortunately, indicators such as "street price" are used solely, at times, to provide an assessment. That is why the ONDCP measurement approach complemented by our internal measures may be more useful. It recognizes that a number of indicators common to several agencies taken in combination have the potential to provide more meaningful information than attempting to look solely at individual agency performance.

In the ONDCP measurement scheme, Customs, along with other federal, state and local interdiction (supply reduction) agencies reports its performance on a variety of measure, including number of incidents and seized quantities of both drugs and currency. We believe that this comprehensive approach, once fully refined and accepted, will provide more meaningful information to assess individual agency performance in the context of overall performance.

In the area of Reducing Violent Crime, ATF includes as performance measures: "Crime related costs avoided" and "Future crimes avoided." Specifically, its proposed measures for fiscal year 1999 are $1 billion in future crime related costs avoided and 450,000 future crimes avoided. These certainly are outcome-oriented measures, but I wonder how reliable they are.

Question. How did you arrive at these goals and measure?

Answer. This performance measure was designed to show the program's beneficial financial impact to the public as required by the Government Performance and Results Act (GPRA). The average number of crimes committed by an armed career criminal in one year (×) the average of years an armed career criminal is sentenced (in other words, the number of crimes which will not be committed while the armed career criminal is incarcerated) (×) the average cost of a crime (−) the cost of incarceration over the length of sentence (=) the total cost savings to the public in firearms related crime costs avoided. (See Attachments)

[The information follows:]

FEDERAL FIREARMS LICENSE (FFL) INSPECTION PROGRAM PERFORMANCE MEASURE

This Performance Measure focuses on the crimes and crime-related cost prevented due to the effective regulation of the firearms industry through compliance inspections. This measure encourages RE to focus their inspections on Federal firearms licensees with the highest volume of crime gun traces attributed to them because this is where the problems are and this is where the most impact can be achieved. This measure is currently under development.

During a study recently performed for ATF by Northeastern University, the researchers did some preliminary work to determine the effect that a little attention from ATF had on an FFL who had a high frequency of crime gun traces. They found that an FFL who had a large number of crime guns traced back to them would go into a lull after having received added attention in the form of trace request contacts from the NTC.

Along those lines, it is presumed that if attention in the form of a compliance inspection were focused on an FFL with high mime gun trace requests, there would be an even larger lull/impact in the deterring this situation. To measure this, Program Officials would identify high crime gun trace request FFL's for inspection and compare the number of crime gun trace requests for a one year period before the inspection to the number of crime gun trace requests on firearms sold during a one year period after the inspection to show the impact/reduction. The total number of crime gun trace requests not received is the total number of crimes prevented in that year due to effective compliance producing a deterrent effect. The crime costs could be figured in the same manner as they are under the Achilles program and Trafficking Program. The crimes and crime-related costs prevented by the RE inspection program could then be rolled forward with all the other programs which report their impact in the same manner.

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

ACHILLES PROGRAM

Achilles Program/Protecting America Performance Measure

Average number of crimes committed by an armed career criminal in one year (×) the average number of years an armed career criminal is sentenced (in other words, the number of crimes which will not be committed while the armed career criminal is incarcerated) (×) the average cost of a crime (−) the cost of incarceration over the length of sentence (=) the total cost savings to the public in firearms related crime costs avoided.

Beneficial Financial Impact

This performance measure is designed to show the program's beneficial financial impact to the public as required by the Government Performance Results Act (GPRA).

ATF ACHILLES PROGRAM PERFORMANCE MEASURE

ATF believes the Achilles Program, with its task forces and Violent Offender Program elements, are focused in the right areas. According to the Protecting America study completed by ATF, long-term incarceration, and thus the removal of the violent habitual offender from society, is a realistic and cost effective approach to reducing violent crime. Long-term incarceration is, in its truest sense, the best deterrent to crime. This study showed that the average career criminal commits about three criminal acts a week, or about 160 crimes a year.

The National Institute of Justice conducted a study that estimated the cost per crime in the United States to be, on average, $2,600. This equates to at least $432,000 in crime-related costs per year for allowing a career criminal to remain at large, not including the physical and psychological damages and associated medical costs inflicted on the victims of these crimes. When comparing this to the National Institute of Justice's estimate of $45,000 per year to house an inmate, mandatory minimum penalties, and, in kind, ATF's Achilles Program strategy are on target for reducing crime and its related economic costs.

Using the above-developed statistics, and the fact that the average sentence under 18 U.S.C. § 924(e) is 18 years' imprisonment, the Achilles Program's beneficial financial impact to the public can be measured. This performance measure meets the performance measure standards required by the Government Performance Results Act of 1993. The following is a breakdown of the financial aspects of this incarceration:

Cost Analysis—Per Defendant

Average sentence (years)	18
Incarceration cost per year	$45,000
Total cost for incarceration	$810,000
Cost per crime	$2,600
Crimes avoided per year	160
Savings for crimes avoided (1 year)	$416,000
Crimes avoided over 18 years	2,880
Savings for crimes avoided	$7,488,000

Total savings from a 1 year incarceration $371,000
Total savings from an 18 year incarceration $6,678,000

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS—ACHILLES PROGRAM

Armed Career Criminal Annual and Cumulative Benefits (Cost Savings and Crimes Prevented)

Fiscal year	Defendants incarcerated		Crimes prevented		Savings to public	
	Fiscal year	Cumulative	Fiscal year	Cumulative	Fiscal year	Cumulative
1988	92	92	14,720	14,720	$34,132,000	$34,132,000
1989	122	214	19,520	34,240	45,262,000	79,394,000
1990	157	371	25,120	59,360	58,247,000	137,641,000
1991	217	588	34,720	94,080	80,507,000	218,148,000
1992	367	955	58,720	152,800	136,157,000	354,305,000
1993	305	1,260	48,800	201,600	113,155,000	467,460,000
1994	265	1,525	42,400	244,000	98,315,000	565,775,000
1995	205	1,730	32,800	276,800	76,055,000	641,830,000
1996	160	1,890	25,600	302,400	59,360,000	701,190,000
1997	119	2,009	19,040	321,440	44,129,000	745,339,000
1998	.....	.....	.....	.....	.....	.....

Note:
Number of Crimes committed prevented per defendant, per year is 160. This figure was developed through ATF's Protecting America research project which involved a sampling of incarcerated armed career criminals.
In determining the cost savings to the public, a figure of $2,600 is used as the average cost per crime. This figure was developed through research by the National Institute of Justice (NIJ) and does not include victim hospitalization costs. An annual cost savings per defendant is realized by multiplying 160 (the average annual number of crimes committed by a career criminal left free in society) times the $2,600 cost per crime figure and then subtracting the annual cost of Federal incarceration which NIJ reports to be $45,000.
Each defendant is sentenced to an average of 18 years in Federal prison as an armed career criminal. The annual cost savings produced by this program will grow each year until the 18th year of the program when the program's first year defendants will begin to be released. In the 18th year the program's cost savings will reach their highest level and remain fairly constant throughout the future life of the program.

Question. Are they premised on baseline or trend data of past performance, or on bench marking against other organizations that perform similar activities?

Answer. No. The performance measures are based upon studies performed by the Federal Government relating to incarceration and cost of crimes; National Institute of Justice (NIJ) study; Cost and Benefits of Sanctions: A Synthesis of Recent Research, June 1992.

Question. What experiences do you have in applying these measures?

Answer. ATF has been using these measures in the Achilles Program area since 1991, and we are also incorporating this methodology to other firearms strategy areas.

Question. Are you confident that reliable data exist to support these measures?

Answer. Yes. ATF has drawn upon independent research, National Institute of Justice (NIJ). ATF has also conducted its own study, Protecting America study. Additionally, ATF has developed computer systems to capture/track this data.

PERFORMANCE MEASURES FOR CROSS-CUTTING FUNCTIONS

Treasury is, of course, engaged in law enforcement activities that involve many other federal agencies as well. Some obvious examples are drug interdiction, border security, intelligence, border security, intelligence and other investigative activities, and anti-terrorism efforts.

Question. How has Treasury coordinated with other federal agencies in developing the law enforcement portions of its strategic and performance plans?

Answer. Treasury coordinates on a day-to-day basis with a great variety of Federal and non-Federal entities in accomplishing our mission. In addition, in the development of our strategic plan we sought input from Congress, Treasury's unions, more than 600 non-Federal stakeholders, the general public (through the Internet), and other Federal agencies. Our strategic plan was influenced by input—received formally through the planning process and informally through years of coordination—from these stakeholders and partners. Our performance plan reflects out strategic plan.

Question. In particular, how have you worked with ONDCP on drug control strategies, goals and measures, and with what results?

Answer. Treasury worked closely with ONDCP on all cross cutting issues that affect the Department. For example, Treasury participated in the development and review process on ONDCP's 1998 Ten Year National Drug Control Strategy. Specifically, Treasury provided input to Goal 4 in the strategy, "Shield America's Air, Land, and Sea Frontiers from the Drug Threat," and the four objectives that support

the goal. In addition, Treasury participated in the development and review of ONDCP's recently released Performance Measures of Effectiveness document. This document will serve as the tool for evaluating the progress of the Nation's drug control efforts. As a result of working with ONDCP in the development of these documents a very useful and important step was taken in what will be a long term, iterative process of developing improved cooperation and measurement capabilities across the government.

Question. What efforts have you taken to make your strategic objectives, performance goals, and performance measures complement those of other agencies carrying out similar programs and activities?

Answer. Treasury coordinates on a day-to-day basis with a great variety of Federal and non-Federal entities in accomplishing our mission. In addition, in the development of our strategic plan we sought input from Congress, Treasury's unions, more than 600 non-Federal stakeholders, the general public (through the Internet), and other Federal agencies. Our strategic plan was influenced by input—received formally through the planning process and informally through years of coordination—from these stakeholders and partners. Our performance plan reflects our strategic plan.

Question. Do the objectives, goals and measures for your programs and activities in fact complement those of other federal agencies with similar functions?

Answer. We recognize the necessity to make certain that our goals, objectives and performance measures complement those of related agencies, and we are working to make certain that they do. The following are some examples of efforts to-date in this area. First, as detailed in other questions, Treasury has coordinated extensively with ONDCP. In addition, Treasury's Office of International Affairs worked in conjunction with the State Department to develop the "U.S. International Affairs Strategic Plan." Treasury's international goals and measures correspond to this common plan. Also, Treasury, Justice, and Agriculture share a common goal in the Government-Wide performance plan to reduce passenger wait times at land and air ports (page 243). Finally, Treasury participates in the Results Act Banking Regulatory Working Group which is seeking to increase coordination between banking regulators on GPRA implementation. As we continue to evolve in the Results Act implementation process, cross-government coordination will be strengthened through efforts like the various inter-agency groups mentioned above.

Question. Can more be done to promote consistency among cross-cutting law enforcement programs and activities? What more do you plan to do?

Answer. Treasury and other agencies are in the process of learning how to use Results Act to help improve our program results. We have dedicated our efforts to-date largely to crafting useful strategic plans and performance measurement systems. We see improvements in interagency coordination as the next step in this implementation process. As part of this next step, Treasury and Justice have begun discussions on creating a performance measures working group to explore developing even more effective cross-cutting performance measures.

Question. In your efforts to coordinate and reconcile cross-cutting programs and activities, did you identify any unnecessary duplication or redundancy? If so, what? Did you identify a need for legislative changes to deal prim any unnecessary duplication or redundancy?

Answer. To-date in our Results Act implementation efforts, we have not identified any unnecessary duplication or redundancy.

Question. There have been past indications of serious duplication and fragmentation among federal law enforcement agencies in intelligence activities, particularly in the area of drug interdiction. Do you believe this is a problem today? If so, what can be done about it?

Answer. The Office of Enforcement plays an important role in coordinating and facilitating communications, and in providing a focal point for information, analysis and policy determinations. Cooperation between the Departments of Justice and the Treasury has improved dramatically over the last few years. While there is always room for additional improvement, I believe that cooperation is currently at an all-time high. This is a result of the frequent communication and close coordination between the two Departments.

The Office of Enforcement works with the Department of Justice on a daily basis. The Under Secretary for Enforcement speaks to and attends meetings with the Attorney General, Deputy Attorney General, and Heads of the Justice law enforcement bureaus regularly. Members of the staff speak to their counterparts at Justice on a daily basis.

A variety of working groups meet regularly on important issues, such as the Southwest border, white collar crime, money laundering, and terrorism. The Federal law enforcement agencies each have unique areas of expertise and jurisdiction.

When an investigation involves a matter that is clearly within the jurisdiction of one agency, that agency will take the lead and work with other agencies as needed. In those circumstances where there is overlapping jurisdiction, memorandums of understanding have been developed which detail the responsibilities of the respective agencies. Despite these efforts to ensure clear lines of authority, situations do develop where two agencies may claim jurisdiction over an investigation. In those instances, the Special Agents in Charge of the field office of the respective agencies attempt to resolve the question. If this is not possible, further discussions between the senior managers of the agencies will occur in Washington. The Departments of Justice and the Treasury become involved in these discussions, as necessary.

Treasury law enforcement bureaus have unique areas of expertise which complement those of other law enforcement agencies. For example, INS and Customs work together on cases and task forces involving illegal narcotics and other contraband smuggling. Since INS and Border Patrol staffing continues to increase, we anticipate that we will be called upon to participate in even more joint investigations. The current budget request for Treasury law enforcement for fiscal Year 1999 includes funds for increasing Customs capabilities both through human resources and technology so that Customs personnel can more efficiently and intelligently carryout their responsibilities. Additional Customs funding and resources would enhance Treasury's ability to respond to growing workloads at our nation's ports of entry.

QUESTIONS SUBMITTED BY SENATOR KOHL

BANKING AND REGULATIONS

Question. What kind of regulations is Treasury proposing to ensure that the taxpayers will be treated fairly while conducting business in the next millennium?

Answer. Treasury maintains and manages regulations governing the Government's use of electronic funds transfer, in particular the use of the Automated Clearing House. These regulations address liabilities and responsibilities of the Government and financial institutions in processing electronic transactions, and they would apply to the use of EBT to deliver Federal benefit payments. Currently, the Government's processing of electronic funds transfer transactions is conducted in a highly secure environment using the Federal Reserve as Treasury's processor for most of these transactions. New technologies, such as smart cards and e-money, present questions and challenges that are currently under review. The Comptroller of the Currency has led a task force within Treasury to look at these issues, and is expected to issue a report shortly that will address security, privacy, and cost regarding new approaches to doing business.

At present, Treasury's Financial Management Service relies on a comprehensive security architecture covering systems, personnel, and physical security in its Electronic Funds Transfer disbursement operations. This security architecture includes protections for data networks and host systems, disbursing officers and systems administrators, and regional disbursing centers. This network security architecture is probably the most robust and secure among the civilian agencies.

FMS does not use the Internet in any way as part of its disbursing infrastructure. FMS has a small pilot planned for late 1998 to use cryptographic Internet e-mail in support of vendor payments, but it will likely be at least several years before the Internet is relied on to deliver Federal payments.

FMS currently relies on two private networks to generate and deliver Federal payments. First, it administers its own network, FMSnet, which connects FMS with the over 600 Federal agencies, bureaus, and offices for whom it disburses payments. This is a protected network which is not connected to the Internet. Federal agencies use this network to deliver payment instructions files to FMS using a secure hardware-based messaging system designed in conjunction with and approved by the General Accounting Office.

Second, FMS relies on FedNet, the Federal Reserve's network, to deliver Government payments to the banking system. This network is also a private, access controlled network which has no direct gateways to the Internet. In addition to relying on network access controls and physical security of network sites, all data transmissions on both networks are generated out of tamper resistant hardware encryption devices, in accordance with Federal Information Processing Standard Publication 140–1, "Security Requirements for Cryptographic Modules."

The Administration and Congress have been working on legislative plans as part of the financial modernization legislation. One plan is to limit housing related government sponsored enterprises to a single regulator.

Question. Can you explain the pros and cons of having a single regulator and share with us your views on this plan?

Answer. We are not aware of any Administration proposal to merge the housing government-sponsored enterprise (GSE) regulators. In recent years, Congress has held hearings on this issue.

Both the Office of Federal Housing Enterprise Oversight (OFHEO) and the Federal Housing Finance Board (FHFB) regulate GSE's that are in basically the same line of business. Therefore, from the narrow perspective of safety and soundness merging regulatory responsibility under one entity might result in a more efficient use resources through a reduction in duplicative functions.

However, the current regulatory responsibilities of OFHEO and the FHFB are not equal. OFHEO is the safety and soundness regulator of Fannie Mae and Freddie Mac, while HUD is the mission related regulator. The FHFB, is both the safety and soundness and the mission related regulator of the FHL Bank System.

Any merging of OFHEO and the FHFB would likely have to address these institutions' different regulatory responsibilities. Under a framework of equal regulatory responsibility either: (1) OFHEO would have to become responsible for Fannie Mae's and Freddie Mac's mission regulation—making the new merged regulator a joint safety and soundness and mission regulator; or (2) the mission regulation of the FHL Bank System would have to be transferred to HUD—making the new merged regulator only a safety and soundness regulator.

The Treasury Department has taken no position on merging the two housing GSE regulators.

MANAGEMENT PERSONNEL AND DEPARTMENT OF TREASURY REPAIRS

Question. The Committee understands you have requested the first increment of funding needed to restore the Historic Department of Treasury Building. What is the total cost of the restoration and is this restoration going to renew and restore the systems and physical structure to meet the 21st century requirements?

Answer. The total cost of renovating the Main Treasury building is estimated at $132,246,000. All systems will be replaced with energy efficient, state-of-the art equipment. The external physical structure will be weatherproofed and windows replaced with energy saving glass. The internal structure will be restored to provide a balance between the historic fabric of the facility and the needs of a modern office building.

There have been discussions in the past about the Inspector's General's oversight and supervisory authority as it relates to the Law Enforcement agencies. The IG has responsibility for internal audit, however, the law enforcement units retain their internal investigative units.

Question. Is this something you are considering changing under a new IG?

Answer. While the law enforcement units retain their internal investigative units, the OIG has the authority to perform any investigations in these bureaus. Under current policy the OIG investigates allegations against high-level officials (grade 15 and higher). Also, the OIG has oversight authority over the operations of bureau internal investigative units.

At this time, there are no changes being considered. We are in the process of identifying appropriate candidates for possible nomination by the President, for the Department and, at that time, there may be some review of current operations.

Question. What about the IRS where are the audit and investigative functions retained by the IRS Chief Inspector?

Answer. IRS Inspectors are law enforcement officers who investigate allegations of illegal and improper acts which include violations of the privacy provisions of the Internal Revenue Code. Inspection Service inspectors derive their law enforcement authority from the Internal Revenue Code section 7608(b). This section authorizes Inspection Service personnel whom the Secretary of Treasury has charged with the duty of enforcing criminal laws related to tax administration to execute and serve search warrants, make arrests, and make seizures of property. These authorities are essential in the protection of IRS employees in the investigation of individuals who attempt to bribe, intimidate or impede IRS employees in the performance of their duties. Without law enforcement authority, inspectors can not provide the necessary protection to cooperating employees during bribery, and threat and assault investigations. Treasury's I.G. does not have this law enforcement authority and, absent an additional change to the Internal Revenue Code and the Inspector General Act, the Treasury I.G. could not assume some of the functions currently performed by the IRS's Inspection Service.

An understanding of the mission of the Inspection Service can be seen within the framework of the overall operation of the IRS. The IRS is a large, complex and geo-

graphically dispersed organization which employs over 100,000 people to collect over $1.4 trillion in tax revenues and to fairly enforce the tax laws. Considering the significant amount of the money involved, the discretionary authority of enforcement personnel, the size of the staff, the massive processing operations, and the scope of taxpayer contacts taking place daily throughout the country, it is easy to see the inherent risks associated with IRS operations and the need for a continuous audit and investigative presence.

The Inspection Service provides this necessary presence and emphasizes coverage of IRS activities that most directly relate to the collection of tax revenues, enforcement of tax laws, processing of returns and other information, and the protection of IRS employees. Using their knowledge and expertise of these operations, their unrestricted access to IRS personnel, tax information and IRS computer systems, and their law enforcement authorities, Inspection Service personnel can act promptly and decisively to mitigate concerns by concentrating coverage on national and local IRS operations with the highest degree of risk. IRS Inspection Service auditors and investigators, who are deployed throughout the country and work under the supervision of the Chief Inspector, can initiate independent audits and investigations based on their professional assessment of the risk or allegation.

The placement of the Inspection Service within the IRS also provides the Commissioner the opportunity to direct internal audit and investigative coverage to vital areas such as evaluating the implementation of tax laws or investigating sensitive allegations. For example, the Inspection Service's reporting of concerns directly to the Commissioner related to computer security resulted in the agency taking prompt and definitive actions to strengthen operations.

I do not feel that my ability to manage the internal audit resources in the Treasury is compromised by the current arrangement. I have a good working relationship with the IRS Chief Inspector and value the expertise that is regularly exhibited by IRS Inspection Service auditors. The Chief Inspector and I discuss audit and investigative matters almost daily and meet frequently to review the status of significant audits and investigations. Our staffs are in constant contact and freely exchange information.

As specified by Section 8C of the Inspector General Act, I can initiate, conduct and supervise internal audits of the IRS. In fact, my audit staff has conducted audits of IRS activities that did not involve the IRS Inspection Service auditors. My authority to conduct any review in the IRS that I deem appropriate has never been challenged. IRS Inspection Service auditors continually coordinate their work with my staff on audits that involve multiple Treasury bureaus. Further, Treasury Order 114–01 gives me the authority, if a need arises, to detail personnel from the IRS Inspection Service to conduct audits or investigations under my direct supervision.

RESTRUCTURE THE IRS

Last year the Commission to Restructure the IRS recommended placing certain IRS management decisions under the control of an independent board. Recently, the CIO of the IRS, Art Gross announced he was leaving. And, there has been talk that the Modernization procurement and the architecture requirements may change.

As a result, I'm wondering if the Commission's recommendation to create an independent board doesn't have some validity.

Question. Isn't it true that having a board oversee the development and implementation of long range procurement could provide greater stability?

Answer. As you know, this has been a hotly debated topic. We have always supported the notion that the IRS receive outside advice.

The proposed Oversight Board would have specific responsibilities for IRS strategic plans, and reorganization plans. It has the right to let the Congress have its views on the IRS budget request. And, Treasury would retain responsibility for tax policy and for general budget and management supervision. We think this relationship can and will work.

The idea of establishing a full-time Board of Governors, as some have suggested, raises a different set of questions. Our response would depend on the specifics of the proposal. If such a Board had a proper organic connection with the Treasury and satisfied the overall objective of making tax administration fairer and more efficient, we would be happy to discuss it.

Question. It is my understanding that the IRS is losing the potential to collect hundreds of millions of dollars in overdue taxes due to problems in determining which accounts are collectible and which are not. What action is the IRS taking to develop information on written-off accounts to determine whether cost-effective collection measures can be developed and applied?

Answer. The Inventory Delivery System, a system under development, will centralize collection case processing and use automated methods to evaluate delinquent accounts for collectibility so that the most productive accounts receive priority attention. The system has three releases planned. The first release containing Financial Analysis Profile and basic core functions to support case assignments and data base updates is scheduled for pilot in February 1999. The second release with Telephone Number Research is scheduled for August 1999 with a third release containing Address Research in 2000.

YEAR 2000 (CENTURY DATE CHANGE)

We are currently reviewing your request to reprogram funds within the Department to meet Year 2000 requirements. Of course having the Department Year 2000 compliant is only one part of the equation.

Question. First are you confident that all Treasury systems including the IRS and the Financial Management Service will be compliant?

Answer. Yes, I am confident that Treasury has a strong program in place to address this challenge and has made significant progress to date. For our mission critical systems, Treasury is on schedule to meet the implementation milestone date of December 1998 with the exception of the IRS phase system applications and Financial Management Services Government On-Line Accounting Link System (GOALS). The IRS systems will be completed by January 1999 in accordance with the IRS Year 2000 program plan, which calls for implementing renovated systems in 6 month phases, each January and July, through January 1999. This implementation strategy was created to accommodate tax processing season considerations. The Department is working closely with Financial Management Service to determine actions that can be taken to accelerate the GOALS schedule.

Question. What do you know about the other financial institutions such as banks, money management firms and credit card companies?

Answer. The Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS), with regulatory oversight of the banks and thrift institutions respectively, have been working in concert with the Federal Financial Institutions Examination Council (FFIEC), in issuing guidelines and advisory letters for addressing the Year 2000 issue. Year 2000 compliance has been incorporated as a priority within the examination procedures for financial institutions by all FFIEC regulatory agencies, including OCC and OTS.

GENERAL MANAGEMENT

Question. Last year GAO identified Customs Financial Management and IRS financial management as high risk areas. What actions have you taken to ensure that systems are in place and that we will see improvements?

Answer. As noted above, Treasury's performance plan for Customs Service and IRS Financial Management includes a goal to achieve an unqualified audit opinion on the Department-wide consolidated financial statement for fiscal year 1999 (page DO SE–43). Both of these bureaus achieved unqualified opinions for fiscal year 1997 on their financial statements. However, despite these opinions, they continue to have material weaknesses which the Department is committed to correcting. The IRS is aggressively pursuing the closure of its 7 GAO financial management recommendations. Customs has successfully closed two of 11 material weaknesses during fiscal year 1997 . Both Customs and the IRS have specific action plans and timetables in place to address their remaining material weaknesses.

This past December I received a copy of the January 1997 report on the Department's Personnel System. The Report included three recommendations: Train and hold managers accountable; revitalize the Personnel Resources Division; and reform the personnel structure and strategy to support a high performing organization.

Question. What steps have you taken to implement these recommendations?

Answer. Some of the highlights of actions taken include:

Managers

We issued to managers and supervisors a Managers' Handbook on Human Resources. The Handbook also is available through the Department's intranet.

Most managers in Departmental Offices attended two days of training in 1997 on performance management and conflict resolution.

We required all managers and supervisors to complete the performance evaluation process and tracked and reported on their progress in doing so.

Personnel Resources Division

We are investing in the professional development of the Personnel Resources staff through on-site workshops, off-site seminars, and college course work.

We have filled critical vacancies with experienced and talented personnel specialists.

We have instituted a client service director concept to improve customer service and strategic focus on critical problems.

High Performing Organization

A Performance Management Advisory Panel, composed of key Departmental Office (DO) executives, has worked with the human resources staff to revise the performance management system for DO. The new system will focus on setting clear and challenging expectations, providing ongoing feedback, recognizing excellent performance, dealing with poor performance, and providing appropriate development.

This year all employees in DO will receive training on the new performance management system.

The new DAS(HR) has formed a Human Resource Advisory Council, which will develop this year a Treasury strategic plan for human resource management.

Question. Could you highlight for the committee the background behind your request for additional personnel for Departmental Offices?

Answer. The Office of the Deputy Assistance Secretary for Human Resources (DAS(HR)) requires 3 FTE to meet performance goals and statutory requirements within prescribed time frames. Specifically, additional resources are required to improve our capacity to recruit, develop, and retain high caliber employees; improve performance management; and reengineer human resource systems to provide better support to Treasury missions.

Last year the Assistant Secretary (Management) and Chief Financial Officer conducted a reorganization and established new positions of DAS(HR) to implement a new vision for Human Resource Management in the Department. All human resource functions were placed under the DAS(HR), who is responsible for leading, directing, and managing an innovative and comprehensive human resource program that serves to frame and advance the Department's missions.

The three critical positions will be focused on continuing to implement the recommendations of the January 1997 report on the Department's personnel system by providing leadership in the Departmental Office operating personnel office and in emerging human resource initiatives across the Department, e.g., reengineering human resource systems and dealing with critical staff shortages such as in information technology. If not funded the DAS(HR) would be seriously limited in her ability to carry out in a timely manner Treasury's strategic goals of recruiting, developing, and retaining a high caliber, diverse work force, and to reengineer the human resource systems to more effectively and efficiently support Treasury's missions.

STATE TRADING ENTERPRISES

One of President Clinton's major campaign issues was to step up enforcement actions against foreign companies doing business in the United States. The President estimated during his initial campaign that an additional 50 billion dollars could be collected by the enforcement of the tax laws against foreign companies operating in the United States.

Question. How do the monopoly subsidiaries of the State Trade enterprises operate? How do they affect competition in the importing countries?

Answer. These questions do not touch on issues under the Treasury Department's purview. They should probably be directed to the Department of Commerce or the Office of the U.S. Trade Representative.

Question. What is Treasury doing to monitor and collect taxes in regards to "State Trading Enterprises" and their subsidiaries operating in the United States?

Answer. State trading companies and their subsidiaries operating in the United States are subject to the same tax statutes and regulations as any other foreign companies operating in the United States. The are subject to IRS audit to see if their transactions with related parties abroad are in accordance with the very comprehensive and newly revised transfer pricing rules. They must file a Form 5472 that gives information on transactions with any related party offshore. Section 6038A of the Internal Revenue Code requires foreign-controlled U.S. companies to furnish data to the Treasury that is necessary for the IRS to verify the proper treatment of transactions with parties offshore. Failure to comply results in severe penalties.

Foreign-controlled companies are also subject to "earning-stripping" rules that may reduce their allowable deductions for interest expense if they have high debt-asset ratios and pay interest to related parties offshore.

Question. How does the New Zealand Dairy Board (NZDB) or any other State Trading Enterprise do business and must each be profitable?

Answer. The operation of foreign state trading enterprises are not under the Treasury Department's purview. This issue should probably be directed to the Department of Commerce, The Department of Agriculture or the Office of the U.S. Trade Representative.

Question. Do export monopolies benefit their own farmers? How does the return to the New Zealand dairy farmer compare to the return to the U.S., EU, and Australian dairy farmer? What is the operating cost of the New Zealand Dairy board? How much do the farmers pay to maintain it? Would they be better off without it?

Answer. These questions do not touch on issues under the Treasury Department's purview. They should probably be directed to the Department of Commerce or the Department of Agriculture.

Question. What are the advantages of a State Trading Enterprise being able to totally control supply and price? How do the STE's pay taxes in the countries in which they operate?

Answer. These questions do not touch on issues under the Treasury Department's purview. They should probably be directed to the Department of Commerce or the Office of the U.S. Trade Representative.

Question. Does the monopoly structure allow them to avoid taxes around the world?

Answer. It is difficult to determine whether their monopoly structure provides State Trading Enterprises with a greater opportunity to avoid taxes around the world. As noted above, they are subject to the same relatively stringent tax rules that apply to all foreign-controlled companies operating in the United States. If they have exclusive control over all transactions with their home country, it may be difficult to find an ideal comparable uncontrolled price as a basis for determining the appropriate transfer price. But the Section 482 regulations specify various other methods and adjustments that can be used to establish the arm's length price in the many cases when an ideal comparable uncontrolled price is not available.

Question. Does this give STE's additional funds which are then used to cross-subsidize?

Answer. The operation of foreign state trading enterprises are not under the Treasury Department's purview. This issue should probably be directed to the Department of Commerce, The Department of Agriculture or the Office of the U.S. Trade Representative.

YOUTH CRIME PREVENTION PROGRAMS

Question. Can you provide additional information about Treasury's programs to combat gang and youth violence programs?

Answer. The Gang Resistance Education and Training (GREAT) Program has had tremendous results in teaching the nation's children the dangers of gangs, guns and drugs. While most of the nation experiences a decrease in violent crimes, there are some areas of the United States that are, unfortunately, bucking this trend.

The GREAT Program currently provides training in over 1,400 communities throughout the United States. Of these, only 74 communities receive federal funding through the GREAT Program. At the beginning of the 1994–95 school year, a national evaluation of the GREAT Program was launched by the University of Nebraska at Omaha in conjunction with the National Institute of Justice (NIJ) and ATF. The five-year longitudinal part of the study will be completed in the year 2000. In November of 1997, results of the cross-sectional part of the study were published by NIJ after an intensive peer review process. The study found that students completing the GREAT Program reported lower levels of delinquency, impulse behavior, risk-taking behavior and approval of fighting, as well as higher levels of self-esteem, parental monitoring, parental attachment, commitment to positive peers, anti-gang attitudes, perceived educational opportunities and positive school environment.

Dr. Finn-Aage Esbensen wrote that these results are promising, and that the longitudinal study will also provide a better assessment of the program's effectiveness, as well as allowing for an examination of the long-term effects of the program. He also wrote in his study that gang members reported living in single parent homes more frequently (40 percent) than non-gang youths (30 percent). Gang members' mothers, fathers, or both were more likely not to have finished high school (20 percent for gang members, 11 percent for non-gang youths). Dr. Esbensen wrote that these demographic characteristics suggest there may be qualitative differences in the living situations between gang and non-gang youths. If the GREAT Program continues to have a positive effect/impact, over the long term the communities that are teaching GREAT should continue to benefit from the program. One of these benefits, again, would be a lower level of delinquency and violence.

EARNED INCOME TAX CREDIT COMPLIANCE ACCOUNT

Question. What is the status of IRS efforts funded through the new Earned Income Credit Compliance Account?

Answer. This year, the IRS has taken a number of proactive efforts as part of the Earned Income Credit Initiative, including:

—Sent notices to over 6 million EITC recipients informing them of the advance EIC payment option.
—Sent an informational letter to the top 100 employers most likely to employ taxpayers who would be eligible for the credit.
—Sent notices to approximately 2.5 million taxpayers who did not claim the credit but appear eligible for the credit.
—We are providing toll-free assistance for EITC questions 24 hours per day 7 days a week.
—We expanded outreach efforts to service EITC eligible low income and elderly taxpayers by providing tax information and return preparation during the last three Saturdays beginning March 28.
—We designated March 28, as EITC Awareness Day, where walk-in sites provided taxpayers with up-to-date information regarding the new tax laws and the penalties associated with intentional noncompliance, and assisted EITC eligible taxpayers with return preparation.
—Informational products such as stuffers, posters, employee and employer brochures were provided to local offices to use in partnering efforts with groups and agencies.
—As of March 19, 1998 we have issued 47,730 EIC Math Error Notices for Invalid/Missing Social Security Numbers.

NON-BANK REGULATION

Question. The Money Laundering Suppression Act of 1994 requires the registration of Non-Bank Financial Institutions that includes a methodology for reporting suspicious financial activity. Where is Treasury in registering non-banks and what regulations are in place to control non-bank reporting of suspicious activity?

Answer. Proposed rules were announced in May 1997 to respond to vulnerabilities in the money services business (MSB) industry as well as to implement the requirement of the Money Laundering Suppression Act of 1994 that the Treasury register this group of businesses.

The first proposed rule would require that MSB's—which include money transmitters or remitters, money order issuers and sellers, travelers check issuers and sellers, retail currency exchangers and check cashers—register with the Department of the Treasury. A second proposal would extend suspicious activity requirements to money transmitters and issuers, sellers and redeemers of traveler's checks or money orders. The third proposal would require money transmitters to report currency transactions of $750 or more that involve the transmission of funds to any person outside the United States.

FinCEN held five public meetings last summer to elicit comments on the proposed rules. The written comment period ended on September 30. FinCEN has reviewed the comments and is finalizing the proposed rules based on industry concerns, where appropriate.

Treasury has indicated it will allocate $2.5 million from Treasury Super Surplus balances in the Treasury Forfeiture Fund to FinCEN for MSB implementation fiscal year 1999. This amount would be used for administration of the new programs, including guidance, interpretive advice, oversight, coordination and data analysis. FinCEN projects publication of the final rules by early-mid summer, with full implementation of all three new requirements no sooner that year's end. These rules will impose new requirements on a very diverse set of businesses, including convenience stores, travel agencies, groceries and other small retail businesses that offer these services as a convenience to their customers. We anticipate providing the MSB community with ample time for implementation of the rules.

It should be noted that while there are currently no federal regulations requiring MSB's to set up programs to detect and report suspicious activity, virtually all of the national MSB businesses, such as Western Union, American Express, and the U.S. Postal Service, have already begun to establish such programs and are voluntarily filing suspicious activity reports today.

SUBCOMMITTEE RECESS

Senator CAMPBELL. This hearing is recessed. The subcommittee is recessed until Thursday, March 26.

[Whereupon, at 10:35 a.m., Thursday, March 12, the subcommittee was recessed, to reconvene at 9:35 a.m., Thursday, March 26.]

TREASURY AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1999

THURSDAY, MARCH 26, 1998

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:35 a.m., in room SD–192, Dirksen Senate Office Building, Hon. Lauch Faircloth, presiding.

Present: Senators Campbell, Faircloth, and Kohl.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF NATIONAL DRUG CONTROL POLICY

STATEMENT OF GEN. BARRY R. McCAFFREY, DIRECTOR

OPENING REMARKS

Senator FAIRCLOTH. The subcommittee will come to order. The chairman of the subcommittee, Senator Campbell, has been detained briefly this morning but will be joining us in a very short while. I would like to begin with a few brief remarks and then turn to the ranking member, Senator Kohl, for any opening statement he may wish to make.

First, I want to welcome General McCaffrey, the White House National Drug Policy Director, or more simply, the drug czar. He is here to present the administration's budget for the Office of National Drug Control Policy for fiscal year 1999. We welcome you, General.

General MCCAFFREY. Yes, sir.

Senator FAIRCLOTH. General, I must say, from our perspective, the Nation is losing the war on drugs. It certainly seems so. Now I know that you have been working hard and diligently to fight the current trends of increasing drug use, but frankly this seems to be a lone voice crying out in the wilderness. It appears to be getting worse.

But I think you are commended for your efforts, but I do think it is disingenuous for this administration to continually compare current drug use rates with the year 1979, perhaps the worst period ever we had. A much better comparison, and one I hope you will focus on or elaborate on is comparing current drug use statistics with the year 1992, when President Clinton was first elected. I realize that that is not the most comfortable situation or question for the administration, but the news is almost entirely bad.

General, according to your testimony, cocaine initiation rates, or the number of people trying cocaine for the first time are increasing. Heroin initiation rates are up markedly. Drug use trends among young people, to quote you, remain especially troubling. General, I saw that your winter 1997 pulse check recently made the disturbing announcement that heroin and methamphetamine drug usage is increasing.

General, I have introduced a bill to transfer up to one-third of the IRS enforcement positions to the Department of Drug Enforcement because I believe the IRS is waging a war on the American taxpayers that is unnecessary while we are losing the war on drugs. My view is that we must change the priorities of this administration and put the necessary resources behind an effort to get drugs out of the schools and the life of our young people certainly.

With that, I turn to Senator Kohl for any statement he wishes to make.

STATEMENT OF SENATOR KOHL

Senator KOHL. Thank you, Senator Faircloth.

General McCaffrey, we welcome you to the subcommittee today and we very much appreciate having another opportunity to discuss our concerns about drugs and their impact on our society. As we discussed last year, we have invested some $150 billion in drug control activities since 1987. However, drug abuse costs the taxpayers an additional $70 billion a year by fueling such things as domestic abuse, accidents, the spread of disease, and crime.

We have seen some improvements, we are not seeing the steady decrease in drug abuse and drug trafficking that we were anticipating, given that level of funding. In 1997, you told this subcommittee that you were going to provide results and not rhetoric. That is what we need, concrete examples of successes.

We cannot continue to provide funds without proof that the programs that you advocate are working. We need to show some evidence of success. We need to show some incremental improvements. We need to show something that will indicate that taxpayer dollars are making a difference in what our citizens describe as the most serious problem facing our children in America today. As a result, we should at least continue to fund prevention programs with proven successes such as the GREAT Program and the high-intensity drug trafficking programs.

We also need to make sure that we are providing treatment to incarcerated individuals who test positive for drugs. And we need to make sure that communities have programs available to those that want a better way of life; namely, a drug-free life.

Thank you, Mr. Chairman.

Senator FAIRCLOTH. Thank you.

General McCaffrey, we are delighted to hear your statement.

STATEMENT OF GENERAL MC CAFFREY

General MCCAFFREY. Thank you very much, Senator. Let me thank you and your colleagues, those who will come later, particularly Chairman Campbell, and all of you——

Senator FAIRCLOTH. General, if you do not mind, would you move the microphone a little closer to you there?

General MCCAFFREY. Yes, indeed. Let me again say I thank you for your opening comments and for Chairman Campbell and the rest of your support during the past year. I probably ought to congratulate you specifically for having been named one of the top five zealots in the war on pot smokers by NORML. I think it is a title you ought to be proud of.

Senator FAIRCLOTH. I did not know I had been named.

General MCCAFFREY. We are very pleased with you taking that visible role.

Let me, if I may, Senator, tell you straight-out that I share your uneasiness and your concern on the magnitude of this problem. It is simply atrocious, and I will try and sketch that out very quickly.

INTRODUCTION OF GUESTS

With your permission, let me call to your attention that I am really honored to have here in the room with me several people who are enormously important to us. Many of our HIDTA directors were able to come in—the ones that are close enough to drive—Joe Peters from Philadelphia HIDTA, Dave Knight from Gulf Coast, and Tom Carr from Washington-Baltimore HIDTA.

We also have Nelson Cooney, the acting president of the Community Antidrug Coalitions of America, arguably the most important group I work with; more than 4,000 community coalitions all over the country. And this Portman-Grassley bill will assist us, as you know, in building we hope 14,000 coalitions in the next 5 years.

We have Linda Wolf Jones here from Therapeutic Communities of America, Sue Thau who is with the Community Antidrug Coalitions of America, Kathleen Sheehan with the National Association of State Alcohol and Substance Abuse Directors. And two very important people that I think are known to both of you, Dick Bonnet and Mike Townsend from Partnership for a Drug-Free America. They have done really the bulk of the creative work on this national youth media strategy that we will talk about some more.

So I thank all of them because their participation has helped us outline our strategy and what we are doing.

1998 NATIONAL DRUG CONTROL STRATEGY

Let me run through some charts very quickly. First of all, to again reiterate that we are working off a strategy. Senator, let me just note that there are four documents that are in this strategy, all of them by law something that I must submit each year. The first is the document, "A 10-Year Perspective," that was created with the assistance of more than 4,000 individuals and entities who wrote me advice on how to go about this problem. We think this is extremely well received throughout the country. It makes sense. It is a way to organize it.

Senator, for the first time in history we submitted a 5-year drug budget. Frank Raines and I worked with the nine appropriations bills that form the more than $17 billion in the 1999 budget request, and it is now in a document. I do not think it is all that good, but it is our first shot at it and we are now looking for congressional oversight on how should we shape the coming 5 years. I really welcome your attention to this effort. We are proud that we got it on the table and we are listening for your ideas.

PERFORMANCE MEASURES

A very controversial document and I think an important one, Dr. John Carnevale out of my shop has been leading a yearlong effort to create the "Performance Measures of Effectiveness." It is 141 pages. We have a modest estimate on how good it will be, but we said 10 years from now what are the 12 outcomes we want to achieve. Then we describe 82 targets we have to achieve to get to those 12 outcomes. I will show you a chart that summarizes it.

Now in the coming year I have to develop annual targets so that you can hold us accountable every year when we come down here, not only for explaining the 5-year budget we are arguing for, but what did we accomplish in the last year. That is what this is intended to do.

The numbers we can change. If you have other studies or experts or a different viewpoint, I will, of course, be respectful of your thinking. But I would like us to embrace the idea of accountability, and that it will be a 10-year program to get a new generation of America drug free.

CLASSIFIED STRATEGY

Finally, this is a classified document. It is classified secret, limited distribution. It is available, of course, for you to look at. It is the "Strategic Annex to the Strategy." It gives guidance to our intelligence services, et cetera.

Good morning, Mr. Chairman. Mr. Chairman, I just began to make comments and I outlined the four documents that comprise the totality of the strategy.

DRUG USE DATA

Let me quickly run through some other charts. This is where we are going. This is our target. It is a little bit hard to read, but let me just tell you that currently drug use is at 6 percent in this country, and when you look at the young kids 12 to 17 it is about 9 percent use. That went down last year for the first time in 6 years. It was 10.6 percent. It dropped to 9 percent.

Donna Shalala, whose study gives us this data, and I say that is statistically not significant. But what is significant is for the first time in 6 years it went down, not up. Now down below is where we say we are going. The 10-year goals are 3 percent of the population using drugs, and when you look at the kids, 4.5 percent.

We can get there over the coming decade—we believe this is achievable. Many think it is too ambitious. If we can get there, they will be the lowest rates of drug use in our society since we began keeping data. That would be before my two shiny, new grandsons hit the eighth grade. And that is our commitment.

Now we can get more ambitious. We can achieve more of it earlier. I am listening to your own viewpoints. But that is what 200-some-odd experts and the Federal agencies involved have come up with. I respectfully submit that to you as a pretty decent unifying goal. I think next year when you get me back here, instead of saying the decrease in drug use was statistically insignificant, I believe next year I am going to come back and tell you we had a definite drop in drug use rates among children.

Now here is the cost. Senator, this is why I essentially buy your entire statement. One hundred thousand dead in the 1990's alone. Look at the cost: a $70 billion hit on our society and 1.5 million Americans arrested a year. The dominant cause of problems in our hospital emergency rooms, if you talk to a doctor, relates to drugs. And you can go on down the list.

We have now revised our estimates on who is addicted to heroin; 810,000 Americans. Only 2 percent of the world's demand for heroin is in this country, but 810,000 Americans are compulsive heroin users. We say probably a little under 4 million Americans are chronically addicted to some illegal drug, primarily cocaine, then heroin, then other drugs. So this is a pretty big challenge to us.

Now, are we making any progress? Absolutely—if you look at 1979, the worst time in modern America. Although that was probably not as bad as just prior to 1916, when we passed these modern laws and it was worse with both cocaine and opiates. But if you go back to 1979, we have come down by one-half. Cocaine use has come down by 75 percent.

We hit the low probably around 1992, but around 1990 we saw values among kids start going bad on us. The disapproval rate of drugs and the fear of drugs personally went the wrong way in 1990 and 1991. In 1992, drug use rates went up and they increased every year until last year when they went down.

Meth use, which is one of the worst drugs that we ever have encountered in this Nation——

Senator FAIRCLOTH. What drug did you say?

General MCCAFFREY. Methamphetamine. Chemically produced. Go get a $100 bill, the recipe off the Internet, get a high school laboratory level of equipment and you can make the poor man's cocaine. Six to sixteen hours of dangerous drug-induced highs. It is destructive physically, mentally, and spiritually. It is horrendously dangerous to our law enforcement personnel.

Yet as that thing has spread, maybe—maybe Attorney General Janet Reno and I, with a new strategy, and you having given us new legislation, maybe last year we got in front of this. This should not become the crack cocaine epidemic of the 1990's. As you remember, in 1985 that almost killed American cities. And meth is out there, and it is not just in the cities either. It is in rural Georgia, Kansas, Missouri, Arizona, Idaho, Hawaii, and southern California. But we think we may be in front of it.

Cocaine production is down. The facts are we finally have started to bite into it. Except for poor Colombia where it is a disaster. In Peru the production of coca is down 40 percent in 2 years. It is down 9 percent in Bolivia. It is astonishing the progress we have made. That is just the beginning, but at least we are starting to turn the corner.

United States spending on drugs is down and some aspects of drug-related crime are down. It is hard to tell that to a police officer, dealing with the impact of drug-related violence. We have a man in the room whose son was almost murdered as a Maryland State police officer by drug dealing. So the violence is still out there. But if you look at the gross numbers, it has come down—thank God—dramatically.

This is another, I find, bit of encouraging news. One of the four major studies we do every year, federally funded, is Monitoring the Future, by Dr. Lloyd Johnson up at the University of Michigan. Since the 1960's they have been watching what kids say about their values, including drugs. Last year, his data showed 12th graders' drug use still going up. But if you look at the eighth graders and their values relating to cigarettes, alcohol, pot, and other drugs, apparently they have started to turn around. Let us watch that. That is our goal: to take eighth grade drug use rates and run them down.

Our kids now are drug free when they finish the DARE program in the fifth and sixth grade. In the 8th, 9th, 10th, 11th, and 12th grade they encounter drugs, so by the time they are seniors one out of five are regularly using an illegal drug. Ten years from now, those kids will produce the next generation of compulsive drug users. That is why we have to focus on middle school kids, and high school kids, and keep them from smoking pot and abusing alcohol and using cigarettes.

NATIONAL YOUTH MEDIA CAMPAIGN

The National Youth Media Strategy that you funded as part of the ONDCP budget is starting to pay off. We are so proud of what not only the Partnership for a Drug-Free America, but also the Quad A, the Annenberg School of Journalism, the Advertising Council of America, and the entertainment industry. I have a report which hopefully is in your packet that gives you our initial feedback on the 12 pilot cities. In June we will go nationwide. By the fall, PDFA will have our new generation of ads coming out.

Our key is that by the time December rolls around, we will have messages on radio, local billboards, and local TV, as well as national programs that sound like your district, your State: Native American, Hispanic-American, African-American, Southern, Northeast corridor. The work we are doing right now has produced a wave of phone calls to coalitions that we find very encouraging.

Finally, I would just sort of show you this. Here is the next step to all of this. Although paid advertising is the heart and soul of it, and the Partnership for a Drug-Free America is really our dominant partner in that area, there's also partnerships with private industry. We are working with the industry council. We are going to get on the Internet. Right now it is dominated by prodrug forces. We are going to make sure we have interactive capacity to deal with young kids as well as high school kids.

DRUGS AND PRISONS

Yesterday we finished a 2-day conference cochaired by Attorney General Janet Reno and Secretary Donna Shalala. We brought in a couple hundred experts from all over the country on drugs and prisons. I do not need to tell this committee, we have 1.7 million people behind bars; more than any other nation on the face of the Earth. It is probably going to go up 25 percent in the coming years. It is a national nightmare.

It helps to keep the violent criminals off the streets. Somewhere between 50 and 80 percent of those incarcerated are compulsive drug users. So we know—and we have learned this from Attorney

General Reno and Secretary Shalala's studies and their experience—that we have to provide effective drug treatment, and then we have to put people back in the halfway houses with drug testing. And when they predictably fall off the wagon, we have to have a tough love approach where we reincarcerate them for 21 days or 14 days—and we have a judge running this system—instead of allowing them to go back to a life of addiction.

We are going to work on that. By next December we are going to bring in the country's law enforcement and correction specialists and try and give them some solutions on all of this. But I think it is a very encouraging situation, and some of those in the room are helping us design that.

HIDTA

Final one, let me just mention the HIDTA program which I am very grateful for your support on that. We now have 20 HIDTA's, three of which have funds appropriated and are pending obligation. Those are moving along the right way. The 20 HIDTA's include five Southwest border partnerships. All along that border now, 2,000 miles with Mexico, we have a high-intensity drug trafficking area with Federal funding allowing State, local, Federal cooperation on this drug issue.

We are getting a tremendous amount of good out of this. There are probably more HIDTA's that deserve consideration. By this summer I will have a study done and we will come back to Congress and to this committee and recommend an expansion of that program. But I think there is every reason to be very proud of the way prosecutors and law enforcement have come together on this issue.

BUDGET

Mr. Chairman, with that, let me, if I may, just say that I think we have an aggressive, balanced fiscal year 1999 budget proposal in front of you, for the ONDCP element of the drug control effort, which is really the smallest piece of it. It is a $17 billion overall program in nine different bills of which our ONDCP salaries and budget are a pretty small piece of it: a little over $19 million. There is $162 million in the HIDTA program, $1 million in there for ONDCP research, and then $251 in the so-called special forfeiture fund.

The big ticket items are the media campaign, the drug-free communities program, and then also a hardcore user study and some other assorted activities that I would be honored to talk you through.

PREPARED STATEMENT

With your permission, Mr. Chairman, I would submit for the record a written statement that we have pulled together which includes the best judgments we have in response to your own interests.

Senator CAMPBELL. Without objection, it will be included in the record.

General MCCAFFREY. Sir, I look forward to answering your own questions and listening to your own ideas.

[The statement follows:]

PREPARED STATEMENT OF BARRY R. MCCAFFREY

Chairman Nighthorse Campbell, Senator Kohl and members of the Committee, thank you for the opportunity to testify on the Office of National Drug Control Policy's budget. The Office of National Drug Control Policy (ONDCP) appreciates your longstanding support, as well as the guidance and leadership of the Committee. The Strategy we have presented to the Congress, developed in close consultation with the members of this Committee and the Congress as a whole, reflects the strength of our enduring bipartisan commitment to focus our efforts to diminish America's drug problem on realistic results. We appreciate your good counsel on setting our sights on aggressive, but plausible, targets.

Much of our current progress results from the fact that you have enabled us to reinvigorate the Office of National Drug Control Policy. Mr. Chairman and Senator Kohl, I want to particularly thank each of you for your wise judgments and tireless efforts in this regard. Through the support of this Committee, we now have an ONDCP that is ready for the task ahead.

The importance of your bipartisan support in the success of this effort is evident from one of the most significant programs we are now undertaking: the National Anti-Drug Youth Media Campaign. Mr. Chairman and Senator Kohl, your efforts to ensure the success of the National Youth Media Campaign are now paying off; in twelve pilot cities we are reaching out to our young people with a simple, yet vital message: "drugs are wrong, and they can kill you and your dreams." Absent the support of you and this committee, this program would not exist today. The other efforts of Committee members, such as Senator Mikulski's support of the Baltimore HIDTA and Senator Shelby's efforts on the intelligence review, are also vital to our success. Let me congratulate Senator Faircloth on being designated one of the "Top Five Zealots in the War on Pot Smokers" by NORML.

Our common efforts have had a direct and substantial impact on the success America has enjoyed in reducing drug use. Over the past seventeen years, this bipartisan partnership has contributed to a 50 percent overall reduction in the number of Americans using drugs and a 70 percent reduction in the number of Americans using cocaine. But we can and must do more. If unchecked, America's drug abuse problem will kill 140,000 Americans and cost our society $700 billion over the coming decade. Our progress must be steady; we cannot afford to lose a moment's time or spare any effort in significantly reducing the threats of drug use in America.

We welcome the opportunity at this hearing is to put forward the fiscal year 1999 budget for ONDCP. However, to provide a framework for understanding this budget, this testimony must begin with an analysis of current drug use trends in America, and an overview of the 1998 National Drug Control Strategy.

When you considered my appointment as Director of ONDCP in February 1996, I pledged to forge a coherent counter-drug strategy that would substantially reduce illegal drug use and protect our youth and our society. The 1998 National Drug Control Strategy reflects ONDCP's ongoing commitment to this goal. This Strategy is a ten-year plan to reduce drug use in America by half—to the lowest levels in the past thirty years. The following table offers examples of the progress that will be attained if this plan is fully implemented by all sectors of American society:

Measure	Current figure	10-year goals	30-year lows/highs
Current drug use (all ages)	6.1 percent	3 percent	5.8 percent (low).
Marijuana initiates	2.37 million	1.18 million	1.37 million (low).
Age of initiation (marijuana)	16.7 years	20 years	20.1 years (high).
Current use of illicit drugs (among 12–17 year olds).	9.0 percent	4.5 percent	5.3 percent (low).

Let us be clear on this: never before has America had so solid a commitment to a long-term counter-drug strategy, which is determined to achieve such an ambitious a goal in fighting drugs. The Strategy is backed by a system of Performance Measures of Effectiveness by which this Congress and the American people can hold us accountable to achieve these ends. However, whether the issue was balancing the budget, defeating Nazi Germany, or ensuring civil rights to our citizens, we have triumphed as a nation only when we have worked together without regard to party

or politics. If we lose the bipartisan anti-drug cooperation and momentum we currently have, it could take us up to three additional years to begin to meet our goals. We need a partnership among the Administration, members of Congress, community coalitions, and state and local governments to achieve our purpose. The National Drug Control Strategy is sound; our task is to work together to successfully achieve the defined outcomes for all five of our goals with their 32 supporting objectives.

I. DRUG USE TRENDS—THE THREAT IS GREAT, BUT WE ARE MAKING SOLID PROGRESS

Illegal Drug Use Places a Tremendous Burden on America.—The social costs of drug use in America total over $67 billion per year, including $46 billion in crime, $6.3 billion in AIDs-related costs and $8 billion in illness-related costs. Cocaine initiation rates—the number of people trying the drug for the first time—have begun to increase. Heroin initiation rates are up markedly. Drug use trends among young people remain especially troubling. Drug-use rates among youth, while still well below the 1979 peak of 16.3 percent, remain substantially higher than the 1992 low of 5.3 percent. One in four twelfth graders is a current illegal drug user, while for eighth graders, the figure is approximately one in eight. Elevated drug-use rates are a reflection of pro-drug pressures and drug availability. Almost one in four twelfth graders say that "most or all" of their friends use illegal drugs. A Columbia University Center on Addiction and Substance Abuse survey reported that 41 percent of teens had attended parties where marijuana was available, and 30 percent had seen drugs sold at school.

Illegal Drug Use Rates are 50 Percent Lower Than 1979's Historic High Level.—In 1996, an estimated thirteen million Americans (6.1 percent of the U.S. household population aged twelve and over) were current drug users. This figure is roughly half the number in 1979 when twenty-five million (or 14.1 percent of the population) were current users.

Illegal Drug Use Has Begun to Level off Among Youth.—The University of Michigan's 1997 Monitoring the Future (MTF) study and SAMHSA's 1996 National Household Survey on Drug Abuse (NHSDA) indicate that youth drug use rates seem to be leveling off, and in some cases are declining. The MTF found that, for the first time in six years, the use of marijuana and other illegal drugs stabilized among eighth graders. Use of marijuana and other illegal drugs among tenth and twelfth graders also appears to have leveled off. The NHSDA reported that current drug use among twelve to seventeen-year-olds declined between 1995 and 1996 from 10.9 percent to 9 percent. The MTF study also reported that attitudes regarding drugs, which are key predictors of use, began to reverse in 1997 after seven years of erosion.

Crack Use is Declining.—The most recent data from the Drug Use Forecasting Program, which monitors arrestees, show a coast-to-coast decline in crack use (from a 29 percent decline in Washington, D.C., from 1988 to 1996, to 15 percent decline in San Jose, from 1989 to 1996)—a good indication that the crack epidemic that began in 1987 continues to abate.

Good News on Methamphetamine.—Meth use, as reflected by the Drug Use Forecasting Program's testing of arrestees, is down in the eight cities that had been suffering the highest increases in use: 52 percent drop in Dallas; 20 percent drop in San Jose; 19 percent in San Diego; 34 percent in Portland; and over 40 percent in Denver, Omaha and Phoenix.

Cocaine Production Down Sharply.—Indications are that cocaine production in the Andean region—the primary producing area—may be down as much as 100 tons from last year.

Spending on Drug Consumption is Down.—The most recent data shows the amount Americans spend buying illegal drugs is down roughly 37 percent from 1988 to 1995—a total per annum decline of $34.1 billion reinvested in American society.

Drug-Related Crime is in Decline.—In 1989, according to the FBI, there were 1,402 murders related to narcotic drug laws. In 1992, that number dropped to 1,302. By 1996, that number hit a low of 819.

Drug-Related Medical Emergencies May Have Peaked but Remain Near Historic Highs.—SAMHSA's Drug Abuse Warning Network (DAWN) reported that drug-related episodes dropped 6 percent between 1995 and 1996, from 518,000 to 488,000. Heroin-related episodes declined slightly, the first decline since 1990. Methamphetamine-related incidents decreased 33 percent to 10,787, the second year of decline since the 1994 peak of 17,665.

Drug Offenders Crowd Our Prisons and Jails.—In June 1997, the nation's prisons and jails held 1,725,842 men and women—an increase of more than 96,000 over the prior year. More Americans were behind bars than on active duty in the Armed Forces. The increase in drug offenders accounts for nearly three-quarters of the

growth in the federal prison population between 1985 and 1995, while the number of inmates in state prisons for drug-law violations increased by 478 percent over the same period.

Public Awareness About the Dangers of Drugs is Increasing.—A 1997 Harvard University poll found that adults believe the number one problem facing America's children is drug abuse. A 1997 study by the Center on Addiction and Substance Abuse found that over half of our young people support drug testing in their schools and say they are willing to report a drug user to school officials.

II. THE 1998 NATIONAL DRUG CONTROL STRATEGY

A. Highlights of the Strategy

The 1998 Strategy focuses on expanding programs that work and building targeted new initiatives designed to directly attack the problem of drug use. Highlights of this comprehensive, balanced, ten-year plan include:

A Ten-Year Strategy to Reduce Drug Use and its Consequences by Half

—First-ever, comprehensive ten-year plan to reduce drug use and its consequences by half.
—This ten-year plan is backed by a five-year budget projections, and Performance Measures of Effectiveness to improve accountability and efficacy.
—Supported by the largest counter-drug budget ever presented: $17.1 billion.
—Dynamic and comprehensive: focuses on results not programs; each element supports all the other initiatives.

Providing the Resources Necessary to Make a Difference

—The $17.1 billion recommended drug control budget for fiscal year 1999 represents a $1.1 billion increase (6.8 percent) over the fiscal year 1998 enacted level.
—The fiscal year 1999 budget includes an increase of $491 million for treatment and prevention programs and $602 million for supply reduction programs.
—The fiscal year 1999 recommended drug budget is 43 percent larger than the fiscal year 1992 enacted budget.
—Prevention efforts in the fiscal year 1999 budget are provided $.7 billion more than in fiscal year 1992; treatment programs are provided $3.5 billion more than in fiscal year 1992; domestic law enforcement efforts are provided $3.7 billion more than in fiscal year 1992.

Protecting America's Young People

—The Strategy's first goal is educate children and adolescents to enable them to reject drugs.
—This Strategy builds on programs that work and launches new initiatives:
National Youth Anti-Drug Media Campaign ($195 million)—will "go national" in June.
School Drug-Prevention Coordinators Initiative ($50 million)—providing prevention professionals to 6,500 middle schools nationwide.
President's Youth Tobacco Initiative ($146 million)—preventing behavior with a relation to future drug use.
The Civic Alliance—helping 33 national civic and service groups, representing 55 million people, to fight youth drug use.
Youth Drug Research—expanding understanding of youth drug use and addiction.
—Largest percentage budget increases—15 percent or $256 million—for youth programs.

Strengthening Communities and Workplaces

—Launches the Drug-Free Communities Program, a five-year, $140 million effort that will strengthen the existing 4,000 community-based anti-drug coalitions, and build 10,000 new coalitions across the nation.
—Works with 22 million small businesses to initiate drug-free workplaces.

Reinforcing Our Borders

—Launches a $105 million Port and Border Security Initiative.
—Puts 1,000 new Border Patrol agents, and increases barriers along the Southwest Border.
—Deploys new technologies, such as advanced X-rays and remote video surveillance, along the Southwest Border—including $41 million for nonintrusive inspection technologies.
—Strengthens oversight over federal Southwest Border drug control efforts.

Strengthening Law Enforcement

—Focuses on full implementation of the Community Oriented Policing Services (COPS) program.
—Expands DEA's counter-heroin initiative: $12.9 million and 95 new agents.
—Expands anti-methamphetamine initiative: $24.5 million including 100 new DEA agents.
—Expands DEA's Caribbean Corridor Initiative: $9.8 million and 56 new agents.

Breaking the Cycle of Drugs and Crime

—Provides treatment to nonviolent first-time offenders in the criminal justice system to free them from the addictions that drive their actions. Punishment alone cannot diminish drug-related crime; it is necessary to break the cycle of drugs, crime and prisons.
—Provides $85 million in funding and other support to help state and local governments implement drug testing, treatment, and graduated sanctions for drug offenders.

Reducing the Supply of Drugs and Enhancing Multinational Cooperation

—In 1997, Andean cocaine production dropped by as much as 100 tons less than the prior year.
—Despite this overall progress, Colombian coca production is up 56 percent over the last two years, with much of the expanded capacity occurring in guerrilla or paramilitary held territories.
—The Strategy adds $75.4 million in Department of Defense support to U.S., Andean, Caribbean and Mexican interdiction efforts.
—Adds $45 million to support Andean nation counter-drug efforts, including interdiction, crop replacement, and support to law enforcement.
—Continues to build multinational cooperation against drugs, focusing on US-Mexico bilateral efforts, the Caribbean Initiative, and the upcoming Santiago Summit and U.N. General Assembly Special Session.

Closing the Treatment Gap

—The number of people who require drug treatment but who are not in treatment—the "gap"—is estimated at 1.7 million.
—Provides an added $200 million in Substance Abuse Block Grants to States to assist in closing the gap, increasing the total funding to $1.5 billion.

B. Goals and Objectives of the 1998 Strategy

The goals of the 1998 Strategy remain unchanged from the 1997 Strategy; reflecting both the need for consistency and the importance of sticking to those programs that make sense and are working. The thirty-two drug control objectives are aligned with the Performance Measures of Effectiveness and outline the specific accomplishments this Strategy is designed to achieve. The objectives are aggressive. The Administration is committed to meeting these goals, as well as to continually examining and refining the targets set forth in the performance measures system. There will be an annual review during the budget process to determine the relationship between the goals and the level of available federal and nonfederal resources.

Goal 1: Educate and enable America's youth to reject illegal drugs as well as alcohol and tobacco.

Drug abuse is preventable. If boys and girls reach adulthood without using illegal drugs, alcohol, or tobacco, they probably will never develop a chemical-dependency problem. To this end, the Strategy focuses on educating children about the real dangers associated with drugs. ONDCP seeks to involve parents, coaches, mentors, teachers, clergy, and other role models in a broad prevention campaign. The Strategy encourages businesses, communities, schools, the entertainment industry, and coaches to join these anti-drug efforts. In addition, we must limit drug availability and treat young substance abusers.

Objectives.—The Strategy's mid-term objectives are to reduce the prevalence of past-month drug use among youth by 20 percent and increase the average age of first use by twelve months before the year 2002. The long-term objectives are a 50 percent reduction in current drug use and an increase of thirty-six months in the average age of first use by the year 2007.

Goal 2: Increase the safety of America's citizens by substantially reducing drug-related crime and violence.

The social ruin caused by drug-related crime and violence mirrors the tragedy that substance abuse wreaks on individuals. A large number of the twelve million property crimes committed each year are drug- related as is a significant proportion

of nearly two million violent crimes. The nation's 3.6 million chronic drug users contribute disproportionally to this problem, consuming the majority of cocaine and heroin on our streets.

Drug-related crime can be reduced through community-oriented policing, which has been demonstrated by police departments in New York and numerous other cities where crime rates are plunging. Cooperation among federal, state, and local law-enforcement agencies and operations targeting gangs, trafficking organizations, and violent drug dealers are making a difference. Equitable enforcement of fair laws is a must. Punishment must be perceived as commensurate with the offense. Finally, the criminal justice system must do more than punish. It should use its coercive powers to break the cycle of drugs and crime through linkage of the criminal justice system to effective treatment programs.

Objectives.—The Strategy's mid-term objective is to reduce drug-related crime and violence by 15 percent by the year 2002. The long-term objective is a 30 percent reduction by the year 2007.

Goal 3: Reduce health and social costs to the public of illegal drug use.

Drug dependence is a chronic, relapsing disorder that exacts enormous costs on individuals, families, businesses, communities, and the nation. Addicted individuals have lost their ability to resist drugs, which results in self-destructive and criminal behavior. Effective treatment can manage addiction and lower the cost of chronic drug use to society.

Providing effective drug treatment for America's 3.6 million chronic drug users is both prudent public policy and a sound investment. For example, a recent study by the National Institute on Drug Abuse found that outpatient methadone treatment reduced heroin use by 70 percent, cocaine use by 48 percent, and criminal activity by 57 percent. It also increased employment by 24 percent. Long-term residential treatment had similar success.

Objectives.—The Strategy's mid-term objectives are to reduce use by 25 percent and health and social consequences by 10 percent by the year 2002. The long-term objectives are a 50 percent reduction in drug use and 25 percent reduction in consequences by the year 2007.

Goal 4: Shield America's air, land, and sea frontiers from the drug threat.

The United States is obligated to protect its citizens from the threats posed by illegal drugs crossing our borders. Interdiction in the transit and arrival zones disrupts drug flow, increases risks to traffickers, drives them to less efficient routes and methods, and prevents significant amounts of drugs from reaching the United States. Interdiction operations also produce intelligence that can be used domestically against trafficking organizations.

Each year, more than sixty-eight million passengers arrive in the United States aboard 830,000 commercial and private aircraft. Another eight million individuals arrive by sea, and a staggering 365 million cross our land borders each year driving more than 115 million vehicles. More than ten million trucks and cargo containers and ninety thousand merchant and passenger ships also enter the United States annually, carrying some four hundred million metric tons of cargo. Amid this voluminous trade, traffickers seek to hide more than 300 metric tons of cocaine, thirteen metric tons of heroin, vast quantities of marijuana, and smaller amounts of other illegal substances.

Objectives.—The Strategy's mid-term objective is to reduce the amount of illegal drugs entering the United States by reducing trafficker success rates through the transit and arrival zones 10 percent by the year 2002. The long-term objective is a 20 percent reduction in trafficker success rates by the year 2007.

Goal 5: Break foreign and domestic drug sources of supply.

The rule of law, human rights, and democratic institutions are threatened by drug trafficking and consumption. International supply reduction programs not only reduce the volume of illegal drugs reaching our shores, they also attack international criminal organizations, strengthen democratic institutions, and honor our international drug-control commitments. The U.S. supply reduction strategy seeks to: (1) eliminate illegal drug cultivation and production; (2) dismantle drug-trafficking organizations; (3) interdict drug shipments; (4) encourage international cooperation; and (5) safeguard democracy and human rights. Additional information about international drug-control programs is contained in a classified annex to this Strategy.

Objectives.—The Strategy's mid-term objectives are a 15 percent reduction in the flow of illegal drugs from source countries and a 20 percent reduction in domestic marijuana cultivation and methamphetamine production by the year 2002. Long-term objectives include a 30 percent reduction in the flow of drugs from source coun-

tries and a 50 percent reduction in domestic marijuana cultivation and methamphetamine production by 2007.

C. Assessing Performance

The Strategy's supporting performance-measurement system establishes the interrelationship between outcomes, programs, and resources. The performance measurements detailed in a companion volume to the Strategy—Performance Measures of Effectiveness: A System for Assessing the Performance of the National Drug Control Strategy—will gauge progress toward that end using five and ten-year targets. The heart of the system consists of twelve impact targets that define strategic end-states for the Strategy's five goals. Eighty-two supporting performance targets establish outcomes for the Strategy's thirty-two objectives. These targets were developed by federal drug-control agencies working with ONDCP and were reviewed by state and local agencies and drug-control experts.

While the drug-control performance measurement system can offer valuable information on program effectiveness, it will not determine federal budgets. No responsible level of federal spending alone can bring about a 50 percent reduction in America's illegal drug use problems. State and local governments, the private sector, communities, and individuals must all embrace the commitment to reduce demand by 50 percent over the next ten years. However, by providing clear benchmarks of our progress, the performance measures will assist policy makers, legislators, and managers in considering the adequacy of specific drug-control programs and increase accountability; these measures will assist in a considered review of whether we are achieving the maximum impact for the resources being used . In turn, we will gauge whether the performance targets need to be adjusted to reflect new or changing circumstances.

Progress will be measured using both existing and new survey instruments. The Monitoring the Future survey and the National Household Survey on Drug Abuse, for example, estimate risk perception, current use rates, age of initiation, and lifetime use for most illegal drugs, alcohol, and tobacco. The Arrestee Drug Abuse Monitoring system and Drug Abuse Warning Network provide indirect measures of consequences. The principal measuring device for international progress is the International Narcotics Control Strategy Report. This annual State Department document provides country-by-country assessments of initiatives and accomplishments. It summarizes drug cultivation, eradication, production, seizures, arrests, destruction of laboratories, drug flow and transit, and criminal justice efforts. The Office of National Drug Control Policy's Advisory Committee on Research, Data, and Evaluation will consider additional instruments and measurement processes needed to address the demographics of chronic users, domestic cannabis cultivation, drug availability, and other drug-policy data shortfalls. (Because our performance assessments depend on the quality of the data developed, improved and expanded research will contribute greatly to this effort.) Annual progress reports will be submitted to Congress.

III. THE ONDCP BUDGET

ONDCP's fiscal year 1999 budget request of $449.449 million includes:

—$19.442 million for salaries and expenses to support ONDCP's 154 positions (124 full time employees and 30 detailees)

—$162.007 million for the High Intensity Drug Trafficking Area (HIDTA) program.

—$251 million for the Special Forfeiture Fund to support a National Youth Anti-Drug Media Campaign ($195 million); a Drug-Free Communities Program ($20 million); a Hardcore Users Study ($10 million); and discretionary funding to enhance drug control activities and address emerging drug threats ($26 million).

—$16 million for the Counterdrug Technology Assessment Center (CTAC).

—$1 million for ONDCP-coordinated policy research.

A. The Capacity to Lead the Fight Against Illegal Drugs: $19.442 Million for ONDCP Salaries and Expenses.

The $19.442 million for ONDCP salaries and expenses is the smallest programmatic component of the ONDCP budget. However, this funding is the linchpin for all the other programs funded through the ONDCP budget. Without a fully staffed and funded ONDCP, none of these other initiatives can be carried out.

ONDCP serves as the President's primary Executive Branch support for drug policy development and program oversight. ONDCP advises the President on national and international drug control policies and strategies, and works to ensure the effective coordination of drug programs within the Federal Agencies and Departments. ONDCP responsibilities include:

—Developing an annual National Drug Control Strategy.
—Developing a consolidated National Drug Control Budget for presentation to the President and the Congress (including budget certifications and quarterly reprogramming reports).
—Certifying the budgets of programs, bureaus, agencies and departments.
—Issuing Funds Control Notices—ONDCP may direct that all or part of an amount appropriated to a national drug control agency be obligated by months, fiscal year quarters, or other time periods, as well as activities, functions, projects, or object classes. This authority is discretionary.
—Evaluating Program Effectiveness—ONDCP is required to include in each National Drug Control Strategy an evaluation of the effectiveness of Federal drug control during the preceding year. This assessment must include the following elements: (1) changes in drug use, including estimates of drug prevalence and frequency of use in Federal, state, and local surveys, as well as special studies of high-risk populations and drug use in the workplace; (2) changes in drug availability as measured by the quantities of illicit drugs available and the amounts entering the United States, in addition to the interdiction efforts and their effectiveness; (3) changes in drug use consequences, which must encompass ONDCP's estimation of the burdens drug users place on national and other social services, including the resulting drug-related crimes and criminal activity, in addition to the contribution of drugs to the underground economy; and (4) drug treatment capacity by assessing total public and private treatment slots' efficiency and effectiveness within each state.
—Coordinating and overseeing Federal anti-drug policies and programs involving approximately 50 Federal agencies and the programs they administer.
—Encouraging private-sector, state, and local drug prevention and control programs.
—Conducting policy analysis and research to determine the effectiveness of drug programs and policies in addressing the Strategy's goals, priorities, and objectives.
—Designating High Intensity Drug Trafficking Areas (HIDTA's) and providing overall policy guidance and oversight for the award of resources to Federal, state, and local law enforcement partnerships in these areas.
—Developing and overseeing a National Youth Anti-Drug Media Campaign that will be a multi-faceted communications campaign that harnesses the energies of parents, mass media, corporate America, and community anti-drug coalitions. This campaign will emphasize that prevention can work and will seek to empower parents to discuss this critical subject with their children.
—Operating CTAC to serve as the central counterdrug enforcement research and development center for the Federal Government.
—Overseeing the Drug-Free Communities Program, which will serve as a catalyst for increased citizen participation in our efforts to reduce substance abuse among our youth and provide community anti-drug coalitions with much needed funds to carry out their important missions.

ONDCP is an organization of 154 committed professional men and women. It will have 124 full-time employees (FTE's) and 30 detailees once hiring has been completed. The fiscal year 1999 request for $19.442 million represents a $1.426 million increase over the enacted fiscal year 1998 total of $18.061 million. Major expenses include:

—$9.180 million for compensation of 124 FTE's. This represents an increase of $457,000 over the fiscal year 1998 enacted total of $8.723 million.
—$2.020 million for total personnel benefits.
—$4.218 million for guard services, professional services contracts, maintenance services, and related costs. Combating the threat of drugs is not without its risks. For example, in 1997, 152 law enforcement officers were killed in the line of duty. Over the last year, we have taken prudent steps to increase the security of both our personnel and sensitive information within the office's purview.
—$2.170 million for rental payments to GSA.
—$734,000 for travel and transportation costs. The bully pulpit is one of the most valuable tools ONDCP has at its disposal in the fight against drugs. Since taking office, I have traveled to 33 of the 50 United States, touching over 60 cities, countless towns and communities—ranging from New York City to Las Cruces, New Mexico—and meeting with hundreds of thousands of people. These efforts are vital to helping Americans of all ages hear the message that drugs are wrong and can kill you. Additionally, by getting out into the field and walking the frontlines of our struggle against drugs, we ensure that our policies and programs respond effectively to the realities of life beyond the Beltway.

Similarly, through foreign travel to 13 nations, I have personally pressed the vital counter-drug foreign policy objectives of the United States. By building face-to-face understandings and common strategies we are making real progress internationally. For example, coca production in the Andean region is down as much as 100 tons below last year's production level.

—$821,000 for communications, utilities, printing, reproduction, and related miscellaneous costs.

—$299,000 for equipment, supplies and materials, and representational funds.

B. Educating America's Young People, Empowering Communities, and Advancing Our Understanding of America's Drug Problem: $251 Million for the Special Forfeiture Fund

($195 million) National Youth Anti-Drug Media Campaign

ONDCP, with the assistance of the Partnership for a Drug-Free America (PDFA) and the Ad Council, is implementing a multifaceted communications campaign involving parents, mass media, corporate America, and anti-drug coalitions. The National Youth Anti-Drug Media Campaign will counteract media messages and images that glamorize, legitimize, normalize, or otherwise condone drug use. Youth aged nine to seventeen, and the adults who influence them, will be targeted by the campaign. Campaign messages will accurately depict drug use and its consequences and encourage parents to discuss drug abuse with children.

Congress appropriated $195 million for the campaign last year, making it one of the largest paid advertising efforts ever undertaken by government. Over the past year, ONDCP has consulted with hundreds of communications and marketing professionals, educators, prevention and treatment experts, public health specialists, and public officials to design the campaign's development process. Anti-drug ads for phase I of a pilot program began airing in Atlanta, Baltimore, Boise, Denver, Hartford, Houston, Milwaukee, Portland (OR), San Diego, Sioux City, Tucson, and Washington, D.C. in January.

This summer, in phase II, ONDCP will expand the anti-drug advertising component nationwide, using national and local television (both broadcast and cable), radio, the Internet, and print media. In the fall, during phase III, a fully-integrated campaign will reach target audiences through TV, radio, print, Internet, and other media outlets. The campaign's advertising component is currently estimated at $150 million. (The remaining monies will be used to support the campaign through corporate sponsorships, interactive media, evaluation processes, and other appropriate efforts.) This figure was determined based on ONDCP's goal of reaching on average 90 percent of the target audiences at an average frequency of four exposures per week. ONDCP contracted with experts in the fields of media planning and buying, and held consultations with a wide range of other experts, to develop a prototype national media plan that meets these goals. The projected breakout of expenditures by media category for the national advertising component of the overall media campaign is as follows:

—television and radio: 72 percent

—print (magazines and newspapers): 11 percent

—other (e.g., in-school, cinema, online, billboards): 17 percent

The campaign's reach will be extended through corporate sponsorship, cooperation with the entertainment- industry, programming changes, and media matches (for example, contributions to cover public-service time and space). Prevention experts believe this public-private campaign will influence attitudes of youths towards drugs within two to three years.

($20 million) Drug-Free Communities Program

Whether the challenge is to prevent young people from using drugs, or to take our nation's streets back from drug dealers, strong communities are vital to fighting drugs in America. Presently, there are an estimated 4,000 community anti-drug coalitions in America. The Drug-Free Communities Act of 1997 recognizes that the problem of illegal drugs must be addressed at the community level. The Drug-Free Communities Act authorizes $143.5 million in matching grants over the next five years to support these existing coalitions and expand the number of coalitions by ten thousand. The Act authorizes the President to establish a Commission on Drug-Free Communities to advise ONDCP concerning matters related to the program. We expect the President to name the members of this Commission this Spring.

ONDCP will award grants to community coalitions of representatives of youth, parents, businesses, the media, schools, youth organizations, law enforcement, religious or fraternal organizations, civic groups, health care professionals, State, local, or tribal government agencies, and other organizations.

In carrying out the Program, the Director of ONDCP will: (1) make and track grants to grant recipients; (2) provide for technical assistance and training, data collection and dissemination of information on state-of-the- art practices that the Director determines to be effective in reducing substance abuse; and, (3) provide for the general administration of the Program.

($10 million) Hardcore Users Study

This amount will assist with the research and development of a national estimates of the size and composition of the hardcore dug user population. A pilot project for this research conducted in Cook County, Illinois, concluded that hardcore users are significantly under-counted in current surveys.

($26 million) Director's Discretion

This amount would be available at the discretion of the Director of ONDCP to use to enhance drug control activities and address emerging drug threats.

C. Strengthening Law Enforcement: $162.007 Million for the High Intensity Drug Trafficking Area Program

The HIDTA program facilitates coordination of anti-drug activities and investigations of federal, state, and local law enforcement agencies. The HIDTA program designates geographic areas to which federal resources are allocated to link local, state, and federal drug enforcement efforts. Properly targeted, HIDTA's offer greater efficiency in countering illegal drug trade in local areas. HIDTA programs are based on a logical, comprehensive methodology for prioritizing needs and working with other initiatives.

Specific counties in 20 areas have been designated as HIDTA's: Southwest Border (which contains the five partnerships of the California Border, Arizona, New Mexico, West Texas, and South Texas), Los Angeles, Houston, Miami, and New York (designated in 1990); Washington D.C./Baltimore and Puerto Rico/U.S. Virgin Islands (designated in 1994); Atlanta, Chicago, Philadelphia/Camden (designated in 1995); Rocky Mountain, Northwest, Lake County (Indiana), Midwest, and Gulf Coast (designated in 1996); Southeast Michigan and San Francisco Bay (designated in 1997); and, counties in three areas have received official designation by the Director of ONDCP in fiscal year 1998: Central Florida; Kentucky/West Virginia/Tennessee; and Milwaukee.

This fiscal year 1999 request for $162,007,000 for the HIDTA program is the same as the fiscal year 1998 enacted HIDTA budget. At least half of the resources will go to state and local participants to support more than 250 task forces and initiatives. HIDTA funding is primarily used for intelligence, investigation, and enforcement activities. A small percentage of HIDTA funding supports prevention and treatment initiatives. Included in the fiscal year 1998 enacted budget was $8.8 for methamphetamine funding, of which $1.5 million is for the Rocky Mountain HIDTA and the remaining $7.3 million is for a national methamphetamine reduction program.

Decisions regarding the allocation of the discretionary fiscal year 1999 HIDTA funds have not yet been made. However, as in fiscal year 1998, at least half of the resources will go to state and local participants.

D. Deploying Advanced Technologies to Fight Drugs: $16 Million for the Counterdrug Technology Assessment Center

The development and deployment of advanced technologies is vital to the Strategy's primary objective of reducing drug use in America by half over the next ten years. For example, new nonintrusive detection technologies are needed along the Southwest Border to ferret out illicit drugs from the steady and growing exchange of commerce that greatly benefits both the United States and Mexico. Similarly, technological advances in understanding the process of addiction offer the promise of new treatments to free people from the grip of illegal drugs.

The Counterdrug Technology Assessment Center was created to serve as the central counterdrug research and development center for the federal government. The CTAC budget provides minimum, but crucial, funding for special research not covered by other agencies. This budget also provides significant support for infrastructure needed to demonstrate technical feasibility and measure the effectiveness of proposed innovations of emerging technology in realistic environments. CTAC funding also supports an outreach program to: assess the technology available, identify the best research from all sources, and assist law enforcement and demand reduction agencies in bringing these advanced technologies into their operations.

The CTAC supply reduction development program consists of: (1) cargo inspection technology; (2) information technology research; and, (3) tactical technologies. CTAC will continue outreach to the community through technology conferences and

symposia, benchmark testing, and technical assessments of competing technologies and systems under consideration for development or procurement. CTAC has worked with the Science and Technology Committee to prepare a fiscal year 1999 budget which conforms with the five-year technology research and development strategy.

In the non-intrusive cargo inspection initiative, CTAC will work with Customs, the Federal Aviation Administration, and the Navy to develop an operational testbed for testing transportable and fixed systems for non-intrusive inspection of cargo containers along the Southwest border. The program will address operational constraints and cost factors associated with customs inspection.

The CTAC demand reduction initiatives are focused on the crucial national problems of finding therapeutic drugs to counteract or block the effects of cocaine abuse, developing more effective treatment modalities with a special emphasis upon youth between the ages of 15–17, and developing a national scoreboard to monitor the effectiveness of all substance abuse treatment. CTAC's demand reduction technology program has been coordinated with NIDA.

The goals of CTAC's therapeutic cocaine medications development and facility support program are to have an effective treatment for cocaine addiction by the year 2000 and to fully develop a family of therapeutic drugs by 2003. The programs' goals fall within the ten-year time horizon established by the National Drug Control Strategy to reduce the harm of drug abuse in America.

E. Expanding Our Understanding of the Problem: $1 Million for ONDCP-Coordinated Policy Research

ONDCP conducts research to inform the policy process, identify and detail changing trends in the supply of and demand for illegal drugs, monitor trends in drug use, identify emerging drug problems, assess program effectiveness, and improve the sources of data and information about the drug problem. This $1 million will support the activities, such as:

Pulse Check.—This is a report on current drug use and emerging trends, based on qualitative information from the police, ethnographers, and epidemiologists working in the drug field, and providers of drug treatment services across the country. This project is one of the most important sources of current intelligence and data on drug use.

Retail Value of Drugs Sold in the United States.—This is an annual project to determine how much Americans spend on illegal drugs. The report focuses on the retail sales value of cocaine, heroin, marijuana, and other illegal drugs. It provides ONDCP's estimates of the size of the hardcore user population.

Drug Market Analysis.—Working with the National Institute on Justice, ONDCP is using the Drug Use Forecasting system as a research platform to analyze drug markets. This project will provide information on drug dealing and the drug/crime connection.

Price of Illicit Drugs.—This yearly project generates quarterly and annual illicit drug prices and purities for the United States and selected cities. Results of the project are used to monitor market trends and support other research projects related to the illicit drug market. Statistical models based on data from the DEA are used to estimate typical prices for standardized purchases of heroin, cocaine, and marijuana. The paper includes price trends for these standardized purchases over time.

Federal Grant Directory.—The Directory assists state and local governments, community coalitions, researchers, and others in identifying and applying for Federal grants by cataloging Federal programs that award drug-related grants. It also provides information on how to identify and contact private foundations that also may provide valuable resources in the field. The third edition of the Directory is currently being prepared.

IV. A COMMON EFFORT TOWARD REAL PROGRESS

The Office of National Drug Control Policy's budget request of $449.449 million is a small component of the requested $17.1 billion federal drug control budget. However, the importance of this funding cannot be overstated. This support will provide ONDCP the resources necessary to ensure the successful implementation of the 1998 National Drug Control Strategy, which will have broad reaching, positive impacts on this nation and its citizens.

The 1998 Strategy provides this nation with a ten-year plan to reduce drug use and its consequences in America by half—to the lowest levels in the past thirty years. The Strategy is: backed by a $17.1 billion budget. This is the largest counter-drug budget ever presented to ensure that the federal government can do its part in meeting this goal. The budget is accompanied by a set of well-defined perform-

ance measures to improve efficacy and ensure accountability. The Strategy is a plan for victory in the fight against drugs.

However, we can only defeat drugs if we are united in our efforts. The bipartisan support this Committee and Congress has provided to ONDCP has been vital to our successes over the past decade in reducing overall drug use, stabilizing use among our young people, and building at home and abroad the institutions and advancing the policies needed for progress. Your continued support as we move ahead in implementing this Strategy is critical. By providing ONDCP the funding necessary to move ahead, and by uniting our efforts behind this Strategy we can forge a safer, healthier and more productive nation. America deserves no less.

Thank you for this opportunity to lay out ONDCP's fiscal year 1999 budget request. We solicit your feedback and guidance in the coming months.

STATEMENT OF SENATOR CAMPBELL

Senator CAMPBELL. I apologize for being late. I had to be on the Senate floor, so I do not know what has already transpired. Had you already asked some questions?

Senator FAIRCLOTH. No; we have not asked—we have both had opening statements.

PREPARED STATEMENT

Senator CAMPBELL. I see. I am going to submit mine for the record and get right to a few questions.

[The statement follows:]

PREPARED STATEMENT OF SENATOR CAMPBELL

This morning the Subcommittee on Treasury and General Government will be reviewing the fiscal year 1999 budget request for the Office of National Drug Control Policy. I would like to welcome Mr. Barry McCaffrey, Director of ONDCP.

Mr. McCaffrey, your office has the responsibility of coordinating anti-drug policies and programs of approximately 50 Federal agencies, assessing the drug situation in this country, supporting promising anti-drug research and technology and developing the National Drug Control strategy which is the Administration's response to the drug problem.

Drugs do not choose a specific race or financial background and they impact every part of our society, a fact we all too often overlook. The current estimated number of children, from ages 12 to 17, that claim to have ever used drugs is almost 5 million.

Our responsibility here, along with Mr. McCaffrey, is to be able to reach each and every one of these children to discourage them from using drugs. These are children with a wide variety of backgrounds and an even wider variety of values. We have to reach out to them by trying a wide variety of approaches through television ads, in school programs, in movies, with parents and peers. When you look at it this way, attacking the drug problem in this country seems overwhelming.

However, I think that we can and must work to make a difference. I am a true believer that if we can save one child from drugs, there should be no question about the need for the investment. Unfortunately, we have limited resources and I also think we cannot buy our way out of the problem. What we have to do is empower our parents, teachers, communities, and most importantly our children with the skills to make the right decisions when confronted with drugs.

We have to equip not only children with the right skills, but anyone who may be faced with the choice of whether or not to use drugs.

So, Mr. McCaffrey, you are the Subcommittee's means to determine whether or not what we're doing is working and how well, not only through your own budget but through the budgets of the other federal agencies that you certify, including the recently released drug strategy. You are also our means to finding out what is or is not working so we can make improvements.

Within these limitations, we have to find the right mix of resources, programs and initiatives to enable us to reach out to each of the user populations and give them an alternative to drug use.

Mr. McCaffrey, I know you wrestle with these concerns, and I look forward to your testimony on your Office's efforts in addressing these problems and the progress we've made.

MEDIA CAMPAIGN

Senator FAIRCLOTH. Excuse me, Mr. Chairman. I have to go to a savings and loan meeting. I will look forward to following up on what we do.

Senator CAMPBELL. Thanks for opening the hearing.

I am personally very encouraged by your charts, General. I think that you are right, maybe we have turned the corner. I wanted to ask you a few questions dealing with them. First of all, do you have those in eight-by-tens so I could have a set of those?

General MCCAFFREY. Yes, sir; they should be in your packet.

Senator CAMPBELL. I appreciate that. I believed, as you have, I am sure, that if we can do such wondrous things in this Nation as fly to the Moon, certainly we can convince our youngsters to leave drugs alone. The collective wisdom, the energy, and the determination that seem to be pulling together now through ONDCP is welcome, at least from this Senator's standpoint.

I wanted to ask a couple of questions. First of all, the media campaign that we funded, there were some concerns on the part of the committee, as you remember, that if we put that much paid advertising into a media that perhaps the public service announcements dealing with the same thing would go down and they would kind of look at it as a cash cow. Have you noticed any reduction in voluntary public service announcements dealing with drugs since you initiated your media campaign?

General MCCAFFREY. We are really delighted with the way this has worked out. We have a very skillful group, Zenith. We borrowed the DOD advertising contract until we put out our own request for proposal. They are out negotiating in each market. And part of their guidance, since I am responding to the law, is that they have to sustain the public service component. We are at least achieving match, and in some market areas more than achieving it.

In addition, we are finding some places, Congressman Latham's district jumps out, and also Boise, ID, where the money we are paying for the funded component, the news media are turning it around and using it to buy other public service or supporting coalitions. So it is a very impressive response by news media.

Senator CAMPBELL. Your media campaign has been out now about one-half of a year; is that right?

General MCCAFFREY. Yes.

Senator CAMPBELL. These are encouraging statistics, do you think those drops in numbers are directly correlated with the advent of that campaign?

General MCCAFFREY. No; I think those numbers were from last year. That is really 1997 data being seen in 1998. I think that was a function of increased general news media focus on the subject and increased coalition activity. A lot of the people in this room, the CADCA in particular, but also NASADAD and the civic alliance we put together, 56 million Americans now have their association, 33 of them have signed up to work the drug issue with us: Kiwanis, 100 Black Men, YMCA, Rotary, Elks. Elks has been tremendously involved. There is just a lot of people that are now working on this issue.

Senator CAMPBELL. That is good. That reaffirms my belief that you cannot do it all from here. If you do not have local community help for good willed people in all the towns across the country those numbers are not going to go down.

METHAMPHETAMINE LABS

You talked quite a bit about HIDTA, and I appreciate you doing that, and a little bit about CTAC too. Let me ask you a couple of questions. You mentioned a reduction of the methamphetamine labs. I guess they will always be there. It is a constant war. What would you think the next step would be in trying to reduce the number of labs out there, and bring the people to justice that have them?

General MCCAFFREY. There is a lot to be learned from both the DEA and California narcotics officers in particular about aggressive law enforcement in this area. The labs are not only a threat to those who are buying methamphetamines—the single, white male, early twenties, addicted, becomes unemployable, paranoid, dangerous—but also a lot of these labs have children involved around the lab. The labs, one out of six, the California police tell us, in a given year explode or burn. So they have now passed a State law that essentially says, if we find children in the lab area, you have endangered them, and increased the sentencing component.

DEA has been extremely aggressive in going after these structures. The numbers are so high they are almost beyond belief. We are up over, for example, 1,200 labs seized in California last year, a lot of them these mom and pop operations, a few ounces.

Senator CAMPBELL. 1,200 seized?

General MCCAFFREY. They are cooking their own meth and selling it to their friends.

Senator CAMPBELL. We used to have mom and pop grocery stores. Now we have mom and pop labs.

General MCCAFFREY. Yes; and it is pretty dangerous.

We have also put $8.8 million, thanks to your 1998 funding, into methamphetamine add-ons. We went to the DEA and asked them for density of trafficking and use studies and we have passed out that money. I think that is going to make a big difference, too.

CTAC

Senator CAMPBELL. Let me speak a little bit about CTAC. I attended several of the information meetings, one in Phoenix which you were at, and one in, I think it was Minneapolis, if I remember correctly. But I thought that was a very good program. You did not request that to be funded this year in 1999 I understand.

General MCCAFFREY. Which program, Senator?

Senator CAMPBELL. The CTAC transfer to State and locals some of this wonderful sophisticated equipment that ATF has now.

General MCCAFFREY. We've got $13 million in the 1998 budget for CTAC technology transfer. I asked for $15 million from OMB in the 1999 budget and did not get it. I appealed and was denied the appeal.

Senator CAMPBELL. Did they give you a reason why? I thought it was a pretty effective program.

General MCCAFFREY. There is certainly a very strong argument that all over America we have law enforcement officers who are on the line and who need this kind of equipment, some of which is——

Senator CAMPBELL. How is it working so far? I hear from local police departments that are very interested in it in our State.

General MCCAFFREY. Of course, I come to this with a belief that if you want to increase the effectiveness of an institution you do not necessarily increase manpower, you give them more effective tools to do their job. This is the kind of approach I think we need to study very closely. I would look forward to your own thinking on this.

Senator CAMPBELL. Part of the Counterdrug Technology Assessment Center [CTAC], there was a provision for this technology transfer that we are talking about. I know in my own hometown that they have problems with drugs and all the stuff related to it. I do not know the disposition of it, but I know that it is a small, poor town. They do not have video cameras in the cars. And I know they had made an application to CTAC to try and help defray the cost of putting some video cameras in the cars because they feel that if they could have it on film, they are going to have a much better case when they go to court with it. So I am a little disappointed that that was not included in your budget.

GAO REPORT ON CTAC

Can you respond to the GAO's recent comments that CTAC, for all intents and purposes, does not get any feedback from the field in determining the need of State and local agencies?

General MCCAFFREY. Does not get feedback from the field in?

Senator CAMPBELL. Feedback from the field about determining the needs of local agencies.

General MCCAFFREY. It is something I ought to take aboard as a challenge to us to make sure that we are not only effectively listening to local law enforcement, but they also believe that that is the case. I think we have a pretty good tool using the HIDTA organization now, 20 HIDTA's which are all over the country. In our March meeting we are going to have a discussion of this pilot program, and before the HIDTA directors leave—and several of them are in this room—they will become our spokesmen and our agents to listen to local law enforcement.

I think your criticism is a good one, Senator. Let me see if we can improve on this.

HIDTA

Senator CAMPBELL. I am a big supporter of the HIDTA's, as you know. We have talked about them a number of times. But I know in our State, a number of communities tell me now that they are having difficulties getting HIDTA funds and difficulties getting any requests approved at all.

Some of those are not in the big metropolitan areas, but, in fact, some of those smaller communities are where the drugs are moving, the places where there aren't lots of law enforcement, lots of officials, lots of surveillance on the highways and so on. You know as well as I do, these guys are going to go to the backroads and the quiet landing strips, the places where there is not much en-

forcement. It would seem to me that some of those communities should be equally important when they are applying for help from the HIDTA's.

I know Steamboat Springs, Cortez, CO, and a couple of counties out in the southeast part of the State have all told me that they have problems getting any help from HIDTA. So I would appreciate it if you could kind of pass that message on to local HIDTA's for me.

General MCCAFFREY. Senator, the Rocky Mountain HIDTA has gotten a little over $3 million to date. We will give them an additional $2.89 million prior to the end of March. Then the Rocky Mountain HIDTA will also get about $1.5 million of our national methamphetamine reduction appropriated money. So help is on the way.

I might also add that the Senate has now confirmed, and Attorney General Janet Reno has sworn him in, Chief Bob Warshaw, who is a police chief up in Rochester, NY, and has been chief in three departments. He is a nationally recognized law enforcement professional. I think this HIDTA program will better achieve our purpose in the coming years.

MEDIA CAMPAIGN

Senator CAMPBELL. I understand that you are going to have some feedback on your pilot media program around July; is that correct?

General MCCAFFREY. Exactly. We have gotten interim feedback that is in your packet right now. But we will have an evaluation component formally done.

Senator CAMPBELL. So you will use that to make decisions on your next request I assume.

General MCCAFFREY. We have already factored in the evaluation component. We had Annenberg School of Journalism put their own money into it, and we have a pretty decent set of focus groups and questionnaires, and we are trying to incorporate that into the next generation of ads, yes.

Senator CAMPBELL. Good. In the fiscal year 1998 bill there was language that required quarterly reports on the obligations of funds relating to the media campaign. When do you expect to give us a complete report on——

General MCCAFFREY. Actually, I am surprised that the law said quarterly reports. I thought we did not have that in there. But one way or the other, we will comply with any reporting requirements that are involved in it.

We do have a budget. We do know how we are spending the money. It is, as far as I can see, pretty well controlled.

Senator CAMPBELL. In addition to that, as I remember we also asked for a monthly accounting of the obligation of funds to the campaign so we could keep track of that, and I do not remember getting that either.

General MCCAFFREY. Let me go find out. We will be, of course, responsive, not only to the law but to your own interest. If I could underscore though, that there is a danger with this tiny group of people we have managing this operation—five folks—that I do not want to run this program with four sets of Senate and House staffs. There are four committees involved and I really need to be

held accountable, but to do the management and the creative work as best we can.

Senator CAMPBELL. They tell us we are going to have to be over on the Senate floor in about 20 minutes or a little bit after and I certainly do not want to monopolize all the time, so let me just ask one more question. I am going to submit several more questions to you in writing, if you would get back to us on those.

DIRECTOR'S SECURITY

Does your fiscal year 1999 budget request include anything about the 1998 appropriated amounts for your own personal security? I remember reading something in the paper that there was, when you went to Mexico there was some discussion——

General MCCAFFREY. Let me give you a piece of paper. There is probably a substantial increase. There is a one-time purchase of an armored vehicle. We have added now a chase car. I am a little reluctant to sketch out the whole security.

I had a series of reasonably credible threats last August. We are trying to respond to that to ensure I can do my job and not get whacked.

Senator CAMPBELL. I understand. We would not want that to happen either. But you travel around so much by plane, how would you get the—if security requires an armored car and a chase vehicle, how are you going to get that around?

General MCCAFFREY. Again, without detailing how we do it, the biggest protection I have is to be careful on what I release in public in advance. Fortunately, I am protected by the Federal Marshal system. I have never met a more professional group in my life. And they, of course, have national representatives, so when I go a place it is the local marshals and the local police force that provides security.

Again, I do not want to detail too much of this. I travel under an assumed name. I am in hotels under a cover name, et cetera. So we are trying to ensure that I am——

Senator CAMPBELL. I frankly do not even need to know about that or do not particularly want it on the record. I was just concerned in terms of heavy equipment.

General MCCAFFREY. I do not take armored vehicles. The armored vehicle in the Washington area is on predictable travel, home to work, and return.

Senator CAMPBELL. I see.

General MCCAFFREY. Coming to the Hill.

Senator CAMPBELL. Not if you are out in the field somewhere when you have to go to San Francisco or something like that.

General MCCAFFREY. Yes; it has been my experience in the past—I have been under personal security for three of my assignments, in NATO, in Latin America, and the single cheapest thing to do is get an armored vehicle. It then makes it just about impossible to get you without car bombs or RPG's. So we have gone that route. We just have to be sensible in what we are up to.

Senator CAMPBELL. Are you sure you want this job?

General MCCAFFREY. To be honest, Senator, it is the same way I started life, carrying a gun.

Senator CAMPBELL. I understand.

Senator Kohl, do you have some questions?

Senator KOHL. Thank you, Senator Campbell.

PERFORMANCE MEASURES OF EFFECTIVENESS

General McCaffrey, the program measures that you developed to evaluate the media campaign as we understand it will start in 2002. But by then Congress may well have committed close to $1 billion to this media campaign. Should we not get a clear evaluation before 2002 with respect to how this program is working?

General MCCAFFREY. Senator, you sure should. I think there has been a misconception. The performance measures of effectiveness began with twelve 10-year targets. Then we were able in the interagency debate to get 5-year targets. I might add, there were 200 or more outside experts that helped us articulate those numbers.

What we do owe you is to break it now into annual targets. We will do that in the year to come, in my view. One of the things we could do is straightline it. But we absolutely should be held accountable each year for achieving something.

Now the other ones though, the National Youth Media Campaign has a series of measures, many of which, fortunately, exist already. Others exist in a form where if we slightly modify them we will get measures and some new ones that we will create. But there will be a rigorous picture, as well as we can do it, on what impact are we having with this $195 million. And by the way, we need to draw that evaluation screen wide enough to not miss things that we did not think of.

That is one of the reasons that I am so pleased to see this cascade of phone calls to community coalitions. Donna Shalala's people have had to add all sorts of personnel to respond to requests for these pamphlets on parents talking to their kids about marijuana. And in many cases we do not even have the numbers down there, they are just searching now for information.

So I can assure you that we are going to give you, not in 2002, but you have the first response already in front of you, and this summer we will get an even better look at how it is going. It is going pretty good.

Senator KOHL. All right. General McCaffrey, it is my understanding that you will use data from the National Household Survey of Drug Abuse and Monitoring the Future to evaluate youth drug usage. This is the same data that you have been using to determine drug use patterns. Do you believe that these teenage surveys provide realistic information on usage? Do you not think that teens and their parents may be reluctant to provide completely truthful responses?

PERFORMANCE MEASURES OF EFFECTIVENESS

General MCCAFFREY. I think in almost every one of these cases it is useful to be skeptical of the data, to understand how they collect it, and what the limitations are. MTF could have some built-in doubts. On the other hand, it is consistent. It has been collected since 1968. So when you see a number go up or go down, you should assume there has been a change. Now maybe it was actually all along higher or lower. That is one reason we are pretty con-

fident, for example, last year that when MTF said drug use rates among eighth-graders went down, that in fact it did.

But there are other ways to get at that data, and household survey comes at it from a different population. Then there are different data, for example, the DAWN and DUF. You can go after youthful arrest rates, who tested positive for drugs. Then we have other sources of studies done in the civilian institutions like Joe Califano's work which he just released.

So there are a whole set of measurements and we ought to look at all of them. And then we ought to be skeptical of what we are hearing. I agree with you.

Senator KOHL. These surveys show an increase in the use of marijuana by children in certain age groups. We are hearing some members question whether we should continue to fund these efforts with respect to marijuana use. How do you respond to people who raise these questions?

General MCCAFFREY. When I am asked, what is the most dangerous drug in America, it is tempting to say it is methamphetamines, it is heroin addiction, it is PCP, it is MDMA, it is these horrendous drugs that have addicted more than 3.6 million Americans. My normal response is, the most dangerous drug in America is a 12-year-old to about 16-year-old regularly smoking pot. Because when we look at the numbers, and every one of these adolescents who are at risk—and a 12-year-old using drugs is at risk—is potentially a $2 million tax on our society, which is the cost of dealing with an addicted adult.

So hands down, if there is a priority in the National Drug Strategy it has to be through a series of mechanisms to persuade young Americans, do not smoke dope or use heroin, LSD, inhalants, et cetera. Delay the onset of this behavior. If we can get you to age 19, you are home free. You will never be one of these 4 million suffering Americans. So Donna Shalala and I are adamantly opposed to the use of marijuana in general, and fearful of its consequences on young people.

HIDTA

Senator KOHL. Good. General McCaffrey, let me thank you for selecting the city of Milwaukee as a new high-intensity drug trafficking area. Our legislation did not obligate you to select Milwaukee as one of the new HIDTA cities, although it certainly did encourage you to give Milwaukee serious consideration and I appreciate that choice.

The HIDTA in Milwaukee is already paying dividends. Inspired by this initiative, a task force was convened in Milwaukee which has expanded the antidrug strategy to the whole problem of youth violence. The plan that we have developed will attack drugs and violent crimes with aggressive enforcement, give children and teens safe places to go to after school and on weekends, and keep community residents informed and involved.

We in Milwaukee are committed to an ambitious $7 million a year program, and the $3 million that the HIDTA provides is a big part of it. We believe the success of HIDTA and our task force that we have convened are intertwined.

General, will the duties and responsibilities of the Milwaukee HIDTA coordinator include taking an active role with our youth violence and crime task force?

General MCCAFFREY. I am sure that that executive director up there will work in support of what I hope is an 18-member executive committee comprised of local, State, and Federal officials. He is really their servant. I hire them. I will approve the budgets. I will provide oversight. But that strategy ought to come out of those 18 women and men in law enforcement, prosecution, prevention, and treatment. So the answer will be, yes, he will be supportive of that effort.

Senator KOHL. All right. What criteria will you use to determine whether or not the HIDTA is a success?

General MCCAFFREY. It seems to me we owe you, through these performance measures of effectiveness, a way of assessing what they are achieving. We did get all the HIDTA's in the country now to write a threat assessment. Although we have different formats to it, we are going to try and get a common threat assessment. We are using the National Drug Intelligence Center to help us with that.

We have asked each HIDTA to develop a strategy which includes what do you say you are trying to achieve, and put a number on it. I think we ought to learn from this. It is possible that they will say they are trying to achieve things that they cannot get to, and they may find that some things are easier to measure than others.

I am a little uncomfortable. Sometimes I get them saying, I am going to break apart seven criminal organizations out of 15 in the coming year. Well, six of them may be tiny organizations and one may be a level II international criminal group. So sometimes numbers can be deceptive.

But we are going to have them write developmental standards, and then we are going to hold them accountable for it. I think one of the things I have to do is not have Congress—and I would ask for your support on this—instruct me on where to put this money by category by HIDTA, and let me as a manager put money where they are achieving successes and take away money where they are not achieving results.

DRUG-FREE PRISON ZONE DEMONSTRATION

Senator KOHL. All right. General, last year the committee provided ONDCP $6 million to fund a drug-free prison zone demonstration project. Can you tell us what the status of that project is?

General MCCAFFREY. We had a wonderful 2-day session with the prison drug treatment experts of America. I announced that as one of three initiatives in this field at the end of yesterday's conference. We are signing an MOU with the National Institute of Corrections. There is a lot of work going on in it.

It will have, as I remember, three major components. It will commence in Federal prisons within 6 months and selected State prisons by next year. It will have a training component and a new technology component. We have to get serious about this. I know this is a program that you have sponsored. It is a great contribution to what we are trying to do.

How can we possibly lower drug use rates in America if we cannot keep drugs out of our prison system? So we are appreciative of your support on this.

Senator KOHL. General, ONDCP and the National Institute of Justice are developing a memorandum of understanding to start a break-the-cycle campaign aimed at incarcerated drug users. Could you explain this program? How will it be implemented and how will you evaluate its results, General?

General MCCAFFREY. The second of three initiatives we announced to the press yesterday included this $6 million program. But I have to tell you, it is in the context of Janet Reno having put $85 million into that break-the-cycle program. So she really stood behind this effort.

As you may be aware, we tested this in Birmingham, AL. It is now in its second year. It is achieving, we think, superb results. When we announced the initiative we said we would now expand it to two additional testing sites, and we will create three juvenile programs.

That is a second thing we have simply got to do, we have to get at these kids who are addicted criminals and put them on a separate track and break them out of this pattern. So we think there has been tremendous payoff in the test and we are about to expand it dramatically in the coming year.

PRISON DRUG TREATMENT

Senator KOHL. OK. General, do you have other programs that provide drug treatment in prisons?

General MCCAFFREY. Yes; there are. I would probably better serve your interest by providing you an answer for the record. The last 3 days of sitting there listening to these absolutely wonderful people in corrections and treatment, both Secretary Shalala and the Attorney General, but particularly this Mr. Jeremy Travis, National Institute of Justice, have a series of initiatives.

And the Federal prison system, we ought to be proud of, it is the premier effort in the country. Several States are doing a wonderful job, too. But the Federal system, Kathleen Hawk has really leaped out in front on it. So I think you are going to—but let me provide you a response. There are many programs going on and several of them are probably starting to work.

One of them is drug testing. You have to tell people in prison, you are going to get drug tested while you are in here. The Federal prison system has started that, and the President's initiative on State prison systems, I think, comes on line this year.

HARDCORE DRUG USERS

Senator KOHL. OK. Last question, General. As we know, it is very important to estimate as accurately as we can the number of hardcore drug users in this country. Without an accurate estimate of the hardcore drug users it is difficult to evaluate the effectiveness, among other things, of our illegal drug reduction efforts. Are you satisfied that we have a methodology that will give us an accurate estimate on the number of hardcore drug users in this country?

General MCCAFFREY. I think we are dissatisfied. Trying to put hard numbers on drug abuse is enormously challenging. The stigma, the shame, the denial of drug abuse, not among individuals but among families and communities is simply staggering. We got some excellent support out of the city of Chicago, Mayor Rich Daley and his health people and law enforcement. Dr. John Carnevale and Dr. Al Brandenstein in my shop have ended up with the first look at it where we revise the Cook County hardcore users from what we previously would have said at 117,000 up to 333,000 hardcore users.

We put some money now into trying to go to other regions. We do not think we can extrapolate from that study, and we are going to try and get a better handle on what this problem is. So I think what we are seeing is a serious undercounting of the chronic, compulsive drug user, and this study will get at it.

Senator KOHL. Yes; I just want to emphasize what you said. In Cook County, they found that the estimate that we were using was wildly off; that the real number was vastly more than what that estimate—what we were using or what we thought the number was.

General MCCAFFREY. Yes; that was our study, right.

Senator KOHL. It seems to me that if we are going to succeed in this project we have to be using numbers in terms of the people that are accurate, and then work off those numbers. And the seemingly great inaccuracy of the count that we are now using I would argue is something that needs to be looked at and corrected, as soon as we can, General, so that we work off of numbers in terms of hardcore users of drugs that are accurate in this country. If we do not work off of those numbers that are accurate, we are not going to be able to evaluate any kind of progress, is that not true?

General MCCAFFREY. I could not agree with you more. Nor can we sensibly allocate resources or determine successes correctly. I think you are quite correct.

Senator KOHL. Thank you.

Thank you, Senator Campbell.

Senator CAMPBELL. I have no further questions, General, except the ones I will submit that I would like you to answer in writing. But I would remind you, the committee would like to get some feedback on your pilot program, and some accounting of the obligated funds that you have obligated so far. If you could do that for us, I would appreciate it.

PRISON DRUG TREATMENT

I would like to just say though that I am particularly interested in this break-the-cycle program. Having been a prison counselor myself at one time, or a volunteer counselor, I was convinced that all the counseling and drug testing and all that stuff, that is all good, but unless there is some kind of education and job skills that go along with it, it is pretty hard to keep them from falling back in.

I know I have worked with gang members after they have gotten out and that is the single thing they tell me the most, is when they got out they could not get a job. They did not know how to do anything. Even though counseling may encourage them to leave the

drugs alone, some of them find it is the only way they can make some money again. So they fall back into it.

I know that is not really in your bailiwick, but I would like to pass that on to you. Until we realize there is a real place for prison industries and getting a convict to get a high school diploma or some graduate degrees other than street skills, the counseling by itself, I think, reaches a point where it does not do any good after they are out. They have to earn a living. They have to have a job as an alternative to going back into prison.

Senator CAMPBELL. I know you are aware of that and I know that is not the primary focus of your mission being the drug czar. But I just wanted you to know that is a big concern to me.

General MCCAFFREY. Senator, I agree. But I think it is a primary focus. So Attorney General Reno and I both have the same viewpoint, that we have to do precisely the kinds of things you are saying. I had Joe Califano brief his Columbia University CASA data on prisons and drugs 3 days ago to the opening of our conference. And he makes a powerful point.

We have 1.2 million Americans behind bars with a compulsive drug use problem. And you have already got them there at $24,000 or more a year that you spend to lock them up. Why would you not be willing to spend potentially $3,000 to $6,000 a year to ensure you do not get them back in. And then to have a follow-on component with indeterminate sentencing where the judge can lock you back up of your drug test goes hot. We have to do just that, and part of that is a job.

Senator CAMPBELL. No further questions, Senator?

Senator KOHL. No, thank you, Senator.

SUBMITTED QUESTIONS

Senator CAMPBELL. We have additional questions that will be submitted in writing to be answered for inclusion in the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR CAMPBELL

Question. ONDCP's publication, "The National Drug Control Strategy, 1998", mentions an investigation where the U.S. seized $200 million from a Swiss bank that was the illegal profit made by a cocaine trafficker.

What amount of assets are normally seized from high level "source" drug traffickers, and what happens to the seized legal proceeds?

Answer. It is difficult to answer the question of normal seizures as there are no "normal" seizures. Each investigation and asset forfeiture operation is unique in that factors such as amount of assets, location of assets, cooperation of foreign countries, and subsequent disposition are all variable.

Major criminals often hide their illicitly generated proceeds outside the United States. For the last several years, the United States has placed development of international forfeiture cooperation among its top priorities. Bilateral and multilateral agreements, which provide for mutual forfeiture assistance, attest to the emergence of forfeiture as an international law enforcement sanction. The United States has operative mutual legal assistance treaties (MLAT's) with a number of countries, including Switzerland.

Where the United States cooperates with a foreign government in identifying drug proceeds in a foreign country, it is possible that the funds will be forfeited under that country's laws and not be repatriated to the United States. In such cases, the primary goal of forfeiture is achieved because criminals are deprived of the proceeds of their crime. In other cases, a foreign government will act on information provided

by the United States, seize the funds, and repatriate the funds to the United States for forfeiture. Upon forfeiture, the U.S. may share as much as 50 percent of the net proceeds with the cooperating government.

When funds are repatriated to the United States, they are placed in the Seized Asset Deposit Fund (SADF) and held until the forfeiture proceeding is completed. If monies are already forfeited and a portion is shared with the United States, they are deposited into the Department of Justice Assets Forfeiture Fund (AFF) and are subject to the statutory controls on use of those monies. The Assets Forfeiture Fund statutory authority is found at 28 U.S.C. SS 524 (c).

The AFF is the repository for the proceeds of forfeiture cases, both domestic and international, in which an agency Fund member (see below) participated. The Fund is a self-sustaining working fund with a revenue and expense side. Funds may be used for six general categories of expense as enumerated The Attorney General's Guidelines on Seized and Forfeited Property, dated July 1990. The six expense categories are (1) asset management expenses, (2) case-related expenses, (3) payment of qualified third party interests, (4) equitable sharing payments, (5) program management expenses, and (6) investigative expenses. Funding for investigative expenses is authorized by Congress in the annual appropriations act for the Department of Justice. In fiscal year 1999, $23 million is available for these costs.

To the extent excess funds are available once the fiscal year is closed, the authorizing statute provides for disposition by the Attorney General for any federal law enforcement, litigative/prosecutive, and correctional activities, or any other authorized purpose of the Department of Justice.

As noted earlier, the United States does not "seize" funds held in foreign banks. The $200 million dollars referenced in the Drug Strategy represents a combination of funds deposited in several Swiss bank accounts, interest earned on same, and real estate holdings in Switzerland. The deposits and real estate holdings were those of Sheila Miriam Arana de Nasser, a Colombian charged with money laundering. Arana de Nasser is the ex-spouse of notorious drug trafficker Julio Nasser-David, who is a fugitive in Colombia. Arana de Nasser pleaded guilty in 1995 to numerous money laundering offenses. As part of the plea agreement, Arana de Nasser agreed to forfeit her right, title, and interest to funds and property. To date, none of these monies have been repatriated to, or shared with, the United State. Thus, these funds have not been used.

(Note: Member agencies of the Justice Assets Forfeiture Fund include the Federal Bureau of Investigation, the Drug Enforcement Administration, the Immigration and Naturalization Service, the U.S. Marshals Service, the Justice Department's Criminal Division, the U.S. Attorney's Office, the U.S. Postal Inspection Service, the U.S. Park Police, the Food and Drug Administration's Office of Criminal Investigations, and the U.S. Department of Agriculture Inspector General.)

The Treasury asset forfeiture program has four primary goals: (1) to punish and deter criminal activity by depriving criminals of property used in or acquired through illegal activities, (2) to be cognizant of the due process rights of all persons, (3) to enhance cooperation among foreign, Federal, State, and local law enforcement agencies through the equitable sharing of assets recovered through this program; and, as a by-product, (4) to produce revenues to enhance forfeitures and strengthen law enforcement.

Property which has been civilly or criminally forfeited can be retained or transferred.

Approximately $200 million per year is placed into the Treasury Forfeiture Fund. Fiscal year 1997 was a banner year with about $240 million entering the fund. This money is from both the seizure and forfeiture of cash, and the seizure, forfeiture and sale of property (land, buildings, vehicles, etc.).

Question. According to the fiscal year 1999 budget request ONDCP is conducting an overarching review of the Federal drug interdiction efforts along the southwest Border. Is this review providing a comprehensive review of supply coming across the borders as well as the success of interdiction efforts: Which agencies are cooperating in this review and do you have their agreement on the measures you should use to determine if the Federal efforts are successful? Will the review include recommendations on interdiction efforts? When will the results of the review be made public?

Answer. Working with the Departments of Justice and Treasury and other agencies ONDCP has formed a Southwest Border Interagency Working Group. Sub-working groups are analyzing the following areas: Improved management and coordination; technology and infrastructure development and deployment; and border staffing. The group expects to present a report to the President by early summer of 1998.

In the intelligence area the White House Task Force on Intelligence Architecture is presently collecting data worldwide and will present its plan for an overall

counterdrug intelligence architecture in June of 1998. As a component of this report the group has been asked to review and analyze the Southwest Border intelligence network.

Current estimates of cocaine coming through Mexico are developed by the Interagency cocaine movement process. As part of the development of the Interagency Assessment of Cocaine Movement publication process, the participants are looking at better ways to assess the amount of all drugs coming into the U.S. including the Southwest Border.

Question. Special Forfeiture Fund requests $26 million to be available at your discretion to enhance drug control activities and address emerging drug threats. What types of projects are you targeting with this money?

Answer. While events in the upcoming months might require modification to the list of projects to be funded, the following are examples of the types of projects we are considering with a discretionary funding amount of $26 million:

Chronic User Study ($5 million).—We have requested an earmark of $10 million for a study to build on recent study in Cook County, IL. to develop a methodology to estimate the size of the hardcore, drug using population. Additional funding will be required to support the regional expansion of the study. Our original request to OMB was for $15 million to fully fund this project, but it was decided that more resources should be allocated for the Director's discretion.

Domestic Heroin ($10 million).—These resources will supplement those requested by the Departments of Justice and Treasury to target heroin trafficking, production, and distribution networks operating in the United States. The focus will be metropolitan area most affected by heroin trafficking.

Expand Break the Cycle ($5 million).—These resources will supplement those requested by the Department of Justice to provide technical assistance to local jurisdictions, including the development of information systems to track data on participants in the program. This will expand the Break the Cycle program to new sites and include a plan to transition these sites to local support after the initial Federal funding.

Modeling Drug Trafficking Flows ($1 million).—These resources would allow continuation of the development of a model to estimate the flow of illegal drugs into the United States. The plan is to estimate the flow from production through transit and U.S. ports of entry and on to final consumption.

Intelligence Architecture ($5 million).—These resources will support the development of a drug intelligence system for national drug control agencies that provides timely and comprehensive information at all levels—foreign and domestic counterdrug strategy development, operational planning, and tactical execution. Will use results of a fiscal year 1998 review being conducted of the national drug intelligence architecture.

Question. The Director's opening statement before this subcommittee indicates that cocaine production may be down by as much as 100 tons from last year. What is the level of cocaine production last year? What is the basis of your estimates that production is down 100 tons?

Answer. Potential cocaine HCL production fell last year to the lowest level this decade—from an estimated 760 metric tons in 1996 to an estimated 650 metric tons in 1997. Significant declines in Peru's production potential coupled with small declines in Bolivia's production potential were largely responsible.

Peru's potential cocaine HCL production fell sharply in 1997 to a record low of 325 metric tons—production in 1996 was estimated at 435 metric tons. Production potential has dropped over 40 percent since 1992.

Bolivia's finished cocaine production potential declined for a third year in a row, dropping some 22 percent from 1994 levels, to an estimated 200 metric tons in 1997.

Estimates of potential cocaine HCL production are based on three scientific-based building blocks: US government imagery-based surveys of Andean coca crop, estimates of coca leaf yields, and leaf-to-cocaine conversion ratios. The same scientific methodology is repeated every year, resulting in a reliable trend assessment.

Leaf yields and processing efficiencies have been scientifically researched and evaluated in Peru and Bolivia. Similar research is now underway for Colombian coca yields.

STATEMENT

The Director's opening statement before this subcommittee indicates the campaign advertising component is currently estimated at $150 million. The additional $45 million requested is to support the campaign through corporate sponsorships, interactive media, evaluation processes and other appropriate efforts.

Question. Why is ONDCP paying for corporate sponsorships?

Answer. ONDCP is not paying for corporate sponsorships. We have budgeted approximately $1 million for development of a logo, campaign identity, and other marketing "equity" of value to corporations who would themselves pay for the right to sponsor the campaign. This is similar to the way in which a company might sponsor the Olympics, pay for the right to use the logo and to associate with Olympics activities. Similar arrangements have been made with companies that have sponsored activities of the Smithsonian Institution and renovation of the Statue of Liberty. We have engaged the advice of the leading "cause marketing" consulting firm in the country to advise on how to maximize the campaign's "equity" and negotiate successful agreements with major corporations. This takes careful preparation, for which we expect to develop a detailed strategy, and we anticipate that when we enter the fully integrated Phase 3 of the campaign, this will generate substantial return from the private sector.

Question. Originally ONDCP discussed receiving matching funds for the campaign. What level of "match" has ONDCP received for the campaign?

Answer. ONDCP has established aggressive negotiating standards for its media buyers to seek a 100 percent match for media purchases. To date, we have been highly successful in receiving media matches with a dollar value very near this goal. The negotiation with any single commercial media vendor is proprietary and should not be disclosed in order not to compromise the position in negotiation with other vendors, but overall amount and "prime time" placement and other value for pro bono Public Service Announcements (PSA) has been exceptional and highly praised by The Ad Council, who have agreed to serve as a clearinghouse for the PSA match component of the campaign. As the campaign matures in Phase 3, we expect even greater returns from multi-media conglomerates who represent a number of different media companies and outlets. In those cases, simple match of time or space ("bonus weight") will be enriched by companies offering in-kind communications, such as event sponsorship, that will reach our target audiences.

Question. What do you mean by appropriate efforts outside the advertising campaign and other media events?

Answer. The National Youth Anti-Drug Media Campaign seeks to employ media tools for one purpose: dramatically reduce the risks of drug use for America's youth, their families and communities. In order to do this, we have consulted hundreds of experts in professional media, health communications and drug prevention. We have studied how other "social marketing" efforts have achieved success, and especially studied how major corporations conduct strategic marketing to national markets. The result is now published in a series of documents that present paid advertising as the central component integrated with an array of related marketing and communications tools. Based on clear goals cited in our Communication Strategy Overview, we have laid out the campaign in a Paid Media Plan for paid advertising and the related Integrated Communication Plan for additional measures involving use of interactive media, entertainment industry collaboration, news media, community partnerships and corporate participation. This ensures that the campaign has depth and follow-up—reaching our target audiences with messages reinforcing each other in many parts of our culture.

These carefully integrated plans ensure that the campaign goals of advertising "reach and frequency" on the basis of which the initial advertising budget was estimated are, in fact, achieved. In addition, they ensure that ONDCP achieves the legislative objectives of not supplanting current anti-drug community based coalitions, and further, uses the power of the media to stimulate development of infrastructure that can translate mass media messages into community action.

Question. What is ONDCP's current staffing level including full time employees and detailees?

Answer. Of the 154 authorized positions, 138 positions have been filled, including five detailees and 24 military assignees.

Question. At the fiscal year 1997 hearing before this committee the Director said ONDCP owes Congress "results not rhetoric" and you said you would demonstrate in concrete ways what ONDCP has achieved with the money Congress has provided.

Answer. The performance measures detailed in the 1998 Strategy are the foundation of an ongoing interagency effort to implement the first ever government-wide performance measures for counter drug efforts. In the meantime, our yardsticks for measuring progress on are national surveys such as the Drug Abuse Warning Network, Drug Use Forecasting system, MTF and NHSDA. The latest surveys suggest that good progress is being made. The six-year trend of increasing drug use among 12–17 year olds has been halted. Drug-related emergency room episodes did not increase in 1996. Methamphetamine use plummeted among arrestees. And thanks, in part, to bipartisan support of cooperative hemispheric counterdrug programs, coca cultivation in Peru declined 40 percent in the past two years.

At present, 51 percent of our 94 performance targets are measurable from primary data sources or represent milestones that do not require a data set. As the performance measurement system is implemented, annual targets formulated, and new data become available later this year, more information will be available on the results of the Nation's drug control efforts. We look forward to keeping the Congress informed of our progress in this area.

Question. The Members need to clearly explain to the taxpayers in their districts how ONDCP will reduce illegal drug use with the $17 billion requested in fiscal year 1999. This is [sic] to put in writing ONDCP's efforts in terms of reducing drug use.

Answer. The President's record fiscal year 1999 budget request for the National Drug Control Strategy will support a ten-year plan to reduce drug use and its consequences by 50 percent. The following table demonstrates the progress we will achieve if this Strategy is fully funded:

Measure	Current figure	10-year goals	20-year lows/highs
Current drug use (all ages)	6.1 percent	3 percent	5.8 percent (low).
Marijuana initiates	2.37 million	1.18 million	1.37 million (low).
Age of initiation (marijuana)	16.7 years	20 years	20.1 years (high).
Current use of illicit drugs (among 12–17 year olds).	9.0 percent	4.5 percent	5.3 percent (low).

In total, funding recommended for fiscal year 1999 is $17.1 billion, an increase of $1.1 billion (6.8 percent) over the fiscal year 1998 enacted level. Specific requests include:

Defense.—The fiscal year 1999 budget for the Department of Defense (DOD) would increase by a net of $35.1 million from the fiscal year 1998 enacted level. The total fiscal year 1999 DOD drug budget includes an increase of $75.4 million to support counterdrug activities in the Andean Ridge region ($60.8 million), operations in the Caribbean ($8.5 million), training of Mexican counterdrug forces ($4.0 million), and a transfer of funds for air reconnaissance missions ($2.1 million). The request also includes an additional $15 million for the National Guard.

Education: School Drug-Prevention Coordinators ($50 million).—This initiative will fund about 1,300 paid drug-prevention coordinators. Each coordinator will develop and direct drug-prevention programs in five middle schools. In total, this initiative will provide prevention services for 6,500 middle schools.

Health and Human Services:

SAMHSA.—A top priority in this budget is the federal government's efforts to mobilize resources to increase substance-abuse treatment services nationwide. SAMHSA's $200 million increase in budget authority for the Substance Abuse Prevention and Treatment Performance Partnership Grant will support efforts to close the treatment gap.

FDA & CDC—Youth Tobacco Initiative ($146 million).—In fiscal year 1999, this initiative provides an additional $100 million for the Food and Drug Administration (FDA) and $46 million for the Centers for Disease Control and Prevention. This program will target cigarette smoking by underage youth, which has been identified as a gateway behavior for drug use. As part of this effort, FDA will expand its enforcement activities and CDC will conduct further research on the health risks of nicotine, additives, and other potentially toxic compounds in tobacco.

NIH—Drug and Underage Alcohol Research ($50 million).—This initiative will allow NIH (NIDA and NIAAA) to expand research on drug and underage alcohol use. Research on underage alcohol and drug addiction among children and adolescents, as well as chronic drug users, will enhance prevention and treatment program effectiveness.

Justice:

DEA—Methamphetamine Initiative ($24.5 million).—This initiative provides DEA with 223 positions, including one hundred special agents, to address the growth of methamphetamine trafficking, production, and abuse across the United States. New funding for DEA in fiscal year 1999 also includes a Heroin Initiative ($14.9 million). This program combats heroin trafficking, production, and distribution networks operating in the United States and increases U.S. investigative presence in countries involved in the trafficking of drugs from Southeast and Southwest Asia. This enhancement includes 155 positions, including one hundred special agents.

Office of Justice Programs (OJP)—Drug Testing and Intervention Program ($85 million).—This new program seeks to break the cycle of drug abuse and violence by assisting state and local governments, state and local courts, and Native American tribal governments to develop and implement drug testing, treatment, and graduated sanctions for drug offenders. Because considerable drug use has been documented among people within the criminal-justice system, this program will provide guidance and resources to help eligible jurisdictions institute policies that support testing and treatment for drug offenders.

Border Patrol ($163.2 million, $24.5 million drug-related).—This enhancement includes one thousand new Border Patrol agents, primarily for the southwest border. These new resources will continue expansion of the Border Patrol's strategy of "prevention through deterrence" along the southwest border. Also included is funding to continue deployment of the Integrated Surveillance Intelligence System and Remote Video Surveillance (ISIS/RVS) equipment. ISIS/RVS will enable the Border Patrol to allocate agents more efficiently based on current information regarding illegal alien traffic. Funding is also included to erect and maintain border barriers and expand infrastructure that will improve enforcement between ports-of-entry.

ONDCP: Special Forfeiture Fund ($34 million).—The net increase for fiscal year 1999 includes $10 million for a Chronic User Study, which will generate national estimates of the size and composition of this population. A pilot project for this research, conducted in fiscal year 1997 in Cook County, Illinois, concluded that chronic users are significantly under-counted in current surveys. Fiscal year 1999 funding for the Special Forfeiture Fund includes $20 million for grants that continue implementation of the Drug-Free Communities Act of 1997. This figure is an increase of $10 million over fiscal year 1998.

State: International Country Support ($45 million).—Included in this increase are funds to build on fiscal year 1998 support for Andean Ridge nations involved in interdiction and counterdrug law-enforcement operations. This effort will expand crop eradication and alternative-development programs to reduce illicit coca cultivation.

Transportation: U.S. Coast Guard ($35.7 million).—Most of the drug-related increase ($32.8 million) requested in fiscal year 1999 will provide for capital improvements to enhance the Coast Guard's interdiction capabilities, particularly in the Caribbean. The fiscal year 1999 request includes funding for improved sensors on C–130 aircraft, additional coastal patrol craft, and expansion of the Coast Guard's deep water assets.

Treasury: U.S. Customs Service ($66.4 million).—Customs' fiscal year 1999 request includes a total increase of $66.4 million for counterdrug operations. Of this total, $54.0 million is requested for non-intrusive inspection technologies. The request supports two seaport X-ray systems as well as $41.0 million for non-intrusive inspection systems like mobile and fixed-site X-ray systems for land border ports-of-entry along the southwest border.

Question. The report on the Cook County hardcore drug user's study states the study findings should be treated with caution because the error of estimate has not been determined nor has the sensitivity of the results been explored. Shouldn't ONDCP document the accuracy of the Cook County study methodology prior to committing additional funds?

Answer. The caution that is urged in interpreting the findings applies to the actual point estimates for the number of hardcore users determined by the three different models, rather than the study methodology. Because these are estimates based on a sample, there is always some statistical error associated with them, meaning that they have a certain + or − factor. At this time, this level of error has not been calculated. Likewise, we have not explored the sensitivity of the results to alternative specifications of the models that were used to estimate event rates (for example arrests, treatment episodes, or visits to homeless shelters)—it is possible that alternative specifications might raise or lower the estimates by small amounts.

While the estimates for Cook County are of interest in and of themselves, the primary purpose of the Cook County study was as a pilot test of a methodology for estimating the size and characteristics of the hardcore user population, and not developing precise estimates of the size of the problem in Cook County. The results, as reported in the study, indicate that this is a very sound methodology. During development, the methodology underwent a rigorous peer review by academic and Federal government experts. The draft report also received a rigorous review prior to publication.

In order to further refine and develop the methodology, it is necessary to apply it to a larger geographic area to confirm the findings achieved in the pilot study.

Question. The household study determined there are 2.7 million hardcore drug users. This level has been the same since 1987. The Cook county study indicates the numbers for that region were off by two thirds. If that is true nationally it would mean there are approximately 7 million hardcore drug users. So far ONDCP has requested $12.5 million to determine the correct number. How many hardcore drug users could receive treatment for $12.5 million and can you explain why that wouldn't be a better way to spend the money?

Answer. NIDA and SAMHSA acknowledge that the Household Survey does not do a very good job at estimating the number of hardcore users. These individuals are difficult to sample with a household survey because they often do not reside in traditional households and those few who do are reluctant to participate in such surveys. This problem was the motivation for conducting the Cook County study, which attempted to determine whether it was feasible to estimate the size and characteristics of this population based upon a methodology that interviewed hardcore users in locations where they are most likely to be found in substantial numbers—booking facilities, treatment centers, and homeless shelters.

It is not methodologically appropriate to use the findings from a single site—Cook County—to estimate the size of the U.S. hardcore user population. To do so would assume that Cook County is fully representative of the United States. This is why ONDCP seeks to apply the proven methodology from the Cook County study to a larger, more representative region of the country. The bottom lines is that this nation's drug policy could be refined with better estimates of the size and characteristics of this population.

According to a 1994 Rand Corporation report, the average cost to treat an addicted person is $1,740. With the $2.4 million spent on the pilot study and the $10 million requested for the next phase of the hard core user study, we could treat a maximum of 7,126 addicted individuals. This is approximately one-tenth of one percent of the 5.4 million drug users in 1994 who either needed treatment or received it.

Spending the $12.4 million on a study that will provide a more accurate and reliable estimate of the size and characteristics of the hardcore user population is, we believe, a supportable and better one-time use of these funds.

Question. Will ONDCP provide opportunities for members of the Milwaukee HIDTA to work and communicate with other HIDTA's? For example, will Milwaukee and Chicago have an opportunity to work together on Chicago's High Drug Interdiction Project? How can you facilitate that?

Answer. The Milwaukee HIDTA will have a variety of opportunities to work and communicate with other HIDTA's through conferences, technical assistance, joint intelligence sharing and coordination. The HIDTA program is designed to improve coordination and cooperation between HIDTA regions like Chicago and Milwaukee. Through intelligence sharing, connectivity and established linkages, the HIDTA program establishes improved communication and cooperation. HIDTA's are required to report outcomes which include activities beyond the HIDTA. Chicago and Lake County have agreed to share intelligence through their intelligence centers. It is anticipated that Milwaukee will also participate once it becomes operational. Chicago Highway Drug Interdiction Project will offer training and post-interdiction investigation cooperation with Milwaukee.

Question. The fiscal year 1999 request for $10 million is for a 2-year study of other hardcore drug users in areas of the United States. What criteria will ONDCP use to decide where the study should be conducted? Will we see a request for a National study in the future? If so, how long will a national study take and how much will it cost?

Answer. We anticipate that a number of criteria will be used in selecting the areas for the next phase of the Hardcore User Study, including demographic profile (e.g., age, race/ethnicity), urban vs. rural concentration, and the willingness of state and local authorities to participate. Our goal is to select a more representative sample than was possible with the pilot study, which focussed on just one site.

We may submit a request for a National study upon completion of the regional phase of the study. From the beginning, our concept for developing a methodology for estimating the size and characteristics of the hardcore user population called for a three-phase approach, which included a single-site feasibility or pilot study, a larger regional validation study, and finally, a full national study. This was the process that was peer-reviewed and approved by OMB. We have not yet done a full costing of the National study nor do we have an estimate of how long it will take. We are taking each phase one step at a time. The cost and time estimates for the regional study are based upon lessons learned from the pilot study. Similarly, we will base cost and time estimates for the National study upon lessons learned in the regional study.

Question. President Clinton's directive to "cut inmate drug use" proposes that the Justice Department draft legislation that would allow States to spend the Federal money earmarked for prison construction to instead provide drug treatment for the prisoners. Has that legislation been drafted? And, what limits will be placed on using prison construction funds for testing and treatment? Are there other programs that provide drug treatment programs in prisons?"

Answer. H.R. 3606, Drug Testing, Intervention, and Trafficking Reduction Within Prisons Act of 1998, was introduced in the House March 31, 1998. Under this Act, to be eligible for funding under the Violent Offender Incarceration and Truth in Sentencing Grants Program, States must: have a program of testing, interventions, and sanctions in place by September 1, 1998; implement policies that provide for the recognition of victim's rights, within 18 months of enactment; and have a system of sanctions and penalties that address drug trafficking within and into correctional facilities, beginning in fiscal year 2000.

No other limits are placed on the use of funds for testing, intervention, and the development of a baseline study of the prison drug abuse problem.

Other programs that can fund prison treatment:

—To a limited extent, the Department of Health and Human Services' (HHS) Substance Abuse Treatment and Prevention block grant to the states can be used to provide treatment to drug dependent offenders in prison. However, treatment of incarcerated populations is limited by law to the level of such funding in fiscal year 1991.

—The Department of Justice's (DOJ) Bryne Anti-Drug formula grant to the states can be used to provide treatment to drug dependent offenders in prison.

—DOJ's prison Residential Substance Abuse Treatment program is designed precisely to treat drug-dependent offenders. Unfortunately, the law does not permit funding for transitional or post-incarceration treatment services, although the research strongly suggests that such services are essential to stable recovery. H.R. 3606 will correct this, allowing states with established in-prison programs to fund post-incarceration services.

—DOJ's Bureau of Prisons provides treatment to all eligible Federal Prisoners.

Question. Mr. McCaffrey, the IRS, with approximately 100,000 employees and daily interaction with the taxpayer, is requesting $25,000 for official representation expenses. ONDCP with 124 employees is requesting $20,000. When you do the math, that 150 percent increase is approximately $161 per employee. Mr. McCaffrey, you know the budget situation as well as I do, so help me understand. Why should this account receive such an increase when accounts like HIDTA's, which directly impact our communities, are not slated for an increase this year? In other words, can you tell me why this subcommittee should be paying for parties when we could be using that money for fighting drugs?

Answer. The $20,000 representational request is essential to ONDCP to fulfill the inherent responsibility of furthering the mission of the office through consultative efforts, not parties. Under the provisions of the ONDCP authorizing statute, specifically 21 U.S.C. 1504(a)(3)(A), the Director is required to consult with "heads of National Drug Control Program Agencies * * * Congress * * * State and local officials * * * [and] private citizens with experience and expertise in demand reduction * * * [and] supply reduction" to help him develop the National Drug Control Strategy.

Therefore, the Director must host the representational event therefore, a per person comparison to IRS would not be appropriate. A true comparable would be the amount of policy development involved, and the interactions with various communities and stakeholders for any effort to be a success.

Clearly, the representation monies are an assistance to defining the scope of the common threat we face and strategies to defeating the threat worldwide. The work that is involved with the fight against drug use is a collaborative process through consultations with Congress, the more than 50 Federal agencies and departments, the law enforcement agencies, and stakeholders—mayors, doctors, clergy, civic leaders, parents, and youth—drawn from all segments of our society. Further, this enhanced cooperation within the hemisphere and worldwide is an important tool to use to begin to be able to win the fight against drugs.

Since its inception, ONDCP received $8,000 in representation funds each year.

Question. Mr. McCaffrey, I would like to state that I firmly support our efforts to fight against drugs. As a former law enforcement officer, I have seen first hand how drugs destroy our children and communities. However, I must state that I believe in many instances your budget is not necessarily what it appears. Overall, it appears that you are asking for a modest increase in your bottom line, but upon further inspection, you are slashing and burning some accounts like the Counterdrug Technology Assessment Center to make up for the difference, You are

asking for the following increases: 17 percent for travel, 21 percent for transportation, 61 percent for communications and miscellaneous costs, 50 percent for printing, 75 percent for supplies and materials , just to name a few. Can you explain, specifically, what these cost increases are attributed to, remembering that inflation for fiscal year 1999 for non-pay related costs is 2.2 percent.

Answer. ONDCP, over the past several years, has received permission by the Committee on numerous occasions to reprogram funds. This reprogramming was necessary to accomplish the mission of the organization. A part of the reprogrammings were due to the staggered personnel growth stage, as well as the fact that ONDCP funds were improperly categorized by object class. This fiscal year represents a true picture of the needs of the office. Bar any unusual situations, based upon this budget, ONDCP will not require a reprogramming action in the coming fiscal year.

With regard to what appears to be dramatic increases in several object classes, there are also essentially corresponding dramatic decreases in several object classes, for a modest total increase of less than 5 percent. Specifically, the following is a description of the increases by object class and what the increase is attributed to:

—The increase in travel is a part of the required amount to support the mission of ONDCP. This is most evident in the fact that fiscal year 1999 will be the first year ONDCP will be fully staffed at 154 FTE, to include all political appointees. The National Drug Control Strategy document is a comprehensive approach which contemplates involvement of State and local authorities and nongovernmental organizations. Outreach to these groups is essential to success. As well, international travel is an important component for cooperation and coordination in the interdiction effort.

—The increase in Rents, Communication, and Utilities is due to the requirements for the additional staff with regard to space and communications.

—The increase in printing and reproduction is due to the increased visibility of ONDCP creating more demand for all materials, including the National Drug Control Strategy, the Budget Summary, and the Performance Measures of Effectiveness.

—The increase in supplies is directly related to the increasing number of staff.

—The increase in Other Services is primarily connected to the protective services for the Director of ONDCP, a conference budget, and the increase of staff creating more demand on contractor support of ADP maintenance and telecommunications services.

Question. Mr. McCaffrey, last year you requested that the subcommittee reprogram funds to provide for your security in a letter dated September 24, 1997. At the time, the committee staff asked if there had been a threat assessment conducted to justify the need for 24 hour security and an armored limo, a cost you estimated at $1.66 million a year. Due to the lack of justification of this request, the committee chose to deny it. What is the status of the threat assessment and does it differentiate between domestic and international threats? Who have you contacted to conduct the threat assessment?

Answer. The United States Marshals Service (USMS) provides protective services for the Director of ONDCP. A threat assessment was performed by the USMS on behalf of ONDCP. Based upon several documented threats received against the Director of ONDCP in 1997, the USMS identified a moderate threat level in the United States and a high threat level while on foreign travel. (The classifications of this threat assessment are as follows: No Threat, Low Threat, Moderate Threat, and High Threat.) In summary, the USMS notes that as always, specific travel or events should be assessed independently as threat levels could change dramatically.

Question. You intend to launch Phase II of the campaign before getting the feedback from Phase I, which is due in July. What is the justification for moving forward to Phase 2 without feedback from Phase 1?

Answer. ONDCP has received highly encouraging feedback from community coalitions about Phase 1 and believes it is critical to continue the momentum of this campaign during the summer months when youth are out of school, have unsupervised time, and need to hear the message about the dangers of drug use.

By using the 10-year experience of the Partnership for a Drug-Free America (PDFA), ONDCP is not creating a completely untested and speculative campaign, but is relying on PDFA's experience which we have validated in Phase 1. We are using an approach similar to responsible commercial firms who rely on real-time market feedback in addition to longer-term, formal evaluations. While we have budgeted for more than $10 million in rigorous impact analysis and research, we are also receiving immediate market feedback through arrangements with the Community Anti-Drug Coalitions of America (CADCA) and others to be coordinated through the Substance Abuse and Mental Health Services Administration

(SAMHSA). Commercial media planning and buying experts have also advised that we must make national purchases during the June time frame or lose the opportunity to achieve the prices and placements that ensure achieving our campaign strategy of reaching 90 percent of our target audiences at least four times per week.

Question. So, if we don't receive the feedback from the pilot until July, how will we be able to use that feedback to make decisions on your fiscal year 1999 request?

Answer. ONDCP will immediately provide early process measures and feedback from the anti-drug community in the pilot markets. Local coalition and community prevention leaders bring years of experience and have seen first-hand the effect of the campaign. We will also provide data from the national drug clearinghouses and others who are seeing increased public response due to the campaign. ONDCP can also provide early anecdotal feedback from the Phase 1 contractors conducting the impact evaluation. This feedback has been positive about raising community awareness, which is the initial expected goal of the campaign. The evaluation contractor's extensive qualitative and quantitative assessments are proceeding and will be available in a draft report in early September before we begin the fully integrated Phase 3 of the campaign in October. For reference, the second round of site visits for the Phase 1 evaluation took place in April. The contractor is currently preparing the report on these visits; the final releasable version of this report probably won't be ready until near the end of June. The contractor is currently collecting the final wave of data for Phase I. They are surveying students in schools and parents via telephone, as well as conducting a third wave of site visits. These data will be presented to us in a draft report by early September as we have previously reported to the Congress.

Question. Mr. McCaffrey, can you share some of the anecdotal feedback resulting from the 12 city pilot?

Answer. CSR, Inc., our Phase 1 evaluation contractor polled community representatives in each of the 12 target markets eight weeks after the campaign had been initiated. Their preliminary results include the following:

Almost all of those interviewed (97 percent) reported they were seeing the ads and they showed high awareness of increased ad frequency, better placement in "prime time" or other matters due to the campaign. Specific comments included:

—Business leader in Portland: the ads are "much improved, more frequent and widely shown."

—School official in Tucson: ads in newspapers are very powerful, especially those targeting adults.

—Community organizer in Sioux City: "frequency of advertising has been quite impressive * * *"

Eighty percent of community representatives polled reported that people in their community are talking about the ads, a very encouraging result given the short time frame of the campaign:

—Police sergeant in Baltimore: kids in D.A.R.E. classes are talking about the new ads.

—Community coalition leader in Denver: reported that about 90 percent of parents attending PTA meeting had seen ads and responded favorably.

—Drug prevention worker in Atlanta: witnessed an upswing of requests for presentations to parent groups as a result of the campaign and noted that this has brought the problem of inhalants newly to the attention of many parents.

—Prevention worker in Milwaukee: supported ads featuring mentoring as this supports the ongoing focus on building resiliency skills among youth.

Community representatives were asked about other results due to the campaign:

—Washington, D.C., program coordinator: agency's new hotline number was included in ad and saw calls go from one or two per day to about 15 calls per day.

—CADCA representative in San Diego: campaign has supported extension of a community-based campaign on methamphetamines.

The National Clearinghouse on Alcohol and Drug Information (NCADI) has experienced marked increases in calls and requests for information. After ads run, calls have increased more than 25 percent. State clearinghouses are also reporting increased requests for information—some more than 300 percent—as well as requests for treatment referrals.

At a recent conference conducted by the PDFA for national alliance coordinators, speakers from local anti-drug coalitions, including Portland, Denver, Sioux City, Milwaukee, and Tucson, spoke in highly complimentary terms about the campaign. They reported that despite initial uncertainties about how this would affect their communities, they are receiving offers of corporate support, increased volunteerism, offers of local media participation, requests for presentations to community groups, and increased dialogue between prevention and treatment groups.

Question. Mr. McCaffrey, can you tell us when we can expect a change in attitudes and behavior toward drug use resulting from the Media Campaign?

Answer. We do not expect to see changes in attitudes for 1 to 2 years, and changes in behavior for 2 to 3 years. The authorizing legislation recognized this when stipulating that ONDCP would report to Congress on campaign effectiveness within two years.

Experts in social change continue to advise us that we should expect a sequence of changes: changes in awareness first, followed by changes in attitudes and behavior. Unlike simple purchase of a consumer product, youth drug use reflects a complex of influences, and we cannot reasonably expect to see significant behavior change sooner than that. Nevertheless, earlier "social marketing" campaigns, such as for the National Cancer Institute and for seat belt use, have given ample evidence that such campaigns can work. This is reinforced by observing that the extensive awareness built by PDFA during the drug crisis of previous decades was then paralleled by dramatic declines in overall drug use. Conversely, just as diminished risk perception and increasing acceptance of drug use as "normal" behavior among youth was then followed by marked increases in drug use, we may expect that reestablishment of truthful understanding about drug harmfulness and social unacceptability, as well as reengagement of parents and other adult care givers, will lead to reversals in these trends.

Question. This committee provided a total of $8.8 million for anti-methamphetamine efforts. Can you tell us how this money was spent?

Answer. The trafficking and abuse of the destructive and addictive synthetic drug methamphetamine is a growing national problem. A resurgence in its use can be traced to two developments: (1) more efficient manufacturing processes for domestically produced methamphetamine; and (2) the growth of Mexican polydrug organizations and use of established distribution systems to funnel the drug. The drug appears to be spreading eastward from the traditional bases in the U.S. west and southwest to the Midwest. Seizures have been climbing steadily over the last few years (at the Southwest Border, for example, seizures have gone from 6.5 kilograms in 1992 to 653 kilograms in 1995) while the price has remained relatively constant ($50 to $150 per gram). All indications (e.g. seizures, emergency room treatment, clandestine laboratories seizures) are that methamphetamine production and trafficking have grown in the United States and Mexico.

The methamphetamine appropriation was enacted in October. Since that time the HIDTA's have spent a substantial amount of effort in developing initiatives that would correspond to the Congress' intent to address the rising methamphetamine problem. As a result, funding will be allocated to initiatives in regions of the country that are seriously affected by the meth problem. A small proportion will also be used for developing the clandestine lab database at EPIC and for transfer of "best practices" in the field through mobile meth training teams to affected areas. The primary areas to develop new initiatives funded by the appropriation are Los Angeles, Midwest HIDTA, Southwest Border (Arizona and California Border Alliance known as CBAG), Rocky Mountain, Southwest Border (National Clandestine Laboratory), and San Francisco. The HIDTA Assistance Center will provide training and support throughout the nation. A description of these initiatives will be sent to the committee.

Question. Have you seen an improvement in the meth situation since Congress appropriated this money?

Answer. Funding for counterdrug activities related to methamphetamine has already improved coordination of law enforcement activities. Many HIDTA's have studied the problem in their regions as part of the process of submitting proposals for new initiatives. Distribution of funding is pending. Once more information is reported from the HIDTA's concerning activities, ONDCP will brief staff later this summer on results.

Question. Can you provide me with an update on the Rocky Mountain HIDTA's meth efforts as a result of fiscal year 1998 funding?

Answer. A new Rocky Mountain Methamphetamine task force will be supported by the $1.5 million in additional funding. It will consist of a total of 61 members collocated in two states (Utah and Colorado). Their objectives will be to dismantle 120 clandestine labs in Utah and 25 in Colorado. Among other activities, they will target the greater Casper area for a 50 percent reduction in methamphetamine. Approximately 160 law enforcement officers will receive meth-related courses. At least 5 meth trafficking organizations will be disrupted or dismantled, and at least three sources of precursors and chemicals for meth will be identified and dismantled.

Question. Can you tell us what the Southwest Border HIDTA and your agency are doing about the meth problem and interdicting meth precursors?

Answer. Our strategy includes working with Mexico to target methamphetamine production and distribution organizations, a national training program for prosecutors and agents, more concerted intelligence operations to expose the production and distribution systems, the targeting and prosecution of rogue chemical companies supplying precursor chemicals interstate, tougher penalties and sentencing guidelines for both methamphetamine and precursor trafficking, and an education and prevention program to alert the American people as to the serious dangers of methamphetamine abuse.

Battling the diversion of precursor chemicals for the illicit production of methamphetamine is a difficult and complex task both on the domestic and international fronts. Our concerted international effort to curtail the diversion of ephedrine and pseudoephedrine has impacted the traffickers' activity. But they respond by shifting to other chemical substitutes, and they have begun using phenylpropanolamine (PPA) instead of ephedrine and pseudoephedrine (although the end product is actually amphetamine not meth). Although PPA is a list 1 chemical under U.S. law, it is not a controlled chemical internationally (i.e. under the Vienna Convention). Additionally, wholesale distributors are dealing almost exclusively in pseudoephedrine tablets to recipients on the West Coast. But in October 1997, we were able to close the last major regulatory loophole that now makes control of pseudoephedrine commensurate with controls on ephedrine. DEA now has the ability to target these "rogue" distributors who knowingly peddle large amounts to the operators of clandestine laboratories. Over-the-counter pseudoephedrine products—sold at the retail level—are currently exempt from the chemical provisions of the Controlled Substances Act, and these OTC drugs are turning up in clandestine laboratory seizures. Our current response is to seek voluntary cooperative efforts with the retail industry to prevent such diversion.

The Southwest Border (California) will build upon five existing initiatives by adding one new initiative, the CBAG Methamphetamine initiative. The Southwest Border HIDTA is composed of five partnerships covering 41 counties in the states of California, Arizona, New Mexico and Texas. The Southwest Border is the preferred corridor for cocaine, marijuana, methamphetamine and heroin. The mission of the Southwest Border's (California) methamphetamine initiatives is to reduce the impact of methamphetamine trafficking, manufacturing and use within San Diego and Imperial Counties. The California Precursor Committee is a collaborative effort of the DEA, California Bureau of Narcotics Enforcement (BNE), U.S. Attorney's Office and 20 local agencies to develop measures to reduce the availability of chemical precursors. The Clandestine Lab Enforcement Group targets chemical precursor sources and major meth traffickers. The San Diego Violent Crime Task Force, North County Gang Task Force, and San Diego Methamphetamine Strike Force will also counteract meth production and trafficking.

The Southwest Border (Arizona) will strengthen the Maricopa County HIDTA Methamphetamine Task Force to target methamphetamine trafficking organizations and clandestine laboratory production statewide. By combining the available resources of enforcement, prosecution, disposal and education in an overall comprehensive statewide plan, the task force addresses a number of problems associated with the spread of methamphetamine production. The DEA, Arizona Department of Public Safety and local law enforcement will provide personnel and expertise to respond to clandestine labs. Since its inception in October 1996, over 310 clandestine labs have been dismantled statewide and over 472 lab violators have been arrested by various enforcement components of this initiative.

The Los Angeles HIDTA Methamphetamine Regional Strike Force will attack the sources of precursor chemicals, develop an information network concerning suspicious sales of precursor chemicals and enhance and consolidate current efforts of many agencies that are attacking the problem. The task force will operate from two sites to target major methamphetamine organizations, investigate and seize meth labs, and target companies that sell equipment or precursor chemicals to meth producers.

One solid example of our success is shown by Operation META, a joint-task force law enforcement operation centered in the Southern California Drug Task Force (Los Angeles HIDTA). It is designed to take down multiple organizations dealing in methamphetamine and cocaine on a large scale. Charges were filed in Los Angeles, CA; Dallas, TX; and Greensboro, NC. A Los Angeles-based organization was responsible for the importation from Mexico of the chemicals needed to manufacture the drug, the manufacturing and distribution at the wholesale level. Since the inception of Operation META in May of 1997, more than 80 persons have been charged with offenses related to the manufacture and distribution of methamphetamine. 133 pounds of methamphetamine, 90 gallons of methamphetamine solutions, as well as cocaine and marijuana were seized. Additionally, Operation dismantled three clan-

destine laboratories and seized chemical solutions capable of producing more than 500 pounds of methamphetamine.

Mexican officials reported the arrest and incarceration of Adan Amezcuas Contreras, the youngest of the three brothers, who are allegedly the "world's largest" suppliers of methamphetamine. The Amezcuas allegedly supply "meth" and the precursor "ephedrine", to Mexico's top drug cartels, and have a network stretching to China and India.

Chemical diversion control is a straightforward counter narcotics strategy: regulate trade in the chemicals most necessary for the drug manufacture to ensure that only legitimate end-use is achieved. It is complicated by the nature of the chemicals involved and the widespread international commerce in them. National control systems alone cannot prevent diversion. The challenge is to develop multilateral mechanisms for the exchange of information necessary for the implementation of effective chemical control laws. In 1997, we made considerable progress to achieve this goal.

The July 7–9, 1997 meeting of the U.N. Commission on Narcotic Drugs resulted in a draft of a comprehensive paper detailing measures governments should take to control precursor chemicals. This paper will be considered by the June 1998 Special Session on Narcotics.

At the operational level, India continues voluntarily to advise DEA of any proposed export transactions in ephedrine and pseudoephedrine. Hong Kong has established a sound system of chemical control.

Finally, Mexico is directing increased regulatory and investigative resources to deal with major chemical smugglers and methamphetamine traffickers.

In 1997, work began on the Multilateral Chemical Reporting Initiative (MCRI). This is an informal mechanism to promote the exchange of information necessary for chemical control. It was launched in 1997 in two meetings co-hosted by the DEA and European Commission. In general, countries have been most supportive where chemical control is considered a law enforcement issue. In countries where its considered a regulatory issue and administered by trade or commerce agencies, these countries have been more cautious. This year, DEA will begin implementing the MCRI by requesting information from participants and inviting their cooperation.

Other initiatives include chemical diversion training and technical assistance programs of the U.N. International Drug Control Program (UNDCP) to aid countries in the establishment of legal and regulatory structures needed for chemical control; and the Inter-American Drug Abuse Control Commission (CICAD) of the Organization of American States has developed a program which measures—through mathematical modeling—the estimated quantities of these chemicals required for legitimate domestic industrial use and beyond that, those quantities which may be diverted to the production of illegal drugs. The system is under evaluation in one OAS member state (which?) And is likely to be used by other members in the future.

Question. Does your office currently have a bureau dedicated to State and local law enforcement? If not, how do you assist Sheriffs and smaller agencies coming to ONDCP for information or assistance?

Answer. Yes. Functional responsibility for interaction with the criminal justice community, including State and local law enforcement agencies, is vested in ONDCP's Bureau of State and Local Affairs (BSLA). This component is led by Presidential Appointee, Robert S. Warshaw, our Associate Director, who was unanimously confirmed by the U.S. Senate on February 11, 1998. Mr. Warshaw is the former Chief of Police of Rochester, New York and counts three former police officers among his staff. The full personnel complement now serving in BSLA resents an aggregate of 150 years of Federal, State and local law enforcement experience.

Question. It is the Subcommittee's understanding that military personnel have an integral role in the current Technology Transfer program, how are they able to uniquely assist in liaison with local police?

Answer. The current approach to managing the Technology Transfer program places the lead role for liaison with local police onto regional experts chosen from state and local law enforcement organizations to advise CTAC. These experts are the Chief of the Buffalo Police Department (New York), Chief of Field Operations Los Angeles County Sheriff's Department (California), a senior member of the Chesterfield County Police Department (Virginia), Pima County Sheriff (Arizona), Arapahoe County Sheriff (Colorado), Director of Michigan State Police, Assistant Administrator Drug Enforcement Administration, Executive Director of Public Safety (Massachusetts), Brownsville Chief of Police (Texas), Hillsboro County Sheriff (Florida), St. Louis Metropolitan Police Chief (Missouri), El Segundo Police Chief (California), and several former police chiefs located in Seattle, Washington and Kansas City, Missouri. CTAC relies upon these experts to use their professional judgment to determine the best match of technology to specific police organizations.

The role of the U.S. Army Electronic Proving Ground (AEPG) at Ft. Huachuca, AZ, is to serve as the technical, program management, and contracting agent for the technology transfer program. AEPG is not involved with the decision process. AEPG supports the administrative and logistics functions of the implementation side of the program. The AEPG program manager is a Captain in the National Guard who is supported by civilian scientists, engineers and contracting specialists from AEPG. These personnel have been supporting CTAC since 1993 with technical, program management and contracting support to the counterdrug research and development program. The same personnel have been engaged in the Technology Transfer program to assist in purchasing, delivering and installing technology systems selected for transfer under the program.

In preparation for the Technology Transfer program, AEPG has provided significant administrative support to the CTAC one-day workshop series. AEPG's firsthand knowledge of the products available for transfer (gained during its support to the 10 CTAC one-day workshops held over the past 18 months) combined with its contracting expertise and ability to rapidly procure and deliver these systems place AEPG in a unique and valuable role to the Technology Transfer program:

—AEPG is contracting with the individual vendors to pay for the purchase, installation and training costs necessary for most of these systems.

—AEPG's role also includes developing complete budgets for follow-on logistics and life cycle costs that can be expected with each transfer.

—The initial set of surveys for the Technology Transfer program were sent by AEPG to the 330 state and local law enforcement organizations who attended the CTAC workshops.

—AEPG personnel are collating the responses to the surveys and providing a summary of requirements to the regional state and local experts selected from state and local law enforcement organizations to advise CTAC on the best approach to implement the Technology Transfer program.

Question. What specific actions have you taken to address the growing problem of drug gangs, and what assistance has your office provided to local agencies in this regard?

Answer. ONDCP, through promulgation of the National Drug Control Strategy, encourages initiatives targeting gangs and violent crime, as a means of helping localities to reduce drug trafficking. These initiatives include, but are not limited to, Federal, State and local task force efforts such as the FBI'S Safe Street Task Forces and ATF"s Achilles Program.

In addition, the Bureau of State and Local Affairs (BSLA), our agency component focused on domestic drug enforcement policy, interacts with State and local law enforcement both directly and through entities such as the National Youth Gang Center and the National Gang Consortium. Both are led by the Office of Juvenile Justice and Delinquency Prevention, U.S. Department of Justice.

It is noteworthy that BSLA recently took part in a working group led by the National Drug Intelligence Center (NDIC), U.S. Department of Justice, aimed at the establishment of a permanent mechanism that will ultimately improve NDIC's drug gang intelligence products.

On those occasions when localities contact BSLA for assistance re gang matters, our response most often takes for form of a referral to the appropriate body of Federal, State or local government.

Question. ATF operates a well known gang program, GREAT. How has your office coordinated with the Treasury Department on the gang issue?

Answer. The National Drug Control Strategy acknowledges GREAT as an example of education as a means to discourage gang proliferation.

ONDCP coordinates with the Treasury Department on the gang issue, through our administration of the High Intensity Drug Trafficking Area (HIDTA) program. In fiscal year 1998, for example, we are funding fourteen ATF anti-gang initiatives in eight HIDTA's with a total of $4,242,798.

Question. According to the February 1998 GAO report, CTAC has made virtually no use of the Science and Technology Committee designed to keep it informed of agency needs and efforts. For example, the report notes that CTAC did not systematically consider and fund the counterdrug technology needs of state and local agencies as part of its process for selecting and funding projects. Can you tell us what specific actions you are taking to correct these deficiencies in the GAO report?

Answer. For the past fifteen months, the Science and Technology (S&T) Committee, under CTAC's leadership, has been concentrating its efforts on virtually one task, the preparation of the ONDCP Ten-Year Counterdrug Technology Plan and Development Roadmap. The GAO report states on page 11, that "between December 1996 and August 1997," the CTAC Chief Scientist met 10 times, with "the Technology Coordination Working Group, which is an S&T Committee working group."

The S&T Committee has been intimately involved and the Technology Coordination Working Group members were the virtual authors of the ten-year counterdrug technology plan. This plan is based on agency scientific and technological needs and supports fully the five goals of the National Drug Control Strategy and the national technology performance outcome targets. The plan was published in June. Although the GAO report recognizes the importance of creating, for the first time, a ten-year technology plan, it overlooks that it constituted a total commitment by CTAC and the S&T Committee to complete the task of preparing the plan. The technology plan and development roadmap covers, in some detail, the test and evaluation and transfer of advanced technology which could benefit state and local agencies.

As the S&T Committee long range planning effort began to address the ten year needs and priorities of Federal law enforcement, it became clear that, if the state and local agencies were to benefit, a direct outreach through one-day workshops could make the 17,000 police departments aware of advanced drug technologies which could be transferred. Since the spring of 1996, CTAC has hosted 10 one-day regional technology workshops across the country to make state and local agencies systematically aware of CTAC and DOD sponsored counterdrug technology projects which could benefit them. The workshop locations were: Austin Texas (April 1996), St. Louis, Missouri (July 1996), Bloomington, Minnesota (October 1996), Portland, Oregon (December 1996), Tucson, Arizona (March 1997), Atlanta, Georgia (April 1997), San Diego, California (July 1997), Denver, Colorado (October 1997), Bedford, New Hampshire (November 1997), and Phoenix, Arizona (January 1998).

The projects of importance to the state and local agencies include technologies to advance drug crime investigative information processing, surveillance and tracking, communications interoperability, and communications. The workshops have been attended by more than one thousand law enforcement technical operations officers, Chiefs of Police, state's attorneys and Sheriffs. The attendees took part in hands-on demonstrations given by other law enforcement officials who are currently using these technologies. The approach of using law enforcement officials speaking to other law enforcement officials has been a very effective way to get realistic assessments of the worth of the technologies to state and local agencies. Following each one-day workshop, the attendees evaluated the projects. The one-day workshop series has led to a systematic approach to deriving the needs of state and local law enforcement and a pilot program to support the transfer of advanced drug crime technology directly to state and local law enforcement.

Question. Although CTAC has developed what it terms a priority listing of counterdrug R&D needs, there seems to be more items on the list than can be funded. There is no ranking of needs, relevance, or usefulness to agencies. CTAC appears to have no way to ensure that projects it funds reflect the most current and highest priority needs. What is CTAC's role if it is not setting priorities and keeping supported agencies informed?

Answer. The federal law enforcement agencies have identified under CTAC leadership a total of 132 law enforcement scientific and technological (S&T) needs. These needs were ranked by the following technology areas or thrusts: tactical technology (80 needs), non-intrusive inspection (24 needs) and wide area surveillance (28 needs). The needs then were ranked within technology thrust by priority operational need versus S&T requirements, and then the S&T requirements within each technology thrust were ranked by time frame (short, medium and long-term). CTAC has issued four Counterdrug R&D Blueprint Updates which provide a complete listing of needs ranking in the appendix to each issue. The following is a summary of the current ranking:

Technology thrust	Operational priority needs	Scientific and technological requirements—		
		Short	Medium	Long-term
Tactical Technology	20	45	9	6
Non-Intrusive Inspection	3	13	7	1
Wide Area Surveillance	3	20	4	1

It should be noted that the February 1998 GAO report addressed only CTAC and not the total national counterdrug R&D program. The total counterdrug R&D expenditure by federal agencies was $676 million in fiscal year 1998 with a request of $722 million in fiscal year 1999. CTAC's annual budget of $16 million is 2.3 percent of the total expenditure.

The list of counterdrug S&T needs are certainly more than CTAC alone can fund. A CTAC-maintained data base of ongoing federal law enforcement agency R&D

projects was mapped onto the entire set of 132 S&T federal law enforcement needs and all but 11 needs were being addressed, in part, by at least one R&D project being sponsored by CTAC or a federal law enforcement agency. Currently, efforts are being taken to ascertain the priority, relevance and usefulness of the remaining unaddressed needs.

CTAC's role has been to identify and pursue those highest priority projects that transcend the needs of any single agency. Consequently, CTAC has focused only on innovative solutions to technology gaps which address the highest priority needs of more than one agency.

For example in demand reduction, the highest priority need is to develop an effective medication for cocaine addiction, and to understand the status, trends and efficacy of substance abuse treatment. CTAC responded to these needs by sponsoring a high risk, innovative project to develop artificial enzymes which offer the promise of producing cocaine antibodies in the bloodstream which could effectively immunize addicts in treatment against the effects of cocaine. A computer-based, real-time treatment effectiveness system was also developed under CTAC sponsorship which links treatment centers with research scientists. This national network provides real-time information to researchers and providers on the most effective drug treatment modalities.

In supply reduction, advanced technologies and systems for non-intrusive inspection of cargo and conveyances for hidden drugs are needed at our ports-of-entry. Special emphasis has been placed on the U.S. Southwest border. CTAC has sponsored engineering tradeoff studies to assess the technical feasibility of those advanced technical approaches available today to inspect cargo for drugs. CTAC also sponsored the successful development of a gamma-ray system now being considered by U.S. Customs Service to be deployed operationally along the Southwest border to inspect tanker trucks, empty containers and moving trains. Currently, a technology and infrastructure study is being sponsored by CTAC specifically to address the needs of the Southwest border for advanced inspection technologies. This technology study is being done in conjunction with U.S. Customs Service and Immigration and Naturalization Service.

CTAC is also sponsoring projects to improve communications interoperability among state and local law enforcement organizations. Innovative computer algorithms to analyze trends in financial transactions and identify money laundering activities are being developed hand-in-hand with several U.S. Attorneys' offices. Systems to improve digital recording and processing of wiretap information have been developed under CTAC sponsorship to fill high priority needs of several sheriffs' offices.

Question. In fiscal year 1998 this committee provided $13 million for a new program to transfer anti-drug technology to those who need it the most, state and local law enforcement. Can you give us an update on this program and how it's working?

Answer. The technology transfer program is being well received and progressing very well. Requests have been received from over 128 state and local law enforcement agencies for transfer of technologies and products totaling $14.6 million. These costs include installation, training and support needed to fully implement the system or product with each agency.

The U.S. Army Electronic Proving Ground (AEPG), the CTAC contracting agent for the pilot program, provides the engineering and contracting support. AEPG has developed a survey questionnaire and catalog of products available for transfer. This catalog has been sent to interested state and local organizations across the country, including representatives who attended one of our technology symposia or one-day workshops, organizations involved with one of the High Intensity Drug Trafficking Areas, or law enforcement personnel who participated in technology evaluations at one of the CTAC-sponsored state and local testbeds.

A panel of regional experts from state and local organizations have agreed to serve as advisors for the implementation of the potential transfer actions. These experts are the Chief of the Buffalo Police Department (New York), Chief of Field Operations Los Angeles County Sheriff's Department (California), a senior member of the Chesterfield County Police Department (Virginia), Pima County Sheriff (Arizona), Arapahoe County Sheriff (Colorado), Director of Michigan State Police, Assistant Administrator Drug Enforcement Administration, Executive Director of Public Safety (Massachusetts), Brownsville Chief of Police (Texas), Hillsboro County Sheriff (Florida), St. Louis Metropolitan Police Chief (Missouri), El Segundo Police Chief (California), and several former police chiefs located in Seattle, Washington and Kansas City, Missouri. The success of the pilot program relies upon these experts and their professional judgment to determine the best match of technology to specific police organizations.

Question. Part of the Counterdrug Technology Assessment Center, or CTAC, mission is to help state and local agencies battle drugs through technology. In fiscal year 1998's bill there was a provision for technology transfer to state and local entities. Outside of this effort, do you systematically identify and consider state and local needs?

Answer. Yes. CTAC sponsors two activities that serve to systematically identify and consider state and local needs: (1) testbeds to evaluate new and emerging law enforcement technology, and (2) an outreach program of regional one-day technology workshops.

CTAC sponsored technology testbeds are performed in conjunction with state and local law enforcement organizations to evaluate the impact of inserting new technology into the daily law enforcement operations. The participating state and local operational personnel work directly with the testbed scientists and engineers. These projects serve as pilot programs to develop technology appliques specific to a unique state and local need. Some examples of technology testbeds include: a wide-band, high-speed, regional information network in conjunction with Pinellas County Sheriff's Office (Florida); a digital recording and processing system for wiretap information in conjunction with the Pima County Sheriff's Office (Arizona); a digital GPS-based tracking and surveillance system in conjunction with Yonkers (New York) Police Department Narcotics Squad; a cellular phone analysis system in conjunction with the New York State Organized Crime Task Force; and a GPS-based miniaturized geolocation command and control system which included an airborne applique with the Fillmore County Sheriff's Office and the Mayo Clinic (Minnesota).

Many of the products from these testbeds are now available for transfer to other state and local organizations under the $13 million pilot program for transferring technology to state and local organizations.

The outreach program includes regional one-day technology workshops held across the nation to inform state and local law enforcement organizations of advancements in technology which are available for use by their agencies. CTAC has sponsored 10 regional one-day workshops over the past 18 months: Austin Texas (April 1996), St. Louis, Missouri (July 1996), Bloomington, Minnesota (October 1996), Portland, Oregon (December 1996), Tucson, Arizona (March 1997), Atlanta, Georgia (April 1997), San Diego, California (July 1997), Denver, Colorado (October 1997), Bedford, New Hampshire (November 1997), Phoenix, Arizona (January 1998).

Question. How many total ONDCP staff are former State and local law enforcement officers?

Answer. A total of four ONDCP staff have former experience as (only) State or local law enforcement officers. This number does not include former Federal law enforcement officers, military police, and/or prosecutors.

Question. Does each account and program activity of ONDCP have performance measures associated with it?

Answer. Each key activity area has performance measures associated with it. Areas such as Strategy Budget, Coordination, etc., have milestones that indicate performance. The four programs, where ONDCP has direct administration have multiple performance measures.

Question. Does your plan include performance measures for which reliable data are not likely to be available by March 2000?

Answer. The HIDTA Program falls under Goal 2, Objective 2 of the NDCS, "Improve the ability of High Intensity Drug Trafficking Areas (HIDTA) to counter drug trafficking." The HIDTA Program's long-term effectiveness will be better defined as the PME system is implemented, the following constitute their fiscal year 1999 targets and sufficient data exists to ensure the ability to measure this program.

—Each HIDTA will meet at least one additional step of the HIDTA Developmental Standards in at least one category.
—Each HIDTA will disrupt, dismantle, or render ineffective 5 percent of the targeted drug trafficking organizations identified in its threat assessment.
—Each HIDTA will disrupt, dismantle, or render ineffective 5 percent of targeted money laundering organizations.
—Each HIDTA will achieve a 5 percent reduction in specified crimes (homicides, robberies, assaults, and crimes against property as reported by FBI UCR).

CTAC activities fall under the Research Objective addressed in the last Objective of each NDCS Goal. The CTAC's long-term effectiveness will be better defined as the PME system is implemented, the following constitute their fiscal year 1999 targets and sufficient data exists to ensure the ability to measure this program.

—Conduct three regional workshops and one major technology symposium.
—Coordinate and support 85 counterdrug research programs with Customs, DEA, DOD, Coast Guard, FBI, Agriculture, and NIDA.

—Develop and field five technology prototypes to address counterdrug law enforcement and drug treatment requirements. These prototypes will support improvements to inspection capabilities for trucks and rail cars (2), low cost, efficient communications interoperability (1), surveillance tools (1), and a means to evaluate and monitor substance abuse treatment programs in real time (1).

—Increase by 20 percent, the rate at which new systems are acquired by Federal, state and local agencies.

The Media Campaign falls under Goal 1, Objective 2, "Pursue a vigorous advertising and public communications program dealing with the dangers of drug, alcohol, and tobacco use by youth." While the campaign has recently been authorized and is now fully operational, the development of meaningful internal process measures is still ongoing.

—Ensure target audience exposure to anti-drug advertisements averages four times per week reaching 90 percent of the target audience.

Drug-Free Communities support Goal 1, Objectives 1, 3, and 6; Objective 1: "Educate parents or other care givers, teachers, coaches, clergy, health professionals, and business and community leaders to help youth reject illegal drugs and underage alcohol and tobacco use," Objective 3: "Promote zero tolerance policies for the use of illegal drugs, alcohol, and tobacco use by youth within the family, school, workplace, and community," Objective 6: "Encourage and assist the development of community coalitions and programs in preventing drug abuse and underage alcohol and tobacco use." This program's long-term effectiveness will be better defined as the PME system is implemented. The following constitute fiscal year 1999 targets as process measures.

—Success in granting the $20 million, minus administrative costs, to qualified coalitions through a system that is user friendly.

—Provide funds to qualified coalitions within three months of the initial request.

Question. Do you have the technological capability of measuring and reporting program performance throughout the year on a regular basis, so that the agency can be properly managed to achieve the desired results?

Answer. HIDTA's have been in existence for a number of years and their collection processes are well established. CTAC is also a mature program with the capability to measure and report performance throughout the year. The Media Campaign is not yet fully operational to the extent that there are meaningful internal process procedures, but these are being developed. The new Drug-Free Communities Program is developing the capability to measure and report the progress.

Question. Through the development of the fiscal year 1999 performance plan, what overlapping functions or program duplications were identified?

Answer. None. The nature of ONDCP functions and the specific assignment areas within the offices are individualized and preclude duplication or overlap in key program areas. For instance, the Bureau of State and Local Affairs has the lead for Domestic Law Enforcement and while CTAC provides certain technical and evolutionary support in this area they do not have the lead.

Question. Did those duplicative programs receive funding in the fiscal year 1999 request?

Answer. N/A.

Question. What ONDCP programs did you have to eliminate or scale back as a result of utilizing your performance plan?

Answer. None.

Question. The Grand, Routt and Moffat Narcotics Enforcement Team, or GRAMNET, have applied for HIDTA recognition have been recommended for denial by the Regional HIDTA director, Tom Gorman. Although they appear to have met all of the other statutory requirements for the inclusion into the Rocky Mountain HIDTA, GRAMNET was told that they cannot receive designation as part of the Rocky Mountain HIDTA because of a technical matter of whether a judicial district can be designated as a HIDTA member. Please provide the Committee an update on this particular application and any justification for its denial, when in fact it appears to qualify under the basis of a "multi-agency collocated task force."

Answer. GRAMNET is not located in a designated HIDTA county. This is a process used since the beginning of the program in 1990. As has been done in other HIDTA's, additional counties can be considered for inclusion. In the case of the Rocky Mountain HIDTA, the Executive Committee makes the decision to seek inclusion based on the threat level and requests the ONDCP Director to include. ONDCP reviews the request. The review includes an analysis whether the counties meet statutory criteria and whether they are recommended through consultation with the Attorney General, Treasury, Health and Human Services and the Governor.

QUESTIONS SUBMITTED BY SENATOR THOMAS

Question. ONDCP relies heavily upon DEA statistics and data in determining the "most critical areas" within HIDTA designated project areas. However, because the vast majority of DEA personnel are assigned to major metropolitan areas it is only natural that DEA figures reflect more drug enforcement activity in those areas. What steps might the ONDCP take to correct this inherent flaw in the process? Shouldn't the ONDCP diversify its sources of data to eliminate the distortion that accompanies such a reliance on facts and figures solely from the DEA? What consideration does the ONDCP currently give to drug enforcement figures supplied to it by state and local law enforcement entities which might paint a better picture of the degree of activity that is occurring in rural areas?

Answer. ONDCP does not rely solely on data from DEA. A major source of information is the threat assessments from the HIDTA. HIDTA threat assessments rely on a variety of data sources: state and local, emergency room reports, FBI, and other Federal statistics.

For example, the transmittal memorandum for the Methamphetamine Addendum to the Program Guidance, indicates that the most critical areas were determined by considering:

—Threat assessments, strategies, and initiatives from the HIDTA's (these include State and local data and actions to address the methamphetamine problem).

—DEA study of the most significant methamphetamine production/distribution regions.

—California Bureau of Narcotics Enforcement report dated October 1997 (to provide information on the most critical areas within California which is the epicenter for methamphetamine).

Question. Concern has been expressed that ONDCP plans call for wholly independent HIDTA task forces to be created to deal with the methamphetamine problem rather than complement existing task forces with an infusion of HIDTA funds. In many rural states it is not reasonable to create separate HIDTA task forces. Do you agree that in rural states the HIDTA money would be best spent enhancing existing operations?

Answer. The addendum to the Program Guidance emphasizes: "The Program will intensify and network the efforts of existing HIDTA task forces focused on methamphetamine reduction."

The HIDTA program includes extensive rural areas including the Southwest Border States, Gulf Coast States, and Midwest States. Experience indicates that even in rural areas, the best return on tax payer dollars that HIDTA funds are best used for joint Federal, State, and local initiatives rather than mere add-ons to individual agencies.

HIDTA supports Wyoming initiatives: the Natrona Task Force and the Wyoming SW Enforcement team. Their objective include dismantling 2 meth trafficking organizations, to reducing the availability of meth in the greater Casper area and to interrupt sources of precursors and chemicals for meth.

SUBCOMMITTEE RECESS

Senator CAMPBELL. I appreciate your appearance, General. Thank you and this subcommittee is recessed.

General MCCAFFREY. Thank you, Senator.

[Whereupon, at 10:34 a.m., Thursday, March 26, the subcommittee was recessed, to reconvene at 10 a.m., Thursday, April 30.]

TREASURY AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1999

THURSDAY, APRIL 30, 1998

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10 a.m., in room SD–124, Dirksen Senate Office Building, Hon. Ben Nighthorse Campbell (chairman) presiding.

Present: Senators Campbell, Faircloth, and Kohl.

DEPARTMENT OF THE TREASURY

U.S. CUSTOMS SERVICE

STATEMENT OF SAMUEL H. BANKS, ACTING COMMISSIONER

ACCOMPANIED BY:

GENE WEINSCHENK, HEAD, CYBERSMUGGLING CENTER
JOHN MAC KINNON, SENIOR SPECIAL AGENT
ERNEST E. ALLEN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL CENTER FOR MISSING AND EXPLOITED CHILDREN

OPENING REMARKS

Senator CAMPBELL. The Subcommittee on Treasury will be in session. Today we will be dealing with the question of pornography on the Internet. The Internet is a tool which can deliver a world of information on computer screens at our fingertips. Many parents are unaware that this also means that along with the positive side there is a down side. That is what we are here to discuss today, and that is child pornography on the Internet.

The purpose of this hearing is to demonstrate to the public the volume of this activity on the Internet and how simple it is to get this information into the households of America even when you are not looking for it, as well as what Government is doing about the offenders and to protect children. With us today is the U.S. Customs Service which has the responsibility for overseeing and regulating international commerce of which the Internet is a part. Within Customs, there is a division responsible for tracking and arresting people engaging in child pornography on the Internet, which is not as simple as it sounds.

Acting Commissioner of Customs, Sam Banks, is with us today. I understand you have to leave a little bit early to testify in another committee. Commissioner Banks, you are here with Ernie Allen, the director of the National Center for Missing and Exploited

Children. We will hear your statements and then I understand you will have to leave.

Following your statements there will be a demonstration of what there is on the Internet. I think many people would be surprised, as I was, about how easily these things can be pulled up on the Internet. I am certainly not a computer expert, but I know my son who is, has demonstrated a couple of times how easy it is to get literally every kind of information that you want or would not want your children to see on the Internet.

I know this is a difficult issue to discuss but I believe we owe it to our families in America and our children certainly to talk about the consequences of pornography on the Internet. With that, I will yield to Senator Kohl for an opening statement.

STATEMENT OF SENATOR KOHL

Senator KOHL. Thank you, Senator Campbell. Today we are very interested in hearing from Customs on what can be done to reduce or eliminate child pornography and sexual exploitation. It is critical that the Federal Government work harder than ever before to develop the necessary technology to fight this growing problem.

Today we are here to listen to Customs explain how the use of the Internet has resulted in a vast increase in the distribution of child pornography. We must have the technology necessary to track down the perpetrators of these crimes because the Internet now provides child pornographers a safe place to conduct criminal activity.

The Internet is relatively anonymous, rapid, and unsupervised. Once the materials are downloaded they can be retransmitted or reproduced continuously. Ultimately what this means is that the pornographer is no longer relegated to the back room of bookstores. Instead he can comfortably acquire the materials over his or her home computer through numerous sites for viewing or even engaging in online chat room conversations.

As a result, child pornography via the Internet provides the purveyors and consumers of this material a society: something that was not previously available. The validation of pornographic activity is not the direction in which civilized society should move.

The Customs Service has been working to prevent the illegal trafficking and distribution of child pornography both in and throughout the United States before 1977. With the development of the International Child Pornography Investigations and Coordination Center in 1996, Customs has increased its ability to provide support to international and domestic agents working on these cases. Hopefully this hearing will give us an opportunity to understand the complexity of the cases and Customs' ability to respond to these crimes.

Thank you very much, Senator Campbell.

Senator CAMPBELL. Yes; Sam, if you would like to proceed?

STATEMENT OF SAMUEL H. BANKS

Mr. BANKS. Yes, sir; thank you very much, Mr. Chairman, Senator Kohl. I am pleased to appear before the subcommittee. With me today is Gene Weinschenk, to my right, who is the head of our

CyberSmuggling Center, and John MacKinnon, who is a senior special agent with Customs.

Customs obviously has the traditional role of protecting our borders, and historically we have even protected our borders against pornography of all sorts including child pornography. Traditionally it has been through the mails and through videos. The advent of the Internet has radically changed the dynamics of the child pornography enforcement issue for us.

It has also changed dynamics in terms of intellectual property rights. One cannot believe the amount of counterfeiting that goes on, and the amount of narcotics information that is on the Internet. Even trafficking weapons of mass destruction and money laundering are going on on the Internet.

But today, specifically we want to talk about two of the most cruel and damaging crimes, and these are child pornography and child sexual exploitation. Our authority and our enforcement role came with the Child Protection Act of 1984, and then in 1988 our enforcement authorities against child pornography were extended to child pornography transmitted via computers.

Customs immediately went to work trying to focus our enforcement efforts on the computer issue and the Internet. In 1989, we were the first Federal law enforcement agency to initiate investigations into child pornography on computers. Today we spend thousands of investigative man-hours in order to focus in on this terrible problem. We work with State, Federal, and local law enforcement on these issues. We work internationally. We work with both law enforcement and other governments in order to try to expand the legal authorities to deal with this problem internationally as well as domestically.

Last fall we initiated the CyberSmuggling Center which we call C^3. It has a core staff of eight people that are really driving this. With the advent of the Internet—and the international network is what Internet means—there has been a tremendous increase in violations. The reason there has been an increase is because, really, all it takes is a PC. In fact, today you can even access it through your television screen, you can hook up. A simple modem and a telephone line give you immediate access not just to computer files domestically but computer files worldwide.

Equally important is, you can remain relatively anonymous when you are dealing through the Internet. The saddest thing of all is it provides an opportunity for these violators to actually find other support groups out there that are engaged in the same sort of activities.

It is really a fairly simple matter. You get an Internet service provider, AOL, Erol's; there is a whole variety of them. Some of the service providers actually protect some of their own chatrooms. But once you are on the Internet, once you access it, you basically can roam free anywhere through a whole variety of different chatrooms and discussion points.

The thing that we see the most is that people are accessing the Internet Relay Chats, and it is really almost like a CB radio on which people with common interests get together and share information. There are news groups out there that actually post articles

and post images on the bulletin boards that people can access. So it really is fairly simple for them to gain access to this information.

One of the other things that we have seen on the Internet is violators that are actually arranging international travel and international meetings in order to actually conduct child sexual exploitation through the use of the Internet. This is probably one of the things that recently has frightened us the most.

Our accomplishments, since fiscal year 1992: we have arrested 515 people and we have convicted 442. Either they have been convicted or they have pled guilty. This year so far we have arrested 65 individuals and we have 57 convictions. The astounding part of this thing is the type of people involved in this activity. We have teachers, we have truckdrivers. We have policemen, we have pediatricians. Some of the situations that you are going to hear about today and the instances that you are going to hear about are not only astounding, they are just terribly depressing.

Part of our enforcement work has been training hundreds of State and local law enforcement officers in the United States, in virtually every State in the country. We also have gone out and trained law enforcement officials in 50 other countries around the world. We have worked with these other countries in order to try to build the necessary legislation so that enforcement can be conducted, so we can take enforcement actions against these people, and conduct international investigations.

We have also linked up with the National Center for Missing and Exploited Children. We have worked with them for the last 12 years. It has been a very productive relationship. They even provide us with tips on where to search for this.

The real trick is for us to try to stay ahead of the curve. The technology in this area is changing rapidly, and the violators are finding new and different ways in order to try and conceal their trail and their activities. So that is one of the major challenges that is facing us in the future.

I am very proud of the special agents in the Customs Service that have launched this effort and that have attacked this problem. I think that the U.S. Customs Service is recognized worldwide as one of the leading law enforcement authorities on child pornography being transmitted by computer.

I appreciate the opportunity to be here, and what I would like to do is leave you in the hands of our real experts that will be able to show you a demonstration and just how easy it is to access this. Thank you very much.

PREPARED STATEMENT

Senator CAMPBELL. Thank you, Mr. Banks. We have your complete statement and it will be made part of the record.

[The statement follows:]

PREPARED STATEMENT OF SAMUEL H. BANKS

INTRODUCTION AND OVERVIEW

Good morning, Mr. Chairman and Members of the Subcommittee. I am here this morning to give you an overview of the U.S. Customs Service CyberSmuggling Center and, in particular, to tell you about Customs work in investigating two of the most cruel and damaging crimes that Customs investigates: international child por-

nography and international child sexual exploitation. Both of these crimes endanger our nation by damaging our future, by damaging our children.

Customs has always been the front line of defense against the illegal trafficking in and distribution of child pornography in and throughout the United States. Before 1977, Customs seized child pornography entering the U.S. under obscenity laws. In 1977, Congress enacted the first anti-child pornography law, and in 1984, Congress enacted the Child Protection Act of 1984, which gives the Customs Service the authority to investigate any cases which involve the receipt, transmission, manufacture or possession of child pornography which has been shipped internationally. In 1988, Congress passed a law outlawing the use of a computer to transmit, manufacture or possess child pornography which has been shipped internationally, thus opening the door to Customs computer investigations.

In 1989, the U.S. Customs Service became the first federal law enforcement agency to initiate an investigation into child pornography on computers, opening an investigation into computer bulletin boards in Denmark that contained child pornography. One significant result of this investigation was the drafting of the first federal search warrant used to search computers that contained child pornography.

Customs investigations into child pornography on computers, and later on the Internet, set the worldwide standard for both child pornography and computer investigations. We have trained thousands of state and local law enforcement officials from every state in the Union; we have trained hundreds of foreign law enforcement officials in more than 50 countries around the globe. We work with our law enforcement and legislative counterparts in foreign countries in developing investigative procedures and legislative remedies to the problem of child pornography and computer crimes. We conduct investigations of individuals worldwide who produce and traffic in child pornography, pursuing those in this country and turning over information on those in foreign countries—and the problem is universal, from Australia to Zimbabwe—to appropriate law enforcement officials.

In our investigations into child pornography on the Internet, we have seen evidence of the growth of other criminal activity in cyberspace as well. From pirated copies of copyright-protected audio recordings and computer software that threaten the intellectual property rights of the music and software industries of this country, to traffic in illegal arms and weapons of mass destruction, criminals have moved into cyberspace to conduct their business—and the U.S. Customs Service has pursued them there. We have done so with a staff of eight people dedicated full-time to pursuit of Internet crime, and a few other agents who work on these types of cases as part of their already-full and diverse caseloads.

Response to these international cybersmuggling threats is coordinated from the Customs CyberSmuggling Center, or C^3 as it is more commonly known. We established the C^3 in August 1997 to begin Customs foray into combating international Internet crime.

CHILD PORNOGRAPHY AND EXPLOITATION ON THE INTERNET

This morning I am here to discuss a principal investigative focus of the C^3—international child pornography and international child sexual exploitation. These two problems are pervasive and the lasting damage caused by them is widespread.

Child pornography is a crime in progress; it does not end with the click of a camera shutter. Every time someone makes another copy of that picture or launches it out internationally over the Internet, a crime is again committed.

Child pornography, however, is not just "looking at dirty pictures." Child pornography is the permanent record of the abuse of a child that will not only live forever in the mind of that child but will be repeated every time someone views that picture.

Unfortunately, I must report to you that the instances of international child pornography and international child sexual exploitation are rising dramatically. The quantum increase in the availability of inexpensive home computers and the ease of accessing the Internet has opened whole new worlds to people across the globe—and have opened whole new venues for exploitation of children. Almost 100 million people world-wide can access the Internet, and a number of them are children. Unfortunately, others are child sexual predators.

All of the child pornography cases we investigate are terrible and heartwrenching. One particularly gruesome case was of a suspect located in Colorado who made contact with a Customs undercover agent on the Internet and asked how to get child pornography. During his conversation with the agent, the suspect expressed a sadomasochistic interest in young boys. The suspect later admitted that he was a channel operator (like a director) of a "boy torture" channel on the Internet. He transmitted to our agent several images of young boys being tortured. It turned out that he

had a record for previous child pornography violations, and in July 1996 he was arrested. A search of his computer revealed more child pornography images on his computer, including a motion picture file of a prepubescent girl having sex with an adult man.

The Internet is a tool for research, for education, for entertainment. Sadly, like most tools, its benefits can also be used to inflict harm. Pedophiles and child molesters use the Internet to create, transmit, and traffic internationally in child pornography, child sexual exploitation, and child sex tourism. The relative anonymity and instantaneous world-wide reach of cyberspace appeal to these sick individuals who engage in international child sex crimes, giving them the instant gratification they crave as well as giving them validation in the company of other sexual predators. The dark side of the Internet is its use to perpetrate violent and vicious acts that can, and often do, change the course of someone's life forever. Frequently, that "someone" is a child.

Child sex crimes committed over the Internet are even more insidious than other Internet crimes. The number of potential victims who could be lured into dangerous situations via the Internet and the accessibility to these children is virtually unlimited. Trafficking in child pornography is a crime that recognizes no boundaries or borders nor do the traffickers respect the sanctity of the home or the age of the victims. In fact, the U.S. Customs Service has evidence of the world-wide trafficking of child pornography in which the victims are believed to be only a few months old.

The Internet reaches everywhere. Crimes involving international sexual exploitation of children occur in big cities and small, in good neighborhoods and bad, everywhere there is the will and desire to exploit children. All it takes is a computer, a telephone line, and a person who wants to exploit a child.

And these predators have many faces: faces of teachers and policemen. Faces of judges and doctors. People who live down the street or even next door. We in the United States may want to think that international child pornography and child sexual exploitation are invasions of our borders by foreign offenders. Sometimes that is true, but the laws covering these crimes have outbound as well as inbound provisions. Criminals in the United States are also molesting children and distributing the graphic evidence of their crimes world-wide via the Internet.

Just to give you an example of the pervasive nature of these crimes, one of our investigations involved a town in Texas so small that it wasn't even shown on our map of the state. That case involved a member of the town's school board, a school administrator, and a teacher—all of whom were using the school's computer system to traffic in international child pornography while they were teaching that town's children. Horribly, our investigation showed that this child pornography had also been shown to students in the school system.

These are truly international problems with far-reaching consequences. Allowing a child unsupervised access to the Internet is similar to dropping a child off in the middle of a large city without adult supervision: there are wonderful and educational experiences to be had, but there is also great potential for great harm—or even death—for that child.

SCOPE OF THE PROBLEM

Before I go further, I would like to give you a thumbnail sketch of the cybersmuggling environment. The Internet is a collection of interconnected computers which serves as a network for the transfer of data. Commercial online services, like America OnLine (AOL), or Internet Service Providers, like Erols, only provide access to the Internet and a familiar, easily understood method to navigate through this network. These services are NOT the Internet themselves, as many people believe.

Anyone with a computer, or even a television equipped with the appropriate computer software, can establish a link to the Internet using any Internet Service Provider. Many libraries and schools also have access to the Internet.

When someone connects to the Internet, through whatever means, access is worldwide. The open nature and direct communication afforded by the Internet means that anyone, regardless of age, can access just about anything that is available there.

Although many online services and Internet service providers provide safe, monitored chat rooms and services, these protections are not inherent to the Internet itself. Connection to the Internet also makes available to the user direct and unmediated access to services such as Internet Relay Chat (IRC) and Newsgroups.

Internet Relay Chat (IRC), another source available on the Internet, is a lot like channels on a CB radio. Anyone can join in the real-time conversation on these channels—and there is a shocking amount of trafficking in child pornography going on in that "talk." In fact, most of the trafficking in child pornography goes on in

the IRC, since the IRC gives people the capability to allow access to their computers to anyone else in the IRC channel. Child pornographers can then trade privately, one-to-one, without having to attach those pornographic files to a potentially traceable e-mail.

Newsgroups are a collection of articles "posted" or sent to the Newsgroup area, much like articles are posted to a bulletin board. There are hundreds of Newsgroups on every imaginable topic—and there are numerous Newsgroups dedicated to child pornography and child exploitation at any given time. These Newsgroups can contain graphic images of child sexual abuse that anyone may access—even a child. While many of the Internet service providers and Online service providers do filter those newsgroups to exclude those obviously indulging illegal habits such as child pornography, banned Newsgroups can be accessed through other computers on the Internet.

CUSTOMS RESPONSE TO THE PROBLEM

No one alone can control and eliminate international child pornography trafficking and child exploitation; law enforcement, legislators, industry, and families must work together in a concentrated, world-wide effort to protect our children from this plague.

The U.S. Customs Service has established the C^3 to coordinate and focus its activity in the investigation of international child pornography and child exploitation, as well as other cybersmuggling crimes.

Over the last two years, the U.S. Customs Service has averaged close to one arrest every other day for international child sex crime-related activities.

Though these numbers may be surprising, even more shocking are the jobs held by some of these violators. I am saddened to report to you that the persons arrested are from all walks of life. We have arrested teachers and truck drivers, pastors and choir masters, police officers and pediatricians.

One recent arrestee is a family physician who was certified as a forensic pediatrician at an Indian Health Service Hospital in New Mexico. He was arrested for trafficking internationally in child pornography and for traveling to Spokane, Washington for the purpose of having sex with an eight year old girl. It was his intention to record his sexual molestation of this young girl and to make those images available world-wide over the Internet. Fortunately, this child sexual predator's "prey" turned out to be a U.S. Customs Service undercover agent.

Child sex tourism is not a rarity. The numbers of predators using the Internet to arrange international travel for the purpose of molesting a child in another country is on the rise. It also is not unusual for these predators to record these child molestations and to later make them available over the Internet.

The rise in the number of arrests by the U.S. Customs Service for international child sexual predator crimes has risen in parallel with the rise in Internet usage.

As more people became home computer users with the drop in price, increase in availability and ease of access to the Internet, use of the Internet rose dramatically after 1995. During the same time frame, U.S. Customs Service arrests for Internet-related international child sexual crimes rose 183 percent from 48 in fiscal year 1995 to 136 in fiscal year 1996. Just this year alone, we have arrested 65 individuals, and have had 57 convictions. Since fiscal year 1992, the U.S. Customs Service has arrested 515 individuals for child sexual exploitation-related offenses, and 442 have been convicted of or pled guilty to these charges. The U.S. Customs Service has never lost a case that has gone to the judicial process; all of those individuals have either pled guilty or have been convicted.

The U.S. Customs Service is recognized by international law enforcement as the world's leading law enforcement authority on computer child pornography investigations. I mentioned earlier our training programs for federal, state, local and foreign law enforcement officials. We also maintain the world's largest reference collection of child pornography materials, and are consulted regularly by federal, state, local and international law enforcement colleagues on child pornography and child exploitation investigations. We have had a very close working relationship with the National Center for Missing and Exploited Children for 12 years. In fact, the National Center has used Customs as its principal point of referral for the Center's Child Pornography Tipline. Leads from the TipLine have led to over 50 arrests.

Pursuing international investigations into child sexual exploitation can be difficult because of the differing laws world-wide regarding children and also regarding computer communications. As we have done in the past with other international crimes such as money laundering, Customs works with foreign governments and law enforcement entities in addressing the problems of computer and Internet crime, as

well as crimes of child sexual exploitation, through legislative, investigative, and educational means.

Computer and Internet investigations are new territory for law enforcement, and require new and innovative solutions, both from the investigative and legislative standpoints.

Computer criminals are computer-savvy—and are able to invest large amounts of time and money in remaining a step ahead of law enforcement in utilizing cutting-edge technology. The technological advances in computing, such as data encryption, data encoding, computer-booby-traps, and computer networking put law enforcement at a disadvantage unless we are able to invest the intensive amounts of time and labor to keep up. Keeping up with the latest technology is a large, hidden, but necessary expense if we are to enforce laws in cyberspace as well as in real space.

Computer crime is also relatively new territory for lawmakers. The U.S. Customs Service stands ready to work with Congress and all law enforcement entities to help find solutions to address these burgeoning crimes.

Mr. Chairman, thank you for the opportunity to appear before the Subcommittee today. I would be happy to answer any questions and then demonstrate our cybersmuggling operations.

OCCUPATIONS OF OFFENDERS

Senator CAMPBELL. Sam, I appreciate you being here. I might say, while you were talking I was looking at your chart over here. I am absolutely amazed at that list of occupations of the offenders. Do you have some type of a breakdown of these 515 arrests, 442 convictions? A breakdown that you can give to the subcommittee about these different occupations of the offenders and how they fit some of the convictions?

Mr. BANKS. Yes, sir.

Senator CAMPBELL. Is there a larger number of a certain category of offenders than another?

Mr. BANKS. No, Mr. Chairman; one of the common threads is, these people work with children on a regular basis. They have activities that put them close to children.

Senator CAMPBELL. Yes; pardon the language, but I think the bastards ought to all be put in jail, frankly.

Mr. BANKS. I am with you.

Senator CAMPBELL. I know you have to leave.

Senator Kohl, do you have any questions that you would like to ask Sam before he has to run?

LIMITATIONS

Senator KOHL. Yes; I wanted to ask you, Mr. Banks, what are the limitations that prevent you from doing a much, much better job with respect to arresting these people, convicting them, and putting them in jail? Are there things that we can do to help you do your job much better than you are able to do it right now?

Mr. BANKS. There is always a staffing issue in terms of the number of people that you can bring to bear on this issue. One of the things that we have got to do is we also need very particular skill sets. We need people that know how to manipulate computers in a very sophisticated fashion. So that is a big issue.

One of the things that is always a problem is trying to stay current with the latest technology in order to be able to access the Internet and be able to try and trace back, in investigative fashion, the people who are involved.

LEGISLATION TO EXTEND EXISTING AUTHORITIES

Mr. WEINSCHENK. We also need some fine-tuning of legislation to extend our existing authorities to the Internet. We are working on developing that.

Senator KOHL. I guess how I feel, and I am sure how Senator Campbell and Senator Faircloth feel is that this is a problem that we should be using as much of our expertise as is available and possible to bring this to a minimum in terms of its perpetration. I have the feeling that we can do a lot better if we will work together in every way to be sure that we bring to bear the resources and the technology that we have to see to it that this kind of activity is kept to an absolute minimum. It is obviously very serious and it should command all the attention that we need to give it to bring it down to its lowest possible activity level.

Mr. BANKS. Yes, sir; I totally agree with you. One of the other things that we need to continue to do is to work internationally, because you cannot solve this problem just domestically. We need to make sure that some of these other countries, in particular, the countries that are the sources for some of this child pornography, have the necessary legislation to be able to do their work. We need to make sure that we are linked with their law enforcement authorities so that we can take strong action against the people who are involved in this.

Mr. WEINSCHENK. To bring that into perspective, Senator, there are approximately six countries around the world that have sufficient legislation on the books already to combat this; 6 out of 190-plus.

Senator KOHL. And we are not one of them?

Mr. WEINSCHENK. We are.

Senator KOHL. We are one of them.

Mr. WEINSCHENK. We have the legislation; however, we just have to fine-tune some of it to where we can begin our work.

Mr. BANKS. Last year we arrested 145 people engaged in this effort. So we have the legal authorities to be able to do this work.

Senator KOHL. Are there constitutional prohibitions that keep you from doing this work as effectively as you would like?

Senator CAMPBELL. Like first amendment rights or something of that nature.

Mr. WEINSCHENK. There are a lot of contentions of first amendment right violations, but the Supreme Court has basically ruled that child pornography is not included within the first amendment rights.

What we have to do, because this is such an international problem, is have other countries develop parallel law because it is going in and out of our country. So we have to be able to work with them. If they do not have the authority to do this, we are really at a loss.

Senator CAMPBELL. He has to testify at another hearing, Senator Faircloth. Do you have anything you want to ask him before he runs to his next commitment?

Senator FAIRCLOTH. Just if I could ask one quick question. How many people do you have working in Customs specifically on child pornography?

Mr. WEINSCHENK. We have eight at the center and we have at least one in every office. It would be about another 144 at the moment, but they are working it part time.

Senator FAIRCLOTH. So you have——

Mr. WEINSCHENK. Eight full time.

Senator FAIRCLOTH. Eight full time and——

Mr. WEINSCHENK. And roughly 144 part time, giving any variation of hours to it.

Senator FAIRCLOTH. Thank you.

Mr. BANKS. Mr. Chairman, could I introduce someone very quickly?

Senator CAMPBELL. Yes, please do.

PROTECTION OF CHILDREN

Mr. BANKS. This is tied to the protection of children. We have a supervisory Customs inspector from San Diego here, Inspector Al Morales. A week ago Monday there was a high-speed chase of a suspect from Los Angeles all the way down to the Mexican border. In that car was a 2-year-old infant. When they got to the border and we boxed them in, the suspect actually pulled a knife, grabbed the kid, held the knife to the child's throat. It ended up being his child as well, although he was taking him from the mother. But held the knife to the boy's throat.

Our supervisory inspector basically talked him through this whole situation, calmed him down. He was surrounded by a considerable number of police. Walked him out through this situation, actually walked him over toward the border. And as the suspect started fleeing for Mexico, our inspector grabbed the 2-year-old infant. So the infant was unharmed, and has been returned to his mother. The Mexican authorities returned that person back to us.

We are involved in protecting children on all sorts of fronts. So, Al, if you would stand up for a moment I would like to introduce you to the chairman and the members of the subcommittee.

Senator CAMPBELL. Thanks for being here.

I am the chairman of the Indian Affairs Committee and we are getting a lot of information from Interior, Indian Health Service, and Bureau of Indian Affairs that child pornography, child molestation and so on, all that is on the rise on Indian reservations. Do you have anybody that is specifically assigned to work with the reservations?

Mr. WEINSCHENK. Senator, the pediatrician listed on that chart there was the pediatrician for the Indian nations in New Mexico and he had himself put into a position where he would be responsible for doing the forensics on any child who had been molested. We arrested him both for trafficking in international child pornography and for traveling to Spokane, WA, to molest what he thought was a 7-year-old child. The agent who conducted that investigation, Marcus Lawson, is right here.

Basically there is really no way we can focus on something like that. We have to deal with whatever we come up with on the net and then work with it.

Senator CAMPBELL. Sure; I understand.

Mr. WEINSCHENK. But there is a perfect example of it.

Senator CAMPBELL. I thank you. Sam, thank you for appearing.

Mr. BANKS. Thank you, Mr. Chairman.

Senator CAMPBELL. I might tell you that we are going to have a slide presentation after Mr. Allen's comments and I understand it is pretty explicit. If anybody in the audience prefers not to see it, you are welcome to leave the room.

Mr. WEINSCHENK. Senator, if I might. We are going live online. It is not going to be a slide presentation. We are actually going to pull it up as anyone could go in and get it.

Senator CAMPBELL. All right; fine. In any event, if there is anybody in the room that does not wish to see this, you are welcome to leave.

Mr. Allen.

STATEMENT OF ERNEST E. ALLEN

Mr. ALLEN. Thank you, Mr. Chairman. I am Ernie Allen. I am the president of the National Center for Missing and Exploited Children which is a nonprofit organization mandated by Congress. I am here today really for two reasons. One is because of our long partnership with the U.S. Customs Service which Commissioner Banks mentioned, to speak in support of their efforts on child sexual exploitation, child pornography.

Second, to thank you and this subcommittee. This subcommittee has been a great champion for children. We are proud of the relationship that we have built with Customs and with the Postal Inspection Service and with the U.S. Secret Service. It was this subcommittee that funded our new exploited child unit which is targeting the sexual exploitation of children in the same way that we are searching for missing children. So great progress is being made.

In Senator Kohl's questions and your questions, a couple of key points came out. I wanted to emphasize to the committee that we are aggressive supporters of the Internet and the use of the Internet in many ways. However, about 4 years ago we began to look at the risks posed by the Internet and we tried to address those risks through a three-part strategy.

One is through aggressive public education. There are a lot of parents out there who have a false sense of security. My kid is at home, he is on his PC, he is doing something good and positive for his future. And a lot of parents do not really know what their kids are doing and what they are into. So we have tried to address that.

We have done publications, including our child safety on the information highway which has gone into now 3 million American homes providing positive information, usable information, and tips. Our data indicates that the kids at greatest risk on the Internet are teenagers. So we have done a separate initiative targeting teen safety on the information highway, trying to reach out to kids in ways that they can relate to.

Through the leadership of this committee, and in partnership with the Customs Service and the Postal Inspection Service and the FBI, we have actually done mouse pads with safety tips that we are trying to take into America's schools. Our goal as a nation is to wire every school in America for the Internet by the year 2000. What we are trying to do is to make sure that every one of those schools, at every one of those PC's, has the kind of positive, supportive information that can keep kids safe.

So working with private sector leaders as well as this committee and the Congress, we are trying to put a mouse pad at every one of those PC's in every school in the United States. So education and prevention has been a goal.

Second, we have worked with leaders in the computer industry to try to develop technology tools, access controls that give parents the kinds of ability to limit the access of their kids to certain areas.

But really the third prong of that strategy, the third key point and we think the most important is aggressive enforcement. Mr. Chairman, you made the point that this is not protected speech. In the 1980's, the Supreme Court of the United States in a case called *Ferber* v. *New York* said that child pornography is not protected speech. It is child abuse. So what we have tried, working with the U.S. Customs Service, is to send the message that there should be zero tolerance for child pornography, for child sexual exploitation on the Internet.

The problem has been that, as with many issues, law enforcement technology has lagged the technology of those who would misuse it for unlawful purposes. I guess 80 years ago—I heard this story that when the automobile was first introduced, law enforcement leaders opposed it saying that only the crooks will have the cars and we will be chasing them on horseback and on foot. Well, in many ways, that is where we are today, and we are trying to catch up.

The leader in this effort of using technology to attack this problem has been the Customs Service. We are proud at the National Center, as Commissioner Banks mentioned, for 12 years we have been the partner of the Customs Service in this effort. We have operated the National Child Pornography Tip Line providing leads from the general public about the manufacture and distribution of child pornography. That has led to many of the convictions that Commissioner Banks talked about.

But there are some challenges here. One is that there were some positive effects of that Supreme Court decision in the 1980's. The primary effect was to eradicate, by and large, commercially produced child pornography from the shelves of adult bookstores. Law enforcement, it was clear, there was no longer a debate about whether this is obscenity or not. It was not protected speech. And the result was that it disappeared from adult bookstores.

Through the aggressive efforts of the Postal Inspection Service we have made great progress on cracking down on the use of the mails for the distribution of child pornography. However, with the advent of cyberspace, with the advent of the Internet, what has happened is that a virtual sanctuary was created: a place where pedophiles and others trading in child pornography could achieve virtual anonymity. So what was necessary was an aggressive law enforcement assault on that effort.

As the Commissioner mentioned, now for more than 4 years the Customs Service has been out front on that. We work very closely with Customs, with the FBI, with the Postal Inspection Service, and as this subcommittee may be aware, only last month we just launched our new CyberTipline, which provides a vehicle to report child pornography, child enticement, various sexual crimes against children online in addition to via our telephone hotline.

So to show you that there is a huge potential for reaching out to the public to get the kind of information that we need for law enforcement purposes, in barely 1 month we have already received 732 leads over that CyberTipline, which are being worked by Customs and the FBI and the Postal Service. Of those leads, 472 of them relate to child pornography; 168 of them relate to the enticement or luring of children online through chatrooms for illegal purposes; 62 of them relate to direct reports of child molestation.

So our belief is that by and large this is still a problem of hidden victims. We need to do a great deal more. I am not an employee of the Federal Government or the U.S. Customs Service. I know the Commissioner probably could not answer Senator Kohl's question as directly as I would like to. But in my judgment as a child advocate and a citizen, they need more resources. They need more people. They need more tools.

The impact that they have had with eight people, and eight people really working on multiple issues, not just on this issue but that whole range of cyber crimes, I think is extraordinary and is really one of the great success stories of the Federal Government. But our view is, the law enforcement needs, the law enforcement challenges that we face in this issue require greater attention, greater resources, and it would be my plea to this committee that you look for ways to do more.

I guess the final point I would like to make, Mr. Chairman, to sort of illustrate the breadth of this problem and how in the words of one police official, the only way not to find it is simply not to look. In our judgment, America has begun to look. Law enforcement is becoming more sensitive, more sophisticated, more effective in this area, but we need a lot more to do. We looked at just the last month in terms of the States of the members of this committee. In every State there has been a significant arrest or prosecution related to this issue within the last 30 days.

For example, Mr. Chairman, in your State on April 15, the Boulder County sheriff arrested a 44-year-old man on charges of sexual exploitation of children involving the Internet. Senator Kohl, in Milwaukee on March 22 there was a child pornography related arrest by the sheriff's department. Senator Faircloth, in Charlotte on April 9 in Catawba County, actually related to a murder in Catawba County, the Catawba County officials found child pornography and have related it to that offense.

This is a problem that is happening in every community in every State, and in our judgment, while we have made great progress there is a lot more to do. Thank you, Mr. Chairman.

PREPARED STATEMENT

Senator CAMPBELL. Thank you, Mr. Allen. We have your complete statement and it will be made part of the record.

[The statement follows:]

PREPARED STATEMENT OF ERNEST E. ALLEN

Mr. Chairman and members of the Committee, as President of the National Center for Missing and Exploited Children (NCMEC), I am honored to have the opportunity to submit testimony on behalf of the United States Customs Service's International Child Pornography Investigation and Coordination Center (ICPICC).

I would like to first take a brief moment to thank this committee in a broader way for your long-standing leadership and support for the National Center for Missing and Exploited Children, specifically your support for our new Exploited Child Unit (ECU).

This special division at NCMEC provides information and technical assistance specifically in cases of sexual exploitation, providing the same kind of assistance to families and law enforcement in sexual exploitation that NCMEC provides in missing child cases. The ECU is developing technology and other resources to assist law enforcement in all areas of child sexual exploitation, including emerging issues such as international child sex tourism, Internet-related child sexual exploitation and sex offenders. It serves as a primary point of contact on these issues and provides informational support to local, state, and federal investigators, as well as to victims and other concerned citizens.

On March 9, we launched our new CyberTipline, www.missingkids.com/cybertip. The tipline was created for parents to report incidents of suspicious or illegal Internet activity, including the distribution of child pornography online or situations involving the online enticement of children for sexual exploitation. Since its unveiling less than two months ago, the CyberTipline has received 732 "leads" pertaining to child pornography, child prostitution, child sex tourism and online enticement of children for sexual acts. ECU staff is available seven days per week, 24 hours per day, to handle these leads, and then distribute them to the appropriate law enforcement agencies, including U.S. Customs. The CyberTipline is our newest and brightest star, and we are excited and enthusiastic about improving our services in this vital area.

Long before the launch of the CyberTipline, the National Center for Missing and Exploited Children and the U.S. Customs Service have been working together in the fight against child pornography and child sexual exploitation on the Internet. In 1987, Customs was the first federal law enforcement agency to agree to be the contact point for tips and leads from NCMEC's toll-free Child Pornography Tipline. Since then, Customs has established a strong working relationship with NCMEC.

For the past four years, Customs has provided more than $215,000 to the toll-free Child Pornography Tipline and other NCMEC operations. This funding has been used for promotional brochures, public service announcements, and a current campaign designed to educate teenage girls about the risks they may encounter and ways to stay safer from crime, called "Know the Rules."

On many occasions, NCMEC has asked Customs Agents to provide training around the country to state and local law enforcement on investigative methods and techniques to combat child pornography violations. Locally, Customs Agents have trained NCMEC Hotline Operators to become familiar with the types of leads that we are now receiving via the CyberTipline. This includes child pornography and exploitation methodologies, terms and nomenclature. NCMEC and U.S. Customs have had a successful ten-plus years combating child pornography, but unfortunately, much, much more needs to be done.

Child pornography, all but eradicated from adult bookstores and aggressively targeted in connection with the use of the mails in the 1980's, has resurfaced with a vengeance, thanks to computer technology. Although, sexually oriented materials are still available and prevalent, this illegal activity has flourished on the Internet—with child pornography being traded freely in chat rooms, news groups and private e-mail. Pedophiles, child molesters and other purveyors of child pornography now have instant access to explicit photographs in the privacy of their own homes and offices. Hidden behind their PC's, they brazenly trade pictures and videos, using technology to transmit an unprecedented number of images around the world, broadening the audience for child pornography and victimizing a new generation of children. And they taunt law enforcement that does not have the manpower or resources to hunt them down. The risks to children, particularly teenagers, in cyberspace include:

1. Use by predatory adults to entice children to leave home for purposes of child sexual exploitation; and

2. Exposure to child pornography and other unlawful sexual content on the Internet.

These two types of cases are now being reported and investigated almost everywhere. It is a problem in virtually every community. For example, in the past few months, there have been major cases reported in every state represented on your committee:

—April 15 in Boulder, CO: Sheriff's detectives are looking for victims of a man they say had pornographic pictures of children stored on his computer files. Teddy Mark Long, 44, was arrested March 25 on charges of sexual exploitation of children.

—March 22 in Milwaukee, WI: William Harry Kucharek was accused in the complaint of having "numerous boxes of child pornography, including pictures, videotapes, dolls and other sexual devices" among his belongings when Sheriff's Department deputies and movers arrived to evict him.
—March 29 in Gunterville, AL: A Marshall County Sheriff's Department jailer was arrested and charged with possession of child pornography. Authorities confiscated about 98 computer disks containing pornographic images of children from various sites.
—April 25 in New York City: An aerospace engineer with ties to the U.S. Department of Defense pleaded guilty yesterday to using the Internet to induce two 16-year-old girls in Maryland to engage in sexual acts with him, federal prosecutors in New York said.
—April 9 in Charlotte, NC: On the same day the sexually tortured body of a Maryland woman was found in a shallow grave in Catawba County, the man accused of killing her possessed child pornography, federal prosecutors say.

It is clear that this is not an isolated problem, it is widespread and growing. An encouraging development is the growing number of specialized units at the federal, state and local level targeting these offenses. One of the most successful is the Customs Service's ICPICC unit.

The U.S. Customs Service established the International Child Pornography Investigation and Coordination Center (ICPICC) in April 1996. Part of Customs' new CyberSmuggling Center, and staffed by Special Agents with expertise in both child pornography cases and computers, the primary objectives of the ICPICC are to:

—more effectively assist the field in the investigation of the increasing number of child pornography cases;
—provide guidance and support to the field in the investigation of complex cases involving child pornography violations; and
—spearhead the U.S. Customs Service international effort to combat child pornography.

Since being established in April 1996, ICPICC has overseen seven operations, recording 247 arrests, 238 indictments, 240 convictions and 653 seizures. And just since Oct. 1997, Customs Special Agents arrested 65 individuals in the United States for trafficking in or possessing child pornography—of those, 57 persons were convicted. But clearly, one of Customs' biggest success stories is the "Tholian Web" operation.

A joint state-federal operation, "Tholian Web," has been credited by law enforcement as the most successful sting of its kind in the nation. The 18-month dragnet uncovered child pornography traffickers throughout the United States, and as far away as Germany, Switzerland and Great Britain. The sting has so far resulted in over 120 prosecution referrals and at least 32 convictions nationwide.

As a result of the probe, investigators have amassed over 200,000 child porn images—possibly the largest collection of child porn in the world—and seized over $137,000 in home computer equipment. Although Customs' vigor in targeting child pornography traffickers has been successful and yielded tremendous dividends, much more needs to be done.

The National Center for Missing and Exploited Children believes that Congress should adequately direct federal resources toward attacking the problem of child exploitation over the Internet. The U.S. Customs Service has long been recognized by law enforcement and the international community for its knowledge and skill in investigating cases of child pornography and child exploitation. And the close relationship we have fostered with the Customs Service has allowed the National Center for Missing and Exploited Children to maintain our aggressive posture in this important child protection area.

The best way to protect the positive, unfettered uses of the Internet is to ensure that it not be allowed to become a sanctuary for pedophiles, child pornographers and others who prey upon children. The United States Customs Service has long shared that commitment, and it deserves this committee's full support. Thank you.

ONLINE DEMONSTRATION

Senator CAMPBELL. Should we go ahead with the demonstration?

Mr. WEINSCHENK. What we would like to do, Senator, if you would like, is to actually go online and show you how quickly we can get into these areas, as anyone can, any child, and also to show you what is going on out there.

Senator CAMPBELL. All right.

Did you have an opening statement that you wanted to make before we see this demonstration?

Senator FAIRCLOTH. I do have an opening statement, if I may.

Senator CAMPBELL. Go ahead, Senator.

STATEMENT OF SENATOR FAIRCLOTH

Senator FAIRCLOTH. Thank you, Mr. Chairman. I just want to thank you for holding this important meeting. I have just recently—being older, maybe I have just become aware of the problems that are out there. But as most any parent can tell you, children seem to have a better ability to use computers than their parents or grandparents do and can get into the computer system.

In just a few years the Internet has gone from being a novelty known only to computer experts to a part of everyday life. More and more computers are in our homes, they are in our classrooms, and children are among the most frequent and sophisticated users.

This is a tremendous tool for education, but as has been well said here today, it opens a doorway through which the most deviate of child molesters can have direct access to children and grandchildren. And this is an international problem, not a national problem, as has been well said here. Child molesters from virtually any country in the world can come in contact with vulnerable children in this country as easily as they could if they were across the street. And this is more of the problem.

I introduced legislation last October to prohibit Internet service providers from providing accounts to sexually violent predators because of my concern that the Internet is becoming an open market for the most twisted kinds of child pornography. I want to talk with the chairman to increase resources for the cybersmuggling program and what we can do to stop it.

Thank you, Mr. Chairman.

Senator CAMPBELL. OK, if you would like to proceed.

Mr. WEINSCHENK. This is John MacKinnon, special agent with U.S. Customs assigned to the C^3 center. We will show you what we bump into on a daily basis.

STATEMENT OF JOHN MAC KINNON

Mr. MACKINNON. Thank you. Good morning, Mr. Chairman, Senator Faircloth, Senator Kohl. My name is John MacKinnon. I have been a Customs agent for 10 years and the past 6 years I have been involved in and conducted child pornography investigations, most of which involve the Internet. I have also been fortunate to have been involved in the training of 3,000 law enforcement officers, not only here in the United States, but in numerous countries abroad.

One of the things I have found useful in instructing not only law enforcement officers but law enforcement officers who were parents and teachers themselves, is the use of analogies in understanding the basic but crucial concepts of the Internet.

There are several different areas of the ether of the Internet. The terms are bandied about, semantics are interchanged. You have commercial online services. This is an example of one of the online services, America Online. Microsoft Network, Prodigy, AT&T

Worldnet. A citizen will pay a monthly fee to have access to this nationwide computer club.

I put this up here for several reasons because—I know the purpose and the scope of this hearing is to discuss the downside of the Internet and the evil that exploits the net. But an example here on the things that we can see that are offered by all the online services and other services in other parts of the Internet, are the good parts that are available, the good things that are available on the Internet. Sports, news, games, health, lifestyles, shopping. You can make airline reservations, you can check the weather, so on and so forth.

You pay your monthly fee. You are given a telephone number locally that you can dial up with your computer and your modem to connect. You connect inside this nationwide computer club and you can do many or all of these things. You can also exchange things on the commercial online service. You can exchange files. You can exchange thoughts. You can exchange pictures. You can do that through electronic mail.

I know you are familiar with the mail service that you use here in the Capitol. Within the commercial online service you can send electronic mail in real time, or you can send it to be read at a later time. The mail can be a message containing any thoughts. It can be egregious. It can be seductive to a child. Or the mail message could contain pictures. For our purposes, child pornography pictures. Or from within this closed nationwide, or actually international computer service, you can reach out to other people in other parts of the Internet.

What I am going to do now is just get right to it and we will connect. Can you see that?

Senator CAMPBELL. We only have two options, and that is this light or no light at all, turning the whole thing off. We cannot just dim them, so we will just have to go with this. But we can see the large print.

ONLINE DEMONSTRATION

Mr. MACKINNON. To reiterate our disclaimer here, I am not going to display child pornography. There may be a small amount of offensive language, and that is the risk we take by going live.

Senator CAMPBELL. OK.

Mr. MACKINNON. This is the World Wide Web, another section of the Internet, separate and distinct from our online services. The service, the access to the World Wide Web you get from an Internet service provider. America Online or Microsoft also provide service to the Internet in addition to their closed club. An Internet service provider like IBM or AT&T, and up to 4,000 other Internet service providers in the United States, will collect from the user $20, $25 a month, give you a phone number to access their big computers which interconnect with the Internet.

The World Wide Web became very user friendly, very appetitive for the nontechie, the noncomputer person just in the past few years. Why? Point and click. Instead of using arcane computer commands and having to learn them, it is very graphical. You take your arrow, you point on something, like this enforcement activities in the U.S. Customs Service, and you go to another section of this

World Wide Web site. The majority of the World Wide Web sites are legitimate. There is a small minority, an unscientific estimate of 1, 2, 3, 4, 5 percent of World Wide Web sites that are illegal, unlawful.

We conduct our investigations in several different ways. We conduct reactive investigations. We receive tips from Mr. Allen's National Center for Missing and Exploited Children CyberTipline, an online World Wide Web realtime forum to receive information to forward to law enforcement. We have our World Wide Web page ourselves, and a computer citizen will click on. If they come and visit our site and they have information that they want to report, they can simply send us an e-mail and a complaint.

We receive tips from our 24-hour-a-day, 7-days-a-week, every-day-of-the-year telephone hotline, tips and information. We collect this information from computer citizens and we try to do something with it. We try to validate it through other investigative techniques.

We also conduct investigations in a proactive sense.

Mr. WEINSCHENK. If I may, Mr. Chairman. We receive anywhere between 200 and 400 tips a week from our own tipline on the page.

Senator CAMPBELL. 400 tips a week and you only have eight full-time people to deal with them?

Mr. WEINSCHENK. Yes, sir; 200 to 400.

Mr. MACKINNON. And that is just from our own tipline. We receive information from other avenues which compounds it.

ONLINE DEMONSTRATION

Now the World Wide Web offers preferential child molesters and traffickers of child pornography a global forum to meet other violators. It is unsophisticated to create web pages. The problem for law enforcement is that the use of the Internet is becoming easier and easier for a greater amount of people.

This is an example of a web site put up by somebody, we believe maybe overseas. There are the initials, NL, which is Internet parlance for the Netherlands. On this web site—and I was showing the majority staff director this the other day, and also the minority clerk—is a compendium of places on the net to learn about pedophilia, child pornography. I use this to instruct law enforcement officers as well, and here is a pretty good place to start to learn about the milieu that we have to deal with.

Each phrase in blue is what we call a hyperlink. That just means—I am sorry for the technical terms. You put your arrow on it, your cursor, you click on that and you are going to go somewhere else on the Internet. Now FreeSpirits site, FreeSpirits is this pedophile organization that has concocted this web site, and they have on this web site several different subsections, as you will see by subtopic. Message boards related to boy love, other major resources for boy lovers, sites hosted by individual boy lovers.

Message boards, think of the bulletin boards that you would see in the squadroom of a police station or in the anteroom of your office. You could post notes. You can pull down notes. It can be realtime or it can be looked at and viewed later. It is a place to exchange thoughts.

Boys viewpoints, community involvement, the written word, news groups. Another section, in addition to our online services in the World Wide Web, of which this is, are the news groups which have upward of 40,000 separate titles. Each title of each group is a unique topic area. Motorcycles, basketball, pedophilia. This will list the news groups that are focusing on pedophilia.

Free speech and censorship issues, privacy and security Internet. Mr. Chairman, these two areas here, especially the last one, when posted to these pedophilia sites give me and my colleagues concern. Because what the offenders are doing is trying to educate other offenders on how to evade detection. In this particular law enforcement arena where technology is paramount to either avoiding detection or being detected, is one of our challenges. It is not only just staying up with the technology, but trying to keep up with the techniques that are circulated.

Mr. WEINSCHENK. Mr. Chairman, if I may, we made copies this morning—John was perusing the net while we were waiting for you. We found a web site which instructs the pedophile how to undo what parents are doing. What parents are telling their children to be aware of, that site tells them, here is how you get around that. Here is how you can bring down the child's defenses. It is available on a site just like that.

Mr. MACKINNON. Mr. Chairman, Senator Kohl, further down in this section are other major resources, including one that Mr. Weinschenk just alluded to. This also shows the international aspects of what we are dealing with. Danish Pedophile Association, European Boy Lover home page, Montreal Ganymede Collective, NAMBLA, which is an acronym for North American Man Boy Love Association, Pedophile Liberation Front, which we will click on and visit. This is another World Wide Web site that is interconnected with the previous one.

Mr. WEINSCHENK. If you look at their heading, "Do something on the 25th." They want to celebrate. You can imagine what they want you to do.

Mr. MACKINNON. Which is Pedophile Pride Day. Now what is listed here on the top and on the side are other options, other links, other connections for this subject area. It lists members' home specific web sites. Let us go to Reconsidering Pedophilia.

Mr. WEINSCHENK. One of the questions that is always asked of us is, do we know how many pedophiles or molesters? We are not sure because we do not know how many pedophiles are out there. But we do have an educated guess that as many as 70 or 80 percent of the molesters are pedophiles.

Senator CAMPBELL. Is it also gender skewed, more men than women? That would be my guess.

Mr. WEINSCHENK. I would say probably more men than women, but there are sites, mother-daughter sites.

Senator CAMPBELL. Let me ask you a couple things, moving along here. You talked about the ability to evade detection. I noticed one up there that you said was at the top of the list and it said Free Spirit. Do you have a way of tracking just who that is, where they are coming from, where they live?

Mr. MACKINNON. Yes.

Senator CAMPBELL. If you make phone calls, there are ways of tracking where the phone call came from. Do you have a way of tracking who actually is putting it up on the web?

Mr. MACKINNON. Yes; with all due respect, given that this is a public hearing, we have numerous investigative techniques that we employ. Given that there are commonly available Internet tools that anyone can use to initially identify what computer this person who is using the name, TheSlurp, or the other person, Free Spirits, are using to connect to the Internet.

ONLINE DEMONSTRATION

Senator CAMPBELL. Is there some type of fingerprint or signature or something on these different—I am speaking from a total layman's standpoint. Is there a print that can be tracked to determine where that computer or where the access was made? I am not quite sure even how to phrase that question.

Mr. MACKINNON. You are in the right ballpark. On top of someone's user name, like gene@ibm.net, that is up here. You can change that. But what is sitting underneath it are other things that are more difficult to change. Think about VIN number on an automobile, or DNA in a human body. That DNA stays.

Senator CAMPBELL. So that is like a fingerprint for that——

Mr. MACKINNON. Now the corresponding analogy is a thing called the Internet protocol address, or an IP address. That is a number that sits—that is similar to the DNA or the VIN number. That stays with your Internet account wherever you traverse the Internet. Now there are ways of faking that but it is real, real difficult. So there are easy ways to determine, any citizen, computer user can identify realtime, possibly, that IP number. And then for us the tracking begins.

Mr. WEINSCHENK. Also what happens on here, Senator, is different than phones. As you mentioned earlier, if someone makes a phone call, you can track-back on the phone. They have what is called anonymous remailers where my computer goes through your computer, goes through your computer, changing names and identifiers as it goes, and you can send it through any number of these different computers. Ultimately, we can find out who it is, but it is a process of going back through remailer, through remailer, through remailer.

Senator CAMPBELL. Do I understand that these groups, like Slurp or these other things, subscribe—to be on, for instance, on America Online, do they pay some type of fee to be on there or can they just log on?

Mr. MACKINNON. There is a difference with—what we are looking at here is the World Wide Web, and that is largely unregulated. America Online is a closed commercial business like Microsoft and Prodigy. There is interaction but it is informal.

Mr. WEINSCHENK. Most of these folks opt to not go through the America Onlines because they are filtered, they are monitored. They go other avenues which are unregulated and they can do whatever they want totally without restriction.

Senator CAMPBELL. Do these groups like America Online, try to limit these things or do they have any responsibility in this action to reduce it?

Mr. WEINSCHENK. America Online has been very, very conscientious in what they do. We have worked with them on a number of occasions. We have identified sites where we found that pictures of preteens were being circulated, and we went to America Online and they went right to it and put filters in which knocked those rooms out. They have been very, very good.

The problem that we have here in the United States is that we seem to think of the Internet as the America Onlines or the Erol's. That is only a very small piece of the total picture. Roughly there are 100 million people accessing the Internet, of which America Online has 20 million. You can see the percentage, the difference.

The people that we are talking about here stay away from the America Onlines. They may go in there to identify, if they are looking to identify a child or someone they want to target, and they can draw them from America Online over to—you know, I will contact you through e-mail or go through a different direction. They will go in there to hunt for targets and prey, but they will do their trading in other than the AOL's of the world.

Senator CAMPBELL. Mr. Allen, you said you thought Customs needed more resources. I think so too, frankly, when I hear that they only have eight full-time people working on this. I think most of the members of the committee would be more than willing to try to work some stronger legislation or put additional resources into it. We need some direction on what we can do to help.

What would you suggest that we do from the standpoint of additional legislation?

Mr. ALLEN. I think the Commissioner made the point earlier that I think there is pretty good law. I think the primary challenge is enforcing it. Clearly there are some things that are unique about the Internet. For example, I think Senator Hatch in the last Congress introduced legislation that dealt with the whole question of what an image is. Can you manipulate an image so it is not a real child but that there is still a sexual act conveyed?

Clearly, pedophiles are using this content in a lot of ways. They use it to access other kids. They use it to break down a child's inhibitions. They use it for commercial purposes. So I think laws that enhance penalties, laws that—Gene mentioned making the law more uniform so that there is greater consistency in the law State to State and nation to nation would be very key.

But in our judgment, the single most important thing we need is just more law enforcement, more officers, more agents working on this.

Senator CAMPBELL. Which requires additional resources in terms of money, obviously.

Mr. ALLEN. Exactly. And probably improved technology. Mr. MacKinnon talked about the fact that we have evolving tools to track these people down. But the whole nature of the Internet is, these communications bounce off servers and go through multiple avenues. It is not as simple as tracking down a telephone call. So law enforcement technology has to improve, law enforcement technology has to catch up in many instances with what the bad guys are doing. And the Customs Service has really been at the forefront of that.

Senator CAMPBELL. My computer skills are pretty limited, but how difficult is it for a youngster to find this information? Is it kind of rudimentary skills to be able to find this information?

Mr. ALLEN. It is not difficult at all. One of the reasons is that these guys are clever. You notice in some of the descriptors on the screen some very generic terms like boy and girl. And things like that lead you, when you search those terms, to a whole host of options, some of which are legitimate and useful and some of which are not. So our experience has been particularly computer-savvy kids, whether intentionally or otherwise, do not have any problem finding the darker sides of the Internet.

Senator CAMPBELL. Apparently they use a lot of code things that would appeal to people looking at this information. I mean, everyone wants friends, and children all tend to like to keep secrets and things of that nature, and they play on that, do they not?

Mr. ALLEN. They do. The other thing is, there seems to be an emerging category of people on the net who are purposefully using very attractive sounding web sites to bring people unwittingly. For example, whitehouse.com is a porn site.

Senator CAMPBELL. White House?

Mr. ALLEN. Whitehouse, one word. Now obviously, the whole intent of that—to the best of our knowledge it is not a child porn site, but it is a pornographic site. So if you enter whitehouse.com what you get, other than information about art and history and the U.S. Government, is you get pornography. And there are a host of those where people, kids, and otherwise, are being attracted unknowingly and unwittingly to sites in order to try to exploit for commercial reasons or other reasons.

Mr. WEINSCHENK. Those sites can then trap that child's screen name and feed back info to them unsolicited.

In answer to another part of your question, Senator, we are not realizing the problem now, but we will very shortly. We know that with pedophiles, they have an urge that they want to see this stuff now. So they do not encrypt because it takes too long for a file to decrypt. It takes a very long time to do that, and their urges are such that they do not want to wait.

Internet II which the Vice President announced a few weeks ago, is going to speed up the speed of the net by 100 times. That means that they can now encrypt and decrypt and still get them in a very, very rapid time period, which is going to change the face of what we are doing radically. Because we as law enforcement will get an encrypted file and we will not even know what we have. So we have a problem. It is going to be very, very shortly—a problem with encryption.

Senator CAMPBELL. Senator Kohl, we are moving along here, do you have some comments or questions?

RESOURCES

Senator KOHL. Thank you, yes. Is there a dimension to the kinds of resources that you need to bring this activity down to its absolute minimum? We say, if we have more resources we can do a much better job. Could you put that into some kind of a perspective that we could understand what you are saying?

Mr. WEINSCHENK. In general numbers, I could easily use—I have eight. I could use 80.

Senator KOHL. If you had 80, what would happen?

Mr. WEINSCHENK. We are barely scratching the surface of what is out there, because this is 24 hours a day, 7 days a week. One, we can identify more. We are at the present time running approximately six undercover operations, strictly on the net, strictly doing child pornography on the net. We would be able to expand those. We would be able to put more time in.

Senator KOHL. I know. But if you had 800 would you do an even better job? If you had 8,000? Do you know about—could you tell us, if you had *x*, you could accomplish *x*?

Mr. WEINSCHENK. I can probably figure that out for you, Senator. I do not know if I could give you a precise answer at the moment, but I can get back to you with that answer.

Senator KOHL. Do you have some comment on that, Mr. Allen?

Mr. ALLEN. By way of contrast, we aggressively supported the FBI's request in the last appropriation to dramatically expand the Innocent Images Task Force, which is 2 years old, also doing great work. The Innocent Images effort at the FBI and the work at the Customs Service really meshes. There are differences in terms of the approach. The FBI is probably targeting more the online enticement, the chatroom issue, while the Customs Service probably plays a more dominant role in traditional child pornography and the use of the Internet for child pornography.

In the last Congress your Appropriations Committee, CJS, gave the Innocent Images an additional $10 million. So they have expanded—I do not know what the number of agents is, but they too are playing catchup. I do not know what the magnitude of the increase ought to be, but in my judgment, having eight people trying to deal with an issue of this magnitude is just woefully inadequate. I think it certainly needs to be substantially greater.

COMPUTER FORENSICS

Mr. WEINSCHENK. There is another facet to this too that you have to realize, and that is what we call computer forensics. Obviously, the people that we are dealing with are dealing with computers. We have to develop the expertise, which we have. We have schools constantly going. When we go in and we execute a search warrant and make an arrest, there are computers there. These people are cognizant enough to know how to boobytrap them so that if we turn them off the wrong way or we do the wrong thing, it erases everything.

So we have to develop a second arm that goes out and—to be able to recover the evidence, to make sure we have it all, we preserve it and we are able to use it for trial. That is a parallel expense to us and a parallel cost, which we are now doing, training people.

CHILD SEX TOURISM

Senator KOHL. What is child sex tourism? Could you explain that phrase to us?

Mr. WEINSCHENK. Sure. Child sex tourism is unfortunately a growing international problem. There are individuals around the

world who are contacting, for lack of a better term, a travel agent type Internet site. And they are telling that site, I am interested in traveling to country *x* and I am looking to find a 5-year-old girl and I intend to have anal, vaginal, straight, whatever, sex. I want to film it. And these people make the arrangements.

That person then travels to that country. They are met at the airport with the child, and are on their way. They do what they intend to do.

Senator KOHL. Is this prevalent in the United States?

Mr. WEINSCHENK. Yes; it is. Yes; we have—one of our undercover operations is targeting it in the United States at the moment, and we are very successful with it.

Mr. ALLEN. It is our sense, Senator, that probably historically, probably the best known examples of this have been literally travel tours to Thailand and to the Philippines, places like that, where it is literally marketed for pedophiles as part of tour packages, that a key element of the tour package is you get to have sex with children.

Mr. WEINSCHENK. We are hearing from the Department of the Interior that there is also a problem over in Saipan and Tinian where young children are being brought out of mainland China, allegedly to work in the factories there, but, in fact, they are being brought over as part of the sex tourism operations.

Senator KOHL. Thank you, Mr. Chairman.

Senator CAMPBELL. Senator Faircloth.

Senator FAIRCLOTH. Just a couple of brief questions. Did you say this same activity takes place in the United States?

Mr. WEINSCHENK. Yes, sir; the arrangements are being made in the United States. They are contacting sites here in the United States to make the arrangements.

Senator FAIRCLOTH. With children in this country?

Mr. WEINSCHENK. I do not have clear evidence of that, but we understand that is happening. It is more prevalent in a developing country where—I hate to use this term, Senator, believe me—but there are throwaway children. Where there are children who are orphaned, who are on the streets, 3, 4, 5, 7 years old. They have no papers. No one even knows they are there. Those children are more readily available for these type of predators. But they want everything set up so that when they come in they can just go and do what they want to do.

Senator FAIRCLOTH. And, of course, if the children were killed I guess nobody would know the difference.

Mr. WEINSCHENK. We understand that is even a request at times. They refer to it as "snuff." That when they are done with the sex act they do kill the child.

CONVICTIONS

Senator FAIRCLOTH. I see the arrest, indictments, and convictions. What does a conviction amount to in terms of time or penalty normally?

Mr. WEINSCHENK. That all depends, Senator.

Senator FAIRCLOTH. I understand that.

Mr. WEINSCHENK. As an example, we have one now that is being negotiated, and 78 months would be—6 years, 6 months.

Senator FAIRCLOTH. In a Federal prison?

Mr. WEINSCHENK. Federal.

Senator FAIRCLOTH. They would see that as the maximum?

Mr. WEINSCHENK. Yes; I would think so, sir.

Mr. ALLEN. Let me say, Senator, that that is substantially greater than prior history. Our experience has been, it is very difficult to get significant time for a child molester, a sexual offender against children, for a variety of reasons. One is that prosecutors oftentimes are reluctant to use the child as a witness, to put the child through the process. The experience has been in child sexual abuse cases that probably one-half do no time at all and that the normal sentence, actual time served is probably a year or less.

I do think penalties are improving and I think penalties, obviously, need to be a significant focus of what we are talking about here.

Mr. WEINSCHENK. I have just been informed that the average is between 15 and 20 months.

Senator FAIRCLOTH. Fifteen and twenty months. You could almost get that for a speeding ticket.

Mr. WEINSCHENK. Yes, sir.

Senator FAIRCLOTH. But a more diabolical crime I cannot think of.

Mr. WEINSCHENK. I agree.

Senator FAIRCLOTH. Thank you, Mr. Chairman.

Senator CAMPBELL. When these people get time for this, my view is that they are pretty sick. I mean, they are emotionally sick people that would do this in the first place. Do those sentences usually include some kind of medical help or do they just put them away for a few months and let them back out on the streets?

Mr. WEINSCHENK. At the Federal level there is one prison in the United States where they are sent to, and there is a treatment program in there. But the experts tell us that the odds are pretty good when they get out they will——

Senator CAMPBELL. What about the incidence of repeat offenders that you mentioned, the 515,432 figure. Have some of them been repeats?

Mr. WEINSCHENK. Yes, sir; in fact, some of the cases that we were going to tell you about, one of the individuals we just arrested in Washington State within the last month, had been arrested as a child molester and also as a child murderer. He had strangled a 6-year-old boy who he was molesting. Back out on the street and we got him again.

Senator CAMPBELL. We do have a 15-minute call to vote and I have no further questions. Do you, Senator Kohl?

Senator KOHL. Thank you, it has been very informative—I have to say this, Senator Chairman, I hope that we can follow this through——

Senator CAMPBELL. Yes; me, too. We will.

Senator KOHL. We will try to provide some additional resources, as much as we can. What you are saying, I believe, very clearly is that you can do a much better job if we can provide you with additional resources.

Mr. WEINSCHENK. Absolutely, sir.

Senator KOHL. This will not be simply a case of throwing money at a problem and not getting very much by way of results. That is not the case here, and we are relying on what, I believe, we are hearing from you. Is that right, Senator Campbell?

Senator CAMPBELL. Yes; and I think, considering the limited resources you have, I think you are doing a terrific job. I want to add my voice to Senator Kohl's and tell you that we are going to help you all we can, whether it is strengthening of legislation or additional money going to additional manpower.

Mr. WEINSCHENK. Mr. Chairman, Senator Kohl, I want to assure you, I have been a Customs agent for 29 years. The people who are doing this work and doing these jobs, I have never seen anyone more dedicated to, more intense at what they are doing. I think we are doing the best we can with what we have.

Senator CAMPBELL. I think they, like us, have the additional incentive that they are parents in many cases and it could be their children.

LATEST TECHNOLOGY

Mr. WEINSCHENK. Absolutely. One more thing before you go, Senator. I want to show you both something that is kind of really diabolical. This is what they call a see-you-see-me cue ball. What it is is a camera, the latest technology, what the sexual predators are doing.

You set this on top of your computer, you plug it in, anybody that is out there in the same room with you, as John has demonstrated, the latest thing what they are doing is they are bringing in a child, filming the molestation. And the other people in the chatroom, what they are doing is saying, OK, we want you to do A, B, C to the child. The person with this on their computer does it. That image is sent out to the rest of the people in the room. So they are molesting on demand. Something as small as this.

People who we arrested in, and who traveled into, the United States from Switzerland, had 90,000 child pornographic images on one of these; 90,000. That is the size of what we are talking about. The technology is there to do things like——

Senator CAMPBELL. The problem is a lot larger magnitude than I had ever understood.

Mr. WEINSCHENK. Very much so. The cost of this is under $300.

Senator CAMPBELL. I thank you for being here, and we certainly appreciate your testimony.

Mr. WEINSCHENK. Thank you, Mr. Chairman, Senator.

SUBMITTED QUESTIONS

Senator CAMPBELL. We have additional questions that will be submitted in writing to be answered for inclusion in the record.

[The following questions were not asked at the hearing, but were submitted to the agency for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR CAMPBELL

U.S. CUSTOMS SERVICE

CHILD PORNOGRAPHY ON THE INTERNET

Question. What was your fiscal year 1999 request for cybersmuggling, as child pornography on the Internet is commonly known?

Answer. The President's fiscal year 1999 budget request for the U.S. Customs Service did not include specific funds for cybersmuggling activities. Customs currently assigns eight positions to the Customs CyberSmuggling Center, funded out of base appropriations for smuggling activities.

Question. Can you explain the difference between your jurisdiction and FBI's in the area of child pornography?

Answer. The U.S. Customs Service has jurisdiction over the investigation of the smuggling of prohibited articles into the United States. This includes the use of the Internet to transmit child pornography materials from foreign locations to points within the U.S.

In fact, Customs had been investigating the smuggling of child pornography even before the first child pornography legislation was enacted in 1977.

Following the enactment of the computer-related child pornography statute in 1988, Customs broke new ground by becoming the first Federal agency to conduct those Internet-based investigations. Customs conducts proactive investigations on every major facet of the Internet, which includes the World Wide Web (WWW), the Internet Relay Chat (IRC) channels, and the News Groups.

The Internet is an international medium, a medium used extensively throughout the world for international trafficking. It is also a medium that recognizes neither sovereignty nor borders.

Since most of the materials used in the production and distribution of child pornography as well as the child pornography itself have traveled in foreign commerce, Customs has primary jurisdiction in these investigations.

Customs is also mandated by the Violent Crime and Law Enforcement Control Act of 1994, 18 U.S.C. 2423, to investigate foreign travel by U.S. citizens and/or resident aliens for the purpose of having sex with a minor.

The FBI's jurisdiction lies principally in the domestic, interstate transportation of child pornography, including the use of the Internet to transmit child pornography materials between domestic locations; and domestic, interstate travel for the purpose of putting children at risk through sexual exploitation.

Question. What is Customs currently doing to inform parents and children about child pornography on the Internet?

Answer. The U.S. Customs Service works very closely with the National Center for Missing and Exploited Children (NCMEC) to inform both parents and children of the dangers lurking on the Internet.

Together, Customs and NCMEC have published and distributed literature and computer accessories that alert both parents and children to the many traps and methods used by sexual predators.

Customs is working with State and local agencies such as Education and Library Associations in an outreach program dedicated to informing parents as to the areas of concern on the Internet.

To date, Customs has provided training to thousands of Federal, State, local, and international law enforcement officers as well as to countless members of non-law enforcement persons, most of whom are themselves parents.

Customs has also been invited by members of Congress to participate in Statewide informational meetings set up to inform their constituents on issues related to the Internet.

Question. Can you tell some of your recent successes in your efforts against child pornography on the Internet?

Answer. Since October 1, 1995, the U.S. Customs Service has successfully conducted several undercover and special operations targeting individuals and businesses that use computers to transmit and receive international child pornography. These investigations have resulted in the arrest of more than 500 persons for such pornography-related violations in the United States. This is an average of an arrest every other day since fiscal year 1996.

Case No. 1

Customs recently arrested a pediatrician from New Mexico for trafficking internationally in child pornography via the Internet and for soliciting an undercover Customs agent to have sex with a seven-year-old girl, whom the pediatrician believed was the undercover agent's daughter.

The pediatrician was, at the time of his arrest, the designated pediatrician for the Native American Nations in the New Mexico area. The pediatrician recently had himself appointed as the forensics physician designated to investigate child sexual molestations.

At the time of his arrest, the pediatrician had in his possession some of his medical tools, including a speculum, and a digital camera capable of taking 99 digital images. It was his stated intention to molest the seven-year-old girl and to take digital images of the molestation, which he then intended to post on the Internet.

Case No. 2

In another matter, Customs arrested a Swiss husband and wife who were international commercial distributors of child pornography.

The couple had traveled to the U.S. from Switzerland, along with their two-year-old daughter, with over 90,000 child pornography images contained on one computer drive. The couple had negotiated with an undercover Customs agent to make and distribute CD–ROM's of the images throughout North America. It is believed that the Swiss couple made over $2,000 per day from child pornography distribution.

Case No. 3

In a Customs undercover operation being run out of Salt Lake City, a Canadian citizen and resident of Bridal Falls, British Columbia (Canada), offered to sell the undercover Customs agent images of child pornography which he claimed to be producing himself in his home town.

The violator advised that he produced the pornography while babysitting children under 10 years of age. The violator indicated that he would be babysitting next week and would be molesting more children and, as before, filming the molestation as he did it.

Because of the nature of the violator's comments, the Customs agent immediately contacted the Coordinated Law Enforcement Unit (CLEU) in Vancouver, Canada. As a result, the CLEU arrested the violator the next morning and conducted a search of his residence. The search resulted in the seizure of a substantial amount of child pornography, including over 300 videos, 60 rolls of undeveloped film, and digitized child pornography images.

The violator had previously been convicted for the sexual exploitation of a two-year-old girl and is the prime suspect in a number of other sexual assaults involving children and animals.

On December 19, 1997, the violator was convicted of having sexual contact with three separate children, bestiality, and possession and distribution of child pornography. More importantly, another child was saved from molestation by a sexual predator.

Case No. 4

In July 1997, a subject made contact with an undercover Customs agent and requested information pertaining to child pornography. In January 1998, the subject placed an order through a certified Customs undercover operation requesting video tapes containing child pornography.

Subsequent investigation disclosed the subject had a 1975 conviction for second-degree murder which involved the strangulation of a six-year-old boy. A review of that case revealed that the subject had molested several children, including the murder victim. The subject had been paroled in 1980.

In 1985, the subject had been rearrested and charged with having sexual contact with a minor and returned to prison.

A controlled delivery of the requested child pornography video tapes was executed by Customs agents to the subject at his residence. A search warrant was also served and the subject was subsequently arrested for violations of child pornography laws.

Case No. 5

Information from Canada Customs indicated that an individual using the screen name "Joker" was distributing child pornography over the Internet, through a file transfer protocol (FTP) site, to individuals in Canada, the United Kingdom, Germany, Japan and the U.S.

During undercover meetings on the Internet, the subject—who was a computer engineer with a secret clearance—transmitted over 100 child pornography images electronically, and sent computer diskettes containing over 800 images to the undercover Customs agent.

The subject was subsequently arrested by Customs agents at his home in Aurora, Colorado.

Case No. 6

In April 1998, an undercover Customs agent was contacted by an individual who wanted to trade child pornography via the Internet. The subsequent investigation identified the violator as a U.S. Army Green Beret Master Sergeant assigned in a key military intelligence position in Germany.

Working in cooperation with the Department of Defense, the violator was arrested while on duty at his intelligence post in Germany as he was trafficking child pornography with the undercover Customs agent.

SUBCOMMITTEE RECESS

Senator CAMPBELL. With that, this hearing is recessed and the subcommittee will recess until 9:30 a.m., Thursday, May 7.

[Whereupon, at 11:04 a.m., Thursday, April 30, the subcommittee was recessed, to reconvene at 9:31 a.m., Thursday, May 7.]

MATERIAL SUBMITTED SUBSEQUENT TO CONCLUSION OF HEARING

[CLERK'S NOTE.—The following statement was not presented at the hearing, but was submitted to the subcommittee for inclusion in the record subsequent to the hearing:]

PREPARED STATEMENT OF CONGRESSMAN NICK LAMPSON

Mr. Chairman. Members of the Subcommittee. As Chairman of the Congressional Missing and Exploited Children's Caucus, I appreciate the opportunity to testify on what has become an issue that I unfortunately know too much about—the exploitation of children.

Child pornography was a worldwide industry that was all but eradicated in the 1980's. Unfortunately, it has resurfaced with a vengeance, thanks to computer technology. Although the smutty magazines and photographs ordered from back page ads in adult magazines are still prevalent, this illegal activity has flourished on the Internet—with child pornography being traded freely in chat rooms, news groups and private e-mail. Pedophiles, child molesters and other purveyors of child pornography now have instant access to explicit photographs in the privacy of their own homes and offices. Hidden behind their PC's, they brazenly trade pictures and videos, using technology to transmit an unprecedented number of images around the world, broadening the audience for child pornography and victimizing a new generation of children. And they taunt law enforcement that does not have the manpower or resources to hunt them down.

I represent part of Houston. During one week in March 1998, the Houston Chronicle reported that U.S. Customs agents—who are charged with investigating Internet crimes against children—seized computers from a home and church, saying the equipment was used to send and receive child pornography through the Internet. Apparently this was not the only seizure of child porn that week. A man was accused of possessing and distributing pornographic images of children on the Internet. A subsequent search of his home revealed thousands of pornographic images on his computers, including at least 150 illegal pornographic images of children as young as 6.

Allow me to tell you a true and chilling story. In February, a South Houston teenager ran away from home to Baytown to see someone she had never met. That night, the 22-year-old man sexually assaulted her. Why did she leave home to meet a stranger? They met each other on the Internet.

I will be introducing legislation in the next few days that will authorize funds for the U.S. Customs Service Child Pornography Enforcement program—the International Child Pornography Investigation and Coordination Center (ICPICC).

To help combat the problem of child pornography through computer technology, the U.S. Customs Service established the International Child Pornography Investigation and Coordination Center (ICPICC) in April 1996. Staffed by Special Agents with expertise in both child pornography cases and computers, the primary objectives of the ICPICC are to:

—more effectively assist the field in the investigation of the increasing number of child pornography cases;

—provide guidance and support to the field in the investigation of complex cases involving child pornography violations; and

—spearhead the U.S. Customs Service international effort to combat child pornography.

There is a need to adequately direct federal resources toward attacking the problem of child exploitation over the Internet. The U.S. Customs Service has long been recognized by law enforcement and the international community for its knowledge and skill in investigating cases of child pornography and child exploitation. The establishment of the ICPICC has enhanced the ability of the Customs Service to main-

tain its aggressive posture in this investigative arena. Since fiscal year 1995, ICPICC's investigations have resulted in 329 arrests.

Properly funding the ICPICC will allow the Customs Service to continue its worldwide leadership in the prevention of the sexual exploitation and abuse of children in the United States and abroad.

My concern with the lack of funding provided for the U.S. Customs Service Child Pornography Enforcement program is obvious. Ever mindful of the widespread benefits which the Customs Service provides, I am greatly discouraged that the fiscal year 1999 budget request does not provide adequate funding for this program.

I have led a number of my colleagues in writing to Chairman Kolbe and Ranking Member Hoyer (both members of the Congressional Missing and Exploited Children's Caucus) to request proper funding.

I urge my colleagues to take this issue seriously and fund the $2 million necessary to help protect our children from victimization. Mr. Chairman, I am sure you'll agree that this is a small price to pay to reduce the exploitation of our children.

TREASURY AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1999

THURSDAY, MAY 7, 1998

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:31 a.m., in room SD–192, Dirksen Senate Office Building, Hon. Ben Nighthorse Campbell (chairman) presiding.

Present: Senators Campbell and Kohl.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF ADMINISTRATION

STATEMENT OF ADA LOUISE POSEY, DIRECTOR

ACCOMPANIED BY:

MARK LINDSAY, CHIEF OF STAFF AND GENERAL COUNSEL

LAURA CRABTREE, SENIOR TECHNICAL ADVISOR, INFORMATION TECHNOLOGY MANAGEMENT TEAM

OPENING REMARKS

Senator CAMPBELL. Good morning. The hearing on the Treasury Subcommittee will be in session.

I would like to welcome Ada Posey this morning, the Director of the Office of Administration, and thank you for appearing today. I see you are joined by Ms. Crabtree and Mr. Lindsay.

Finally, I would ask that any responses that we submit to you in writing, you could get the answers back to us by the 21st of May, I would appreciate that.

I convened this hearing this morning for basically two reasons. The first is to discuss the fiscal year 1999 budget request of the Executive Office of the President, which includes approximately 12 smaller agencies, including the Office of Administration. The Executive Office of the President's fiscal year 1999 request primarily focuses on funding to maintain current levels, except for an increase relating to the Office of Administration's computer technology program.

The second reason I called this hearing is to provide the members and the taxpayers with an opportunity to gain a better understanding of the duties of the Executive Office of the President and the work the White House attorneys are paid for with appropriated funds. I know that you testified in the House regarding this issue but I have had some questions from my own colleagues here in the

Senate and I, therefore, wanted to provide the members with the opportunity to hear your testimony again.

Throughout the course of this hearing, I want to address the public concerns, part of them brought about by news-related articles, about the issues of the President's legal defense, both public and private. Many would agree that there needs to be a bright line between the advice the legal staff must provide as part of their responsibilities relating to the office of the Presidency as an institution, and the personal legal matters of a sitting President.

I believe that by working with the Executive Office of the President we can address these concerns. I fully understand the White House's needs for attorneys to provide legal assistance to the President on all matters relating to legislation, regulations, nominations, and inquiries of Congress. Yet still, I believe that the public deserves some accountability and some answers to questions of where that bright defining line is.

I hope today, Ms. Posey, you can shed some light on this issue and provide a better understanding to the members of the subcommittee.

As an example, I understand the current Department of Justice rules, taxpayer funded attorneys cannot be used to defend a President in personal civil lawsuits, but clearly if these lawsuits prompt inquiries from Congress then those same attorneys are obligated to respond to those inquiries. That is the point I want to get to, where that defining line is, and where the gray areas are.

With that, Senator Kohl, if you have an opening statement, I would yield to you.

STATEMENT OF SENATOR KOHL

Senator KOHL. I will be brief, Mr. Chairman.

This hearing has been scheduled to explore the Executive Office of the President's fiscal year 1999 budget request. One outstanding issue is whether Federal funds provided by taxpayers, are being used by the White House for official or for private legal purposes.

The role of the White House Counsel's Office is to provide legal representation to the White House employees in their official capacity. The President, in his official role as President, is their chief client.

However, the President must acquire private legal counsel to deal with personal legal issues. I think everyone agrees that the President cannot seek the advice of Federal employees being paid Federal funds when responding to private and personal legal issues.

Thank you, Mr. Chairman.

Senator CAMPBELL. Ms. Posey, I understand you wanted to testify, answer some questions, and then leave; is that correct?

Ms. POSEY. Yes.

Senator CAMPBELL. Why don't you go ahead and proceed.

STATEMENT OF ADA LOUISE POSEY

Ms. POSEY. I do have an opening statement that is about 12 pages, but I will abbreviate that.

Senator CAMPBELL. That will be fine. Without objection, we will include your complete testimony in the record.

Ms. POSEY. Thank you.

Good morning, Mr. Chairman, and Senator Kohl. It is an honor to appear before you to present the fiscal year 1999 budget request for the nine Executive Office of the President accounts. Joining me today is Mark Lindsay, our Chief of Staff and General Counsel for the Office of Administration, and also Laura Crabtree, who is our Senior Technical Advisor for the Information Technology Management Team.

I am thankful that I have the opportunity to serve in the EOP and to enable the EOP to face the challenge and seize the opportunities presented to us by these ever-changing times caused by daily advances in technology associated with the information age. Such challenges remind me of my grandmother, Mrs. Ada Berryman, who was recently recognized by this Congress in the Congressional Record when the Honorable Louis Stokes acknowledged her as the first African-American to be appointed to the Ohio State Housing Board.

She was born in 1910 in Troy, AL. When she was young, her family fled to Ohio to escape the segregation of the South. Throughout her life she was faced with the dynamics of this changing country and she sought to make a difference. She challenged segregation. She challenged the political system. And she challenged our society. As my grandmother led my family into the industrial age, I now find myself in a position to help lead the EOP into this dynamic information age.

EXECUTIVE OFFICE OF THE PRESIDENT INFORMATION TECHNOLOGY INFRASTRUCTURE

The EOP must adapt to this radically changing world and economy. The explosion in computer technology, especially the rise of the Internet and e-mail, are transferring Government and the way it responds to the American people. At the same time, the new information technology poses new challenges from the year 2000 problem, to the shear inundation of the Executive Office of the President system, the EOP.

Frankly, our information technology infrastructure has not been able to keep up with the ever-increasing demands of change. As a result, our infrastructure has been unable to support all of the information technology needs of the President and his staff. While we maintain service in an environment of ever-increasing needs, we must also meet the challenge of the year 2000 problem and of fixing our information technology so that the EOP survives and thrives in the millennium.

ALLEGATIONS OF IMPROPER USE OF LEGAL COUNSEL BY THE EOP

Let me move on to the other question at hand. Before we turn to questions about the rest of the budget, I would like to briefly address the recent allegations that appropriated funds are being used for the private legal defense of the President.

I can assure you that appropriated funds are not being used for this or any other nonofficial purpose. As Charles Ruff, Counsel to the President, made clear in his letters to this subcommittee on March 19 and April 30, the White House Counsel's Office represents the President in his official capacity, and the Office of the

President as an institution. There is no personal work being performed by the lawyers in the White House Counsel's Office or any office within the Executive Office of the President.

EOP BUDGET SUBMISSION

Beyond that question and with regard to all of our budget submissions today, the EOP will continue to maximize its resources and implement cost savings and measures. Yet it is also imperative that the EOP be adequately funded to provide the quality of support required as we move into the next millennium and necessary to support the increasing information demands of the American people.

It is crucial that the EOP maintain and improve upon its existing infrastructure and plan for future investments in personnel and information technology now and into the future.

I thank you very much, Mr. Chairman, for allowing me to share those opening statements.

PREPARED STATEMENT

Senator CAMPBELL. Thank you, Ms. Posey. We have your complete statement and it will be included in the hearing record.

[The statement follows:]

PREPARED STATEMENT OF ADA L. POSEY

Good morning Mr. Chairman and members of the Subcommittee. It is an honor to appear before you to present the fiscal year 1999 budget request for the following nine Executive Office of the President (EOP) accounts: Compensation of the President, the White House Office, Special Assistance to the President, the Official Residence of the Vice President, the Office of Administration, the Office of Policy Development, the National Security Council, the Council of Economic Advisers, and Unanticipated Needs.

I want to start by telling you why I am so thankful that I have the opportunity to serve in the EOP, and to enable the EOP to face the challenges and seize the opportunities presented to us by these ever changing times caused by daily advances in technology associated with the Information Age. Such challenges remind me of my grandmother, Mrs. Ada Berryman, who was recently recognized by this Congress in the Congressional Record when the Honorable Louis Stokes acknowledged her as the first African-American to be appointed to the Ohio State Housing Board in the 1940's. She was born in 1910 in Troy, Alabama. When she was young, her family fled to Ohio to escape the segregation of the South. She resided in Warren, Ohio for 45 years and is credited with founding the Warren Chapter of the NAACP, as well as serving as president of the Warren Urban League Board, and as member of the Trumbull County Welfare Board. Throughout her life, she was faced by the dynamics of this changing country and she sought to make a difference. She challenged segregation, she challenged the political system, and she challenged our society.

And as my grandmother led my family into the Industrial Age, I now find myself in a position to help lead the EOP into this dynamic Information Age. The EOP must adapt to this radically changing world and economy. The explosion in computer technology—especially the rise of the Internet and e-mail—are transforming government and the way it responds to the American people. As the seat of executive authority, the White House is in a position to use the new information technology to involve the American people in their government, in real time, in a way that was never possible before. At the same time, the new information technology poses new challenges—from the "Year 2000" problem to the sheer inundation of the EOP system.

In all of 1993, the President received 68,784 e-mail messages—this January alone, he received nearly 100,000 (99,256). The number of hits to our website is increasing exponentially. Before June 1996, we received an average of 1,500 hits per day—we are now up to an average of 8,787 hits per day. In 1994, the number of records captured by our Automatic Records Management System (ARMS) was 1.7 million—in

1997, it was 4.1 million, and we estimate that by the year 2000, we can expect to be managing 30 million records in ARMS, consuming 210 GB of storage space.

And while we have witnessed these exponential increases, our information technology infrastructure has not been able to keep up with the ever increasing demands of change. As a result, our infrastructure has been unable to support all of the information technology needs of the President and his staff. Already, we are experiencing systems failures and crashes due to the dramatic increases in e-mail traffic. While we maintain services in an environment of ever increasing needs, we must also meet the challenge of the Year 2000 (Y2K) problem, and of fixing our information technology so that the EOP survives and thrives in the Millennium.

In order to provide the EOP with the tools necessary to most effectively represent the American public, I now present you with the EOP's budget for fiscal year 1999. The total for the nine accounts is $112.494 million. Since the most significant increase is related to the EOP's $12.2 million Capital Investment Plan, which is critical toward taking the EOP into the next century, I will address this first. In order to understand where we are going, however, it is necessary to understand where we are, and where we have been.

The Office of Administration has engaged in a methodical plan to revitalize its information technology, a plan begun by my predecessor, Frank Reeder, when he formed the EOP's Information Technology Advisory Board (ITAB) in 1995, and began immediately to develop a five-year plan—internally and without the benefit of outside consultants or additional resources. Mr. Reeder then submitted the Office of Administration's first ever Five Year Information Technology Plan to Congress in September of 1996.

In fiscal year 1997, however, we endured a level of hardship imposed through the fencing of our funds from which we are still recovering. In hindsight, we appreciate the concern and oversight of the Chairman and this Subcommittee, which led us to create a more detailed EOP Information Technology Architecture (ITA) and to form an Information Technology Management Team (ITMT). Prior to the events of fiscal year 1997, each EOP agency acted independently in procuring information technology with not enough regard to redundancy, interchangeability or support requirements—and an inadequate overall, common, EOP vision. We now understand the importance of working together, and the ramifications to our infrastructure when we do not.

With the rapid advancement of information technology in the past twenty (20) years spanning several administrations, EOP agencies were independently constructing custom, redundant, inconsistent, incompatible, and inaccessible systems. The result is the EOP's current infrastructure—heterogeneous, diverse and difficult to maintain. For example, applications have been developed to run under six different operating systems on a dozen hardware platforms using few Computer Aided Software Engineering tools or automated configuration management tools. The current set of applications software is difficult to maintain, and requires technology skills that are often difficult to keep on staff. More importantly, in an effort to sustain these diverse applications, we have devoted most of our resources to maintaining the status quo rather than infusing new technologies.

I am pleased to report, however, that on July 18, 1997, the Office of Administration submitted to Congress the Logicon Information Technology Architecture Plan, a document that built upon the Five Year Information Technology Plan of September 1996. The Logicon Plan set forth a vision and framework to guide the EOP's information technology investments for the next five years. In its plan, Logicon observed that "[w]e believe that the EOP is caught in a double bind—it has too many legacy systems that cannot be shut down without a functional replacement; and it does not have the budget to maintain the status quo in the face of escalating maintenance support costs while attempting to accomplish strategic improvements."

In an effort to keep up with technological changes, improve the quality of services and ensure cooperation concerning information technology management within the EOP, we also established the EOP Information Technology Management Team (ITMT), as the successor to the Information Technology Management Board (ITAB).

The ITMT is comprised of representatives from each of the EOP agencies. Members of the ITMT include an executive board comprised of EOP agency heads and their representatives in addition to several advisors. This management structure was established with the goals of:

—Identifying the functional requirements for information systems throughout the EOP;

—Ensuring that adequate integrated computer systems are in place throughout the EOP to meet ongoing and future workload requirements;

—Ensuring appropriate exchange of information technology among EOP agencies so that experiences and standards can be effectively shared;

—Reviewing and recommending funding for information technology initiatives that are common to all EOP agencies; and

—Ensuring a strong customer service focus for information technology delivery.

The ITMT's mandate is to advise the Director of the Office of Administration and other EOP agency heads on common information technology matters.

Over the course of the last twelve months, I believe we have made significant progress. While we have been performing necessary repairs and sustaining outdated, and obsolete systems, we no longer simply seek to maintain the status quo.

Recognizing the past lack of vision with regard to information technology and in order to stabilize our IS&T Division, we have added to our leadership a new Deputy Director for IS&T and a new Associate Director for IS&T, both of whom bring to the EOP significant experience from the private sector in implementing systems architectures. In addition, we have awarded a contract to Northrop Grumman as our new facilities contractor for information technology management and services, replacing the incumbent of over twenty years. We are confident that, with their Software Engineering Institute (SEI) level-three certification and business processes reengineering methodology, Northrop Grumman will be an invaluable asset to the EOP.

With our new information technology leadership, we have built upon the EOP's Y2K strategy identified in the Logicon report, and have selected the highly-respected Northrop Grumman/James Martin team to complete the assessment of our Y2K exposure so that we can renovate and test all of the EOP's custom applications and legacy systems. We have developed an EOP-wide Y2K Newsletter in order to educate our customers on the Y2K problem, and have engaged the ITMT to actively participate in developing and implementing the EOP's Y2K strategy. Already, they have identified their critical systems, and have agreed on the criteria to be used in prioritizing EOP systems for renovations. As such, the ITMT will continue to play a pivotal role in determining what systems will be renovated/replaced and in what sequence based on priority.

On February 20, 1998, with the full concurrence of the ITMT, we delivered a refined ITA to Congress that represents a continuation of the information technology dialogue that we have had with the Subcommittee since 1996. We have been encouraged by the active interest the Subcommittee has shown in the evolution of this matter. In combination with our budget, this ITA contains a milestone schedule for the development and implementation of all projects included in the systems architecture plan, an estimate of the funds required to support the fiscal year 1999 capital investments associated with the plan, and describes an overall strategy and priority setting system for activities. Furthermore, the initiatives outlined in the plan identify the functional requirements for information systems throughout the EOP, and ensure that adequate integrated computer systems will be in place throughout the EOP to meet ongoing and future workload requirements.

OA's fiscal year 1999 $12.2 million dollar Capital Investment Plan (CIP) represents a significant step in our efforts to address the perils of the Year 2000 problem and update our information technology infrastructure. It is essential that the EOP continue to develop improved strategies to address our information technology needs. Our architecture supports our plan to spend about $1.2 million in fiscal year 1998 to continue to resolve our Year 2000 problems. In addition, of the $12.2 million requested for fiscal year 1999 in the CIP, over 90 percent is earmarked for the Year 2000 effort. Despite the fact that the majority of the CIP will be consumed by resolving Year 2000 problems, our ITA promotes significant performance upgrades to our systems. Our "two for one" strategy is an efficient means of transforming the Year 2000 problem into our Year 2000 opportunity. Therefore, our ITA design for the future not only addresses the Year 2000 problem, but also uses this situation as the opportunity to upgrade our system in such a way as to make the EOP more responsive to the growing technological demands of the American people.

The improvements that will result with the infusion of the fiscal year 1999 CIP represent a major step forward in bringing the EOP closer to current government standards. This is not "Whiz-Bang" stuff. What we are doing, we must do in order to maintain basic services and cost effective operations. Examples of how this change will manifest itself can be found in the following examples:

Improved Information Access.—System upgrades contemplated in this new architecture would significantly stabilize and enhance the EOP's ability to readily disseminate and store vast amounts of information. Enhancements in Internet access, in addition to significant improvements in Intranet technology, will allow EOP computer users to conduct research, communicate with colleagues, or present information to the world.

Help Desk: Virtual Desktop.—With advances in technology there will always be a need to enhance our help capabilities. With virtual desktop access to users' comput-

ers, our skilled technicians will be able to investigate, evaluate and repair user problems remotely. This will increase the efficiency of our technicians and provide our users with the immediate attention they deserve.

Stabilized Network Integrity.—Our overall network integrity would be stabilized and enhanced by the implementation of a new network tracking system. This system would allow us to maintain higher levels of EOP network activity and permit us to upgrade our systems less expensively and with less disruption to our end users. This would result in fewer network failures, and the maintenance of a more stable system design.

Strengthened Continuity.—In addition, the new information technology architecture contemplated in the CIP would allow the EOP to maintain a more homogeneous array of computer systems. This acquisition of more similar equipment diminishes maintenance costs, improves system compatibility and helps improve the overall vitality of the EOP computer network.

A More Secure Computer Network.—With the acquisition of upgraded Year 2000 compliant computer security systems we will be able to greatly enhance the security integrity of our EOP network. Not only will the new systems make our network less susceptible to external intruders, and internal intruders, it will also help automate our efforts and the United States Secret Service's efforts to track down anyone who may attempt to violate our systems.

I believe that it is incumbent on us to seize the opportunity the Year 2000 problem presents by ensuring that we continue to improve the quality of information technology services we provide the entire EOP.

Before I turn to the remaining EOP budgets for fiscal year 1999, I would briefly like to address recent allegations that appropriated funds are being used for the private legal defense of the President. I can assure you that appropriated funds are not being used for this or any other non-official purpose. As Charles Ruff, Counsel to the President, made clear in his letters to this Subcommittee on March 19, 1998 and April 30, 1998, the White House Counsel's Office represents the President in his official capacity and the Office of the President as an institution. There is no personal work being performed by the lawyers in the White House Counsel's Office or any office within the Executive Office of the President.

With regard to the remaining budgets, we are requesting an average increase of only 3.17 percent. In developing these budgets, we adhered to the following parameters. First, to align our budget submission with actual expense history and demonstrated need. Second, to include an estimated 3.1 percent increase to cover locality and pay adjustments for the EOP's many General Schedule employees effective 1/1/99. Third, to include a 3 percent increase to cover increases in GSA rents anticipated in fiscal year 1999. Fourth, to cover the EOP's balloon payment required by our telephone switch contract in fiscal year 1999. And fifth, and finally, to request funding for overtime and compensatory time mandated by the Fair Labor Standards Act, and applicable to the EOP effective October 1, 1998 pursuant to the Presidential Executive Office Accountability Act (PEOAA).

Operating within austere budgets over the years has been challenging. During the past five years, the EOP has met this challenge by identifying cost saving measures, shifting resources, and deferring or delaying purchases. Inflationary cost increases and mandated pay raises for the EOP's many General Schedule employees were absorbed in the past. Agencies whose staffs are mostly or entirely in administratively determined positions, such as the White House Office, Vice President's Office, and Office of Policy Development, held salary levels nearly static, delayed implementing hiring decisions, and brought in new hires at lower levels.

The EOP will continue to maximize its resources and implement cost saving measures. Yet, it is also imperative that the EOP be adequately funded to provide the quality of support required as we move into the next millennium, and necessary to support the increasing information demands of the American people. It is crucial that the EOP maintain and improve upon its existing infrastructure, and plan for future investments in personnel and information technology, now and into the millennium.

OFFICE OF ADMINISTRATION CAPITAL INVESTMENTS

Senator CAMPBELL. Let us start with the technology part, first. Your fiscal year 1999 budget request includes $12.2 million for a capital investment program. Can you provide some nontechnical layman's description, please, of that request and the problems you are hoping to address with that increase in money?

Ms. POSEY. I certainly can. Again, I have brought along Laura Crabtree, who is a technical person but has a wonderful way of breaking down technical things into layman's terms for me and everybody else.

But first, let me say, Mr. Chairman, that the $12.2 million request, 90 percent of that is going to be utilized for fixing our year 2000 difficulties within the EOP. The rest of the moneys we hope to utilize to infuse new technologies within the Executive Office of the President.

We are woefully behind the eight ball when it comes to our infrastructure. We are operating with six software operating systems, 10 hardware platforms, and it is very difficult for us to use the technologies of today to have a stable environment and a stable network. And this has happened over a period of 20 years. We have never had an information technology architecture that allows us to have the type of discipline to infuse new technologies within the EOP.

This $12.2 million means that we are getting our act in order and we are setting the Executive Office of the President straight in terms of preparing for the future. These are basic, basic things that we are doing, and Laura might want to speak to some of the types of projects that we are working on.

Senator CAMPBELL. Does this increase include basically hardware, or is this also a manpower increase?

Ms. POSEY. This is hardware, this is software, and this is manpower in terms of contract support to do the renovation and the testing and the validation of our year 2K difficulties.

Senator CAMPBELL. Did you want to add something to that, Ms. Crabtree?

Ms. CRABTREE. Certainly. Thank you.

To add some level of specificity to what is included in the $12.2 million, there are significant projects that we are embarking on in order to meet a twofold objective that we have set out for ourselves. The first, and most important, is the fact that we must meet our Y2K initiatives and resolve the problems that are associated with the year 2000 issue.

In addition to that, as Ms. Posey mentioned, we are focusing as well on those projects that not only will benefit our Y2K initiative, but will also bring us the basic foundational improvements within our infrastructure that are necessary to be able to start to build the house upon which we will add additional technologies of the future.

Specific projects within that $12.2 million include, as Ms. Posey mentioned, hardware and software. Specifically, there are funds set aside for software in particular because current software applications that are running across our heterogeneous network environment, our environment that has multiple different platforms talking multiple different protocols. And in that environment, those software items are not Y2K compliant. Nor are they current products that are supported by industry.

So as a result, items such as our word processing software need to be replaced because it is not Y2K compliant, nor does the vendor of the product anticipate future support of the item itself. So that is included as part of the software upgrade, to give you some sense of what those items are.

In addition to that, we have a help desk renovation project included within those funds. The reason being is because our current help desk system which is essentially the lifeblood of how we get our customer focus into our IT environment. In other words if someone has a problem, they need help, they call our help desk and we dispatch and/or repair the problem over the phone with the user.

The system that we use to accomplish this, not only the interactions with the user, the recording of the problem, the resolution of the problem, that software is not Y2K compliant. In addition to it not being Y2K compliant, it is a legacy application that was developed in-house back around circa 1983, using the mainframe technology of the time which is no longer being supported by industry.

So we are faced with not only the challenge to become Y2K compliant, but also placing into order the necessary projects that will provide us the foundation to start to add additional technology improvements over the next 5 years within the EOP.

EOP INFORMATION TECHNOLOGY PLANNING AND COORDINATION

Senator CAMPBELL. You know, I am not a real high-technology person, but I have to tell you, your testimony sounds quite similar to the IRS testimony and problems they are having with their technology. Something escapes me on this, when we purchase all this equipment that apparently does not talk to each other very well. I will not get into that, because I will get lost.

There are approximately 12 different smaller agencies under the White House. How do you manage that wide variety of computer needs while trying to streamline it functionally and keep up with the workload?

Ms. POSEY. That is a good question. Now what we have done, Senator Campbell, is we have formulated the information technology management team. This actually was formally formulated in September 1997. This structure, this management structure is the first in the history of the Executive Office of the President, where we have representatives of each of the agencies, heads of the agencies, who formulate an executive board. This executive board is responsible for making decisions based on business functions, information technology needs for the entirety of the EOP.

That, frankly Senator Campbell, was a problem in years past in the EOP because we had independent decisions being made in all of the different agencies about the types of technologies that they would be using. So we have ended up with the kind of system and infrastructure that we have today that we need to fix and put together.

Senator CAMPBELL. So then you had some overlapping functions or duplications with different systems?

Ms. POSEY. Actually, not anymore. What we have always had, Senator Campbell, is an e-mail system where everybody was connected to that particular system and there was common support provided by the Office of Administration for common software, like word processing, like spread sheets. But in terms of unique applications, that say, for example, OMB might use, or the Council of Eco-

nomic Advisors might use, they have their own unique applications and work, of course.

But we did not necessarily make sure that the software and the hardware that they were bringing onto the campus linked smoothly with the entire network and the infrastructure. That is what makes things so difficult. And of course, we are not the only Federal agency that has experienced this problem. But it makes it actually more dynamic when you have separate functions that are so unique in each of the particular agencies.

Senator CAMPBELL. In some of your programs you are dealing with, are they receiving funding in your 1999 request?

Ms. POSEY. Excuse me?

Senator CAMPBELL. Some of the functions that seem to be duplicated, and I am not sure that is the right word or not, are they receiving funding in your 1999 request?

Ms. POSEY. There are information technology requests in other budgets, but those are specifically for the replacement of their own software and hardware that is unique to them within their agencies. There is a replacement program for computers, PC's and other peripherals that the agencies are responsible for themselves. So that is what those dollars are dedicated to in their own particular budgets.

ACTIVITIES OF EOP LEGAL COUNSEL

Senator CAMPBELL. Let us get into some questions about these attorneys. I have read all kinds of different numbers, as you probably have, in local newspapers, from 49 or 89 or something, counting their support staff. I have heard some numbers going up to 100. But I have never found any absolute proof of that, but that is what I read in the paper, for whatever that is worth.

Of the 20 detailed attorneys, are they provided to the Executive Office of the White House Counsel's Office? Is this done on a reimbursable basis? These are the 20 that I am referring to, who are outlined in Mr. Ruff's letter sent to me on March 19.

Ms. POSEY. Let me share with you the numbers. There are 34 regular staff within the White House Counsel's Office at this point. There are 15 detailees as of the date, Mr. Chairman, that Mr. Ruff provided you with that information.

The 15 detailees do two things. First, to help with the judicial nominations, vetting of those judicial nominations, and also vetting and review of Presidential appointees. That is what they do. They usually are there for a 3- to 6-month period and they are not reimbursable at the time. Their agency is providing that assistance to the White House Office, but they do go back to their agencies after their assignment is finished.

Senator CAMPBELL. We have had requests for additional money for different agencies for attorneys. Let me ask you this, if agency attorneys are hired to perform a mission in the Department of the Interior, Department of Agriculture, or whatever, they are hired to perform a duty. I do not suppose they hire them to sit around and stare at the wall.

They are hired to perform some kind of a mission and then they are detailed somewhere else like to the White House. Who is doing the job that they were hired to do?

Ms. POSEY. That is a very good question, Mr. Chairman. We have found, as other administrations have found, and it has been traditional, that detailees come from other offices, other agencies, to the White House for the specific role of vetting and reviewing nominations and appointments because it is in the agency's best interest to be involved with the process.

In fact, it is their appointees, in fact, that are being reviewed and vetted through this process at the White House Office. We find that the way we do this is effective and efficient and it provides a value added, not only for the White House but is a value added for the rest of the agencies.

These terms of their assignments, again, are 3 to 6 months.

Senator CAMPBELL. When they are originally hired, is there anything in the job description determining that they may be on loan to other agencies and that they might not be performing whatever it is they are hired for?

Ms. POSEY. Again, Mr. Chairman, I would say to you that this is a practice that happens throughout the Federal Government frequently. Again, it is important that we utilize the skill, the expertise of other Federal agencies, that we might want to have in vetting and reviewing these nominees for appointments.

Senator CAMPBELL. Who pays their salaries when they come from Justice or another agency? Are they kept on the budget of Justice or is there some offset compensation by the White House budget?

Ms. POSEY. No; if they are there for less than 180 days, their salaries are paid by their home agencies. If they are there for longer than 180 days, then they become a reimbursable employee and the White House is responsible for paying their salaries.

Senator CAMPBELL. How do you handle it, if they are assigned to the White House, when they are doing some screening as you said, perhaps for nominees or something, how do you handle a potential conflict of interest?

Ms. POSEY. What we do is we do not have specifically, say for the Department of the Interior, we do not have Department of the Interior detailees working on appointments and nominations for the Department of the Interior. We would have another detailee working on the Department of the Interior. Just to make sure that the process is fair and equitable and that we, again, bring in the expertise of a wide variety of detailees.

Senator CAMPBELL. Maybe I used the wrong, maybe the nominee is not the example I would have used. Do they work on anything, when they are detailed to the White House, do they work on anything that could be construed as a conflict of interest with the agency they came from?

Ms. POSEY. No, certainly the counsel, the White House Counsel and the Deputy Counsel would make sure that that did not happen.

Senator CAMPBELL. You said that there are 15 there now?

Ms. POSEY. There are 15 there now, as of April 20.

Senator CAMPBELL. Their salaries are in what range?

Ms. POSEY. Their salaries are in the ranges, I believe that that is a question that might have come up and been provided in our

questions for the record to the House. I would not want to yell out the specifics, Mr. Chairman, but I can find those for you.

Senator CAMPBELL. If you could provide that, but they must be in the $80,000 range or something. Attorneys do not come free.

Ms. POSEY. Thereabouts.

Senator CAMPBELL. So we are talking about well over $1 million a year for just their salaries that their agencies have to pick up while they are detailed to the White House.

Ms. POSEY. There are also cost figures in here, with regard to the cost of detailees from year to year for White House Counsel's Office, and we can point that out and provide specific information on that.

Senator CAMPBELL. When they are detailed to the White House, are they supervised in any way at all from their agency, or are they just totally separate from the agency and supervised totally by the White House?

Ms. POSEY. No; there is permanent regular staff that supervises the process of judicial nominations and Presidential appointments. We have approximately three or four people on staff who are regular staff people who actually supervise that process with the detailees.

Senator CAMPBELL. How do you pick them? How do you choose them?

Ms. POSEY. I do not know the answer to that question, Mr. Chairman, but I certainly can——

Senator CAMPBELL. When the White House wants the attorneys transferred, do they ask for a certain type or a person with certain skills? Or do they just get whoever they happen to send over from the agencies?

Ms. POSEY. I would be sure that they would ask for people who have a specific expertise and skill and experience in looking at potential nominees and appointees. I am sure that that is what Charles Ruff looks for, because we do not want to reinvent the process. We want the process to be, again, efficient. So that is why we bring on these people who have that kind of expertise previously.

Senator CAMPBELL. While they are gone, you may not be able to answer it, but who is doing their job? Who picks up their responsibilities in the 6 months they are at the White House?

Ms. POSEY. I would not be able to answer that question, but certainly if—again, this is a benefit, Mr. Ruff believes, both to the agency and to the White House. There is experience that is garnered from that particular detailee joining the White House for that 3- to 6-month period. And I think, just as I would send my staff to training and development type of exercise or experience, there is a benefit to the agency when they get back.

Senator CAMPBELL. Let us say the President gets sued in a civil lawsuit and you have all these detailees over there working. And because of the civil lawsuit the Congress asks questions that they would like some answers for. How and who determines what those detailees will be able to do, where the fine line is about what they can provide in working with private attorneys that would be working on a civil lawsuit for the President?

Ms. POSEY. Well, detailees do not work on any investigative matter at all, Mr. Chairman.

Senator CAMPBELL. Then how do they know if somebody from the Hill here asks some questions? How do they know what to answer?

Ms. POSEY. Again, the detailees would not be working on any investigative matters. They are aside from——

Senator CAMPBELL. They would not work on investigative matters so they would not have any knowledge of it. How do they answer any questions that would come from the Senate or the House relating to it?

Ms. POSEY. They would not be asking or answering any of those questions. It would be the regular staff of the White House Counsel.

Senator CAMPBELL. That would still, even if it is the regular staff of the White House, those are still taxpayer paid jobs.

Ms. POSEY. Yes.

Senator CAMPBELL. Where is the defining line between the regular staff attorneys, of what they can get involved in with answering legitimate questions from Congress, and yet not cross over the line in coordinating or working with the lawyers who are dealing with a civil lawsuit?

Ms. POSEY. Certainly the question came up in the House and has been a question that has come up before. I would refer to our questions for the record, our responses, that we provided to the Subcommittee for Treasury and Postal Service for the House.

There is an official nexus between the Independent Counsel investigations, the congressional investigations, because congressional inquiries, subpoenas, are asking for records of the White House Office, and it is the responsibility of the White House Counsel not only to coordinate that particular process of gathering those documents but it is their strong role to make sure that all of the documents are responsive, that they review the documents, and that is basically their role.

Senator CAMPBELL. In that role of coordinating, does that mean that they are then working with the private attorneys who would be involved in the civil suit?

Ms. POSEY. It is clear, again, let me read from the questions for the record because I think that Mr. Ruff actually responded quite succinctly and quite deliberately to that particular question.

There have been, as we well know, allegations where a matter focused on the alleged conduct of the President during his tenure in office with respect to a White House employee. The Independent Counsel has served the White House with subpoenas calling for the production of documents, has made informal requests for information, and has interviewed or acquired the testimony of some 40 current and former White House employees.

The Counsel's Office is responsible for responding on behalf of the White House to these demands, for assisting the White House personnel in responding to the OIC, and for determining whether or not the testimony sought from these personnel may implicate confidentiality concerns.

Beyond those duties, the Counsel's Office is responsible for responding and assisting other senior White House staff to respond to the avalanche of press inquiries that flow from the OIC's inves-

tigations every day, including determining whether a response is appropriate and, if so, in what form and collecting the information necessary to respond.

So bottomline, there is an official nexus connection or link between the Independent Counsel's investigation and the constitutional, statutory, and ceremonial responsibilities of the President and the Office of the President. It is obvious and undeniable.

Senator CAMPBELL. I just want you to know that I am not trying to focus on conduct of anybody, including the President. I am trying to focus on the cost to the taxpayers.

Ms. POSEY. I understand that.

Senator CAMPBELL. From my own perspective, I am sick to death of reading the newspapers every morning about conduct.

Let me just ask you one last question and I will turn it over to Senator Kohl.

Since the Justice Department now has a rule that you cannot use taxpayer-funded money for attorneys for private suits, I have to paraphrase that because I do not have it right in front of me, would you have a problem with putting that in statute since it is already in rule? And I guess then complied with, hopefully?

Ms. POSEY. I think that that would be a question that I would refer to White House Counsel staff to respond to that, Senator Campbell. Basically, that is something that they should respond to I would be glad to take that back.

Senator CAMPBELL. Thank you. Senator Kohl.

Senator KOHL. Thank you, Senator Campbell.

Senator CAMPBELL. I apologize, too. I am just told that we will have a vote pretty soon, so you should get in as much as you can.

GSA FIRE, LIFE, AND SAFETY REPAIRS AND RENOVATIONS OF THE OLD EXECUTIVE OFFICE BUILDING

Senator KOHL. I will be brief.

Ms. Posey, your office manages the Executive Office of the President's office space and you act as the principal liaison with the GSA on facility repairs and restoration. We understand that the GSA is requesting over $25 million in fiscal year 1999 budget for repairs to the Old Executive Office Building. Can you tell us what will be done with these funds?

Ms. POSEY. These funds are to be used for fire/life/safety projects within the Old Executive Office Building. When I talk about fire/life/safety, we are talking about basically the elevators being accessible, the stairs being accessible, and also the restrooms being accessible, too. It is the responsibility of GSA to make sure whenever they undergo any kind of renovation or modification of a building, upkeep, that they make sure that ADA and OSHA requirements are taken care of as they move along, as you well know.

We feel very strongly that the Executive Office of the President, particularly the Old Executive Office Building, needs to be a model, an example, of keeping up with ADA and OSHA requirements. We have a responsibility, through the Presidential Executive Office Accountability Act, to make sure that those things are done within the White House complex.

Senator KOHL. Is a full systems modernization plan being designed by the GSA for this building?

Ms. POSEY. Actually, the modernization plan for the Old Executive Office Building is probably going to be, as I understand from GSA folks, a step-by-step process because the entirety of the modernization for the Old Executive Office Building, of course, which was built in 1870-something, needs a lot of work. There are tens of millions of dollars that need to be done to that building.

I am sure Senator Kohl, if you have an opportunity, or Mr. Chairman, if you have an opportunity to come over to the Old Executive Office Building, you will see some wiring and cabling that might be a little bit disturbing. It is a beautiful building but, of course, it does not have the type of accommodations that we need to have today for ADA or even wiring or cabling.

That is something that GSA has decided to bite off segment by segment. Otherwise, we would be looking at actually replacing quite a few people in the Old Executive Office Building for several years.

Senator KOHL. Will this $25 million request result in the building being in full compliance with health and safety codes?

Ms. POSEY. It is getting closer to full compliance but not complete full compliance.

Senator KOHL. Will this be, when you finish with this modernization program, this $25 million program, will the building then be in full compliance with health and safety codes?

Ms. POSEY. Again, I would say it would be closer. It would not be in complete compliance. There are other things that need to be done, Senator Kohl, throughout the Old Executive Office Building, but it is a matter of taking care of fire/life and safety, ADA, and OSHA issues first, the primary priority projects first.

WHITE HOUSE COMMUNICATIONS AGENCY AGREEMENT WITH THE WHITE HOUSE

Senator KOHL. Ms. Posey, can you explain the services provided under the memorandum of understanding between the White House Communications Agency and the White House Office?

Ms. POSEY. Yes, Senator; the White House Communications Agency provides audiovisual services for the President principally, and for the Vice President when they have an opportunity. Those are things like lighting and microphones at official events. They provide stenographic services and they also provide all kinds of things, even the podium that they call the Blue Goose, for the President when he goes to official events and speaks at official events.

Senator KOHL. What are the costs associated with these services?

Ms. POSEY. In the White House budget for fiscal year 1999 we are looking at $10.1 million for those particular services. Of course, this is when the President travels, not only in this country but outside of this country. The Africa trip was very, very interesting in that I understand in Uganda the White House Communications Agency was required to actually build an infrastructure for communication there.

Now that is communication costs, which is something that is picked up by DOD. But the complexity of providing these types of equipment, audiovisual equipment for historical purposes, gets pretty harried sometimes when you go to countries that do not

have the type of infrastructure and sophistication that other countries do.

Senator KOHL. Last question. What is the bill payment procedure between the White House and the White House Communications Agency?

Ms. POSEY. On a monthly basis, the White House Communications Agency provides to the White House Office a specific bill that lists expenses category by category from audiovisual equipment, film, tape, whatever that is used. The White House goes over those to verify and validate the bills, and then it is prepared for reimbursement to WHCA, as we call it.

In other situations, billings are presented to the White House Office and other EOP agencies on a quarterly basis. Because this is the first time that WHCA has—we are providing for these audiovisual services within the White House budget, as opposed to DOD, it was very important for us to place very strong management controls, in terms of billing and costs, within what we did. We need to make sure that all the procedures are followed with regard to billing and reimbursement. One of those things is to make sure that we have a monthly billing process, a monthly review process.

Senator KOHL. Good. Thank you. Thank you, Mr. Chairman.

SUBMITTED QUESTIONS

Senator CAMPBELL. I thank you, Ms. Posey, and your colleagues for appearing this morning. We will submit additional questions to be answered for the record. We have a vote on now so, with that, we will recess for 10 minutes and then take Mr. Gray's testimony. Thank you.

[A brief recess was taken.]

[The following questions were not asked at the hearing, but were submitted to the Office for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR CAMPBELL

LOGISTICS OF PRIVATE VERSUS PUBLIC LEGAL ACTIVITY

Question. Does the White House have any role in determining whether or not a legal issue is private or public in nature?

Answer. The vast majority of matters coming to the Office of White House Counsel are, on their face, purely official—*e.g.,* legislation, ethics, legal policy, pardons, etc. As particular matters arise on which the advice of the White House Counsel's office is sought and which may relate to private, rather than official, responsibilities, Counsel to the President and the Deputy Counsels are responsible for determining whether the advice relates to the official functions of the person requesting it and can, therefore, appropriately be provided by the Counsel's Office. If the matter is personal, in whole or in part, Counsel's Office will so advise the person making the request and suggest that he or she retain private counsel to deal with any personal issues.

Question. Can you tell us what the specific legal nexus is for the White House lawyers to be handling anything related to Ken Starr's investigation, which is private in nature?

Answer. The allegations in the Lewinsky matter focused on the alleged conduct of the President during his tenure in office with respect to a White House employee. The Independent Counsel served the White House with subpoenas for the production of documents, made informal requests for information, and interviewed or required the testimony of more than 40 current and former White House employees. The Counsel's Office has been responsible for responding, on behalf of the White House, to these demands, for assisting White House personnel in responding to the OIC, and for determining whether the testimony sought from these personnel may implicate confidentiality concerns.

The Counsel's Office has also been responsible for responding, and assisting other senior White House staff to respond to the many press inquiries that flowed from the OIC's investigation every day, including determining whether a response is appropriate and, if so, in what form, and collecting the information necessary to respond. Similarly, Counsel's Office has been responsible for advising and assisting the President in his dealings with the press on these issues. In these settings, and others relating to the operation of the Office of the President, it is the responsibility of the Counsel's Office to advise both the senior staff and the President, concerning the status of the investigation and any expected developments, and to help ensure that the President continues to be able to perform his duties effectively. Further, as is evident from the recent judicial decisions and pleadings, Counsel's Office must advise the President concerning issues relating to potential claims of governmental attorney-client and executive privileges, including litigation arising out of those claims.

Question. It is my understanding that, according to the Counsel's office, there is only a small part of the staff devoted to issues relating to investigations, therefore, can you tell me their specific tasks and will you provide the subcommittee the supporting documentation?

Answer. During 1997 and most of 1998, the Counsel's Office staff has been devoted to issues relating to investigations is headed by Special Counsel Lanny Breuer and has consisted of six (6) other lawyers and three (3) paralegals. The lawyers are generally responsible for responding to subpoenas and requests for documents and information from congressional committees, various independent counsels, and the Department of Justice, as well as from private parties who are in litigation against the White House. The paralegals assist the lawyers by conducting the necessary document searches, organizing and numbering the documents and preparing them for production, and otherwise gathering information for use in responding to requests.

Typically, each lawyer is responsible for a particular matter or set of matters, encompassing dealings with particular investigating entities or, in the case of a more broad-ranging congressional investigation, particular subjects covered by that investigation. There are, however, frequently situations in which lawyers are assigned to other matters as the need for additional resources arises—*e.g.,* new document searches that require expedited response. Under the supervision of Mr. Breuer, the lawyer generally has responsibility for communicating with the staff of the investigating entity, organizing the search for documents or the compilation of information requested by that entity, and producing the documents. The lawyer is also responsible for identifying issues of privilege or other legal issues that arise out of a request for information and for consulting with Mr. Breuer and with Mr. Ruff or Ms. Mills to determine whether a claim of privilege or some other legal action is appropriate.

There is no formal documentation assigning these tasks to individual lawyers other than the routine correspondence between the investigating entity and a particular lawyer on the subject of the assignment or internal memoranda to and from lawyers reflecting substantive discussion of, and advice concerning, issues related to the assignment.

Question. Is there a specific procedure in place, which all affected parties are fully aware of, which takes you through a step-by-step procedure for relaying a private legal matter to the President's private attorneys outside the White House?

Answer. As indicated in the response to the first question, responsibility for identifying matters that are personal in nature and should be referred to private counsel rests with the Counsel and Deputy Counsels. No formal procedure is required for such referrals beyond informing the individual seeking advice, or his or her private counsel, that the Counsel's Office will not be able to provide assistance in the matter.

EDUCATION OF STAFF

Question. Is there an employee handbook, which explains to staff the Office of Government Ethics' and other government regulations which spell out the ethical standards of official time and that official work only, not personal or non-official work, may be conducted on the clock?

Answer. Human Resources provides the Executive Office of the President employees with a copy of the Standards of Ethical Conduct for Executive Branch Employees when they arrive. In addition, the White House has a staff manual which also addresses the ethical obligations of federal employees.

Question. If there is a handbook, does it provide specific guidelines for how an employee is to handle the incoming information or inquiry if it is personal in nature?

Answer. The Standards of Conduct provide guidance regarding employees' obligations regarding the performance of official, as opposed to non-official, activities.

Question. Is there additional training or seminars that the Executive Office of the President and White House Counsel's office conduct in order to educate the staff on these matters?

Answer. Yes. The Counsel's office conducts annual ethics training for White House employees as well as providing additional ethics briefings in response to requests from the various White House offices.

YEAR 2000

Question. How far along is the White House with making its computers Year 2000 compliant?

Answer. The status of our Year 2000 effort is as follows:

A. *An agency-wide status of the total number of mission-critical systems.*

Total number of mission-critical	86
Number compliant	1
Number to be replaced	25
Number to be repaired	30
Number to be retired	30

NOTE.—Of the mission critical systems, 39 percent are mainframe-based and the remaining 61 percent are desk-top based.

B. *The status of the mission-critical systems being repaired.*

	Milestones	Percent completed
Assessment	April 1998	100 percent.
Renovation	December 1998	
Validation	March 1999	
Implementation	March 1999	

There are two systems that are excluded from these milestones:

—FAMIS: Federal Accounting Management Information System.

—Document/Correspondence Management Systems used by:

—Office of Presidential Correspondence

—Office of Presidential Records

—Office of Presidential Personnel

C. *Description of Progress.*

(1) *Status of Mission Critical System.*—On April 28, 1998, the EOP received the final assessment document from our Year 2000 assessment contractor. This document provided not only an enterprise assessment data base, but an identification of EOP wide mission critical systems. Per an ITMT meeting which occurred in March, a decision was made to concentrate in fiscal year 1998 on mainframe based infrastructure systems. This decision occurred because of two major concerns, severe budget constraints and the criticality of the mainframe systems to the continued operation of the EOP.

Fiscal year 1998 budgets available for the replacement/renovation of systems are severely limited and few dollars remain to effect a complete renovation solution of these systems. We also have several mission critical systems such as payroll/personnel, financial management, security tracking etc. that reside on the mainframe and are written in legacy code such as Model 204, COBOL, etc. The remaining dollars in 1998 will be focused on the renovation of those systems.

These mainframe systems have been identified and assessed in terms of their respective Year 2000 issues. Some of these mainframe systems, such as payroll and personnel, are being renovated in terms of their ranked priority and we will continue to do this, system by system, subject to funding.

(2) *Status of Non-Mission Critical Systems.*—Non-mission critical systems have been identified and assessed. Due to budget constraints, non-mission critical systems will not be renovated prior to the receipt of the fiscal year 1999 budget. From a priority perspective, non-missions critical system renovations are scheduled to begin in mid to late fiscal year 1999, after the renovation of mission critical systems.

(3) *Data Exchanges.*—Within the EOP, data exchanges have been identified as part of our Year 2000 assessment. Some of these data exchanges are in our payroll and personnel system, financial management, cabinet affairs network, and in MAX or the President's Budget system. We have identified two mechanisms to assure Year 2000 compliance; these are: (1) Interagency Agreements; and (2) Year 2000

check software. For payroll and personnel, etc., we have signed or are signing IAG's to ensure Year 2000 compliance. With respect to some other systems such as MAX, the Year 2000 assessment contractor has recommended the insertion of certain software code which will check external data for Year 2000 compliance. We are investigating the proper placement of this software at either the application level or as part of an enhanced firewall.

(4) *Contingency Planning.*—In general, we are putting in place an interagency agreement (IAG) with an alternate facility to provide a backup or contingency to our test environment strategy. We are currently undergoing a mainframe vs. Enterprise server cost/benefit/risk analysis, and this activity will be completed in September. At this point, we will understand the target platform for our mission critical mainframe applications. Through the IAG, we will contract with this facility to provide a shadow configuration to our chosen platform, with appropriate communications.

In addition, each application will have contingency plans identified at the system level. We have begun to meet with mission critical system owners to determine the main strategies and to formulate appropriate contingency plans. Such plans are tracked and driven by published schedules, enhanced by meetings, to gain consensus and understanding as events change or the schedule unfolds. For example, with the payroll/personnel system, we have weekly meetings to discuss key events. A contingency plan was in place throughout that implementation.

Question. Are you focusing on the non-technology aspects of your Year 2000 problems, like elevators, etc?

Answer. Yes. The General Services Administration (GSA) is the landlord for our building complex and is responsible for the maintenance and update of the buildings. They have assessed what is needed for the HVAC, utilities, elevators, etc., and are taking the steps necessary to implement any changes that might be needed.

Although these systems are not our direct responsibility, we nonetheless monitor the progress of GSA in this matter. At the May 1998 ITMT meeting, a representative from GSA reported that its Y2K efforts are progressing in a satisfactory and timely manner.

Question. Do you anticipate that your fiscal year 1999 request will be sufficient to cover your Year 2000 costs?

Answer. With proper and timely funding, we anticipate the fiscal year 1999 budget request to be sufficient to cover Year 2000 costs.

COMPUTER ARCHITECTURE

Question. Last year, the conference report included language about your computer architecture and the need for its development, which your office submitted in late February. Can you provide us with an update on the architecture and how it is assisting in your computer management?

Answer. The recently completed assessment of our software and hardware for Year 2000 compliance is now permitting further refinement of the ITA as a technology baseline. EOP has adopted a three-phase integrated strategic management approach. The first phase was the Strategic Analysis of EOP's environment, expectations, objectives, culture, and resources. This lead to the Strategic Choice phase, which generated options, evaluation of the options, and selection of a strategy—the Strategic Plan. The EOP Year 2000 Strategic Plan document was subsequently finalized by the ITMT in July 1998. The third, and current phase, is Strategy Implementation, which produces tactical plans for improving processes, upgrading or replacing technology, and developing the people resources required to move EOP ahead. The ITMT will assure that all system changes proposed in the EOP Strategic Plan and Budget submission truly support the strategic objectives of the EOP. The Team will also continue to provide oversight of the implementation of the new technologies to assure that they deliver the promised business improvements. The ITA is assisting us and is the guideline for these efforts.

GOVERNMENT PERFORMANCE AND RESULTS ACT

Question. With respect to GPRA, or the Performance Act, do you have the technological capability of measuring and reporting program performance throughout the year on a regular basis, so each agency within EXOP can benchmark their performance against their goals?

Answer. In its role as the provider of EOP administrative services, the Office of Administration since 1996 has compiled and distributed monthly performance statistics covering a range of OA services. Although OA is not covered by GPRA, our intention is to comply fully with the spirit of GPRA by continually refining and updating the performance measures. OA does not manage a GPRA effort for other agencies within the EOP.

Our intention is to use performance measures as a management tool to aid agency staff in the allocation of agency resources, to ensure that OA services are responsive to customer concerns, and to focus management attention on the agency's effectiveness in achieving its objectives. We are working now to improve those measures, with our primary focus on measures regarding the effectiveness of the Information Systems and Technology division.

Statistics currently collected include:

Facilities: processing of alterations/repairs/moves; distribution of space allocation/rent bills.

Financial Management: processing of travel vouchers, imprest fund claims, requisitions, and accounting transactions delivery of monthly accounting reports.

General Services: delivery of interoffice mail, high-priority and courier, and certified mail, air express, and small packages; cost of print jobs; timeliness of composition/design graphics; office supply order fulfillment; timeliness procurement order timeliness.

Human Resources: timeliness and accuracy of personnel transactions; timeliness of vacancy announcements, certificates.

Information Systems and Technology: timeliness of help desk calls.

Library/Research Svcs: timeliness of research services; timeliness of periodical processing; timeliness of book/CD–ROM processing interlibrary; loan request timeliness acquisitions of books, subscription renewals, dissemination of publications.

Question. Does your office oversee the compliance to GPRA of all agencies within EXOP?

Answer. OA does not manage a GPRA effort for other agencies within the EOP.

Question. Through the development of the fiscal year 1999 performance plan, what overlapping functions or program duplications were identified?

Answer. We have not completed a plan for fiscal year 1999. Nevertheless, we are studying areas such as the costs of information management services from both the data center and the libraries to identify potential duplicative or superfluous funding. Teams of staff have also identified work process improvement projects to reduce costs or maximize the efficiencies in the print shops and the mailrooms.

Question. Did those duplicative programs receive funding in the fiscal year 1999 request?

Answer. The savings which have been identified (or are under study) are not separate line items in the fiscal year 1999 budget proposal, but rather small portions of the overall cost categories identified in the budget. Nevertheless, the cost for discontinued duplicative programs would not be incorporated into future budget requests.

TRAVEL

Question. The President's budget request anticipates a more demanding travel schedule in fiscal year 1999 and, therefore, requests an increase in funding for travel. Please detail the amount of travel costs/expenses incurred by the offices of the President and Vice President, respectively, over the past ten years. If information is not readily available on previous Administrations' travel, please provide only those travel costs incurred by the Office of the President and Vice President over the past six years.

Answer.

	Fiscal year—				
	1993	1994	1995	1996	1997
White House Office	$857,491	$910,541	$838,627	$826,684	$892,345
Office of Vice President	289,522	252,292	253,914	285,647	326,363

Question. Please identify, for both the Office of the President and the Office of the Vice President, the various accounts used for official and campaign related travel (e.g. 21.0, 99.0). Please also provide the Subcommittee with a break down of those expenses related to official business from those related to campaign-related travel for the past ten or six years.

Answer. The account used for official travel expenses is 21.0. ALL travel costs from this account are Official in nature. The WHO cannot and does not pay for any political-related expenditures with regard to travel costs.

Question. How are travel expenses related to campaign activity reimbursed by the office of President and Vice President, respectively?

Answer. The account used for official travel expenses is 21.0. ALL travel costs from this account are Official in nature. The WHO cannot and does not pay for any political-related expenditures with regard to travel costs.

Question. How do requirements for travel differ for the President and the Vice President?

Answer. We are not aware of differences with respect to the requirements governing Presidential and Vice Presidential travel.

Question. What are the reimbursement requirements for campaign related travel? Are there written requirements with regard to how costs associated with campaign-related travel are paid? If so, please provide them with your response.

Answer. The reimbursement requirements for campaign-related travel by a Presidential candidate are set forth in 11 C.F.R. § 9004.7.

Question. If a trip is both official business and campaign-related, how are costs allocated between official and campaign related activities?

Answer. The requirements for allocating costs between campaign and non-campaign-related travel are set forth in 11 C.F.R. § 9004.7(b)(2).

NONDEPARTMENTAL WITNESS

STATEMENT OF C. BOYDEN GRAY, WILMER, CUTLER & PICKERING, AND FORMER WHITE HOUSE COUNSEL TO PRESIDENT BUSH

INTRODUCTION OF WITNESS

Senator CAMPBELL. The subcommittee will be back in order. I would like to welcome Mr. C. Boyden Gray, the former White House Counsel to President Bush. I have asked him here today to provide some perspective and insight into the general operations of the counsel's office, based on his past experience.

Mr. Gray, thank you very much for coming. Did you have a statement?

OPENING STATEMENT OF C. BOYDEN GRAY

Mr. GRAY. I have a prepared statement, which you have, which I hope will be in the record.

Senator CAMPBELL. It will.

Mr. GRAY. I will just summarize it for a few minutes and then hopefully answer any questions you have.

Sitting behind me is my former deputy, John Schmitz, so if you have any really truly difficult questions, I will be able to answer them with his help.

Senator CAMPBELL. Sitting behind me is my staff, who will also answer the difficult questions.

WHITE HOUSE COUNSEL RESPONSIBILITIES

Mr. GRAY. The job of White House Counsel is an absolutely terrific opportunity for any lawyer. One of my predecessors, Fred Fielding, said it is the best little law firm in town. I think that is a very accurate description.

As for its obligations, I have set out in my statement, the five areas that we operated in. The first was the vetting of nominees, which you heard about a little bit this morning, both for cabinet level appointments and the second category for judicial nominations.

In connection with the second category, working on judicial nominations, the Department of Justice, especially the Office of Legal Counsel in the Bush administration, provided most of the legwork for that. That is, most of the detail investigatory work. It was more of a management job from our perspective, and very, very important help came from the Department in that regard.

The third category dealt with war powers. We had problems in the Philippines, obviously. We had Panama. And then of course, the gulf war. There were many other little operations that required our attention. I was chairman of a thing called the War Powers Group, which included officials from State, Defense, Treasury, and the Justice Department again, of course.

This was quite, as you can well imagine, quite an active obligation during the 4 years.

The fourth category had to do with separation of powers issues regarding the independent counsel statute, which is a well-known statute by now. Also, executive privilege, another very important area of topical concern. And issues involving vetoes, as well as the appointments power.

The fifth category was just legal policy, legal issues that came up in the context of other disciplines, environment, labor law, regulatory policy, which was one of my personal interests when I worked for Vice President Bush in the Reagan administration. Those issues frequently involved questions of Presidential power and executive privilege, and so we did get involved from time to time in those areas. But most of these issues were organized or led out of different departments or different agencies within the White House Executive Office of the President.

COMMONSENSE VIEW OF PUBLIC AND PRIVATE ACTIVITIES OF THE BUSH WHITE HOUSE COUNSEL'S OFFICE

As my statement details, we had a fairly commonsensical view about the difference between representing the office and representing the person. We did not have detailed guidelines about it. It was fairly straightforward. We did not do taxwork. We did not do blind trust work for the first family.

When investigations came along, which we did, we had our share to be sure—we do not like to talk about it, but we did—we tried to distinguish between representing the President in his official capacity, representing the Oval Office, and staff members in their individual capacity. When an investigation looked like it was steering away from looking at a staff member in his or her capacity as a potential witness into that person's potential liability as a target, we would tell them—with obviously great difficulty—we think you need to get your own attorney.

Those were not always easy decisions to make, and they were even more difficult to convey to the individual involved, but of course we had to do it, both to meet our obligations to the President and to protect the individual involved. Our obligations were to the President and to the Government and we did not want, for example, to endanger any attorney-client privilege that the staff member might be entitled to.

WHITE HOUSE COUNSEL STAFF SIZE

As for the size of our staff, it was fairly small. We had eight core staff and about six or seven detailees, which included ethics specialists who helped with the nominations especially in the first year of the Bush term. Listening to the testimony this morning, it appears that we had 8 compared to their 20, if you will, 8 core compared to their 20 core. And we had about 6 or 7 detailees compared to their 15.

That is the way I can sort of understand the numbers. We were very reliant on the Office of Legal Counsel, as I said earlier, for both research work and for advice. I cannot imagine doing that job without the help of the Office of Legal Counsel. They were absolutely superb. They frequently said no, which is what a lawyer has

to do sometimes. A no which we then conveyed to our client, our clients. But they were an absolutely indispensable part of the operation of our White House and the White House Counsel's Office that belonged to my predecessors.

I do not know about the relationship between OLC and the current White House Counsel's Office, but it was indispensable to that office in years past.

That ends what I would say, Mr. Chairman. I would be happy to answer any questions you might have.

PREPARED STATEMENT

Senator CAMPBELL. Thank you. We appreciate that. We will insert your complete statement in the hearing record.

[The statement follows:]

PREPARED STATEMENT OF C. BOYDEN GRAY

Mr. Chairman, I appreciate the opportunity to testify about the operations of the White House Counsel's office during the Bush Administration when I served as Counsel to President Bush. Before providing information about staffing levels, I would like to take a couple of minutes to give an overview of the duties of the office.

During my tenure, we viewed the White House Counsel as having duties in five main areas. The first category was ethics and nomination clearances. With the assistance of the Office of Government Ethics ("OGE") and the designated ethics officers ("DEO's") of the Departments, we had the responsibility for coordinating compliance with the ethics obligations of the Executive Branch and for clearing nominations for Presidential appointments and senior White House Staff. This included processing both financial disclosure and FBI clearances, and we had responsibility for dealing with the FBI field investigations and the reports summarizing them. As you can probably imagine, this occupied most of my time and that of my staff in the first year of the Bush Administration.

The second category was the related one of clearing nominees for the federal judiciary, including the Supreme Court. I served as Chairman of the Judicial Selection Committee, which consisted of representatives from the Department of Justice, which did most of the research, and the officers of the Chief of Staff, Legislative Affairs, and Intergovernmental Affairs (the small White House office that dealt with the governors and mayors). Unlike the Cabinet clearance process, judicial selection was an ongoing duty that never diminished in intensity over the four-year period.

The third category encompassed issues relating the use of military force and the War Powers Resolution. I was Chairman of the so-called War Powers Group, which included representatives from the office of the Secretary of Defense, the Joint Chiefs, the State Department, the Justice Department and also the Treasury Department on occasion. This group was fairly active over the four years.

The fourth category was a catchall designed to watch out for the prerogatives of the Executive Branch generally and the Oval Office specifically in the context of the Separation of Powers. This category included dealing with Executive Privilege, the Independent Counsel statute, and various legislative matters involving the interrelationship between Congress and the White House, such as enforcement of the Chadha decision, reviewing budget rescission issues, and addressing questions relating to vetoes and appointments.

The fifth category included legal policy decisions where the lead was often taken by other offices within the Executive Branch or the White House itself, such as civil rights (usually lead by the Department of Justice or the EEOC), the environment, labor law (such as enforcement of the Beck decision regarding use of union dues for political purposes), and regulatory and administrative law generally (where the lead usually rested with OMB).

There was, obviously, a great deal of interplay between the various categories. Regulatory issues, for example, frequently involved questions of Presidential authority, and on occasion also raised Executive Privilege issues, although President Bush actually invoked the Privilege only once in a procurement matter. Our backup at all times was the Office of Legal Counsel ("OLC") in the Department of Justice, an extraordinary group of nonpartisan professionals who both provided the leg work for our efforts and gave us unfailingly independent advice. With our small staff, we simply could not have discharged our obligations to the President without the exten-

sive backup, and institutional memory, of OLC. There were times when I wanted to strangle numerous OLC officials when they said no to something we wanted to do, but in retrospect I could not have done without their staffing or their good judgment.

Now, what about the size of our lean staff? Beside myself and my Deputy, John Schmitz, we had five so-called commissioned officers, who automatically carried the title Associate Counsel, and one slot for a more junior assistant counsel. In addition, we had up to four detailees, that is, lawyers who worked full time for me but who were paid by other Departments. In other words, I had a maximum standing staff of twelve professional lawyers, including myself. In addition, of course, there were secretaries and clerical help for us and Jane Dannenhauer, who was the keeper of the FBI files and clearance process. Finally, especially during the very intensive initial 1989 vetting of Presidential appointees, I had one or two highly dedicated agency ethics lawyers who would stay for three to six months to help with nominations.

Questions have been raised over the years and especially recently about the dividing line between representing the Office and the President in his private capacity. We did not think twice about not doing private legal work for the first family. Their blind trust and tax returns, for example, were done by private counsel who occasionally consulted with us but never relied on us for any heavy lifting. Similarly, one of the son's issues with the S&L regulators was handled privately, as were a couple of ethical questions raised about private business matters.

More difficult, of course, were issues arising out of investigations of official conduct, such as Iran Contra or Iraqgate. Our general rule was that investigations of institutional conduct of the Presidency could be addressed by us using taxpayer funds, but that if the investigation began to focus on an individual as a potential target rather than as a mere witness, we would advise the individual to get his or her own counsel. Where an investigation involved only a staff member without implicating the Presidency, we would recommend that the staff member seek private assistance. Decisions here were not always easy to make and were never easy to convey, but we felt we had to be careful both for the protection of the individual as well as for the limits of our staffing. For example, providing legal advice to a potential target could both compromise the target's attorney-client privilege as well as constitute an abuse of taxpayer funding.

Also difficult was dealing with issues where our advice was not sought, or even, in some circumstances, was studiously avoided. There is an old saying that the only meetings the White House counsel has to attend are the ones he is not invited to. Accordingly, we always had to maintain enough flexibility to bird dog the end runs (to mix a couple of metaphors). My general advice to everyone was, "If you are really having fun, then you'd better stop what you are doing." I would like to think, for example, that we would have early on learned about and shut down the coffee fundraisers in the White House. The White House Counsel cannot spy on everything, obviously, but something as pervasive as the coffee program should not have gone unnoticed.

It has recently come to my attention that the current White House Counsel's office has about three times the number of attorneys we had. Naturally I am curious about what they have been doing, given the fact that the First Family also has two very large and capable law firms on retention, that there do not appear to be any burning issues of legal policy pending in the agencies or in Congress, and that the investigation of White House fundraising was shut down. As someone who is interested in regulatory reform, I would take some comfort if some of these forty lawyers were assisting OMB in trying to achieve EPA compliance with the White House Executive Order on regulation. But it is not clear they are doing that, and I think the public is entitled to know generally what they are doing.

PUBLIC VERSUS PRIVATE ACTIVITIES IN THE BUSH WHITE HOUSE COUNSEL'S OFFICE

Senator CAMPBELL. While you were the White House Counsel for President Bush, was it possible to draw that fine line between the public versus private legal aspects, or was that somewhat realistic?

Mr. GRAY. No; I think we were able to draw it. I hope we did. I mean, someone could be critical, someone could question some of the judgments we made. But I never thought at the time that they were especially difficult to make, and I do not think we were criticized at any time for the decisions that we did make.

Senator CAMPBELL. During your tenure, were there any times in which there were civil lawsuits ongoing that had a tail over here in Congress, where you would have to respond to some congressional inquiries about those civil lawsuits?

Mr. GRAY. No; nothing like the Paula Jones case. The closest I think that you would come, that we came to this, was the litigation, some of it private and some of it of course governmental, involving one of the sons involved in the S&L crisis. That was something we had virtually nothing to do with. I was aware of it more from reading the papers than from any information from the family.

It was something that was painful for me to have to avoid because one always wants to help, but it was something that I had to resist. And of course, I did not have the staff anyway, so it was not all that difficult.

Senator CAMPBELL. You said that you had, as you remember, about eight detailees from the agencies?

Mr. GRAY. Well, we had, as I understand it, about four permanent detailees that were reimbursable and then two to three that came on a 3- to 6-month basis that were not reimbursable. So six to seven.

Senator CAMPBELL. So the four there, their salaries were reimbursed by the White House to the agencies and the rest were not?

Mr. GRAY. That is correct.

INTERNAL CONTROLS FOR DISTINGUISHING BETWEEN PUBLIC AND PRIVATE ACTIVITIES

Senator CAMPBELL. In your opinion, what kind of internal controls or procedures should the White House have in place to more clearly define the private versus the public interest in the President's life or a President's tenure in office?

Mr. GRAY. Well, I do not know how you have controls if you do not know what, in fact, is happening or has happened. I am not aware of all of the details so it would be hard for me to give an opinion.

Senator CAMPBELL. We do not know and may never, but I was concerned a little bit that the Justice Department has tried to find in their rules that you cannot use taxpayers' money for attorneys' fees to defend in private lawsuits. I asked the former panel if they thought that would be objected to if we put that in statute. How would you view that? Do you think that ought to be statutory or just a rule?

SKEPTICAL OF STATUTORY ATTEMPT TO ESTABLISH INTERNAL CONTROLS FOR COUNSEL'S OFFICE

Mr. GRAY. As someone who has obviously worked in the White House, I am skeptical of trying to put too much in statutory language to micromanage what happens within the White House. I think that is a separation of powers problem potentially and I think you should be careful about that, in my humble opinion, even though of course I am from a different party.

But sooner or later Republicans will get back in the White House and might perhaps regret that kind of micromanagement.

I do, on the other hand however, think it is perfectly appropriate for you to ask questions about how the money is being spent. There may be objections to providing answers, but I was just struck listening here and thinking about it, 15 detailees to do vetting. Maybe they are doing work that we had done by the Office of Legal Counsel for us, but I do not know what I would have done with 15 people. I would have spent most of my time managing them and not doing substantive work.

So I am curious as to what all those 15 detailees were doing. We are way past the first year crunch of any administration when you have an avalanche of nominees to clear. The problem never goes away because people are constantly turning over, but the big crunch comes in the first year and it diminishes quite significantly thereafter.

Senator CAMPBELL. Do you remember if you had any procedures in place or any printed guidelines in your office to make sure those attorneys, whether they were detailees or not, were not handling private legal matters internally?

Mr. GRAY. Well, we had pretty good controls on what they were doing. We were constrained as to staff. There were things that everybody wanted to do that we could not do because we were so constrained, and I was—either I or John Schmitz—was pretty acutely aware of almost everything they were doing. They were not doing private legal work.

We could not afford, given the time constraints.

Senator CAMPBELL. Did they report pretty much directly to Mr. Schmitz or to you?

Mr. GRAY. Yes; either. John did most of the managing of the core staff on judicial nominations. Lee Lieberman Otis, who is now a staffer here in the Senate, managed the judicial nomination process for me, not as a deputy but that was her responsibility.

Senator CAMPBELL. They reported to you and it was a smaller crowd, that is for sure. Did you make them aware of the need that they should not be involved in any private legal matters? Or was that just sort of accepted and everybody knew that.

Mr. GRAY. I think that was accepted. The only time I think the questions called for tricky legal judgment involved the first lady. She had a literacy project, as some of you are aware. She was very keen on that aspect of her charitable work. And we encouraged the hiring of a private lawyer to handle the legal affairs of those operations. I suppose that required some thought, but it was not like a big issue.

EXECUTIVE PRIVILEGE

Senator CAMPBELL. During your tenure, did you ever get involved in the extent that we have now of using executive privilege for Secret Service, staff, or family members, or all of the other things that we are hearing about?

Mr. GRAY. Well, this has been in the press. A question of Secret Service privilege did come up in the context of the October Surprise investigation, which posited—the theory behind it was that somehow Candidate Bush, Vice President-Elect Bush, had flown to Paris to help complicate the hostage release. It was a very fanciful the-

ory. To this day I still cannot believe so much money and time was spent tracking it down.

At one point they even had him flying a Blackbird, CIA Blackbird back from Paris, since there were no——

Senator CAMPBELL. Himself?

Mr. GRAY. Himself, yes. He was a pilot, after all.

Senator CAMPBELL. President Bush was a pilot.

Mr. GRAY. He was a pilot. This was something he could do. They wanted to show that he had attended a meeting in Paris. We were able to show that, through the use of Secret Service logs which they did not want to release and we argued that they should be released, to prove that he was, in fact, having lunch with Justice Stewart's widow which, in fact, he was, and Dick Moore and some other people on that particular Sunday.

We were able to convince the investigators that he could not have come back from Paris on the Concorde because it does not fly on Sunday. That was when the Blackbird entered into the debate. But we did release those records.

The question of Secret Service privilege is a very tricky one. You certainly do not want the Secret Service protected from testifying about criminal activity. On the other hand, the President does need to have the confidence that they are not going to gossip about his family life or his private political views.

BUSH AND CLINTON COUNSEL'S OFFICES COMPARED

Senator CAMPBELL. Given your tenure in the White House, do you see any major differences of how the attorneys functioned during the Bush administration and how they are functioning now? I know you are not involved in the inner workings of it, but just from general observations of things you have read and seen?

Mr. GRAY. Well, I have two sort of general observations. One is they have a staff that appears to be nearly three times the size of ours, and they do not appear to be doing any of what I would call the fun things of the office, the fun legal policy issues that all of my staff loved to do, it is how I enticed them to come work for me, vetting judicial nominees or vetting cabinet nominees. Reading FBI files is not what anyone considers to be especially fun. That was the meat-and-potatoes work of the office.

And if you got that done right, and you did not make mistakes and get embroiled in subsequent controversies, then you were able to work on civil rights or the environment or trade or other issues that involved legal issues that were more fun.

I do not see this White House Counsel's staff's fingerprints on any of those fun legal policy issues. I think it is too bad for their own benefit. But it does raise the question well, if they are not doing that, what are they doing?

For example, and this is a personal interest of mine, as I said earlier, regulatory reform. We did come in on a number of occasions to assist OMB and the Council of Economic Advisors to try to put the reins on some of the agency's more expansionistic tendencies, especially the Environmental Protection Agency.

I see very little evidence of that today, and I do think the White House has a constitutional obligation to try to constrain the agencies from exceeding their authority. That is not something just the

Senate does or something the House does or something the judiciary does. The White House has the same obligation.

That was something that we enjoyed doing and I do not see the current White House Counsel's Office engaging in that activity.

THE SIZE OF THE COUNSEL'S OFFICE DURING THE BUSH AND REAGAN ADMINISTRATIONS

Senator CAMPBELL. You alluded to one of my questions, which was who is doing the work that they were originally hired to do in the agencies if they are not there? That has been a concern of mine and I do not think I ever got a definitive answer of who covers it while they are gone.

But let me ask you one last question. You might not be qualified to answer this, but I was interested in the comparative number that the Reagan administration might have, the number of attorneys. Do you happen to know that?

Mr. GRAY. I do not but I think it is comparable to ours. There was a period, of course, during the peak of the Iran contra document discovery phase when the staff ballooned in size, maybe doubled in size, to deal with the document production which involved many, many agencies and a great deal of declassification work. It was a very difficult period.

But the staff slimmed down after the brunt of that was done, maybe 6 or 8 months later. And when I came in, the transition, my predecessor, A.D. Colehouse, had a staff that was basically the size that I had, or I inherited from him basically the same size staff.

Senator CAMPBELL. I see. OK, thank you for appearing, Mr. Gray. I have no further questions, but, if I could submit them in writing. Some of the other members of the committee, who are not here this morning, may also have questions.

Mr. GRAY. I will be glad to answer any questions.

SUBCOMMITTEE RECESS

Senator CAMPBELL. We will keep the record open for 2 weeks, if there is anybody else that has any input that they would like to have inserted in the record.

With that, I thank you very much for your appearance. This subcommittee is recessed.

[Whereupon, at 10:45 a.m., Thursday, May 7, the subcommittee was recessed, to reconvene at 9:40 a.m., Thursday, May 14.]

MATERIAL SUBMITTED SUBSEQUENT TO THE CONCLUSION OF THE HEARING

[CLERK'S NOTE.—The following questions and answers were submitted to the House Appropriations Subcommittee on Treasury, Postal Service, and General Government to accompany the transcript from the March 12, 1998, hearing before that subcommittee. This information is included in the hearing record at the request of Senator Campbell.]

QUESTIONS SUBMITTED FOR THE RECORD BY CONGRESSMAN JIM KOLBE

USE OF GENERAL COUNSEL FOR PRIVATE DEFENSE OF THE PRESIDENT

Question 1. Recent press articles have indicated that staff within the Executive Office of the President are being used in the defense of the President as it relates to the Independent Counsel's investigation. In testimony before this Subcommittee in fiscal year 1995, your predecessor indicated that "no White House staff—specifically attorney's as it related to the Whitewater Investigation—were acting as lawyers for the President and First Lady where there is no official nexus." Is there an official nexus between Ken Starr's current investigation of the President in the matter of Monica Lewinsky as it relates to the President's constitutional, ceremonial or statutory responsibilities? Specifically define that nexus.

Answer. Before responding to the Committee's specific questions, we want to make it clear that the lawyers in the Counsel's Office represent the President in his official capacity and the Office of the President. Any suggestion that the Counsel's Office represents the President in his personal capacity is false, and reliance on "reports in the press" to the contrary gives unwarranted credence to baseless speculation.

First, the allegations in the Lewinsky matter focus on the alleged conduct of the President during his tenure in office with respect to a White House employee. The Independent Counsel has served the White House with subpoenas calling for the production of documents, has made informal requests for information, and has interviewed or required the testimony of some 40 current and former White House employees. The Counsel's Office is responsible for responding, on behalf of the White House, to these demands, for assisting White House personnel in responding to the OIC, and for determining whether the testimony sought from these personnel may implicate confidentiality concerns. Beyond these duties, the Counsel's Office is responsible for responding, and assisting other senior White House staff to respond, to the avalanche of press inquiries that flow from the OIC's investigation every day, including determining whether a response is appropriate and, if so, in what form, and collecting the information necessary to respond. Thus, the "official nexus" between the Independent Counsel's investigation and the constitutional, statutory and ceremonial responsibilities of the President and the Office of the President is obvious and undeniable.

More importantly, investigations like this consume an extraordinary amount of public, press and political attention and, therefore, place a significant burden on the President's ability to perform his constitutional and statutory duties. To allow him to strike the appropriate balance in these circumstances, the President is entitled to the most knowledgeable, candid and expert advice attainable. His senior advisors, including the staff of the Counsel's Office, must address how the President can best meet all his official obligations while also dealing with the demands on his time that flow from the investigation. They must prepare him for the press questions that come with virtually every public appearance and formal press conference, including, for example, the inquiries during press conferences with foreign leaders. One need only look to the period immediately following the disclosure of the investigation to see the extent to which the press made such inquiries during the President's press

conferences with Prime Minister Netanyahu, Prime Minister Blair, and Secretary General Annan.

On the domestic front, less than one week after the disclosure of the investigation, it was the President's constitutional obligation to deliver the State of the Union Address, and his senior advisors, including the Counsel's Office, were required to advise him how, if at all, to deal with the issue in that setting. More broadly, in the legislative area, there have been any number of comments by leaders of both Houses, complaining about the adverse effect that the investigation is allegedly having on the business of the Congress—comments that highlight the interplay between the Lewinsky matter and the President's official duties. The senior staff of the White House must advise the President on how best to manage the legislative process in these, and other, circumstances.

In all of these settings, and others, it is the responsibility of the Counsel's Office to advise both the senior staff and the President concerning the status of the investigation, its expected course, the demands it can be expected to place on him, and the legal implications of any staff proposals or presidential decisions. More specifically, with respect to the ongoing investigation, the Counsel's Office must advise the President concerning issues relating to potential governmental attorney-client and executive privileges.

Question 2. Current law provides that funds may only be used for the "official" expenses of the White House Office. Are there procedures in place to enforce this requirement? Specifically, what are those procedures?

Answer. The Counsel's Office devotes its resources to performing official functions, including the representation of the President in his official capacity and of the Office of the President. Thus, as is the case with other professional offices in the executive, congressional and judicial branches of government, no special procedures are necessary to ensure that funds are used for "official" expenses.

Question 3. When work comes in to the Counsel's office, is this work reviewed to determine whether it is official or personal? How is that determination made? Who makes it?

Answer. Work assignments, apart from routine matters for which a particular lawyer is generally responsible—e.g., pardons, travel, nominations, ethics—are generally made by the Counsel or the Deputy Counsels, as those determinations are necessary.

Question 4. How many current staff are within the office "Counsel to the President"? How many of these staff are "Counsel"? Within the White House Office, are there detailees from the Department of Justice? How many? How many serve as "Counsel"? What are the specific responsibilities of the DOJ detailees?

Answer. *See* Answer 2, Questions of Chairman Istook. See also, Exhibit 1.

Question 5. In fiscal year 1994, the operating budget for the Office of General Counsel was $1,913,092. What is the fiscal year 1998 operating budget for this office? What is the request for fiscal year 1999? For the record, provide total obligations, expenditures and FTE for the White House Office for fiscal years 1995–1999. Request by department (e.g. Chief of Staff, Legislative Affairs, Counsel's Office, Public Liaison, etc.). Include a separate line for detailees (reimbursable and nonreimbursable) for each year.

Answer. *See* Answer 2, Questions of Chairman Istook. With respect to the White House Counsel's Office, the anticipated number of employees and anticipated expenditures for fiscal year 1999 are not likely to change significantly from the two previous fiscal years.

Question 6. How are workloads tracked within the Office of Counsel to the President'? Do the attorneys use something comparable to what is used in the private sector such as "billable hours?"

Answer. The White House Counsel and the Deputy Counsels assign work as the need arises and supervise the conduct of that work, either directly or, in the case of investigative matters and nominations, through intermediate supervisors. Since there are fewer than 20 lawyers on the regular staff of the Office, supervision is accomplished through regular personal contact with the lawyer involved, often daily or even more frequently. There is no need for staff to track the hours devoted to the tasks they perform as part of their official duties.

INFORMATION TECHNOLOGY ARCHITECTURE (ITA)

Question 7. Although the EOP has submitted an Information Technology Architecture (ITA) for the modernization of EOP's information resources, the ITA is still missing a great deal of detail. For instance, it is not clear if there are standard procedures in place to define each of the 11 EOP organization's technology require-

ments. Are there any such procedures in place? What are they? How have they been implemented? Who is responsible for implementing them?

Answer. The EOP is currently employing procedures called for by Clinger-Cohen, OMB, and GAO in the conduct of our work. *See* Exhibit 10 for an illustration of these procedures. We have begun work on the standards process and standards repository. We are collecting best practices for this process, looking at work done in other Federal agencies and researching materials we have gathered from the internet, GAO, GSA, and NIST. The final procedures/standards is targeted for adoption by July, 1998. Volume 2 on the figure will be an ITA Management and Implementation Plan. The procedures for updating the ITA will be spelled out in that companion document. Work has begun on developing the procedures, using small project teams. A description of the current teams can be found on page 1–7 of the ITA. The ITMT will have responsibility for overseeing the implementation of the new procedures.

Question 8. How were the information requirements of the individual organizations within EOP determined and validated?

Answer. The initial information requirements described in the ITA were determined through a comprehensive assessment completed in July, 1997. They were documented in the Executive Office of the President Information Processing Requirements Document and related documents and inventories.

We are currently in the process of completing an assessment of all of our software and hardware for Year 2000 compliance. The information gathered will permit a further refinement of the ITA "as is" technology baseline. A comprehensive inventory of hardware, COTS, GOTS, and custom applications is part of the Y2K assessment. The Y2K team used the Requirements Document as the jumping off point for their inventory, hence, the inventory of requirements is being validated. The Information Technology Management Team will validate the final, combined inventory and will determine when and what systems can be added to the inventory, that is, the ITMT will fill the role of prioritizing the future application portfolio.

Question 9. What process is in place to ensure that information requirements are being driven by EOP's overall strategic plan?

Answer. EOP has adopted an integrated strategic management approach which is composed of three thrusts. The first is Strategic Analysis of EOP's environment, expectations, objectives, culture, and resources. This leads to Strategic Choice, which generates options, evaluation of the options, and selection of a strategy—the Strategic Plan. The third phase is Strategy Implementation, which produces tactical plans for improving processes, upgrading or replacing technology, and developing the people resources required to move EOP ahead. The ITMT will assure that all system changes proposed for the EOP Strategic Plan and Budget submission truly support the strategic objectives of the EOP. The Team will also provide oversight of the implementation of the new technologies to assure that they deliver the promised business improvements.

Question 10. Are there specific procedures in place to prioritize individual projects? What are they?

Answer. As mentioned above, the ITMT will prioritize projects across the EOP. Small efforts unique to a single agency will continue to be funded and managed by that agency. The ITA Management and Implementation Plan will contain procedures for submission of the agency-specific technology descriptions for inclusion in the overall EOP inventory database. The prioritization procedures mentioned in the previous questions are being documented and will be available shortly.

INFORMATION TECHNOLOGY ARCHITECTURE—ANNUAL AND TOTAL COSTS

Question 11. In a letter to the Committee last year, you stated that the architecture would identify budgetary baselines. I am concerned because there is a noticeable lack of cost data included in the ITA submitted to the Committee on February 20th. I note that you provided a 5 year table on February 28th. The price tag of this modernization effort over the next 5 years is $39.3 million. Is this the total cost? How were these costs developed? Have they been validated?

Answer. The estimated costs reflect the total investment portfolio needed to move the EOP from the current heterogeneous infrastructure with its myriad of systems to the planned architecture and infrastructure cited in the ITA with one exception. The costs that are excluded are those funds needed to upgrade the EOP's physical cable plant and communications infrastructure. This upgrade is required in order to support the future voice and data communications needs of the EOP. The reason for this particular exclusion is due to the fact that the buildings are owned by GSA. GSA is expected to forward a request for the communications and physical cable plant upgrade under a separate budget request.

The costs were developed using historical procurement data, published contractor labor rates for the Washington, D.C. metropolitan area, informational vendor quotes, and industry standards for formulating Basis For Estimates (e.g. average cost per line of code).

The costs for 1999 were validated first by establishing the initial baseline estimate, and second, by conducting an independent review of those data to verify the accuracy of the baseline. The data needed to begin the validation process for the Years 2000–2003 will become available upon conclusion of the Year 2000 assessment phase. The first step will be to validate the baseline estimate, then a second review will be performed to verify the baseline. The completion of the Year 2000 assessment phase is targeted for the end of April, 1998.

Question 12. It appears that the $12.2 million being requested for fiscal year 1999 is a compilation of projects recommended in the Logicon report. That report, by its own admission, was unable to validate the direct and indirect costs of individual systems. Does the ITMT act as an investment review board? Has the Information Technology Management Team reviewed and approved the individual projects proposed in the 1999 Capital Investment Plan? Did they validate the costs of the individual systems? For the record, provide any documentation on the review, approval and validation of individual systems and their costs.

Answer. Yes. As required by its Charter, the ITMT approves new information technology investments and evaluates existing projects and operational systems to create an IT investment portfolio that best supports the EOP agencies' missions and program delivery processes.

The ITMT discussed and reached a consensus on the ITA projects considered to be high priority, that is, those projects specified in the 1999 Capital Investment Plan. The reason for the identification of those specific projects is because they are considered to have the most significant impact on both the infrastructure and the Year 2000 problem. The priority projects were agreed upon by the ITMT as being the critical efforts the EOP should focus its efforts on during fiscal year 1999 on December 18, 1997.

Two cost validation efforts, one to establish the initial baseline estimate and one to validate the baseline, were conducted for the projects cited in the 1999 Capital Investment Plan.

The first effort was conducted by the Office of Administration to establish the baseline estimate. Historical procurement data, published contractor labor rates for the Washington, D.C. metropolitan area, informational vendor quotes, and industry standards for formulating Basis For Estimates (e.g. average cost per line of code) were used to establish the initial baseline estimate for the 1999 Capital Investment Plan projects.

The second cost validation effort was conducted by an independent contractor, James Martin Government Consulting. The results of the second cost validation cited a project total of $14.8 million (which included $1.8 million funded from the fiscal year 1998 Capital Investment Plan and $500K funded from the 1998 sustaining budget). The cost difference between the initial baseline and second validation effort was $300K, or 2.4 percent of the total amount estimated for 1999 Capital Investment Plan. Therefore, the EOP anticipates a 97.6 percent accuracy rate in the costing data for the funds requested in the 1999 Capital Investment Plan.

FISCAL YEAR 1999 CAPITAL INVESTMENT PLAN

Question 13. Your fiscal year 1999 request includes $6,986,000 for generic "EOP Information Technology". This is further defined as critical tasks necessary to assess, renovate or replace, and test mission critical applications. What are the specific projects associated with this request?

Answer. The projects to be renovated consist of 85 Mission Critical Custom Applications and their associated hardware and software utilized by the Executive Office of the President agencies in performance of their daily mission and activities. Thirty-nine percent (39 percent) of these systems are mainframe based applications and consist of legacy applications written in COBOL, MODEL 204, etc. The remainder of the systems are more modern and desktop based.

Question 14. Of this amount, $4.4 million is being requested for "ADP Contract Labor". This seems fairly high. How was this contractor selected and hired? Is it only one contractor? Are these costs fair and reasonable?

Answer. Final contractor selection for the renovation and testing phases of the Y2K effort has not occurred. However, in September 1997, Northrop Grumman (NG) was competitively awarded a contract to act as the EOP's facilities management contractor with the responsibility for providing information technology support to the EOP. The competition was conducted under the Department of Transportation's

ITOP Contract, and Northrop Grumman was selected as the offeror which provided the best value to the Government giving appropriate consideration to the factors of Technical, Past Performance and Price.

As the EOP's facilities management contractor, Northrop Grumman ("NG") has the responsibility for providing maintenance support for all hardware and software resident on the EOP computer systems. Should the EOP decide to fund NG to provide renovation services, it would be with the recognition that the software and hardware renovated by them would also be supported by them for the next three years. This should further incentivize them to ensure that the software and hardware were correctly modified given that the support of these systems would be their responsibility.

We are also in the process of selecting an Independent Validation and Verification (IV&V) contractor to ensure that the renovated software works properly and testing results are in accordance with testing plans.

Government estimates for the labor are based on rates in place for current information technology support contractors which are representative of labor expense in the Washington DC area. In addition, industry estimates for lines of code conversion/renovation were used to develop the labor hours required to support the renovation/conversion. Some of the EOP legacy systems utilize languages, such as Model 204 and Easytrieve that historically are more expensive to renovate or convert. In addition, the skill mix required for personnel are more difficult to procure; hence, higher rates.

Question 15. The justification materials state that these projects are "high priority". What criteria are used to define a project as high or low priority?

Answer. For the fiscal year 1999 Capital Investment Program, Critical Priority projects are those projects that have a Y2K implication. For example, these projects include the replacement of either hardware or software that is not Y2K compliant and cannot be made Y2K compliant. Custom applications, such as the Electronic Requisition System utilize non-Y2K compliant software, and the cost to bring the existing system to compliance would be more than acquiring a new Commercial Off the Shelf (COTS) package.

Question 16. The Administration is also requesting $862,000 for "information support tools for on the road/trip requirements"—basically portable computers and software used by the White House Communications Agency while on travel with the President. Why is this a priority replacement this year? If this equipment is not replaced this year, what are the impacts on WHCA? Would communications be hampered in fiscal year 1999?

Answer. The computers and software that are currently being used were purchased 5 to 8 years ago. They are not Y2K compliant and cannot be economically upgraded to be Y2K compliant (286 generation technology). Cannibalization of parts to keep the equipment running began 2 years ago, and the original manufacturer (GRID Computers) has since ceased manufacturing replacement parts. As a result of the cannibalization, the inventory is decreasing and unless new equipment is purchased, the equipment will cease to function. We need 6–8 months to integrate new hardware and software into the trip packages and train personnel. The EOP will not be able to meet the OMB mandate for conversion of mission critical applications by 3/99 unless the funding for the On the Road/Trip Requirements is funded in fiscal year 1999. In addition, the software running on this equipment is not Y2K compliant. As we work to evolve to a Y2K compliant, common software environment, the software required for this project should be a subset of, and purchased with, the Common Software we are developing for deployment EOP-wide.

FIVE YEAR STRATEGIC PLAN

Question 17. The ITA states that a 5 year ADP Strategic Plan is necessary to support the Capital Investment Plan yet this strategic plan is still in the development stage. What is the status of EOP's 5 Year ADP Strategic Plan? Will this Strategic Plan identify, by fiscal year, the component pieces of the architecture?

Answer. The EOP's Five Year Strategic Plan is under development. This strategic plan will in turn be incorporated as part of the ITA, and will tie to the levels identified in the initial submittal of the architecture. *See also* Answer 7.

Question 18. Is there a five year ADP strategic plan that supports the request of $12.2 million for the fiscal year 1999 phase of EOP's modernization effort? What assurances do we have that the request to fund these specific projects fits in to the 5 Year Strategic Plan if that plan has not been developed?

Answer. Detailed analysis has gone into the budget request for the $12.2 million for fiscal year 1999. The base document was the Roadmap document submitted to Congress in July of 1997. The base criteria for selection was either a project directly

in support of our Y2K effort or critical to the support of our infrastructure. The projects included in the fiscal year 1999 request are not technologically complex; rather they are basic, simple projects such as Common Software which are critical to support an organization undergoing transition. These projects will be cornerstones of the five year strategic plan.

Question 19. Absent a strategic plan, what factors went in to the sequencing of projects? In other words, how was it determined that some projects would be funded in fiscal year 1999 and that others would be delayed to the outyears?

Answer. As discussed above, the base criteria for selection was either a project directly in support of our Y2K initiative or critical to the support of our infrastructure. By this criteria, only those projects that were the most critical such as Common Software, Help Desk, or Electronic Document Management strategy were selected. These are very basic projects, and not complex from a technology standpoint, but need to be in place as the building blocks for mission survival and the cornerstones for the next fiscal year's activities.

ARCHITECTURAL COMPLIANCE ACROSS EOP AGENCIES

Question 20. In addition to the $12.2 million being requested through the Office of Administration, other EOP agencies are requesting funds for computer software and hardware—both upgrades and maintenance. In total, other agencies are requesting $1.5 million for these efforts in fiscal year 1999. Are these maintenance activities and upgrades consistent with the architectural blueprint?

Answer. Yes.

Question 21. Who ensures compliance with the architecture across the EOP?

Answer. The Information Technology Management Team (ITMT).

Question 22. Have these proposed equipment purchases—both upgrades and maintenance—been reviewed by the ITMT?

Answer. Yes. On December 18, 1997, the ITMT discussed and reached a consensus on the ITA projects considered to be high priority. The reason for the identification of those specific high priority projects (which comprise the $12.2 million being requested) is because they are considered to have the highest impact on both the infrastructure and the Year 2000 problem. Since completion of the priority projects is essential to establish the foundation needed to implement Year 2000 solutions while affecting critical infrastructure changes needed to stabilize the processing environment, the priority projects cited in the 1999 Capital Investment Plan were agreed upon by the ITMT as being the critical efforts the EOP should focus its efforts on during fiscal year 1999.

Question 23. Why is the Vice President's office requesting funds for "the next generation of technology" outside of the appropriation for the Capital Investment Plan?

Answer. The estimated cost under object class 31, equipment, allows for the 25 percent life-cycle replacement of old ADP equipment The 25 percent replacement cycle per year is in keeping with the EOP's overall strategy to ensure the timely replacement of equipment that is not Year 2000 compliant. The Office of the Vice President has over 100 Personal Computers (PCS). A 25 percent replacement cycle of 25 PCS per year is expected with an average acquisition cost of $2,800.00 per unit. The Office of the Vice President also has peripheral equipment that cannot support the TCP/IP standard protocol suite cited in ITA, Technical Reference Model (Appendix C, Section 1.10 Network Services). Therefore, replacement of the antiquated devices is essential to maintain network printing services for the OVP while the EOP implements the 1999 Capital Investment Plan projects.

YEAR 2000—MANAGEMENT OVERSIGHT AND COST

Question 24. Even though the Y2K problem is one based on technology, making sure the computers get fixed in time is a management issue. As it specifically relates to the position "Director, Office of Administration:" What is your role in resolving Y2K problems in the EOP?

Answer. The Program Manager for the EOP Year 2000 effort is the Deputy Director for Information Management. The program team, which consists of dedicated government personnel and contractors, has daily meetings and provides the Deputy Director with daily status reports which contain information on activities completed and activity planned for the following day. As the ultimate responsibility for Year 2000 activities reside within the Office of Administration, the Director is kept informed, and provides direction in cross agency issues or problems. In addition, as the Chair of the Information Technology Management Team (ITMT), the Director provides the high level business strategy for the prioritization of OA systems, and holds the budget for the Year 2000 renovation and assessment.

Question 25. How often, and with whom, do you review status reports?

Answer. In addition to the above daily activities, weekly status reports are provided to the Director. The Director is also briefed prior to any major deliverable in the assessment schedule. Briefing parties may consist of the Deputy Director or the Y2K team itself.

Question 26. Do these status reports provide you insight into which of your core business functions may be in jeopardy?

Answer. Yes; the EOP is currently completing the assessment phase of its custom application programs. These reports have been valuable in providing information to the EOP about its enterprise, and have served to identify not only the physical inventory, but system owners and other critical system data. As the renovation efforts begin, we will continue to highlight areas of concern and success.

Question 27. How confident are you that the EOP will be ready by OMB's date of March 1999 or by the time it is critical to EOP's operations -which may be before January 1, 2000?

Answer. With proper funding levels, we are confident that the EOP mission critical systems will be operational by March of 1999.

Question 28. Have you prioritized the systems supporting the EOP's mission and core business functions? Have you reviewed the renovation and/or replacement schedules to see if they are reasonable? Has the ITMT approved your priority list?

Answer. The EOP prioritized the systems that support mission critical and core business functions at the March 31st meeting of the ITMT. Based on that prioritization, renovation/replacement schedules are being developed and will be reviewed with the ITMT for validation and reasonableness of schedule. The ITMT has approved the priority list.

The EOP is currently completing the assessment phase of its custom application programs. These reports have been valuable in providing information to the EOP about its enterprise, and have served to identify not only the physical inventory, but system owners and other critical system data. As the renovation efforts begin, we will continue to highlight areas of concern and success.

Question 29. What is the total estimate for Y2K for the EOP?

Answer.

Fiscal year	*Cost*
1996	$100,000
1997	500,000
1998	2,500,000
1999	12,800,000
2000	500,000
Total	16,400,000

[Dollars in millions]

Fiscal year	Contractor studies	Capital investment plan	Deducated FTE [1]	Salary/benefits cost	Total cost
1996	.....	N/A	0.8	$0.1	$0.1
1997	$0.4	N/A	1.5	.1	.5
1998	.....	$2.0	6.0	.5	2.5
1999	.....	12.2	8.3	.6	12.8
2000	.....	0.3	4.0	.2	.5
Totals	.4	14.5	N/A	1.5	16.4

[1] ''FTE'' refers to the number of full-time-equivalent staff working on the Y2K issue during that fiscal year.

Contractor studies refers to consulting contracts for Y2K-related studies funded from the Office of Administration current-services-level appropriation (instead of being funded through the Capital Investment Plan; it is anticipated that most, if not all, fiscal year 1998–fiscal year 2000 Y2K contract funding will emanate from the CIP). During fiscal year 1997, OA funded two studies from its current-services-level appropriation: (1) a $319,337 study to develop a proposed architectural blueprint—the first stepping-stone from which we have launched subsequent Y2K efforts; and (2) a $44,016 Y2K-related inventory of the EOP's commercial off-the-shelf software.

Capital investment plan refers to the funds appropriated which provide "for the modernization of the information technology architecture." The CIP exists for the first time in fiscal year 1998, with a funding level of $2.0 million; the EOP's request

for fiscal year 1999 is $12.2 million. Our plan is that all of these funds will be targeted directly to Y2K issues during fiscal year 1998 and fiscal year 1999. Although we have not yet formulated our fiscal year 2000 budget request, our current expectation is for approximately $0.3 million during fiscal year 2000 for Y2K wrap-up of non-mission-critical systems. We do anticipate other fiscal year 2000 CIP needs unrelated to the Y2K issue.

Dedicated FTE refers to the number of work-years from Information Systems and Technology and other OA staff who are working on Y2K issues.

Estimated salary/benefits costs is an approximation of the cost to the government of staff time dedicated to the Y2K effort. The current funding allocated for IST staff is $3,171,902; with full staffing of 44 persons, assuming a 4 percent vacancy rate gives an anticipated FTE of 42.2. Thus, the average salaries/benefits cost is $75,164. Assuming the following numbers of staff dedicated to Y2K efforts per year, here are the specific cost estimates multiplying the dedicated FTE times the average salary/benefits of $75,164:

Fiscal year 1996, 3 staff at 25 percent of their time (0.8 FTE); $60,131.
Fiscal year 1997, 3 staff at 60 percent of their time (1.8 FTE); $135,295.
Fiscal year 1998, 8 staff at 75 percent of their time (6.0 FTE); $450,984.
Fiscal year 1999, 11 staff at 75 percent of their time (8.3 FTE); $623,861.
Fiscal year 2000, 4 staff at 75 percent of their time (3.0 FTE); $225,492.

Total cost is a summation of all known cost categories related to the Y2K effort.

NOTE.—Section 43 of OMB Circular A–11 addresses "Cost of the year 2000 activities;" it states, in part, "Do not include obligations for upgrades or replacements that would otherwise occur as part of the normal system life cycle."

Question 30. What do you expect from the recently announced President's Council on the Year 2000? To date, what has your interaction with the Council been?

Answer. The President's Council provides government-wide guidance to our Y2K initiative in much the same manner as the Council provides guidance other federal agencies. Since its inception in March, the Director and the Deputy Director have met with the head of the President's Council, and expect to continue our cooperative relationship and dialogue on a bi-monthly basis.

YEAR 2000—"EXCHANGE PARTNERS"

Question 31. Even if the EOP completes the renovation of application systems in its portfolio, the systems may not be operable because agreements on sharing data with processing partners both within and outside the Federal government may not be in place. If agencies cannot process each others data, then the business operations stop. Has the EOP identified its critical processing partners with whom it will exchange data information? Has the EOP signed any agreements with these partners regarding the exchange of data?

Answer. The EOP is in the process of completing its custom application assessment, and as part of that process all critical processing partners and external interfaces will be identified. However, as part of this ongoing initiative, some critical partners have already been identified. One is the DOD Financial Accounting Center located in Pensacola, Florida; this is the entity which will process our payroll and personnel system. An interagency agreement (IAG) has already been signed.

The second critical interface requirement already identified resides in the President's Budget System or MAX. While MAX has many components, the data entry piece or the A11 System has external interfaces to all Federal agencies, as this is the system which provides the mechanism to input budget data. As part of the renovation phase of MAX, language for an IAG will be included for dissemination to all user agencies.

As the assessment phase within the EOP completes, part of the discovery will include the identification of all critical processing partners and external interfaces. Recommendations and/or remedies will be suggested for all identified.

Question 32. How will the EOP ensure that erroneous data from outside systems do not contaminate your files?

Answer. With respect to external interfaces, we are developing a solution which ties an enhanced firewall with Y2K software which will check for non-Y2K compliant data.

WHITE HOUSE COMMUNICATIONS AGENCY

Question 33. The White House Communications Agency has been criticized for its lack of accountability and management problems. In order to establish some measure of accountability for the operations of this group, the Committee directed the White House to develop a system for verifying and tracking all reimbursements made to WHCA. Has the interagency agreement between the White House and

WHCA allowing for reimbursable services been signed? Please provide a copy for the record.

Answer. Yes. *See* Exhibit 8.

Question 34. Have you signed a Memorandum of Understanding (MOU) outlining the categories of services to be provided by WHCA? Please provide a copy for the record.

Answer. Yes. *See* Exhibit 9.

Question 35. The budget justification materials include an estimate of $642,000 for capital improvements in fiscal year 1998 and a request of $785,000 for capital improvements in fiscal year 1999. Specifically, what are these capital improvements?

Answer. Capital Improvements totaling $642,000, included in fiscal year 1998 budget submission: Audio/Video Equipment, $542,000; Photo Equipment, $100,000.

Capital Improvements totaling $785,000, included in fiscal year 1999 budget submission: Audio/Video Equipment, $731,000; Staging Equipment, $54,000.

Question 36. For the record, describe the specific audio-visual services by category: Presidential Travel, Mission Support, and Photo Lab.

Answer. Audio-Visual services by category:

Presidential Travel (Presidential Audiovisual Events (PAE) Production)

—Provides a PAE coordinator to oversee quality, planning and execution;
—Audio/video recording of events for archiving/historical purposes;
—Teleprompter;
—Video recording/playback of news and other programs;
—Audio feeds to White House Press Office and Press Filing Center;
—Public Address support;
—Lighting for Presidential events; and
—Cable television distribution.

Mission Support

—Personnel training;
—Facility leases;
—Utilities; and
—Facility maintenance.

Photo Lab

—Provides film processing of prints and mounts still black and white and color photographs.

QUESTIONS SUBMITTED FOR THE RECORD BY CONGRESSMAN ROBERT L. LIVINGSTON

OFFICE OF THE COUNSEL TO THE PRESIDENT

Question 1. Could you provide a list of names and titles of all personnel employed by, or detailed or in any other manner attached to, the Executive Office of the President who are working on any matter involving an investigation by any component of the Department of Justice, or any Independent Counsel? For each employee, could you please state their salary and indicate whether such salaries are paid out of appropriations to the Executive Office of the President or other Department or Agency accounts.

Answer. The following members of the Counsel's Office staff, all of whom are paid from EOP appropriations, currently spend some portion of their time on matters involving investigations by the Department of Justice or one or more Independent Counsel. In addition, the Counsel and Deputy Counsels are responsible for supervising this work, as they do all the work of the Office. Pursuant to the July 1, 1998 Report on White House Office Personnel, pursuant to Section 6, Public Law 103–270, the information is as follows:

Special Counsel Lanny Breuer	$107,500
Associate Counsel Dimitri Nionakis	92,000
Special Associate Counsel Sally Paxton	92,000
Associate Counsel Michelle Peterson	92,000
Associate Counsel Karl Racine	92,000
Associate Counsel Michael Imbroscio	75,000
Paralegal Dimitra Doufekias	33,000
Paralegal Deborah Falk	33,000
Paralegal Erin Green	33,000
Assistant/Paralegal Brian Smith	33,000

Question 2. Is any attorney in private practice retained by the President or the First Lady receiving any compensation from any component of the Federal government? If yes, could you please provide a listing of those receiving the compensation, the amount, and the services being compensated. Are any of the attorneys participating in a joint defense agreement?

Answer. No.

Question 3. Have persons employed by, or detailed or in any other manner attached to the Executive Office of the President consulted with the private attorneys retained by the President or the First Lady or their respective law firms? If yes, could you please list such consultations, including the date, time, duration and subject matter. Did the consultation take place on Federal property?

Answer. *See* Answer 7, Questions for the Record, The Honorable Ernest Istook.

Question 4. Are the salaries of volunteers in the Executive Office of the President, in whole or part, being paid by the law firm of any attorney retained by the President or the First Lady?

Answer. No.

QUESTIONS SUBMITTED FOR THE RECORD BY CONGRESSMAN STENY HOYER

Question 1. Can you provide for the Committee information on the following: number of personnel in the Legal Counsels' office; breakdown of lawyers and staff in the Legal Counsels' office; and, overall staffing of the Executive Office of the President broken down by office.

Answer. *See* Exhibits 1 and 7.

Question 2. What was the fiscal year 1996, fiscal year 1997, and fiscal year 1998 operating budget for the Counsels' office?

Answer. *See* Answer 2, Questions for the Record, The Honorable Ernest Istook.

QUESTIONS SUBMITTED FOR THE RECORD BY CONGRESSMAN ERNEST ISTOOK

OFFICE OF THE WHITE HOUSE COUNSEL

Question 1. Please provide an organizational chart of the office of the White House Counsel. This chart should include: the names of all staff in the office of the White House Counsel; titles; job responsibilities; supervisors; where they are stationed; and lines of authority.

Answer. *See* Exhibit 1.

Question 2. Please provide a history of the staffing and expenses for the office of the White House Counsel, by fiscal year, since January 20, 1993, to the present, including the names of all people who have worked in the office of the White House Counsel; titles; job responsibilities; dates when working for the office of the White House Counsel; where they were stationed; and the total amount spent by the office of the White House Counsel for salaries and expenses. For expenses, please itemize the list.

Answer. Most White House Office obligations and expenditures are made through a central account for the common support costs of WHO operations (*e.g.,* telephone service; copier costs, etc.). Only those costs directly attributed to a particular office—such as salaries and travel costs—are generally allocated to specific offices within the White House Office.

For the White House Counsel's Office, the current number of employees and the current expenditures for fiscal year 1998 are not significantly different from those of the two previous fiscal years. The following is a summary of the major categories of obligations and/or expenditures that are attributable to the Counsel's Office, by fiscal year:

Fiscal year	Number of employees [1]	Personnel expenditures	Benefit expenditures	Detailee obligations/expenditures	Travel obligations/expenditures
1994	28	$1,464,706	$328,789	$85,213	$7,878
1995	29	1,829,950	423,500	38,274	11,259
1996	33	2,232,343	503,314	([3])	9,758

Fiscal year	Number of employees [1]	Personnel expenditures	Benefit expenditures	Detailee obligations/expenditures	Travel obligations/expenditures
1997	32	2,193,468	497,844	([3])	14,553
1998 [2]	34	1,262,741	283,415	([3])	10,776

[1] Data calculated as of April 20th or thereabouts of each fiscal year.
[2] The fiscal year 1998 costs are those actual costs that have been incurred as of April 20, 1998. Note: The above costs have not been adjusted for inflation.
[3] Detailee obligations/expenditures are now made through a central account, and are no longer attributed to specific offices.

For the individuals or positions in which individuals have served in the White House Counsel's Office, *see* Exhibits 2 & 3.

Question 3. Please provide any opinions which have been written by or for the office of the White House Counsel which outline what is an acceptable activity when determining whether legal work is of an official or private nature.

Answer. In 1994, at the time of the appointment of an independent counsel to investigate matters related to the President that preceded his term of office, the Counsel's Office reviewed the nature of its role in relation to such an investigation, though it did not prepare or publish a formal opinion. As is the case for every government legal office with respect to its agency and agency head, the role of the White House Counsel's Office is to provide legal representation to the White House and its many officers and employees in their official capacity. Consistent with the District of Columbia Rules of Professional Conduct, the Counsel's Office represents the White House acting through its "duly authorized constituents"—its officers and employees. As the officer who directs the official activities of all White House officers and employees, the President is the ultimate "client" of the Counsel's Office. The President is "client", however, only in his official capacity as President. Thus, for matters that are entirely personal to the President for which he requires legal advice, he must retain private counsel, as would be the case for any other federal employee. Many matters, including independent counsel investigations, have both official and personal aspects that require the attention of both official and private lawyers. The Counsel's Office examines each issue as it arises to ensure that it addresses only those that relate to the performance of official duties of the President, White House officers and White House employees—that is, issues that have an official nexus.

Question 4. What mechanism is in place for tracking the work of staff of the White House Counsel. Please describe how this mechanism works. Please provide a sample copy of the mechanism. Are there periodic work reports while tasks are underway? When tasks are finished? Please describe the periodic reports. Please provide a sample copy of a work report.

Answer. *See* Answer, Question 4, Questions for the Record.

Question 5. For the period beginning January 20, 1993, through the present, identify all individuals and/or witnesses whom your office has been involved in debriefing or interviewing regarding their actual or pending testimony before any Arkansas grand jury; Washington, DC, grand jury; or any California grand jury. For each individual and/or witness, please provide the following information: the date of the debriefing or interview; the location where the debriefing or inter-view took place; the person(s) present at the debriefing or interview; the general subject matter of the debriefing or interview.

Answer. This question is identical to one put to the Office of White House Counsel by Chairman Burton of the Committee on Government Reform and Oversight. This question constitutes an inappropriate inquiry into the work of the Counsel's Office. It is entirely proper for lawyers—in the public or private sector—to speak with witnesses, or their counsel, both before and after their testimony, whether before a congressional committee or any other investigative body. Indeed, that practice is universally recognized to be a necessary part of any lawyer's effective representation of his client, and has been followed by Counsel to Republican and Democratic Presidents. Moreover, the Independent Counsel, the Justice Department, and, indeed, the investigating committees of the Congress have been fully apprised of the fact that Counsel's Office speaks with witnesses and their lawyers.

To begin with, as a rule, all government employees look first to agency counsel for representation in matters related to their official duties. Where such representation is not available, either because a congressional committee has decided that it will not permit White House Counsel to represent the employee, or because preliminary discussion with the employee suggests that there may be some ethical or legal impediment to the representation, or because the employee chooses not to be rep-

resented by the Counsel's Office, it is the duty of White House Counsel to assist the employee to secure personal counsel if the employee wishes that assistance.

Discussion with a witness or a witness's counsel may then occur in any number of different settings, all of which are typically treated as confidential. Of course, where the Counsel's Office represents an employee-witness, we have the same discussions that would occur in any attorney-client relationship. Where an employee or former employee is represented by private counsel, Counsel's Office typically begins by determining whether the witness's testimony may give rise to special confidentiality or privilege concerns and whether the witness has, or knows of the existence of, documents that have been subpoenaed. Counsel's Office must then communicate to the witness's counsel, especially when a representative of the Office is not permitted to be present for the testimony, whatever guidance may be necessary on issues of privilege. In addition, counsel for a witness, particularly if the witness is a current or former employee, often will speak with us in order to obtain information to ensure his client is fully prepared. Finally, we often speak with either the witness or counsel, or both, after the witness has testified for the purpose of gathering the information necessary to represent our client, the Office of the President.

Beyond the aforementioned concerns, it would be virtually impossible to respond to the Committee's request. There are no records that would reflect all contacts with witnesses or their counsel during the five-plus years and in the multiple forums covered by the request. Moreover, a search for any records that did exist would be extraordinarily difficult and time consuming. Nonetheless, to the extent that it may be relevant to the Committee's concerns to have on the record a formal statement that Counsel's Office has spoken, and continues to speak, with witnesses or their lawyers during the period January 1993 to the present, this will serve as our acknowledgment of that practice, as described above.

Question 6. For the period beginning January 20, 1993, through the present, identify all individuals with whom the White House has a joint defense agreement. For each such individual, please provide the following information: the date of the agreement; the parties to the agreement; the general subject matter covered by the agreement; the reason necessitating that the White House enter into this agreement.

Answer. We know of no such agreements.

Question 7. For the period January 1, 1994, through the present, please provide the Committee with a log of all attorney work product, including, but not limited to, letter and memoranda, produced by any White House attorney and shared with David Kendall, Robert Bennett, or any other personal attorney representing the President or First Lady. Regarding any such document, please provide the following information: the author(s) of the document; the date the document was created; the recipient(s) of the document; a description of the general subject matter discussed in the document; the reason necessitating that the White House share this work product with non-governmental attorneys.

Answer. Again, this question is identical to one put to the Office of White House Counsel by Chairman Burton.

This inquiry appears to seek information unrelated to the appropriations process. Moreover, it would be extremely difficult and unreasonably burdensome to identify and collect the materials outlined in the question.

To carry out its duties, Counsel's Office is in regular contact with the President's personal counsel to discuss matters in which the President's official responsibilities intersect with his responsibilities to address any private litigation in which he may be involved. Any listing of the sort the Committee seeks would, of necessity, implicate confidential communications among lawyers who represent the private and official interests of the very same client.

For example, in the midst of civil litigation like Jones v. Clinton, it would be of considerable interest to plaintiff's counsel to learn when Mr. Bennett and White House Counsel communicated and on what subjects. Putting aside the confidentiality interests the Counsel's Office must protect, such a disclosure would impinge directly on the President's personal attorney-client privilege and on his attorney's work product.

So that the record is clear, though, let us state again that the Counsel's Office does not represent the President in his personal capacity. The work product that the Office creates is in fulfillment of our responsibility to advise the President in his official capacity. The Office's communications with the President's private counsel, including the transmission of any work product, are for the purpose of addressing the common interests that underlie the representation of a unique client—one whose constitutionally assigned duties are daily affected by the burdens of personal litigation.

Question 8. Please list all non-governmental attorneys hired since January 1, 1994, for the purpose of assisting your office with issues regarding assertions of ex-

ecutive, attorney-client, attorney work product, spousal, or other privilege the White House has asserted or may assert. For each such individual, please provide the following information: the name of the attorney's law firm; the date the attorney(s) were hired; the compensation rate of the attorney; the amount paid to date to outside attorneys assisting in such matters.

Answer. This question is also identical to one put to the Office of White House Counsel by Chairman Burton. The information is as follows:

a. W. Neil Eggleston, Howrey & Simon, was appointed a special government employee in August, 1995, and more recently on February 18, 1998. Because counsel is retained by the Department of Justice on behalf of the White House, all matters regarding compensation are handled by the Department.

b. Andrew Frey, Mayer, Brown & Platt, was appointed a special government employee in September, 1996. Because counsel is retained by the Department of Justice on behalf of the White House, all matters regarding compensation are handled by the Department.

Question 9. Please provide the names of any nongovernmental attorney hired to assist your office responding to any matter under investigation by the Department of Justice or Independent Counsel. For each such individual, please provide the following information: the name of the attorney's law firm; the date the attorney(s) were hired; the compensation rate of the attorney; the amount paid to date to outside attorneys assisting in such matters; the general subject matter upon which any such attorney worked.

Answer. This question is also identical to one put to the Office of White House Counsel by Chairman Burton.

There are no attorneys responsive to this question other than those listed in response to the preceding question.

Question 10. Please provide a copy of talking points, memos, minutes of meetings, and E-mail used to prepare Ms. Posey for questions about the use of the White House Counsel.

Answer. *See* Exhibit 4.

PREVIOUS INFORMATION COMPILED BY THE WHITE HOUSE

Question 11. A December 13, 1994 "Task List" memo created by Jane Sherburne lists several items which could be questionable expenditures of federal funds. To be fully informed as to why the White House expended taxpayer funds to create these documents, I request the "binder with summary and key documents" for the following items from the December 13, 1994 memo: Cisneros, Brown, Hubbell, Ickes, Stephanopoulos, State Department (passport file), Archives (abuse of personnel systems), SBA (improper electioneering), GSA (Roger Johnson), FEC Audit, PIC surplus, Mena Airport, ADFA, Use by Governor Clinton of loans to further legislative initiatives, Commodities, Paula Jones, Troopers.

Answer. During the course of various congressional and other investigations regarding the entities, individuals, and topics described above, the Counsel's Office undoubtedly has had occasion to create, receive and produce materials related to some of these areas. We are not aware, however, that Ms. Sherburne, or any other member of the Counsel's Office, created any "binder" or "key documents" for her task list. Rather, it is our understanding that Ms. Sherburne's task list was generated based upon newspaper and other media accounts.

Question 12. For the above question, please include the following information: who created the documents; when they were created; has the White House shared this information with anyone? If so, who? When? The reason necessitating that the White House compile this information?

Answer. *See* Answer to Question 11, immediately above.

Question 13. The same December 13, 1994 memo lists, under item No. 21, "interview Kendall/review Kendall documents." Please provide a copy of this interview and related documents.

Answer. *See* Answer to Question 11, above.

ADMINISTRATION OF THE EXECUTIVE OFFICE OF THE PRESIDENT

Question 14. Please provide a breakdown of the funding, since January 20, 1993, for the White House Office (WHO) for salaries and expenses by fiscal year. This list should breakout each of the WHO offices (White House Counsel, Legislative Affairs, etc.) including the number of FTE, volunteers, and detailees in each of the WHO offices.

Answer. *See* Exhibit 5.

Question 15. Please provide a breakdown of the number of detailees, since January 20, 1993, within the White House Office by fiscal year. This list should include

the following information: the supplying agency; where the detailees were stationed; their title; the length of time they were detailed to the WHO; who they worked for in the WHO (White House Counsel, Legislative Affairs, etc.).

Answer. *See* Exhibit 3.

Question 16. What contracts in excess of $100,000 has the Executive Office of the President entered into since January 20, 1993? This list should include the following information: the name of the contracting individual/company; the purpose of the contract; the duration of the contract; the size, in dollars, of the contract.

Answer. *See* Exhibit 6.

Question 17. The White House IS&T office has the task of keeping all electronic records within the White House due to the Armstrong case. Please describe the situation created by the Armstrong case in the White House IS&T office. Since the Armstrong case began, what has the White House expended on this electronic record keeping? How many electronic storage tapes has the White House accumulated since the Armstrong case began? How many storage tapes does the White House fill up per day? What is the cost per storage tape? It is my understanding that in the future the cost of storage tapes will increase. If so, to what amount? It is my understanding that the White House has reached an agreement to begin transferring these storage tapes to the National Archives. Please describe this agreement. At what rate is the White House able to convert data to be able to transfer it to the National Archives? At this rate, when will the White House totally convert the backlog of tapes stored within the IS&T office?

Answer. The Armstrong Court mandated that the Executive Office of the President (EOP) establish an automated records management system to preserve all electronic mail records and electronic communications (such as Internet mail). IS&T initially spent approximately 18 months developing the Automated Records Management System (ARMS) to perform this function.

Subsequently, IS&T expended another 6 months developing an interface between ARMS and the EOP's new E-mail platform, Lotus NOTES. The EOP generates approximately 250,000 electronic records each month. All of these records are collected and managed by the ARMS system and have been kept on-line since July 14, 1994.

White House Expenditures for Electronic Record-Keeping Since Armstrong

Since July 1994, the EOP has expended $8,108,956 in equipment, contractor services, space, communications, utilities and supplies to implement the Armstrong mandate. Salaries for government personnel supporting this effort exceed $1,400,000, and have been paid for by the EOP's sustaining budget. In addition, the EOP anticipates having to procure new computer hardware before the end of the Administration. The current hardware configurations used to support this effort were purchased between 1990 and 1993, and failures of the older equipment or the equipment's monthly maintenance will become so excessive that the EOP will be forced to purchase new hardware to replace these aging and much-used systems.

Number of Stored Electronic Tapes Since Armstrong

The EOP IS&T office has 25,850 tapes stored either at the IS&T Data Center or at an off-site facility. These tapes have an average shelf life between 4 and 7 years. To ensure that the tapes remain useable, the EOP conducts an annual sample survey of 384 tapes.

Storage Tapes Usage

The ARMS system is currently generating approximately 130 tapes per week, averaging 20 per day. Historically, since 1994 the EOP has seen a 700 percent increase in the number of tapes created each week.

Weekly Tapes Created for ARMS: 1994, 18 per week; 1995, 25 per week; 1996, 46 per week; 1997, 81 per week; and 1998, 130 per week—Estimate EOP will purchase 6,760 tapes for 1998.

Projections based on current growth factors: 1999—180 per week, 9,360 for the year; and 2000—249 per week, 12,948 tapes for the year.

Current storage costs

Current storage costs are estimated at $20,280. In addition, storage of these tapes will require more tape racks which will require additional floor space (at $55/sq. ft.) for an additional expense of approximately $5,000/year. As the tape volume increases, additional manpower will be required to handle the creation of storage of these tapes (estimated to be an additional FTE at an expense of $50–60,000 per year).

Future storage costs

With the growth in the volume of electronic mail and the quantity of servers required to support the E-mail and electronic correspondence systems, the EOP anticipates having to use faster and larger tapes to handle the increase in volume. The new tapes will hold 9 gigabytes of data each, and cost $80–90 each depending on the quantity purchased. If we migrate to the new tape drives are purchased at an anticipated cost of $15,000, it will still cost the EOP $18,720 for tapes at $90.00 each.

National Archives Agreement

The EOP has an agreement with NARA for the reconstruction of electronic records from November 1991 to July 1994. Reconstruction of these records, which are stored on 15,500 tapes, has recently been initiated, and the EOP will proceed with reconstructing the records and producing tapes for NARA for electronic mail for the older E-mail system (All-in-One) that was used during this time frame. This project is expected to be completed in early 1999.

The EOP does not have an agreement in place with NARA for the transfer of ARMS tapes representing the period July 14, 1994 to the present. The ARMS system produces tapes that conform to the letter of the NARA regulations, and NARA can both read and understand them. However, negotiations continue with NARA over technical aspects of the contents of these tapes and until such time as NARA and the EOP can agree, the EOP continues to produce tapes daily. The inventory of tapes is in excess of 10,000 for the ARMS electronic records. At the end of the Administration, we expect to deliver tapes to NARA. However, if NARA delays or changes the tape formats, the EOP will not be able to deliver the approximately 40,000 tapes we expect to produce.

Conversion Rate of Data for National Archives

The EOP can only transfer data to the National Archives at the end of an Administration in the case of a single term, or at the end of the second term. For example, NARA will not accept any Clinton Administration material at this time.

As stated previously the EOP is reconstructing electronic mail records for the period 11/91 to 7/94 and will deliver tapes covering the period 11/91 to 1/93.

Anticipated Completion of Conversion of Backlog Tapes

If NARA requires the EOP to reformat the ARMS tapes, another significant reconstruction project will have to be implemented. To convert the existing 10,000 tapes and produce new tapes will require new software and operations staff to conduct the reformatting and production of new tapes. EOP estimates that it will take approximately 18 months to reconstruct and generate the tapes for the period 7/94 to 1/98. The longer NARA delays in establishing a new acceptable format, the larger the reconstruction process will be. Since the EOP's historical data shows a 38 percent increase between 1997 and 1998, if one were to project the same 38 percent growth, by the year 2000 we will produce almost 13,000 tapes.

WHITE HOUSE COUNSEL OFFICE

Question 18. Do any of the following people have workstations, office space, or administrative support, within the Executive Office of the President, including the White House: Robert Bennett, Mickey Kantor, David Kendall, Harry Thomason, James Carvell, Harold Ickes. If so, what federal government interest is served by this?

Answer. No.

IRA MAGAZINER/HEALTH CARE TASK FORCE LAWSUIT

Question 19. During the Health Care Task Force, (HCTF) White House lawyers engaged in deceptive and misleading characterizations of the people staffing the HTCF. Please provide the following information: a list of all White House attorneys who prepared the briefs filed in the HCTF case, by brief filed. If these lawyers are still employed within the EOP, where are they employed?

Answer. The Department of Justice represented the White House Office in this litigation; hence, attorneys from the Department, and not the White House, filed all of the briefs in this matter.

QUESTIONS SUBMITTED FOR THE RECORD BY CONGRESSWOMAN ANNE M. NORTHUP

WHITE HOUSE INTERNS

Question 1. How many interns are accepted on staff at any one time? How many are paid? How many are volunteers?

Answer. The White House Intern Program typically has more than 200 interns each session. All interns are volunteers and thus are not compensated for their service.

Question 2. During the past 4 years, how many interns have investigated full time positions at the White House?

Answer. We do not know the number of interns who have sought full-time positions at the White House because the Intern Office does not track that type of information.

Question 3. During the past 4 years, how many of these interns were successful in acquiring full time positions in the White House?

Answer. Informal surveys show that it is not uncommon for support staff positions to be filled by former White House interns. The White House does not systematically track information on the number of interns who gain full-time employment at the White House; thus, we do not know the number of current White House staff members who have also served as interns.

WHITE HOUSE PROTOCOL

Question 4. Does the White House have an employee handbook?

Answer. Yes.

Question 5. Is there a section on employee fraternization, dating and/or sexual harassment? If not, are there regular federal employee procedures in effect?

Answer. The White House Office Staff Manual, most recently re-issued in 1997, includes information about the White House Office's policy on discrimination and sexual harassment. This information summarizes the EOP's "Sexual Harassment Prevention Policy" that was published by the Assistant to the President for Management and Administration in October of 1995. Additionally, the EOP's Office of Administration's Human Resources Management Division distributes a booklet entitled "Preventing and Addressing Sexual harassment." Finally, periodic training sessions on this topic have been held for EOP employees.

Question 6. Is there a regular employee evaluation for paid staff. After joining the staff, when does first evaluation take place?

Answer. While many managers and supervisors elect to provide regular evaluations for their staff, under Title 3 of the United States Code, the White House Office is not required to perform regularly scheduled evaluations for staff members.

Question 7. The President of NOW has called on all elected federal officials to sign a form committing to personally restraining themselves and all employees from having a sexual relationship with interns. Do you expect the White House to sign that form?

Answer. We have not yet had occasion to review or consider the aforementioned proposal.

YEAR 2000

Question 8. Now that the EOP has an information technology architecture, what is the projected time frame for when the EOP computer systems will be prepared for the year 2000?

Answer. All mission critical systems are expected to be operational by March 31, 1999.

INFORMATION TECHNOLOGY ARCHITECTURE

Question 9. Prior to 1997 each EOP agency acted independently in procuring information technology without considering redundancy, interchange ability or support requirements. Funding has been fenced until an architectural blueprint was submitted. The blueprint was submitted in February 1998. What type of information is included in this new system?

Answer. The initial EOP architecture, or roadmap document, was first submitted in July of 1997. The EOP Information Technology Architecture model refined and submitted in February of 1998, provides a comprehensive description of the current technical infrastructure that supports information processing of the EOP. In addition, it provides a future technical infrastructure that reflects current and emerging user requirements, as well as provides a recommended path or "roadmap" for getting from the current technical infrastructure to the future technical architecture.

Question 10. Is all of the information available on the system available to all personnel?

Answer. A copy of all architecture information is available to all EOP personnel.

GOVERNMENT PERFORMANCE AND RESULT ACT (GPRA)

Question 11. What measures has the EOP taken to ensure that the EOP is operating efficiency and effectively?

Answer. In its role as the provider of EOP administrative services, the Office of Administration (OA) has compiled and distributed monthly performance statistics covering a range of its services since 1996. Although OA is not covered by GPRA, our intent is to comply fully with the spirit of GPRA by continually refining and updating the performance measures. We intend to use performance measures as a management tool to aid agency staff in the allocation of agency resources, to ensure that OA services are responsive to customer concerns, and to focus management attention on the agency's effectiveness in achieving its objectives.

Statistics currently collected include:

Facilities: processing of alterations/repairs/moves; distribution of space allocation/rent bills.

Financial Management: processing of travel vouchers, imprest fund claims, requisitions, and accounting transactions; delivery of monthly accounting reports and financial analyses.

General Services: delivery of interoffice mail; delivery of high-priority "red tag" and courier mail; delivery of certified mail, air express, and small packages delivery/cost of print jobs; timeliness of composition/design graphics work; office supply order fulfillment and timeliness; procurement order timeliness (small purchases, contracts, federal supply schedules).

Human Resources: timeliness and accuracy of personnel transactions; timeliness of vacancy announcements, certificates.

Information Systems and Technology: timeliness of help desk calls.

Library and Research Services: timeliness of research services; timeliness of periodical processing; timeliness of book/CD–ROM processing; interlibrary loan request timeliness; acquisitions of books; subscription renewals; dissemination of publications.

[EXHIBIT 1]

OFFICE OF COUNSEL TO THE PRESIDENT AS OF APRIL 20, 1998

Counsel to the President, Charles F.C. Ruff
Deputy Counsel to the President, Bruce R. Lindsey
Deputy Counsel to the President, Cheryl D. Mills

General Matters

Associate Counsel—Meredith Cabe
Associate Counsel—Dawn Chirwa
Special Counsel—Edward Correia
Associate Counsel—Lisa Hertzer* [1]
Associate Counsel—William Marshall
Special Counsel—Michael Waitzkin
Senior Counsel—Robert Weiner

Nominations

Senior Counsel—Mark Childress
Attorney-Advisor—Michael O'Connor* (Judicial Nominations)
Staff Attorney—Stacy Reynolds

Financial Review and Ethics

Associate Counsel—Virginia Canter

Investigations and Litigation

Special Counsel—Lanny Breuer
Associate Counsel—Michael Imbroscio
Associate Counsel—Dimitri Nionakis
Special Associate Counsel—Sally Paxton

[1] The persons designated with an asterisk (*) are Justice Department detailees who assist in providing general legal advice (1 attorney) and in reviewing potential judicial nominees (currently 1 attorney, 1 paralegal).

Associate Counsel—Michelle Peterson
Associate Counsel—Karen Popp
Associate Counsel—Karl Racine

Press and Public Inquiries

Special Advisor—James Kennedy
Special Associate Counsel—Adam Goldberg

Support Staff

Executive Assistant to the Counsel—Ora Theard
Executive Assistant to the Deputy Counsel—Melissa Prober
Executive Assistant to the Deputy Counsel—Melissa Murray
Executive Assistant—Edward Hughes
Staff Assistant—Douglas Band
Paralegal—Jonathan Becker*
Staff Assistant—Alissa Brown
Paralegal—Dimitra Doufekias
Paralegal—Deborah Falk
Paralegal—Erin Green
Paralegal—Rochester Johnson
Staff Assistant—Tanya Miller
Paralegal—Suzanne Moreno
Assistant/Paralegal—Brian Smith

Job Responsibilities.—As of April 20, 1998, the number of regular staff was 34, including 19 attorneys performing legal work, 13 assistants or paralegals, and 2 staff (one of whom is a lawyer by training) responsible for responding to press and other public inquiries that come to our Office. The White House Counsel and the two Deputy Counsels are responsible for the overall management of the Office. Of the remaining 16 regular attorneys, 7 were assigned on an ongoing basis (together with 4 paralegals) to congressional, Independent Counsel, and Justice Department investigative matters, and to litigation in which the Executive Office of the President ("EOP") or EOP officials are parties. Six staff lawyers (and one detailee from the Justice Department) were responsible for providing general legal advice to White House staff on a wide range of matters, including legislation, pardons, ethics, privilege, misuse of the President's name and image, appropriations, travel, political activity, and other areas related to the Office of the President.

The Senior Counsel for Nominations supervises the background clearance process for presidential nominations and appointments, including both judicial and non-judicial nominees; one staff attorney assists the Senior Counsel; and, one Associate Counsel supervises the financial and conflicts of interest clearance process for presidential nominees.

To assist in the clearance of presidential nominees, agencies have historically detailed attorneys to work in the Counsel's Office for terms typically ranging from 3 to 6 months; the number of detailees varies based upon the volume of candidates to be processed. As of April 20, 1998, there were six (6) detailees performing the review of the background and financial information on potential presidential appointees to assist in making recommendations regarding their suitability for service. None of these detailees works on any investigative matter. These detailees were from the following agencies: Department of Health and Human Services, Department of Labor (1), Department of Navy (1), Department of Transportation (1), Department of Veterans' Affairs (1), and the National Labor Relations Board (1).

Lastly, it has been the practice in this Administration for the Justice Department to detail lawyers and paralegals to the Office to assist in the review of potential judicial nominees. One lawyer and one paralegal were assigned for this purpose as of April 20, 1998.

Stations.—Counsel's Office staff are located in the White House or the Old Executive Office Building.

Lines of Authority.—Lawyers listed under the heading "Investigations and Litigation" report through Special Counsel Breuer to the Front Office. Staff responsible for nominations and financial review reports to the Front Office through the Senior Counsel for Nominations and through the Associate Counsel handling the financial and conflicts of interest clearance process. Finally, the lawyers listed under the heading "Other Matters" report directly to the Front Office.

Summary.—As of April 20, 1998, the staff of the Counsel's Office consisted of the following:

Regular Staff:	
Attorneys	19
Press/public inquiry staff	2

Assistants/paralegals	13
Detailees:	
Attorney (detailed from Justice Department—general legal advice)	1
Attorney (detailed from Justice Department—judicial nominations)	1
Attorneys (detailed from various agencies—nominations clearance)	6
Paralegal (detailed from Justice Department—judicial nominations)	1
Total	43

EXHIBIT 2.—EMPLOYEES OF THE WHITE HOUSE COUNSEL'S OFFICE FROM 1/20/93 THROUGH THE PRESENT

[As of 4/20/98]

Name/title	Start date	End date
Allen, Susan, Paralegal	7/28/97	3/20/98
Band, Doug, Staff Assistant	5/20/96	
Bohn, Catherine, Staff Assistant	9/26/96	3/01/97
Breuer, Lanny, Special Counsel to the President	2/18/97	
Brown, Alissa, Staff Assistant	8/18/97	
Bueno, Edgar, Paralegal	2/05/93	8/04/94
Burke, Elayne, Staff Assistant	4/15/93	5/21/93
Cabe, Meredith, Associate Counsel to the President	10/06/97	
Canter, Virginia, Associate Counsel to the President	5/12/97	
Castello, James, Deputy Counsel to the President	3/13/95	3/18/96
Castleton, Thomas, Special Assistant to the Counsel and Document Manager	6/16/93	9/19/94
Cerda, Clarissa, Assistant Counsel to the President	1/20/93	7/15/95
Cerf, Christopher, Associate Counsel to the President	12/07/94	4/26/96
Champagne, Florence, Legal Secretary	2/05/93	2/17/95
Childress, Mark, Senior Counsel for Nominations	3/17/98	
Childs, Mary, Security Assistant	10/02/84	2/13/93
Chirwa, Dawn, Associate Counsel to the President	9/05/95	
Connaughton, Jeffrey, Special Assistant	10/03/94	11/14/95
Correia, Edward, Special Counsel to the President for Civil Rights	2/03/98	
Cutler, Lloyd, Special Counsel to the President	3/27/94	9/30/94
Dannenhauer, Jane, Assistant to the Counsel	1/21/81	3/01/93
Davis, Lanny, Special Counsel to the President	12/10/96	1/30/98
Demille Wagman, Deborah, Assistant Counsel to the President	10/01/94	12/16/94
Denbo, Jonathan, Security Assistant	9/19/95	7/30/96
Doufekias, Dimitra, Paralegal	3/25/97	
Dudley, Jennifer, Executive Assistant to the Deputy Counsel to the President	7/17/95	11/08/97
Eggleston, W. Neil, Associate Counsel to the President	9/27/93	9/08/94
Erichsen, Peter, Associate Counsel to the President	3/16/97	11/07/97
Fabiani, Mark, Special Associate Counsel to the President	4/03/95	12/09/96
Falk, Deborah, Paralegal	3/10/97	
Fein, David, Associate Counsel to the President	2/13/95	12/21/96
Fielder, J. David, Special Assistant Counsel to the President	10/29/95	3/15/96
Special Assistant Counsel	4/14/96	7/12/96
Foster Jr., Vincent, Deputy Assistant to the President and Deputy Counsel	1/20/93	7/20/93
Goldberg, Adam, Special Associate Counsel	12/11/96	
Gorham, Deborah, Staff Assistant to the Deputy Counsel	3/08/93	11/19/93
Green, Erin, Paralegal	3/31/97	
Holliday, Kimberly, Secretary to the Special Counsel to the President	1/04/95	3/29/96
Hughes, Edward, Executive Assistant	4/12/94	
Imbroscio, Michael, Associate Counsel to the President	3/03/97	
Johnson, Kari, Staff Assistant, Security Office	7/30/90	2/16/93
Johnson, Rochester, Paralegal	3/20/95	
Kagan, Elana, Associate Counsel to the President	7/10/95	1/05/97
Kaplan, Eloise, Researcher	11/17/93	8/13/94
Kelly, Erin, Legal Assistant	1/04/96	7/26/96

EXHIBIT 2.—EMPLOYEES OF THE WHITE HOUSE COUNSEL'S OFFICE FROM 1/20/93 THROUGH THE PRESENT—Continued

[As of 4/20/98]

Name/title	Start date	End date
Kennedy, James, Special Advisor to the Counsel	2/01/98	.....
Kennedy, William, Associate Counsel to the President	2/10/93	11/21/94
Klain, Ronald, Associate Counsel to the President	1/20/93	2/12/94
Klein, Joel, Deputy Counsel to the President	12/01/93	4/01/95
Kopp, Jonathan, Law Clerk	10/18/93	12/10/93
Krislov, Marvin, Assistant Counsel to the President and Special Counsel for Information Policy	2/27/94	3/30/96
Lehane, Christopher, Special Assistant to the Special Counsel to the President	7/17/95	1/09/97
Lindsey, Bruce, Assistant to the President and Deputy Counsel to the President	10/03/94	.....
Lister, Susan, Staff Assistant to the Counsel	1/20/93	2/26/93
Livingstone, D. Craig, Assistant to the Counsel to the President (Security)	2/08/93	6/26/96
Luna, David, Special Assistant	9/11/96	3/15/97
Madsen, Marna, Staff Assistant	3/27/95	9/14/96
Markman, Natalie, Staff Attorney	10/18/93	2/26/94
Marshall, William, Associate Counsel to the President	1/15/97	.....
Massey, Michael, Paralegal/Legal Assistant	2/27/96	3/21/97
Mauton Jr., Clifford, Paralegal	10/27/93	8/02/97
Mikva, Abner, Counsel to the President	10/01/94	11/01/95
Miller, Jennifer, Assistant to the Associate Counsel	1/28/93	4/25/94
Miller, Tanya, Staff Assistant	3/02/97	.....
Mills, Cheryl, Deputy Assistant to the President and Deputy Counsel	1/20/93	.....
Mixell, Julie, Assistant to the Deputy Counsel	12/01/93	4/01/95
Moreno, Suzanne, Paralegal	3/25/98	.....
Murray, Melissa, Staff Assistant	5/01/95	3/03/97
Executive Assistant to the Deputy Counsel	11/05/97	.....
Nemetz, Miriam, Associate Counsel to the President	1/04/95	3/14/97
Neuwirth, Stephen, Associate Counsel to the President	1/20/93	7/22/96
Nionakis, Dimitri, Associate Counsel to the President	3/04/97	.....
Nolan, Beth, Associate Counsel to the President	2/02/93	7/25/95
Nussbaum, Bernard, Assistant to the President and Counsel	1/20/93	4/05/94
O'leary, Ann, Executive Assistant to the Deputy Counsel	11/14/94	7/15/95
Pappas, Peter, Assistant Counsel	1/20/93	1/15/94
Pascale, Joseph, Researcher	3/01/94	2/10/95
Paxton, Sally, Special Associate Counsel	3/07/96	.....
Peterson, Michelle, Associate Counsel to the President	2/09/97	.....
Pond, Betsy, Staff Assistant	3/22/93	9/04/95
Poole, Cheryl, Executive Assistant to the Special Counsel to the President	3/27/94	10/01/94
Popp, Karen, Associate Counsel to the President	12/22/96	.....
Prober, Melissa, Executive Assistant to the Deputy Counsel	10/06/97	.....
Quinn, John, Counsel to the President	10/25/95	2/17/97
Racine, Karl, Associate Counsel to the President	5/27/97	.....
Radd, Victoria, Associate Counsel to the President	12/01/93	2/09/98
Rapp, Jason, Assistant to the Associate Counsel	4/25/94	3/10/95
Reynolds, Stacy, Researcher	4/06/94	.....
Rosenberg, David, Researcher/Writer	7/06/93	10/29/93
Ruff, Charles, Counsel to the President	2/09/97	.....
Schroeder, Robert, Associate Counsel to the President	10/01/95	8/08/97
Sherburne, Jane, Special Associate Counsel to the President	4/25/94	10/15/94
Special Counsel to the President	1/04/95	1/11/97
Sloan, Clifford, Associate Counsel to the President	6/14/93	3/10/95
Smith, Brian, Assistant/Paralegal	3/10/97	.....
Stucke, Dorothy, Staff Assistant	2/15/93	9/20/93

EXHIBIT 2.—EMPLOYEES OF THE WHITE HOUSE COUNSEL'S OFFICE FROM 1/20/93 THROUGH THE PRESENT—Continued

[As of 4/20/98]

Name/title	Start date	End date
Sweitzer, Cheryl, Executive Assistant to the Counsel to the President	12/19/94	2/11/97
Theard, Ora, Executive Assistant to the Counsel to the President	2/23/97	.....
Tripp, Linda, Executive Assistant to the Counsel to the President	1/30/94	8/21/94
Waitzkin, Michael, Special Counsel to the President	4/14/97	.....
Walker, Odetta, Executive Assistant to the Deputy Counsel to the President	3/20/95	7/26/97
Wallman, Kathleen, Deputy Counsel to the President	11/13/95	11/14/97
Warren, Renee, Assistant to the Associate Counsel	4/03/95	5/28/96
Weider, Sara, Assistant to the Special Counsel	6/24/96	7/05/97
Weiner, Robert, Senior Counsel	2/18/97	.....
Wetzl, Lisa, Executive Assistant	8/15/93	9/13/95
Whalen, Kathleen, Associate Counsel to the President	2/27/94	4/30/97
White, Wendy, Associate Counsel to the President	2/14/96	3/31/97
Willey, Kathleen, Staff Assistant	4/20/94	10/22/94
Williams, Natalie, Associate Counsel to the President	6/19/95	2/28/96
Yarowsky, Jonathan, Special Associate Counsel to the President	4/03/95	3/31/98

EXHIBIT 3.—WHITE HOUSE OFFICE DETAILEES, BY FISCAL YEAR

Title	Home agency	Office assignment	Start date	End date
FISCAL YEAR 1993				
Assistant Counsel to the President	Justice	General Counsel	3/1/93	4/15/93
No title	Labor	Political Affairs	3/9/93	9/4/93
No title	Transportation	Presidential Personnel	3/1/93	4/23/93
No title	General Accounting Office.	Presidential Personnel	2/23/93	9/30/93
Director of Correspondence	Veterans Affairs	Correspondence	2/24/93	3/26/93
Special Counsel	Justice	General Counsel	8/23/93	2/26/94
Search Manager	No agency	Presidential Personnel	2/19/93	9/30/93
Security Assistant	Defense	General Counsel	8/18/93	2/18/94
Assistant to the Special Assistant	Labor	Political Affairs	3/9/93	9/25/93
Search Manager	Merit Systems Protection Board.	Presidential Personnel	8/16/93	2/16/94
No title	U.S. Senate	Presidential Personnel	2/19/93	9/30/93
Personal Assistant to the Chief of Staff.	Commerce	Chief of Staff	5/27/93	9/30/94
Executive Assistant	Justice	General Counsel	1/27/93	7/27/93
Director, White House Photo Office	Defense Information Agency.	Management and Operations.	2/1/93	12/31/93
No title	Federal Labor Relations Board.	Presidential Personnel	1/2/93	9/30/93
Assistant to the Deputy Director	Office of Personnel Management.	Presidential Personnel	9/14/93	1/7/94
Staff Assistant	Office of Government Ethics.	General Counsel	9/27/93	12/13/93
Associate Director	Equal Employment Opportunity Commission.	Presidential Personnel	7/12/93	3/30/94
No title	General Services Administration.	Travel and Telegraph Service.	5/24/93	11/22/93
Attorney	Education	General Counsel	10/5/92	3/31 /93
Staff Assistant to the Associate Counsel to the President.	Merit Systems Protection Board.	General Counsel	2/24/92	3/31/93
Attorney	Housing and Urban Development.	General Counsel	4/13/92	3/31/93
Special Counsel	Labor	General Counsel	4/26/93	10/22/93
Asian Outreach	Justice	Presidential Personnel	6/14/93	9/30/93

EXHIBIT 3.—WHITE HOUSE OFFICE DETAILEES, BY FISCAL YEAR—Continued

Title	Home agency	Office assignment	Start date	End date
No title	National Science Foundation.	Administrative Office	2/24/93	4/1/93
Special Counsel to the President	U.S. Information Agency	General Counsel	3/1/93	9/5/93
Special Counsel to the President	Commerce	General Counsel	7/6/93	1/14/94
Special Counsel to the President	Justice	Scheduling and Advance	2/1/93	4/2/93
Special Counsel to the President	Environmental Protection Agency.	General Counsel	3/30/92	9/1/93
Director of Correspondence	Internal Revenue Service	Correspondence	2/24/93	3/26/93
No title	Health and Human Services.	Presidential Personnel	1/21/93	7/21/93
No title	Commerce	Environmental Policy	3/1/93	3/1/95
Assistant Counsel to the President	Justice	General Counsel	2/1/93	9/30/93
No title	General Services Administration.	Presidential Personnel	8/2/93	9/30/93
No title	Defense	Presidential Personnel	2/18/93	9/30/93
Counsel to the President	Justice	General Counsel	3/1/93	4/15/93
No title	General Services Administration.	Travel and Telegraph Service.	5/24/93	11/22/93
No title	General Services Administration.	Travel and Telegraph Service.	5/24/93	11/22/93
Staff Assistant	Justice	General Counsel	6/14/93	9/30/94
FISCAL YEAR 1994				
Attorney Advisor	Transportation	General Counsel	7/11/94	10/11/94
Special Counsel to the President	Defense	General Counsel	1/19/94	4/19/94
Security Assistant	Defense	General Counsel	8/18/93	2/18/94
Search Manager	Merit Systems Protection Board.	Presidential Personnel	8/16/93	2/16/94
Health Care Spokesperson	Labor	Communications	1/31/94	11/30/94
Personal Assistant to the Chief of Staff.	Commerce	Chief of Staff	5/27/93	9/30/94
Correspondence Review/Edit	State	Correspondence	2/28/94	12/31/94
Special Counsel to the President	Defense	General Counsel	2/1/94	6/1/94
Special Counsel	Defense	General Counsel	6/1/94	9/30/94
Attorney Advisor	Justice	General Counsel	7/25/94	9/30/94
Special Counsel	Justice	General Counsel	11/10/93	9/30/94
Assistant to the Deputy Director	Office of Personnel Management.	Presidential Personnel	9/14/93	1/7/94
Special Counsel	Defense	General Counsel	10/20/93	3/24/94
Staff Assistant	Office of Government Ethics.	General Counsel	9/27/93	12/13/93
Attorney Advisor	Federal Trade Commission.	General Counsel	3/11/94	9/2/94
Associate Director	Equal Employment Opportunity Commission.	Presidential Personnel	7/12/93	3/30/94
Staff Assistant	Energy	Intergovernmental Affairs	8/8/94	9/30/94
No title	General Services Administration.	Travel and Telegraph Service.	5/24/93	11/22/93
Search Manager	Defense	Presidential Personnel	4/18/94	3/30/95
Assistant to the Deputy Director	Office of Personnel Management.	Presidential Personnel	1/10/94	4/29/94
Staff Assistant	Office of Personnel Management.	Presidential Personnel	1/18/94	6/18/94
Presidential Advance	Commerce	Scheduling and Advance	4/25/94	8/8/94
Special Counsel	Commerce	General Counsel	11/2/93	12/10/93
Assistant to the Chief of Staff	Office of Management and Budget.	Chief of Staff	7/18/94	9/6/94
Assistant to the Chief of Staff	Office of Management and Budget.	Chief of Staff	7/18/94	8/31/94
Special Counsel to the President	Defense	General Counsel	3/14/94	6/10/94
Correspondence Specialist	Federal Trade Commission.	Correspondence	7/25/94	12/31/94
Financial Manager Analyst	Housing and Urban Development.	Travel Office	9/1/94	3/1/95

EXHIBIT 3.—WHITE HOUSE OFFICE DETAILEES, BY FISCAL YEAR—Continued

Title	Home agency	Office assignment	Start date	End date
Special Counsel	Labor	General Counsel	4/26/93	10/22/93
Staff Assistant	General Services Administration.	General Counsel	1/18/94	3/31/95
Special Counsel to the President	Commerce	General Counsel	7/6/93	1/14/94
Attorney-Advisor	Interstate Commerce Commission.	General Counsel	4/25/94	10/4/94
Staff Assistant	Justice	General Counsel	12/1/93	9/30/94
Personnel Specialist	Commerce	Presidential Personnel	7/13/94	10/13/94
Assistant to the Chief of Staff	Office of Management and Budget.	Chief of Staff	7/18/94	9/6/94
Attorney Advisor	Justice	General Counsel	7/18/94	10/18/94
Attorney Advisor	Agriculture	General Counsel	6/20/94	12/20/94
Assistant Counsel to the President	Securities Exchange Commission.	General Counsel	1/3/94	4/1/94
Staff Assistant	Office of Personnel Management.	Presidential Personnel	9/30/93	3/30/94
Advisor to Director	Energy	Legislative Affairs	8/17/94	10/31/94
Special Counsel	Defense	General Counsel	10/25/93	2/24/94
Special Counsel	Defense	General Counsel	4/20/94	10/15/94
Special Counsel	Defense	General Counsel	11/15/93	1/10/94
Special Assistant Counsel to the President.	State	General Counsel	6/17/94	9/30/94
Paralegal Specialist	Securities Exchange Commission.	General Counsel	8/1/94	2/1/95
Senior Program Analyst	Agriculture	Travel	10/1/93	9/9/94
Special Counsel to the President	Justice	General Counsel	1/12/94	7/8/94
Search Manager	Equal Employment Opportunity Commission.	Presidential Personnel	6/27/94	12/27/94
Search Manager	Agriculture	Presidential Personnel	6/13/94	3/30/95
Office Manager	Energy	Political Affairs	8/24/94	12/31/94
Interim National AIDS Policy Coordinator.	Health and Human Services.	Domestic Policy Council	8/3/94	11/12/94
Assistant to the Chief of Staff	Office of Management and Budget.	Chief of Staff	7/18/94	9/15/94
Deputy Director of Scheduling	Energy	Scheduling and Advance	2/22/94	12/31/94
No title	General Services Administration.	Travel	5/24/93	11/22/93
No title	General Services Administration.	Travel	5/24/93	11/22/93
Search Advisor	Agriculture	Presidential Personnel	11/8/93	3/30/95
Staff Assistant	Justice	General Counsel	6/14/93	9/30/94
Special Counsel to the President	Defense	General Counsel	5/9/94	8/9/94
Search Manager	Merit Systems Protection Board.	Presidential Personnel	4/8/94	10/7/94
Special Counsel	Justice	General Counsel	8/23/93	2/26/94
Special Counsel	Defense	General Counsel	3/14/94	6/11/94
FISCAL YEAR 1995				
Staff Assistant	Justice	General Counsel	12/01/93	11/30/94
Special Assistant to the President	Interior	Legislative Affairs	6/14/95	3/30/96
Attorney-Advisor	ICC	General Counsel	4/25/94	6/30/95
Staff Assistant	General Services Administration.	General Counsel	1/18/94	2/10/95
Scheduling the First Lady	Education	Scheduling and Advance	2/13/95	8/13/95
Financial Manager Analyst	Housing and Urban Development.	Travel Office	9/1/94	4/5/95
Staff Assistant (Scheduler)	Agriculture	Scheduling and Advance	8/15/95	2/15/96
Attorney Advisor	Justice	General Counsel	7/26/95	1/24/96
Executive Assistant	Labor	Cabinet Affairs	3/8/95	3/8/96
Correspondence Specialist	Federal Trade Commission.	Correspondence	7/25/94	10/2/94
Attorney-Advisor	Nuclear Regulatory Commission.	General Counsel	11/1/94	1/27/95
Attorney-Advisor	Justice	General Counsel	3/22/95	9/15/95

EXHIBIT 3.—WHITE HOUSE OFFICE DETAILEES, BY FISCAL YEAR—Continued

Title	Home agency	Office assignment	Start date	End date
Staff Assistant	Labor	Chief of Staff	10/17/94	1/7/95
Special Assistant to the President and Presidential Scheduler/Coordinator.	Education	Scheduling and Advance	8/2/95	10/7/95
Attorney-Advisor	Interstate Commerce Commission.	General Counsel	10/14/94	12/20/94
No Title (Press Scheduler)	Interior	Press Secretary	1/9/95	1/5/96
Search Manager	Defense	Presidential Personnel	4/18/94	12/11/94
Attorney-Advisor	Labor	General Counsel	6/12/95	9/9/95
Special Counsel	Justice	General Counsel	11/10/93	10/5/94
Attorney-Advisor	Justice	General Counsel	7/25/94	10/14/94
Executive Assistant	Interior	General Counsel	5/8/95	10/14/94
Attorney	U.S. Attorney's Office	General Counsel	2/6/95	8/4/95
Search Manager	Office of Personnel Management.	Presidential Personnel	9/5/95	3/1/96
Correspondence Review/Edit	State Dept	Correspondence	2/28/94	12/31/94
			7/27/95	3/29/96
Secretary/Office Manager	Surface Mining	General Counsel	4/12/95	11/10/95
Attorney-Advisor	Treasury	General Counsel	4/17/95	9/1/95
Confidential Assistant to the Counselor.	Commerce	Counselor to the President.	5/27/93	12/20/95
Health Care Spokesperson	Labor	Communications	1/31/94	7/30/94
Attorney-Advisor	Transportation	General Counsel	7/11/94	3/31/95
Associate Counsel to the President	Justice	General Counsel	12/12/94	6/9/95
Attorney	FCA	General Counsel	2/6/95	5/5/95
Scheduler for the First Lady	Interior	Scheduling and Advance	10/15/94	2/1/95
Gift Analyst	State	Gift Unit	6/19/95	10/6/95
Search Manager	Merit Systems Protection Board.	Presidential Personnel	4/8/94	10/21/94
Staff Assistant	Justice	General Counsel	6/14/93	10/1/94
Search Manager	Office of Personnel Management.	Presidential Personnel	7/25/95	12/29/95
Search Manager	Agriculture	Presidential Personnel	11/8/93	11/23/94
Executive Assistant	Education	Scheduling and Advance	10/27/94	1/10/95
Search Manager	Commission on Civil Rights.	Presidential Personnel	10/24/94	4/24/95
Attorney-Advisor	Housing and Urban Development.	General Counsel	3/6/95	6/4/95
Attorney Advisor	Justice	General Counsel	10/5/94	12/31/94
Deputy Director of Scheduling	Energy	Scheduling and Advance	2/22/94	3/31/94
Press Office Assistant	Bank of the US	Chief of Staff	12/1/94	12/16/94
Interim National AIDS Policy Coordinator.	Health and Human Services.	Domestic Policy Council	8/3/94	11/12/94
Attorney-Advisor	Justice	General Counsel	1/17/95	7/14/95
Staff Assistant	Justice	General Counsel	12/12/94	6/9/95
Special Assistant to the President and Scheduler/Events Coordinator.	Small Business Administration.	Scheduling and Advance	4/24/95	7/30/95
Office Manager	Energy	Political Affairs	6/13/94	9/30/95
Special Assistant to the President and Associate Director.	Agriculture	Presidential Personnel	6/13/94	9/30/95
Spokesperson, Summit of Americas.	Bank of U.S	Chief of Staff	12/1/94	12/16/94
Legal Secretary	Federal Trade Commission	General Counsel	10/3/94	3/31/95
Search Manager	Equal Employment Opportunity Commission.	Presidential Personnel	6/27/94	11/4/94
Paralegal Specialist	Securities and Exchange Commission.	General Counsel	8/1/94	3/31/95
Accountant	Housing and Urban Development.	Travel Office	11/4/94	3/31/95
Special Counsel	Defense	General Counsel	4/20/94	10/15/94
Search Manager	Agriculture	Presidential Personnel	6/12/95	3/30/96
Advisor to Director	Education	Legislative Affairs	8/17/94	10/31/94
Attorney	Securities and Exchange Commission.	General Counsel	5/15/95	11/30/95

EXHIBIT 3.—WHITE HOUSE OFFICE DETAILEES, BY FISCAL YEAR—Continued

Title	Home agency	Office assignment	Start date	End date
Attorney-Advisor	Agriculture	General Counsel	8/7/95	2/7/96
Attorney-Advisor	Agriculture	General Counsel	6/2/94	12/20/94
Event Coordinator (Presidential Schedules).	Interior	Scheduling and Advance	10/13/94	1/14/95
Attorney-Advisor	Justice	General Counsel	7/18/94	1/18/95
Special Assistant to the President	Labor	Cabinet Affairs	6/22/95	9/30/95
Attorney	Merit Systems Protection Board.	General Counsel	10/3/94	12/31/94
Personnel Specialist	Commerce	Presidential Personnel	7/13/94	10/13/94
Attorney-Advisor	Justice	General Counsel	7/10/95	10/13/95
Deputy Director	Health and Human Services.	Intergovernmental Affairs	6/5/95	12/23/95
FISCAL YEAR 1996				
Assistant Deputy Director	U.S. Agency for International Development.	Presidential Personnel	5/13/96	9/30/96
Special Assistant to the President	Interior	Legislative Affairs	6/14/95	9/30/96
Attorney-Advisor	Education	General Counsel	2/4/96	5/3/96
Attorney-Advisor	Commerce	General Counsel	5/13/96	5/24/96
Staff Assistant (Scheduler)	Agriculture	Scheduling and Advance	8/15/95	1/26/96
Attorney-Advisor	Justice	General Counsel	7/26/95	2/26/96
Executive Assistant	Labor	Cabinet Affairs	3/8/95	4/14/96
Presidential Scheduler	Agriculture	Scheduling and Advance	10/30/95	12/8/95
Detailee to the Office of Scheduling.	Education	Scheduling and Advance	8/5/96	3/8/97
Special Assistant to the President and Presidential Scheduler/Coordinator.	Education	Scheduling and Advance	8/2/95	10/7/95
Special Assistant to the Deputy Chief of Staff.	Labor	Deputy Chief of Staff for Policy.	6/27/96	9/23/96
Senior Press Advance	Interior	Press Secretary	1/9/95	1/5/96
Special Assistant to the Deputy Chief of Staff.	U.S. Information Agency	Deputy Chief of Staff for Policy.	4/22/96	9/30/96
Attorney-Advisor	Justice	General Counsel	9/3/96	11/15/96
Attorney-Advisor	Labor	General Counsel	5/13/96	8/23/96
Search Manager	Occupational Safety and Health Administration.	Presidential Personnel	4/9/96	9/5/96
Staff Assistant	Agency for International Development.	Scheduling and Advance	1/18/96	7/31/96
Search Manager	Office of Personnel Management.	Presidential Personnel	10/2/96	11/8/96
Attorney-Advisor	Treasury	General Counsel	3/4/96	8/2/96
Correspondence Review/Edit	State	Correspondence	7/27/95	3/25/96
Attorney-Advisor	Federal Trade Commission.	General Counsel	10/23/95	4/19/96
Secretary/Office Manager	Surface Mining	General Counsel	4/12/95	11/3/95
Special Assistant to the Deputy Director.	Agriculture	Presidential Personnel	4/1/96	9/30/96
Confidential Assistant to the Counselor.	Commerce	Counselor to the President.	10/2/95	9/30/96
Director	U.S. Information Agency	Public Liaison	11/29/95	12/15/95
Attorney-Advisor	Justice	General Counsel	2/26/96	6/6/96
Search Manager	Office of Personnel Management.	Presidential Personnel	3/28/97	5/30/97
Attorney-Advisor	Transportation	General Counsel	11/6/96	5/3/96
Staff Assistant	State	Gift Unit	7/16/96	3/28/97
Special Assistant	Commerce	Cabinet Affairs	2/1/96	9/30/96
Gift Analyst	State	Gift Unit	6/19/95	3/31/96
Attorney-Advisor	Federal Trade Commission.	General Counsel	2/12/96	4/19/96
Special Assistant to the President	Treasury	Legislative Affairs	2/28/96	5/31/96
Logistical Management Specialist	State	Administrative Office	2/28/96	4/28/96
Staff Assistant	Justice	General Counsel	6/3/96	9/30/96
Staff Assistant	Transportation	General Counsel	10/30/95	4/19/96

EXHIBIT 3.—WHITE HOUSE OFFICE DETAILEES, BY FISCAL YEAR—Continued

Title	Home agency	Office assignment	Start date	End date
Search Manager	U.S. Arms Control	Presidential Personnel	8/28/96	3/28/97
Associate Counsel to the President	Justice	General Counsel	1/16/96	3/15/97
Special Assistant to the President and Associate Director.	Agriculture	Presidential Personnel	10/1/95	10/1/96
Attorney-Advisor	Justice	General Counsel	6/12/96	12/31/96
Search Manager	Agriculture	Presidential Personnel	6/12/95	11/26/95
Attorney-Advisor	Federal Highway Administration.	General Counsel	5/13/96	9/20/96
Attorney-Advisor	Defense Information Systems Agency.	General Counsel	6/10/96	9/30/96
Attorney	Securities and Exchange Commission.	General Counsel	5/15/95	12/1/95
Attorney-Advisor	Energy	General Counsel	11/1/95	3/8/96
Search Manager	Agriculture	Presidential Personnel	12/11/96	6/9/97
Search Manager	Agriculture	Presidential Personnel	3/8/96	9/30/96
Deputy Director	Health and Human Services.	Intergovernmental Affairs	10/1/95	12/23/95
Attorney-Advisor	Agriculture	General Counsel	8/7/95	3/22/96
Scheduler, First Lady	Housing and Urban Development.	Scheduling and Advance	2/5/96	9/27/96
Attorney-Advisor	Agriculture	General Counsel	6/20/94	3/29/96
Special Assistant to the President	Labor	Cabinet Affairs	6/22/95	12/20/95
Attorney-Advisor	Justice	General Counsel	7/10/95	12/29/95
FISCAL YEAR 1997				
Assistant Deputy Director	U.S. Agency for International Development.	Presidential Personnel	5/13/96	3/28/97
Special Assistant to the President	Interior	Legislative Affairs	6/14/95	3/31/98
Correspondence Director	Veterans Affairs	Presidential Personnel	2/4/97	7/30/97
Staff Assistant, Correspondence	Labor	Presidential Personnel	12/9/96	4/21/97
Transition Search Manager	U.S. Information Agency	Presidential Personnel	12/9/96	6/6/97
Staff Assistant	Treasury	Chief of Staff	1/14/97	9/30/98
Detailee to the Office of Scheduling.	Education	Scheduling and Advance	8/5/96	3/14/97
Attorney-Advisor	Veterans Affairs	General Counsel	11/21/96	5/16/97
Special Assistant	Labor	Public Liaison	2/13/97	9/30/98
Search Manager	Agriculture	Presidential Personnel	1/6/97	7/3/97
Deputy National Security Advisor and Deputy Assistant to the President for National Security Affairs.	State	National Security Affairs	12/23/96	4/19/97
Special Assistant to the Deputy Chief of Staff.	Labor	Deputy Chief of Staff for Policy.	6/27/96	9/23/96
NSC Assistant	U.S. Agency for International Development.	National Security Affairs	3/2/97	3/14/97
Special Assistant to the Deputy Chief of Staff.	U.S. Information Agency	Deputy Chief of Staff for Policy.	4/22/96	1/20/97
Transition Search Manager	Justice	Presidential Personnel	12/9/96	5/9/97
Search Manager	State	Presidential Personnel	5/7/97	11/30/97
Staff Assistant	Agriculture	Presidential Personnel	8/22/97	3/27/98
Staff Assistant for Special Projects	Labor	Presidential Personnel	9/17/97	9/30/97
Scheduler	Justice	Scheduling and Advance	6/30/97	7/12/97
Search Manager	Federal Highway Administration.	Presidential Personnel	10/3/96	3/28/97
Attorney-Advisor	Justice	General Counsel	9/3/96	11/15/96
Attorney-Advisor	Treasury	General Counsel	11/27/96	5/23/97
Attorney-Advisor	Housing and Urban Development.	General Counsel	10/15/96	4/15/97
Search Manager	Office of Personnel Management.	Presidential Personnel	10/2/96	11/8/96
Office Manager	Equal Employment Opportunity Commission.	Presidential Personnel	12/6/96	5/16/97
Assistant for APA Outreach	Education	Presidential Personnel	1/3/97	7/1/97
Staff Assistant	Agriculture	Presidential Personnel	12/9/96	5/30/97

EXHIBIT 3.—WHITE HOUSE OFFICE DETAILEES, BY FISCAL YEAR—Continued

Title	Home agency	Office assignment	Start date	End date
Transition Search Manager	Commerce	Presidential Personnel	12/16/96	5/30/97
Special Assistant for Correspondence.	Labor	Presidential Personnel	3/12/97	9/5/97
Attorney-Advisor	Justice	General Counsel	2/18/97	9/19/97
Lead Search Manager	Small Business Administration.	Presidential Personnel	2/27/97	8/22/97
Attorney-Advisor	Federal Trade Commission.	General Counsel	11/25/96	5/23/97
Attorney-Advisor	National Archives	General Counsel	11/18/96	3/14/97
Attorney-Advisor	Navy	General Counsel	11/15/96	12/13/96
Attorney-Advisor	Agriculture	General Counsel	11/18/96	5/23/97
Special Assistant to the Chief of Staff.	Environmental Protection Agency.	Chief of Staff	9/8/97	9/8/98
Attorney-Advisor	Labor	General Counsel	9/8/97	11/26/97
Staff Assistant	Education	Presidential Personnel	6/23/97	1/9/98
Special Assistant to the Deputy Director.	Housing and Urban Development.	Presidential Personnel	8/4/97	3/27/98
Attorney-Advisor	Agriculture	General Counsel	6/4/97	8/22/97
Senior Advisor	Office of Science and Technology Policy.	Chief of Staff	6/2/97	9/12/97
Attorney-Advisor	Navy	General Counsel	11/20/96	4/22/97
Search Manager	Agriculture	Presidential Personnel	2/4/97	6/2/97
Special Assistant to the Deputy Director.	Agriculture	Presidential Personnel	4/1/96	3/28/97
Transition Search Manager	Commerce	Presidential Personnel	12/16/96	6/9/97
Search Manager	Office of Personnel Management.	Presidential Personnel	3/28/97	5/30/97
Attorney-Advisor	Labor	General Counsel	11/21/96	5/14/97
Attorney-Advisor	Commerce	General Counsel	3/24/97	3/27/98
Attorney-Advisor	Justice	General Counsel	1/5/97	2/13/97
Staff Assistant	State	Gift Unit	7/16/96	3/28/97
Search Manager	U.S. Agency for International Development.	Presidential Personnel	12/23/96	5/12/97
Staff Assistant	Justice	General Counsel	2/18/97	8/15/97
Attorney-Advisor	Treasury	General Counsel	11/19/96	3/31/97
Director of Special Projects.	Labor	Cabinet Affairs	10/17/96	9/30/97
Assistant for Information Systems	Merit Systems Protection Board.	Presidential Personnel	5/27/97	11/19/97
Staff Assistant for Special Projects	Health and Human Services.	Presidential Personnel	9/23/97	9/30/97
Executive Assistant	Labor	Public Liaison	4/23/97	10/31/97
Staff Assistant	Veterans Affairs	Presidential Personnel	6/17/97	3/27/98
Scheduler	Treasury	Scheduling and Advance	7/2/97	3/25/98
Attorney-Advisor	Social Security Administration.	General Counsel	5/28/97	12/31/97
Attorney-Advisor	National Archives and Records Administration.	General Counsel	9/8/97	9/8/98
Attorney-Advisor	Justice	General Counsel	9/4/97	3/27/98
Attorney-Advisor	Justice	General Counsel	7/25/97	3/27/98
Transition Search Manager	Federal Labor Relations Board.	Presidential Personnel	12/9/96	4/25/97
Staff Assistant	Justice	General Counsel	6/3/96	1/17/97
Transition Search Manager	Defense	Presidential Personnel	12/9/96	5/30/97
Search Manager	Federal Emergency Management Agency.	Presidential Personnel	1/13/97	5/21/97
Search Manager	Office of Personnel Management.	Presidential Personnel	1/15/97	7/1/97
Scheduler for the President	Interior	Scheduling and Advance	3/25/97	4/18/97
Scheduling Desk, Office of First Lady.	Education	Scheduling and Advance	11/12/96	6/13/97
Search Manager	U.S. Arms Control	Presidential Personnel	8/28/96	3/28/97
Assistant for African-American Outreach.	Agriculture	Presidential Personnel	12/23/96	3/14/97

EXHIBIT 3.—WHITE HOUSE OFFICE DETAILEES, BY FISCAL YEAR—Continued

Title	Home agency	Office assignment	Start date	End date
Associate Counsel to the President ..	Justice	General Counsel	1/16/96	3/15/97
Special Assistant to the President and Associate Director.	Agriculture	Presidential Personnel	11/18/96	5/19/97
Staff Assistant	Energy	Presidential Personnel	11/18/96	5/19/97
Search Manager	National Transportation Safety Board.	Presidential Personnel	12/18/96	4/12/97
Staff Assistant	Labor	Presidential Personnel	1/24/97	4/13/97
Attorney-Advisor	Justice	General Counsel	11/25/96	3/21/97
Search Manager	U.S. Information Agency	Presidential Personnel	2/12/97	8/1/97
Staff Assistant	Office of Personnel Management.	Presidential Personnel	5/12/97	1/9/98
Search Manager	Justice	Presidential Personnel	5/13/97	12/31/97
Search Manager	Defense	Presidential Personnel	8/4/97	2/6/98
Associate Counsel to the President ..	Justice	General Counsel	7/7/97	5/1/98
Attorney-Advisor	Transportation	General Counsel	6/2/97	12/31/97
Staff Assistant for Special Projects	Agriculture	Presidential Personnel	9/23/97	9/30/97
Attorney-Advisor	Veterans Affairs	General Counsel	4/21/97	10/24/97
Senior Advisor for AIDS Policy	Health and Human Services.	Domestic Policy Council	2/19/97	7/1/97
Attorney-Advisor	Energy	General Counsel	6/10/97	3/27/98
Search Manager	National Transportation Safety Board.	Presidential Personnel	6/16/97	9/12/97
Staff Assistant for Special Projects	U.S. Agency for International Development.	Presidential Personnel	9/19/97	12/5/97
Search Manager	U.S. Agency for International Development.	Presidential Personnel	6/5/97	8/1/97
Staff Assistant	Education	Scheduling and Advance	10/1/96	11/21/96
Attorney-Advisor	Justice	General Counsel	6/12/96	2/3/97
Attorney-Advisor	Labor	General Counsel	11/20/96	5/14/97
Search Manager	National Endowment for the Arts.	Presidential Personnel	1/6/97	6/2/97
Assistant for Asian Pacific Outreach.	Justice	Presidential Personnel	12/9/96	5/16/97
Attorney-Advisor	Defense Information Systems Administration.	General Counsel	6/10/96	3/28/97
Attorney-Advisor	Securities and Exchange Commission.	General Counsel	11/14/96	5/11/97
Attorney-Advisor	Energy	General Counsel	11/18/96	2/1/97
Transition Search Manager	Agriculture	Presidential Personnel	12/11/96	6/9/97
Attorney-Advisor	Justice	General Counsel	11/25/96	5/23/97
Attorney-Advisor	Treasury	General Counsel	11/19/96	5/23/97
Office Manager	Housing and Urban Development.	Presidential Personnel	12/9/96	5/30/97
Special Assistant to the President	Labor	Cabinet Affairs	6/22/95	9/30/97
Transition Search Manager	Defense	Presidential Personnel	12/9/96	3/31/97
Attorney-Advisor	Navy	General Counsel	3/12/97	6/16/97
Attorney-Advisor	U.S. Customs	General Counsel	6/23/97	12/31/97
Staff Assistant for Special Projects.	Commerce	Presidential Personnel	9/24/97	9/30/97
Placement Assistant	Labor	Presidential Personnel	8/14/97	9/30/98
Assistant for Correspondence	Housing and Urban Development.	Presidential Personnel	5/13/97	12/31/97
Attorney-Advisor	Housing and Urban Development.	General Counsel	6/2/97	3/27/98
Attorney-Advisor	Justice	General Counsel	6/2/97	3/27/98
Attorney-Advisor	Health and Human Services.	General Counsel	5/14/97	9/30/97
FISCAL YEAR 1998				
Special Assistant to the President for Legislative Affairs.	Interior	Legislative Affairs	6/14/95	3/31/98
Attorney-Advisor	National Labor Relations Board.	General Counsel	2/9/98	6/12/98
Search Manager	State	Presidential Personnel	5/7/97	11/30/97

EXHIBIT 3.—WHITE HOUSE OFFICE DETAILEES, BY FISCAL YEAR—Continued

Title	Home agency	Office assignment	Start date	End date
Staff Assistant	Treasury	Chief of Staff	1/14/97	9/30/98
Executive Assistant to the Director	Labor	Public Liaison	2/13/97	9/30/98
Staff Assistant	Agriculture	Presidential Personnel	9/3/97	3/27/98
Attorney-Advisor	Justice	General Counsel	12/22/97	3/27/98
Associate Director for Education Policy.	Education	Domestic Policy Council	3/9/98	7/18/98
Attorney-Advisor	Justice	General Counsel	6/2/97	11/17/97
Attorney-Advisor	Labor	General Counsel	9/8/97	11/26/97
Special Assistant to the Chief of Staff.	Environmental Protection Agency.	Chief of Staff	9/8/97	9/30/98
Attorney-Advisor	Veterans Affairs	General Counsel	1/20/98	5/22/98
Attorney-Advisor	Transportation	General Counsel	1/16/98	5/8/98
Scheduling Desk	Education	Scheduling and Advance	2/9/98	5/9/98
Staff Assistant	Education	Scheduling and Advance	6/23/97	1/9/98
Special Assistant to the Deputy Director.	Housing and Urban Development.	Presidential Personnel	8/4/97	3/27/98
Assistant for Information Systems	Merit Systems Protection Board.	Presidential Personnel	5/27/97	11/19/97
Attorney-Advisor	Social Security Administration.	General Counsel	5/28/97	12/10/97
Attorney-Advisor	Justice	General Counsel	6/2/97	3/27/98
Staff Assistant	Education	Scheduling and Advance	2/17/98	5/19/98
Attorney-Advisor	Commerce	General Counsel	3/24/97	3/27/98
Attorney-Advisor	National Archives and Records Administration.	General Counsel	9/8/97	11/6/97
Staff Assistant for Special Projects.	Justice	Presidential Personnel	10/29/97	11/13/97
Staff Assistant	Veterans Affairs	Presidential Personnel	6/17/97	3/27/98
Attorney-Advisor	Justice	General Counsel	9/4/97	3/27/98
Executive Assistant to the Director	Labor	Public Liaison	4/23/97	10/31/97
Staff Assistant	Office of Personnel Management.	Presidential Personnel	5/12/97	1/9/98
Scheduler	Treasury	Scheduling and Advance	7/2/97	3/25/98
Director of Special Projects	Labor	Cabinet Affairs	10/17/96	4/3/98
Search Manager	Justice	Presidential Personnel	5/13/97	12/31/97
Attorney-Advisor	Justice	General Counsel	7/25/97	3/27/98
Associate Counsel to the President	Justice	General Counsel	7/7/97	5/1/98
Attorney-Advisor	Transportation	General Counsel	6/2/97	10/31/97
Search Manager	Defense	Presidential Personnel	8/4/97	2/6/98
Attorney-Advisor	Veterans Affairs	General Counsel	4/21/97	10/24/97
Search Manager	Justice	Presidential Personnel	12/29/97	6/26/98
Attorney-Advisor	Energy	General Counsel	6/10/97	3/27/98
Special Assistant to the President and Associate Director.	Agriculture	Presidential Personnel	10/1/95	9/30/98
Staff Assistant for Special Projects.	U.S. Agency for International Development.	Presidential Personnel	9/19/97	12/5/97
Attorney-Advisor	U.S. Customs	General Counsel	6/23/97	10/31/97
Attorney-Advisor	Navy	General Counsel	1/15/98	7/10/98
Placement Assistant	Labor	Presidential Personnel	8/14/97	9/30/98
Scheduler	Energy	Scheduling and Advance	3/9/98	3/9/99
Assistant for Correspondence	Housing and Urban Development.	Presidential Personnel	5/13/97	1/9/98
Attorney-Advisor	Labor	General Counsel	10/28/97	4/24/98
Staff Assistant	Justice	General Counsel	12/15/97	6/12/98
Attorney-Advisor	Housing and Urban Development.	General Counsel	6/2/97	3/27/98
Special Assistant to the President	Labor	Cabinet Affairs	6/22/95	5/9/98
Attorney-Advisor	Justice	General Counsel	6/2/97	3/27/98
Search Manager	Commerce	Presidential Personnel	3/30/98	9/30/98
Attorney-Advisor	Health and Human Services.	General Counsel	4/6/98	4/9/99
Attorney-Advisor	Justice	General Counsel	4/8/98	9/30/98

[EXHIBIT 4]

TALKING POINTS

Staff in the Counsel's Office devote their time to addressing the legislative, constitutional, and policy agenda of the President, in addition to the daily counseling responsibilities for the White House.

The Counsel's Office is obligated to ensure compliance with numerous requests for documents and information from various investigative entities, including congressional committees, independent counsel offices, the Justice Department, private litigants, etc. Since 1995, the Counsel's Office has had a team of up to 6 attorneys and 3 paralegals devoted to responding to requests from investigative entities. The other attorneys and staff in the office handle the routine matters of the Counsel's Office.

Investigating Entities

The House and Senate earmarked more than 16M to investigate the President in 1997,[1] while OIC (Starr) has spent more than 40M looking into Whitewater and recent allegations.[2] Five congressional committees, a federal grand jury and the Justice Department have investigated, and in some instances continue to investigate, campaign finance matters.[3]

Budgets of some of the investigative bodies:

Burton: 3.8M budget exclusively for campaign finance investigation (1997); 7.9M reserve fund for investigation (1997); and 11.7M regular budget for Committee operations.[4]

Thompson: 4.5M budget exclusive for campaign finance investigation (1997).[5]

Justice Dept.: Unlimited budget (annually).[6]

OIC (Starr): 40M already spent [7] and an unlimited budget.[8]

FACTS REGARDING CONGRESSIONAL INVESTIGATIONS AND THE WHITE HOUSE COUNSEL'S OFFICE

In 1997 alone, the White House responded to nearly 600 requests for documents and other information made by the Thompson and Burton committees.

In fulfilling those requests, the White House turned over close to a quarter-million pages of material to the two committees.

Nearly 60 current and former White House employees were made available for interview and deposition testimony before the Thompson Committee. Nearly 60 such employees were available to the Burton Committee.

Other congressional investigations involving the White House have included those headed up by:

—Congressman Leach;

—Congressman McIntosh (where 40,000 documents were turned over, and 20 current and former White House employees were made available to the committee); and

—Senator D'Amato (49 subpoenas issued, 60 days of hearings over 14 months).

In this 105th Congress, no fewer than 26 congressional investigations into Democratic activities have been completed, are underway, or are planned. Only one investigation examined Republican abuses.

All of these inquiries were presaged in 1994 when, according to the Washington Post (9/20/96), "a month before the 1994 elections that made him House speaker, Newt Gingrich summed up in one word the time-tested power that he and his Republican oversight committees would bring to bear on the Clinton Administration: subpoena. And subpoena they did, hauling hundreds of government officials before investigative panels . . . ." And an April 1996 memorandum to Republican committee chairmen urged them to compile information on "examples of dishonesty or ethical lapses in the Clinton administration." In that same year, Newt Gingrich's press secretary said the presidency could be "severely crippled" by such inquiries and by Ken Starr (Washington Post, 9/20/96).

Meanwhile, most staff members of one of the committees investigating the President—the House Government Reform and Oversight Committee—saw their pay in-

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[1] The Commercial Appeal, June 10, 1997.
[2] Newsday, February 7, 1998.
[3] St. Petersburg Times, March 7, 1997.
[4] The New York Times, April 7, 1997.
[5] The Commercial Appeal, June 10, 1997.
[6] Arkansas Democrat-Gazette, November 1, 1997.
[7] Newsday, February 7, 1998.
[8] USA Today, November 14, 1997.

crease during 1997 by at least 50 percent. By year's end, the Committee was spending money at a rate of $1 million a month, compared to $400,000 a month at the beginning of 1997 (yet, only eight hearings were held during the year).

The House Government Reform and Oversight Committee has access to $11.7 million ($3.8 million budget, $7.9 million reserve fund). It has a staff of more than 50 Republican investigators. The Senate Governmental Affairs Committee has a budget of $4.3 million for its campaign finance investigation, and they spent $3.5 million. It has a staff of 60 Republican investigators.

GAO AUDIT

GAO Audit.—Apart from the personal records of the President relating to guests, GAO has had complete access to all records and materials, *including all overtime records.* The audit is proceeding and GAO has indicated to us that it hopes to complete traditional audit of the Executive Residence this month.

Overnights.—GAO has indicated that, despite its inability to discern any costs associated with overnight guests, the Chairman's specifically requested GAO to verify the names of guests who spent the night at the White House. GAO requested to interview people to determine if there were records apart from personal records that could be used. GAO learned through these interviews that none of the Executive Residence staff had such non-personal records.

Interviews.—The White House committed to providing GAO with the opportunity to interview staff to inquire regarding overnight guests and has fulfilled that commitment: Pursuant to GAO's request, the White House arranged interviews with, and GAO interviewed: Chief Usher, Administrative Officer, Maitre'd, Social Secretary, and Head Housekeeper.

USSS.—Pursuant to GAO's requests, we checked with the USSS regarding their records and they indicated they did not retain any records reflecting overnight guests and we conveyed this information to GAO in January.

Personal Records—GAO indicated that it was not seeking the personal materials of the First Family. We informed GAO that we would review the personal records to determine how to assist in the Chairman's request for GAO to verify the individuals who spent the night at the White House as guests of the First Family.

As recently as one week ago, we informed GAO that we were making progress and expected to be able to address their needs by next week.

26 CONGRESSIONAL INVESTIGATIONS INTO DEMOCRATIC ACTIVITIES

[Only one examined GOP abuses]

Member	Body	Committee	Subcommittee, if any	Subject of investigation
Thompson, Fred [1]	Senate	Governmental Affairs		General investigation.
Hatch, Orrin	Senate	Judiciary		DOJ's investigation.
McCain, John	Senate	Commerce		Commerce Department, Franklin Haney & Portals Bldg (Wash. Post, 2/27/98).
Shelby, Richard	Senate	Intelligence		CIA involvement, FBI overlooking Chinese intelligence reports.
Collins, Susan [1]	Senate	Governmental Affairs	Investigations	General investigation.
Burton, Dan [1]	House	Government Reform and Oversight		General investigation.
Hyde, Henry	House	Judiciary Committee		Impeachment proceedings.
McIntosh, David [1]	House	Government Reform and Oversight	National Economic Growth, Natural Resources and Regulatory Affairs.	WHODB.
Hoekstra, Peter [1]	House	Education and the Workforce	Oversight and Investigations	Teamsters scandal.
Barton, Joe [1]	House	Commerce	Oversight and Investigations	Molten Metal.
Kolbe, Jim [1]	House	Appropriations	Treasury, Postal Service and General Government.	Use of White House for political events.
Solomon, Gerald	House	Rules		Investigating Clinton's meetings with a Russian arms dealer, whether Huang leaked documents, whether a special committee should be formed.
Livingston, Robert	House	Appropriations		Investigating WH spending on scandal press, legal office (Wash. Times, 3/9/98).
Livingston, Robert	House	Appropriations		Investigating if the INS was used for political purposes.
Mica, John	House	Government Reform and Oversight	Civil Service	Possible violations of Hatch Act involving Ickes and Gore.
Gilman, Ben	House	International Relations		Role of China and Indonesia.
Goss, Porter	House	Intelligence		Whether intelligence information was compromised by Huang and whether foreign governments have tried to influence U.S. elections.
Leach, Jim	House	Banking and Financial Services		WH coffee involving banking regulators and bankers.

Bliley, Thomas	House	Commerce		Commerce Department trade missions.
Talent, James	House	Small Business		Controversies at Commerce.
Hansen, James [1]	House	Resources	National Parks and Public Lands	Grand Staircase—Escalante, Hudson dog track (Mnpls. Star-Trib., 1/6/98).
Specter, Arlen	Senate			Chairman Burton said Specter would examine allegations FBI agent Wickham resigned rather than turn over his confidential sources on China (Hrgs., 12/10/97).
Murkowski, Frank	Senate	Energy		Politicization of Interior Department (USA Today, 12/11/97).
Stook, Ernest	House	Appropriations	Treasury and Postal Service	Political activities of DNG's White House "volunteers."
Everett, Terry [1]	House	Appropriations	Veterans Affairs	Arlington Cemetery.
Faircloth, Lauch	Senate	Appropriations	Foreign Operations	Travoltagate—whether President pushed actor John Travolta's pet project on Scientology in exchange for favorable portrayal in "Primary Colors" (NY Post, 3/2–6/98).

[1] Investigation or hearings in progress or completed.

[CLERK'S NOTE.—The article from The Hill titled "Burton Hikes Salaries of Staff" could not be printed in the hearing record.]

[EXHIBIT 5]

Two attachments are included as part of Exhibit 5:
(1) A copy of the already transmitted report on fiscal years 1993 and 1994 expenditures—as of January 31, 1995; and
(2) A report on fiscal years 1995, 1996, 1997, 1998 expenditures and fiscal year 1999 request—as of March 31, 1998.

White House Office Obligations and Expenditures—December 31, 1994

Fiscal year 1993

Security Office	$4,025,171.82
Immediate Office of the President	599,969.86
Chief of Staff	764,891.51
Domestic Policy	1,150,263.41
National Security Affairs	356,415.64
Communications	2,412,984.38
Intergovernmental Affairs	651,003.36
Cabinet Affairs	248,409.21
Legislative Affairs	1,564,153.05
Press Secretary	311,404.34
Staff Secretary	3,429,216.08
Scheduling	1,553,858.20
Counsel's Office	1,317,406.81
Special Activities & Initiatives	1,085,034.89
Management & Administration	15,912,186.88
Office of the First Lady	990,485.13
Presidential Personnel	4,389,918.69
Issue Analysis	25,000.00
National Economic Council	374,223.12
Public Liaison	762,540.92
Political Affairs	394,710.71
National Service	439,192.50
Grand Total	42,758,440.51

Fiscal year 1993 total includes one-time supplemental funding for Presidential transition.

Fiscal year 1994

Immediate Office of the President	$1,083,546.55
Chief of Staff	1,126,570.56
Domestic Policy	746,554.10
National Security Affairs	408,130.59
Communications	3,704,508.62
Intergovernmental Affairs	746,359.54
Cabinet Affairs	473,578.63
Legislative Affairs	1,588,985.31
Staff Secretary	1,864,270.35
Scheduling & Advance	2,088,170.81
Counsel's Office	1,913,092.41
Management & Administration	13,578,250.99
Office of the First Lady	946,239.30
Presidential Personnel	1,666,247.03
National Economic Council	569,004.35
Public Liaison	1,229,465.48
Political Affairs	605,348.83
National Service	4,046.38
Correspondence	4,271,642.39
The President	25,025.00
Grant Total	38,639,037.22

Please note: Functions and organizations change throughout the year as needs arise.

White House Office Obligations and Expenditures—as of March 31, 1998

Fiscal year 1995

Immediate Office of the President	$765,336
Detailees	34,470
Subtotal, Immediate Office of the President	799,806
Chief of Staff	1,853,178
Communications	1,733,486
Cabinet Secretary	387,816
Detailees	3,640
Subtotal, Cabinet Secretary	391,456
Scheduling and Advance	1,980,248
General Counsel	2,265,332
Detailees	38,274
Subtotal, General Counsel	2,303,606
Management and Administration	15,809,025
Presidential Personnel	1,246,500
Detailees	61,576
Subtotal, Presidential Personnel	1,308,076
Correspondence	3,077,869
National Security Affairs	414,145
National Economic Council	581,161
Legislative Affairs	1,660,029
Staff Secretary	1,778,045
Public Liaison	1,308,522
Intergovernmental Affairs	721,211
Political Affairs	702,394
Office of the First Lady	1,024,394
Domestic Policy	994,752
Office of the Press Secretary	986,287
Grand Total	39,427,690

Fiscal year 1996

Chief of Staff	$1,971,306
Communications	1,316,184
Scheduling and Advance	1,901,728
General Counsel	2,757,239
Management and Administration	13,971,693
Detailees	322,292
Subtotal, Management and Administration	14,293,985
Presidential Personnel	1,124,130
Correspondence	2,944,959
Oval Office Operations	887,489
National Security Affairs	433,152
National Economic Council	672,501
Cabinet Affairs	418,291
Legislative Affairs	1,759,033
Staff Secretary	2,009,699
Public Liaison	1,445,450
Intergovernmental Affairs	716,869
Political Affairs	865,869
Office of the First Lady	1,106,543
Domestic Policy	1,096,171
Office of the Press Secretary	1,539,757
Grand Total	39,260,355

Fiscal year 1997

Chief of Staff	$1,765,532
Scheduling and Advance	1,980,039
General Counsel	2,706,055
Management and Administration	14,667,705
Detailees	338,815
Subtotal, Management and Administration	15,006,520
Presidential Personnel	1,201,564
Correspondence	2,958,161
Oval Office Operations	803,824
National Security Affairs	544,408
Strategic Planning and Communications	1,451,109
National Economic Council	651,414
Cabinet Affairs	457,772
Legislative Affairs	1,846,511
Staff Secretary	2,014,497
Public Liaison	1,419,835
Intergovernmental Affairs	684,515
Political Affairs	681,409
Office of the First Lady	1,217,974
Domestic Policy	1,059,595
Office of the Press Secretary	1,544,144
Office of the Special Envoy	180,942
Grand Total	40,175,820

Fiscal year 1998 [1]

Chief of Staff	$902,346
Scheduling and Advance	1,226,115
General Counsel	1,458,291
Management and Administration	10,219,222
Detailees	459,031
Subtotal, Management and Administration	10,678,253
Presidential Personnel	591,557
Correspondence	1,451,588
Oval Office Operations	344,835
National Security Affairs	235,896
Strategic Planning and Communications	779,696
National Economic Council	257,065
Cabinet Affairs	222,352
Legislative Affairs	846,575
Staff Secretary	988,760
Public Liaison	659,743
Intergovernmental Affairs	350,549
Political Affairs	382,198
Office of the First Lady	574,804
Domestic Policy	577,389
Office of the Press Secretary	733,763
Office of the Special Envoy	186,458
Special Activities and Initiatives	13,315
WHCA Non-Telecommunication Support	9,494,000
Grand Total	32,955,548

[1] Fiscal year 1998 reflects data through 3/31/98.

Fiscal year 1999 [2]

Management and Administration	$42,244,000
WHCA Non-Telecommunication Support	10,100,000
Grand Total	52,344,000

[2] Consistent with prior years, fiscal year 1999 was prepared as a single budget. Costs are allocated to respective departments as they arise in connection with assigned activities and projects.

[EXHIBIT 6]

Contracts listed by agency/vendor	Purpose	Period of performance	Total estimated cost
Office of National Drug Control Policy (ONDCP):			
Gallup	Survey Data	09/11/95–11/11/95	$118,000
Evidence Based Research	Statistical Research	07/03/95–09/03/95	150,000
Heritage	Guard Service	10/01/95–09/30/00	2,900,000
Porter-Novelli	Consulting Service	09/16/97–09/16/99	929,000
National Academy of Sciences	Research	04/22/97–12/31/98	897,000
TWD	ADP Support Services	01/01/97–12/30/98	3,000,000
Carrpark	Parking Spaces	01/01/98–12/31/00	167,000
National Academy of Sciences	Research	02/04/98–06/01/00	1,400,000
Office of Management and Budget (OMB):			
Computech	ADP Support Services	09/20/96–09/21/01	6,000,000
IMC	ADP Support Services	11/01/95–11/02/00	3,000,000
Kinetic Technology	ADP Support Services	07/03/97–07/03/02	1,000,000
Office of Administration (OA):			
Sand Creek	Employee Assistance Program	03/31/95–09/30/98	125,000
Chrysler	Vehicle Lease	01/01/95–09/30/97	265,000
SAS	Software License	10/01/94–09/30/97	154,000
IMC	ADP Services	02/26/96–02/25/01	3,000,000
Desktop Data	Wire Service	10/01/96–09/30/98	188,000
Northrop-Grumman	ADP Facility Operations	10/01/97–09/30/02	50,000,000
Chrysler	Vehicle Lease	10/01/97–09/30/02	
Digital Equipment	Lease of ADP Facility	01/24/96–05/28/97	937,000
Pulsar Data Systems	ADP Hardware	02/09/93–09/30/96	6,500,000
IBM	ADP Hardware	01/21/93–02/21/93	173,000
Anderson & Assc	Telephone Consultant	05/01/93–05/01/94	117,500
AT&T	Telephone System	07/01/93–06/30/03	6,400,000
Bell Atlantic	Telephone Service	07/01/93–06/30/03	6,800,000
Innovative Interfaces	Library Automation	09/30/93–03/31/99	332,000
Advanced Integrated Tech	ADP Maintenance	03/01/94–09/30/95	371,000
Subsystem Tech	Help Desk Support	03/29/94–09/30/98	2,300,000
United States Trade Representative (USTR):			
Computer Dynamics	ADP Support Services	10/01/94–04/15/95	255,000
TWD	ADP Support Services	06/01/96–05/30/01	3,000,000
Deloitte & Touche	Trade Consultant	09/09/93–02/28/94	483,000
Desktop Data	Wire Service	10/01/96–09/30/98	131,000
White House (WH):			
US Newswire	Wire Service	04/01/95–05/01/98	566,000
ISI	Software Maintenance	02/01/96–09/30/98	327,000
Resumix	Automated Personnel System	02/04/93–09/30/95	349,500
ABR Assoc	Mailing Services	08/12/93–02/11/94	326,000

EXHIBIT 7.—EXECUTIVE OFFICE OF THE PRESIDENT 1997 AND 1998 STAFFING LEVELS

[Target versus onboard]

Agency/account	Fiscal year 1997 target/auth.			September 30, 1997, onboard			Fiscal year 1998 target/auth.			April 21, 1998, onboard		
	Onboard personnel	Other government employees	Total onboard	Onboard personnel	Other government employees	Total onboard	Onboard personnel	Other government employees	Total onboard	Onboard personnel	Other government employees	Total onboard
White House Office	400	30	430	391	63	454	400	30	430	396	38	434
Office of Administration	192	.....	192	174	.....	174	192	.....	192	174	2	176
Special Assistant to the President	21	11	32	20	5	25	21	11	32	21	8	29
Special Residence of the Vice President	1	.....	1	1	.....	1	1	.....	1	1	.....	1
Office of Policy Development	31	8	39	29	6	35	31	8	39	29	6	35
Council of Economic Advisers	35	.....	35	29	4	33	35	.....	35	32	3	35
National Security Council	60	88	148	41	115	156	60	88	148	43	111	154
Subtotal	740	137	877	685	193	878	740	137	877	696	168	864
Council on Environmental Quality	19	3	22	18	1	19	23	3	26	19	.....	19
Executive Residence at the White House	89	.....	89	88	.....	88	89	.....	89	88	.....	88
Office of National Drug Control Policy	124	30	154	102	30	132	124	30	154	114	30	144
Office of Science and Technology Policy	39	.....	39	31	4	35	39	.....	39	33	2	35
Total, Cumulative	1,011	170	[1] 1,181	924	228	1,152	1,015	170	[2] 1,185	950	200	1,150

[1] Fiscal year 1997 target, 1,181; fiscal year 1997 average, 1,118.
[2] Fiscal year 1998 target, 1,185; fiscal year 1998 average (as of 4/21/98), 1,151.

[EXHIBIT 8]

WHITE HOUSE OFFICE INTERAGENCY AGREEMENT FISCAL YEAR 1998

Agreement No.: I8BWCAB01A0
Agreement between White House Communications Agency (hereinafter Servicing Agency) and White House Office (hereinafter Customer Agency):

Authority.—This agreement is entered into under the authority of the National Defense Authorization Act for fiscal year 1997, Public Law 104–201, Section 912, 110 Stat. 2422, 2623 (codified at 10 U.S.C. section 111 nt); 31 U.S.C. section 1346(b); 601 of the Economy Act of 1932, as amended, 31 U.S.C. SS 135–36; and the authorizing legislation of these two agencies.

Services to be Performed.—The Servicing Agency agrees to provide services as reflected herein, as requested by the Customer Agency. Services performed are in accordance with the Memorandum of Understanding between the White House Communications Agency and the White House Office. The initial estimated amount of this agreement is as follows.

Stenographic Services Support	$306,000
Newswire Services Support	635,000
Audiovisual Services Support	3,553,000
Total	4,494,000

Period of Agreement.—This agreement will commence on October 1, 1997 and will remain in effect until terminated by both parties. The paragraphs delineate the understanding and terms of this agreement. The agreement will remain in effect as long as the availability of funds is provided to the Servicing Agency. This agreement may be modified with the consent of all participating units.

Financial Provisions.—The Customer Agency has established an estimated amount of $4,494,000 for services provided under this agreement. The Office of Administration, Financial Management Division, has assigned a document control number to this agreement. Payment for services will be made on a monthly basis, or as agreed upon by the parties herein.

Termination.—If termination of services is desired prior to the expiration of this agreement the Customer Agency will request, in writing, deactivation of the account, citing the appropriate account numbers and date of termination.

Delegation of Authority.—The Customer Agency hereby authorizes the Servicing Agency to provide services on a reimbursable basis. The Servicing Agency will provide the services and be reimbursed by the Customer Agency. The Customer Agency will reimburse the Servicing Agency for any non-telecommunications support provided to the White House by the Servicing Agency that results in additional cost to the Servicing Agency. Costs associated with common use infrastructure are non-reimbursable, except for support provided solely for the benefit of the White House.

Billing Instruction.—Cost transfers are done transferring charges from WHCA's Direct to Reimbursement accounts. A voucher for Transfer between Appropriations and/or Funds (SF 1080 billing) is prepared based on the cost transfers by the Defense Finance and Accounting Services (DFAS) and forwarded to the White House for information only. Costs will automatically be charged to the accounting classification provided by WHO thru DFAS.

Accounting Classification.—The accounting classification is to be provided by the Customer Agency to the servicing Agency at the beginning of each fiscal year.

Accounting Classification to charge is as follows:

Agency Location Code: 11010001
Appropriations No.: 1180110
Index Code: B115A
Object Class: 251103

Fiscal year 1998 Interagency Agreement between: the White House Office (hereinafter Customer Agency) and the White House Communication Agency (hereinafter Servicing Agency)
To: Reimburse the Department of Defense for Military Personnel

Authority.—This agreement is entered into under the authority of the National Defense Authorization Act for fiscal year 1997, Public Law 104–201, Section 912, 110 Stat. 2422, 2623 (codified at 10 U.S.C. section 111 nt); 601 of the Economy Act of 1932, as amended, 31 U.S.C. SS 1535–36; and the authorizing legislation of these two agencies.

Services to be Performed.—This agreement establishes the financial arrangements between the White House Office (WHO) and the White House Communication Agen-

cy (WHCA) to reimburse the Department of Defense for the military personnel costs associated with providing non-telecommunications services to WHO through the WHCA.

Services performed are in accordance with the Memorandum of Agreement between the Department of Defense and the White House Office. The initial estimated amount of this agreement is as follows:

Military Personnel, Army	$2,100,000
Military Personnel, Navy	1,700,000
Military Personnel, Marine Corps	100,000
Military Personnel, Air Force	1,100,000
Total	5,000,000

Period of Agreement.—This agreement will commence on October 1, 1997, and will remain in effect until September 30, 1998. The paragraphs of this agreement delineate the understandings and terms of this agreement. This agreement may be modified with the consent of all participating parties to this agreement.

Financial Provisions.—The Customer Agency has established an estimated amount of $5,000,000 for services provided under this agreement. The Office of Administration, Financial Management Division, has assigned a document control number to this agreement. Payment for services will be made on a monthly basis, or as agreed upon by the parties herein.

Termination.—If termination of services is desired prior to the expiration of this agreement the Customer Agency will request, in writing, deactivation of the account, citing the appropriate account numbers and date of termination.

Billing Instructions.—This document grants Defense Finance and Accounting Services Operating Location Pensacola (DFAS–PE) authority to charge the White House Office (WHO) accounting classification below monthly for non-telecommunications military personnel assigned to White House Communications Agency (WHCA). At the end of the month, the White House Communications Agency will provide DFAS–PE and the White House Office with a monthly report listing all personnel assigned to reimbursable positions. DFAS–PE will bill WHO monthly based upon monthly actual non-telecommunications-related personnel strength reports generated from WHCA.

DFAS–PE will prepare vouchers for Transfer Between Appropriations (SF1080 billing) based on monthly detailed reports of non-telecommunication personnel assigned to WHCA at the end of each month. The SF1080 forms should be forwarded to the White House Office for information only. DFAS–PE may automatically charge the accounting classification below without prior approval from WHO. Upon review of either party, payments may be adjusted to correct errors.

Accounting Classification.—The accounting classification is to be provided by the Customer Agency to the Servicing Agency at the beginning of each fiscal year.

Accounting Classification to charge is as follows:

Agency Location Code: 11–01–0001
Appropriations Code: 1180110
Index Code: B125A
Object Classification: 253200

[EXHIBIT 9]

MEMORANDUM OF UNDERSTANDING BETWEEN THE WHITE HOUSE OFFICE (WHO) AND THE DEPARTMENT OF DEFENSE (DOD)

1. *Authority:* This Memorandum of Understanding (MOU) is entered into under the authority of the National Defense Authorization Act for fiscal year 1997, Public Law 104–201, Section 912, 110 Stat. 2422, 2633 (codified at 10 U.S.C., section 111 nt); Section 601 of the Economy Act of 1932, as amended, 31 U.S.C. §§ 1535–1536; and the authorizing legislation of these two agencies.

2. *Purpose:* This MOU outlines the agreement involving non-telecommunications support services to be provided by the White House Communications Agency (WHCA) to the White House Office (WHO)for which WHO will reimburse WHCA and military personnel appropriations.

3. *Compliance Oversight:* WHCA will execute WHO funds and maintain Government property in accordance with governing DOD policies, instructions, standards, and any applicable statutes.

4. *Reimbursable Costs:*

a. WHCA will provide non-telecommunications support services to WHO on a reimbursable basis. The WHO will reimburse WHCA for all actual costs incurred by WHCA for non-telecommunications support services provided to WHO. The mechanism for identifying these costs is covered in Paragraph 8a and 8b of this MOU.

b. Military personnel costs incurred by the DOD in providing non-telecommunications support services will be charged using the annual military standard composite pay rates determined by the Military Departments. The military composite standard pay rates will be computed in accordance with Chapter 6, Appendix I, "Military Composite Standard Pay" of the DOD Financial Management Regulation, Volume 11A. Military fringe benefits (that is, other personnel support costs) will be charged on the basis of a percentage of military pay costs and billed as part of direct costs. The applicable percentage will be in accordance with Chapter 6, Appendix I, "Military Composite Standard Pay" of the DOD Financial Management Regulation, Volume 11A.

5. *Categories of Support Provided:* WHCA will provide the following categories of support:

a. Presidential Audiovisual Events (PAE) Production Support;

b. Photographic Lab and Services Support;

c. Stenographic Services: WHCA will provide service through March 31, 1998, when the stenographic contract expires. On April 1, 1998, the WHO will issue the stenographic contract directly;

d. Newswire Services: WHCA will provide service through September 30, 1998, when the Newswire contracts expire. On October 1, 1998, the WHO will issue the newswire contracts directly;

e. Other Non-telecommunications Support: Other similar non-telecommunications support services appropriate to further the statutory, constitutional, and ceremonial duties of the President and Vice President.

6. *Requests for Services:* For all routine non-telecommunications tasks performed by WHCA, WHO may provide WHCA with verbal requests. For other similar non-telecommunications support (paragraph 5e, above), the WHO will provide WHCA with advance notice, additional information, and/or written confirmation of the request to enable WHCA to adequately plan for those tasks and to track both services and funds expended in accomplishing those tasks.

7. *Period of MOU:* This MOU will commence on October 1, 1997, and will remain in effect until either party provides the other a 1-year termination of services notification. The paragraphs of this MOU delineate the understandings and terms of this MOU and may be modified with the consent of both parties. Each party to the MOU will review the terms and conditions annually in concert with the interagency agreements (IAG) referenced below.

8. *Financial Provisions:* The financial provision of the MOU will address the following two categories:

a. Budget: The WHO will request non-telecommunications support services and approve annual funding levels to the WHCA for non-telecommunications support services during the normal DOD and WHCA budget cycle. The WHO will provide WHCA with projections of future non-telecommunications support requirements so that WHCA can develop reimbursable estimates. Each year before July 31, WHCA must provide a budget estimate for the cost of these non-telecommunications support services for the upcoming President's Budget. Included in this estimate will be any new initiatives, system upgrades, and major projects.

b. Funding: At the beginning of each fiscal year, WHO will establish IAG's with WHCA and/or DOD to cover the actual costs of procurement, operations, and personnel related to non-telecommunications support services for that fiscal year. If additional funds are needed, the IAG's can be amended to provide the additional funding. WHCA and DOD will notify WHO of projected unused funds by August 1 of the fiscal year and will return the funds before the end of the fiscal year.

c. The IAG's will define billing and payment procedures.

9. *Property Accountability:* WHCA will retain accountability and responsibility for the inventory of all equipment, supplies, and materials purchased to support WHO. WHCA will maintain property in accordance with DOD property management and accountability policies and instructions.

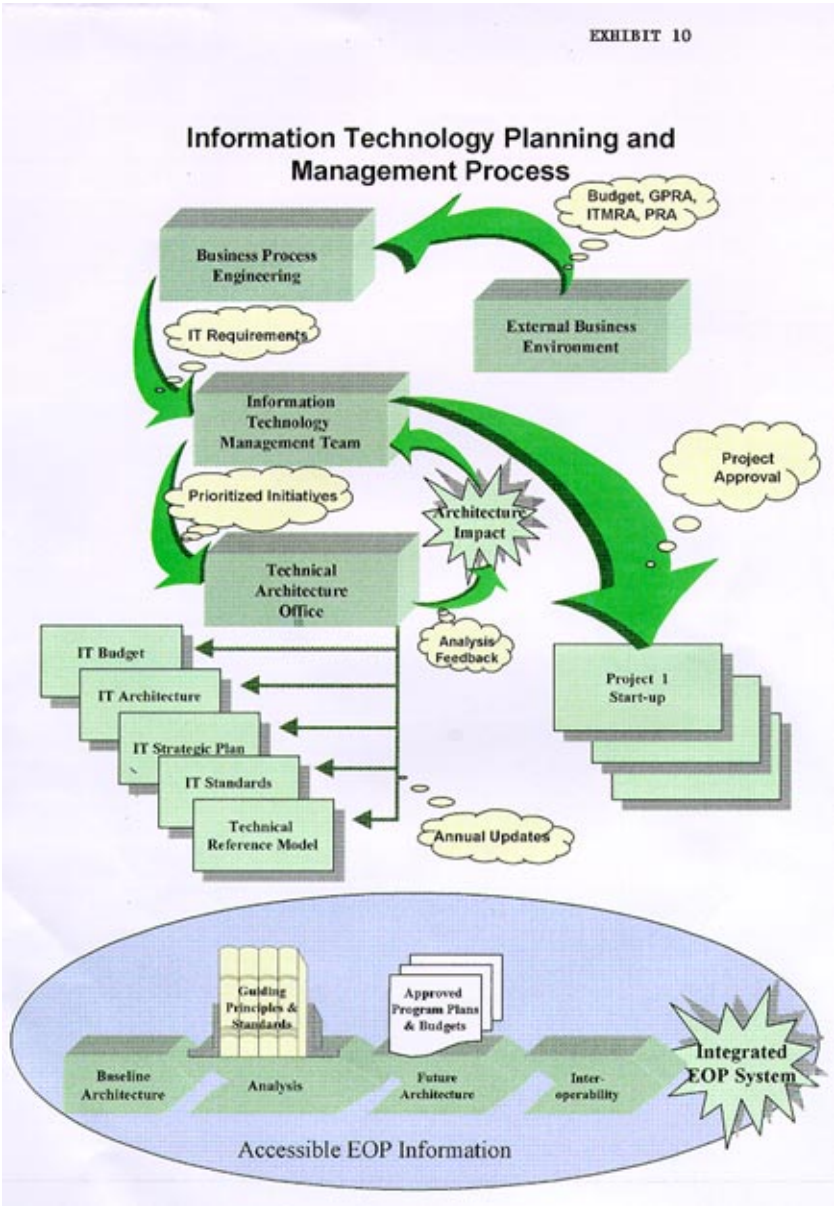
10. *Documentation:* WHCA will maintain a complete file of all cost and service reports, all written requests for services, and detailed cost support data.

11. *Reporting Requirements:* Each month WHCA will provide a report to WHO detailing monthly costs and services by each category of support.

12. *Management Controls:* Both WHCA and WHO will implement internal management control procedures to ensure resources are executed in full compliance with governing public laws and DOD policies and with a minimum of risk of fraud, waste, and abuse of these resources.

13. *Approvals:* David J. Kelley, Lieutenant General, Director, Defense Information Systems Agency; John R. Dankowski, White House Office.

EXHIBIT 10



TREASURY AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1999

THURSDAY, MAY 14, 1998

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:40 a.m., in room SD–192, Dirksen Senate Office Building, Hon. Ben Nighthorse Campbell (chairman) presiding.

Present: Senators Campbell, Faircloth, and Kohl.

DEPARTMENT OF THE TREASURY

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

STATEMENTS OF:
JOHN W. MAGAW, DIRECTOR
GALE ROSSIDES, ASSISTANT DIRECTOR, TRAINING AND PROFESSIONAL DEVELOPMENT

NONDEPARTMENTAL WITNESSES

STATEMENTS OF:
EDWARD N. KONDRACKI, CHIEF, LA CROSSE POLICE DEPARTMENT, LA CROSSE, WI
CHIEF DEPUTY SHERIFF CUYLER WINDHAM, CUMBERLAND COUNTY SHERIFF'S OFFICE, FAYETTEVILLE, NC

OPENING REMARKS

Senator CAMPBELL. Good morning. The Treasury Subcommittee will be in session. I apologize for being a little late. We have a bunch of conflicts today, the usual set of circumstances here, as my Senator colleagues know.

Today we will learn more about a program sponsored by the Bureau of Alcohol, Tobacco and Firearms [ATF] to help States and local communities educate our youngsters about alternatives to gangs. Unfortunately, gang activity has increased in our country in recent years. The ATF has developed a program to give our children the tools they need to be able to resist the temptation to belong to a gang.

The Gang Resistance Education and Training [GREAT] Program is only 6 years old, but has already grown from a pilot program in Arizona to classrooms all over the United States. There are GREAT programs now in Puerto Rico, Canada, and overseas military bases.

I certainly want to thank the ATF for responding to this subcommittee's recommendation that they expand the GREAT Pro-

gram into Indian country where there's been an increase steadily in gang activity over the past 10 years.

The ATF estimates that about 1 million children are receiving GREAT training. According to the National Institute of Justice, the GREAT Program is having a positive effect on student activities and behaviors and is deterring them from involvement in gangs. As a side benefit of that program, of course, the graduates seem to be doing a better job in communicating with their parents, their teachers, and getting better grades.

Last year, Congress appropriated $13 million for the GREAT Program, $2 million more than the President requested. Of that, $10 million goes to State and local agencies in the form of grants to assist them in providing the offices and the officers to conduct this training in local classrooms.

With us this morning are John Magaw—nice to see you, Mr. Magaw—Director of the ATF, along with Gale Rossides, the ATF Assistant Director for Training and Professional Development. They will tell us more about the GREAT Program and how local communities can participate.

We will also hear from Edward Kondracki, the Chief of the La Crosse, Wisconsin Police Department. The chief has been involved in the GREAT Program for a number of years and can speak from firsthand experience on how well the program works.

In addition, Chief Deputy Sheriff Cuyler Windham of the Cumberland County, NC, Sheriff's Office will express his interest and desire that the GREAT Program be expanded into his area.

And last, but most certainly not least, we will have an opportunity to listen to youngsters who have graduated from the GREAT programs and some of their instructors, too. I will introduce them as they come to the second panel. I also would like to acknowledge that we have many visitors, including parents and supporters of these youngsters, in our audience today and we certainly welcome them here, too, and thank them for the support they have given to our law enforcement agencies and certainly the youngsters themselves.

We will also, although they will not be a panel, I understand we have a GREAT class here from the city of Baltimore with four of their instructors and we welcome you to this hearing, too.

With that, I yield to Senator Kohl for an opening statement.

STATEMENT OF SENATOR KOHL

Senator KOHL. Thank you, Mr. Chairman, for your continued appreciation for and commitment to crime prevention programs. We have worked hard in the past to preserve these programs and to educate our colleagues about the value of a balanced anticrime strategy. I look forward to working closely with you again this year to give prevention the investment it deserves, both through the GREAT Program and the Commerce, Justice, State, and judiciary bill.

I would like to take this opportunity to welcome our guests from La Crosse, WI, who have come to share their GREAT experiences with us today. I especially want to thank La Crosse Police Chief Ed Kondracki for joining us today. Chief Kondracki is to be com-

mended for his work to combat youth violence in the La Crosse area.

Chief Kondracki is a strong supporter of boys' and girls' clubs, and 2 years ago, we created a new community police center. It is unique because the building that now houses community policing programs is a former warehouse that was used for various criminal activities in the past.

There is no better example of how you can turn a neighborhood around and make a difference in the community. We know La Crosse is a potential candidate for consideration as a future Midwest training facility. Given the success of their efforts, I urge members of the decisionmaking committee to reward La Crosse for their work.

Just a few brief points about GREAT. First, it sends the right message: Stop gang violence. It is the type of violence that intentionally separates children from their parents at a time in their lives which demands the closeness and patience of parental guidance. It is the type of violence that creates gun-toting 10-year-old children, quick on the draw, and showing no remorse when they kill.

It is the type of violence that has spread beyond our big cities to smaller areas like La Crosse and Green Bay, WI, and the Menomonee Indian Reservation in northeastern Wisconsin.

Second, GREAT uses the right messenger, law enforcement officers themselves who often tell us, "We need more prevention." Through their enthusiastic participation in GREAT, they put their words into action.

And third, GREAT works. Preliminary studies show that it reduces delinquency, gang membership, and drug use. These ongoing evaluations provide a good model for further investments in prevention that are both responsible and worthwhile. Mr. Chairman, programs like GREAT add balance to ATF's mission.

I look forward to hearing about GREAT's accomplishments and what we can do to support it in the future. Thank you, Mr. Chairman.

Senator CAMPBELL. Thank you. Senator Faircloth.

STATEMENT OF SENATOR FAIRCLOTH

Senator FAIRCLOTH. Thank you, Mr. Chairman, for holding this hearing. I think it is necessary to hold it because the GREAT Program is a wonderful proactive program designed to discourage our young people from becoming involved in gangs.

Surveys show that violence in our schools is the No. 1 education-related concern, and we have shown that we have been losing the war on school violence. Just last month, the Washington Post reported that nearly twice as many teenagers reported gangs in their schools in 1995 as they did in 1989, a 50-percent increase, when no increase is acceptable.

School administrators from my home State have found that gangs and violence go hand-in-hand. When the young couple gangs and violence with drug use and weapons, we have a total formula for disaster. An example of this was the shooting in Jonesboro, AR. A 13-year-old who was accused of shooting down four students and a teacher was said to have belonged to a so-called blood gang,

which clearly indicates this is not a problem confined to the major cities. You cannot get much rural than Jonesboro, AR. So it is all over.

Fortunately, programs like the GREAT Program have educated our children about the perils of gangs and offer alternative ways to resolve conflicts rather than through violence. Four communities in North Carolina, my home State, have participated in GREAT so far, Asheville, Winston-Salem, Wilmington, and Salisbury. I commend them for their leadership in the area.

Some may say that small involvement in the GREAT Program means there is little gang activity in their State. I believe we should not wait until there is evidence of a gang before we start using GREAT in a school district. We must continue to be proactive and educate our young people about the dangers of gangs. If we wait until there is a problem, it is too late. We could be facing the Arkansas-type situation.

Thank you, Mr. Chairman. I would also like to recognize Deputy Cuyler Windham from Fayetteville, NC, who is testifying here today. I welcome him here and look forward to his testimony and that also of the other members testifying. Cuyler, thank you for being here.

Mr. WINDHAM. Thank you, Senator.

Senator CAMPBELL. With that, we will start in the order that I introduced you with Director Magaw first and Gale Rossides second, Chief Kondracki and Sheriff Windham last. John, go ahead.

STATEMENT OF JOHN W. MAGAW

Mr. MAGAW. Mr. Chairman, I appreciate the opportunity to discuss the merits of our school-based gang prevention program known as GREAT. With me is our Assistant Director for the Office of Training and Professional Development, Gale Rossides, whose office oversees the GREAT Program within ATF.

We will be very short in our comments because the most important witnesses are the young people and their instructors.

Since the inception of the GREAT Program in 1991, over 3,300 police officers from over 1,400 agencies have been trained to teach the core curriculum in the classroom. These uniformed officers have taught well over 1 million children in 50 states, the District of Columbia, Puerto Rico, and Guam. They have taught America's children about the critical concepts of gang resistance, successful conflict resolution, self-esteem, dealing with peer pressures, and quality of life expectations.

There is a GREAT national policy board which consists of the police chief in Phoenix, AZ; the Director of the Federal Enforcement Training Center; and the Director of ATF. We have recently expanded that national board to include the sheriff of Orange County, FL; the police commissioner of Philadelphia, PA; and the chief of police in Portland, OR. As Senator Kohl referred, we will be adding a Midwest representative at our meeting next month in Phoenix.

These agencies will set up and administer regional training sites while bringing added value to our national policy considerations because of the variation of their cities' size and population. This composition will better service the expansion needs of areas all over the country.

The board also actively seeks relationships with organizations that are already in position such as the boys' and girls' clubs, the Boy Scouts of America, the National Youth Sports Program, the Police Athletic League, and I could go on with others.

GREAT offers a meaningful opportunity to literally save lives, the life of the young person who may be at risk of going down the wrong path, if you will, and the lives of his or her potential victims.

Researchers at the University of Nebraska have studied the effectiveness of GREAT among 5,900 children in 11 communities. Their preliminary results indicate that the graduates of GREAT show lower levels of delinquency and risk-taking behavior and higher levels of self-esteem, perceived educational opportunities, of antigang attitudes.

In a continuing effort to verify that this program is doing what we think it is, the study is continuing now on a longitudinal basis.

The men and women of ATF are proud of our association with the students of GREAT and the law enforcement officers who make the program work. Mr. Chairman, that concludes my statement. Assistant Director Rossides also has a short statement.

PREPARED STATEMENT

Senator CAMPBELL. Thank you, Mr. Magaw. We will insert your prepared statement in the hearing record.

[The statement follows:]

PREPARED STATEMENT OF JOHN W. MAGAW

Mr. Chairman, permit me to thank you and the distinguished Members of this Subcommittee for the consistent support you have provided the Gang Resistance Education and Training Program, known as GREAT, and for the present opportunity to discuss the merits of this school-based gang prevention initiative.

With me is our Assistant Director for the Office of Training and Professional Development, Ms. Gale Rossides, whose office oversees the GREAT program for ATF.

Since the inception of GREAT in 1991, over 3,300 police officers from over 1,400 agencies have been trained to teach the core curriculum in the classroom.

These uniformed officers have taught well over one million children in 50 States, the District of Columbia, Puerto Rico, and Guam—the critical concepts of gang resistance, successful conflict resolution, self-esteem, dealing with peer pressure, and quality of life expectations.

During this fiscal year, ATF is funding 33 law enforcement agencies that previously did not receive Federal assistance for GREAT. This funding was made possible by the $2 million added by Congress for direct support of local GREAT programs.

GREAT's National Policy Board, consisting of the Police Chief of the Phoenix, Arizona Police Department, the Director of the Federal Law Enforcement Training Center, and the Director of ATF—has recently expanded to include the Sheriff of Orange County, Florida; the Police Commissioner in Philadelphia, Pennsylvania; and the Chief of Police in Portland, Oregon.

We will be adding a Mid-West representative as well.

These agencies will set up and administer regional training sites while bringing added value to national policy considerations for the program. This composition will better service the needs of all areas of the country.

The Board also actively seeks relationships with organizations such as the Boys and Girls Club, the Boy Scouts of America, the National Youth Sports Program, and the Police Athletic League.

Additionally, we have created a National Quality Assistance Network to ensure the continued integrity of GREAT; and created an Internet-based Clearinghouse to provide a single source for assistance and referral.

GREAT offers a meaningful opportunity to literally save lives—the life of the young person who may be at risk of going down the wrong path—and the lives of his or her potential victims.

Researchers at the University of Nebraska studied the effectiveness of GREAT among 5,935 children in 11 communities. Their preliminary results indicated that the graduates of GREAT show lower levels of delinquency and lower levels of risk-taking behavior—and higher levels of self-esteem, perceived educational opportunities, and anti-gang attitudes.

In a continuing effort to verify the data and results, the study is continuing on a longitudinal basis.

AFT takes great pride in our association with the graduates and officers present today and the many more fine individuals they represent.

Mr. Chairman, that concludes my statement. Ms. Rossides will now present a brief history and discuss the curriculum and how it is managed. Thank you.

STATEMENT OF GALE ROSSIDES

Senator CAMPBELL. Gale, if you'd like to proceed?

Ms. ROSSIDES. Good morning. The Gang Resistance Education and Training Program began as a partnership between local law enforcement and ATF who developed the nine-lesson middle school curriculum. Since then, a shorter third and fourth and fifth and sixth grade curriculum, as well as a summer component, have been developed.

The program involves training officers to become successful classroom instructors. The instructional format for the officers' training provides a spirit of cooperation from modeling each lesson of the curriculum and requires officers to present a lesson through the use of role plays and group exercises.

Some of the topics that the students are presented include an introduction which allows a student to develop a rapport with the officer and learn about the program, and other topics, including crime and victims, cultural sensitivity, conflict resolution, and goal-setting. Each lesson builds upon the previous lesson and reinforces the concepts of reducing gang involvement and youth violence.

For a moment, I will describe some of the structure in managing the program. The national policy board sets the overall direction for the program. Then below that body is the national training committee. Each agency board member has a subordinate assigned to this committee who meets to deal with the day-to-day issues involved in the operation of the GREAT training.

ATF's roles include the responsibility for managing the cooperative agreements to fund local communities and pay for the evaluation of the program and the delivery of officer trainings. GREAT is designed to strengthen the effectiveness of its classroom lessons at the end of the school year.

With cooperation from the community, parents, law enforcement agencies, we supplement the GREAT curriculum with a summer program. In addition to a well-rounded and structured environment during the summer, the children enjoy recreational games, outings, and community service projects.

In summary, the success of the GREAT Program is founded on the mutual commitment of law enforcement and education agencies who unite to provide children with accurate knowledge about gang involvement, to provide them with the skills necessary to resolve conflicts peacefully, and to understand the need to set goals.

The dedication of the parents, the police, and the school agencies is an essential part to the program's success, and the Bureau and its partners are thoroughly committed to this program. Again, I

thank you for the support that you've provided for the GREAT Program.

We would like to show you an excerpt of a video taken in a classroom setting. It is an excerpt of a role-play exercise. The GREAT officer is actually playing the role of the student and the student is acting as the principal. At the end, a student in the class summarizes his experiences with GREAT.

Following this panel, it will be our pleasure to have you hear from the officers and students who have traveled here to give testimony about their GREAT experiences.

[Videotape played.]

Senator CAMPBELL. I know that did not show the whole thing, but because of time constraints, we would like to spend a little more time with the youngsters when they have their panel, so we will just end with that part of the presentation.

Ms. ROSSIDES. Thank you.

Senator CAMPBELL. Did you have further comments, Gale?

Ms. ROSSIDES. No, sir; I did not.

PREPARED STATEMENT

Senator CAMPBELL. Thank you, Ms. Rossides. We will insert your prepared statement in the hearing record.

[The statement follows:]

PREPARED STATEMENT OF GALE D. ROSSIDES

Thank you Director Magaw. Good morning, Mr. Chairman and members of the Subcommittee.

The Gang Resistance Education and Training (GREAT) program began in fiscal year 1992 as a partnership between police officers and ATF special agents, who developed a nine-lesson middle school curriculum, with the goal of reducing gang involvement and youth violence. Since then, a shorter third/fourth and fifth/sixth grade curriculum, as well as a summer component, have been developed.

The GREAT Program helps children become responsible members of their communities. The Program involves training officers to become successful classroom instructors by ensuring a supportive learning environment that causes students to become enthusiastic.

The instructional format for the officers' training provides a spirit of cooperation for modeling each lesson of the curriculum and requires officers to present a lesson which is the keystone to the Program's success. Other strengths of the training program include its use of role-play technique and group exercises.

Now, let me review briefly some of the topics that are presented to the students.

The first class is an Introduction, which allows the students to become acquainted with the program and the officer. Other classes include: "Crime/Victims" which covers the impact that crime has on victims and neighborhoods; "Cultural Sensitivity" is where students examine their own cultures and learn to appreciate cultural differences and how they impact the community; "Conflict Resolution" is taught as a six-step process in two sessions; and "Goal Setting" encourages students to realize the importance of setting goals in life.

Each lesson builds upon the previous lesson and reinforces the concepts of reducing gang involvement and youth violence.

Now, let me describe the structure of the Program and how it is managed.

The National Policy Board meets to review recommendations and set the direction of the program. Below that body is the National Training Committee. Each agency board member has a subordinate assigned to this Committee who meets to deal with the day-to-day issues regarding GREAT Officer Training, the curriculum, and the effectiveness of the program.

ATF's roles include responsibility for managing Cooperative Agreements that serve to fund communities; and we pay for the evaluation of the program and the delivery of officer trainings.

GREAT is designed to strengthen the effectiveness of its classroom lessons at the end of the school year. In cooperation with the community, law enforcement agen-

cies can supplement the GREAT curriculum with a summer Program. In addition to a well-rounded and structured environment, youth enjoy recreational games, outings and community service projects.

In summary, the success of the GREAT Program is founded on the mutual commitment of law enforcement and education agencies to unite in common goals: To provide children with accurate knowledge about gang involvement; to provide children with the skills necessary to resolve conflicts peacefully; and to understand the need to set goals.

The dedication of the police and school agencies is an essential ingredient to the Program's success. The Bureau and its partners are thoroughly committed to this innovative, comprehensive gang and violence prevention program.

Again, thank you for the support that you have provided for the GREAT Program. Now, we will show you an excerpt of a video taken in a classroom setting for a role-play exercise. The GREAT Officer is playing the role of the student and the student is acting as the principal. At the end, a student summarizes his GREAT experience.

Following this panel, it will be our privilege to have you hear from the officers and students who have traveled here to give testimony about their experiences with GREAT.

STATEMENT OF EDWARD N. KONDRACKI

Senator CAMPBELL. OK. Chief, if you would like to proceed?

Mr. KONDRACKI. Senator Campbell, members of the subcommittee, Senator Kohl and Senator Faircloth——

Senator FAIRCLOTH. Chief, if you don't mind, would you pull the microphone a little closer to you?

Mr. KONDRACKI. All right.

Senator FAIRCLOTH. Thank you.

Mr. KONDRACKI. Thank you for this opportunity to talk to you about this important issue of gangs. As you could see in the film and the comments by the young man, gangs, drugs, and violence are a concern to our young people in our classrooms across the country.

I have had the opportunity to be the chief of police in the city of La Crosse for the last 5 years, and that is a city of 53,000 people. We have 94 sworn police officers. Prior to that, I spent 28 years in the city of Milwaukee Police Department, which is the 10th largest municipal police agency in the country, employs 2,800 employees, and polices a community of about 1 million.

I also teach community policing around the country for Northwestern University and I have taught police administration at Marquette University. All of this has given me the opportunity to personally see the gang situation evolve both in large and small communities.

What I have seen is quite disturbing. The Office of Juvenile Justice Assistance predicts that if current trends continue, violent crime by young people is expected to double in this country by the year 2010.

After 33 years in policing in both medium and large-sized police departments, I am convinced that any effort to reverse this disturbing trend requires a partnership between schools, the police, the community, parents working together. I have provided you with a handout of the city of La Crosse's gang strategy and in it, it emphasizes community, education, alternatives, and enforcement.

Enforcement is only one-quarter of our strategy since we feel that that is about how much time we spend enforcing the law and we need to look at the other aspects of a communitywide approach.

The GREAT Program is a cornerstone of the city of La Crosse's antigang strategy. It is that kind of a program. We call it community policing. Community policing is sweeping the country. The GREAT Program truly differs from any other program that I have had the occasion to see.

It has three major components. One is a parent component. The other is a school component. It pertains to a classroom curriculum. The third component is a summer program. In La Crosse, we are providing 300 students each day for 5 weeks with an alternative opportunity. We are addressing parents through our Another Way Program.

Senators, I can tell you that parents, with tears streaking down their faces, have told me that they have never seen a program as effective as the three components of GREAT when they are working together.

In our community, we saw a 45-percent increase in juvenile arrests over the course of 3 years. We saw a 15 percent annual increase in juvenile arrests. I am happy to say that since the beginning of the GREAT Program, we have reversed that trend and, in fact, arrests have begun to decline.

We have been involved in GREAT now since 1994. We have also noticed that the number of young people who claim to be gang members in La Crosse has gone down. We have seen the presence of graffiti, which is considered the most obvious sign of gang activity, decrease in our city. We have also seen gang-related shootings decrease in our city.

After teaching community policing around the country for the last 10 years, I have never seen a more effective program than the GREAT Program. I am concerned, however. I am concerned about the fact that only 5 percent of the police departments in the United States employ more than 100 employees. That means that 95 percent of the police departments in our country have less than 100 police officers, most have less than 50, and many have less than 10.

Policing in the United States is about small agencies. What we are seeing is a migration of gangs. The national trend is for gangs to move from larger communities to smaller communities. They are doing it primarily to escape crime. The irony is that many families moving to cities like La Crosse and other small and medium-sized communities are bringing young people with them who have already been integrated into the gang philosophy.

Our challenge then for the 95 percent of our smaller agencies is to see to it that we address that gang philosophy and mentality early on. I believe that is why we have been as successful as we have in La Crosse.

I applaud Director Magaw of the ATF and his staff for their leadership. Without the GREAT Program and without their leadership, none of this, I believe, would be possible.

I would like to take this opportunity to encourage you to expand funding for the GREAT Program. There is no more cost-effective program. When we consider the $33 billion that has been set aside in the crime bill, I think we need to be more proactive in funding programs like GREAT. The ATF needs sufficient funding to assist police agencies of all sizes across our country.

We can reverse this trend, the trend toward youth violence. GREAT is already doing it. Now we need to bring this program to every community, large and small, in the country.

Senators, at times, I feel a little bit like a voice crying in the wilderness, if you will. My message is a simple one. Community policing works. GREAT is community policing at its best. The challenge to law enforcement nationally is that of meeting increased demands with limited and often diminishing resources.

I would encourage you to fund this program so that police agencies of every size can bring the GREAT Program to their communities, and that is only possible by increasing the amount of funding that is going to ATF and the GREAT Program. Thank you.

Senator CAMPBELL. Thank you. Sheriff, if you would like to continue.

STATEMENT OF CUYLER WINDHAM

Mr. WINDHAM. Thank you, Mr. Chairman, Senator Faircloth, Senator Kohl. I am here today to basically ask that funding be allowed so my department can continue the school program that we have. In Cumberland County, NC, we are basically charged with protecting the schools. We have the school resource officers and we also teach DARE in the schools.

About 2 years ago, we started trying to identify if we had a gang problem. Much to our amazement, we determined we had 25 to 30 different types of gangs in our county. Some of these are small community gangs. Some of them refer to nationally known gangs such as the Crips and the Bloods I think everybody has heard about.

They may belong to them or they may not. It does not make any difference if they are gang members or if they are wanna-be gang members. We refer to people that do not belong to a national gang a lot of times as wanna-bes. But if they consider themselves a part of a gang or if they consider themselves a local gang and if they hurt somebody or they kill somebody, you are just as dead as if they belonged to the Crips and the Bloods.

So we have set out to try to do something about gang activity in our county. The people that we have assigned to the schools, we do not have the GREAT Program at this point, but the officers that we have assigned to our schools have come to us, the sheriff who is here today supporting this, and myself as the chief deputy and asked us to try to get some training in GREAT. That is our intention in the future.

Now, you have before you, I think, some photographs of gang graffiti that we have taken in the county. Some of it is on the streets and some of it are actually from the schools, high schools, and middle schools. You also have before you a paper that was put out February 27, 1998, by one of the schools in our county.

One of the things that kind of touches on me from this paper and in this paper, on the last page, they refer to interviewing an individual by the name of T.C. T.C. says, "I feel people are safer when they are in gangs than they do when they are on their own or in their own family. I also feel that a gang is a real family, look out for each other."

Unfortunately, that is what we are finding a lot when we are studying the gang problem in our county. A lot of the young people feel like they are safer. They feel like they have more of a family with gangs than they do at home and that is why they are turning to gangs.

That is why I think the GREAT Program would be such a great program for us in trying to teach the young people to stay away from gangs and the dangers of gangs. I have one other thing I'll mention.

On February 6 of this year, of 1998, we received a letter to Sheriff Butler, and it is addressed, "Dear Sheriff Butler"—and this is a letter pertaining to a gang that we know that operates in our county.

I am writing this letter seeking help for families living—

And I am going to leave out names and addresses.

Living on a certain street in our county. On Sunday, May 3, 1998, I was visiting my mother. She lives with another daughter who is her caretaker. Mama is bedridden. She is recovering from a recent heart attack.

About 3:30 p.m. Sunday, the phone rang. It was a neighbor calling and was telling me that a group of young white male skinheads had come to her home on a certain street and terrorized her family by spray-painting devil symbols on the trees in her yard and throwing handfuls of white powder dust in her front yard.

We were not physically harmed and they moved on. Just as I was telling the nature of the phone call is when we heard what sounded like a platoon of soldiers. We looked out the front window and saw three white male skinheads running through Mama's front yard. They were wearing white short-sleeved shirts and white t-shirts and dark trousers.

They were all clean-cut and wore no hats or no disguises. The men did not come to the door nor harm us. One threw a handful of what appeared to be white powder dust in the driveway in front of Mama's cars. They did not damage the two cars parked in the yard. They were moving real fast.

The next few minutes, they left Mama's house and had gone down the driveway to another road. There two men sprayed white painted signs on the shoulder of the road by Mama's mailbox in white spray paint. The signs by the mailbox look like this.

And she gives in this letter a symbol that is for skinheads.

The symbol drawn on the pavement near the mailbox looked like this.

Which is also another one.

They did not stop there. They kept going on to another street.

The point I want to make with this letter is, I do not know if these people belong to national skinheads or whether they are just wanna-bes in our community, but this lady says in this letter, "We were terrified. When we dialed 911, the phone operator asked several questions," and so forth.

But she made a point in this letter. "Sheriff Butler, I am counting on you and your deputies to come out and talk with myself," and she gives names, "and the other God-fearing people who live in that neighborhood of Cumberland County. I will testify in court when you find these young men and charge them that terrified our community and bring them to court for defacing our property."

Again, I just point out the fact that how terrorizing gangs are becoming. I know we read a lot about it in a lot of the larger areas. Our county is approximately 300,000 people. We are about 30 miles down the road from Senator Faircloth.

Basically, I am here to point out that we have a problem. We think GREAT would be a good program for us to integrate with our DARE Program and our school resource officers to try to teach the young people to stay out of the gang situation. I thank you very much for being here today.

PREPARED STATEMENT

Senator CAMPBELL. Thank you, Mr. Windham. We will insert your prepared statement in the hearing record.

[The statement follows:]

PREPARED STATEMENT OF CUYLER L. WINDHAM, SR.

GANGS IN THE CUMBERLAND COUNTY AREA

In the Cumberland County North Carolina area, gangs are loosely organized. Some are part of larger structures known as Gangster Disciples, which are networked nationwide. But, most are loosely knit groups with several leaders. Most of them are non-traditional gangs and "wanna-be's", however, these gangs are the hardest to track because of their untraditional behavior. These gangs change their gang name and rules. They do not pattern their conduct to the gangs that we are aware of, such as the "Crips", "Bloods", "People", and "Folk Nations", et cetera. That's what makes it difficult to work gangs in our area. We have crimes committed that we're sure are gang related, however it is difficult to prove.

The spread of gangs in our area can be attributed to at least four factors. First, parents desiring to protect their gang-culture-saturated children from the hometown gang's influence, send them to reside with relatives across the country. Occasionally this strategy works, but many times it merely transplants the gang culture into a new community. Secondly, contributing to the gang activity in Cumberland County is Fort Bragg, with its numerous military transfers from all over the country into our area. As a result, Cumberland County ends up with gang members from other areas who start their gang activity here. Children who were introduced into the gang lifestyle by association, end up starting gangs or gang "wanna-be's" in our area. The third contributing factor would be the illegal drug market, this being due to the fact that we are easily accessible from I–95 and I–40. Drugs, weapons and stolen property are the biggest moneymaker for gangs. Fourth, the news media, movies and music industries contribute largely to the gang problem in our area as well as throughout the nation.

Graffiti is one of the first signs of gang activity. Cumberland County has located gang style graffiti on walls in our high schools, middle schools, on businesses, streets, and vacated buildings. Gang style graffiti has also been discovered in many of our neighborhoods. The neighborhoods which have been targeted are primarily low and middle income areas. The gang graffiti helps us identify different gangs, their territory and their rivals. In some cases gang graffiti has enabled us to know what a particular gang has done or is planning to do. Gang graffiti often times shows gang members by their monikers or nicknames. This occasionally aids us in identifying various gang members. The graffiti that has been discovered in the Cumberland County area, which includes Fort Bragg, Fayetteville, Hope Mills, Spring Lake, Stedman and the townships of Linden, Godwin, and Falcon has enabled us to identify "Crip" sets, "Blood" sets, "Latin Kings", "Gangsters" "Disciples", "LaFamilia", and other non-traditional gangs which associate themselves with the "Folk Nation" and "People Nation".

Some communication by gang members is done through graffiti, hand signs or signals, tattoos, various colored bandannas, phonic alphabet, and by the use of gang slang terms.

There are many identifiers of gang affiliation. For example, clothing, colors, hand signs, and tattoos. All of these gang identifiers have been found in the Cumberland County area, in our schools, on the streets and in our neighborhoods.

Gangs are creating problems in many of our neighborhoods by illegal drug sales, damage to property, assaults, personal robberies, break-in's, larcenies and intimidation of residents.

Several of our schools are experiencing problems with suspected and self-admitted gang members. The problems that most often occur are trespassing, assaults, intimidations, defacing school property and disruption of school functions.

Most of the "wanna-be" gang members hang out at our skating rinks, Putt-Putt Miniature Golf Courses, shopping malls and shopping center parking lots. The hard-

core gang members hang around streets and street corners of known or suspected illegal drug dealing areas in our county. Mobile home parks also experience problems related to gang activity.

Several of the homicides committed in Cumberland County have had numerous reported gang members as possible suspects. Fort Bragg Military Police have made drug related arrests where the suspects were gang affiliated. They have confiscated drugs, weapons and vehicles on several occasions. There have been assaults, larcenies, robberies, home invasions, drive and walk-by shootings that were believed to be drug related, however "street talk" has given credit to these offenses being gang related. It is difficult to obtain information on the hard-core gangs because of the code of silence and unfortunately, citizens are fearful of giving information to law enforcement on these gangs. Hard core gang members would rather go to jail for a crime they didn't commit, rather than tell on anyone from their gang. Within the last year, we have noticed a behavior change in most of our gangs. Their behavior has turned more low-key, in order not to attract attention to themselves. This allows them to conduct their business without interference from law enforcement. We believe that this behavior change is due to the fact that gang members from larger known gang affiliated cities are educating our local gangs.

Numerous street gangs have been identified in Cumberland County through information received by other law enforcement agencies, the local community, and self-admitted gang members. Those gangs identified are as follows:

Gangster Disciples	The Brownside Bloods	Skinheads
Black Gangster Disciples	Insane 60's	The Seabrook Bloods
Eight Trey Gangsters	Eight Ball Nation	Frats
21st Street Crips	Folk	Latin 57
212 Crips	Hoover 107	Blue Devil 64
Rollin 60's	Locos Latinos	Little Mafia
East Side Crips	Evergreen Posse	Insane Gangster Disciples
Deep Creek Road Boys	Bloods	Crips
West Side	Village Green Posse	Sunset Posse
LaFamilia	Hoover 8 Ball	Hell's Angels
Old Shaw Crips	Hoover Gangster Crips	Outlaws
Latin Kings	Vice Lords	
Deuces	Folk Nation	

We have encountered numerous juveniles who have branded themselves with gang related symbols by using coat hangers or wire. They formed the design with the material, heated the metal, and then burned the design into their skin. Some have homemade tattoos. Information has been received from some parents and self-admitted members about severe "beat-ins". "Beat-ins" are used in most gangs to initiate new persons into the gang, however, there are reported cases where females are sexed into the gang to avoid beatings. There are other ways to obtain gang membership. Occasionally, gangs may require persons interested in gang membership to commit a crime of the gang's choosing in order to become a member.

Not all gangs are involved in drug trafficking and violence. Some steal vehicles and other items to make money for the gang.

The Cumberland County Gang Intervention Unit works closely with the Fayetteville and Hope Mills Police Departments and military authorities to identify gang activity in the Cumberland County area. Presently we are working with the Violent Crimes Task Force in the attempt to target the larger gangs at work in our area.

CHARACTERISTICS OF THE GREAT PROGRAM

Senator CAMPBELL. Thank you, all of you. I have a couple of questions. I am sure my colleagues do, too.

Chief, I was looking through this book, as all of us were, and I was really interested in some of the facts and descriptions. Let me just read a couple things that I just jotted down while I was looking through that book and listening to testimony.

If we were to describe a group of people that had regular meetings; that had stable leadership with some adults involved; that paid dues; mostly males; had a similar language; they had a similar dress code, including colors, in parentheses; they had similar interests; they were involved in that group for recognition or stature or love or understanding or respect or so on, we could be describing

Boy Scouts or we could be describing a football team or something of that nature, but we are describing gangs.

Clearly, one has a positive image and one has a negative image and it is, I guess, all our duty as Americans to try to substitute the positive for the negative in terms of leadership and uniform, all that kind of stuff.

I would just be interested in your feedback from that observation, that there are so many similarities between good groups when you are trying to define criteria or characteristics, and bad groups.

Mr. KONDRACKI. Senator, one of the three components of our GREAT Program is the Another Way Program, and that is designed to involve parents and it is also an effort to get kids out of gangs. It is reactive. We hear so much today about proactive programs and other ways designed to help those kids who are already in gangs.

One of the ways that program evolved is when one of our gang officers, frankly, said he had a dream. He said he dreamt that he heard a gang organizer attracting young people by promising them that they would have safety, that they would have respect, and that they would have love. He said, "You know, why can't we do the same thing?" Unfortunately, kids join gangs for all the right reasons. That is, those are very positive things you have pointed out.

GREAT tends to fill the gap as an extended family. The Eisenhower Commission pointed out that the causes of crime were a breakdown in the family, a breakdown in employment, and a breakdown in the neighborhoods. If that is true, GREAT is filling a void by operating as an extended family and by helping to teach kids the self-respect and the problemsolving skills and giving them the peer recognition that they so much need, but however, in a very positive, positive way.

One of the people you are going to hear today, Sue Yang, who is one of our GREAT graduates, will tell you personally how her participation completely reversed her life for her and how positive GREAT has been in her particular situation.

Senator CAMPBELL. Well, the reason I mentioned that is because you do not know me and my background, but I can tell you that the kids who are going to be testifying, I was one of those youngsters, high school dropout on the streets running with bad groups that ended up in reformatories and so on.

It was because of sports and a number of other positive replacement symbols and activities, I think I got my life straightened out. So I know it can be done, except it certainly has to come from adult leadership and community involvement.

I noticed also in your book you mentioned some of the groups that you work with, NYSP, DARE, and so on. Does your police department also work with the Police Athletic League? It was not listed in here.

Mr. KONDRACKI. We did in Milwaukee. We find that the National Youth Sports Program in our community is addressing those very same kinds of issues, and what we are doing, through a partnership with the University of Wisconsin in La Crosse, we are reaching out to some 300 at-risk kids for a 5-week period every single day during the summer.

I think that the Police Athletic League is a very important program and I am happy to say, though, that the National Youth Sports Program is filling that void in our community.

FUNDING CRITERIA

Senator CAMPBELL. Thank you. Director Magaw, any positive program gets more and more requests to expand it with certain justification. We appropriated $10 million last year for grants to communities who need to participate in GREAT. Will that amount be sufficient to meet all the criteria of participation and requests?

Mr. MAGAW. Well, it is growing so fast, Mr. Chairman, that those funds do not meet the requests. We had 198 requests from cities all over America and we have been able to fund 33 additional of those.

Senator CAMPBELL. This was 198 additional requests?

Mr. MAGAW. Yes; and we were able to fund 33 additional ones over the ones last year. We fund 107 programs right now, but that leaves 165 of those requests that we were unable to fund.

Senator CAMPBELL. It is really unfortunate that we do not see the bigger picture of those community activities that we cannot fund for those youngsters, some day we may be funding more in terms of prison cells. I know you have a feeling about that, as Senator Kohl and I both.

The ATF has established criteria for who want to receive these Federal funds so they can offer the GREAT training. Apparently it talks about percentage of subcategories, scores, and so on. What does that mean in simple, laymen's terms?

Mr. MAGAW. Well, 4 years ago when I came to ATF, Mr. Chairman, there really were no criteria, and this is our first cut at criteria to try to be fair across the country with the limited amount of resources. How many gang members do you have in relationship to your population? What do you say the gang problem is? These forms are filled out by the communities that come in.

We attach points to each one of the particular areas of judgment, and then when those points are totaled up, depending on the number of points, is the amount of funds that can be allotted to that community under these criteria. Every community that applied, the 198 that applied, a certain amount of funds were, by using this criteria, approved, but at 33, we ran out of money.

GREAT INSTRUCTORS

Senator CAMPBELL. We will try to help with that. When you look for people that participate as instructors, officers/instructors, do you look for a certain kind of an individual? Is it just basically screened from volunteers that want to do that, or do you go out and try and recruit special people that you think would have a sensitivity to youngsters and an ability to work with them?

Mr. MAGAW. There is so much interest in the communities, for instance, in your State of Colorado, the Colorado State Patrol. There is more interest in their ranks, there is way more interest than they have slots to fill, and the quality of those instructors coming out of there.

Not all who enter the program pass this instructor program, and so, there is a filtering at the department level, for instance, the

Colorado State Patrol, and then when they come to the training program, there is additional filtering.

There is a double filtering in the actual training program and that filtering is, No. 1, let's say you had four or five Colorado State patrolmen in there and one was not measuring up, they would then take care of that usually themselves; otherwise, the program would take care of it. I just use that example with the Colorado State officers.

Senator CAMPBELL. For the instructor officers, is it part of the requirement that they live in the area where they are instructing?

Mr. MAGAW. That is up to the individual communities. For instance, if you would take Portland, OR, for example, the chief there felt that this program was so important that he gave up more officers to the training program than he could really afford.

What he does now is he works them 2 months in a particular school doing the training program, and then the two units rotate. A group comes in off the street in that same community and comes into the school, so that when they see these youngsters on the street, they not only see them in the classroom, they then see them on the street.

In the videotape that you just saw, the officer had a jacket on, but underneath that was his Prince George's County, MD, uniform, and that is so important to have these youngsters see that a police officer is warm, they are caring.

Senator CAMPBELL. I think it would be important not only to see them in a structured classroom, but off duty or at least outside of that classroom, too, as a working human being.

Mr. MAGAW. The closest to that that I am specifically aware of is Portland, OR.

Senator CAMPBELL. Thank you. Senator Kohl, did you have some questions?

FISCAL YEAR 1999 REQUEST

Senator KOHL. Thank you, Mr. Chairman. Director Magaw, in fiscal year 1998, the GREAT Program received $3 million for administrative expenses and $10 million for dispersements through grants to local governments for the GREAT Program. Director Magaw, what is being requested for fiscal year 1999?

Mr. MAGAW. In 1999, the funding of the budget that is in there now is $10 million in grants and $3 million in the administrative costs. The total for 1999 is $15 million. It was $15 million and it was reduced at OMB by $2 million.

Senator KOHL. Well, as I understand it, in 1998, the program got $13 million, $3 million for administrative expenses and $10 million for dispersements. For 1999, is it the same number or are you requesting more?

Mr. MAGAW. In 1999, we requested $2 million more. And again, Senator, it is not what this program needs, but in a budget year where the whole government is trying to reduce and trying to have a practical application, I only put forward what I think I have an opportunity to receive under the circumstances.

We increased it by $2 million for 1999 and that was rejected. But my initial response is I would ask for $40 or $45 million, but I

know the end result, so I try to be practical so that the rest of my budget is accepted as being practical.

YOUTH GUN CRIME INTERDICTION

Senator KOHL. All right. Director Magaw, I also want to take a moment to ask about another program targeting youth violence that is yielding some solid results. Yesterday, 13 indictments were handed down in Milwaukee against individuals allegedly involved in setting up nearly $1 million in drug deals.

The accused are members of a Los Angeles-based street gang with operatives in Milwaukee. What is interesting about these indictments is that they stem from joint work by the ATF and the Milwaukee Police Department through a Federal program, the youth gun crime interdiction initiative. This program has used Federal resources to help local police track guns to their source and, in this case, led to further charges against these individuals.

Director Magaw, I would like to hear your perspective on this program and how do you think it is working in Milwaukee and throughout the United States? How do you think we can replicate these types of success stories like we had in Wisconsin yesterday?

Mr. MAGAW. I think the secret, Senator, is the combined coordination and that is what has happened here in Milwaukee, not only with the Milwaukee Police Department, but the surrounding communities and counties. Also, the gun dealer in Milwaukee suspected that something was wrong here in this initial purchase last August, called ATF.

We immediately involved the local police departments, started an investigation, and it went from Milwaukee to Los Angeles to Winston-Salem, NC, to Minneapolis to San Diego to Utah, and drugs were being transported throughout that segment of the country and then dispersed even more there.

As you know, just a day or two ago, there were a number of arrests made all over the country at the same time. All of our agents all across the country go into local law enforcement and say, "How can we help?"

We understand that that is our charge from not only the Senate, but also the House. So this is how these cases are made, bringing the best of all resources together and that is what has happened here in the communications networks with ATF and other agencies.

ATF was able to be helpful with the national net of communication to help tie it together from California to Utah to North Carolina and that is where we think our expertise is helpful and that is where we try to spend our resources.

PARENTAL INVOLVEMENT

Senator KOHL. All right, thank you. Ms. Rossides, I would like you to describe the nature of parental involvement, the extent to which there is parental involvement, how they learn, how they participate, and what kind of an impact they have on the GREAT Program.

Ms. ROSSIDES. Well, the involvement of the parents is an essential part of the success of the program and from the beginning, the officers who are going to teach in the particular class spend time,

as an orientation, with the parents, telling them exactly what the program is going to cover.

They actually involve the parents in a lot of the homework. The homework gets the children in touch with their families, their extended families, their community issues, and the parents are encouraged to participate in those.

At any given time, the parents are welcomed in the classroom to observe. They participate in the graduation and it really is a total involvement of the parent, even siblings for some of the children, even siblings are with the children today.

Senator KOHL. You say they participate in graduation. What is the length of this program?

Ms. ROSSIDES. It is 9 weeks and then the graduation is usually—each community does it differently, but it is held as a real celebration.

Senator KOHL. How much time is spent during these 9 weeks?

Ms. ROSSIDES. The classroom session is usually 1 hour and that——

Senator KOHL. One hour a week?

Ms. ROSSIDES. Right, while they are in the school classroom.

Senator KOHL. And it is taught by a police officer?

Ms. ROSSIDES. That is right.

Senator KOHL. The same police officer throughout the 9 weeks?

Ms. ROSSIDES. Yes.

GREAT PROGRAM ACCOMPLISHMENTS

Senator KOHL. Chief Kondracki, would you state once again why you think the GREAT Program is successful, why you think it deserves our funding? Have you had an opportunity to check back with graduates of the GREAT Program to confirm your conviction that it is a program that deserves our continuing funding?

Mr. KONDRACKI. Senator Kohl, we have seen a drastic reduction in gang activity in La Crosse, and two of our students are here, two of the graduates, to talk personally with their own testimonials about that success. When I entered law enforcement in 1965, my father had spent 33 years with the Milwaukee Police Department and had retired as a police captain.

We talked about the hazards of policing. In 1965, you could not remember when the last police officer had been killed. Today you cannot remember all their names. I think as we look at Law Enforcement Memorial Day, that we have to remember how gangs and drugs and violence have played into that escalation.

When I came to La Crosse, they had never heard of a drive-by shooting. We have experienced those drive-by shootings and, frankly, they have been reduced with the inception of GREAT. We have funded our program in part through a grant from the Office of Refugee Resettlement and that grant is running out.

Frankly, I think the more appropriate source of funding would be the crime bill. As our grant from the Refugee Resettlement runs out, I am concerned that we are going to lose our program. We have done bake sales and chile cookoffs and everything like that.

When I hear Director Magaw mention that if the world could be the way you would want it, that $40 or $45 million would fund this kind of program nationally, I think, if I can be so bold as to state

that $40 or $45 million, I believe, is a drop in the bucket, with all due respect, when we look at the $33 billion set aside for the crime bill.

As a practitioner who has been in the field for 33 years, I cannot tell you how cost effective it is and the direct results that we are seeing from GREAT. It is community policing at its best, so I would urge you to consider whatever funding possible so that every community can combat this problem.

To fight gangs only in the large communities when we see this migration, by dealing with it in the surrounding communities, we can stop its spread. It is like fighting a forest fire. You prevent the spread of it and ultimately put out the fire.

Senator KOHL. Thank you. Thank you, Chief Kondracki. Thank you, Mr. Chairman.

Senator CAMPBELL. Senator Faircloth.

DISSEMINATION OF INFORMATION TO THE SCHOOLS

Senator FAIRCLOTH. Thank you, Mr. Chairman. Mr. Magaw, how are we disseminating the information to the schools so they can become a part of the GREAT Program? How can schools find out about it and are they finding out about it? How do we do it?

Mr. MAGAW. I think there are probably very few schools throughout the country that are not aware of it, and basically it is spread by local law enforcement, and through national conferences that the ATF attends for both educators and law enforcement officers.

So that is the way it is spread. We do not have a national advertisement program. We do have some booklets that we put out and we send them to the different States and the communities, but we have done no major videotapes that are sent to all the schools and law enforcement agencies.

The reason that we are now just expanding and want to expand to all regions of the country is that only, in the last 2 years, has the program begun to get the kind of support throughout the country that it should.

It was a brand new program. We wanted to test phase it. We wanted to make sure that it did work. We wanted universities to study it and look at it. So it is really right now to the point where it is ready to explode throughout the country. In order to be prepared to handle that, should the Congress approve such expansion, we expanded our GREAT board to represent all the regions of the country.

GREAT PROGRAM IN NORTH CAROLINA

Senator FAIRCLOTH. I notice there were only four towns in North Carolina that were participating and I was just wondering if they were aware of what it could do and what it might do.

Mr. MAGAW. The sheriff may be better able to answer that question.

Senator FAIRCLOTH. Sheriff, how did you all find out about it?

Mr. WINDHAM. Senator, we have known about the GREAT Program for, I do not know, 2 or 3 or 4 years. One of the problems we had and probably the way some of the other departments look at it also, is that we already have programs in the schools, the

DARE Program and the school resource officer, which ties up a pretty good percentage of our manpower.

Until recently, I did not realize that we could use those officers to also teach this program, and I think most of us were looking at the fact that we just did not have the manpower to institute new programs. But the 1 hour a week, we hope, can be taught by that school resource officer who is in the school for a full schoolday every day, unless he really has a busy schedule, and we hope that he or she will be able to teach 1 hour a week to teach the GREAT Program.

Our problem now is finding the funding to send these people away somewhere to get them trained. The original training center, I think for the Southeastern United States, is in Orlando, FL. So we have probably got, if we try to institute it in all of our high schools and middle schools, 25 to 30 people that we are going to have to have trained, or either we are going to have to try to bring the training to Fayetteville.

Senator FAIRCLOTH. Thank you, Mr. Chairman. I see my time is up.

Senator CAMPBELL. I thank you and appreciate this panel being here. John, nice to see you again.

Mr. MAGAW. Nice to see you, sir. Thank you.

NONDEPARTMENTAL WITNESSES

STATEMENTS OF:

SARAH MARIE BARAY, STERLING, CO
SGT. SCOTT FRIEND, COLORADO STATE PATROL, STERLING, CO
OFFICER WILL BAKER, MESA COUNTY SHERIFF, GRAND JUNCTION, CO
JOSH HALBERT, GRAND JUNCTION, CO
OFFICER ROGER BARNES, LA CROSSE POLICE DEPARTMENT, LA CROSSE, WI
SUSAN YANG, LA CROSSE, WI
CHRISTOPHER HENDERSON, LA CROSSE, WI
SGT. DAREN SIMEONA, NAVAJO INDIAN TRIBAL POLICE, WILLOW ROCK, AZ
GABRIEL TOWNE, WILLOW ROCK, AZ
BERNELL YAZZIE, WILLOW ROCK, AZ

INTRODUCTION OF WITNESSES

Senator CAMPBELL. We will now hear from our stars of the day. The second panel will be comprised of Sarah Marie Baray of Sterling, CO, along with Sergeant Scott Friend of the Colorado State Police. We will hear from Josh Halbert of Grand Junction, CO, with Officer Will Baker of the Mesa County Sheriff's Office.

We will hear from Susan Yang and Christopher Henderson of La Crosse, WI, and Officer Roger Barnes of the La Crosse Police Department. We will hear from Gabriel Towne and Bernell Yazzie of Willow Rock, AZ, along with Sgt. Daren Simeona of the Navajo Indian Tribal Police. I thank you for appearing. You might have to pull a few more chairs up there. Please do that and then we will proceed.

We are very happy to see you youngsters and the officers, too, today. I happen to be a person who believes that you can do anything you want in America if you are inclined to believe in it. For you youngsters, this may be your first time visiting Washington, probably the first time visiting the Senate.

You may not know how it works, but I think I can speak for all of the Senators on this panel. We were not born Senators. We come from many, many different lifestyles and different kinds of childhoods. Mine, as some of my friends know, was not too good.

I want to tell you of a poem I learned when I was 18 years old when I decided I did not want any more trouble with the law. That poem has stuck me with me since I was 18, Senator, and it goes like this. "Young people, as you pass by, as you are now so once was I. As I am now, so you shall be. Prepare your path and follow me."

And it means if you see things that you think that you may not have a chance of ever becoming, maybe a police officer, maybe a teacher, maybe a college instructor or a scientist, you can do it. You can do it. If you are really concerned and you really want to, you

can do it with the help of the adults that are sitting behind you there at the panel. I know you can do it.

Let's start first with Sarah Marie Baray and we will just proceed and I will call your name and if you would like to go ahead and make a statement, do not be uncomfortable. We do have a little bit of a time limit because we are supposed to be out of here by noon and we want to ask you some questions, too. So, Sarah, if you would go ahead? You need to pull that microphone right over in front of you and speak directly into the microphone.

STATEMENT OF SARAH MARIE BARAY

Ms. BARAY. Dear Senators. My name is Sarah Baray and I am 14 years of age and I live in Sterling, CO. I have lived in this rural community all my life.

Senator CAMPBELL. Pull it over a little closer, please, Sarah.

Ms. BARAY. I am sorry. I am glad I had the chance to be a part of the GREAT Program. When I started this class in March, Sergeant Friend noticed my name, Baray. The sergeant knew some history about my family. Some of my cousins and family members do not have the best reputation in my community and I felt embarrassed.

This program made me think about the right choices I need to make for myself and I know I want a good reputation in my community. The main thing I learned from the GREAT Program was about choosing good friends and knowing when to think for myself. During class, Sergeant Friend set up situations where we would have to decide if we were faced with a problem.

We practiced working out problems and came up with different steps to use if somebody asked us to do something wrong. It also helped me learn how to choose friends and what to look for in a person. I am learning to choose friends that are better for me to be hanging around with.

I think I could use the steps I learned from the GREAT Program because I could use the methods when I get into a problem. I can work myself through the steps of the GREAT Program and make the right choice. As I get these steps in my head, I think I could teach my family and friends to make the right choices.

The program needs to continue because other students need to learn what we have learned. All the students need to learn to make the right choices. Thank you.

Senator CAMPBELL. Sergeant Friend, I think I did that in reverse. I think I was supposed to call on you first, but nevertheless, we are glad you are here. Go ahead and if you have some comments, make them.

STATEMENT OF SCOTT FRIEND

Sergeant FRIEND. Good morning, Senators. The Colorado State Patrol is fairly new to the GREAT Program. Under the direction of my chief, Colonel Westfall, we started about a year ago and have built our program to 28 instructors statewide. Our program is a partnership with seven law enforcement agencies.

This year we will teach between 5,000 and 6,000 children this GREAT curriculum. I was instrumental in getting GREAT started within our organization and was given the opportunity to coordi-

nate it statewide. From the onset, I was impressed with the GREAT Program. I listened to the overview of GREAT from the Bureau of Alcohol, Tobacco and Firearms and I knew the Colorado State Patrol needed to be involved.

Even more strongly, I felt a personal calling to do this program. I called around the United States and talked with current GREAT instructors and tried to learn all that I could. I was increasingly impressed with GREAT the more I investigated. I was ecstatic the day I learned that the Colorado State Patrol was receiving funding.

I would like to tell you about what GREAT has done for our officers, for our agencies, for our communities, and most of all, for our youth. First of all, what are the benefits to the law enforcement officer?

The officer goes through 2 weeks of instructor training. He is taught the art of instruction, classroom management, public speaking, and numerous other essentials that ensure every officer's success in the classroom. The most important gift taught to an officer is the feeling he can make a difference in a child's life.

The officer is graduated from the instructor's school and he leaves there feeling truly empowered. He knows that what he has can and will make a difference in the life of someone's daughter, someone's brother, someone's neighbor. No longer do our officers only react and respond to calls for service when they are on duty. Now they have an opportunity to make a difference on the front end to help prevent problems before they occur in our communities.

Essentially what we have done is given officers another weapon, one that they do not wear on their belts. The teachers in Sterling, where I am from, recognize now the impact the GREAT Program wields. It was not always this way. Before we started to teach, the middle school teachers were reluctant to give up their precious teaching time to another program.

We were only allowed into the seventh grade. By the time we were halfway done, however, the sixth and eighth grade teachers were begging us to teach their students, also. This is how it is all over Colorado. The demand for this curriculum in the classroom is far greater than what our few instructors can provide.

What has GREAT done for law enforcement agencies? GREAT has put us back in touch with our communities. The problems our society faces, the devastation of youth violence and drug abuse are just that. They are society's problems. They are not just law enforcement's problems.

This program has given various law enforcement agencies the opportunity to build partnerships with each other, with schools, with businesses, and with the community as a whole. We take advantage of every opportunity to give an overview of the program to civic organizations, businesses, and others. GREAT shows the community that law enforcement officers truly do care and that they are willing to invest their hearts and souls in leaders of tomorrow.

How has GREAT helped our communities? From almost the first days of our country's history, our strength has come from our cultural diversity. It is only when we recognize and embrace this belief that our communities can live up to their potential.

GREAT enables the students to see the constructive power that can come from embracing cultural diversity and the destructive

power that can come from prejudice. What better way to bring our communities together than teach the benefits of diversity.

Even though the GREAT Program is just finishing up its first year in Sterling, CO, we have already seen an impact on crime. One surprising statistic is that vandalism is down by 34 percent the first quarter of 1998. It is, however, the individual who stands to gain the most from the GREAT Program. This program has so much to offer. Who among us does not need to have the skills of conflict resolution or goal-setting? I doubt there is anyone here today who has not had to use these skills on a daily basis, and yet, so many of our youth do not possess these skills.

GREAT teaches them the necessary skills to resolve the inevitable conflicts that they will encounter. It is only by overcoming the hurdles of conflict that they can then go on to the empowering skill of goal-setting. GREAT helps the individual take a look at his life's dream and assists him in striving for and reaching that dream.

I can personally attest to the incredible feeling that comes when I have seen a student come alive with hope when he knows that his life dream is attainable. It is that hope, that hope of something better, something more, something higher that keeps us reaching. Hope is our society's bridge to a brighter tomorrow.

If we stop teaching GREAT today, I can honestly say that we have made a difference and that we have been a success. I have brought along with me a student to whom I have taught the program. Her name is Sarah Baray. I do not have enough time to tell you Sarah's story, but she has been here to tell you what the GREAT Program has given her. There are thousands of other Sarah's out there and if GREAT can help Sarah, it can help others, too.

When we look back 25 years from now, it will not matter what car we drove or how much money was in our bank accounts. What will matter is that we have made a difference in a child's life. I know the GREAT Program can accomplish this. Thank you so much for this opportunity.

Senator CAMPBELL. Thank you, Sergeant. Very nice statement. We will go to Officer Baker of the Mesa County Sheriff's Department before we hear from his student. You will have to pull that microphone over pretty close to you, Officer Baker.

Before you start, I did want to introduce the group that is in our audience. I did earlier, but they had a late bus and they did not get here. Will all the youngsters from the Baltimore GREAT class wearing the green T-shirts stand up so you can be recognized? [Applause.]

We are very happy you are here. Officer Baker.

STATEMENT OF WILL BAKER

Mr. BAKER. Thank you, Senator. I would like to start by thanking the members of the Senate that are present today, the Bureau of Alcohol, Tobacco and Firearms, the Colorado State Patrol, and the Mesa County Sheriff's Department for allowing me to come to Washington, DC, to speak in this forum.

My name is Will Baker and I have been a deputy with the Mesa County Sheriff's Department for about 2 years. I have been a cer-

tified GREAT instructor for about 6 months, and as of June 1, I will have graduated 400 students from the GREAT Program.

When I was first approached with the opportunity to teach the GREAT Program, I jumped at the chance. It fit in really well with what I was doing in the school district. I grew up in the Denver area around the time that gang involvement got really high, so I had a fascination with gangs.

I have also always wanted to teach and I have been doing workshops for teachers in School District 51 in Grand Junction. After one of the workshops, I was approached by one of the teachers about presenting the information to students. I was really tentative about doing that because I wanted to be sure that if I went into the classroom, that I had information for the students that was not going to make gangs even more appealing.

Shortly after talking to those teachers, I was approached by one of my administrators about the prospect of being involved with the GREAT Program. He told me that it was a school-based program and that it puts uniformed officers in the classroom. Well, that was all I needed to know to get me interested.

When I went to the training, I was blown away. I was sold on the program for three reasons. No. 1, it is proactive in nature; No. 2, it can work in any school; and No. 3, it reinforces positive skills without stressing negatives.

In my opinion, juvenile intervention is the single-most proactive policing effort that a law enforcement officer can be involved in. The GREAT Program promotes juvenile intervention and puts cops and kids together. It helps bridge the large gap between kids and the police which can be blamed on a number of things including negative law enforcement contacts and the media's portrayal of law enforcement.

Whenever I start teaching in a new school, this negativity is very apparent. I hear things from the kids like, "Take me to jail," "arrest me," "shoot me," not things like, "Thanks for driving around my neighborhood last night," or "thanks for finding my little brother."

This is because these kids see cops in a negative light on TV and when they do have law enforcement contact, it is because of the nature of the job and usually someone has been taken from their home or possibly from their neighborhood.

When I first went into the school that I am teaching at right now, I got a good idea about this negativity. The first day I taught the first half of the school. Then when lunch came around, I bought a school lunch and sat down at the table with a group of fourth graders. I did not know any of the kids at the table and I did not have any of them in class at the time.

There was a group of four of them at the table and when I sat down, all but one of them said, "Hi," and that one kid just stared at me. As we started to eat, the kids began to make small talk with me, asking about why I was at the school and asking me about things on my duty belt. The one kid just continued to stare at me. After a few minutes, I asked him if he was OK. He just looked at me and said, "I'm shaking."

I looked at him and I could see that he was visibly shaking. He was holding his hand out. I asked him, "Well, why are you shak-

ing?" He said, "Because I have never been this close to a cop without being in trouble." I told him, "I am just here to hang out, maybe teach you something." I remember thinking to myself, "A fourth grader should not feel that way about law enforcement."

This same kid is getting ready to graduate in 2 weeks from my fourth grade curriculum class. He is one of the most talkative kids in the class, and I guarantee you, when I got into the lunchroom, he is waving, he is waving me over to sit with him. Those are the kind of things I am talking about. I am sure each and every one of the officers that are here and the officers from Baltimore can attest to the same thing.

The second reason I support the GREAT Program is because I feel that it can work in any school whether it is a rural area or any inner-city area with lots of gang problems. This program fits. The GREAT Program teaches lessons that anyone can use to be successful in life.

This can be seen just by looking at the names of some of the lessons: Cultural sensitivity, meeting basic needs, conflict resolution, goal-setting. These are all things that we use to get along with each other and to be successful in life. These skills provide students with the blueprints for being successful. They do have an advantage over ones who have not been through the program.

The third reason I support the program and I feel that it works is because the program reinforces positives without dwelling on negatives. The program does not glorify the ideas of crime and violence, but addresses them while also giving skills for dealing with these problems on their own. The program teaches positive alternatives to crime and violence.

In closing, the GREAT Program works for three reasons: Proactive juvenile intervention, it can work in any school, and it reinforces positives without stressing negatives. Thank you. I would like to introduce Josh Halbert. He is a seventh grader at Mount Garfield Middle School in Clifton, CO. Josh.

Senator CAMPBELL. Josh, go ahead. Pull that microphone directly over in front of you.

STATEMENT OF JOSH HALBERT

Mr. HALBERT. Senator, my name is Joshua Ryan Halbert. I am 14 years old and I am attending Mount Garfield Middle School in Clifton, CO. I have recently graduated from the Gang Resistance Education and Training Program, otherwise known as the GREAT Program.

Many of the problems that I see today are featured in this 9-week course. Problems like respecting others and confidence in yourself along with ideas like goal-setting and sticking with them were taught to me in seven lessons. The impact toward others, including myself, can be described in one word: Great.

Everything has a special meaning to each individual. Thoughts and ideas are kept easily, but only if the person is willing to learn. Conflict resolution in lesson four has six steps. These, I know for a fact, really work. These steps are: Identify the problem, what might happen, what are my choices, which is best, make that choice, and then evaluate afterward.

I am a conflict mediator for Mount Garfield Middle School. A conflict mediator is a person who tries to solve a quarrel before it ends up into a physical fight. These lessons from the GREAT Program have been very useful to me. I have now been able to get to the bottom of a lot of conflicts.

The lesson that I thought was most useful was lesson seven, responsibility. This lesson was shown effectively by a skit. The scenario was an adult posing as a kid who had skipped school. Four other kids were asked to join in the scenario posing as adults. Four kids were asked to take one of these four roles, a teacher, a principal, a parent, and a police officer.

Each adult asked the child why he had skipped school. In turn, the child would give a remark such as, "So, what do you care," or, "You're not my boss." In this lesson, I learned when an adult tries to do his or her job but a child refuses to listen to them, it becomes harder for the adult to show them the best way to avoid trouble.

Another lesson that has stuck with me is lesson five. This lesson is about meeting basic needs, which was again shown by using a skit. This time the entire class was involved. The way it was started was by a trooper asking all of us to come to the middle of the room.

He then proceeded by telling us that we were stuck on a desert island. There were no adults to supervise us. We were told that what we had was what was in our pockets and that we had to find a way off that island or we were all going to die.

From this lesson, I learned that we all have certain needs and leadership qualities. During this 9-week course, lesson three, cultural sensitivity, or lesson six, drugs in the neighborhood, have an important meaning to me.

In conclusion, I would like to thank the Senate, the Bureau of Alcohol, Tobacco and Firearms, and the Colorado State Patrol, and Mesa County Sheriff's Department for the chance to become aware of how my actions and those around me affect each other. I feel that this course is helping me today and will help me in whatever tomorrow brings. Also, that anyone who has the chance to go through this course can only better his or her opportunities in their lifetime. Thank you again.

Senator CAMPBELL. That is nice testimony, Josh. One time when I was your age, I had a teacher tell me I was a menace to society. Now here I am a U.S. Senator and some people are still telling me the same thing. [Laughter.]

I am glad you are here.

Officer Barnes, if you would like to proceed before we hear from your youngsters?

STATEMENT OF ROGER BARNES

Mr. BARNES. Thank you, Senators. Thank you for the opportunity to be here today, Senators. Although La Crosse, WI, is just a midsized community, we are not immune to the effects from gangs, drugs, and violence. I have been in the classroom for 9 years, the last 5 teaching the GREAT Program at both fourth and sixth grade.

I have also been working with approximately 250 to 300, 10- to 16-year-old at-risk students in our summer component where we

have partnered with the National Youth Sports Program and have called it the NYSP/GREAT summer component.

I can confidently report that we have made a difference in the lives of many young people and in our community. What sets GREAT apart from other programs is its emphasis on life skills, sense of community, cultural diversity, and the summer component. The facts and theories are learned in the classroom, but are practiced during the summer program.

This creates a community of young people who make good choices, embrace diversity, and return back to the community. This is reflected in the fact that juvenile referrals declined anywhere from 7 to 28 percent during our summer component, according to our human services department.

The fact that the students have fun is obviously evidenced by the increase of returnees each year, from 36 percent in 1994 to practically 50 percent in 1997. During the summer program in 1994, one of our projects involved painting over graffiti on public property. We had enough work for each of our six groups to spend an entire afternoon painting.

At one of our locations, we had several suspected gang members observing our activities. While our group took a break, the observers approached one of our officers and asked what was going on. He explained our goal and asked them if they'd like to help. They did so enthusiastically. That site, which previously had been a weekly target of graffiti, remained graffiti-free for over 1 year. Last year, we only had enough graffiti in the entire city for one group to paint.

Of all the life skills learned in GREAT, one of the most important is the decisionmaking processes taught in the conflict resolution lesson. Over the years, there have been many cases where students have told me they have been approached and pressured to join a gang, but having been armed with the decisionmaking skills learned in GREAT, they were able to stand firm.

I have also had students tell me that these skills have helped them make other important decisions regarding such things as use of tobacco, alcohol, or other drugs, early sexual activity, crime and violence.

I recently had a high school student that I had taught in elementary and middle school come up to me in the high school parking lot. I had not seen her in a couple of years, but she wanted to thank me for the lessons I had taught her. I asked what she remembered most and she quoted a statement that I use in most of my lessons: The choices you make today will affect your future in every way.

She said she got really sick and tired of hearing it in the classroom so much, but was really glad that she remembered it because it did help her avoid some disastrous decisions. These are just but a few examples of how GREAT makes a difference.

I have brought with me today two of my students, past students. I have with me Ms. Susan Yang, who is a sophomore at Central High School. She is a past graduate of the middle school curriculum. She is also a graduate of our summer curriculum and has returned as a junior counselor in our summer curriculum. I also have Mr. Chris Henderson, who is an eighth grade student at Lincoln

Middle School. He is a graduate of both the fourth and the middle school curriculum and he has been with our NYSP/GREAT summer component as well. Thank you, Senators.

Senator CAMPBELL. Susan, would you like to proceed?

STATEMENT OF SUSAN YANG

Ms. YANG. Nyob Zoo. That means hello in Hmong. First of all, I would like to thank you, Senators, for giving me this wonderful opportunity to come to Washington, DC, and speak to you for the benefit of other people. As a young Hmong woman, I have had to overcome many obstacles such as learning how to deal with living between two cultures, the Hmong culture and the American culture.

A lot of Hmong teenagers do not know how to deal with this problem, so they join gangs as a result of their confusion and loneliness in life. Some of them are now serving time for their unwise decisionmaking skills. But you see, Senators, because of the GREAT and NYSP Program, I did not choose that pathway for myself, but I was on the edge of choosing too.

Being around a lot of my Hmong friends, I extremely faced daily peer pressure, media pressure, and a lot of stress with myself for being the way they wanted me to be. I made many unwise choices in my life such as smoking, drinking, doing drugs, stealing, and running away from home.

It was due to those tough experiences that the GREAT and NYSP Program really helped me change my life for the better. GREAT was the light of the dark, lonely, and long tunnel in my life. But that light was only the beginning for the change in my pathway to the future.

The director of the NYSP and GREAT Program called me out of the blue one day and asked me if I would be a junior counselor for the GREAT and NYSP summer program. I thought to myself, "Why would they want me as a junior counselor? Am I even worthy to have kids look up to me after all the unwise decisions that I made in my life?"

That great wonderful opportunity in itself was a turning point in my life. The GREAT and NYSP Program reemphasized all the reasons why one should stay away from drugs and one should stay away from gangs, and the dangers around them and the dangers of being around with them and the strength to resist them.

I know that the time spent in the classroom is small compared to the hours kids spend with their peers and that is why I believe a combination of programs and continued contact with the kids is so important. From my experience, the knowledge learned from the GREAT and NYSP/GREAT Program really helped me make better and wiser choices in my life, but that was after I made mistakes.

Without this knowledge ever, I may have not realized my mistakes until too late. Failure is a seed to success. I know I have turned all my mistakes into a strong point with the help of GREAT and that in itself is a great success to me.

Again, I would like to thank all of you, Senators, for graciously giving me this wonderful opportunity to benefit the lives of our future, the youth, and I would like to especially thank God for blessing me with this life and helping and benefiting others for the bet-

ter. If you really care about the future of the youth, then I believe you can do this by supporting the GREAT Program.

I would like to leave you with a thought. If you can touch the life of just one youth, you can make a big difference in the future, our youth.

Senator CAMPBELL. Thank you, Susan, very nice. Christopher.

STATEMENT OF CHRISTOPHER HENDERSON

Mr. HENDERSON. Good morning, Senators. Thank you very much for the opportunity to be here today to share my GREAT experience with you. GREAT has been an important program for me and many of my friends in La Crosse. The GREAT Program has given me confidence in my decisionmaking skills. I feel good about myself when people ask me to smoke or drink and I can say no to them without worrying about what they will say.

I feel especially good about being able to make decisions about who my real friends are. I have learned that real friends accept me for who I am and what I do and respect me as an individual. I do not need gangs to tell me what to do and when to do something. I can make my own decisions.

GREAT has taught me how to recognize dangerous situations and how to avoid them. The combination of being able to recognize these dangerous situations and being able to make the right choices let me be my own person. Because I like sports so much and other recreational activities so much, I especially like the summer NYSP/GREAT program at the university.

It allows me to really do what I have learned in the classroom during the school year. I see that it is more than just reading books and listening to my teachers. The summer program lets me practice my decisionmaking skills in a safe and fun place.

If I were not in the summer program, I would not be making such good decisions. The summer program gets me involved with many new kids from other neighborhoods and kids from all different races and ethnic backgrounds. GREAT is important to me and my friends. If more GREAT programs were started, they could help other kids like me. This is a program that means something to me and helps me make decisions that are for a lifetime.

Thank you for letting me meet with you to talk about La Crosse, WI, and our NYSP/GREAT Program.

Senator CAMPBELL. Thank you for being here. Sergeant, did I pronounce that right?

Mr. SIMEONA. Yes, sir.

Senator CAMPBELL. Sergeant, if you would like to proceed before we hear from your youngsters?

STATEMENT OF DAREN SIMEONA

Mr. SIMEONA. Senators, thank you. I am honored to be here today. I have been teaching the GREAT Program for 2 years now in several different communities. I am a police officer with the Navajo Nation and I have been a police officer for 13 years.

I have graduated to date almost 2,000 students from the GREAT Program in different communities. This program has established a rapport between the police department, the students, and the schools. The students have really accepted the program with little

resistance. I believe that this program has given the native American kids a chance and reassurance that they can reach out and reach their goals and become someone.

Being that we are so far away from the big cities, we do not have the access that city kids do. We tend to be set apart thinking that we do not have the same problems, but we do. We have problems with gangs, drugs, alcohol, domestic violence, child abuse, child neglect, murder, assaults, accidents, broken families, child abandonment, and the list goes on and on, same as the big cities.

I truly believe that this program has given the native American kids and all kids reassurance that they can go out and become someone, someone special, someone important. I believe that we in law enforcement have neglected our part in educating the kids for over 10 years in the communities.

I believe that with programs like the GREAT Program, I have seen native American kids change their lives and they have started to work on their education, reestablishing the families, and setting their sights on their goals. The program has taught the students to establish, especially native American kids, the importance in our culture and why it is important to them.

Some students have gone back to their grandparents and talked about the tradition and where our ancestors came from, and most important, they have learned who they really are, native Americans. I have taken kids on trips, our students on trips, to watch professional teams play, the Phoenix Suns, and also the Arizona Cardinals.

Most of the Navajo kids have never been to special events such as these and were really impressed and enjoyed watching these professional athletes. We have helped kids raise money in high schools and we also have police officers that go out and do volunteer work at high schools teaching and coaching baseball.

I truly believe that the GREAT Program is very important to our children and that we cannot stop educating them and helping them. This is the only way that we can give our kids a chance in life and watch them blossom into prominent figures in our communities, by continually educating them and supporting them.

I believe that with having police officers teach this program, it has really changed our image among our kids. We no longer are looked on as the bad guys. We are looked at as the good guys. I know that the GREAT Program has been a great part in making a difference and without this program, our kids will fall into a life of trouble, gangs, and death, and we cannot let that happen.

I thank you very much for this time. I would like to introduce two of our GREAT student graduates from our program. The first one will be Gabriel Towne.

Senator CAMPBELL. Gabriel, just bring the microphone over real close and speak right into it.

STATEMENT OF GABRIEL TOWNE

Mr. TOWNE. Good morning, Senators. My name is Gabriel Towne. I am from Chinle, AZ. I am 12 years old. I recently graduated from the GREAT Program. The GREAT Program is one of the best programs I have learned. The program teaches kids why it is better to stay out of gangs.

The teacher is also funny, so kids do not want to miss GREAT. GREAT has also taught us about what we have to do to reach our goals, like a goal can be anything that helps people and yourselves. GREAT also teaches us about our culture, to be proud of what I am, how to respect people like the elderly, how to solve conflicts, the six steps, and basic needs like physical needs.

I feel that all of the lessons are important and I believe if we keep teaching the GREAT Program, we will have a better world. This program has made my life better and I know it has made other kids' lives better, too. Help save kids. Keep GREAT going. Thank you, Senators, for your time.

Senator CAMPBELL. Thank you. Bernell?

Mr. SIMEONA. Our next student is Bernell Yazzie.

STATEMENT OF BERNELL YAZZIE

Mr. YAZZIE. Good morning, Senators. My name is Bernell Yazzie. I am 15 years old and I am from the Navajo Reservation. It is a great honor to be here today. I took lessons from the GREAT Program, which was taught by Sergeant Simeona, and it helped me make the right choices. The GREAT Program educates younger kids from keeping them out of gangs and violent activities.

The program helps change the kids that had made the wrong choices, but now they enjoy learning and taking lessons from the GREAT Program. I myself almost made several wrong choices, but Mr. Simeona helped me make the right choices by giving me lessons from the GREAT Program.

On the reservation, there are gang-related activities that go on. There is graffiti on the walls, violence due to gangs, people claiming they are part of a gang. Chinle might be a small town in the middle of nowhere, but there are gangs actually out there. If the gangs and violence increase, it could become dangerous to the community.

I myself have friends in gangs, but they do not make my decisions for me. But if the program goes on and more GREAT officers were to teach, then maybe it would change their lives. So I kindly ask the Senate to keep the GREAT Program going because it could change a lot of the youth. Thank you.

Senator CAMPBELL. Thank you for your testimony. I noticed all of our officers today are in uniform. I assume that when you teach in schools, you are in the uniforms. I happen to think that is good because I think symbols are important and if people see the symbol of a uniform, the badge, in a positive manner, those youngsters are going to carry that image with them.

I guess there are some people that say, "Well, it is a form of stereotyping," but I think that is a positive stereotype. There are also some negative stereotypes from the type of dress and so on, too. I might mention a short story.

The officers from Colorado know that my favorite mode of transportation is two wheels rather than four, on a motorcycle. Most kids like motorcycles. Their mothers do not, but they do. A couple of years ago, I went on what is called a charity ride. We were raising money for the Children's Hospital in Colorado and there were probably 1,000 people on motorcycles, and you know how they dress. They tend to be dressed in leather and so on.

We did this fundraiser to raise money for the Children's Hospital. The State patrol officers that were assigned to us to lead the group so we would not be a traffic problem, went with us and while I was talking to them, they invited me to go to what they call a motorcycle police shootout. It is a motorcycle competition where all different departments are invited to participate and show their skills.

I think they do this all over the United States. So I said, "Great, I would really like to go see that," and we left the rest of the group and I went with the officers. There were four of them ahead of me and two of them behind me and we were going down the freeway in a close group and we passed a car. A guy rolled down the window and yelled at me through the window, "Too bad, buddy." [Laughter.]

You know what the stereotype was. I had just been booked, or something. But I mention that police activity because when I got there, there were a number of youngsters there, and I do not know who brought them, whether their parents did or who, but I got to thinking.

There are a lot of activities that police do in their own time. Perhaps they are with a mounted unit, as I was when I was in the sheriff's department, or something else, with different parade groups or boats or something that interest youngsters, too.

I kept thinking at the time, there must be some kind of a connection, I do not know, PAL or GREAT or something where youngsters can watch policemen when they are doing things that are a little less fun than the mundane stuff they have to do while they are on duty.

Do any of you participate in activities like that where there is a connection with the GREAT youngsters?

Mr. SIMEONA. In our department, I teach baseball at the high school and the kids, the students that are out there, they really appreciate seeing a police officer. Sometimes I have to go in my uniform and I go out there and help coach and participate with the kids and they really appreciate that. They like seeing the officers out there with them. Then they look at us as one of the team, one of the members.

So yes, there are many officers that are out there that do participate and volunteer their services to help a lot of kids.

Senator CAMPBELL. Being in uniform probably quells little league disputes, too.

Mr. SIMEONA. Yes. [Laughter.]

Senator CAMPBELL. Senator Kohl, did you have some questions you would like to ask these terrific youngsters or the officers?

Senator KOHL. Yes; well, like you, Senator Campbell, I am very impressed with the presentation this morning. It leads me to believe and conclude that the GREAT Program is a very important program in our country today, and that it is a program that all officers should have an opportunity to participate in; that the skills, the experience, the wisdom that you bring to the program, if it were replicated throughout our police systems across the country and then brought to the kids, would really make a big difference in the lives of our children, as it does on this small scale that we are now practicing it.

It could make an enormous difference in the lives and the futures of these young people. I am chagrined at the low level of funding that we put on the GREAT Program because where we put our dollars, to an extent, describes what kind of a society we are. We may not wish to believe that, but it is true.

When we send out $13 or $14 million for GREAT programs across the country, like it or not, what we are saying is that we do not think they are all that important and we have to take that upon ourselves and live with that and try and do something about it here to see to it that the GREAT programs are more fully funded.

Now, I do understand that in most cases, there are matching funds, aren't there, Chief Kondracki, or not at all?

Mr. KONDRACKI. We have no matching funds at all.

Senator KOHL. In other words, that $13 or $14 million, that is what the GREAT Program is funded at, no more, just that amount?

Mr. KONDRACKI. That is correct. Most cities that do not receive funding are doing bake sales and chile cookoffs.

Senator KOHL. OK. I really am impressed with the presentations this morning, particularly with the police officers and then, most especially, with the young people. I would like to ask you, Officer Barnes, to explain a little bit about the summer and National Youth Sports Program components of GREAT. How is the summer component funded? How do you describe the value of that summer program?

Mr. BARNES. As far as the funding goes, Senator, I would like to turn it over to Dr. Tymeson. However, I will address the other issue and that is what is the effectiveness of the program.

As I said in my testimony, we have lessons during the school year, but the students then get an opportunity to see us in a different setting. When we are at the summer program, we are in gray shorts and polo shirts and we are out there having fun with the kids. We are doing a lot of other things outside the classroom. It allows us to bond more with the students.

One story that comes to mind in particular, a couple years ago, we had a young man that I had in elementary school. He was living in foster care. He had been split up from his brother, who was in another foster care home, did not like that. He had been caring for his brother for a long, long time. He was the primary caregiver in the house, he in fifth grade.

He was having problems at his foster care, but he was having no problems at NYSP because he had bonded with all of our counselors. We have a very good student/counselor ratio, about a 4 or 5 to 1. This particular student got kicked out of foster care, basically, because the foster parents did not want him there anymore. They said, "We cannot handle this. We do not need the disruption in our life."

Human Services had no place to put this child. He was going to spend the next three nights in the juvenile detention center because there was no other place for him. One of the counselors said, "That is not right," and begged and pleaded and got emergency authorization for that child to come and stay with him.

That was the first time that any adult had ever reached out to that child in such a capacity and it has made a significant dif-

ference in his life. That is just one of many stories. The summer program puts into practice what we learn throughout the school year, the diversity, the giving back to the community, the making good choices, the working relationships, those types of skills.

Senator KOHL. Do you believe that the responsibilities of a law enforcement officer are equally important in law enforcement and in relating to young people? When you think about a police officer's important role in our society, that it is equally important that they do a good job of relating to the young people in their community as, in fact, providing on-the-job law enforcement?

Mr. BARNES. I am not so sure it is equally important. I actually think it is more important. The ability to communicate and relate, particularly with youth, is, I think, 85 to 90 percent of our job, is this communication. If we cannot do that, we cannot do the rest.

Senator KOHL. How much time is spent? In training for the GREAT Program, that is what that provides. I understand you have 94 police officers, is that right, in La Crosse?

Mr. BARNES. That is right.

Senator KOHL. How many of those police officers do we have the money to train in relating to young people?

Mr. BARNES. That I would have to refer——

Senator KOHL. What would you say, Chief Kondracki?

Mr. KONDRACKI. Well, Senator, we have nine officers trained and I think it is important to point out that we are not a funded agency.

Senator KOHL. So 9 out of 94 is all you have, is all you can afford to train?

Mr. KONDRACKI. That is correct.

Senator KOHL. Which is really a shame, truly a shame. Well, you have done a great job here, folks, and I think as a result of your appearing here, we will do a lot better in our responsibilities to you. We thank you all for coming and, young people, you have done a great job. Chief Kondracki, it is good to have you here. Senator Campbell, it has been a great hearing.

Senator CAMPBELL. Senator Kohl and I are of one mind, I think, when we recognize that we are not doing as good a job as we ought to, we gave $10 million. That was in the budget last year for grants, $10 million to be spread clear across the United States. It is my understanding that to build a new prison from the ground up, a startup prison, costs about $1 million a cell.

So in other words, we have a choice: Ten cells or that $10 million for all those youngsters. It just seems to me that the money is much more wisely used to put it into those youngsters. I also understand it is about $26,000 a year cost to incarcerate now in the penitentiaries, depending on whether it is the State or Federal level. That does not include property loss, trauma, pain, suffering in a hospital and all those things. It is just the upkeep of keeping somebody warehoused in a prison.

We know that we have a long way to go in getting ahead of the curve, not only from the standpoint of what is best for the country, but from a cost-efficiency standpoint, too. We certainly appreciate you being here to give some first-hand testimony on how it has worked for you and we certainly appreciate our youngsters for

being here, too, and we look forward to watching you grow to be healthy, productive, good citizens.

We usually keep these records open for about 2 weeks. If you have anything you want to add, any letters of support, anything of that nature, you are welcome to turn those in and we will include those in the record. Do you have anything further you want to add before we close the hearing? Yes, sir.

Mr. BAKER. I just have one thing that I wanted to add. You stressed the importance of alternative programs, especially in your own life, sports programs and so forth. Well, there is part of the GREAT curriculum which identifies the difference between a club, a positive program, and a gang, a negative program. I just wanted you to be aware of that.

Senator CAMPBELL. Great. Josh?

Mr. HALBERT. I have with me some letters that all say the same thing. The GREAT Program has helped them throughout my core, which is in my school. We go by cores instead of classes.

Senator CAMPBELL. All right.

Mr. HALBERT. There are 1,800 in school.

Senator CAMPBELL. If you will leave those letters with us, give them to us, we will make sure that they are included in the hearing record as testimony. Thank you.

[The information follows:]

LETTER FROM JASMINE HERRE

495 APPLEBLOSSOM ROAD,
GRAND JUNCTION, CO 81504,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Avenue, Washington, DC.

To Whom It May Concern:

My seventh grade classes at my school had a great opportunity to be in the GREAT program.

This program should keep coming to our school because it is a really good learning experience. I learned how to stay out of gangs and things happening around gangs and what to do if I am face to face with a gang member.

Sincerely,

JASMINE HERRE.

LETTER FROM ZACH KAREUS

3222 D½ ROAD, APT. #103,
CLIFTON, CO 81520,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

I had the chance to participate in the GREAT program, and it taught me a lot.

This program taught me the dangers of gangs and drugs. It made me think about how being in a gang or doing drugs can affect my whole life. It also helped me deal with anger. The program helped me with dealing with bad situations and how to trust others. It helped me with communicating.

Sincerely,

ZACH KAREUS.

LETTER FROM ASHLEY SEIBERT

3072 GROSBEAK CT.,
GRAND JUNCTION, CO 81504,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

We have had a very great opportunity to be able to have the GREAT program come to our school.

The GREAT program taught me how to set goals, how to say no, it helped me take care of my problems, and how to trust people.

Thank you!

Sincerely,

ASHLEY SEIBERT.

LETTER FROM CORE DILBA

468½ SEMINOLE CT.,
GRAND JUNCTION, CO 81504,
May 7, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

I think people should fund the GREAT Program (Gang Resistance Education And Training) because it shows kids the problem with gangs.

Everybody chooses to ignore the rising gang problem, but now there is a program to prevent gang and gang members, this is called the GREAT Program. It shows the ups and downs of gangs. Believe me there are a lot more downs than ups. GREAT also teaches people how to say, "NO" to gangs, drugs, violence, stealing, and other gang related activities. GREAT also shows kids why gang and gang members are a problem.

That is why I think the GREAT Program should remain in our schools. Thank you for your time.

Sincerely,

CORE DILBA.

LETTER FROM MELISSA GOWER

3228½ D¾ ROAD,
CLIFTON, CO 81520,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

The reason, to me, why the GREAT program is so great is because it teaches students how to stay away from gangs and tells students what gangs do so we know what to stay away from and what is wrong to do and what is right to do. Trooper Moseman also told us what the laws are and what our rights are. Those are the reasons why I think the GREAT program should stay in school.

Sincerely,

MELISSA GOWER.

LETTER FROM ZACH AUILA

3042 COLORADO AVENUE,
GRAND JUNCTION, CO 81504,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Avenue Washington, D.C.

To Whom It May Concern:

My class was taught the GREAT program; it was wonderful that Trooper Moseman came to our class. The GREAT program helped me learn about gangs and

how to say NO to Drugs. I learned what I had to do in a drug situation. The GREAT program will help people get out of situations.

Sincerely,

ZACH AUILA.

LETTER FROM AMY JOHNSON

3593 FRONT STREET,
PALISADE, CO 81526,
May 6, 1998.

U.S. Senate, White House, 1600 Pennsylvania Avenue Washington, DC.

To Whom It May Concern:

Hello, my name is Amy Johnson. I think that the GREAT program is great because it really influenced my life and my friends. Now I know how to stay out of fights and gangs, to not get involved with drugs and/or alcohol.

I know not to play with knives and/or guns because I don't want to get hurt or hurt other people. It also will help teens with their problems and feelings. Thanks for your time and patience.

Sincerely,

AMY JOHNSON.

LETTER FROM NICK HEFNER

419 LAR DRIVE,
CLIFTON, CO 81520,
May 6, 1998.

U.S. Senate, White House, 1600 Pennsylvania Avenue Washington, D.C.

To Whom It May Concern:

I think the GREAT program is good because it gives us direction in life. It taught me not to get involved in gangs or drugs. I like having someone coming in to teach us the GREAT program. It's cool because you can ask them almost anything.

Sincerely,

NICK HEFNER.

LETTER FROM KENDRA ADAMS

3352½ PRICE DITCH ROAD,
CLIFTON, CO 81520,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

I recently went through the GREAT program (Gang Resistance Education and Training). It was very educational. We learned how to resist pressure, stay away from gangs and drugs, and what constitutes a crime. I have benefited a lot from this program. I have also noticed a big difference in the kids at our school. This is something that would be a great thing to keep going. We learned how to survive in an ugly world and Trooper Moseman made it fun. We even had a graduation ceremony on January 9. Please consider keeping this program in schools! Thank you.

Sincerely,

KENDRA ADAMS.

LETTER FROM SHEENA MARTINEZ

428½ SAXON CT.,
GRAND JUNCTION, CO 81504,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

The GREAT program was really helpful to a lot of kids because Trooper Moseman told us about the dangers of drugs and gangs. He told us what to say and what

to do if someone asked us to do something we didn't want to do. Trooper Moseman was a great help to our school so I hope everyone will have the chance to experience the GREAT program!

Sincerely,

SHEENA MARTINEZ.

LETTER FROM ROYETTA TOHTSONIE

460½ 32⅛ RD. #2,
CLIFTON, CO 86520,
May 6, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

I think GREAT is really good for middle school kids. So in the future they will know what is good and bad so kids don't get into drugs and Alcohol. The GREAT program is also good so you can learn your lesson. GREAT is pretty cool.

Sincerely,

ROYETTA TOHTSONIE.

LETTER FROM KELSEY HARRINGTON

3316 F⅝ RD.,
CLIFTON, CO 81520,
May 6, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

The GREAT program is a good program because it is about how to avoid gangs, and how to get away from gangs and how to say no. Trooper Moseman talked about the dangers of gangs and what could happen with the law and your family at home, its a great program.

Sincerely,

KELSEY HARRINGTON.

LETTER FROM MATTHEW COOK

586 33¾ RD.,
CLIFTON, CO 81520,
May 6, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

I think that the GREAT program should stay in public schools because it teaches us to say no to things that would get us in trouble, and it taught us not to do drugs and what they do to your body. It also taught us to respect cultural differences, and why we are different.

Sincerely,

MATTHEW COOK.

LETTER FROM JON FITZPATRICK

414½ GLENDALE WAY,
GRAND JUNCTION, CO 81504,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

Our school has had the experience of Trooper Moseman teaching us about GREAT. It was fun.

Other schools from now on should learn about GREAT for these great reasons.

(1) It teaches you to stay away from the dark side.
(2) They teach you to talk about problems, not to use big Bad guns.
(3) It will help keep kids away from gangs.
(4) It teaches people to be friends.

(5) Kids learn to have their own power.

Sincerely,

JON FITZPATRICK.

LETTER FROM AMBER KELLEHER

426 MORNING DOVE DR.,
GRAND JUNCTION, CO 81504,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

Our school was honored to have the GREAT program. The following are reasons why I think we should keep the GREAT program in schools: It was a big help in teaching students how bad drugs are, how gangs can ruin your life, it helps kids learn right from wrong, teaches ways to keep away from drugs, ways to tell a gang member you don't want to join, and it helps us to tell people who want us to do drugs no. Please keep the GREAT program in schools. Thank you for your time.

Sincerely,

AMBER KELLEHER.

LETTER FROM KRISTINA M. PIFER

3304 DELICIOUS DRIVE,
CLIFTON, CO 81520,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

I feel honored to have been through the GREAT program. It was instructed by Colorado State Trooper, Don Moseman. When Trooper Moseman first walked into the room, water glass in hand, I thought it would turn out as just another boring speech.

I was wrong. The GREAT program is filled with educational lessons and challenging assignments. It was good, I think that if you were to commit a criminal act during GREAT training (or 9 weeks), you were not eligible to graduate from the program. All of the activities were fun, and most hands-on, most kids liked that part. Trooper Moseman said some things that went straight to my heart. He was a great presenter. I enjoyed doing the occasional homework assignments and copying down definitions in my book.

Moseman had a good discipline procedure which we all pretty much followed to the word. We all had name tag like things on our desks with class rules on the back. If we didn't meet his expectations at one moment he would gently remind us of the rules.

What I'm trying to say is that this is the first of these programs that I've liked, and I'd love to see more of it. Thank so much for your time.

Sincerely,

KRISTINA M. PIFER, *Student.*

LETTER FROM JESSE GORDON

35 99E½ RD.,
PALISADE, CO 31526,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

Hi, we had the honor to work with Trooper Moseman. He explained everything to where everybody understand what he wanted them to do. I think they should keep the GREAT program in schools so kids don't get the idea to do drugs and drink beer and so they could understand what is happening in the U.S.A. today. I hope they keep it in schools because I learned something new each day.

Sincerely,

JESSE GORDON.

LETTER FROM DANNY NICHOLS

437 32⅛ ROAD,
CLIFTON, CO 81520,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania, Ave., Washington, DC.

To Whom It May Concern:

We were happy to have Colorado State Trooper Moseman come to our school. He taught us how often a crime is committed. We also learned that teenage crime is rising rapidly and this program helps that rate slow down. So please, keep the GREAT program running in schools.

Sincerely,

DANNY NICHOLS.

LETTER FROM LAWRENCE ABAD

P.O. BOX 312,
PALISADE, CO 81526,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

Our Language Arts class was taught the GREAT Program by Trooper Moseman. He taught us about saying NO, and gang resistance. He was a very good teacher. We did a lot of hands on activities like acting out getting a job or dealing with a problem causing child.

I thought the graduation was the best. We all graduated from the GREAT Program on January 9, 1998.

Sincerely,

LAWRENCE ABAD.

LETTER FROM VALARIE RUSSELL

P.O. BOX 444,
PALISADE, CO 81526,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

Hello, my name is Valarie Russell and I'm writing you because I think that the GREAT Program should stay in middle schools because you learn how drugs and other people can change your life. Trooper Moseman taught us how to say NO, he taught us how to cope with peer pressure, how to get out of gangs, how to stay away from people that could be a bad influence on us, and he also taught us that just because somebody is new doesn't mean that you have to treat them different.

Sincerely,

VALARIE RUSSELL.

LETTER FROM AARON R. SCHEETZ

491 ANJOU DR.,
GRAND JUNCTION, CO 81504,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

The GREAT Program is GREAT!

I was lucky enough to have participated in the GREAT Program this year. It stands for Gang Resistant Education And Training. GREAT keeps kids out of trouble, and it gives real life scenarios to kids so they know what to do. Kids have to stay out of trouble with the law in order to stay in the program. GREAT has taught me many things I did not know before. I also learned the six steps of making a decision, or conflict/resolution. GREAT has helped me in my life, and I really think that it should be in other schools across the nation. I am glad I now know about cultural

differences, and I liked the Role playing and hands on experience the GREAT Program gave me. I hope that GREAT will be around for my kids in middle school.

Sincerely,

AARON R. SCHEETZ.

LETTER FROM BEN DIMARCO

3306 S. HIGHLAND DR.,
CLIFTON, CO 81520,
May 6, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

Our class is writing you to tell you how great the GREAT program really is, and how this program should remain in school districts.

This program helps the kids stay out of trouble. It was really exciting when Trooper Moseman came to our class because it was really great learning about the law. Trooper Moseman and all the other Trooper Teachers taught us about the consequences of our doings. This program should stay in school because it was a really great learning experience. This nine week lesson shows a great way of conflict resolution.

Thank you for your time, and consideration.

Sincerely,

BEN DIMARCO.

LETTER FROM BOBBI JO WATT

3513 G. ROAD,
PALISADE, CO 81526,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

My name is Bobbi Jo Watt and I was in the GREAT program. I thought it was fun and interesting and it should continue in all schools. Trooper Moseman, the officer who taught us, was very kind and sincere. He did a very good job of teaching us the GREAT rules and why we shouldn't join gangs. In the program we learned the six steps to conflict resolution what we should do if a "gang" or group of bad people tried to get you to do something that is wrong. Overall, I think the GREAT program did help those at our school making bad choices.

Sincerely,

BOBBI JO WATT.

LETTER FROM RICKIE BERG

557 AARON CT.,
CLIFTON, CO 81520,
May 5, 1998

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

The GREAT program was very educational. It taught us how to say no and alternatives. It also taught self-discipline.

I think that the GREAT program should stay in the school district because it teaches respect. We liked having Trooper Moseman come in and visit us and teach us about gang resistance and how to not get involved in drugs and alcohol. It gave us scenarios and conflict resolution.

Thank you for your consideration!

Sincerely,

RICKIE BERG.

LETTER FROM HOWIE TATE

725 35⅙₀ ROAD,
PALISADE, CO 81526,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

The GREAT program is a learning program about things you can't learn in school, but are still important.

Trooper Moseman taught us about gangs, drugs, and illegal acts. He showed us what to do about these things and also how to work with others in a group.

He also showed us how to control our emotions.

Sincerely,

HOWIE TATE.

LETTER FROM J.J. JEROME

364 ANNANSSA DR.,
CLIFTON, CO 81504,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

We were very happy to have Trooper Moseman come to our school.

One reason why we should keep it is that it help some people get out of gangs so they don't die.

Trooper Moseman told us about gang resistance so we wouldn't join the gang and we can say NO to drugs.

Sincerely,

J.J. JEROME.

LETTER FROM TASHA ENGLEHART

3133 BROWNIE CIR. 28,
GRAND JUNCTION, CO 81504,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

When we had Trooper Moseman come to our class for the GREAT program. I really learned something. I learned about gangs, drugs, safety issues and violence.

When we went through the program, we learned how to stay away from danger, such as gangs, drugs, and violence.

I would hope that the same program would be passed next year and the year after that for many 7th graders. If we learn things like that now, then we won't be stupid about them later when any pressure comes our way.

Thank you for your time.

Sincerely,

TASHA ENGLEHART.

LETTER FROM AMANDA SADUAR

424 32ND #87,
CLIFTON, CO 81520,
May 6, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

We the kids of Mt. Garfield have had the opportunity to graduate from the GREAT program successfully. I would like to make a comment, all of the kids at Mt. Garfield would be honored if the GREAT program would stay with our school to help other kids with violence.

Sincerely,

AMANDA SADUAR.

LETTER FROM LEE R. BROWN

3060½ HUMMINGBIRD CT.,
GRAND JUNCTION, CO 81504,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

I'm a student from Mt. Garfield Middle School and we had the honor of having Trooper Moseman and the GREAT program in our classroom. I think we should keep the GREAT program because it's fun and also teaches us how to deal with drugs and gangs. It also reduces drugs and gang activity at our school.

Sincerely,

LEE R. BROWN.

LETTER FROM MATT BAILEY

P.O. BOX 3225½ BUNTING,
CLIFTON, CO 81520,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

The GREAT program is good for schools because it can help you decide what is good and what is bad and encourage you from being in gangs and what to do in their spare time. GREAT means Gang Resistance Education and Training. It also tells you how many bad things are happening a day.

Sincerely,

MATT BAILEY.

LETTER FROM DAVID CORKLER

3124 ROBREN,
GRAND JUNCTION, CO 81504,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

This year the Mount Garfield 7th grade had the opportunity to participate in the GREAT program. We learned many things. We first had to look at examples of different crimes and had to write our own punishment. This helped us learn more about crimes and punishments, giving us a better understanding of them. We then had to write down different actions we might take in situations like parties where others start to experiment with drugs. Our choices were to stay or leave. This gave us an idea of what to do in situations like that. We also learned to respect different cultures, work in groups, and things to do instead of joining gangs. I think continuing GREAT would improve our country.

Sincerely,

DAVID CORKLER.

LETTER FROM MOLLIE STOCKMAN

P.O. BOX 1010,
CLIFTON, CO 81520,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

The GREAT Program is Gang Resistance Education and Training. We have had the honor to have this in our school. It teaches us not to do drugs! It also teaches us how to not get in gangs and to control our anger! We learned to be nice to our family because so many kids are being so mean to their parents and elders. It teaches them to behave. One reason it should stay in our school is it helps kids to understand violence.

Sincerely,

MOLLIE STOCKMAN,

LETTER FROM JENI TOPAI

429 SAXON CT.,
CLIFTON, CO 81504,
May 4, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

I would like to tell you about my training in the GREAT program that we had in our class recently. We went through it and graduated, we learned to say NO if you were asked to do drugs because most of our teens today were pressured to do drugs, and I strongly feel this program would help your family and friends to stay drug-free for a century. The GREAT program is not only educational, but fun too. You do plays in class on problems with teens and drugs. (We did one on a boy who did not care about his grades or anything else.) It encourages us to stay in school and out of gangs and not to do drugs. I feel we should KEEP THIS PROGRAM! because there's a very high risk that we won't have any drug problems with our teens.

Sincerely,

JENI TOPAI.

LETTER FROM KATIE SOMMERMEYER

3349 F RD. #2,
CLIFTON, CO 81520,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

We have gone through the GREAT program and it really helped out some kids. I have five good reasons that we should keep the GREAT program in our school. It helps kids live their lives better and to keep kids off drugs and to stay in school and not to do bad things.

Sincerely,

KATIE SOMMERMEYER.

LETTER FROM MEGAN VAUGHN

3050 D½ RD.,
GRAND JUNCTION, CO 81504,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

I'm writing to you to tell you about the GREAT program. Trooper Moseman has told us how to act when a gang comes up to you and ask you if you want to join, and he also taught us role play where we saw what it was like to be a cop and get assaulted. He also taught us the meaning of GREAT. It means Gang Resistance Education and Training. To the students in my class, this is something to think about. Thank you for your time.

Sincerely,

MEGAN VAUGHN.

LETTER FROM YVONNE ARNETT

3608 E¼ RD.,
PALISADE, CO 81526,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

My class was privileged to have Trooper Moseman come and teach us about the GREAT program. We have learned about drugs, what they do to us, cooperation, how much it can help us, and violence, how much it can hurt you along with other innocent people.

I hope that this program will be continued over the years. I believe that this program will help future 7th graders make important decisions to the best benefit.

Sincerely,

YVONNE ARNETT.

LETTER FROM LYDIA ALLEN

P.O. BOX 3344,
GRAND JUNCTION, CO 81502,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

When we had Trooper Moseman it was great. He taught us a lot of things, like what kind of drugs there are.

Then he taught us the definition of words like violence. He told us that we could make it through this program. He showed us what we should do if our friends talk us into doing stuff. The last thing is, its good and it teaches kids to do good things.

Sincerely,

LYDIA ALLEN.

LETTER FROM TINA CAREN

P.O. BOX 733,
CLIFTON, CO 81520,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

I had the privilege to be in the GREAT Program at Mt. Garfield Middle School. I think that GREAT was good for us because it helped us get out of trouble. I also think it was good for us because we learned the consequences of our actions if we did something wrong. I also believe that Trooper Moseman taught us to respect others and ourselves.

Sincerely,

TINA CAREN.

LETTER FROM KRISTEEN CARPENTER

P.O. BOX 703,
CLIFTON, CO 81520,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

The GREAT Program was very educational because it teaches young people to stay out of gangs, solve problems, work as a team, and not to do or deal drugs. It taught us to treat each other with respect.

Sincerely,

KRISTEEN CARPENTER.

LETTER FROM BLADE DOUGLAS

P.O. BOX 1741,
CLIFTON, CO 81520,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

This program is a good program and should stay in schools because the GREAT Program is very educational and that's why we go to school to become educated. Right? Another reason to keep GREAT in schools is because it teaches us how to

stay out of gangs and we do have a gang problem. It also teaches us to say NO to drugs and alcohol. I think Trooper Moseman did a great job and we all enjoyed it.

Sincerely,

BLADE DOUGLAS.

LETTER FROM SARAH KUHNS

3081 SANDPIPER AVE.,
GRAND JUNCTION, CO 81504,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

I would like to tell you the GREAT program is a cool way to teach younger kids and teens how to respect other people. It will teach other people not to do drugs or kill or rob houses. It will give people an opportunity to make a choice of what they want to do when they are in a dangerous situation.

Thank you for your time.

Sincerely,

SARAH KUHNS.

LETTER FROM DAYNA MARTIN

518½ GARLAND AVENUE,
CLIFTON, CO 81520,
May 6, 1998.

U.S. Senate, White House, 1600 Pennsylvania Avenue Washington, D.C.

To Whom It May Concern:

Hello, how are you? I'm fine, and just dandy! How's the weather there? Here in Grand Junction, CO, it is really starting to get hot!

I'm writing in regards to ask you guys to help keep the GREAT program in schools.

I think there are many great reasons to keep this program in. First of all, Trooper Moseman is very fun, and will always be there if you're in trouble. He teaches you that going to a gang because you have problems at home or school is not the way to solve them. It can actually make it worse. Trooper Moseman taught us to work together and to say no to certain things, and when we should just walk away. I think this program helped some kids realize that gangs don't help. So, I think you should consider keeping this program in all schools and in all grades.

Thank you for your time.

Sincerely,

DAYNA MARTIN.

LETTER FROM KRISTIN STOGSDILL

P.O. BOX 1334,
PALISADE, CO 81226,
May 6, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

We've had the opportunity to have the GREAT program in our school. Our teacher was Trooper Moseman. He taught us about gangs, drugs, and alcohol and that we should stay away from them. He also taught us about illegal acts, family situation, and how to deal with anger. I think the GREAT program should stay in schools. I think it really helps; I know it helped me.

Sincerely.

KRISTIN STOGSDILL.

LETTER FROM DESTINIE SALAZAR

3299 LOMBARDY LN. #D,
CLIFTON, CO 81520,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

We were really lucky to have Trooper Moseman teach us the GREAT Program. It's so useful to middle schools because it teaches us not to join gangs and try to stay in school, plus he tells us how to handle conflicts. I think you should keep it in schools because it teaches us new things. It helps people who have problems with drugs or even gangs. It shows us how to deal with people trying to get in trouble, how to achieve our goals, and the six goals to conflict. Well, that's all I have to say about the GREAT program. So please continue it.

Thanks.

Sincerely,

DESTINIE SALAZAR.

LETTER FROM BREE WHITNEY

131 SUNSET CIR.,
PALISADE, CO 81526,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

I am representing the 7th Graders at Mt. Garfield Middle School in Clifton, CO. The purpose of me writing this letter is to ensure that the GREAT program remains in our school and other schools in our district. This program is useful because it teaches us how to resist gangs and peer pressure. It also puts us in difficult scenarios and shows us ways to resolve them. This program deals with theft, drugs, and vandalism and how to avoid them. It puts us in with others and shows us how to get along. It also taught us goal setting. This program is very informative.

Sincerely,

BREE WHITNEY.

LETTER FROM JORDAN C. SMITH

3294 E ROAD,
CLIFTON, CO 81520,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

I'm a 7th grader at Mt. Garfield Middle School. We had a wonderful opportunity to have the GREAT program come to our school, and I believe that you should proceed to fund this program because it taught many of us to stay away and ignore gangsters and people who want to get you to do something violent. It is a very good program and also teaches how to get help from friends if you are having a problem with something, like gangs and drugs. It's a very good learning process.

Sincerely,

JORDAN C. SMITH.

LETTER FROM DATASHA BEAUCHAMP

414 W. 1ST #C,
PALISADE, CO 81526,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

At Mt. Garfield Middle School we had a wonderful opportunity to experience the GREAT program. It was spectacular because we got to learn new techniques to deal with peer pressure. We also learned how to stay out of gangs and what to do in a nervous situation we worked through a booklet and Trooper Moseman explained

everything thoroughly. I would appreciate it if you would keep the GREAT program so my little sister can get the same knowledge I got from the GREAT program.

Sincerely,

DATASHA BEAUCHAMP.

LETTER FROM ANITA KITTS

3688 G4/10 ROAD,
PALISADE, CO 81526,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

Well, I've been through the GREAT training. It taught me a lot. I think that we should keep the GREAT program around because others need to know what's going on in the world today. Also because we need to realize that all the drugs, alcohol, and also gangs need to stop! Especially killing good people, and little innocent babies because the gang members think you're not good enough for them. I think the GREAT program could help very much. I used to be very bad until the GREAT program came to our school. I think it will help young kids to say no to drugs, gangs, and alcohol. I just want to thank Trooper Moseman for helping me change my life so much. If it wasn't for him, I would probably still be in the same place I was.

Sincerely,

ANITA KITTS.

LETTER FROM KYLA LONDBERG

660 33RD,
CLIFTON, CO 81520,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

Mount Garfield Middle School had the opportunity to learn about the GREAT program. It was very beneficial for everyone. We learned how to resist peer pressure of joining gangs, and what to do if you see an act of violence of the danger of drugs. I think that we should keep the GREAT program going.

Sincerely,

KYLA LONDBERG.

LETTER FROM AMANDA WILKINSON

405 30 ROAD,
GRAND JUNCTION, CO 81504,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave, Washington, D.C.

To Whom It May Concern:

Other classmates, cores, and I have gone through the GREAT program. It was very educational and fun. I learned a lot.

I learned about gangs and what they do, things to do to stay out of gangs. What to do if we see something happening and what we can do to help ourselves and other people.

Thank you for your time.

Sincerely,

AMANDA WILKINSON.

LETTER FROM STEVEN SMYTHE

3210 WHITE CIRCLE WEST,
CLIFTON, CO 81520,
May 6, 1998.

U.S. Senate, White House, 1600 Pennsylvania Avenue Washington, D.C.
To Whom It May Concern:

I think that the GREAT program should continue for middle schools. It is good for us to know how to stay out of trouble and gangs. We also learned consequences for the trouble we get in. In this class we all owe Trooper Moseman for teaching us all we know about gangs, drugs, and other criminal activities. Trooper Moseman taught us about these things and to avoid them. Please continue the program so other kids can also have the opportunity to have this program and still have a chance.

Thank you for your time.

Sincerely,

STEVEN SMYTHE.

LETTER FROM SHINON CLINKENBEARD

436 DEVON CT.,
GRAND JUNCTION, CO 81504,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.
To Whom It May Concern:

Team 701 of Mount Garfield had the privilege of having a Trooper from our state visit us every Wednesday for nine weeks, to tell us about the GREAT program. It was actually fun.

I, myself learned some things I had forgotten and I know I may have some kind of importance in my life, like how to say NO to drugs or alcohol, but leave a way for them to get out too.

I also learned that being a leader and putting forth your ideas is better than just sitting around and waiting for other people to solve them. We learned some valuable things in the GREAT program, and I know other people did too.

Sincerely,

SHINON CLINKENBEARD.

LETTER FROM GABRIELLE SCHULTZ

3681 G7/10 RD.,
PALISADE, CO 81526,
May 6, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.
To Whom It May Concern:

We went through the GREAT program and it has certainly left an impact on our school, and our minds.

Trooper Moseman came to our classroom and we had the honor of being the first class in our school to take the nine week course.

During that time we learned many valuable lessons. We learned that outside appearances don't matter as much as the person on the inside, that we can gain respect by taking on our responsibilities, that gangs are just troubled kids just like us who need help. I hope that 7th graders to come will have the opportunity to do the GREAT program too.

Sincerely,

GABRIELLE SCHULTZ,

LETTER FROM PAUL BAILEY

443 LOIS ST.,
CLIFTON, CO 84520,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

Our school had the opportunity to experience the GREAT program. And Here are some benefits that I learned. First, I learned some new laws and how to back away from drugs or crime. Also, I learned how criminals think and how drug dealers think so that we can resist. We also learned how to take charge of a situation.

Sincerely,

PAUL BAILEY.

LETTER FROM KENDRA HERALD

468 MEADOW RD.,
GRAND JUNCTION, CO 81504,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

The 7th grade at Mt. Garfield Middle School has had a great opportunity to participate in the GREAT program.

During the nine weeks Trooper Moseman was here, we learned how to stay out of gangs, how to protect ourselves and say NO when asked to join a gang. We learned how joining gangs and taking drugs ruins our lives. The GREAT program taught me how to set goals and how to trust people when I'm having problems. In the future, I hope the GREAT program helps more kids learn about the dangers and risks of gangs and drugs.

Thank you for your time.

Sincerely,

KENDRA HERALD.

LETTER FROM JOHN SULLIVAN

3251.5 COLLYER,
CLIFTON, CO 81520,
May 7, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

We, the 7–1 core at Mt. Garfield Middle School were honored to have the GREAT program at our school. I, one of the students, have had hands on experience in this course. I truly think that you need to support this group. It has made me think about our town and community. The class activities were great because we got to role play and get put in a difficult situation. I was a principal in one of the activities. It made me think about kids these days. When I didn't know what something meant, he would tell me. I hope this stays in schools so that the other grades will learn and train themselves from gangs.

Sincerely,

JOHN SULLIVAN.

LETTER FROM NATALIE PUCKETT

464 GREENLEAF DR.,
GRAND JUNCTION, CO 81504,
May 5, 1998.

U.S. Senate, White House, 1600 Pennsylvania Ave., Washington, DC.

To Whom It May Concern:

Mt. Garfield Middle School has had the opportunity to be involved with the GREAT program. I strongly believe that this program should stay in our school because I have never learned so much about the consequences of violence. I also think this program really made kids think again about joining a gang. When Trooper

Moseman taught us about what drugs did, I was convinced that many kids made the decision not to do drugs. At the end of the program when we thought and wrote our goals that we wanted to happen in life, it really made me think about what choices I would need to make to achieve them. I also learned about the things that I could do to stop violence.

I know that this program works and has an impact on every student that goes through this course. I would hate to have to see the GREAT program stopped.

Sincerely,

NATALIE PUCKETT.

SUMMER PROGRAMMING

Mr. TYMESON. Senators Kohl and Campbell, if I could add some information about the summer program? Senator Kohl asked the question and I certainly appreciate the opportunity to be helping represent the La Crosse group here. First I would like to say I wish I had this panel with me at the University of Wisconsin-La Crosse. I work with a lot of future teachers and professionals in youth service areas and I would just love to bring this group right here in as instructors. They would do a fabulous job in reality.

I just want to emphasize the importance of summer programming. Summer programming is a key part of any comprehensive youth programming, including the GREAT Program. Summer is a time for youth to have fun, experience new things, and as we all know, explore. Sometimes in that exploration they need a little help in making sure that is positive exploration and to be sure that it is in structured programming with appropriate role models.

Kids are really challenged today. As a parent of two young boys who have been through the GREAT and the DARE programs, I recognize this in what they bring home each day. Kids are challenged to do the right things. Kids are often alone without parental role models, unfortunately, and they need to grow to make good decisions and have those skills to make good decisions.

A GREAT summer program, a GREAT educational program is important. Senator Campbell, you mentioned about the importance of sports and recreational programming in kind of turning around your life. That served obviously as a very, very important alternative for you and the kids, I think, up here on the panel and the officers have mentioned how important those alternative programs are.

That is the importance of a summer program, giving the kids an opportunity to apply what they have learned during the school year, apply it during all of that extra time that they have during the summer. A quality summer program must be a multiagency effort. There needs to be education, social, and human service agencies. All of these must be combined.

This is what makes the NYSP/GREAT program work and this is what I am sure makes all of these programs work, that it has to be a multiagency type of program. Recent statistics are very, very scary from the National Center for Educational Statistics. They state that there is an increase in gang activity in schools. The percentage of kids that are victims of crime in school are increasing.

I would just encourage you to really consider increasing the funding and giving more kids and officers the opportunities. Senator Campbell, I think it was you, you mentioned, do you see the police officers in different roles? I have the luxury to be working with these guys from La Crosse. I have the luxury to be a parent who

can see the impact, and also a consumer to be able to enjoy a safe community.

I see the police officers having fun teaching kids during the summer in the summer GREAT Program. It sheds a whole different light on the relationship between these kids and the officers, and I know that it makes a difference. I know that some night, some time when these kids might be getting into trouble and not using some of the good decisionmaking skills, that I know they are going to recognize a police officer.

All over the country this could happen and I know it is going to prevent some problems from occurring. That interaction with community policing that is happening is a critical thing and the GREAT Program, including the summer programs, are marvelous examples of community policing. Thank you very much.

Senator CAMPBELL. While you police officers are here, I might recommend, if you have the time, you go to the police memorial that is here in Washington, DC. Last night, they had a candlelight vigil there and I, unfortunately, had a conflict and could not get over there, but once a year, they read the names of the police officers who have been killed in the line of duty. This day of remembrance lasts for several days here in town and we always encourage youngsters to go there.

Mr. SIMEONA. Senator, if we may, we wanted to present you with some gifts that we brought.

Senator CAMPBELL. I am not sure of the rules for that, but I think I am going to recess the subcommittee. It might be graft and corruption or something. There are rules for all kinds of things. [Laughter.]

CONCLUSION OF HEARINGS

With that, this subcommittee has recessed and I will look forward to that. Thank you. That concludes the hearings. The subcommittee will recess and reconvene at the call of the Chair.

[Whereupon, at 11:30 a.m., Thursday, May 14, the hearings were concluded and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

MATERIAL SUBMITTED BY INDEPENDENT AGENCY NOT APPEARING FOR FORMAL HEARINGS

[CLERK'S NOTE.—The following independent agency of the Department of the Treasury did not appear before the subcommittee this year. The subcommittee requested that this agency submit testimony in support of its fiscal year 1999 budget request. The statement follows:]

U.S. POSTAL SERVICE

PREPARED STATEMENT OF MARVIN RUNYON, POSTMASTER GENERAL/CHIEF EXECUTIVE OFFICER

We appreciate the chance to talk with you about the Postal Service and our appropriations request for fiscal year 1999.

Today marks my final statement before this subcommittee. I want to thank the members of this subcommittee for your strong interest in the nation's mail system. Your counsel and support have been valuable to me and to the Postal Service. You have also been generous with your praise when our employees have delivered better service and financial performance. We appreciate that.

As you know, I have announced my intention to step down as Postmaster General by May 15. The Governors of the Postal Service are searching for my successor. There are several highly qualified candidates within the current officer ranks. I am confident that an able leader will be selected and that the progress of the Postal Service will continue.

Whoever that leader is, they will soon learn, as I did, how important the Postal Service is to the nation. And how much the American people rely upon it to do business, stay in touch, and carry out their civic responsibilities.

They will also learn that the Postal Service faces a unique mandate. On one hand, it is a public service, chartered to deliver to every home, farm, and factory in the nation. That means keeping open thousands of small post offices that do not cover their costs. It means delivering letters at a uniform price to all areas of the country, no matter how great the distance or how remote the location.

On the other hand, the Postal Service also faces vigorous competition and a requirement to operate like a business. That means we must continually prove ourselves in the marketplace of today and prepare ourselves for the marketplace of tomorrow.

Some see those objectives as incompatible. But the truth is, a self supporting universal service must be run like a business or it will cease to be either self-supporting or universal. I believe during the past six years, the Postal Service has shown that it is possible to do both.

Recently, the American people cast a strong vote of approval for the job that postal employees are doing. Nine out of ten Americans gave the Postal Service the most favorable rating among agencies of the federal government in a recent study by the Pew Research Center for The People and The Press. The Pew report said, "The Postal Service stands out from other departments." The Postal Service stands out because postal employees stand out. They have made change work for the Postal Service and delivered excellence to the American people.

The Postal Service has been undergoing a transformation since 1992. At that time, customers and employees alike voiced concern that the nation's mail system was in trouble. The Postal Service faced a projected year-end deficit of $2.2 billion and service was shaky. A sizable rate increase seemed likely. One that would have continued a long-standing cycle of red ink and rate hikes.

The first order of business was to break that cycle. To begin, the organization was restructured, layers reduced, and bureaucracy cut. Without layoffs, 23,000 overhead

positions were eliminated. Expenses were lowered and unnecessary programs ended. We also refinanced debt, saving more than $2 billion over 20 years.

In all, the anticipated deficit was trimmed by $1.7 billion in 1992. And prices were held steady for four years until 1995. The rate increase that followed was one of the lowest ever, two full points below inflation.

Last summer, we requested the lowest increase in our history. It is less than half the rate of inflation and only a single penny on the First-Class stamp. We are asking the Postal Rate Commission for so little because we have replaced deficits with surpluses. $1.8 billion in 1995. $1.6 billion in 1996. And $1.3 billion last year. Today, the Postal Service is well on the road to financial health. And well on the way to fulfilling the legislative mandate that our finances break even over time. The net income of the last three years has cut our accumulated losses since reorganization in half. We have $4.4 billion yet to recover and a strategy in place to do so.

At the same time, we have also broken the cycle of sacrificing service to make budget. Postal employees have delivered record service, while trimming costs and handling increased work loads. In 1994, 79 percent of local First-Class Mail was being delivered overnight. That figure has risen steadily to a record 92 percent at the close of fiscal year 1997. Service is up across the board, in rural and suburban areas, and in all of America's large cities. We expect to close with a new record in 1998.

These numbers reflect extensive changes that have taken place across the postal landscape. None more profound than the CustomerPerfect! Management system we adopted in 1995, based on the Malcolm Baldrige business principles. As the name implies, CustomerPerfect! establishes customer needs as our primary business driver. It also provides the framework for integrating managerial processes to deliver optimal performance. Market assessments, planning, budgeting, training, resource allocations, and major initiatives of every kind are brought together in an understandable and actionable way.

Another hallmark is that we are setting more specific performance targets and tracking our progress more precisely. We have incorporated these measures in the five-year Strategic Plan presented to Congress. And we're updating them in our yearly performance plans. By the turn of the century, plans call for higher delivery scores. Not just for local First-Class Mail, but for two- and three-day deliveries, Priority Mail, and bulk business mailings. We are also adopting new "Ease of Use" measures, to make it increasingly easy for customers to do business with us.

The future of the Postal Service is taking shape right now across America in communities large and small and throughout our plants and offices. It is evident in our new retail attitude, the acceptance of credit and debit cards, extended business hours, and modern interior design that takes products and services from behind the counter and places them at the customer's fingertips.

The future lies in advanced communications technology that is being deployed to connect our offices and delivery force into a modern logistical system. This will help us manage the business and provide customers with value-added services they demand and deserve.

The future is in advanced automation and handling systems that drive costs down and service up. Computers can now process more than 25 percent of handwritten letter mail. The sorting of magazines, newspapers, catalogs and small packages is being steadily automated. We are also in the early stages of creating the plant of the future. One that will see intelligent transport systems and robots handling the mail from acceptance to dispatch.

The future is in process management that is simplifying our systems, eliminating stumbling blocks, and lowering costs. Process management is at work throughout Headquarters and in a growing number of plants and offices across the country. We share what we learn at these sites throughout the organization via our internal web site.

Increasingly, the future will be augmented by electronic means. We are linking electronically with customers to reduce paperwork, schedule shipments, and reconcile accounts. We are providing the public with 24-hour access to information through our public web site. And we are developing electronic channels that allow a range of postal services to be purchased from the home or office.

Most important of all, the future is in our people. It is in seasoned leaders like my Deputy, Mike Coughlin, Chief Operating Officer Bill Henderson, our officer corps, and our field management team. It is in the more than 770,000 career postal employees whose dedicated service makes all of this possible. I can't say enough about what they have accomplished. They make the changes work. Around the clock, across the country, despite every act of nature, they deliver for America. I am very proud of them.

The Postal Service has come a long way. However, the challenges we face in the marketplace have grown as well. We face competition for every message, package, and payment we deliver. The rise of the internet and increasing numbers of personal computers in American households pose a threat to half of our First-Class Mail volume: the bills, payments, and statements which provide nearly 30 percent of our revenue. At risk is not only the heart of our business, but the underpinnings for the universal mail network that has served this nation so well for over two centuries.

We are defending our business and universal service through two key strategies. One, we are raising the value of our services through a combination of cost-control, price restraint, and service improvement. Two, we are seeking new growth opportunities in parcel services, global markets, and satisfying customer needs. To those ends, we have committed an investment of $17 billion over the next five years to build the infrastructure and capabilities that are required.

The Postal Service is on the move. We are committed by word, deed, and dollar to a transformational path that will keep us a vibrant communications force in the 21st century marketplace. I'm confident we will be successful. And I appreciate the support of this subcommittee and this Congress as we move forward.

Today, the Postal Service requests a total appropriation of $100,195,000 for fiscal year 1999. This amount recovers the expense of revenue forgone on free and reduced-rate postage for certain types of mail mandated by Congress. Most of this amount—$68,710,000—reimburses the Postal Service for the costs of providing free mail for the blind and overseas voting.

The Postal Service also requests an amount of $29,000,000 toward reimbursement for past year shortfalls in revenue forgone funding. This is the sixth payment in a series of 42 annual payments authorized for this purpose in the Revenue Forgone Reform Act. Consistent with the law, the remainder of our request—$2,485,000—is a reconciliation adjustment to appropriations in previous years. Each year, appropriations for free and reduced rates are based on estimated mail volumes. When final audited mail volumes become available, these figures are reconciled with the estimates. Our request for the coming fiscal year contains an amount to cover an audited funding shortfall in fiscal year 1996.

Our request, however, no longer includes an amount to cover workers' compensation payments for employees of the old Post Office Department. Formerly, transitional appropriations to the Postal Service funded the compensation paid to approximately 1,800 individuals or their survivors for injuries which occurred before July 1, 1971. These expenses are directly related to the operations of the former Post Office Department and were, by law, a liability of the U.S. Government. The Balanced Budget Act of 1997 repealed the authorization for these transitional appropriations, and as of October 1, 1997, made these compensation costs liabilities of the Postal Service payable out of the Postal Service Fund. Consistent with business accounting principles, we have already accrued the full estimated cost of these liabilities, amounting to about $258 million.

Finally, we have again declined to request the annual public service appropriation of $460 million which is authorized by law. We have not received an appropriation of this type since fiscal year 1982. By not using these funds, the Postal Service and this subcommittee have saved the Federal Government over $6 billion. We view not requesting this appropriation as one of the ways we keep faith with the legislative contract that made the Postal Service a self-supporting government establishment. Another way, of course, is maintaining universal service to everyone, everywhere, every day. We are extremely proud of our success in that regard, and we hope and trust that we will continue to benefit from your support.

NONDEPARTMENTAL WITNESSES

[CLERK'S NOTE.—The following testimonies were received by the Subcommittee on the Treasury and General Government for inclusion in the record.

The subcommittee requested that public witnesses provide written testimony because, given the Senate schedule and the number of subcommittee hearings with Department witnesses, there was not enough time to schedule separate hearings for nondepartmental witnesses.]

PREPARED STATEMENT OF BOBBY L. HARNAGE, SR., NATIONAL PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL–CIO

Mr. Chairman and Members of the Subcommittee, my name is Bobby L. Harnage, Sr. and I am President of the American Federation of Government Employees, AFL–CIO. I appreciate the opportunity to testify before the Subcommittee concerning three issues affecting federal employees: the 1999 pay adjustment, official time for federal employee union representatives, and contracting out legislation. AFGE is the largest federal employee union, representing 600,000 workers across the nation and overseas.

FEDERAL PAY—GENERAL SCHEDULE

General Schedule (GS) federal employees, on average, should have received pay increases this year in excess of 10 percent. But because of continued defiance of the law by politicians in both the executive and legislative branches, those employees are actually receiving, on average, raises of only 2.8 percent. Short-changing federal employees on their pay raises is nothing new. Actually, it's happened year after year after year.

In 1999, GS employees should receive pay increases of almost 13 percent. However, the Clinton Administration has proposed in its budget that pay raises for GS employees next year be only 3.1 percent, on average. Unfortunately, the President's budget submissions for the years 1994 through 1999 have proposed federal GS salary increases far below that called for under the Federal Employees Pay Comparability Act (FEPCA). To remedy this gross inequity, legislation has recently been introduced that would close the loophole in FEPCA which allows the President to recommend pay raises smaller than the levels required by law.

That federal employees are underpaid compared to their counterparts in the private sector and state and local government who perform similar work is a fact. What remains to be seen is whether the Administration and the Congress will finally provide federal employees with the pay raises which are their due under FEPCA. Responding to studies which showed conclusively that, on average, federal employees were paid 30 percent less than their private and public sector counterparts, Democrats, Republicans, and President Bush, urged on by AFGE and other unions, decided to close that pay gap over a nine-year period. As agencies continued to downsize, the President and a bipartisan coalition of lawmakers understood that it was more imperative than ever that the federal government provide competitive compensation packages so as to recruit and retain the highest quality employees. FEPCA was designed to enable the federal government to compete for applicants in every single labor market. And the law itself represented a fair, evenhanded approach to balancing the government's need to control its costs and the need of federal employees to maintain adequate standards of living.

Following the law's passage, many thought that the pay increases due GS employees would no longer be cut back or held up by the President and/or the Congress. Under the law, pay for GS employees would slowly but surely become more comparable with the salaries of their counterparts in the private and public sectors. Pay adjustments for GS employees would consist of two components: (1) a nationwide

increase linked to the Employment Cost Index (ECI), which measures the change in private sector wages and salaries; and (2) a locality increase, based on a comparison of non-federal and GS salaries in 32 pay areas across the nation.

In order to minimize the impact on the budget of finally treating the government's GS employees comparably with their private and public sector counterparts, the locality portion of the pay adjustment was to be phased in over a nine-year period. This grand compromise left GS employees with the expectation that the pay gap would eventually be closed. In fact, FEPCA mandated that 20 percent of the pay gap between average non-federal salaries and average federal salaries be closed in 1994 and that an additional 10 percent be closed each year thereafter through 2002.

Unfortunately, the Administration and successive Congresses have failed to provide GS employees with the pay raises required by FEPCA. In fact, the law's mandates were ignored almost from the start. Although FEPCA mandated that 70 percent of the pay gap be closed by 1999, it will only have been reduced by 30.7 percent.

As reported in a recent Congressional Research Service report (Implementing the Federal Employees Pay Comparability Act: Results Since 1991 and the Federal Employee Pay Adjustment for January 1999), "FEPCA has never been implemented as originally enacted. In 1994, the annual pay adjustment was not provided and, in 1995, 1996, and 1998, reduced amounts of the annual adjustment were provided. For the years 1995 through 1998, reduced amounts of the locality payments were provided. (Only in 1994 was locality pay implemented as FEPCA required.)" The record of the Administration and successive Congresses raises the question of whether the law will ever be fully and faithfully implemented.

For 1998, for example, the pay raise was only 2.8 percent. The Congress remained silent on the issue of GS pay in the Treasury Appropriations conference report, subsequently signed into law by the President. The President's budget had earlier recommended a total pay raise of 2.8 percent for 1998, to be divided between the nationwide and locality adjustments. In September 1997, it was determined that ECI for 1998 would be 2.8 percent. After subtracting 0.5 percent, as required by FEPCA, the nationwide adjustment for 1998 was 2.3 percent. The Administration recommended to the Congress limiting the locality portion of the raise to just 0.5 percent, on average. After combining the nationwide and locality adjustments, the average pay raise for GS employees for 1998 worked out to only 2.8 percent—even though FEPCA said that those dedicated public servants should have had their pay boosted by much larger amounts. Last year, in fact, FEPCA authorized closure of 60 percent of the gap. That means GS employees should have received, on average, 10.5 percent increases in locality pay alone.

After several years of low-balling GS employees on their pay increases, the crusade begun under FEPCA to finally treat GS employees comparably with their private and public sector counterparts—by closing the pay gap with the non-federal work force—is far, far behind schedule. The lawmakers who crafted FEPCA insisted that the pay gap between federal employees and their private and public sector counterparts should have been closed to 17 percent by 1998. However, because of continued defiance of FEPCA, that gap actually now stands at 24 percent.

How much will the politicians' failure to follow FEPCA cost federal employees for just this year? Let's take three GS employees in Mobile, AL. A GS–4, Step 4, worker is making $20,697 this year. If the politicians had obeyed FEPCA, that same federal employee would now be making $21,928. A GS–8, Step 8, worker is earning $35,615 this year, but should actually be paid $37,735. And a GS–12, Step 8, worker who should be paid $60,439 in 1998 is actually making $57,050. Obviously, the differences between the "way it is" and the "way it ought to be" are not enough to retire on, put five kids through college, or pay for around-the-world cruises. But it is money which could undoubtedly be put to good use by the working and middle-class Americans who make up the federal work force. More importantly, it is money which FEPCA—and the lawmakers who wrote the law—say belongs to federal employees. Of course, those losses are just for 1998; they are neither cumulative nor adjusted for inflation.

Since 1994, the President has continued to deny federal employees increases called for under FEPCA based on a technicality—by claiming that an economic emergency exists of such severity that FEPCA must be disregarded. Economic emergency? The United States of America has experienced several years of strong economic growth. Moreover, the budget is in surplus—in large measure thanks to the incredible sacrifices made by federal employees, federal retirees, and their families. In fact, over the last eighteen years, the federal employee community has sacrificed over $180 billion to balance the budget. It's safe to say that no other specific group of Americans has done more to reduce the nation's indebtedness than federal employees, federal retirees, and their families. Based on data provided by the Office

of Personnel Management, between 1994 and 1998 federal pay raises were reduced approximately $29.6 billion below the increases called for under FEPCA. In fact, the largest share of those sacrifices has occurred through the failure of the Administration and the Congress to follow FEPCA. Now that those sacrifices have paid off, it's time for politicians to pay federal employees the raises that are their due under the law.

In conclusion, the Congress and the President should finally understand that paying GS employees what they deserve is a sound investment in the future of the federal work force. The continued defiance of FEPCA fuels the cynical view that seeking good faith compromises on issues of public policy is futile, because Congress and the Administration will always do what is easy, rather than what is right.

FEDERAL PAY—BLUE COLLAR

The Federal Wage System (FWS) is the federal government's pay-setting system for workers in crafts and trades occupations, often referred to as "blue-collar" workers. The FWS is designed to pay these workers according to the prevailing rates in the private sector of the local economy. The system's design, intended to provide federal blue collar employees with a fair wage and assure that the federal government can attract and retain high quality craft and trade workers, is sound. But the Congress has consistently imposed arbitrary pay caps that prevent the system from working properly and leave blue collar workers further and further behind their counterparts in the private sector with respect to compensation.

The goals of the FWS, which was enacted in 1972, have largely been ignored because Congress has imposed artificial limitations on pay increases that have nothing to do with private sector pay rates, and everything to do with penny-pinching politics. The comparability provisions of the FWS have been consistently disregarded by limiting increases to no more than the same percentage increase paid to white collar employees under the General Schedule, regardless of the percentage actually due to blue collar employees under the FWS. These "pay caps" have forced federal blue collar workers to see not only the real value of their pay decline, but also to have their own salaries fall further and further behind the rates paid to their counterparts in the private sector who perform similar work. The government continues to conduct careful surveys of private sector pay in 134 different wage areas around the country each year. These surveys are models for labor-management cooperation and produce statistically valid information on the rates of pay in the local private economy. Unfortunately, these results are ignored and treated as virtually meaningless due to the arbitrary pay caps that have been imposed annually since 1979.

Successive pay caps on the FWS have caused the government's blue collar workers to see a real, inflation adjusted decline in the value of their pay compared to their private sector counterparts. The pay gaps vary in different parts of the country. They also vary by grade. A WG–2 Janitor in Dothan, AL earns $8.26 per hour, while the prevailing rate for that work in the local private economy is $10.06. A WG–5 Warehouse Worker in Dothan makes $10.17, while his private sector counterpart makes $12.53. A WG–10 electrician earns $13.52, while the private prevailing rate is $16.55. In Oklahoma City, OK, the federal Janitor makes $10.03, while they pay $10.54 in the private sector. The Warehouse Worker makes $11.85 vs. $12.65 in the private sector. The Electrician earns $15.77, while the prevailing rate is $16.15. In San Bernardino, CA, the federal Janitor is making the same as the private prevailing rate, $8.34 per hour. The Warehouse Worker is also making the prevailing rate at $11.72 per hour. The electrician in San Bernardino still lags behind her private counterpart, earning $16.22 to the prevailing rate of $17.37.

Under FEPCA, the gaps between federal white collar pay and the rates in the local economy were so large that the costs of closing them had to be spread over nine years. Fortunately, no similar major overhaul of the blue collar pay system is needed to address the pay gap of that work force. First, the size of the FWS work force is much smaller than that covered by the General Schedule. As of December 31, 1997, there were only 244,000 blue collar employees; and that number continues to shrink steadily. In 1957, there were almost 750,000 federal blue collar employees, at a time when there were just under a million white collar workers. During the Vietnam War there were over 500,000 craft and trade workers. As recently as July 1993 the number was 333,295. DOD downsizing and often wasteful contracting out are the main factors contributing to this decline.

Second, FWS pay gaps are much smaller than those in the General Schedule. According to the Federal Salary Council, the average pay gap for the General Schedule pay localities this year was 28 percent. OPM found the average FWS pay gap as of December 31, 1997 to be only 4.94 percent. Less than one percent of federal pay blue collar workers have gaps in excess of 15 percent.

While the solution to the problem is more easily achieved for blue collar employees, the failure of the government to pay equitable wages will only grow worse if the Congress continues to arbitrarily impose caps on pay increases called for under the FWS.

In conclusion, the system Congress designed in 1972 to set federal crafts and trades wage rates in accordance with locally prevailing rates is sound public policy. AFGE has great confidence in the integrity of this system. The cooperation between management and labor unions in the implementation of the system is a model of partnership that is showing the way for others in the federal government. Congress should honor this policy and allow the system to resume operation without the imposition of arbitrary pay caps in fiscal year 1999.

OFFICIAL TIME FOR FEDERAL EMPLOYEE UNION REPRESENTATIVES

The Office of Personnel Management (OPM) was directed by the House Appropriations Committee to report by December 1, 1998, on the use of official time by federal employee unions. The report will cover official time activity for the first six months of calendar year 1998.

AFGE and other federal employee unions have been working closely with OPM and key federal agencies to ensure a reliable and accurate report. OPM created a working group of agency and union representatives who collaborated on the development of an official time survey and a set of instructions for all federal agencies covered by the Committee's request. The working group will continue to assist OPM in any way requested as the data is collected.

GOVERNMENT-WIDE CONTRACTING OUT

Mr. Chairman, as you may know, there's been some talk about attaching the latest versions of the "Freedom From Government Competition Act" (S. 314) to the Senate Treasury-Postal funding measure. I urge the Subcommittee to oppose such an effort. Moreover, I urge the members of this Subcommittee to oppose this legislation regardless of how it is advanced.

Although the latest versions of this legislation are styled as "compromises," little has changed from before. The latest Senate draft would replace OMB Circular A–76, the current system for competing commercial services between federal employees and contractor employees, with a more pro-contractor system and then put the government up for bid over a five-year period. Because of the documented lack of competition for government contracts, this legislation will likely increase costs to the taxpayers because so many contracts will be sole-sourced or divided up among a few bidders—as has historically been the case at the Department of Defense (DOD) and the Department of Energy (DOE), the two federal agencies which do the most service contracting. Adding to taxpayers' burdens, the staggering amount of waste, fraud, and abuse in federal service contracting which exists already will likely skyrocket once the government is put up for sale.

It is claimed that the federal government doesn't contract out enough and that OMB Circular A–76, the system by which federal employees and contractors compete for commercial activities, isn't used enough. But the federal government already contracts out at least $110 billion annually. That figure is somewhat arbitrary since it doesn't include a multitude of federal service contracting, like payments to Medicare providers. Even at that artificially low level, the federal government spends less annually on pay and retirement for its entire civilian work force of 1.8 million employees ($108 billion) than it does on service contracting.

While supporters of S. 314 admit that OMB Circular A–76 is being used extensively in DOD, they point out that it isn't often used in other departments. That's true. But does that mean there is no contracting out occurring outside of DOD? Certainly not! Approximately two-fifths of the more than $110 billion contracted out annually is from non-DOD departments. In the absence of OMB Circular A–76, it must be assumed that most of that contracting out is occurring without public-private cost comparisons. So supporters of S. 314 have a point, but not the one they intended to make: Although much contracting out is occurring outside of DOD, little of it is done under OMB Circular A–76—meaning that contractors are getting this work without competing against federal employees.

What's wrong with this legislation:

1. It would junk OMB Circular A–76 in favor of a more pro-contractor system. Federal employees used to regularly lose the competitions conducted under OMB Circular A–76. Only a few years ago, federal employees came out on the losing end 7 out of 10 times. Thanks to the efforts of federal employees to reinvent themselves, we now win one-half of the public-private competitions. It is this dramatic change

in fortunes for the contractors which has inspired this most recent effort to do away with OMB Circular A–76.

Moreover, if anything, it's federal employees who ought to be complaining about OMB Circular A–76. Under its guidelines, managers are entitled to contract out—without first doing a cost comparison—work involving 10 or fewer employees. For work involving 11 or more employees, cost comparisons can be waived for contractors. And the cost comparison process can be "streamlined" for work involving 65 or more employees.

It is inevitable that the public sector and the private sector will find fault with OMB Circular A–76. Jobs and money are at stake. It's been said that democracy is a terrible way to govern, but it's better than the alternatives. The same can be said of OMB Circular A–76. Federal unions and contractors participated extensively in the most recent revision of OMB Circular A–76. Neither side managed to achieve all of its objectives. Contractors and their political benefactors need to learn that compromises must be made when competing interests are at stake.

2. It would subject to public-private competitions work which is truly inherently governmental.

The latest draft of S. 314 would allow contractors to protest agencies decisions to keep work which is inherently governmental in-house. It would allow agencies to challenge in federal claims court agencies determinations of what's inherently governmental. The Senate draft would allow contractors to challenge agencies' awards in federal claims court. As might be expected, unions would be forbidden from both challenging agencies' decisions about what's inherently governmental and taking agencies to court about awards. Obviously, the intent is to allow contractors to bully agencies with costly and protracted litigation into forcing as much work to be contracted out as possible. Decisions about awards and what's inherently governmental should continue to be made by department officials who are most familiar with the services actually provided.

Moreover, both versions would involve politicians in the process by which work is determined to be inherently governmental or commercial. The new version of S. 314 requires departments to submit to Congress lists of the commercial services they provide. The resulting contractors' catalogues would invite a completely unprecedented and thoroughly unhealthy Congressional micromanagement of contracting out decisions.

In response to lobbying by constituents back home, politicians are sure to use their influence to have particular services classified according to their preferences, rather than how they should be classified. While some politicians may intervene on behalf of federal employees, let's face the facts: contractors have deeper pockets and are thus more capable of getting their way. The result of all this politicalization: services which are truly inherently governmental bid will be put up for bid and perhaps steered towards well-connected contractors.

3. It would put the government up for sale over five years by mandating public-private competitions under a pro-contractor successor to OMB Circular A–76 for an expansively-defined list of commercial activities—regardless of how well federal employees are actually performing their jobs.

Federal employee unions understand the value of public-private competitions within the context of OMB Circular A–76. Clearly, work should not be contracted out without the benefit of public-private competition. And just as surely as OMB Circular A–76 gives managers the discretion to subject commercial work to public-private competitions, it also gives managers the discretion not to compete work when federal employees are doing their jobs satisfactorily.

Supporters seem to take the position that any commercial work not subject to public-private competition and still performed by federal employees is inherently suspect, i.e., that there must be a conspiracy afoot to keep that work in-house. After 12 years of Reagan-Bush political appointees, who largely disdained the public sector, and 5 years of Clinton political appointees, who have racked up the largest service contracting out bills in the nation's history, it would be difficult to argue that the reason more work hasn't been contracted out is federal employee protectionism. Sometimes, the real explanation is also the simplest: federal employees consistently deliver services departments' customers need at the prices taxpayers can afford. And if federal employees are performing at least satisfactorily, there's no need to impose public-private competitions.

Worse, lawmakers already have the power to compel public-private competitions under OMB Circular A–76 if they think it to be proper. As is often the case in DOD, lawmakers—presumably after careful study and consultation with experts—can intelligently determine whether a particular activity should be considered for contracting out and impose that requirement in law. That makes more sense than blindly

subjecting to competition every commercial activity in every single federal agency over a five-year period.

Finally, it must be noted that the savings generated from this disruptive system of around-the-clock competitions would be one-time and likely disappear soon thereafter. Work contracted out is unlikely to ever be brought back in-house because of the expense of recapitalizing in-house capability and reassembling and retraining the necessary staff. That means, the taxpayers will become vulnerable to sole-source contracting—as has been the case at DOD and DOE, which have done the most contracting out—because of the absence of private-private competition. Not only will the one-time savings be quickly consumed but taxpayers could be left on the hook in perpetuity because of the absence of effective in-house competition. As Representative Norm Sisisky (D-VA), a businessman before entering politics, has said repeatedly: "If you kill the public sector, you kill competition."

This legislation fails to address several outstanding issues:

1. Our current contract administration system is already busted and broken beyond repair. Much of it is on the General Accounting Office's (GAO) list of federal services subject to waste, fraud, and abuse. OMB, departments, and outside experts like GAO report that the government cannot adequately supervise all of the service contracting it undertakes right now. Imagine what will happen when the government is put up for sale over five years! The "revolving door" phenomenon—whereby managers direct work towards contractors they intend to work for upon retirement, would surely increase throughout the government—is also left unaddressed by the draft.

2. Arbitrary personnel ceilings are already forcing work to be contracted out. Departments don't have enough employees, so they simply contract out the work without any public-private cost comparisons. That's not just what federal employee unions say. That what departments say. That's what inspectors general, GAO, and outside experts say. For several years, politicians have been bragging about reducing the number of federal employees. But what the American people haven't been told is that a "shadow work force" is being hidden on the payrolls of thousands of federal contractors. That is, federal employees are being replaced with contractor employees—often at greater expense.

Departments should be required to manage by budgets. If they have the money, then they should be allowed to keep or hire the necessary number of federal employees to perform the work if they would provide more efficient and more effective service than their private sector counterparts.

Unfortunately, these bills doesn't require departments to manage by budgets. Instead, they would leave federal employees with the worst of both worlds: they would be forced to compete all of the time but would often be prevented from actually competing for work because they couldn't keep on or hire sufficient in-house staff to do the work.

3. Champions of contracting out say that private sector firms generate savings for taxpayers by devising more efficient ways of delivering services. However, much contracting out is done to shortchange employees on pay and benefits; and, often, contracting out is done to avoid unions. Nothing in the legislation would force contractors to devise better ways of delivering services and reduce their incentive to provide substandard wages and benefits. When the budget is in surplus, the economy's booming, but income distribution grows worse and worse, how can the federal government justify replacing working and middle class Americans with poorly-paid, contingent workers?

4. Despite the dislocation that would obviously result from enactment of this legislation, no provisions are made for soft landings, job training, and employment assistance.

I urge the members of this Subcommittee to oppose S. 314, whether offered as an amendment to the Treasury-Postal appropriations bill or as stand-alone legislation.

CONCLUSION

Mr. Chairman, I thank you for inviting AFGE to share with you the perspectives of rank-and-file federal employees. I am eager to answer any questions you and your colleagues might have for me.

PREPARED STATEMENT OF ROBERT M. TOBIAS, NATIONAL PRESIDENT, NATIONAL TREASURY EMPLOYEES UNION

Chairman Campbell, Ranking Member Kohl and Members of the Subcommittee, my name is Robert M. Tobias, and I am the National President of the National

Treasury Employees Union (NTEU). On behalf of the men and women who collect the revenue for the federal government, fight to curb the flow of narcotics and contraband into our country, and enforce our trade laws, I would like to thank you for this opportunity to present our Union's views on the President's proposal for fiscal year 1999.

IRS and Customs are the two main revenue collection agencies of the Federal government. They are also front line enforcement agencies for our tax and trade laws, assuring equitable sharing of the tax burden, and protecting our nation from illegal imports. Both agencies continue to confront rapidly increasing workloads with relatively static manpower and fiscal resources.

INTERNAL REVENUE SERVICE

The total budget request for fiscal year 1999 is $8.196 billion and 100,829 FTE. In addition, the IRS budget includes a request for $143 million and 2,184 FTE in funding outside the caps for the Earned Income Tax Credit. The total budget request includes a net increase of $529 million and 1,232 FTE over the fiscal year 1998 level. Of this increase, $176 million represents part of the cost that would be needed to maintain the current level of operations, taking into account inflation and mandatory pay increases. The remaining increases represent increases dedicated to improved near-term customer service ($103 million), near-term and long-term technology investments ($227 million) and organizational modernization ($25 million). NTEU fully supports the President's request for IRS funding in fiscal year 1999.

NTEU believes that the President's budget proposal is the absolute minimum required to begin a reinvention of the IRS "around taxpayers needs." However, there are others in the Congress who are seeking to gut the IRS budget instead of providing the resources indispensable to that necessary restructuring. The Senate Budget Committee's recent action to cut the President's request for the IRS by 6 percent—some $500 million—makes no sense. It is the wrong cut in the wrong place at the wrong time.

Mr. Chairman, the plain fact is that no one, not even the Congress, can have it both ways. We cannot expect the IRS to do what we say we want it to do to eliminate problems if we cut its budget. That does not make any sense.

Last September's hearings by the Senate Finance Committee pinpointed a variety of problems in the agency's systems and processes. In turn, the hearings also generated a great many proposals as to how to solve many of these problems and an expectation that the Congress and this Administration would immediately take steps to respond to the needs of its customers—the American taxpayers.

Both the recently announced Gore-Rubin "Reinventing Service at the IRS" report and the President's budget are solid first steps in response to taxpayers' concerns. The Congress should not ignore them. As the new IRS Commissioner, Mr. Rossotti, advised both the Senate and House Appropriations Subcommittees in early March: "The fiscal year 1999 budget we are requesting is absolutely essential to begin this long-term transformation."

Among the funding initiatives proposed for fiscal year 1999, NTEU believes that the Congress should consider the $103 million for near-term improvements in customer service as one of its highest priorities.

NTEU members have first-hand knowledge of what the American taxpayers expect and have been working with the new Commissioner, Mr. Rossotti, to do all that we can within existing resources to improve customer service. Despite all the shortcomings of the IRS, the employees are performing exceedingly well in comparison to any similar organization in the world.

Over the past four fiscal years, fiscal year 1995 to fiscal year 1998, the IRS collected 24 percent more revenue, 8 percent more returns with 13 percent fewer resources, or more than $1 billion less, in constant dollars. In fiscal year 1995, the IRS processed 193.3 million returns. In fiscal year 1998, it is expected to process 208.4 million returns. In the past year, the total tax revenue collected rose by more than $70 billion while the agency processed another 5.8 million returns. Revenues were $1.36 trillion in fiscal year 1996; $1.5 trillion in fiscal year 1997; $1.58 trillion in fiscal year 1998, and projected revenues for fiscal year 1999 are $1.64 trillion. In addition, the accuracy rates for tax law inquiries, accounts information and refunds have dramatically improved.

In fiscal year 1995, the cost to collect $100 of revenue was 59 cents, 53 cents in fiscal year 1996, 48 cents in fiscal year 1997, and in fiscal year 1998, the cost to collect $100 should drop to 47 cents. No tax collection agency anywhere comes close, much less matches the IRS cost per dollar of revenue raised. Most democracies spend nearly three to four times that much, $1.25 to $1.70, to collect $100 in income tax revenue.

In 1997, the 102,000 IRS employees collected more than $1.5 billion, processed 215 million tax returns, issued almost 88 million refunds, assisted more than 110 million taxpayers, distributed more than one billion forms and publications, sent 70 million notices and letters to taxpayers, processed more than one billion information documents, completed more than 1.5 million audits and assessed $10.4 billion on delinquent returns. In fiscal year 1998, the IRS will answer more than 120 million telephone calls, provide walk-in service to nearly nine million taxpayers, and will examine nearly 1.3 million individual returns.

Mr. Chairman, with so many of the agency's numbers going in the right direction, IRS workers find it bewildering that so many in the Congress remain so hostile to their achievements. The Senate hearings last Fall were devastating, but continued attacks by some in the Congress upon the IRS are having a crippling effect on the IRS' ability to perform its core functions.

NTEU considers Senator Faircloth's bill, S. 1690, even more counterproductive than the Senate Budget Committee's actions. The IRS employee base has already dropped more than 11 percent since fiscal year 1995. Our nation can ill afford to lose a third of its core tax law enforcement personnel at the IRS to the Drug Enforcement Agency or any other agency.

CUSTOMS FISCAL YEAR 1999 BUDGET

Mr. Chairman, the President's fiscal year 1999 budget request provides $1.7 billion and 16,655 FTE for Salaries and Expenses for the U.S. Customs Service, an increase of $117.8 million and 111 FTE over the fiscal year 1998 enacted levels. In addition, the President has submitted a legislative proposal for $48 million to increase the rate of the Merchandise Processing Fee (MPF) to offset the costs of modernizing Customs automated commercial operations.

NTEU believes this request is the bare minimum to meet Customs' responsibilities to interdict illegal drugs and perform its many other responsibilities, including the inspection of high-risk shipments to assure proper manifest recording and duty payment; resolution of discrepancies related to inbound shipments; trade enforcement at bonded warehouses and foreign trade zones; non-proliferation related export enforcement; anti-money laundering enforcement, and the protection of domestic intellectual property rights. The new positions requested for fiscal year 1999 will be used to strengthen Customs' ability to disrupt normal smuggling channels, enhance investigative and intelligence capabilities and improve the child labor enforcement program.

In fiscal year 1999, Customs estimates it will process 379.4 million land border passenger arrivals, 81.5 million air passenger arrivals and 10 million sea passenger arrivals. Customs estimates that 122 million vehicles, 136,000 aircraft, and 225,000 vessels will enter our ports during the current fiscal year. Most significantly, Customs expects an increase of 13.5 percent in the number of railcars coming into the U.S. and an increase of 9 percent in the number of commercial aircraft arrivals (420,000 railcars and 850,000 commercial aircraft).

In fiscal year 1999, Customs estimates it will seize more than 160 thousand pounds of cocaine (2500 seizures), 780 thousand pounds of marijuana (13,000 seizures) and 3 thousand pounds of heroin (1,250 seizures). In contrast, Customs in fiscal year 1995 seized 158.3 pounds of cocaine (2,228 seizures), 658.6 pounds of marijuana (10,221 seizures) and only 2.2 thousand pounds of heroin (928 seizures).

Despite the record of achievement in so many law enforcement areas, the vast majority of Customs employees still do not qualify for law enforcement status. As in past years, NTEU will continue its efforts to enact legislation to end this disparity in this Congress. While we appreciate the significant budget implications, we believe that denying the brave men and women of the Customs Service the same employment rights of other federal employees who risk their lives every day to combat the trafficking of drugs and other dangerous illegal import activity is unjust.

FEDERAL PAY ISSUES

NTEU also has concerns regarding the proposed 3.1 percent pay raise for federal workers in 1999. Almost 40 percent of the federal work force has a college degree. The jobs, like making computer year 2000 compliant, are very challenging and important. If the federal government is going to be able to recruit and retain some of the country's best and brightest workers, we must provide wage levels comparable to their private sector counterparts. Today's federal work force today is smaller than any since the Kennedy administration. Many who criticize the federal work force fail to acknowledge the substantial growth in the number of Americans served per federal worker. Only a work force that is working harder and smarter can keep up with these demands.

The Federal Employees Pay Comparability Act (FEPCA) of 1990 established fundamental changes in setting federal employee pay and created a system for paying federal employees on a local, rather than national basis. Under FEPCA, federal employees were to receive an annual nationwide pay adjustment and a locality-based comparability adjustment designed to begin to close the gap between federal and private sector salaries measured at approximately 30 percent.

Although FEPCA resulted from a 4-year bipartisan effort, it has never been implemented as intended. On January 1, 1999, 70 percent of the pay comparability gap between federal and private sector employees should be closed. In reality, with only 4 years remaining under the timetable set by FEPCA for achieving pay comparability between federal and private sector salaries by 2002, less than 30 percent of the salary gap has been closed.

FEPCA authorizes the President to issue an alternative pay proposal in the event of "national emergency or serious economic conditions affecting the general welfare". Each year, the President has used this loophole and declared an economic emergency. This has resulted in an arbitrary pay setting policy with no apparent rationale. Rather than catching up with their private sector counterparts, federal employees have continued to fall behind. Congressman Steny Hoyer (D-MD) and Senator Paul Sarbanes have introduced legislation to restrict the Administration's authority to claim economic emergencies and issue alternative pay proposals. NTEU heartily endorses the Hoyer/Sarbanes legislation (H.R. 3251 and S. 1679).

Our Nation currently enjoys sustained economic growth, shrinking deficits and the possibility of vast budget surpluses. That the federal budget is on the verge of being in balance is, in part, a reflection of the sacrifices made by federal employees. They are working harder and smarter as part of a work force that has declined by more than 300,000 employees and is the smallest since 1964. They perform their jobs despite restrictions on training and promotions and in the face of terrorist attacks, lockouts and layoffs as well as pay and benefit cuts totaling more than $220 billion over the last 20 years.

The President's fiscal year 1999 budget recommends a 3.1 percent pay raise in January, 1999. To meet FEPCA's goal of achieving full comparability by 2002, an average 17 percent increase would be required. NTEU urges the Committee to consider action that would address this inequity.

Mr. Chairman, thank you and the Members of the Committee again for the opportunity for our Union to present its views on the proposed budgets for fiscal year 1999 for Internal Revenue Service and U.S. Customs Service and compensation to federal employees.

PREPARED STATEMENT OF THE AMERICAN ASSOCIATION OF RETIRED PERSONS

The American Association of Retired Persons (AARP), appreciates this opportunity to comment on appropriations next year for the Tax Counseling for the Elderly (TCE) program. This cost effective activity provides free tax assistance for low and moderate income older people. The AARP Foundation—a separate 501(c)(3) corporation—operates the AARP Tax Aide Program, which is the largest of the TCE programs.

The Association deeply appreciates the Subcommittee's continued support of Tax Counseling for the Elderly. Enacted in 1978, TCE improves taxpayer compliance measurably by helping to ensure that more tax returns are prepared completely and accurately. At the same time, TCE volunteers inform taxpayers about their obligations and assist them in fulfilling their responsibilities. The agency reports that many taxpayers with incomes below the minimum level required file tax returns needlessly each year. This results in unnecessary costs to both the taxpayer and the Federal government. TCE helps prevent such occurrences.

TCE volunteers are also actively involved in electronic filing and other alternative filing methods, all of which increase the accuracy of tax returns while reducing Federal processing costs. TCE involvement in this arena is growing, and is helping to reduce IRS expenses.

The Tax Counseling for the Elderly program has enabled IRS to assist aged minorities more effectively as well as disabled and hard-to-reach taxpayers such as the rural elderly and shut-ins, especially those residing in nursing homes or senior citizen housing. In 1997 TCE sites offered assistance in 25 languages, including American sign language.

Given the discretionary caps, AARP supports the Administration's recommended $3.7 million freeze for TCE next year. The value of TCE has been amply demonstrated over the years, and is reflected in growing demand for assistance. A report issued five years ago by the General Accounting Office (GAO) indicates that in 1992,

TCE accounted for the preparation of more than four times the number of returns prepared at Internal Revenue Service (IRS) walk-in sites. More than 31,000 volunteers are involved in TCE services at more than 10,000 sites across the country. In addition, the agency's annual Individual Master File (IMF) reported a 95 percent mathematical accuracy rate for TCE returns in 1997, which was comparable to or higher than those for other categories of preparers. When the program first began, it helped 846,000 elderly taxpayers prepare their tax returns. Currently, over 1.5 million people receive tax counseling annually. We do not have complete data for the current tax season, but we expect TCE to continue to grow in the future. There are several reasons why this is likely to happen.

First, the elderly population is increasing.

Second, the complexities of our tax code cause many aged taxpayers particular difficulty in computing their tax obligations. Moreover, many aged citizens are not aware of the changes made in our tax laws over the past few years.

Third, the Internal Revenue Service has increasingly turned to TCE programs for assistance, in large part because budgetary constraints have stretched the ability of the agency to respond directly to numerous public inquiries. Volunteers are contributing millions of hours annually in direct public service to older taxpayers.

TCE volunteers are dedicated to the program and are committed to helping others. TCE volunteers are also committed to ensuring that older taxpayers with dependent children or grandchildren are made aware of their eligibility for the earned income tax credit (EITC). Many older low income wage earners find themselves responsible for providing care for their dependent children or grandchildren. EITC is an important benefit for these individuals.

The TCE program will continue to participate in successful IRS efforts such as the Reduce Unnecessary Filing (RUF) initiative. In 1997, the agency notified 630,000 taxpayers that they might not have to file a Federal return. Data indicate that 75 percent of the RUE letters were sent to taxpayers 61 years of age or older. Many of these older individuals approached TCE sites in order to receive confirmation that they did not need to file a return that year.

Thank you again for this opportunity to comment on appropriations next year for the Tax Counseling for the Elderly program.

PREPARED STATEMENT OF DANIEL W. MCKINNON, JR., PRESIDENT, NATIONAL INDUSTRIES FOR THE SEVERELY HANDICAPPED [NISH]

Mr. Chairman and members of the Subcommittee, my name is Daniel W. McKinnon, Jr. and I am President of NISH, formerly known as the National Industries for the Severely Handicapped. I want to thank you for this opportunity to discuss your role in supporting one of the United States' most successful government programs, the Javits-Wagner-O'Day (JWOD) Program and urge you to fund the Committee for Purchase from People who are Blind or Severely Disabled's (Committee for Purchase) request of $2.464 million for fiscal year 1999.

I am submitting testimony this year in particular because it is the 60th anniversary of the Wagner-O'Day Act, an Act created to help provide employment opportunities for people who are blind through the federal procurement process. Twenty-seven years ago, the program was expanded to provide employment opportunities for people with severe disabilities other than blindness.

NISH's responsibility in this program is to maximize employment opportunities for people with severe disabilities through providing professional and technical assistance to not-for-profit Community Rehabilitation Programs (CRP's) to enable their participation in the JWOD Program. NISH is the Central Nonprofit Agency designated by the Committee for Purchase from People who are Blind or Severely Disabled to provide assistance to CRP's interested in obtaining federal contracts under the JWOD Program. Founded twenty-four years ago by United Cerebral Palsy Association, National Easter Seals Society, The ARC, Goodwill Industries International, National Association of Jewish Vocational Services and the American Rehabilitation Association, NISH is proud to be part of the accomplishments of the past 60 years.

In 1997 nearly 32,000 people with severe disabilities were employed on JWOD projects. These individuals worked 26 million hours and earned $172.6 million in wages. NISH associated JWOD employees earned an average of $6.79 per hour. Of these individuals approximately 2,500 people with disabilities moved into other community jobs based on their JWOD training and experience.

These results come about by a simple process. A small slice of the annual federal market of $200 billion purchases of products and services is made available to CRP's who train and employ people with disabilities. Government contracts result in em-

powerment and independence for people who face often tremendous barriers to employment. These are men and women who are not fully benefiting from record 4.7 percent unemployment, the lowest in 25 years. Great advances have been made in the past years in the employment of people with disabilities because of the Americans with Disabilities Act and slowly changing public perceptions. Nevertheless, their unemployment stands at almost 70 percent and so much remains to be done. Although small, JWOD is an outstanding government sponsored program that is addressing this problem. Typically these job opportunities are in the service industries and include such positions as food service attendant, building maintenance, mail room operative, shelf-stocker, etc.

The government agency responsible for these results is one of the smallest in the federal government, the Committee for Purchase from People who are Blind or Severely Disabled. The Committee for Purchase has a modest staff of 19 with responsibilities that are vast. Their duties include evaluating projects, making determinations relative to adverse impact on other potential contractors, approving projects, establishing the government's price, overseeing the regulatory requirements of the program, and handling many other details of this unique program. Easily the old phrase, "Never so few . . ." applies to this agency.

And who are the organizations that are bringing in the results? They are today's modern Community Rehabilitation Programs, or CRP's, that exist in every community and town. Almost 2,000 are associated with NISH. You may know them by names like Goodwill Industries, Easter Seals, or many other very uplifting titles such as Pride Industries, REACH Incorporated, Project Hired, The Opportunity Center, Able Industries of the Pacific, and Challenge Unlimited. They are managed by today's new Social Entrepreneurs—men and women who use their business skills to help others achieve independence through employment. Not only do they provide training and employment through JWOD projects and other vocational programs, they are stepping forward to provide housing, transportation, and other services the community needs when government cannot or should not. They are in the forefront of self-reliance and self-help, the American way. A JWOD project provides remarkable leverage and contributes to a CRP's ability to change lives. Teamed with the Committee for Purchase under JWOD, they engage in a wonderful public/private partnership that is easily described as "government at its best."

In recognizing the 60th year of the JWOD program, I would like to highlight a few figures from the past twenty years. In 1978, this Committee provided funding for the 10 staff member Committee for Purchase from People who are Blind or Severely Disabled. In 1978 nearly 5,000 people with severe disabilities worked 3.5 million hours on JWOD contracts totaling $84.6 million.

Twenty years later, in 1998, the Committee for Purchase from People who are Blind or Severely Disabled is still one of the smallest federal agencies with a staff of 19. Last year nearly 32,000 people with disabilities work 26 million hours on JWOD contracts totaling $793.2 million. The Committee for Purchase's modest budget is more than offset when people with disabilities return to work and become contributing members of our economy.

We thank this Committee for its continuing support in funding the Committee for Purchase. Given its relatively small budget and staff, it has done remarkable work and achieved outstanding results. We at NISH are proud to assist both CRP's and the Committee for Purchase achieve those results.

The following are two stories typical of the JWOD program. The first is about Marie-Terese Henderson who works with Goodwill Industries of Central Florida in Orlando, Florida.

Today, Marie-Terese still stuns people. Six years ago, she suffered multiple trauma and fractures, compounded by a severe head injury as a result of a car accident in which she was a passenger. When police arrived on the scene, they were shocked to find Marie-Terese alive. Once she gained consciousness in the hospital, it became apparent that she would have to learn to breathe, swallow, talk and walk again.

Marie-Terese still experiences difficulties as a result of the accident. She has double vision, is frequently unable to maintain her balance, lacks coordination, has no short-term memory and suffers with bouts of chronic depression. In spite of these challenges, she has worked on a Javits-Wagner-O'Day project as a supply technician at the Naval Air Warfare Center in Orlando, Florida among 1,500 military personnel. A steno pad is her compass, reminding her each day what her job entails. Without her volumes of notes, every Monday would seem like the first day on a new job.

Despite the barriers imposed by her disability, Marie-Terese controls a fleet of government vehicles, maintains and processes invoices for shipping, assigns priority for printing requests, and manages the maintenance of service contracts. Due to her exceptional abilities and strong, compassionate character, Marie-Terese is a model employee at Goodwill Industries of Central Florida. "She is extraordinarily efficient

and organized in carrying out her job," said Patricia Carr, her Vocational Counselor. "She has compensated for her disability by relying on her own notes and a unique system that works best for her."

A model employee, Marie-Terese has taken the initiative to make suggestions that have boosted workplace morale. In addition, she has demonstrated excellent customer services skills, and she has been a determined advocate for herself and other people with disabilities. She doesn't dwell on the disabilities her coworkers may have, rather, she recognizes the capability of the person. "Marie-Teresa is a team player who helps out wherever she is needed," said Dean Bosnak, Goodwill's Project Manager at the Orlando Naval Air Warfare Center.

The second story is of a former JWOD employee who has found employment in another community job. Marian Hollars began work at the Work Services Corporation (WSC) in Wichita Falls, Texas, on March 3, 1968. With Down's Syndrome and mental retardation, Marian's medical and vocational prognosis at the time stated that the best employment setting for Marian would be a sheltered environment. Marian worked at WSC, primarily producing paper clips with a JWOD project.

As she watched several of her coworkers move into employment outside the facility, Marian decided that she wanted to follow their example. Through her persistence, Marian was able to convince the CRP to find her another job a few months later. With the help of a local employer, an aggressive job development employee, and an innovative CRP, on June 6, 1996, at age 46, Marian started working at Bargain Depot, a local retail store. Initially, Marian's duties were limited to greeting customers and returning grocery carts from the parking lot to the store. But this wasn't enough for her. Through her own initiative, Marian expanded her duties to include stocking shelves, cleaning up spills, and helping cashiers bag merchandise. The store manager was so impressed with Marian's performance that she decided to add tasks in the store lunch counter to Marian's daily schedule. Marian passed the Wichita County Health Department Food Handler Test on the first try. As a result, today she fills food orders and cleans counters, tables and trays in the lunch counter, in addition to a variety of other duties within the store.

The store manager, Sarah Norton, reports that "Marian makes the decisions as to the priority of her tasks. She works on her own with very little supervision. She sees what needs to be done, and very quickly carries it out enthusiastically." There were concerns about Marian's ability to communicate and interact with coworkers and the general public, but these concerns proved to be unfounded. Norton states, "my regular customers love Marian and she can greet most by name. Our employees have nothing but love, respect and praise for Marian."

Marian is extremely active in her community. She is a member of People First, the ARC of Wichita County Self-Advocacy group and has represented them as a delegate to the Texas State Conference for the past six years. Marian actively participates in programs at her church, the Faith Village Church of Christ, attends a weekly bible study, and although she cannot read music, she sings with her church choir. On the job at Bargain Depot, Marian conducts tours for special education students from area high schools. A special education teacher has commented that Marian's success is a source of inspiration for her students.

These two Americans are typical examples of people all over the country who are benefiting, or have benefited from the JWOD program. Mr. Chairman and members of the Committee, you've helped make this possible.

For fiscal year 1999, the Committee for Purchase has requested $2.464 million. NISH supports this request because the need for training and employment of people with disabilities is so vast...because the way government does business is ever changing... and because the Committee for Purchase has such a large role in ensuring that people with severe disabilities continue to have employment opportunities. We would like to thank you Mr. Chairman and members of the Committee, for your continuous support for this small federal program with such a big return. Because of the 60th Anniversary, we felt it was necessary to provide you with input, thanking both this Subcommittee and the Committee for Purchase for maintaining one of the most successful government programs ever established. We hope you will allow us to present in person next year on the 25th Anniversary of NISH.

PREPARED STATEMENT OF SHARPE JAMES, MAYOR, CITY OF NEWARK, NJ

Newark, New Jersey, the largest City in the state, is a regional hub of State and Federal government operations, as well as home to municipal and County government. The Federal presence includes such locations as office buildings, courts and postal facilities. Thousands of visitors and employees access Federal services in

Newark daily, and their safety and security has become an important issue for the City.

In the aftermath of the tragedy in Oklahoma City, extraordinary security measures were put into place around Newark's Federal complex. Streets through and surrounding the buildings were closed, metered parking spaces were eliminated, and an additional municipal Police presence was established. As time has passed, these actions have become part of an overall permanent Federal security plan for the area. Since Newark's Police Headquarters, Municipal Courts, and City Hall itself are immediately adjacent to the Federal complex, forming what is called Government Center, the Federal plan has had a marked impact on the ability of citizens to access not just Federal services, but Municipal ones as well.

The City government has worked cooperatively with Federal authorities on this critical issue over the past two years, and the City has absorbed the expenses of these measures. However, we are seeking your assistance in recovering costs that the Newark municipal government has incurred in advancing the security of Federal facilities.

The local Federal officials have requested the permanent closing of five (5) streets to vehicular traffic, and that the streetbeds be deeded over to the Federal government to allow permanent access control. An independent appraisal has valued this property at $3 million. In addition, the City has lost revenues from 21 parking meters surrounding the Peter Rodino Federal Building, which had been high turn-over spaces, as well as from longer-term parking on adjacent streets. Further, summons revenue in the area has been eliminated, while Police overtime and patrol costs have skyrocketed, averaging at least $13,000 per month. The street closings have dramatically shifted both the traffic and parking patterns in the Government Center area, causing further congestion and delays in the already clogged area, and when they become permanent, the City will have to make a substantial expenditure for traffic engineering items such as traffic studies, resignalization and signage replacement. It is estimated that the total of all of these expenses has exceeded four million dollars ($4,000,000). We are seeking the assistance of this committee in securing compensation for these expenditures.

In a related matter, several years ago it was recognized that the United States Post Office distribution facility in the Federal complex had become crowded and obsolete. In an effort to save Newark-based jobs and comply with the intent of Executive Order 12072, which directs federal agencies to be located in downtowns, the City of Newark entered into discussions with postal officials about locating a new mail handling facility in the heart of Newark's major redevelopment area. The original concept was for the USPS to acquire over 17 acres for the 300,000 square foot operation, to employ 1,200 workers. However, our current realities of downsizing and budget cutting have impacted on this project too.

Current plans for a site of only 4.5 acres to house a much smaller and less ambitious project. It will now accommodate the functions of the relocated 07103 branch facility, which is situated within the University Heights redevelopment area. A new Post Office in this neighborhood will service the thousands of new housing units- public, private, market-rate and low-income- which have been or will be constructed in the area. It is estimated that site acquisition, required relocations, site preparation and construction of a modern postal facility will cost five million dollars ($5,000,000). These funds will be the first Postal Service investment in a Newark neighborhood in decades, and show, in bricks and mortar, the Federal commitment to Newark, its people, and its jobs.

To conclude: I ask you for help in coping with the changing situation in Newark. It is my understanding that GSA has requested $250 million to upgrade security at Federal facilities throughout the country. We support that request, and urge the Subcommittee to include language in the bill that will direct some of these funds to be spent on the projects noted above.

We have felt the ripples of the impact of a terrible tragedy, and ask for your help in dealing with them. And we have built a new neighborhood, with much Federal assistance, and ask for your help in completing a community by providing an essential service to its residents. Your help today can make the difference.

PREPARED STATEMENT OF DR. RAYMOND E. BYE, JR., ASSOCIATE VICE PRESIDENT FOR RESEARCH, FLORIDA STATE UNIVERSITY

Mr. Chairman, thank you, and the Members of the Subcommittee, for this opportunity to present testimony. I would like to take a moment to acquaint you with Florida State University. Located in the state capital of Tallahassee, we have been a university since 1947; prior to that, we had a long and proud history as a semi-

nary, a college, and a women's college. While widely known for our athletics teams, we have a rapidly emerging reputation as one of the Nation's top public universities. Having been designated as a Carnegie Research I University several years ago, Florida State University currently exceeds $100 million per year in research expenditures. With no agricultural or medical school, few institutions can boast of that kind of success. We are strong in both the sciences and the arts. We have high quality students; we rank in the top 25 among U. S. colleges and universities in attracting National Merit Scholars. Our scientists and engineers do excellent research, and they work closely with industry to commercialize those results. Florida State ranks seventh this year among all U.S. universities in royalties collected from its patents and licenses. In short, Florida State University is an exciting and rapidly changing institution.

Mr. Chairman, let me describe a project that we are pursuing this year. Florida State University is proposing the creation of The Institute on World War II and the Human Experience. The generation that fought World War II is gradually disappearing and, unfortunately, much of the history they represent is not being systematically and professionally preserved. One of the major sources of information about WWII is the personal papers, letters, diaries, oral histories, and memorabilia collected by the veterans. The major focus of the Institute is research on and preservation of materials relating to the molding and survival of the individual in World War II. The emphasis is on the experiences of ordinary men and women, military and civilian alike, amid the pressures of wartime life. Located currently on the campus of Florida State University, the Institute is seeking funding for archival space and resources for its rapidly expanding collections. We are exploring a partnership with the National Archives and other governmental or academic units as well.

Mr. Chairman, the WWII Institute will make an important contribution to conserving our Nation's history. Your Subcommittee's support for those activities such as this Institute which will preserve for all Americans the memory of these brave citizens is greatly appreciated. Those investments are crucial ones for our Nation's future. Thank you again for this opportunity to present these views for your consideration.

PREPARED STATEMENTS OF CYRUS M. JOLLIVETTE, VICE PRESIDENT FOR GOVERNMENT RELATIONS, UNIVERSITY OF MIAMI

APRIL 2, 1998

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to present testimony on behalf of the University of Miami. As the Committee prepares its fiscal year 1999 appropriations bill, we respectfully ask for your favorable consideration of the University's proposal concerning the use of the U.S. Naval Observatory/Alternate Time Service Observatory in Perrine, Florida.

The University of Miami Rosenstiel School of Marine and Atmospheric Science (Rosenstiel School) proposes to establish a satellite data ground receiving station on the former U.S. Naval Observatory/Alternate Time Service Observatory property, Perrine, Florida. The existing Very Long Baseline Interferometry (VLBI) antenna and the existing ancillary hardware and buildings are ideal for this purpose. The new ground receiving station will enable the Rosenstiel School to pursue a variety of research and educational activities in the general area of land and ocean remote sensing, with an emphasis on applications in geological science, oceanographic science, and environmental monitoring and environmental science. The facility will be used for critical scientific research and graduate and undergraduate training.

The Rosenstiel School proposes to maintain at the U.S. Naval Observatory/Alternate Time Service Observatory site the long established history of high precision geodetic observations. These observations are currently performed by the dual frequency Global Positioning (GPS) System operated by the National Oceanic and Atmospheric Administration (NOAA), periodically supplemented by satellite laser ranging observations from Geodetic Monuments such as "TIMER," first occupied in the 1960's. The long time series of geodetic observations at these monuments have been critical for defining the terrestrial reference frame, for understanding variations in earth rotation rate (length of day) and polar motion, and for high precision satellite tracking. Laser calibration piers at various locations around the property, up to 200 meters from the main mark, are useful in this regard and should be maintained. The long-term preservation of the main geodetic marks is a high priority.

Similarly, the University of Miami proposes to maintain a dedicated monument for absolute gravity; absolute gravity measurements were begun at the Richmond VLBI site in 1990. Also, the Rosenstiel School proposes to locate a long-term geologi-

cal core sample storage facility on the site. This facility will enhance research, training, and education in paleoclimate and paleoecology of the Caribbean and Inter-American Seas. The University of Miami is the nation's premier expert in these fields.

The Synthetic Aperture Radar (SAR) receiving facility will also provide crucial information during the passage of hurricanes or severe tropical storms in the region. Such information complements current satellite and aircraft observations already obtained and used by NOAA, the Air Force, Navy, and academic institutions in the region. These SAR data, which will permit the determination of parameters such as wind speed and direction directional wave-spectra, would establish critical boundary conditions for regional forecasting models and potential estimation of storm impacts on coastal property, beach erosion, and consequent flooding.

While highly specialized scientific research will be the principal activity, graduate and undergraduate education and training will be conducted at the site. As an example:

—the classroom oriented Satellite Oceanography program at the Rosenstiel School will offer a remote-sensing laboratory, which will focus on the processing, interpretation and use of satellite data pertinent to oceanographic and atmospheric research;

—the University of Miami's newly revised undergraduate geological sciences program will operate a "hands on" training seminar in geological and environmental remote sensing techniques;

—it is anticipated that other units of the University will participate in these and related educational activities, as well as more research-oriented activities; and

—opportunities exist for broadening the educational use of the site through a K–12 education partnership with Miami-Dade County Public Schools as an environmental study and nature area for students.

Once again, the University is seeking your full consideration of this proposal.

APRIL 15, 1998

Mr. Chairman and Members of the Subcommittee; I appreciate the opportunity to provide testimony concerning the future use of the former United States Naval Observatory Alternate Time Site in Perrine, Florida, south of Miami.

The University of Miami has learned from the Department of the Navy of its intent to excess an 85- acre portion of its Perrine, Florida site. My colleagues and I hope that it will be possible to transfer the property OT the University—with appropriate restrictions—to allow for the establishment of a satellite data ground receiving station on the site. The facility will be used exclusively for scientific research and training and undergraduate and graduate education. Respectfully, Mr. Chairman, we seek your and the Subcommittee's support in transferring ownership of their property to the University of Miami through the public benefit discount program.

The Rosensteil School is one of fourteen schools and colleges at the University of Miami, the most comprehensive private research university in the Southeast, and is one of the five largest oceanographic facilities in the nation. It has one of the broadest research agendas in the global oceanographic community. The Rosensteil School's basic and applied research interests encompass virtually all of the marine-related sciences in all oceans; marine and atmospheric chemistry, marine geology and geophysics, physical oceanography, satellite oceanography, meteorology, marine biology and fisheries, biochemistry, marine biomedicine, marine biotechnology, and marine affairs and management.

The Rosensteil School is a world leader in deep and near shore oceanic and atmospheric circulation pattern studies and their implications in oil spill movements, sea level fluctuations, global warming trends, plankton and fisheries distribution and recruitment mechanisms, and hurricane and monsoon mechanics. It also offers the only subtropical marine oceanographic research base in the continental United States.

The existing 60-meter VLBI antenna and the existing ancillary hardware and buildings are ideal for the operation of a satellite data ground receiving station. The new ground receiving station will enable the Rosensteil School to pursue a variety of research and educational activities in the general area of land and ocean remote sensing, with an emphasis on applications in geological science, oceanographic science, and environmental monitoring and environmental science.

For example, a newly-revised undergraduate geological sciences program will operate a hands-on training seminar in geological and environmental remote sensing techniques. The classroom oriented Satellite Oceanography program at the Rosensteil School will offer a remote-sensing laboratory, which will focus on the

processing, interpretation and use of satellite data pertinent to oceanographic and atmospheric research. It is anticipated that other units of the University will participate in this and related educational activities, as well as more research-oriented activities. Opportunities exist for broadening the educational use of the site through a K–12 education partnership with Miami-Dade County Schools as an environmental study and nature area for students.

One important function of the site that Rosensteil School programs proposes to maintain is the long history of high precision geodetic observations. These are currently performed by a dual frequency GPS system operated by NOAA, periodically supplemented by satellite laser ranging observations from Geodetic Monuments, first occupied in the 1960's. The long time series of geodetic observations at these monuments have been critical for defining the terrestrial reference frame, for understanding variations in earth rotation rate (length of day) and polar motion, and for high precision satellite tracking. Laser calibration piers at various locations around the property, up to 200 meters from the main mark, are useful in this regard and should be maintained. The long- term preservation of the main geodetic marks are a high priority. Similarly, Rosenstiel proposes to maintain a dedicated monument for absolute gravity-absolute gravity measurements begun at this site in 1990.

The SAR receiving facility will also provide crucial information during the passage of hurricanes or severe tropical storms in the region. Such information complements current satellite and aircraft observations already obtained and used by NOAA, AIR FORCE, NAVY, and academic institutions in the region. These SAR data, which will permit the determination of parameters such as wind speed and direction directional wave-spectra, would establish critical boundary conditions for regional forecasting models and potential estimation of storm impacts on coastal property, beach erosion and consequent flooding.

The Rosenstiel School also proposes to locate a long-term geological core sample storage facility on the site. This facility will help the University maintain its lead as the premier research and education institution in the paleoclimate and paleoecology of the Caribbean and Inter-American Seas.

Mr. Chairman, the University of Miami has proven itself to be a worthy steward of Federal facilities and in all cases heretofore has met the mandates of cognizant Federal agencies. My colleagues and I hope that you will provide the scientists at the Rosenstiel School the opportunity to utilize the unique resource available at Perrine, Florida in a way which will benefit the nation.

PREPARED STATEMENT OF BERNARD H. BERNE, M.D., PH.D.

SUMMARY OF TESTIMONY

I am a resident of Arlington, Virginia. I serve the Food and Drug Administration (FDA) as a Medical Officer and as a reviewer medical device approval applications. I am testifying as a private individual and not as a representative of FDA or of any other organization.

The General Services Administration (GSA) is evaluating the former Naval Surface Warfare Center in White Oak, Maryland, for the major FDA consolidation. However, this is a very poor site for this federal administrative and laboratory facility.

Metrorail is three miles away. Nearby highways and roads are highly congested during rush hours.

GSA and FDA are planning a country club in White Oak's affluent suburbs. FDA's 130-acre campus will have a visitor center and other amenities. Adjacent federal property will contain a golf course and a woodland.

Congress must stop this extravaganza. The Administration has not requested any funds to begin this project, which lacks an approved prospectus. Congress should not initiate any appropriation to support the project.

The Southeast Federal Center in Washington, D.C. is now available for a major federal headquarters. Adjacent to the Navy Yard Metro station and close to the Capitol, this site appears ideal for FDA's facility.

Two Executive Orders, GSA's own regulations, and the policies and of President Clinton's Administration and of the National Capital Planning Commission (NCPC) require that GSA and FDA give the Southeast Federal Center preference over the White Oak site. However, because of past actions and requests by Conference Committees on Appropriations, GSA is not evaluating it.

I therefore ask the Committee on Appropriations of the United States Senate to take the following four actions:

1. Please oppose any appropriation of funds to support an FDA consolidation at the former White Oak Naval Surface Warfare Center in Montgomery County, Maryland.

2. Please appropriate $4,000,000 to the study of a major FDA consolidation in the District of Columbia, with an initial focus on the Southeast Federal Center and its vicinity.

3. Please do not appropriate any funds for the General Services Administration (GSA) to prepare or acquire any site for any part of the FDA consolidation until a prospectus for the entire consolidation is approved in accordance with the provisions of the Public Buildings Act of 1959.

4. Please ask GSA or the General Accounting Office to appraise the value of the White Oak site to prepare for a sale of the property.

EXPLANATION OF REQUESTS

1. Please oppose any appropriation of funds to support an FDA consolidation at the former White Oak Naval Surface Warfare Center in Montgomery County, Maryland.

The present need for this project is questionable. New FDA buildings in Prince George's County will house those FDA Centers that now contain most or all of the FDA offices and laboratories that are reported to be in poor facilities.

Many FDA offices, including my own, are in excellent buildings. None of my coworkers complain about their present offices. Nevertheless, we would all relocate to the Montgomery County consolidated facility.

My coworkers and I rarely need to visit other FDA centers while reviewing medical device applications. The need to consolidate seems small.

White Oak is three miles from the closest Metrorail station. In contrast, FDA's largest office building is presently only half a mile from a Metro station. FDA will likely lose many experienced employees if it moves to White Oak.

The Naval Surface Warfare Center is in an affluent suburban residential neighborhood. The White Oak area does not require federal aid to support its development.

Roads and highways near White Oak are highly congested during rush hours. These include such major arterials as Capital Beltway, New Hampshire Avenue, and Colesville Road. These do not need the additional traffic that this project would bring to the area.

The Congressional Concurrent Resolution on the Budget for Fiscal Year 1996–2002 assumes a 30 percent reduction in funds for Federal Buildings construction in its seven year plan to balance the federal budget (Conference Report for H. Con. Res. 67: H. Rept. 104–59, June 26, 1995, p. 84). House and Senate Committees on Appropriations need to address this programmed reduction in discretionary spending.

President William J. Clinton urged Congress to further reduce spending on federal building projects when he vetoed the first 1995 rescission bill (H.R. 1158). The President does not appear to support costly federal construction projects, especially since the Administration did not propose any 1998 funding to initiate or support this project.

There is no urgent need for a major FDA consolidation. Congress needs to implement its Budget Resolution and the President's policies by appropriating no new 1997 funds for FDA's Montgomery County consolidation.

FDA and GSA are developing plans for an extravagant 130-acre campus at White Oak. According to GSA's April 1997 Final Environmental Impact Statement (FEIS) for the Montgomery County consolidation, the White Oak campus will contain a visitor center and will feature both a woodland and a six hole golf course on adjacent federal property.

FDA can accomplish its mission without a sprawling campus, a golf course, a woodland, or a visitor center. FDA does not need a country club.

Congress has not reviewed or approved any prospectus for any part of the FDA consolidation. Congress does not know the specifications or the costs of this project.

GSA presently has an opportunity to acquire property near the downtown Silver Spring Metrorail station by donation from the Montgomery County government. GSA also can locate the project on federally-owned property in downtown Washington, D.C. With such opportunities, Congress should not support a White Oak consolidation.

2. Please appropriate $4,000,000 for the study of a major FDA consolidation in the District of Columbia, with an initial focus on the Southeast Federal Center and its vicinity.

Rescissions in 1996 removed all of the funding for federal construction at the Southeast Federal Center. The 1997 Omnibus Appropriations Act provided funds for environmental clean-up activities at this site. This federal property is therefore available for the FDA consolidation.

The Southeast Federal Center is adjacent to the Washington, D.C., Navy Yard. It is next to the Navy Yard Metro Station and is only a mile from the Capitol building.

Previous actions and statements by Congressional conference committees on appropriations and rescissions have directed FDA's major consolidation to White Oak. Citing these actions and statements, GSA officials have refused my repeated requests to evaluate the Southeast Federal Center site as an alternative site for the consolidation.

The April 1997 FEIS does not evaluate any sites other than the White Oak Naval Surface Warfare Center. Only Congress or a Federal court can change GSA's direction.

A 1996 National Capital Planning Commission (NCPC) plan has recently designated the Southeast Federal Center as an important site for new offices. NCPC expects this new economic development to "assist the transformation of the Southeast Federal Center and adjacent Navy Yard into a lively urban waterfront of offices, restaurants, shops and marinas" ("Extending the Legacy", Plan for Washington's Monumental Core, NCPC, March 1996).

The goal of NCPC's plan is to preserve and enhance Washington's Monumental Core, which is centered at the U.S. Capitol building. An FDA consolidation at the Southeast Federal Center can revitalize a decaying D.C. neighborhood and help achieve NCPC's goal.

The Southeast Federal Center and its nearby depressed commercial area can hold buildings up to 14 stories high. If necessary for the consolidation, GSA can purchase adjacent commercial property at a low cost. The Southeast Federal Center is an ideal site for a large new federal headquarters facility.

The legislation that initiated the FDA consolidation (Public Law 101–635) authorizes only a single consolidated FDA administrative and laboratory facility. Indeed, Senate Report No. 101–242 (Feb. 1, 1990), which accompanied the authorizing legislation, states, "the FDA needs to be consolidated in a building." Public Law 101–635 did not anticipate or authorize a 130-acre FDA campus and two satellite facilities.

FDA does not require a 130-acre campus for its consolidation. Large high-rise buildings can readily house most or all of FDA's offices, laboratories, and ancillary facilities.

Cities throughout the Nation contain many such research and office centers. Over 2,000 National Institutes of Health (NIH) research laboratories are located in a single 14-story building that the government constructed in 1981 in Bethesda, Maryland. A single 18-story building in Rockville, Maryland, now houses many of FDA's offices, including the Office of the Commissioner.

Congress and the Secretary of Health and Human Services (HHS) can readily oversee FDA's activities if FDA consolidates at the Southeast Federal Center. Additionally, FDA's visitors and regulated industries would find this site to be far more convenient than suburban White Oak.

The Southeast Federal Center is close to both Maryland and Virginia. An FDA consolidation there will enhance the economies of three jurisdictions (D.C., Maryland, and Virginia). In contrast a consolidation at White Oak would benefit Maryland at the expense of the District and Virginia.

The median annual household income in the White Oak residential neighborhood exceeds affluent Montgomery County's median at $65,000. Southeast Washington's median household income is much lower. Federally supported economic development is far more critical to Southeast D.C. than to White Oak.

Please recommend a survey of other sites in the District if GSA finds that FDA cannot feasibly consolidate at and near the Southeast Federal Center.

A direction of planning funds to study sites in the District would place the project in compliance with Executive Order No. 12072 (August 16, 1978), and with its implementing regulations in 41 CFR § 101–17.000 et seq., as reaffirmed by the present Administration in 41 CFR § 17.205 (Location of space) (Federal Register, Vol. 61, No. 46, pp. 9110–9112, March 7, 1996). It would also be consistent with the purposes of the National Capital Planning Act of 1952 and the policies and recommendations that NCPC has developed to implement it.

Executive Order 12072 and its implementing regulations direct the locations of federal facilities in urban areas, including the National Capital Region. They require federal agencies to locate and use their space and facilities so that the facili-

ties "shall serve to strengthen the Nation's cities" and "shall conserve existing urban resources, and encourage the development and redevelopment of cities."

Executive Order 12072 and its implementing regulations require GSA and FDA officials to "economize in their requirements for space". The Order states: "Except where such selection is otherwise prohibited, the process for meeting Federal space needs in urban areas shall give first consideration to a centralized community business area and adjacent areas of similar character. . . ."

President William J. Clinton reaffirmed Executive Order 12072 in his Executive Order 13006, May 21, 1996, (Federal Register, Vol. 61, No. 102, May 24, 1996, pp. 26071–26072). Section 1 of President Clinton's Order states:

"(Statement of Policy). Through the Administration's community empowerment initiatives, the Federal Government has undertaken various efforts to revitalize our central cities, which have historically served as the centers for growth and commerce in our metropolitan areas. Accordingly, the Administration hereby reaffirms the commitment set forth in Executive Order No. 12072 to strengthen our nation's cities by encouraging the location of Federal facilities in our central cities."

On March 11, 1997, President Clinton stated that, as part of his economic stimulus package to revitalize D.C., he had "directed his Cabinet secretaries to find other ways to help the District, beginning with keeping federal agencies in the city" (Washington Post, March 12, 1997, page 1). This is consistent with his Executive Order 13006 and with established federal policies concerning the location of federal facilities in the Washington Metropolitan Area.

GSA's 1996 interim rule, 41 CFR 101–17.205 (Location of space), requires GSA and other federal agencies to comply with Executive Order 12072. It also states in paragraph (n), ". . . These policies shall be applied in the GSA National Capital Region, in conjunction with regional policies established by the National Capital Planning Commission and consistent with the general purposes of the National Capital Planning Act of 1959 (66 Stat. 781), as amended. These policies shall guide the strategic plans for housing of Federal agencies within the National Capital Region.

GSA and FDA have long disregarded the Executive Order and NCPC's regional policies and recommendations when planning, leasing and constructing federal buildings in the National Capital Region. To help President Clinton resolve D.C.'s financial crisis, Congress needs to correct this.

A long-standing NCPC policy presently encourages government agencies to redistribute federal jobs in the National Capital Region. This redistribution is long overdue. Congress needs to address this in the federal buildings appropriations process.

The redistribution would implement NCPC policies and recommendations that NCPC has developed in compliance with National Capital Planning Act. It would reverse recent trends and correct a growing imbalance of federal employment in the National Capital Region.

In a recent Proposed Federal Capital Improvements Program (PFCIP), National Capital Region, fiscal years 1997–2001 (April, 1996) (p. 9), NCPC reported that the District of Columbia will lose 889 federal employees as a result of the FDA consolidation project. This would accelerate a continuing transfer of federal employment from the District to the Maryland and Virginia suburbs.

According to NCPC's PFCIP (p. 10), the District's percentage of the total Federal employment in the National Capital Region has declined from 58.0 percent in 1969 to 52.4 percent in 1994.

Because of this trend, NCPC's PFCIP (p. 12) has a final recommendation that states, "The Commission encourages each agency to adhere to the policy in the Federal Employment element of the Comprehensive Plan adopted in 1983 which specifies that the historic relative distribution of Federal employment of approximately 60 percent in the District of Columbia, and 40 percent elsewhere in the Region should continue during the next two decades. This policy is used by the Commission to ensure the retention of the historic concentration of Federal employment in the District of Columbia, the seat of the national government."

A major FDA facility at the Southeast Federal Center is consistent with President Clinton's expressed policies and orders to his Cabinet secretaries, Executive Orders 12072 and 13006, GSA's implementing regulations, and NCPC policies and recommendations. A facility at White Oak would be inconsistent with all of these.

FDA now plans to move about 700 federal employees in its Center for Food and Applied Nutrition (CFSAN) from the District of Columbia to a new facility in Prince Georges County, Maryland. To reverse the accelerating decline of the nation's capital city, Congress must mitigate such relocations by directing the major FDA consolidation to the District of Columbia.

4. Please do not appropriate any funds for GSA to prepare or acquire any site for any part of the FDA consolidation until a prospectus for the entire consolidation is approved in accordance with the provisions of the Public Buildings Act of 1959.

The Public Buildings Act of 1959 requires the approval of a prospectus for all GSA building projects before funds can be appropriated for construction and site acquisition. However, no prospectus for any phase of the FDA consolidation has ever been approved.

Provisions in the 1992, 1993 and 1995 Treasury, Postal Service, and General Government Appropriations Acts (Public Law 102–141, Public Law 102–393, and Public Law 103–329) permitted GSA to use the funds made available in those Acts for the FDA consolidation and for certain other projects, even though no prospectuses for these projects had been approved. These provisions released GSA from its obligation to comply with the Public Buildings Act of 1959 when planning the early phases of the FDA consolidation.

The 1996 and 1997 Appropriations Acts (Public Laws 104–52 and 104-208) and contained no such exemptions. Provisions in these laws state that appropriated funds shall not be available for construction, repair, alteration, and acquisition project for any project if a prospectus for project has not been approved. The 1998 Appropriations Act should contain such a provision.

In 1995, the House of Representatives debated the need for a prospectus for the FDA consolidation (Congressional Record, July 19, 1995, pp. H7200–H7206). Some members of Congress appear to believe that the consolidation's authorizing legislation (Public Law 101–635) exempts the consolidation from the prospectus requirement.

Congress must eliminate this ambiguity and ensure proper congressional oversight. Congress should appropriate no new funds for any phase of any FDA consolidation until a prospectus describing the entire project is approved.

Because of a 1996 rescission (Public Law 101–19), GSA and FDA have no funds available to construct its major consolidated facility at White Oak or at any other location. Congress needs to review a prospectus for the project before any funds are appropriated to construct it.

5. Please ask GSA or the General Accounting Office to appraise the value of the White Oak site to prepare for a sale of the property.

This would prepare the government for a sale of part or all of the Naval Surface Warfare Center. It would also help Congress evaluate the real cost of an FDA consolidation at White Oak. A sale would support the original purpose of the base closure, which is to help balance the federal budget.

ADDITIONAL INFORMATION

The following observations further support my requests:

1. The government long ago designated its Southeast Federal Center as a site for a new federal facility. However, nothing has been built there yet. An FDA facility would stimulate the revitalization of this D.C. area.

2. As noted above, the National Capital Planning Commission's 1996 plan for Washington's Monumental Core states in the category of Economic Development, "Assist the transformation of the Southeast Federal Center and adjacent Navy Yard into a lively urban waterfront of offices, restaurants, shops and marinas".

An FDA consolidation at the Center would help implement this Plan. The government could rent space in the ground floors of FDA's office buildings to operators of shops and restaurants.

3. Unlike White Oak, the Southeast Federal Center is near a Metro station. Development at this site would encourage the use of Metrorail. This would increase the use of the area's financially troubled public transit system and reduce air pollution and traffic congestion.

If the consolidation occurs at the Southeast Federal Center, many more FDA workers will likely choose to use Metrorail than presently do. This would benefit the Washington Metropolitan Transit Authority (WMATA) and local, state, and federal governments.

In contrast, an FDA facility at White Oak would encourage the use of private automobiles. The roads near White Oak are already highly congested.

The sections of I–95 and the Capital Beltway that serve White Oak rank among the most congested highways in the National Capital Region. They are the sites of frequent accidents and traffic jams.

The White Oak area is principally residential. For this reason, few buses run from Metro stations to the White Oak Naval Surface Warfare Center in the morning and from it in the afternoon. Thus, most FDA employees would find it difficult to use public transportation to commute to and from work at White Oak.

New public transportation routes are costly. There can be no assurance that bus service will improve if FDA moves to White Oak.

If FDA consolidates at White Oak, WMATA will lose revenues from FDA employees who now use Metrorail and Metrobuses on a daily basis. Local, state and federal governments will have to pay for this, since WMATA is heavily subsidized.

4. White Oak's distance from Metrorail and from the core of the National Capital Region will induce many employees to work at home under FLEXIPLACE. This will defeat the purpose of the consolidation.

5. The Southeast Federal Center is in a decaying urban commercial area that is in great need of the economic development that the FDA consolidation would bring.

Southeast Washington is one of the most economically distressed areas of the nation's capital city. As is well known, the District of Columbia is itself in great need of economic development.

According to a table in the April 1997 FEIS, the District of Columbia had in 1994 the lowest average household income ($30,727) of nine jurisdictions in the Washington, D.C., Metropolitan Area.

In contrast, the White Oak site is in an affluent residential neighborhood that is not in great need of economic development. According to a March 29, 1996, Maryland-National Capital Park and Planning Commission staff report on the White Oak EIS, the neighborhood's median household income exceeds the median income for Montgomery County at $65,000 per year.

According to the Washington Post (April 3, 1996), the White Oak neighborhood already boasts a community swimming pool, tennis courts, and four tot lots. A map in the April 1997 FEIS shows that a neighborhood community center abuts the Naval Surface Warfare Center near the FDA site. The FDA consolidation would add a federally-owned golf course to these amenities.

The FEIS states that Montgomery County, Maryland, had in 1994 the second highest average household income ($64,596) of nine listed Washington, D.C. Metropolitan Area jurisdictions. Montgomery County therefore does not appear to be in great need of large federal employment centers that might otherwise be located in the District of Columbia.

There is a great economic contrast between Southeast Washington and White Oak. Federal development would serve a far better purpose at the Southeast Federal Center than it would at White Oak.

6. FDA can place its laboratories and offices in compact and efficient 14-story buildings at the Southeast Federal Center. In contrast, its buildings at White Oak would be only five to six stories high.

FDA's present headquarters are in a 18 story office building (the Parklawn Building in Rockville, MD). The Office of the Commissioner of Food and Drugs is in this building, which is half a mile from the Twinbrook Metro station.

The National Institutes of Health has a 14 story research laboratory building that was built in 1981 at its Warren Magnuson Clinical Center in Bethesda, Maryland. The National Cancer Institute has some of its nationally-renowned laboratories in the 13th floor of this building, which, according to an NIH brochure, holds 2,000 separate laboratories.

It is therefore likely that FDA can consolidate its laboratories and offices in buildings up to 14 stories high in the Southeast Federal Center. If needed, GSA can purchase additional property nearby at low cost. Neighboring properties do not appear to be in good condition.

7. The Navy Yard Metrorail Station is on Metro's Green Line. The station is only three stops from Maryland's Southern Avenue Metrorail station and only two stops from Virginia's Pentagon Station. An FDA facility at the Southeast Federal Center will therefore benefit the economies of both Maryland and Virginia, as well as the District.

In contrast, an FDA facility at White Oak would benefit only Maryland. It is too far from D.C. and from Virginia to provide any economic benefits to either of these jurisdictions. Instead, it would draw federal employees and associated businesses away from Virginia and D.C.

8. An FDA consolidation at suburban White Oak would violate former President Jimmy Carter's Executive Order 12072, which President William J. Clinton's Executive Order 13006 reaffirmed. It would also violate a federal regulation in 41 CFR 101–17.205 that GSA issued in 1996 to help implement the Order.

When issuing this new regulation, GSA stated, "On August 16, 1978, President Carter issued Executive Order 12072, which directs Federal agencies to give first consideration to centralized community business areas while filling federal space needs in urban areas. The objective of the Executive Order is that Federal facilities and Federal use of space in urban areas serve to strengthen the Nation's cities and make them attractive places to live and to work. This regulation serves to reaffirm the Administration's commitment to Executive Order 12072 and its goals." (Federal Register, Vol. 61, No. 46, March 7, 1996, p. 9110.)

The Southeast Federal Center is in an economically depressed centralized community business area in the city of Washington D.C. This area's neighborhood urgently needs revitalization. In contrast, the Naval Surface Warfare Center at White Oak is not in any city, is far from any centralized community business area, and is in an affluent Montgomery County residential neighborhood.

The Executive Order and the CFR have provisions that make them especially applicable when the neighborhood of the urban site (Southeast Washington) is economically depressed while the suburban site is affluent, and when the urban site is adequately served by public transportation, while the suburban site is not. Because of its residential suburban location, the White Oak site is served only infrequently by buses that run from Metrorail stations in the morning and to the stations in the afternoon.

Appropriations legislation makes funds available for federal construction in specified locations. The language of such legislation and its supporting committee reports should not conflict with an existing Executive Order and a recently revised Federal regulation that both require federal agencies to give preference to a different location.

FDA must economize on its space requirements to a great enough extent to allow it to consolidate at the Southeast Federal Center, rather than at suburban White Oak. Congress should not support the appropriation of funds if such an appropriation would encourage GSA to violate the Executive Order and its implementing regulations.

9. The April 1997 FEIS discusses a federal report to the Secretary of HHS (Final Report of the Advisory Committee on the Food and Drug Administration, May 15, 1991) that assessed the need for new FDA facilities. According to the FEIS, the Committee summarized its chapter on resources by recommending, "The FDA must now begin to correct the most urgent of its facility needs, particularly for food and veterinary medicine laboratories and field operations."

It is noteworthy that FDA is now planning to relocate its food and veterinary medicine laboratories to new facilities in Prince Georges County, Maryland. Facilities for field operations would not be improved by an FDA headquarters consolidation. According to documentation cited in the FEIS, the FDA offices and centers that FDA plans to move to White Oak do not appear to be in great need of new facilities at this time.

While some FDA facilities may need renovation or replacement, many do not. Senate Report 101–242, which supports the consolidation, cites only one example of a facility that is antiquated. This is a laboratory in CFSAN, which FDA plans to relocate to Prince Georges County and not to Montgomery County.

FDA and GSA officials may describe to you certain existing buildings that are inadequate. These descriptions may be correct; however, my personal observations indicate that the conditions of such buildings are not representative of most buildings that FDA now occupies.

One FDA laboratory building that may need repair is on the NIH campus in Bethesda, Maryland. This is a laboratory of the Center for Biologics Evaluation and Research (CBER), which would be relocated to White Oak. However, this building is owned by the Federal government.

The government will have to fund the CBER lab's renovation even if FDA leaves it. Further, if FDA leaves this facility, its personnel will lose valuable personal interactions with world-renowned personnel who work for NIH. They will also lose the ability to use valuable and unique NIH equipment. The government will gain nothing from this move.

Some of the CBER laboratories have recently moved into a new building on the NIH campus. Thus, even within CBER, not all laboratories are in poor condition.

In contrast to some FDA laboratories, many of the office buildings used by FDA are in good or excellent condition. Some are in leased buildings that are quite new. Some even contain amenities such as large atriums with palm trees.

Such superb facilities can be observed at the Center for Devices and Radiological Health (CDRH) offices at 9200 Corporate Blvd. in Rockville. Other excellent CDRH office facilities are located at 1350 Piccard Drive and 2094 and 2098 Gaither Road in Rockville. Still others can be seen at the offices of other Centers in the Metropark North buildings on Crabbs Branch Road in Rockville.

The adequacy of the CDRH office facilities is documented in an Interoffice Memorandum sent by Electronic Mail dated 01-Feb-1995, from Connie J. Wilhelm-Miller, of the CDRH Office of Management Services, Division of Resource Management. This memo, whose primary subject is Smoking Policy (smokers were putting burns in the floors and walls of new buildings), states that "most of CDRH's office space is fairly new". My personal observations confirm the accuracy of this statement.

A Conference Committee Report (House Report 102–234) that supported the 1992 Appropriations legislation (Public Law 102–141) stated that there is no disagreement that FDA facilities are antiquated, inefficient and overcrowded. This is simply incorrect. It overstates a problem that is being experienced by only a small portion of FDA.

House and Senate Reports supporting the consolidation state that FDA's antiquated facilities are causing recruitment and retention problems. However, this is only true at very few places, and perhaps only in the CFSAN laboratory that is relocating to Prince Georges County.

I know of no FDA building housing an office or laboratory that will move to the White Oak campus that is in such disrepair that people will not work in it. Some buildings may need improvement, but none are that bad.

Most FDA workers work only in offices. Many of these are in fairly new buildings that are in good condition, such as the one in which I work. There is little reason to expect that many of these employees will be happier in a new facility at White Oak.

Limited replacement of facilities with local consolidations where needed may well be desirable. However, a massive consolidation of Montgomery County facilities is not.

10. FDA facilities are presently dispersed. However, this does not create great inefficiencies. Many FDA offices with related functions, such as those in CDRH in Rockville, are consolidated in buildings within one or two miles of each other. A large number are in and near a single building (the Parklawn Building) near the Twinbrook Metro Station in Rockville, MD.

Although there are a number of functions that involve different offices in different centers, most functions are carried out within one Center. More importantly, few interoffice functions require more than occasional face-to-face interactions which necessitate travel.

In addition, travel times between existing Centers that will consolidate in the Montgomery County campus are not great. All are connected by Rockville Pike and I–270. The average trip between offices is probably less than ½ hour.

It is important not to overrate the need for consolidated facilities.

The U.S. Armed Forces won the Second World War operating from bases and headquarters throughout the U.S. and in much of the rest of the world. Only a tiny percentage of defense workers and military personnel were located in any single facility. Decentralized agencies can and do often work at least as efficiently as those that are consolidated.

Further, the great majority of product approvals require decision-making within only a single building. It is only unusual decisions that require conferences in separate buildings. Only a tiny minority require conferences among offices in widely scattered facilities.

Most FDA personnel therefore have no need to travel between different centers or offices on a regular basis. The need for consolidation is not great, despite the statements made in Congressional Committee Reports.

A number of present FDA centers are located near Metro stations, such as Medical Center, Shady Grove, and Twinbrook. The large Parklawn Building is an example of this. Many employees can therefore now travel quickly and easily from one Center to another, as well as to meetings at NIH and in downtown D.C.

In contrast, White Oak is 3 miles from Metrorail. Few, if any, people will take Metro to commute or to go to meetings at NIH or in D.C.

Most communications occur today by phone and by electronic mail. Electronic networks allow documents to be transmitted to anyone with a receiver. Indeed, many FDA personnel now regularly work at home using FLEXIPLACE. Using home computer modems, they can connect with FDA computer networks to perform most necessary functions.

The need for a costly consolidation is not great. It cannot be expected to greatly increase FDA's efficiency. By causing experienced workers to leave the agency, it may actually decrease FDA's effectiveness.

11. Congress should only appropriate funds for a consolidated FDA facility if the consolidation would help increase the use of mass transportation or would aid in the redevelopment of a depressed urban center such as Southeast Washington, D.C. It is environmentally and economically unsound for Congress to fund the construction of a new facility at White Oak that is far from an urban center.

12. Most FDA employees need to work only at a single location. The approval of new drugs and medical devices usually takes place within a single FDA Center. A major FDA consolidation, if it occurs, will primarily benefit a small cadre of FDA managers who often travel between centers and who are promoting the consolidation.

In actuality, a major consolidation is not likely to benefit many FDA employees. It is even less likely that a consolidation will significantly speed the approval of new drugs and medical devices.

13. During President George Bush's term in office, the Office of Management and Budget (OMB) opposed funding of the FDA consolidation because it was not worth the cost. The Administration considered it more cost/effective to renovate facilities as needed.

It was a Congressional Appropriations conference committee that first proposed the appropriation of funds for the FDA consolidation (Conference Report for Public Law 102–141: House Report 102–234, Oct. 3, 1991). The Conferees directed FDA, GSA, HHS, and OMB to work together to submit a funding plan for the project and urged OMB and the President to support the Conferees' concept of the "consolidation".

The Conferees introduced the concept of building separate FDA facilities in Prince Georges and Montgomery Counties. They recommended the appropriation of $200,000,000 in the Federal Buildings Fund to begin the process of dismantling the single-site consolidation that the FDA Revitalization Act (Public Law 101–635) had previously authorized.

Public Law 101–635 had amended the Federal Food, Drugs and Cosmetics Act. It had authorized the Secretary of HHS (not the Administrator of GSA) to construct a single consolidated FDA facility.

Despite this authorization, the Conferees recommended the appropriations of funds from the Federal Buildings Fund for the GSA Administrator to use to construct two FDA facilities in separate counties located in the State of Maryland. The Conferees also recommended that the appropriation for the FDA facilities be exempt from prospectus requirements of the Public Buildings Act of 1959.

Appropriations Conference Committees have therefore undermined the FDA Revitalization Act, the Public Buildings Act of 1959, Executive Order No. 12072, 41 CFR 101–17.000 et seq., and the National Capital Planning Act of 1952. They have made it difficult for government officials to follow procedures that assure compliance with Congressional oversight legislation and site selection requirements in the National Capital Region and elsewhere.

These Conference Committees have endorsed the appropriations of funds for more than one FDA "consolidated" facility, have designated the GSA Administrator (rather than the Secretary of HHS) as the planner and builder of the facilities. They have also allowed GSA to construct buildings without a prospectus.

Appropriations conferees have recommended that FDA build a campus rather than consolidate in a single building. Additionally, they have caused FDA to transfer federal jobs out of the financially distressed District of Columbia and into more prosperous Maryland counties and neighborhoods.

This is not good planning. It is pork barrel politics at its worst. Congress must correct itself.

14. Senate Report No. 101–242, Feb. 1, 1990, which supported the FDA Revitalization Act (Public Law 101–635) estimated that the cost of the consolidation would approximate $500,000,000.

FDA and GSA now estimate the total cost of the consolidation to be at least $600,000,000. This would create a cost overrun exceeding the original $500,000,000 estimate by $100,000,000.

15. Despite the 1995 rescission of funds for a sprawling FDA facility in Clarksburg, Maryland, FDA's and GSA's facility engineers continue to plan for a large FDA campus. They do not wish to seriously economize in the agency's use of space.

By creating unnecessarily large requirements for space, they are evading their responsibilities to consider locating the consolidated facility in a compact site in a central city. One such site is now available at the Southeast Federal Center.

Unless Congress intervenes as it did in 1995, GSA and FDA will likely violate major provisions of Executive Order No. 12072 and the National Capital Planning Act of 1952. As noted above, these now dictate a preference for the Southeast Federal Center.

16. Some reports on FDA have suggested that certain FDA facilities are overcrowded. This may no longer be true.

GSA has recently leased a number of new buildings for FDA. Overcrowding is therefore not as acute as it was several years ago.

17. The FEIS contains no information on the number of buildings that FDA will reuse at White Oak. FDA will not be able to use many of the existing buildings because they are contaminated, deteriorated, of unsatisfactory conformation, and poorly located. FDA will clearly need to build a number of costly structures at White Oak.

18. Some of the planned excess capacity at the 130 acre White Oak facility is desired for future expansion. However, this amounts to nothing more than speculation.

Expectations of FDA expansions may well be unrealistic. FDA has not grown significantly in recent years, except in a few specific areas. Further, regulatory agencies often do not grow over long periods of time when there is an antiregulatory climate, when there are budgetary problems, or when there are pressures to privatize Federal functions.

FDA's major growth occurred years ago in response to obvious and important needs. FDA can now meet most of these needs without any further growth. Although many agencies try to justify their own expansion, FDA may never be able to significantly increase its size or number of employees.

A compact site such as the Southeast Federal Center is more consistent with proposed FDA reform legislation than is a 130 acre site at White Oak. This reinforces the need for Congress to direct a study of the Southeast Federal Center.

19. Because FDA would acquire more land at White Oak than it presently needs, it will surely press for additional funding to construct more buildings in the future. This will increase future government expenditures.

As the FDA campus adds buildings at White Oak in the future, it will increase the urbanization of its surrounding residential neighborhood. This will eventually exceed the limits imposed by current zoning and land use plans and will create local controversies.

PREPARED STATEMENT OF QUON Y. KWAN, D. CRIM.

APPROPRIATION FOR THE STUDY OF FDA CONSOLIDATION

I am a resident of Rockville, Maryland. Although I am Secretary and Transportation Chairman for the Manor Lake Civic Association, I am writing as a private individual. I am currently employed as a senior environmental scientist for Energetics, Inc., a contractor for the U.S. Department of Energy, Assistant Secretary for Environment, Safety and Health. Neither my company nor I have received or will be receiving any contracts or grants from the General Services Administration (GSA) or Food and Drug Administration (FDA).

My interest in the FDA consolidation stems from my involvement as Vice-President for Action Committee for Transit (Montgomery County) for the past and current years. Again, my views do not represent the official position of Action Committee for Transit. I was opposed to the siting of the consolidated FDA campus at exurban Clarksburg primarily because of the lack of supporting infrastructure (especially, access to transit) and the commuting hardship posed on low-income and minority workers. My other reasons for opposing the Clarksburg site included the adverse impact in furthering sprawl development and the further deterioration on the inner city and urban areas. As you are well aware, the GSA and FDA abandoned Clarksburg as a potential site due to public outcry.

The GSA and FDA now seems to be focusing on the former Navel Surface Weapons Center at White Oak as a site for its consolidated campus. White Oak is also a poor choice for a number of similar reasons. My primary objection is the inadequacy of public transportation serving the White Oak site. Although it has bus service, workers would be using Metrobus service (route K6) and Ride-On service (route 22) to/from White Oak in the counterflow direction (AM northbound and PM southbound on New Hampshire Avenue). The frequency of counterflow bus service (on either route) is every 30 minutes even during rush hours. In my comments on the draft and final environmental impact statement for the proposed FDA consolidation at White Oak, I noted that such frequency of bus service is wholly inadequate to accommodate even 10 percent of the 6,697 employees that would work at the site. The GSA misled the public by listing 19 bus routes and 4 rail lines that serve the study area, when in fact only the two aforementioned bus routes were within reasonable walking distance (¼ mile of the site). The closest rail station is the Silver Spring stations for the Metrorail Red Line and MARC Brunswick Line, which is three miles away. I noted that the no-action alternative (i.e., to keep the FDA at its existing locations) was better because the dispersed FDA sites are located near Metrorail stations and have far better access to public transportation than White Oak.

My second primary objection to the White Oak site is its location in the residential suburbs. The FDA consolidated campus does not belong in a residential suburb but in the inner city or central business district. President Jimmy Carter signed an Executive Order 12072, "Strengthening the Nation's Cities," which is codified by the General Service Administration into the Federal Property Management Regulations

at 41 CFR 101–19.002. This Order calls for Federal agencies to site their facilities and utilize space in such a way as to strengthen the Nation's cities. This Order has been upheld in Federal courts (rf *City of Reading, PA* v. *Austin* [816 F.Supp. 351 (E.D. Pa. 1993)]). Why does this Order make good sense? Abandoning the inner city for the suburbs causes deterioration of the inner city and exacerbates sprawl development in the suburbs. This in turn has the unintended adverse effect of furthering division between socio-economic classes and between races, with of course, the low-income and minorities—the less mobile—remaining in the inner city and the more affluent and majority white—the more mobile—fleeing to the suburbs. When Federal agencies as well as private sector businesses take flight from the inner city to the suburbs, they create a prodigious redistribution of wealth. The inner city loses its tax base and becomes enveloped in a downward spiraling cycle of decreasing job growth and abandoned buildings accompanied by increasing alienation, poverty, and crime. On the other hand, the suburbs grow in their tax base and become enveloped in an upward spiraling cycle of increasing job growth and construction but accompanied by cookie-cutter gated communities and sterile industrial parks that exclude "undesirables" and oppose diversity. We need cities because we need identifiable, physical centers of commerce and culture. We need cities because they provide diversity; places that thrive with diversity breed new ideas for exchange, growth, and prosperity. Cities—not suburbs—are where the poor can rub elbows with the rich, the blacks with the whites, the humble with the powerful, and the public with the government. These are the places where Federal agencies belong—inner cities and central business districts—not in the exurbs or suburbs. Cities are vital for democracy. The Federal government should set the example and take the lead in strengthening the inner cities.

As an alternative to the White Oak site, the FDA should be consolidated at a site in the city, Washington, D.C. (consistent with Executive Order 12072), and preferably near a Metrorail station. There are several sites that would fit this criterion. One is at the Southeast Federal Center, which is adjacent to the Navy Yard Metrorail Station and is no more than about a mile from the Hubert H. Humphrey building, headquarters of the Department of Health and Human Services, the department to which FDA belongs. The other advantages of the Southeast Federal Center are that it is already owned by the Federal government (General Services Administration) and it has adequate floor space to meet FDA's needs. Furthermore, the Southeast Federal Center is located in an economically depressed area of the District of Columbia that is in urgent need of revitalization. As you are quite aware, D.C. has lost many employers, including Federal agencies, and the President has directed his cabinet secretaries in March 1997 to not contribute to the economic decline of D.C. by not allowing any more Federal agencies to abandon D.C. Moreover, the National Capital Planning Commission's Plan for Washington's Monumental Core (March 1996) under the subject of economic development proposes that the Southeast Federal Center and adjacent Navy Yard be transformed into a lively urban water front of offices, restaurants, shops, and marinas.

In conclusion, it would behoove the Subcommittee to cancel any more appropriation for the White Oak site, and instead, dedicate an appropriation of approximately $5 million for studying the feasibility of consolidating the FDA administrative and laboratory facilities at the Southeast Federal Center site or similar site within walking distance of a Metrorail station in D.C.

PREPARED STATEMENT OF LARRY BOHLEN, D.C. ISSUES COORDINATOR, FRIENDS OF THE EARTH

SUPPORT FOR FDA CONSOLIDATION AT AN URBAN, METRO ACCESSIBLE SITE

Friends of the Earth is taking an increasing interest in protecting the urban core and inner suburbs of cities across America. Existing communities are worthy of protection. In addition, making sure that existing communities are safe and economically viable places to live is one of the surest ways to protect undeveloped farms and forests from falling to haphazard sprawl development.

Moves of Federal jobs outside the D.C. beltway are detrimental to the health of the District and the inner suburbs of D.C. A currently proposed move of the Food and Drug Administration to White Oak, Maryland would threaten the economic viability of areas inside the Beltway.

To address these issues, we propose that you:

(1) Initiate a study of consolidating the FDA within a half mile of a Metro-accessible site, such as the Southeast Federal Center in the District of Columbia. We sug-

gest that at least $4 million be appropriated to GSA's Buildings Fund in fiscal year 1999 to conduct such a study.

(2) Oppose Congressional funding of any move of the FDA outside of the D.C. beltway, including the proposed White Oak site.

(3) Observe federal Executive Order 13006 directing location of federal facilities in urban centers.

Consolidation of the FDA at the Southeast Federal Center has several advantages:

—it is adjacent to the Navy Yard Metro;

—it is only one mile from the Dept. Of Health and Human Services, FDA's parent agency;

—it is owned by the federal government and controlled by GSA;

—it has more than adequate floor space for FDA's site plan and is currently underutilized;

—the Southeast Federal Center site has no funds appropriated for its redevelopment; and

—it is in an area of D.C. urgently in need of revitalization.

In comparison, siting of the FDA in White Oak, Maryland, as proposed, has several disadvantages:

—it is 3 miles from the nearest Metro station and has very limited bus service;

—it is in a low-density sprawling neighborhood outside the Washington beltway, not in an urban center as directed by Executive Order 13006;

—it is 10 miles from other FDA facilities that would not consolidate in White Oak, raising the question of just what kind of benefits is consolidation bringing; and

—it would involve development of undeveloped wooded areas near a stream on the White Oak site whereas the Southeast Federal Center is already paved.

Your consideration of this matter is greatly appreciated.

cv: Friends of the Earth is a non-profit group advocating the protection of the environment in the D.C. metro area, nationally and globally.

Disclosure: Friends of the Earth has no federal grants or contracts related to the redevelopment of the District of Columbia, nor any related to the location of federal facilities.

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