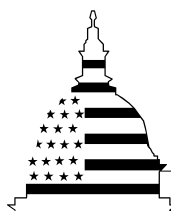


July 2003

# CONTAINER SECURITY

## Expansion of Key Customs Programs Will Require Greater Attention to Critical Success Factors



G A O

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**Highlights**

Highlights of [GAO-03-770](#), a report to congressional requesters

## Why GAO Did This Study

Since September 11, 2001, concern has increased that terrorists could smuggle weapons of mass destruction in the 7 million ocean containers that arrive annually at U.S. seaports. In response to this concern, the U.S. Customs Service (Customs) implemented the Container Security Initiative (CSI) to screen for high-risk containers at overseas ports and Customs-Trade Partnership Against Terrorism (C-TPAT) to improve global supply chain security in the private sector. GAO (1) describes the purpose and elements of these new programs, (2) examines Customs' implementation of CSI and C-TPAT during the first year, and (3) assesses the extent to which Customs has focused on factors critical to the programs' long-term success and accountability.

## What GAO Recommends

To ensure that CSI and C-TPAT achieve their long-term objectives, GAO recommends that the Secretary of Homeland Security, working with the Commissioner of Customs and Border Protection and managers for both programs

- develops human capital plans that clearly describe how the programs will recruit, train, and retain staff;
- expands efforts to develop performance measures that include outcome-oriented indicators; and
- develops strategic plans that clearly lay out the programs' goals, objectives, and implementation strategies.

[www.gao.gov/cgi-bin/getrpt?GAO-03-770](http://www.gao.gov/cgi-bin/getrpt?GAO-03-770).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Loren Yager at (202) 512-4347 or [yagerl@gao.gov](mailto:yagerl@gao.gov).

# CONTAINER SECURITY

## Expansion of Key Customs Programs Will Require Greater Attention to Critical Success Factors

### What GAO Found

Announced in January 2002, CSI places Customs staff at designated foreign seaports to screen containers for weapons of mass destruction. In November 2001, Customs also initiated C-TPAT, in which private companies improve the security of their supply chains in return for the reduced likelihood that their containers will be inspected for weapons of mass destruction.

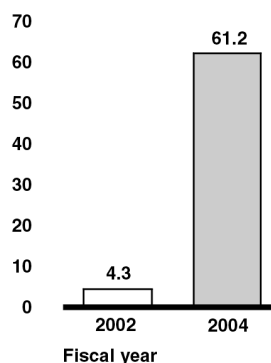
Customs quickly implemented both programs in the first year. It concluded bilateral arrangements with foreign governments to place Customs personnel at 24 foreign ports and deployed staff to 5 of these ports under CSI, and it enrolled more than 1,700 companies in C-TPAT. Customs is developing critical program elements intended to ensure that C-TPAT companies improve and maintain their security practices. GAO found that Customs' implementation of these programs evolved in response to challenges it encountered.

Although Customs is preparing to devote significantly more resources to CSI and C-TPAT as it expands the programs, it has not taken adequate steps to incorporate factors necessary for the programs' long-term success and accountability. These factors include human capital planning, development of performance measures, and strategic planning. GAO found the following:

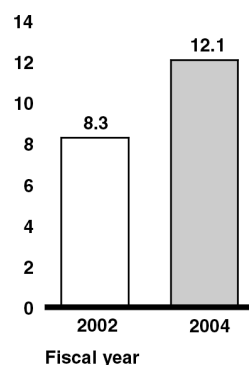
- Although CSI seeks to staff Customs officials at more than 30 overseas ports and C-TPAT expects to hire more than 150 additional staff, Customs has not devised systematic human capital plans to meet long-term staffing needs for both programs.
- While Customs has created some performance measures to quantify operational activities and efforts, it has not developed measures to establish accountability and measure program achievement.
- In its efforts to rapidly implement the programs and enroll participants, Customs focused on short-term planning. Customs lacks a strategic plan that would allow it to establish accountability for approximately \$73 million in planned expenditures for fiscal year 2004.

### Budgets and Anticipated Growth for CSI Ports and C-TPAT Staff, Fiscal Years 2002 and 2004

CSI budget in millions of dollars



C-TPAT budget in millions of dollars



Customs expects increased budgets and rapid expansion of two programs to address container security. CSI budget increase represents an anticipated growth from 1 to 30 ports. C-TPAT budget increase represents an anticipated growth from 10 to 167 staff.

Source: GAO analysis of Customs data.

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**Abbreviations**

CSI	Container Security Initiative
C-TPAT	Customs-Trade Partnership Against Terrorism
DOD	Department of Defense
DHS	Department of Homeland Security
PIERS	Port Import Export Reporting Service
WMD	weapons of mass destruction

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United States General Accounting Office  
Washington, D.C. 20548

July 25, 2003

The Honorable Charles E. Grassley  
Chairman, Committee on Finance  
United States Senate

The Honorable Max Baucus  
Ranking Minority Member, Committee on Finance  
United States Senate

The Honorable Bill Thomas  
Chairman, Committee on Ways and Means  
House of Representatives

The Honorable Charles B. Rangel  
Ranking Minority Member, Committee on Ways and Means  
House of Representatives

Ocean containers play a vital role in the movement of cargo between global trading partners. In 2002, more than 7 million ocean cargo containers arrived at U.S. seaports. Responding to heightened concern about national security since September 11, 2001, several U.S. government agencies have acted to prevent terrorists from smuggling weapons of mass destruction (WMD) in cargo containers from overseas locations to attack the United States and disrupt international trade. Because of its frontline responsibilities for inspection at U.S. ports of entry, the U.S. Customs Service<sup>1</sup> assumed the lead role in improving ocean container security and reducing the vulnerabilities associated with the overseas supply chain. By January 2002, Customs had initiated the Container Security Initiative (CSI) and Customs-Trade Partnership Against Terrorism (C-TPAT) to enhance the security of the global supply chain and deter international acts of terrorism, as well as facilitate the smooth passage of commerce across U.S. borders. The purpose of CSI is to enable Customs to screen for high-risk containers in key ports overseas, while the purpose of C-TPAT is to improve global supply chain security in the private sector.

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<sup>1</sup>On March 1, 2003, the U.S. Customs Service was transferred to the new Department of Homeland Security. The border inspection functions of the Customs Service, along with other U.S. government agencies with border protection responsibilities, were organized into the Bureau of Customs and Border Protection. Throughout this report, we will use the term "Customs" to refer to both the Customs Service and the Bureau of Customs and Border Protection.

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In response to your interest in Customs' efforts to counter potential threats posed by ocean containers as they move through the global supply chain, we have (1) described the purpose and program elements of the new CSI and C-TPAT programs, (2) examined Customs' implementation of the programs during the first year, and (3) assessed the extent to which Customs has focused on factors critical to the programs' long-term success and accountability.

To address our objectives, we met with U.S. Customs officials in Washington, D.C., with program responsibilities for CSI and C-TPAT. We also met with private companies and industry associations in the United States to learn how C-TPAT affects the private sector. To learn about Customs' early experiences with CSI, we visited Canada, the Netherlands, and France, the countries where CSI was first implemented, to meet with the U.S. Customs attachés responsible for managing the implementation in the ports of Vancouver, Rotterdam, and Le Havre, respectively. We also met with members of the CSI team deployed at these three ports. In addition, we interviewed officials representing the governments of Canada, the Netherlands, and France who were involved in CSI negotiations and implementation. We also spoke with private sector officials in these countries to understand their perspectives on both CSI and C-TPAT. In addition, we reviewed Customs' Web site for information on the programs' status and activities. Finally, we used GAO reports on factors critical to the long-term success of organizations such as the Department of Homeland Security (DHS). Our methodology primarily relied on interviews with knowledgeable officials because both programs are new and Customs was not able to provide documentation regarding many of the issues that were the subject of our review. (For additional information on our scope and methodology, see app. I.)

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## Results in Brief

Customs developed CSI and C-TPAT in response to security vulnerabilities created by ocean container trade and to the concern that terrorists could exploit these vulnerabilities to transport or detonate WMDs in the United States. Announced in January 2002, CSI allows U.S. Customs to screen containers at CSI-designated foreign seaports. Placement of a CSI team overseas allows Customs to work with foreign customs officials to identify and examine high-risk containers prior to their arrival at U.S. ports. Customs initially targeted the top 20 foreign ports that shipped 66 percent of total containers to the United States for CSI inclusion, and then expanded the program to additional strategic ports. In November 2001, Customs initiated C-TPAT to improve the security of containers as they

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move through the global supply chain. Under C-TPAT, Customs officials work in partnership with private industry, reviewing supply chain security plans and recommending improvements. In return, C-TPAT members receive the benefit of a reduced likelihood that containers traveling along their supply chains will be inspected for WMDs. For fiscal year 2003, the CSI budget is about \$28 million, and the C-TPAT budget is about \$9 million. These budgets combined are expected to increase to more than \$73 million for fiscal year 2004 as the programs expand.

During the first year, Customs quickly designed and rolled out CSI and C-TPAT, modifying operations over time. Customs achieved strong participation among the countries and companies, respectively, that it sought to enroll in CSI and C-TPAT. In CSI's first year, Customs reached agreement with 15 governments to place Customs personnel at 24 ports and placed four or five-member CSI teams in 5 of these ports.<sup>2</sup> In C-TPAT's first year, more than 1,700 companies agreed to participate in the program, and most received the key benefit, a reduced likelihood of inspections for WMDs. As participation in these programs grew, Customs implementation evolved in response to challenges as they arose. For example, the first CSI team deployed in Europe discovered that critical information that it needed from the host customs administration was not readily available and, as a result, the CSI team was unable to achieve its goal of thoroughly screening containers overseas. To address this challenge, Customs implemented a "24-Hour Rule" requiring carriers to supply key information directly to Customs. Similarly, Customs initially expected that its account managers, who had experience working with the trade community, would recruit new C-TPAT members and assist companies with the development of their action plans. However, Customs later realized that C-TPAT needed staff with greater knowledge of supply chain security to help with the action plans as well as assist with other program elements. In response, Customs created a new supply chain specialist position, which was announced in May 2003. These supply chain specialists will play a key role in implementing critical program elements designed to ensure that member companies are improving and maintaining supply chain security practices.

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<sup>2</sup>The United States and Canada do not have a CSI arrangement covering three of these five ports because the Smart Border Accord, which was signed in December 2001, governs the placement of Customs personnel at three Canadian seaports, and preceded the announcement of CSI. However, Customs refers to these seaports as CSI ports.

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Customs' management and operations of CSI and C-TPAT to date show that Customs has not taken adequate steps to incorporate factors crucial to the programs' long-term success and accountability. More than 1 year into the implementation of CSI, Customs has not developed a systematic human capital plan to recruit, train, and assign the more than 120 CSI program staff that may be needed for long-term assignments in a wide range of foreign ports, some of which may require unique language capabilities and diplomatic skills. Likewise, Customs has not developed such a plan to govern the planned 15-fold expansion of C-TPAT, from a 10-person organization to one with more than 160 staff positions. Without human capital plans, Customs may be unable to anticipate potential challenges and put in place the workforce needed to implement CSI and C-TPAT in a timely manner. Similarly, Customs lacks performance measures that demonstrate program achievements and establish accountability, although they are tracking elements such as the number of countries and companies involved in CSI and C-TPAT. For example, the existing performance measures do not assess how CSI's presence overseas helps improve the targeting of high-risk containers beyond Customs' existing capabilities. In addition, Customs has not developed any effective indicators to ascertain whether C-TPAT has had an impact on the members' supply chain security practices. Without indicators that measure program outcomes, Customs may not be able to accurately assess the programs' success or establish a basis for program oversight. Finally, Customs' focus on short-term operational planning in order to quickly implement the programs impeded its ability to systematically carry out strategic planning. As a result, Customs lacks elements of strategic planning that would improve the management of the programs and allow Customs to establish accountability for approximately \$73 million in planned expenditures for fiscal year 2004.

This report makes recommendations to the Secretary of the Department of Homeland Security to improve the management and oversight of CSI and C-TPAT as they expand by developing human capital plans that will drive future recruitment, training and retaining strategies, expanding on existing performance measures to reflect outcome-oriented indicators, and developing strategic plans that clearly lay out the programs' goals, objectives, and detailed implementation strategies. Customs agreed with our recommendations and overall observations that it needs to take adequate steps to incorporate human capital planning, expand efforts to develop performance measures and develop strategic plans—factors necessary for the long-term success and accountability of CSI and C-TPAT.

# Background

Ocean-going cargo containers are a critical link in the system of global trade. With the rise of the “just-in-time” delivery system, which allows companies to reduce their inventories, as well as the efficiencies of the maritime transportation system, the U.S. and world economies have become increasingly reliant on the cargo container to transport their goods. In fact, approximately 90 percent of the world’s trade moves by cargo container. Although these containers arrive from various ports throughout the world, about 49 percent of U.S.-bound containers arrive from the top 10 international ports listed in table 1.

Table 1: Top 10 Foreign Ports, by Number of U.S.-bound Containers, 2001

Foreign ports	Number of U.S.-bound containers	Percentage of total containerized U.S.-bound cargo, by volume
Hong Kong, China	558,600	9.8
Shanghai, China	330,600	5.8
Singapore	330,600	5.8
Kaohsiung, Taiwan	319,200	5.6
Rotterdam, The Netherlands	290,700	5.1
Pusan, South Korea	285,000	5.0
Bremerhaven, Germany	256,500	4.5
Tokyo, Japan	159,600	2.8
Genoa, Italy	119,700	2.1
Yantian, China	114,000	2.0
<b>Total (top 10 ports)</b>	<b>2,764,500</b>	<b>48.5</b>

Source: GAO analysis of Customs data.

Note: Number of containers has been rounded.

In 2002, roughly 7 million containers entered U.S. seaports. About 87 percent of these ocean containers entered 10 U.S. seaports, as shown in table 2. More than half—approximately 58 percent—of ocean container arrivals are concentrated in three of the largest U.S. ports: Los Angeles, Long Beach, and New York-New Jersey.

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**Table 2: Top 10 U.S. Ports, by Number of U.S.-bound Containers, 2002**

U.S. ports	Number of U.S.-bound containers	Percentage of total containerized U.S.-bound cargo, by volume
Los Angeles	1,774,000	24.7
Long Beach	1,371,000	19.1
New York-New Jersey	1,044,000	14.6
Charleston	376,000	5.2
Savannah	312,000	4.3
Norfolk	306,000	4.3
Seattle	284,000	4.0
Tacoma	273,000	3.8
Oakland	268,000	3.7
Houston	233,000	3.3
<b>Total (top 10)</b>	<b>6,241,000</b>	<b>87.0</b>

Source: GAO analysis of Port Import Export Reporting Service (PIERS) data as reported by U.S. Maritime Administration.

Note: Number of containers has been rounded.

According to research initiated by the U.S. Department of Transportation's Volpe National Transportation Systems Center (Volpe), cargo security is affected by the number of individual companies contracted to facilitate the handling and movement of cargo through its supply chain.<sup>3</sup> To move a container from production facilities overseas to distribution points in the United States, an importer faces various choices regarding the logistical process such as routes and the selection of freight forwarders. For example, importers can own and operate key aspects of the overseas supply chain process, such as warehousing and trucking operations. Conversely, importers can contract with logistical service providers, such as freight consolidators and nonvessel operating common carriers.<sup>4</sup> In addition, importers must choose which modes of transportation to use, such as rail, truck or barge, to move containers from the manufacturer's warehouse to the seaport of lading. According to this Volpe study,

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<sup>3</sup>DOT Volpe National Transportation Systems Center, *Intermodal Cargo Transportation: Industry Best Security Practices* (Cambridge, Massachusetts: June 2002).

<sup>4</sup>A freight consolidator is a firm that accepts partial container shipments from individual shippers and combines the shipments into a single container for delivery to the carrier. A nonvessel operating common carrier is a company that buys shipping space, through a special arrangement with an ocean carrier, and resells the space to individual shippers, instead of receiving a commission.

importers who own and operate the entire supply chain route from start to finish suffer the least amount of security breaches because they have greater control over their supply chains. Figure 1 depicts basic characteristics of the overseas portion of the supply chain and some areas of vulnerability to terrorists intent on placing a WMD in a container.

**Figure 1: Steps in Supply Chain and Some Points of Potential Vulnerability**



**Overseas warehouse loading a container for export**

**Potential vulnerability:** Warehouse facilities may have weak controls and personnel practices. For example, access to shipping areas may not be secure and warehouse personnel practices may lack sufficient background checks. Also, seals attached to containers may provide minimum security against tampering.



**Contracted trucking company preparing to leave warehouse for port terminal**

**Potential vulnerability:** Visibility of in-transit activities may not be apparent to the trucking company or the supplier. The location of the truck and container may not be known or tracked. Furthermore, truck drivers may have broad discretion over their routes, which are subject to last minute changes.



**Port terminal receives container and stages it for vessel loading**

**Potential vulnerability:** Terminal operators may not adequately screen employees for criminal backgrounds. Some containers may be at risk for tampering because the container may sit for extended periods before being staged and loaded on a cargo ship.



**Ocean carrier loads container for trans-oceanic voyage**

**Potential vulnerability:** Containers might not have a seal or show signs of tampering. The ocean carrier and terminal operator may not routinely check containers for seals or signs of container tampering prior to or during the loading of the container on the ship.



**Ocean carrier en-route to multiple ports**

**Potential vulnerability:** Container ship may make multiple stops at various seaports to unload and load containers. The container ship transits through various routes and ports posing different levels of security risks.

Source: GAO analysis of Department of Transportation information. Photograph in Step 5, Port of Long Beach.

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A report prepared by the National Defense University's Center for Technology and National Security Policy states that an ocean container itself is ideally suited to deliver a WMD.<sup>5</sup> The likelihood that a terrorist will use a container to deliver a WMD depends on the type of WMD and the likelihood an ocean container would be used as the means of delivery. These researchers believe that it is feasible for a terrorist group to make a radiological "dirty bomb" which uses standard explosives to disperse radiological material, and that the ocean container would provide an ideal mode of transportation. On the other hand, these researchers have concluded, a terrorist attack using a nuclear WMD has a much lower feasibility because it is deemed less probable that terrorists have the resources and technical ability to build or obtain a workable nuclear weapon at this time and the nuclear WMD might be too valuable an asset to relinquish control by shipping it in a container. But some experts agree that the possibility of terrorists smuggling a nuclear WMD by ocean containers merits attention because the consequences would be much more severe than those of other types of WMDs. While there have been no known incidents of containers being used to transport WMDs, criminals have exploited containers for other illegal purposes, such as smuggling weapons, people, and illicit substances. Such activities demonstrate the vulnerability of the freight transportation industry and suggest opportunities for further exploitation of containers by criminals, including terrorist groups.

Various experts have estimated that the cost to the U.S. economy of port closures due to the discovery or detonation of WMDs could be significant. For example, in May 2002, the Brookings Institution estimated that costs associated with U.S. port closures resulting from a detonated WMD could amount to \$1 trillion.<sup>6</sup> Estimating the cost of discovering an undetonated WMD at a U.S. seaport, Booz, Allen and Hamilton reported in October 2002 that a 12-day closure would cost approximately \$58 billion.<sup>7</sup>

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<sup>5</sup>National Defense University, *The Virtual Border: Reducing the Risk of Seaborne Container Terrorism* (Washington, D.C.: August 2002).

<sup>6</sup>Brookings Institution, *Protecting the American Homeland: A Preliminary Analysis*, Michael O'Hanlon, et al. (Washington, D.C.: 2002).

<sup>7</sup>Mark Gerencser, Jim Weinberg, and Don Vincent, *Port Security War Games: Implications for U.S. Supply Chains*, (Booz, Allen and Hamilton, 2002).

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## Key Customs Programs Developed to Address Container Security

Customs developed CSI to detect and deter acts of container-related terrorism at the earliest point feasible along the supply chain, and it developed C-TPAT to address concerns about supply chain vulnerabilities. CSI placed Customs officials in key foreign ports to detect WMDs in containers prior to their arrival to the United States and to deter terrorists from using containers to deliver a WMD.<sup>8</sup> C-TPAT established a partnership between the private sector and Customs to improve the overall security of international supply chains, offering participating companies the incentive that their containers will have a lower chance of being inspected for WMDs. For fiscal year 2003, CSI's budget is about \$28 million, and C-TPAT's budget is about \$9 million. Customs has proposed budget increases, combined total of \$73 million, for fiscal year 2004 to support the programs' expansion plans.

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## CSI Placed Customs Officials Overseas to Screen Containers

Announced in January 2002, CSI allows Customs to screen for high-risk, U.S.-bound containers at key foreign ports,<sup>9</sup> a task previously carried out only at U.S. seaports. To do this, Customs negotiates and enters into bilateral arrangements with foreign governments. These arrangements contain common language that specifies the placement of Customs officials, on a pilot basis, at foreign ports and the exchange of information between U.S. Customs and foreign customs administrations. Customs first targeted for CSI the 20 foreign ports that shipped the highest volume of ocean containers to the United States. These top 20 ports are located in 14 nations and shipped a total of 66 percent of all containers that arrived in U.S. seaports in 2001. Customs also plans to expand CSI to an additional 20 to 25 strategic ports that ship a significant volume of containers to the United States and are considered to be strategic locations. According to Customs, these strategic ports must meet minimum requirements such as having nonintrusive inspection equipment and having customs officials

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<sup>8</sup>CSI has two other program components: the use of detection technology to inspect high-risk containers and the use of technology to secure containers. However, these components were outside the scope of our review. We have conducted previous work in the area of inspection technology. See U.S. General Accounting Office, *Homeland Security, Title III of the Homeland Security Act of 2002: Addendum*, [GAO-02-930T](#) (Washington D.C.: July 9, 2002). In a separate effort, an interagency Container Working Group, co-chaired by Department of Transportation and Customs, is currently working on improving the physical security of the container.

<sup>9</sup>The CSI ports are generally the last foreign ports of lading before vessels arrive into U.S. seaports.

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capable of conducting inspections to support the CSI program. Customs proposed to increase CSI's budget from \$28.4 million in fiscal year 2003 to \$61.2 million in fiscal year 2004.

## CSI Operations

To prepare a CSI team for deployment overseas, Customs sends an assessment team to the CSI port to collect information about the port's physical and informational infrastructure and the host country's customs operations. Customs then deploys a CSI team of approximately four to five Customs officials to work with the host country's customs administration to identify high-risk containers departing from these ports for the United States.<sup>10</sup> Containers targeted for CSI inspection arrive at CSI ports by land, rail, or sea en route to the United States. The CSI team uses Customs' Automated Targeting System to screen container data and identify high-risk containers for inspection.<sup>11</sup> This system evaluates U.S.-bound cargo manifest data electronically and determines a container's risk level.<sup>12</sup> To improve its screening capabilities, the CSI team further analyzes U.S.-bound containers by means of data provided by host countries' customs administration. Host countries' customs officials then inspect containers that both U.S. and host customs officials identify as high risk. Although the arrangements do not specify that U.S. Customs officials must be able to observe inspections, Customs officials told us that a central tenet of the CSI concept is that U.S. Customs inspectors be able to observe and verify the inspections and that all partner Customs administrations accept this tenet.

According to Customs officials, the most important benefits of CSI derive from the collocation of U.S. Customs officials with foreign customs officials. Prior to the implementation of CSI, Customs officials in U.S. ports screened container data using the Automated Targeting System and inspected high-risk containers on their arrival in the United States. With

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<sup>10</sup>The CSI program includes a reciprocity option for partner governments that allows foreign customs administrations to station officers at U.S. seaports. As of May 2003, two countries have placed customs officers at U.S. seaports: Canada and Japan.

<sup>11</sup>In a separate review, GAO is currently assessing Customs' Automated Targeting System and its overall ability to identify and process cargo containers considered to be "high risk" for terrorism.

<sup>12</sup>A manifest is a document that lists in detail the total cargo of a vessel and is issued by a carrier or its agent or master for a specific voyage. Examples of data elements in a manifest include shipper, consignee, point and country of origin of goods, export carrier, port of lading, port of discharge, description of packages and goods, and date of lading.

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the placement of officials overseas, Customs expects that the added value of real-time information sharing will improve Customs' ability to target high-risk containers. For example, using the Automated Targeting System, U.S. Customs officials may identify unfamiliar consignees that have been flagged as high risk but are later determined not to be high risk based on the host customs' knowledge and experiences. Customs' presence overseas is intended to help ensure that containers identified as high risk are inspected prior to arrival in the United States. In addition, Customs officials hope that the collocation of its officials with foreign customs officials will result in relationships that enhance cooperation and intelligence sharing.

Customs officials believe that CSI should facilitate the flow of trade to the United States and could reduce the processing time for certain shipments, because the screening at CSI ports will in most cases take place during "down time" while containers wait at the port terminal prior to being loaded onto vessels. In addition, CSI eliminates the necessity of inspecting containers for security purposes, absent additional information affecting their risk analyses, when they reach the United States. CSI also offers benefits to foreign ports that participate in the program, including deterrence of terrorists that may target their ports and a shorter time frame to resume operations in the event of a catastrophic incident.

## CSI Staffing

Customs created an intra-agency task force to manage and operate the program, headed by Customs' Office of International Affairs and staffed with representatives from different offices within Customs.<sup>13</sup> In addition, the assessment teams that travel to CSI ports to survey the operational needs comprise members from these various offices. Customs officials state that Customs relies on its overseas attachés to facilitate CSI negotiations with foreign governments, oversee CSI operations at one or more CSI ports,<sup>14</sup> and report CSI operations to the task force, in addition to their existing Customs duties.

Each CSI team deployed at a foreign port consists of four to five team members: two to three inspectors from Customs' Office of Field

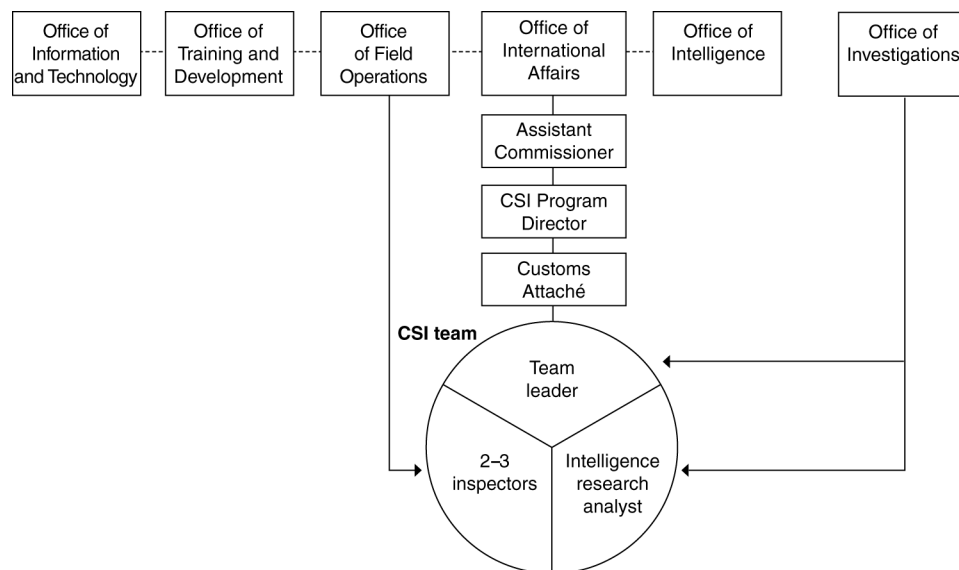
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<sup>13</sup>The CSI Task Force consists of individuals from Customs offices, such as the Offices of International Affairs, Field Operations, Intelligence, Information and Technology, and Training and Development.

<sup>14</sup>For example, the Attaché in France is responsible for Customs operations in Belgium, France, and Spain.

Operations, one intelligence research analyst, and one agent serving as a CSI team leader representing the Office of Investigations. (See fig. 2.) According to Customs officials, while Customs inspectors review container data using the Automated Targeting System and seek assistance from local customs to screen containers, the intelligence analyst conducts further analyses using additional research tools and real-time information sharing with local customs' intelligence analysts. The team leader serves as a liaison between the CSI team and the foreign customs administration and reports to the Customs Attaché regarding CSI operations. Currently, each CSI team is assigned to a foreign port under a temporary duty assignment and is replaced by other Customs personnel after a 120-day period. However, Customs officials told us that they are currently seeking to convert these temporary positions to permanent CSI staff positions at foreign ports.

**Figure 2: CSI Task Force Organization Chart, March 2003**



Source: GAO analysis of Customs information.

CSI Funding

The budget for the CSI program is expected to grow as the program expands, as shown in table 3. In fiscal year 2002, Customs spent about \$3.3 million, using emergency supplemental no-year funds to support preliminary CSI needs.<sup>15</sup> These funds were budgeted for such needs as travel to promote the program to foreign customs, the purchase of computer equipment for CSI ports, and the maintenance of a CSI team in Rotterdam. Customs' fiscal year 2003 budget is approximately \$28.4 million to support CSI operations in an anticipated 21 foreign ports and conduct assessments of 6 additional ports. As of March 2003, Customs had spent \$3.4 million of fiscal year 2003 funds to support operations in 9 ports. As part of the new DHS budget, Customs requested \$61.2 million to support anticipated CSI operations in 30 foreign ports in fiscal year 2004.

**Table 3: CSI Budget Plans and Obligations, Fiscal Years 2002–2004**

Fiscal year	CSI budget plan	Budget amount	Obligations
2002	Operate in 1 port and conduct assessments in additional ports. <sup>a</sup>	\$4.3 million	\$3.3 million <sup>b</sup>
2003	Operate in 21 ports and conduct assessments in 6 additional ports.	\$28.4 million	\$3.4 million (as of 3/14/03)
2004	Operate in 30 ports.	\$61.2 million proposed	Not applicable

Source: GAO analysis of Customs information.

<sup>a</sup>The budget plan for FY 2002 does not include funds for CSI operations in the 3 Canadian ports because these were funded separately until fiscal 2003, when they were combined into the overall CSI program.

<sup>b</sup>These funds were expended.

<sup>15</sup>Emergency supplemental funds were provided to Customs under P.L.107-117. The fiscal year 2002 amounts do not include the costs of operating in three Canadian ports, which were funded separately by Office of Field Operations.

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## C-TPAT Works with Private Sector to Improve Supply Chain Security

Announced in November 2001, C-TPAT is a voluntary partnership program between the business community and Customs, designed to enhance the security of international supply chains and thus reduce the number of containers that otherwise might be screened for WMDs because of risk considerations. Customs plans to achieve these objectives by encouraging importers, freight forwarders, carriers, and other logistics service providers to improve security practices and to persuade their service providers along their supply chain to do the same. Customs accomplishes this through partnership agreements and by reviewing and following-up on company supply chain security profiles. In return, Customs offers a number of incentives, including the key benefit of a reduced likelihood of inspection for WMDs.<sup>16</sup> Customs is still developing critical aspects of the program intended to ensure that member companies respond to C-TPAT recommendations for improving and maintaining supply chain security practices. Like CSI, the budget for C-TPAT is expected to increase as the program expands.

## C-TPAT Operations

Prior to recruiting C-TPAT members, Customs worked with industry leaders to develop a set of recommendations intended to improve the security practices for specific segments of the supply chain (e.g., air/sea/land carriers, customs brokers, importers, manufacturers, warehouses, freight forwarders, and domestic ports). The C-TPAT security recommendations are meant to serve as a guide for members to follow and are not mandatory. For example, a common C-TPAT recommendation encourages carriers, warehouses, importers, and manufacturers to affix, replace, record, track, and verify seals on containers, but its implementation is not obligatory.

As a first step in C-TPAT membership, a company must sign an agreement with Customs signifying its commitment to enhance its supply chain security by embracing C-TPAT security recommendations and to work with its service providers throughout its supply chain to enhance security processes. At this point, the company becomes a C-TPAT member, and its risk score is partially reduced.<sup>17</sup> After signing the agreement, the company

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<sup>16</sup>C-TPAT member companies are not exempt from Customs trade compliance and enforcement activities.

<sup>17</sup>Specifically, Customs reduces a company's overall risk score in Custom's Automated Targeting System. A lower score indicates lower risk and a decreased likelihood of being inspected for a WMD.

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is required to self-assess its supply chain security practices, using the C-TPAT industry security recommendations as a guideline, and document its observations in a security profile. The security profile is intended to be an executive summary of the company's current and future supply chain security practices and vulnerabilities, as well as an indication of how these recommendations were communicated to its business partners overseas.

Using a checklist based on the C-TPAT recommendations, C-TPAT officials review the security profile to understand the company's security practices and decide whether to further reduce the company's risk score. To help complete their assessments of companies, C-TPAT officials also seek information from other Customs offices on the company's historic relationship with Customs, such as the results of trade compliance examinations or any past criminal investigations. Once any concerns that C-TPAT officials may have raised are resolved, Customs will further reduce the company's risk score. Through standard feedback letters, Customs notifies companies of the results of the review process and requests additional information on security practices.

According to Customs, C-TPAT participants are never rejected from the program because of an inadequate security profile or for adverse information discovered during the review process. On the contrary, Customs officials say that they are committed to working with these companies, even if there are serious security or trade compliance weaknesses. However, Customs may, under certain circumstances, withhold or reduce C-TPAT benefits. Furthermore, Customs officials stated that they may remove a company from C-TPAT membership if they determine that its commitment is not serious or that it has intentionally misled Customs.

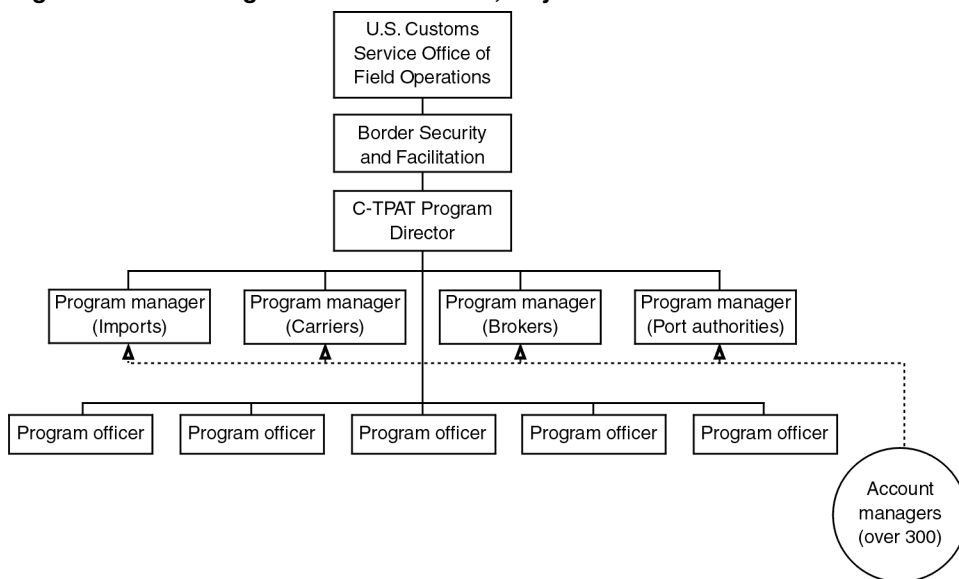
Other program elements are intended to ensure that member companies have taken action to improve and maintain supply chain security practices. Customs intends to use validations to establish accountability by verifying that information on a company's security profile is accurate and complete. Customs intends to use action plans to communicate the weaknesses it identifies and outline the steps that companies need to take to strengthen their supply chains. Customs also plans to use annual assessments, or questionnaires, to follow up on a variety of open-ended security issues.

## C-TPAT Staffing

Customs created a C-TPAT management team to oversee and implement the program. Currently, C-TPAT staff includes a director, four program managers, and five program officers, working at Customs' headquarters

and organized by trade sectors that cover all aspects of C-TPAT membership (see fig. 3). According to C-TPAT officials, program managers provide overall program direction and guidance, as well as program promotion within trade sectors. Program officers, with help from program managers, provide guidance to companies on how to complete their security profiles as well as review security profiles and prepare feedback letters. In addition to C-TPAT staff, account managers who are located at Customs sites across the country and manage a portfolio of companies on trade compliance matters, also assist with the C-TPAT program.<sup>18</sup> Over 300 account managers promote the program and serve as points of contact for many companies seeking information about C-TPAT.

**Figure 3: C-TPAT Organizational Structure, May 2003**



Source: GAO analysis of Customs information.

<sup>18</sup>Under the Office of Field Operations' Trade Compliance and Facilitation, account managers work with selected companies to help increase their level of trade compliance through one-on-one interaction. For companies that do not have an account manager, being designated an account and assigned an account manager is considered a benefit of joining C-TPAT.

C-TPAT Funding

The budget for C-TPAT is expected to increase as the program expands. Funding for C-TPAT began in April 2002, with emergency supplemental no-year funds totaling \$8.3 million.<sup>19</sup> According to Customs, it carried over unexpended funds to support a C-TPAT budget of \$8.8 million for operations in fiscal year 2003. Customs’ proposed C-TPAT budget for fiscal year 2004 is \$12.1 million and includes a request for 157 security specialist positions.<sup>20</sup> Table 4 depicts budget plans and obligations for fiscal years 2002 to 2004.

Table 4: C-TPAT Budget Plans and Obligations, Fiscal Years 2002–2004

Fiscal year	C-TPAT budget plan	Budget amount	Obligations
2002	Program promotion, equipment, personnel, and other expenses.	\$8.3 million	\$184,694
2003	Program promotion, equipment, personnel, and other expenses.	\$8.8 million	\$4.7 million (as of 3/31/03)
2004	Program promotion, equipment, personnel, and other expenses.	\$12.1 million (proposed)	Not applicable

Source: GAO analysis of Customs information.

Customs Quickly Rolled Out CSI and C-TPAT, Adapting Programs to Meet Challenges

Responding to concerns about container security, Customs quickly rolled out CSI and C-TPAT, adjusting its implementation of the programs to meet challenges. Early on, the programs enlisted the participation of many countries and companies, respectively. By January 2003, Customs had entered into bilateral arrangements with foreign governments to place Customs officials at 24 ports and soon deployed CSI teams to 5 of them. Similarly, by the end of C-TPAT’s first year, Customs had recruited approximately 1,700 companies to become C-TPAT members, received security profiles from about half of these companies, and sent feedback letters to half of the companies submitting security profiles. As CSI and C-TPAT evolved, Customs adapted its implementation of the programs as it

<sup>19</sup>Emergency supplemental funds were provided to Customs under P.L. 107-117.

<sup>20</sup>Beginning in fiscal year 2004, C-TPAT is assuming greater level of responsibility for funding all of Customs industry partnership programs, such as the Business Anti-Smuggling Coalition and the Carrier Initiative Program.

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encountered challenges. For example, experiences at one of the first CSI ports of deployment showed Customs that it needed to change the way it collected the manifest data necessary for targeting high-risk containers and the way it selected staff for CSI assessment teams. Similarly, as Customs realized that its account managers, who were on the “front lines,” were not prepared to provide companies the level of assistance they required, Customs developed a new supply chain specialist position to assist with key program elements and limited the role of account managers to promoting the program. These supply chain specialists will play a key role in ensuring that member companies are improving and maintaining supply chain security practices.

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**Many Countries Agreed to Join CSI; Program Modifications Made in Response to Early Challenges**

In CSI's early stage of implementation, Customs entered into numerous bilateral arrangements with foreign governments to place Customs officials at CSI ports and soon deployed several CSI teams; however, at the port of Rotterdam, Customs found that logistical and legal challenges limited the CSI team's ability to obtain manifest data essential to screen high-risk containers. To ensure that it would obtain complete and timely manifest data, Customs implemented the 24-Hour Rule, which allows Customs to directly receive from carriers information necessary for screening containers overseas. In addition, after realizing that the early composition of CSI assessment teams and the survey instrument used by the teams were inadequate, Customs modified the teams by building in additional expertise and developed comprehensive and standardized port surveys.

**Most Target Governments Agreed to CSI in First Year, Some CSI Teams Deployed**

During CSI's first year of implementation, Customs completed arrangements with 15 governments to place officials at 24 seaports. First, Canada agreed to the placement of U.S. Customs personnel at 3 seaports under the Smart Border Declaration, which preceded the announcement of CSI.<sup>21</sup> Then, between January 2002 and January 2003, Customs concluded bilateral arrangements with 12 governments covering 18 of the 20 seaports that ship the highest volume of containers to the United States, as well as 2 other governments representing 3 strategic ports.

During the program's initial year, Customs deployed CSI teams to 5 ports, a few months after the arrangements were signed. As of May 2003, Customs

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<sup>21</sup>U.S. Customs officials at Canadian seaports monitor containers shipped from Canada to the United States, as well as containers shipped from other foreign ports, off-loaded at Canadian ports, then transported to the United States by land.

had placed CSI teams at 7 additional ports. The number of CSI deployments as of May 2003 represented about half of the 21 anticipated CSI ports outlined in the CSI budget for fiscal year 2003. Deployments are sometimes delayed, according to Customs officials, for reasons such as the logistics of placing Customs staff overseas and the readiness of the foreign ports. (See table 5 for list of CSI arrangements and deployments.)

**Table 5: Dates of CSI Bilateral Arrangements and Deployments by Targeted Ports, May 2003**

Country	Port	Date arrangement signed	CSI team deployments in first year	CSI team deployments after first year
<b>Smart border accord</b>				
Canada	Halifax	December 2001	March 2002	
	Montreal	December 2001	March 2002	
	Vancouver	December 2001	March 2002	
<b>Top 20 ports</b>				
Belgium	Antwerp	June 2002		February 2003
China	Shanghai	October 2002 <sup>a</sup>		
	Yantian	October 2002 <sup>a</sup>		
France	Le Havre	June 2002	December 2002	
Germany	Bremerhaven	August 2002		February 2003
	Hamburg	August 2002		February 2003
Hong Kong	Hong Kong	September 2002		May 2003
Italy	Genoa	November 2002		
	La Spezia	November 2002		
Japan	Tokyo	September 2002		
	Nagoya	September 2002		
	Kobe	September 2002		
	Yokohama	September 2002		March 2003
The Netherlands	Rotterdam	June 2002	August 2002	
Singapore	Singapore	September 2002		March 2003
South Korea	Pusan	January 2003		
Spain	Algeciras	January 2003		
Taiwan	Kaohsiung			
Thailand	Laem Chabang			
United Kingdom	Felixstowe	December 2002		

(Continued From Previous Page)

Country	Port	Date arrangement signed	CSI team deployments in first year	CSI team deployments after first year
<b>CSI strategic ports</b>				
Malaysia	Klang	January 2003		
	Tanjung Pelepas	January 2003		
Sweden	Gothenburg	January 2003		May 2003

Source: GAO analysis of Customs data.

<sup>a</sup>China has “agreed in principle” to join CSI but has not signed a CSI bilateral arrangement.

According to Customs, between the time of the initial deployments for the first five CSI ports and May 2003, the CSI teams screened manifest data for more than 606,000 containers, looking for high-risk cargo. Their screening efforts identified a total of 2,091 containers they considered to be high risk that were then inspected by host customs administrations. Officials from the three foreign customs administrations we visited told us that, so far, the CSI requests for inspection had not been a burden, and that they had often invited the CSI teams to observe inspections. At the three CSI ports in Canada, around 343,000 containers were screened, and 2,022 containers were inspected between the time of the CSI deployments in March 2002 and May 2003. At the port of Rotterdam, the CSI team screened more than 203,000 containers, and Dutch customs inspected 54 containers between September 2002 and May 2003. At the port of Le Havre, the CSI team screened more than 59,000 containers, and French customs inspected 15 containers between December 2002 and May 2003. A Customs official informed us that these inspections did not reveal any WMDs.

#### Program Operations Evolved as CSI Team in First Port Faced Challenges

As the first CSI team arrived in Rotterdam, Customs encountered data limitations that required revising its approach to obtaining needed information for screening containers. CSI operations overseas involve the utilization of complete, accurate, and timely manifest data to target high-risk containers bound for the United States. However, the manifest information in Customs’ Automated Targeting System was insufficient, because carriers did not always submit manifest data to U.S. Customs electronically, completely, and prior to the containers’ departure from foreign ports to the United States. Therefore, Customs planned to supplement its own manifest database with manifest data provided by foreign customs administrations at CSI ports.

Soon after deploying CSI teams at the first European CSI port of Rotterdam, Customs realized that its ability to effectively screen containers was limited by the host customs administration’s lack of sufficient export

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manifest data for container traffic leaving Rotterdam and headed for U.S. seaports. According to U.S. Customs officials, like most customs administrations, Dutch customs does not completely track export data. Although the CSI team was provided manifest data on U.S.-bound containers by the host customs, this information generally was limited to containers transferred from one vessel to another at Rotterdam, and even then, the data sometimes arrived after the vessel's departure. In addition, the CSI team did not have information for containers remaining on board a vessel that was destined for the United States but that stopped at the port of Rotterdam. Furthermore, the CSI team did not have manifest data for containers leaving Rotterdam after arriving via truck, train, or barge from other countries.

Customs also learned soon after the CSI team's arrival in Rotterdam that the physical layout of the port and the sovereign laws of the Netherlands posed other challenges to the CSI team's receipt of needed manifest information. For example, the CSI team discovered that in the port of Rotterdam there were 40 different physical locations where Dutch Customs received paper manifests. In addition, the CSI team learned that under Dutch law, paper manifests could not be removed from certain locations. Given the logistical challenges of compiling information from the 40 locations, as well the limitations posed by existing Dutch law, the two customs administrations realized that providing the CSI team with this information would not be feasible. Customs officials told us that without complete and accessible manifest data, the CSI team could not achieve its goal of screening containers at foreign ports.

On the basis of its experiences in Rotterdam, Customs took steps to modify its approach. First, Customs expedited the development and finalization of its 24-Hour Rule, which established new requirements that carriers present complete vessel cargo declarations to Customs 24 hours before loading cargo aboard a vessel at foreign ports, regardless of whether these ports are CSI or non-CSI ports, for transport to the United States.<sup>22</sup> This

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<sup>22</sup>The 24-Hour Rule is Customs' rule on the "Presentation of Vessel Cargo Declaration to Customs Before Cargo Is Laden Aboard Vessel at Foreign Port for Transport to the United States," implemented in December 2002. For example, according to Customs officials, for a U.S.-bound container initially loaded onto a vessel in St. Petersburg, Russia that then stops at the port of Rotterdam before arriving at a U.S. port, the carrier must submit a manifest to U.S. Customs 24 hours before the container is loaded onto the vessel in St. Petersburg. For a container that is transported to the port of Rotterdam by train then loaded onto a vessel to be shipped to the United States, the carrier must submit a manifest 24 hours before the container is loaded onto a vessel in Rotterdam.

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amendment allowed Customs to overcome the obstacle of obtaining manifest data on containerized exports bound for the United States at foreign ports—a critical element in the process of screening containers overseas. Instead, the CSI teams would now have direct access to the needed manifest data, thus lessening their dependence on foreign customs to provide it.

Customs also modified the composition and procedures of CSI assessment teams in order to gather all information needed for a full understanding of port operations prior to the CSI team's arrival. Customs officials stated that the insufficiency of information collected by the assessment teams at Rotterdam delayed Customs' discovery that the port's manifest data for U.S.-bound containers was incomplete. The inadequacy of the information collected by the team resulted, in large part, from the team's lack of subject matter expertise and a tool to standardize the collection of relevant information at CSI ports. Customs officials told us that they have since identified the required skills and have incorporated staff with significant expertise from various offices within Customs to properly survey foreign ports. In addition, Customs developed a standardized survey questionnaire to obtain information about a host nation's port, such as the physical infrastructure and the availability of manifest and cargo information. Furthermore, Customs now collects the same information from foreign customs administrations in advance in an effort to inform the assessment teams prior to their visits.

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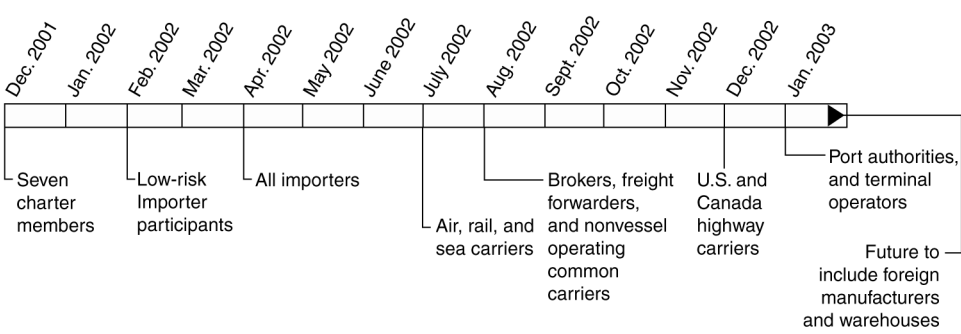
### Many Companies Enrolled in C-TPAT, Program Evolving Over Time

Customs quickly designed C-TPAT and rolled-out some key program elements, adjusting its implementation over time. Since the beginning of the program, Customs enrolled a large number of companies across the United States, receiving security profiles from half of those companies and providing feedback letters to half of the companies that submitted security profiles. More recently, Customs began pretesting another program element, validations, with a few companies. Initially, Customs expected that its account managers, who had experience working with the trade community, could promote the program and help companies develop action plans. However, Customs soon realized that it needed staff with a different skill set, supply chain security expertise, to help with future program elements, including validations and action plans. In response, Customs created a new supply chain specialist position, which was finalized in May 2003. Customs will continue to modify the program as it becomes aware of needed changes and implements other key program elements.

Numerous Companies Enrolled in C-TPAT Program

In December 2001, the first charter members, seven importers, signed agreements and enrolled in C-TPAT.<sup>23</sup> Beginning in February 2002, C-TPAT invited importers that were already participating in Customs' Low-Risk Importer Initiative to join C-TPAT.<sup>24</sup> Open enrollment for all other importers began in April 2002, and enrollment for other trade sectors opened thereafter. Customs' outreach targeted large to medium-sized companies in order to immediately cover a large percentage of the trade entering the United States. C-TPAT, in consultation with private-sector partners, plans to expand the program to foreign warehouse operators and manufacturers. Figure 4 depicts C-TPAT enrollment time line by type of industry.

Figure 4: Time line of C-TPAT Enrollment Opportunities



Source: Customs data.

According to C-TPAT officials, in January 2003, approximately 1,700 companies had signed C-TPAT agreements, becoming C-TPAT members and receiving the benefit of a partially reduced risk score. During the first year of the program, more than 800 of these companies had completed the next step in the program and submitted security profiles to Customs. Customs sent feedback letters to 429 companies, granting 416 of them full

<sup>23</sup>The seven charter members included British Petroleum, DaimlerChrysler, Ford Motor Company, General Motors Corporation, Motorola, Sarah Lee Corporation, and Target Corporation.

<sup>24</sup>The Low-Risk Importer Initiative is a trade compliance program designed to significantly reduce Customs examinations for high compliant importers. The low-risk designation means that Customs has conducted a review of the importer's compliance assessments, targeted cargo exams and document reviews, account manager evaluations, compliance measurement, enforcement results, and financial health.

program benefits, including a further reduction in their company risk scores. The remaining 13 companies received feedback letters from Customs informing them that their profiles were insufficient for the companies to be granted full benefits. Table 6 provides information on the status of the C-TPAT program membership by type of industry sector and status of key program elements.

By May 2003, the number of agreements signed nearly doubled to 3,355. According to C-TPAT officials, the 10 program staff were able to review all 1,837 security profiles and prepare all 1,105 feedback letters in a timely manner. Customs officials told us that they had not removed any companies from C-TPAT membership due to the determination that a member company's commitment is not serious or that a member company had intentionally misled Customs or for other matters. As of the end of May 2003, Customs had not fully implemented other critical program elements, such as validations, company action plans, and annual assessments, designed to ensure that companies have taken action to improve and maintain supply chain security practices. A few validations had been completed, as the concept was being pretested. No action plans or annual assessments had been prepared.

**Table 6: Status of C-TPAT Membership by Industry Sector and Key Program Elements, January 2003 and May 2003**

Key program elements	Importers		Carriers		Brokers, freight forwarders, nonvessel operating common carriers		Domestic port authorities and terminal operators		Total	
	Jan.	May	Jan.	May	Jan.	May	Jan.	May	Jan.	May
Agreements signed	1,106	2,119	134	410	466	806	0	20	1,706	3,355
Security profiles submitted to Customs	517	1,088	88	242	254	499	0	8	859	1,837
Feedback letters sent by Customs	306	623	37	163	86	312	0	7	429	1,105
Validations (pretested)	0	15	0	0	0	0	0	0	0	15
Action plans	0	0	0	0	0	0	0	0	0	0
Annual assessments	0	0	0	0	0	0	0	0	0	0

Source: Customs.

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## C-TPAT Program Operations Are Evolving Over Time

Customs has adjusted elements of C-TPAT operations since the program's inception and plans to continue doing so as it gains experience and begins implementing other program elements. Initially, Customs expected to use account managers to recruit companies and field general questions about the application process. Customs also expected that account managers would help companies develop action plans in response to Customs assessments of supply chain security practices. However, C-TPAT officials later realized that account managers lacked the skill set necessary to provide more than basic program information to companies. In response, Customs took action to hire supply chain specialists to provide the requisite skill set needed to implement various C-TPAT program elements and limited the role of account managers to promoting the program. Account managers were instructed to refer any technical inquiries from applicants about completing their security profiles to the four C-TPAT program managers.

In October 2002, Customs began the process of developing a new position description for supply chain specialists and obtaining authorization to hire more than 150 such specialists. In May 2003, the specialist position was announced. C-TPAT officials plan to hire 40 specialists by the end of fiscal year 2003. According to C-TPAT officials and program documents, specialists will be used to guide companies in the development of their security profiles, conduct validations, develop action plans, and facilitate annual assessments. However, given the need to complete over 3,000 validations and establish accountability, the C-TPAT officials most recently told us that the specialists would focus on conducting validations and action plans.

Early implementation of the program focused on recruiting companies and collecting information on companies' security practices. So far, companies have only had to report on their existing and planned security practices. As the program evolves, validation and action plans will be used by Customs to advise C-TPAT members to adopt new security measures that could impose increased costs if adopted. According to C-TPAT officials, supply chain specialists will play a critical role in implementing the next C-TPAT program elements while balancing the dual goals of improving security with facilitating trade. The supply chain specialists, according to C-TPAT officials, will increase the program's creditability by bringing on experts who can make feasible and meaningful recommendations that will compel companies to change their security practices. C-TPAT officials told us the program will continue to evolve as the other program elements such as the

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company action plans and annual assessments are developed and implemented and lessons are learned.

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## Customs Has Not Adequately Incorporated Factors Critical to Programs' Success and Accountability

Although CSI and C-TPAT are evolving into major tools in the U.S. war against terrorism, in implementing the programs, Customs has not taken adequate steps to incorporate human capital planning, develop performance measures, and plan strategically—factors essential to the programs' long-term success and accountability.<sup>25</sup> While Customs was able to meet the programs' initial staffing needs, it has not devised a systematic plan to recruit, train, and retain the expected fivefold increase in CSI overseas staff by fiscal year 2004. In addition, Customs lacks a plan for increasing the number of C-TPAT staff almost 15-fold, from 10 to more than 160, while it rolls out new program elements. Although Customs had created some performance measures, such as tallying the number of countries and companies that have enrolled in the CSI and C-TPAT, respectively, it has not developed measures that establish accountability and measure program achievements. For example, Customs lacks measures that assess the impact of CSI and C-TPAT on improving targeting and security practices, respectively—the programs' fundamental goals. In its effort to rapidly implement the programs and enroll participants, Customs focused on short-term operational planning. As a result, Customs lacks the elements of strategic planning that would allow it to establish program accountability for approximately \$73 million in funds budgeted for fiscal year 2004.

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## CSI and C-TPAT at Critical Point

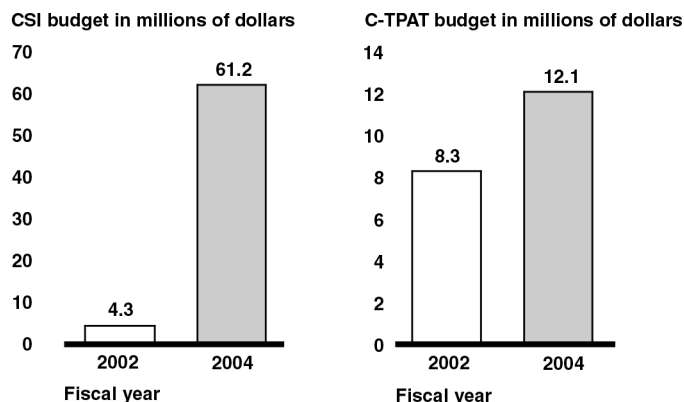
Customs has come to a critical point in its management of CSI and C-TPAT, as they transition from start-up programs to mature global programs on the front lines of the U.S. effort to address container security and protect

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<sup>25</sup>In a report on the formation of DHS, we identified from our body of work the major success factors that DHS officials will need to consider to successfully manage the new department. Drawing on that list, we identified three factors critical to the management of CSI and C-TPAT. Human capital planning includes thinking strategically about how to put people with the right set of skills, in the right jobs at the right time. Performance measures help demonstrate an organization's level of progress in achieving results and inform decision making. Strategic planning includes involvement of stakeholders; assessment of environments; and the alignment of activities, core processes, and resources to support mission objectives. See U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Homeland Security*, [GAO-03-102](#) (Washington, D.C.: January 2003).

global commerce. Whereas Customs quickly launched the programs in response to homeland security concerns, the programs have now reached the stage where Customs projects a rapid expansion to additional countries and companies, as well as additional C-TPAT program elements, such as validations. Furthermore, Customs has proposed to commit significantly more resources to both of these programs. (See fig. 5.) For example, the CSI budget will increase from \$4.3 million in the first year to more than \$61 million proposed for fiscal year 2004, and C-TPAT staff levels will jump from approximately 10 to more than 160 by the end of fiscal year 2004.

**Figure 5: Budgets and Anticipated Growth for CSI Ports and C-TPAT Staff, Fiscal Years 2002 and 2004**



Source: GAO analysis of Customs data.

## Customs Has Not Created Human Capital Plans for CSI and C-TPAT

Over 1 year into the implementation of CSI and C-TPAT, Customs has not developed a human capital plan that systematically addresses long-term staffing needs such as recruiting, training, and retaining personnel for these programs. A key element of human capital planning includes thinking strategically about how to put the right people in the right jobs at the right time. By the end of fiscal year 2004, Customs will need to attract at least 120 CSI employees with the skills to identify high-risk containers at 30 ports and who are willing to live in challenging environments. Ultimately, Customs envisions maintaining CSI teams at 43 or more ports. C-TPAT intends to hire and train more than 150 supply chain specialists within the next few years to review company security profiles for weaknesses, identify solutions, and maintain company relations to ensure that voluntary improvements are made. While short-term human capital decision making

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was necessary in the programs' first year to address the challenge of a rapid start-up, Customs is now required, as a result of its transfer to DHS, to face these and other important human capital questions to ensure CSI's and C-TPAT's long-term success.<sup>26</sup>

Deploying Customs staff to overseas CSI ports will be a complex, multiyear task. Customs seeks CSI candidates with targeting, diplomatic, and language skills. Customs officials stated that they did not experience significant difficulties in finding qualified staff to fill its short-term human capital needs from among the pool of existing Customs employees, such as inspectors from the Office of Field Operations. However, Customs anticipates creating 2- to 3-year permanent assignments to replace its current 120-day temporary duty assignments, which could strain existing resources. In spite of the potential challenges Customs could face, CSI officials said that they had not documented a human capital plan and would instead, in the near term, rely exclusively upon other Customs offices such as the Office of Field Operations to use their own standards to screen and make final selections of CSI staff for placement at CSI ports overseas.

Customs faces a daunting task as it prepares for its future human capital needs at key CSI ports overseas, including strategic ports in countries where it may be difficult to attract U.S. personnel. Specifically, Customs' port status planning document projects the deployments of CSI teams in fiscal year 2004 to seven countries (Brazil, China, Greece, Sri Lanka, Thailand, Turkey and the United Arab Emirates) for which the Department of State requires pay compensation to U.S. government officials for hardships they may encounter while working in these locations.<sup>27</sup> As an example of how challenging it can be to place staff overseas, we found that the Department of State, whose staff routinely serves overseas, had difficulty filling positions in hardship posts and that, as a consequence, the affected embassies were hampered in their ability to effectively carry out U.S. foreign policy objectives. The difficulties faced by the Department of State demonstrate that staffing posts abroad with appropriately skilled

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<sup>26</sup>P.L. 107-296, Nov. 25, 2002, established the new department. The legislation requires all agencies moving into DHS, such as Customs, to appoint chief human capital officers and include human capital planning in performance plans and performance reports. See U.S. General Accounting Office, *Homeland Security: Management Challenges Facing Federal Leadership*, [GAO-03-260](#) (Washington, D.C.: Dec. 20, 2002).

<sup>27</sup>As of May 2003, Customs had not reached agreements with six of these countries, but had reached "agreement in principle" with China.

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personnel is a challenge even for agencies with a long history of recruiting and placing staff overseas. Without a human capital plan that includes recruiting and training strategies, Customs may be unable to identify and develop the human resources necessary to handle the staffing for the expanded number of CSI ports.

As with CSI, Customs plans to expand C-TPAT by hiring over 150 additional staff that will help implement new program elements such as validations and actions plans. The duties of these new staff, or supply chain specialists, are to identify, recommend, and negotiate with member companies to undertake corrective actions to improve supply chain security, as well as to guide companies through the C-TPAT process. Customs officials said that they expect to hire 40 supply chain specialists in fiscal year 2003 and the remaining number after that. However, although Customs acknowledged the importance of human capital planning for C-TPAT, Customs officials indicated that they have been unable to devote resources to developing a human capital plan that outlines how C-TPAT will increase its staff 15-fold and implement new program elements that will require training.

A human capital plan that emphasizes recruitment, retention, and training is particularly important given the unique operating environments and personnel requirements of the two programs. According to Customs officials, the professional and personal relationships that CSI team members and C-TPAT supply chain specialists build with their clients over time will be critical to the long-term success of both programs. For example, Customs has indicated that a key benefit of CSI is the ability of Customs officials to work with their foreign counterparts to obtain sensitive information that enhances its targeting of high-risk containers at the foreign ports. If Customs fails to establish these good working relationships, the added value of targeting from foreign ports is called into question. Similarly, Customs officials indicated that C-TPAT's success at improving supply chain security will depend, in large part, on supply chain specialists' ability to persuade companies to voluntarily adopt C-TPAT recommendations. Given the reliance of CSI and C-TPAT staff on relationships and persuasion rather than authority, a human capital plan that regularly places personnel with language skills and the ability to work effectively in these environments will maximize the programs' performance. In the absence of a human capital plan, Customs may be unable to anticipate potential obstacles to placing the right people in the right jobs at the right time.

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## Customs Developed Limited Performance Measures

Customs has attempted to create some performance measures for CSI and C-TPAT, but neither program has developed measures that reflect progress in achieving program goals. Organizations use performance measures to help demonstrate the level of progress in achieving results, to inform decision making, and to hold managers accountable. To better articulate a results-orientation, organizations create a set of performance goals and measures that addresses important dimensions of program performance. Using intermediate goals and measures, such as outputs or intermediate outcomes, would allow Customs to measure progress toward enhancing the security of U.S.-bound ocean container trade, the primary goal of these programs.<sup>28</sup> As other programs are proposed to address homeland security needs, DHS and the Congress must have access to credible performance information that allows them to make resource allocation decisions across programs and hold managers accountable.

Customs officials had developed some measures for CSI and C-TPAT that simply quantify program results like operational activities and efforts. For example, Customs tracks the number of CSI teams operating in foreign ports and the number of countries that have signed up to participate in CSI, as well as the number of CSI inspections. Similarly, for C-TPAT, Customs tracks results like the number of companies from different industrial sectors that participate in the program and the percentage value of cargo imported by C-TPAT companies. These measures have served as useful indicators of operational results.

However, Customs had not developed measures to help assess how CSI's presence overseas helps improve targeting of high-risk containers beyond Customs' existing capabilities. As previously discussed, Customs officials stated that the most important benefit derives from the collocation of U.S. and foreign customs officials, which provides them with additional information that should enhance Customs' targeting abilities. However, Customs does not analyze statistics to ascertain the nature and extent of the contributions made by foreign customs administrations in determining whether a particular container should be targeted or inspected. Customs officials told us that they had not had the opportunity to prepare performance measures that will help evaluate CSI's outcomes. In the

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<sup>28</sup>U.S. General Accounting Office, *Agency Performance Plans: Examples of Practices That Can Improve Usefulness to Decisionmakers*, [GAO/GGD/AIMD-99-69](#) (Washington, D.C.: Feb. 26, 1999).

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absence of performance indicators that provide a measure of the program's success, the benefits of placing personnel overseas are unclear.

On the other hand, Customs developed a performance measure to indicate whether C-TPAT has resulted in improved security practices, using the results of trade compliance audits as a proxy. This indicator uses select data elements derived from trade compliance audits, such as whether the container seals indicated possible tampering and whether the manifest contained data discrepancies (e.g., whether cargo weight significantly changed between export and arrival). While this is a useful first step, its effectiveness is limited by the fact that it compares two different populations, contrasting the behavior of C-TPAT members with that of non-C-TPAT members. A more reliable measure of program impact would compare companies' trade compliance before and after they enroll in C-TPAT. As of May 2003, Customs had not developed any other indicators to ascertain whether C-TPAT has had an impact on the members' supply chain security practices. Recent efforts to validate the C-TPAT security profiles provide Customs with an opportunity to establish baseline data to later determine whether members' security practices improve over time. The validations also provide Customs an opportunity to authenticate the information contained in security profiles and determine whether the company merits a continued reduction in its risk score.

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### Customs Planning Efforts Do Not Reflect Strategic Approach

Customs does not have a strategic plan that describes how it intends to achieve CSI and C-TPAT goals and objectives and that makes full accountability possible. According to Customs, the short-term requirements of implementing the programs quickly and encouraging program participation by countries and companies impeded Customs' ability to systematically carry out strategic planning. Strategic planning helps organizations manage their programs more effectively by requiring that they clearly establish mission goals and objectives and, after assessing their environment and involving stakeholders, describe how program activities serve program goals. In addition, strategic plans can provide a basis for communication and mutual understanding between stakeholders and contribute to program accountability.

Although Customs has taken some steps that demonstrate operational planning for CSI implementation in key ports throughout the world, its efforts do not reflect a strategic approach to planning. While Customs intends to continue deploying CSI teams to the 20 top ports and to 20 to 25 strategic ports, it has not prepared strategic plans that show how it will

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accomplish this enormous task. Whereas Customs told us that it intends to develop strategic plans, so far, the only available record regarding its expansion plans is a table outlining when Customs expects to deploy CSI teams to foreign ports for fiscal years 2003 and 2004.

Without the benefit of strategic planning, Customs quickly rolled out CSI in France but failed to involve primary stakeholders in making key decisions. Although Customs officials pointed to their collaboration with the French government as a model of cooperation in setting up this port, a lack of communication between the partner countries caused French customs officials to impose unnecessary demands on private industry shipping out of Le Havre to provide the CSI team with complete manifest information needed for effective targeting. Customs had failed to inform the French that it was implementing the 24-Hour Rule, which essentially negated the need for the French effort. When we met with French government officials, they expressed frustration that they had not been kept informed. Poor communication, as evidenced by this experience, can lead to a lack of cooperation between the two partners and make attainment of CSI goals more difficult. Good communication is essential for a program like CSI, which relies on the exchange of information between the U.S. and foreign customs administrations to improve the targeting of high-risk containers.

Customs' experience in rolling out C-TPAT similarly demonstrates a lack of strategic planning. This is particularly true with regard to Customs' communicating how it plans to implement critical C-TPAT program elements—validations, action plans, and annual assessments—designed to verify that companies have security measures in place and follow through with recommended changes. Customs does not have a planning document that describes the operational objectives for each element, how those objectives support C-TPAT's overall goals, and how they intend to meet those objectives. Although Customs recently pilot-tested the validation process with 15 companies, they have yet to incorporate results and lessons learned into a planning document to guide the validation process for the more than 3,300 companies currently receiving C-TPAT's key benefit of reduced risk scores.

Customs lacks a strategic plan that describes how Customs intends to achieve its programs' goals and establish program accountability for approximately \$73 million in funds budgeted for fiscal year 2004. Furthermore, Customs does not have strategic planning documents that establish measurable objectives, detailed implementation strategies, resource needs, and project time frames for CSI and C-TPAT. The effective

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implementation of CSI and C-TPAT programs depends, in part, on rigorous strategic planning. Without strategic plans, Customs may discover that CSI cannot place CSI teams in strategic ports in a timely fashion, or that they place the teams but do not achieve any improvement in security. Similarly, Customs may find that the security of C-TPAT companies' supply chains is not improved and that, as a result, reductions in risk scores are granted to undeserving companies.

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## Conclusions

Customs quickly launched CSI and C-TPAT to secure ocean containers bound for U.S. seaports. However, accomplishing the desired outcome of securing containers bound for the United States and achieving the long-term effectiveness of both programs would be aided by human capital planning, the development of performance measures, and strategic planning, elements that Customs has not fully incorporated into the programs. As CSI and C-TPAT make the transition from early implementation to full-scale operations, Customs' management of these programs has not evolved from its short-term focus to a long-term strategic approach. Customs faces unprecedented demands as it expands CSI to other countries and C-TPAT begins rolling out the critical validation phase of the program. Planning and measuring program performance to determine if goals and objectives are being met play an important role in the management of Customs operations and enable internal and external decision makers to assess the programs' effectiveness, make resource allocation decisions, and hold managers accountable.

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## Recommendations for Executive Action

To help ensure that CSI and C-TPAT achieve their objectives as they transition from smaller start-up programs to larger programs with an increasingly larger share of the Department of Homeland Security's budget, we recommend that the Secretary of Homeland Security, working with the Commissioner of Customs and Border Protection and the CSI and C-TPAT program directors, takes the following steps:

Develops *human capital plans* that clearly describe how CSI and C-TPAT will recruit, train, and retain staff to meet their growing demands as they expand to other countries and implement new program elements. These plans should include up-to-date information on CSI and C-TPAT staffing and training requirements and should be regularly used by managers to identify areas for further human capital planning, including opportunities for improving program results.

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Expands efforts already initiated to develop *performance measures* for CSI and C-TPAT that include outcome-oriented indicators. These measures should be tangible, measurable conditions that cover key aspects of performance and should enable agencies to assess accomplishments, make decisions, realign processes, and assign accountability. Furthermore, the measures should be used to determine the future direction of these Customs programs.

Develops *strategic plans* that clearly lay out CSI and C-TPAT goals, objectives, and detailed implementation strategies. These plans should not only address how the strategies and related resources, both financial and human, will enable Customs to secure ocean containers bound for the United States, but should also reinforce the connections between these programs' objectives and both Customs' and the Department of Homeland Security's long-term goals.

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## Agency Comments and Our Evaluation

Customs provided written comments on a draft of our report. Customs agreed with our recommendations and overall observations that it needs to take adequate steps to incorporate human capital planning, expand efforts to develop performance measures and develop strategic plans—factors necessary for the long-term success and accountability of CSI and C-TPAT. Customs reported that it has already taken some steps and will continue to take prudent steps to address these factors. Customs, however, raised concerns about the draft report's characterization of some information. Customs also provided technical comments, which we incorporated as appropriate. The following summarizes their general comments and our responses. Customs' comments, along with our responses to specific points, are contained in appendix II.

We made changes to our report to address Customs' concerns that we overlooked CSI's central tenet—U.S. Customs inspectors must be able to observe the inspections conducted by host customs officials—which, according to Customs, is accepted by all partner Customs administrations. We revised the report to note CSI's central tenet and its acceptance by all partners, but we also noted that the bilateral arrangements do not specify that U.S. inspectors must be able to observe inspections conducted by host customs officials. Although Customs requested, we did not drop our statement that CSI teams are often invited to attend inspections because this is what officials from three foreign customs administrations told us.

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Customs raised concerns about our characterization of the expected role of account managers in C-TPAT. In its general comments, Customs noted that account managers were never expected to help companies develop action plans. This statement directly contradicts previous statements by Customs officials as well as an early program document. Therefore, we maintain that Customs account managers were initially expected to help companies develop action plans.

Customs noted that its policy is not to reject companies because of an inadequate security profile or for adverse information discovered during the review process. However, Customs provided further clarification that it may, under certain circumstances, withhold or reduce C-TPAT benefits. Furthermore, Customs stated that it may remove a company from C-TPAT membership if it determines that its commitment is not serious or that it has intentionally misled Customs. We incorporated changes in our report to reflect these clarifications.

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We are sending copies of this report to other interested members of Congress, the Secretary of the Department of Homeland Security, and the Commissioner of Customs. We also will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me on (202) 512- 4347. Other GAO contacts and staff acknowledgments are listed in appendix III.



Loren Yager  
Director, International Affairs and Trade

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# Scope and Methodology

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To describe the Container Security Initiative (CSI) and the Customs-Trade Partnership Against Terrorism (C-TPAT), we met with U.S. Customs officials in Washington, D.C. with program responsibilities for CSI and C-TPAT. Specifically, we met with officials in the Office of International Affairs to discuss the planning and start-up of the CSI program. In examining the CSI program, we limited the scope of our work to two of the CSI program's four elements—(1) identifying “high-risk” containers and (2) screening the “high-risk” containers at the foreign CSI ports before they are shipped to U.S. ports. Our examination of those two elements focused on the planning and management issues specific to the rollout of this program abroad in the program's first year. We did not examine the adequacy of Customs-wide tools and technology, such as the Automated Targeting System, for successfully targeting high-risk ocean containers. We reviewed documents on CSI including testimony and speeches by Customs officials, as well as information on the Customs Web site, which outlined CSI goals, implementation strategies, and operations plans. In addition, we reviewed Customs documentation, to understand CSI procedures including agreements with the foreign countries to set up CSI at designated ports, CSI assessment teams' survey questionnaire at ports, and CSI budget and staffing data. We visited the ports of New York-New Jersey, Los Angeles, and Long Beach to familiarize ourselves with Customs' standard operating procedures in a seaport environment. At the ports, we interviewed Customs officials and observed operations, with particular emphasis on Customs cargo container targeting units charged with using the Automated Targeting System to screen cargo containers entering U.S. ports.

We also met with C-TPAT officials from the Office of Field Operations to discuss program goals, implementation strategies, and plans. We reviewed C-TPAT program documents outlining the early planning efforts for the program. We also met with private companies and industry associations in the United States to obtain their views on C-TPAT, supply chain vulnerabilities and corroborate information provided by Customs. We attended conferences in Phoenix and Chicago that included remarks by Customs officials and private sector representatives on the start-up of C-TPAT, including the process for application for membership. We met with officials from both the Office of Naval Intelligence and the National Defense University to understand threats and vulnerabilities associated with the overseas container supply chain.

To examine Customs' implementation of CSI and C-TPAT during the first year, we interviewed Customs officials at the Washington, D.C., headquarters as discussed earlier. For CSI, we reviewed Customs press

releases to learn the status of CSI bilateral arrangements with various countries and the deployment of CSI staff at foreign ports. We also reviewed and analyzed Customs documentation, including arrangements with the foreign countries to set up CSI at designated ports, trip reports to prospective CSI ports, port assessments, plans for CSI operations at the port of Rotterdam, and statistics on the number of containers screened by CSI teams and the number of containers inspected by local customs at CSI ports to date. For the C-TPAT program, in Washington, D.C., we reviewed and analyzed C-TPAT paperwork for selected member companies, including partnership agreements, company profiles of their supply chains, and security measures taken to secure their supply chains, as well as C-TPAT's feedback letters welcoming companies as certified members and recommending improvements to their supply chains. We discussed with representatives of U.S. companies their experiences in becoming members of C-TPAT and their efforts to improve the security of their supply chains, particularly those parts of the supply chain controlled by their foreign suppliers.

As part of our examination of the first year of implementation of CSI and C-TPAT, we also visited four countries—Canada, the Netherlands, France, and Germany. In Canada, the Netherlands, and France, we met with U.S. Embassy officials, particularly the U.S. Customs attachés responsible for managing CSI implementation in the ports of Vancouver, Rotterdam, and Le Havre. We discussed the issues that came up during the CSI negotiations and the substance of the final arrangements between the U.S. and host governments. We also discussed the start-up of the CSI program, as well as any issues that had arisen during implementation in each country. We interviewed CSI team members at each port to obtain detailed explanations of CSI operations there and any available related documentation. At the ports of Vancouver and Le Havre, we were able to observe customs operations and the interaction of the CSI team with its host country officials. We were not able to observe CSI operations at the port of Rotterdam, owing to a decision by the Dutch government to restrict the number of foreign delegations that could access customs operations at Rotterdam. However, in the Netherlands, as well as in France and Canada, we were able to interview foreign government officials about the negotiations to start up CSI in their ports, issues and problems related to the start-up of the program, and their views regarding the future of the CSI program in their ports. For the C-TPAT program, we interviewed trade associations, port authorities, suppliers, and supply chain service providers during our visits to Canada, Germany, France, and the Netherlands. With trade associations, we discussed their impressions of C-TPAT, and the

potential impact that C-TPAT security expectations could have on members' operations. With port authorities, suppliers, and supply chain service providers, we observed their operations and discussed the potential impact that implementing C-TPAT security recommendations could have on their operations and the vulnerabilities that they faced.

To assess the extent to which Customs has focused on factors critical to the long-term success of the programs, we first reviewed a broad range of GAO reports examining management factors that were necessary components for the successful management of cabinet departments, agencies, and, by extension, individual programs. As the result of our review of GAO's work on best management practices, we chose to focus this analysis on three management factors— human capital planning, the development of performance measures, and strategic planning —because of their general importance in the literature. (In particular, a recent GAO report identified critical factors, including the three listed above, that the new Department of Homeland Security would need to incorporate for the successful long-term management of the new department.<sup>1</sup>) In addition to interviewing Customs officials in Washington, as described above, we examined available budgetary and other documentation to ascertain management plans for the expansion of CSI and C-TPAT. We assessed the extent to which Customs expansion plans incorporated human capital planning, the development of performance measures, and strategic planning.

We performed our work from April 2002 to June 2003 in accordance with generally accepted government auditing standards.

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<sup>1</sup>U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Homeland Security*, [GAO-03-102](#) (Washington, D.C.: January 2003).

# Comments from the Bureau of Customs and Border Protection

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

## **U.S. CUSTOMS AND BORDER PROTECTION Department of Homeland Security**

*1300 Pennsylvania Avenue, N.W., Washington, D.C. 20229*

*Commissioner of Customs*

July 16, 2003

Mr. Loren Yager  
Director, International Affairs and Trade  
General Accounting Office  
441 G Street, N.W.  
Washington, D.C. 20548

Dear Mr. Yager:

On behalf of the Secretary of Homeland Security, I would like to thank you for providing us with a copy of your draft report entitled "Container Security: Expansion of Key Customs Programs Will Require Greater Attention to Critical Success Factors," and the opportunity to discuss the issues in this report.

We agree with the General Accounting Office's (GAO) overall observations that the Bureau of Customs and Border Protection (CBP) needs to take adequate steps to incorporate factors necessary for Container Security Initiative (CSI) and Customs Trade Partnership Against Terrorism (C-TPAT) long-term success and accountability. We have taken, and will continue to take, prudent steps to address these factors. Enclosed are comments specific to the recommendations, as well as general and technical comments that relate to statements that need to be clarified prior to finalization of this report.

I appreciate your interest in Customs and Border Protection. If we may offer further assistance, please contact me or have a member of your staff contact Ms. Cecelia Neglia, Office of Policy and Planning, at (202) 927-9369.

Yours truly,



Robert C. Bonner  
Commissioner

Enclosure

*Vigilance ★ Service ★ Integrity*

**Response to Audit Recommendations  
GAO Draft Report on CSI and C-TPAT**

What GAO Recommends

To ensure that CSI and C-TPAT achieve their long-term objectives, GAO recommends that the Commissioner of Customs and Border Protection (CBP) and the managers for both programs:

- Develop human capital plans that clearly describe how the programs will recruit, train, and retain staff;
- Expand efforts to develop performance measures that include outcome-oriented indicators; and
- Develop strategic plans that clearly lay out the programs' goals, objectives, and implementation strategies.

Response

The CBP agrees with the recommendations and will take the appropriate steps needed to implement all three recommendations for both CSI and C-TPAT. Key actions are listed below for both programs:

CSI

- The Office of International Affairs has initiated action on a human capital plan by coordinating with the Offices of Field Operations, Human Resources Management, and Training and Development to develop a program to recruit, train and retain the staff necessary to effectively and efficiently carry out the mission of the CSI.
- The task force operating the CSI program has been in place less than a year and was drawn from several different offices in CBP. It has perforce been operating without the usual support and development branch that is an integral part of a division that would normally be developing performance measures. Having said that, we appreciate the acknowledgement of our efforts already underway to develop performance measures and work is proceeding apace.
- The strategic vision for CSI was described in an address before the Center for Strategic and International Study (CSIS), on January 17, 2002. As an extension of this vision, Customs determined that the initial strategic goal of the CSI to place CSI teams in the top 20 foreign ports responsible for about 70 percent of all maritime containers shipped to the United States—an unprecedented undertaking. Once this phase was underway it was quickly followed by Phase II, which

expands CSI to other large and strategically, significance ports. While the strategy is simple and the mission has been clearly articulated—targeting and examining high-risk containers before they are loaded on vessels bound for the U.S. - we agree with the need for a more detailed strategic plan to support the operation. Work is underway on a strategic plan that will clearly outline the goals, objectives and detailed implementation strategies.

C-TPAT

- The Office of Field Operations is aware of the need to effectively deploy its human capital resources to continue the progress of C-TPAT. A comprehensive plan is being developed in coordination with the Office of Training and Development to engage leading universities in creating a college-level curriculum to train the Supply Chain Specialists who will be the front line personnel for the C-TPAT program. The curriculum will constitute a multi-disciplinary approach to logistics management and supply chain security and will incorporate continuing education.

- We are in the process of evaluating current trade compliance measurement indicators to incorporate specific discrepancies that may serve as "red flags" that highlight potential security problems for C-TPAT participants. Measurement of manifest discrepancies, tariff heading shifts and misdeliveries will be reviewed as potentially relevant indicators of supply chain control. Additionally, findings and feedback from C-TPAT participants during the validation process will be reviewed as possible bases for measurement.

While the C-TPAT program will review different avenues for program measurement, it must also be noted that the key program indicator for C-TPAT is the absence of concealment of terrorist weapons in cargo shipments or access to such shipments by terrorist groups. The purpose of a security program in this regard is to prevent the introduction of potentially destructive material into cargo shipments.

- Customs has established clear plans and objectives for C-TPAT from the program's inception. Before launching C-TPAT, Customs met exclusively with the trade community to establish agreed upon standards and best practices for improving supply chain security. Customs targeted "low risk" importers for enrollment in the program – the vast majority of whom signed onto the program. Customs next targeted the other key links in the supply chain – carriers, brokers, freight forwarders, and maritime port authorities and terminal operators. Representative groups were brought in to meet with Customs and devise approaches that were logical and effective to

See comment 1.

See comment 2.

increase supply chain security and reduce potential exploitation by terrorists. An extremely successful enrollment process ensued. Over 3,500 companies have signed up to participate in C-TPAT to date.

To provide critical program oversight and ensure the effectiveness of security practices, the C-TPAT validation process was developed and implemented. Training on supply chain security and supply chain management was provided to the first group of CBP employees performing the validations, and as of this writing over 50 validations have been initiated.

Currently, work is underway to develop a formal strategic plan that clearly outlines C-TPAT program goals, objectives, and implementation strategies.

**General Comments**  
**GAO Draft Report on CSI and C-TPAT**

Many of the estimated budget figures and container data given to the GAO in the Fall of 2002 have changed in the past nine months have been improved through more accurate data sources. In any event, the numbers represent a snapshot at a particular stage and may well be different today. However, this does not change the thrust of the picture presented. Since the budget numbers were provided, CBP has received additional funding from the FY 2003 Wartime Supplemental and other congressional add-ons.

Page 7, 2<sup>nd</sup> para: "Customs initially expected that its account managers...would recruit new C-TPAT members and assist companies with the development of their action plans." Account managers were tasked with communicating C-TPAT program specifics to their accounts, most notably to companies that had attained "low risk" status for commercial compliance. Account Managers were highly successful in this endeavor. The C-TPAT staff explored a number of options, including the possibility of using account managers to handle certain aspects of C-TPAT, but at no time was it certain or probable that the account managers would become involved beyond the communication function.

Page 14, 1<sup>st</sup> para: "U.S. Customs may attend inspections, but this is left to the discretion of local customs." In fact, U.S. Customs inspectors must be able to observe the inspections. It is a central tenet of the CSI concept that U.S. Customs inspectors be able to observe and verify the inspections. This is accepted by all partner Customs administrations before we implement CSI in a foreign port. Likewise, on page 24 the sentence that states "Officials from the three foreign customs administrations visited told us that, so far, the CSI requests for inspections had not been a burden and that they had often invited the CSI teams to observe inspections" leaves the false impression that U.S. presence at inspections at CSI ports is at the option of the host customs administration. We request that the sentence end after the word "burden."

Page 19, 1<sup>st</sup> para: "C-TPAT participants are never rejected from the program because of an inadequate security profile or for adverse information discovered during the review process. On the contrary, Customs officials say that they are committed to working with these companies, even if there are serious security or trade compliance weaknesses." Current policy is that Customs does not reject companies that have signed agreements to work with us in C-TPAT. The nature and objective of the C-TPAT program requires Customs and the trade to stay engaged and avoid the kinds of confrontations that do not serve to

See comment 3.

Now on p. 3.  
See comment 4.

Now on pp. 10 and 20.  
See comment 5.

Now on p. 15.  
See comment 6.

See comment 6.

increase the security of the international supply chain. Customs does, however, withhold benefits when warranted by adverse information or identified security weaknesses. Additionally, Customs can reduce benefits for less serious matters to encourage the company to rectify a security gap or problem. It must also be clearly understood that C-TPAT participants are not exempt from Customs trade compliance and enforcement activities; in fact many of the systemically controlled criteria "override" C-TPAT participation when the issues are serious enough to warrant physical examination of cargo or documents reviews.

See comment 6.

Lastly, it must also be noted that Customs has made it clear that if at any point during a company's membership we determine (e.g., during the validation process) that their commitment is not serious, or intentionally misleading, Customs will remove that company from C-TPAT membership.

Now on p. 18.  
See comment 4.

Page 21, 1<sup>st</sup> para: "...as Customs realized that its account managers, who were on the "front lines" were not prepared to provide companies the level of assistance they required, Customs developed a new supply chain specialist position to assist with key program elements." As noted earlier, account managers were tasked with communicating with their accounts about C-TPAT and they successfully carried out this function. Additionally, Customs did not "expect" that account managers would provide detailed levels of assistance beyond communicating program basics.

See comment 7.

Experience gained during the review and evaluation of security profiles submitted by C-TPAT participants indicated that a specialized skill set would be required to further implement and expand C-TPAT in the future. Customs therefore developed the new supply chain specialist position to assist with key program elements.

Now on p. 18.  
See comment 8.

Page 22, 1<sup>st</sup> para: This paragraph appears to tie the 24-Hour Rule to the CSI in a way that may be misleading. Certainly the 24-Hour Rule is a critical element to the success of CSI. However, the rule was developed concurrently with CSI to enhance our ability to target both abroad and upon arrival in the U.S.

Now on p. 25.  
See comment 4.

Page 26, 3<sup>rd</sup> para: "Initially, Customs expected that its account managers...could promote the program and help companies develop action plans." Once again, account managers were tasked with communicating with their accounts on C-TPAT. Account manager involvement was one of many options explored for the further implementation of C-TPAT – as noted earlier it was neither certain nor probable that account managers would shoulder primary responsibility.

Now on p. 25.  
See comment 9.

Page 29, 2<sup>nd</sup> para: "However, given the need to complete over a thousand validations and establish accountability, the C-TPAT officials most recently told us, the specialists would focus on conducting validations, making other program elements a lower priority." The validation process will in fact encompass the key program elements and priorities of C-TPAT, such as the development of action plans and assessment of security improvements. The primary priority of C-TPAT is a secure supply chain and the validation process is designed to ensure that priority is met.

See comment 10.

Page 35, 2<sup>nd</sup> para: The second full paragraph appears to be a repeat of the first paragraph. Notwithstanding the assertion is made that Customs does not track the contributions made by foreign customs administrations in determining whether a particular container should be targeted or inspected. This is not accurate. Our weekly statistics report gathers data regarding the containers targeted by Automated Targeting System (ATS) but that were not inspected because of information received from the host customs administration. We recognize that the system we use for tracking this information is not as robust as we would like, and we are modifying ATS and Automated Manifest System (AMS) to better capture that information.

Now on p. 30.  
See comment 11.

Page 37, 1<sup>st</sup> para: The lead paragraph about our lack of strategic planning leaves the impression that U.S. Customs imposed unnecessary demands on private industry in France that was negated by the implementation of the 24-Hour Rule. This is false. With the advent of CSI in Le Havre, in November 2002 French Customs updated an existing program and required 36 data elements to be electronically filed 24 hours before the goods arrive at the port. These data elements are collected from carriers, exporters, brokers and freight forwarders and create a "Déclaration de Sûreté" (DS) on the goods for French Customs. This is an enhancement to a system that the French had been operating in Le Havre for a number of years. By contrast the U.S 24-Hour Rule requires only 15 data elements, and only from carriers, prior to loading for export (which is after arrival of the goods at the port). The two systems complement and validate each other to the extent that goods arriving in the port are destined to leave for the U.S. This proactive security measure imposed by the French actually allows our CSI team to have information about U.S.-bound goods up to 72 hours prior to lading for departure, a significant benefit not realized in any other port. In addition, this situation has allowed us to accept the French intelligence service provider, Soget, as the first foreign AMS service provider. Soget will receive carrier, broker, importer and freight forwarder data and transmit it to the appropriate French or U.S. Customs administration to meet the DS or 24-Hour Rule requirements. This also has paved the way for several providers to Customs in other countries to also accept and meet our AMS

Now on p. 32.  
See comment 12.

requirements for service providers. It is true that all this was not envisioned in strategic planning before we implemented CSI in Le Havre. Nevertheless, the net result is a benefit for the program, multiple CSI partners, and our strategic vision. We do not agree that this "... caused French customs officials to impose unnecessary demands on private industry shipping out of Le Havre..." We propose that the paragraph be revised or deleted.

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The following are GAO's comments on the letter from the Bureau of Customs and Border Protection, dated July 16, 2003.<sup>1</sup>

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## GAO Comments

1. Customs agreed with our findings that human capital planning is needed, and Customs indicated that it is developing a comprehensive training plan for Customs-Trade Partnership Against Terrorism (C-TPAT). However, while training is an important aspect of human capital planning, our report shows that human capital plans should also systematically address other long-term staffing needs, such as recruitment and retention for the more than 150 supply chain specialists Customs plans to hire.
2. Customs commented that it is making progress in developing further performance measures that are based on trade compliance data. As our report states, to ensure that C-TPAT performance indicators are reliable, the measures should compare trade compliance data for companies before and after they enroll in the program. Customs also indicated that it intends to review the results of the validation process in order to develop possible baselines for measurements. These efforts are responsive to the recommendation in our report.
3. Customs noted that more accurate budget data are available. Between the fall 2002 and June 2003, we requested clarification and updated budget information for our report. Our report presents the budget data that Customs provided us. Furthermore, we did not use the fall 2002 container data in our report; our report presents the number of ocean containers inspected under the Container Security Initiative (CSI) program through May 2003, which was provided by Customs officials in June 2003.
4. Customs raised several concerns about our characterization of the expected role of account managers in C-TPAT. Customs indicated that "at no time was it certain or probable that account managers would

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<sup>1</sup>On March 1, 2003, the U.S. Customs Service was transferred to the new Department of Homeland Security. The border inspection functions of the Customs Service, along with other U.S. government agencies with border protection responsibilities, were organized into the Bureau of Customs and Border Protection. Throughout this report, we used the term "Customs" to refer to both the Customs Service and the Bureau of Customs and Border Protection.

become involved beyond the communication function.” This statement contradicts previous statements by Customs officials and an early C-TPAT program document that account managers would be involved in developing action plans. Therefore, we maintain that Customs account managers were initially expected to help companies develop action plans.

5. Regarding Customs’ assertion that U.S. Customs inspectors must be able to observe inspections at CSI ports, we do not question the need for Customs inspectors to make such observations. However, our analysis of the bilateral arrangements show that the arrangements do not specify that U.S. Customs must be able to inspect containers or observe inspections. In addition, our analysis of Customs’ documents and our discussions with Customs officials reveal that bilateral arrangements with foreign governments are not legally binding documents. We will not revise the sentence that states “Officials from the three foreign customs administrations visited told us that, so far, the CSI requests for inspections had not been a burden and that they had often invited the CSI teams to observe inspections” because this is what foreign customs officials told us. However, we will revise the report to clarify that the ability of the U.S. Customs officials to observe and verify inspections is a central tenet of the CSI concept and, according to U.S. Customs officials, all partner Customs administrations accept this tenet.
6. Customs stated that company participants are not rejected from the program and are instead engaged by C-TPAT to increase the security of the international supply chain. This statement is consistent with information in our report. Customs also noted that it withholds benefits when this action is warranted by adverse information or identified security weaknesses and that it can reduce benefits, for less serious reasons, to encourage a company to rectify a security gap or problem. We revised the report to clarify these two points. We also added a footnote to capture Customs’ comments that C-TPAT participants are not exempt from Customs trade compliance and enforcement activities. We further revised the report to clarify that Customs can remove a company from C-TPAT membership if it determines that the company has not made a serious commitment or has intentionally misled Customs. To date, Customs reported that it has not removed a company from C-TPAT membership.

7. Customs noted the evolution of the supply chain specialist position. This is consistent with our report.
8. We believe that our portrayal of the relationship between the 24-Hour Rule and CSI is accurate. Our report states that the 24-Hour Rule was implemented to ensure that Customs would obtain complete and timely manifest data. This is based on specific evidence found in our examination of the 24-Hour Rule, as published in the *Federal Register*. The 24-Hour Rule, as found in the *Federal Register*, specifically states, under the heading Necessity for Advance Presentation of Vessel Cargo Manifest to Customs, that “CSI is already operational in Canada and the Netherlands....Given this explosive growth, it is critical that the information necessary to implement CSI fully be provided to Customs in the near term. For this reason, Customs proposed this rulemaking on August 8, 2002.”
9. Customs noted that the development of action plans and assessment of security improvements are part of the validation process. In earlier interviews with Customs officials, we were told that supply chain specialists would focus on validating the company security profiles, because Customs needed to validate the large number of security profiles that they had received. We revised the report to eliminate the statement that other program elements would be a lower priority and clarified that supply chain specialists would focus on validations and action plans. We also added that supply chain security specialists would help facilitate the annual assessments.
10. We have deleted the second paragraph.
11. Customs noted that the statement in our report that Customs does not track the contributions made by foreign customs administrations in determining whether a particular container should be targeted or inspected is inaccurate. We revised the report to reflect that Customs does not analyze statistics to ascertain the nature and extent of the contributions made by foreign customs administrations in determining whether a particular container should be targeted or inspected.
12. We disagree with Customs’ assertion that our report implied that U.S. Customs imposed unnecessary demands on private industry. To the contrary, our report states that French Customs imposed demands on private industry that proved unnecessary. However, our central point still stands. French Customs officials told us that they updated their

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manifest system in anticipation of the implementation of CSI in the port of Le Havre, but without knowledge of the imminent implementation of the 24-Hour Rule. In our interviews with French Customs officials, they expressed dissatisfaction with the confusion surrounding the implementation of the 24-Hour Rule. That benefits derived from French Customs' efforts to update the manifest system is beside our point that good communication is vital between CSI partners.

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# GAO Contact and Staff Acknowledgments

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Staff Acknowledgments	In addition to the individual named above, Patricia Cazares-Chao, Richard Boudreau, Hector Wong, Victoria Lin, Jill Johnson, and Reid Lowe made key contributions to this report.

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